2014

POSTBANK GROUP

INTERIM MANAGEMENT STATEMENT AS OF SEPTEMBER 30, 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 September 30, 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 ENVIRONMENT

After a buoyant start to the year, Germany's economy weakened considerably. In the second quarter of 2014, gross domestic product (GDP) declined by 0.2 %, and the ifo Business Climate Index fell six times in succession from May through October. Uncertainty was caused in particular by geopolitical conflicts, which impacted not only exports, but also companies' appetite for investment. In recent months, order intakes, industrial output, and foreign trade experienced unusually strong fluctuations. We nevertheless expect that GDP will have returned to slight growth in the third quarter of 2014. The muted performance was also felt in the German job market. Although the number of people in work has continued to rise until now, unemployment has not dropped any further. In September, the European Central Bank (ECB) cut its key interest rate by another 0.1 percentage points to 0.05 %. The deposit rate was also lowered by 0.1 percentage points to –0.2 %. In addition, the ECB resolved a purchase program for asset-backed securities (ABSs) and covered bonds.

The dominant issue facing the European banking sector in the year to date, including the third quarter of 2014, was the asset quality review (AQR) and the stress test the ECB carried out before assuming responsibility for the supervision of credit institutions. The results were published on October 26. Thirteen out of the 130 institutions tested throughout Europe were discovered by the AQR and the stress test to have capital shortfalls. However, all of the 24 German banks that underwent the tests passed with their current levels of Common Equity Tier 1 capital.

The ongoing low interest rate environment with its narrow interest margins and weak growth in loan volumes remained a challenge for German banks in the third quarter of 2014. In addition, provisions for litigation continued to depress earnings of many credit institutions.

BUSINESS PERFORMANCE

Customer business

Postbank's customer business made good progress. New consumer credit business grew by 12.4 % in the first three quarters of 2014 compared with the prior-year period, to €1,763 million. Total consumer credits also increased again to €5.6 billion as of September 30, 2014, up approximately €0.7 billion over the prior-year figure. In the checking business, the Bank also remained on a growth path in the first three quarters of 2014. With around 341,000 newly opened private checking accounts (previous year: around 410,000), it expanded its portfolio by another 27 thousand accounts. With a total of more than 5.25 million private checking accounts, Postbank remains the undisputed leader on the German market. The volume of savings deposits declined by around €2 billion compared to year-end 2013, to €50.2 billion. Conversely, demand deposits grew by €1.6 billion. In the home savings business, which Postbank operates under the BHW brand, home savings deposits rose by around €0.3 billion in the same period to €18.7 billion. New mortgage lending business, including disbursed home savings loans, was down 5.9 % on the strong prior-year figure, at around €6.8 billion in the first three quarters of 2014. The private mortgage lending portfolio, including purchased third-party portfolios, amounted to €71.9 billion as of September 30, 2014, as against €73.1 billion at the prior year-end.

Income statement

Postbank generated consolidated net profit of €431 million in the first three quarters of 2014 (previous year: €358 million). Profit before tax reached €620 million, €279 million more than in the equivalent prior-year period. Excluding the various non-recurring effects, operating profit before tax was €380 million in the first nine months of 2014, up 1.6 % year-on-year.

Net interest income rose by 0.9 % or €16 million to €1,881 million. The continued low interest rate levels represent a challenge for all deposit-rich banks, but also had a positive effect on the interest expense, which decreased by 16.2 % year-on-year, partly as a result of our de-risking strategy.

Net trading income improved from €–38 million in the first three quarters of 2013 to €–7 million in the period under review. In the prior-year period, the result had primarily been impacted by a change in the measurement of derivative positions.

Net income from investment securities, which amounted to €425 million (previous year: €275 million), includes in particular deconsolidation and other effects from the bundling of our service companies in the Deutsche Bank Group in the course of the second quarter of 2014. The prior-year figures included a positive contribution of €262 million from the sale of the U.S. subsidiaries.

Net fee and commission income declined by €117 million or 13.9 % to €725 million. This was due to the transfer of the service companies and the ongoing challenging market conditions in the securities and retirement provision business.

The allowance for losses on loans and advances decreased by a further €38 million to €192 million. This mainly reflects the positive trend in the customer business, and particularly the highly stabilizing effect of our retail lending business with its significant proportion of highly collateralized German real estate loans, as well as the favorable macroeconomic environment.

Administrative expenses declined from €2,385 million in the first three quarters of 2013 to €2,053 million in the period under review. The prior-year figure included a write-down of intangible assets in the amount of €180 million. Other positive contributions came from the transfer of the service companies and the associated reduction in the Group's headcount.

Total assets

Postbank's total assets amounted to €155.8 billion as of September 30, 2014, following €161.5 billion as of December 31, 2013. This decline is primarily due to the measures taken to sharpen the focus of the business and a further reduction in risk positions, in combination with non-current liabilities reaching maturity.

The assets side of the balance sheet shows our continued success in reducing our capital market investments and risk. The total volume of investment securities decreased by an additional €431 million as against December 31, 2013, to €33.6 billion.

On the liabilities side of the balance sheet, amounts due to customers decreased from €120.4 billion at the 2013 year-end to €119.5 billion as of September 30, 2014, in part because of the repurchase of own bonds issued. This trend also reflects consumers' continued preference for spending over saving due to the historically low interest rate levels.

Recognized capital was up €376 million as against December 31, 2013, at €6,523 million.

The regular phased-in Common Equity Tier 1 ratio rose as against the 2013 year-end from 9.6 % (pro-forma CRR/CRD IV) to 10.7 %. The fully phased-in Common Equity Tier 1 ratio rose from 8.8 % (pro-forma CRR/CRD IV) at the 2013 year-end to 10.1%. The increase was attributable among other things to the higher profit and consequently to an improvement in Tier 1 capital as well as to further de-risking in the first nine months of 2014.

Outlook

In line with the outlook for full-year 2014 in our 2013 Annual Report, we expect to see a significant rise in profit before tax compared with fiscal year 2013, amounting to the lower three-digit millions of euros. This is due primarily to the bundling of the service companies. Since the economic deconsolidation gain from the transfer of the service companies will lead to a higher-than-expected tax expense, consolidated net profit will increase by an amount in the lower to mid-double-digit millions of euros.

KEY GROUP FIGURES (IFRSs) AS OF SEPTEMBER 30, 2014

Income statement	Jan. 1 – Sept. 30, 2014 €m	Jan. 1 – Sept. 30, 2013 €m
Net interest income	1,881	1,865
Allowance for losses on loans and advances	–192	–230
Net interest income after allowance for losses on loans and advances	1,689	1,635
Net fee and commission income	725	842
Net trading income	–7	–38
Net income from investment securities	425	275
Administrative expenses	–2,053	–2,385
Other income/other expenses	–159	12
Profit before tax	620	341
Income tax	–188	17
Profit from ordinary activities after tax	432	358
Non-controlling interests	–1	0
Consolidated net profit	**431**	**358**

Balance sheet extract	September 30, 2014 €m	December 31, 2013 €m
Total assets	**155,763**	**161,497**
Cash reserve	737	1,739
Loans and advances to other banks	19,351	20,153
Loans and advances to customers	98,924	101,313
Allowance for losses on loans and advances	–1,421	–1,478
Trading assets	791	1,824
Investment securities	33,584	34,015
Deposits from other banks	17,679	18,282
Due to customers	119,265	120,398
Debt securities in issue	4,675	7,342
Trading liabilities	849	1,681
Hedging derivatives	335	460
Provisions	1,875	1,664
Subordinated debt	3,749	4,358
Equity	**6,523**	**6,147**
a) Issued capital	547	547
b) Share premium	2,010	2,010
c) Retained earnings	3,530	3,255
d) Consolidated net profit	431	330
Non-controlling interests	5	5

Other key figures		Jan. 1 – Sept. 30, 2014	Jan. 1 – Sept. 30, 2013[1]
Cost/income ratio	%	75.0	81.1
Return on equity before taxes	%	13.0	7.8
Earnings per share[2]	€	1.97	1.63
Headcount (FTEs)	thousand	14.93	18.68
		September 30, 2014	**December 31, 2013**
Risk-weighted assets[3]	€bn	45.29	46.97
Common Equity Tier 1 capital ratio, regular phased-in	%	10.7	9.6[4]
Common Equity Tier 1 capital ratio, fully phased-in	%	10.1	8.8[4]

Long-term ratings	September 30, 2014	December 31, 2013
Fitch	A+/outlook negative	A+/outlook stable
Moody's[5]	–/–	A2/outlook negative

[1]Figures adjusted
[2]Based on 218.8 million shares
[3]Regular phased-in in accordance with the CRR/CRD IV
[4]Pro-forma value in accordance with the CRR/CRD IV as of December 31, 2013
[5]The Moody´s rating was discontinued as of December 31, 2013.

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