# 2014

POSTBANK GROUP

INTERIM MANAGEMENT STATEMENT AS OF MARCH 31, 2014

Postbank

## PRELIMINARY REMARKS

This document is an interim management statement within the meaning of section 37x of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) in conjunction with section 37y of the WpHG and GAS 16, and contains consolidated figures in accordance with the IFRSs. Unless otherwise stated, the following comments represent a comparison between the figures as of March 31, 2014, and those for the corresponding prior-year period or, in the case of balance sheet disclosures, the figures as of December 31, 2013.

## MACROECONOMIC DEVELOPMENT

The economic uptrend in Germany gathered pace at the beginning of the year. In the first two months of 2014, retail sales rose markedly, indicating solid growth in private consumption. However, it was industrial output that saw the most positive development up to February. This was partly attributable to the unusually mild weather, which led to an above-average increase in construction output. The underlying construction investment trend was also positive. In January, residential construction approvals, which are not weather-related, were significantly higher year-on-year. The positive environment was also reflected in business sentiment. In February, the Ifo Business Climate Index reached its highest level for several years, before declining slightly. Overall, the available indicators point to robust GDP growth in the first quarter of 2014. The labor market was also bolstered by the favorable economic trend. Adjusted for seasonal effects, unemployment dropped considerably in the first quarter, with the number of people in the workforce rising strongly in the first two months of the year.

Due to the still tentative economic recovery in the eurozone, the European Central Bank (ECB) maintained its highly expansionary monetary policy in the first quarter of 2014. The ECB held its main refinancing rate at 0.25 %. However, in light of the further decline in inflation in the eurozone and the strong euro, the ECB clearly indicated that it could further ease its monetary policy if required and would be prepared to use unconventional measures to do so.

The ongoing difficult business environment continued to challenge German banks in the first quarter of 2014. Continual pressure on margins in the traditional banking business is likely to have resulted from stiff competition for customers and sustained low interest rates. In mid-April 2014, the European Parliament approved the EU directives on bank recovery and resolution and deposit guarantee schemes covering up to €100,000, as well as the EU Single Resolution Mechanism Regulation. These provisions only require approval by the Council of Ministers before they can enter into force.

## BUSINESS PERFORMANCE

### Customer business

Postbank's customer business performed encouragingly well in the first quarter. The new installment loan business grew by around 22 % compared with the first quarter of the previous year, to €598 million. The installment loan portfolio increased by 4 % compared with the end of 2013 to €5.2 billion. The Bank also continued the previous year's strong performance in the checking account business, securing just under 130,000 new accounts in the first quarter of 2014. With a total of more than 5.2 million private checking accounts, Postbank is still the leading provider on the German market. Due to the current interest rate environment, the volume of savings deposits declined by around €1.8 billion compared with year-end 2013, to €50.4 billion. In the home savings business, which Postbank operates under the BHW brand, home savings deposits rose by around 1.1 % since the beginning of the year to approximately €18.6 billion. New mortgage lending business, including disbursed home savings loans, was down roughly 4.0 % on the strong prior-year figure, at around €2.0 billion in the period under review. The private mortgage lending portfolio, including purchased portfolios, amounted to €72.5 billion as of March 31, 2014, as against €73.1 billion at the prior year-end.

### Income statement

In the first quarter of 2014, Postbank generated consolidated net profit amounting to €113 million (previous year: €66 million). Profit before tax reached €140 million, €55 million more than in the equivalent prior-year period.

At €897 million, total income declined by 16.9 %. This is mainly attributable to the active reduction in volumes as part of our de-risking strategy and the overall positive non-recurring effects in the previous year that especially influenced net income from investment activities. The prior-year quarter included various non-recurring effects, such as the sale of our North American subsidiaries and their deconsolidation. Not taking into account the non-recurring effects of the prior-year quarter total income would have remained almost unchanged.

Net interest income rose by 5.6 % or €33 million compared with the prior-year period to €619 million. The increase is primarily attributable to a negative non-recurring effect in the previous year. Overall, net interest income is negatively impacted by the continued low interest rate levels, which represent challenges for all deposit-rich banks.

Contrary to our expectations, net trading income was slightly negative, at €–3 million, compared with positive net trading income of €3 million in the first quarter of the previous year. These changes are attributable to market-related effects from the measurement of credit risk on receivables and liabilities.

Net income from investment securities amounted to €15 million in the first quarter (first quarter of 2013: €211 million). The prior-year figure included the deconsolidation and disposal effects from the sale of our North American subsidiaries to Deutsche Bank AG effective January 1, 2013.

The €14 million or 5 % year-on-year decline in net fee and commission income to €266 million is mainly attributable to higher fee and commission expenses, including for postage. Despite the ongoing caution of German investors in the current market environment, net fee and commission income in the securities business rose compared with the prior-year quarter.

In the first quarter of 2014, the allowance for losses on loans and advances was down €32 million on the corresponding prior-year figure, at €52 million. The retail lending business, with its significant proportion of highly collateralized German real estate loans, is benefiting from the stable economic environment in Germany, particularly the ongoing good conditions on the German labor market.

Administrative expenses declined from €915 million in the first quarter of 2013 to €704 million. The main reason for this decline was the writedown of intangible assets in the amount of €180 million in the previous year, which also had a negative impact on the cost/income ratio. This measure improved from 84.7 % in the previous year to 79.1% in the first quarter of 2014. Excluding the €180 million writedown in the prior-year period and the integration-related expenses in the respective quarters, administrative expenses were down 2.4 % year-on-year.

### Total assets

Postbank's total assets declined by 1.9 % compared to year-end 2013, to €158.4 billion. The assets side of the balance sheet reflects our continued de-risking strategy with a stronger focus on Germany. The total volume of loans and advances to customers decreased by €1.3 billion as against December 31, 2013, to €100 billion.

On the liabilities side, the amounts due to customers declined from €120.4 billion at the end of 2013 to €119.0 billion as of March 31, 2014. This trend reflects consumers' continued preference for spending over saving due to the historically low level of interest rates.

Deposits from other banks declined by €0.2 billion to €18.1 billion over the same period. Subordinated debt declined from €4,358 million to €3,919 million due to the premature redemption of a subordinated, variable-interest bond in the principal amount of €500 million.

The Core Tier 1 ratio – in accordance with the Capital Requirements Regulation (CRR), pursuant to the current version of the transitional provisions – fell from 9.6 % at the 2013 year-end to 9.3 % at the end of the first quarter of 2014. This is largely due to the profit and loss transfer agreement with DB Finanz-Holding GmbH on the basis of which a complete transfer of the HGB result achieved is assumed on principle. In addition, rating models have been recalibrated.

In accordance with the CRR, which entered into force on January 1, 2014, Postbank calculates additional valuation adjustments to determine prudent values. It initially applied the "simplified approach" to positions in the banking and trading book for the report on the calculation of its regulatory own funds as of March 31, 2014. This resulted in a €–19.84 million adjustment of own funds at the Group level and €–12.37 million at the Deutsche Postbank AG level.

Due to measurement effects, recognized capital declined by €40 million as against December 31, 2013, to €6,172 million.

### Outlook

Please refer to the Outlook report in the 2013 Annual Report for detailed information on business developments at the Postbank Group in fiscal year 2014. The bundling of service companies in the Deutsche Bank Group was completed in the second quarter of 2014. On that basis, we expect to see a significant rise in profit before tax in the lower three-digit millions for the full year of 2014 compared with the prior year.

# KEY GROUP FIGURES (IFRSs) AS OF MARCH 31, 2014

| Income statement | Jan. 1 – March 31, 2014 €m | Jan. 1 – March 31, 2013 €m |
|---|---|---|
| Net interest income | 619 | 586 |
| Allowance for losses on loans and advances | –52 | –84 |
| Net interest income after allowance for losses on loans and advances | 567 | 502 |
| Net fee and commission income | 266 | 280 |
| Net trading income | –3 | 3 |
| Net income from investment securities | 15 | 211 |
| Administrative expenses | –704 | –915 |
| Other income/other expenses | –1 | 4 |
| Profit before tax | 140 | 85 |
| Income tax | –27 | –19 |
| Profit from ordinary activities after tax | 113 | 66 |
| Non-controlling interests | 0 | 0 |
| **Consolidated net profit** | **113** | **66** |

| Balance sheet extract | March 31, 2014 €m | December 31, 2013 €m |
|---|---|---|
| **Total assets** | **158,434** | **161,506** |
| Cash reserve | 1,895 | 1,739 |
| Loans and advances to other banks | 18,440 | 20,153 |
| Loans and advances to customers | 100,016 | 101,313 |
| Allowance for losses on loans and advances | –1,391 | –1,478 |
| Trading assets | 1,870 | 1,824 |
| Investment securities | 33,449 | 34,024 |
| Deposits from other banks | 18,118 | 18,282 |
| Due to customers | 118,977 | 120,398 |
| Debt securities in issue | 6,263 | 7,342 |
| Trading liabilities | 1,710 | 1,681 |
| Hedging derivatives | 399 | 460 |
| Provisions | 1,676 | 1,608 |
| Subordinated debt | 3,919 | 4,358 |
| **Equity** | **6,172** | **6,212** |
| a) Issued capital | 547 | 547 |
| b) Share premium | 2,010 | 2,010 |
| c) Retained earnings | 3,497 | 3,320 |
| d) Consolidated net profit | 113 | 330 |
| Non-controlling interests | 5 | 5 |

| Other key figures | | Jan. 1 – March 31, 2014 | Jan. 1 – March 31, 2013 |
|---|---|---|---|
| Cost/income ratio | % | 79.1 | 84.7 |
| Return on equity before taxes | % | 9.0 | 5.5 |
| Earnings per share[1] | € | 0.52 | 0.30 |
| Headcount (FTEs) | thousand | 18.6 | 18.5 |
| | | **March 31, 2014** | **December 31, 2013** |
| Risk assets | €bn | 47.52 | 46.97 |
| Tier 1 capital ratio | % | 9.3 | 9.6<br>(Basel II, 10.90) |

| Long-term ratings | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Fitch | A+/outlook negative | A+/outlook stable |
| Moody's | A2/outlook negative | A2/outlook negative |

[1]Based on 218.8 million shares

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This Interim Management Statement contains forward-looking statements that relate to macroeconomic developments (in particular the development of money and capital market rates), the business and the net assets, financial position and results of operations of the Postbank Group. Forward-looking statements by definition do not depict the past and are in some instances indicated by words such as “believe”, “anticipate”, “predict”, “plan”, “estimate”, “aim”, “expect”, “assume” and similar expressions. Forward-looking statements are based on the Company’s current plans, estimates, projections, and forecasts and are therefore subject to risks and uncertainties that could cause actual development or the actual results or performance to differ materially from the development, results or performance expressly or implicitly assumed in these forward-looking statements.

Readers of this Interim Management Statement are expressly cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Interim Management Statement. Deutsche Postbank AG does not intend and does not undertake any obligation to revise these forward-looking statements.

The English version of the Interim Management Statement constitutes a translation of the original German version. Only the German version is legally binding.