2016

POSTBANK GROUP

INTERIM MANAGEMENT STATEMENT AS OF MARCH 31, 2016

Postbank

PRELIMINARY REMARKS

Pursuant to section 37x of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) in the version valid until November 26, 2015, a company that issues shares as a domestic issuer is required to publish an interim management statement in the first and second half of the fiscal year, in which it reports on the key events in the reporting period and on the company's current situation. However, the *Gesetz zur Umsetzung der europäischen Transparenzrichtlinie-Änderungsrichtlinie* (Act Implementing the Transparency Directive Amending Directive) that came into force on November 26, 2015, relieved domestic issuers of their legal obligation to issue these kinds of statements.

By publishing the following interim management statement, we hereby voluntarily satisfy the quarterly reporting requirements of the Frankfurt Stock Exchange (FWB), which issuers of shares admitted to the Prime Standard segment must do pursuant to section 51a of the *Börsenordnung* (BörsO – Exchange Rules) for the FWB.

Unless otherwise stated, the following comments represent a comparison between the figures as of March 31, 2016, and those for the corresponding prior-year period or, in the case of balance sheet disclosures, the figures as of December 31, 2015.

COMPARABILITY OF STATEMENTS

Effective January 1, 2016, the service companies bundled in PBC Banking Services GmbH from April 1, 2014, until December 31, 2015, were fully reacquired by Postbank. In consequence of this reacquisition, the services these companies provide will now be reported under administrative expenses and not under other expenses as they were in the comparable prior-year period. In place of other income that was generated in the past by such things as the transfer of staff to the service companies, external income from the service business will be recognized as net fee and commission income starting January 1, 2016.

In the first quarter of 2016, the Bank retroactively adjusted the recognition of expenses for property value appraisals connected with the granting of mortgage loans. In the past, these expenses were directly recognized in profit or loss. Now they are allocated over the period of the fixed interest rate for real estate finance while the effective interest method is applied. The retroactive adjustment resulted in an increase of €16 million in other assets and retained earnings as of January 1, 2015. The adjustment effect increased other assets by €14 million as of December 31, 2015, and reduced consolidated net profit in 2015 by €2 million. Moreover, administrative expenses declined in the first quarter of 2015 by €1 million; consolidated net profit for the quarter saw a corresponding rise.

As a result of resegmentation that took effect starting the first quarter of 2016, commercial activities with business customers, previously allocated to the Retail Banking segment, were recognized in the Corporate Banking segment, followed by a retroactive adjustment of segment reporting for 2015.

MACROECONOMIC ENVIRONMENT

Economic output in Germany in the first quarter of 2016 is likely to have grown slightly thanks to heavy consumer spending. This trend was bolstered by a substantial increase in real income as a result of markedly rising wages and salaries alongside very low inflation. Investments in construction are also likely to have made a significant contribution to growth at the start of the year, having benefited from increasing demand and mild weather conditions. Investments in machinery and equipment should also have seen gains. Overall, domestic demand probably experienced sizeable growth. The healthy economy also had a positive effect on the job market. Unemployment fell slightly alongside a simultaneous and unusually steep rise in employment figures. This positive economic trend, however, was not reflected in business sentiment. The ifo Business Climate Index saw a steep decline in sentiment initially at the start of the year owing to uncertain prospects for the world economy, but recovered a bit in March.

In the first quarter of 2016, the European Central Bank (ECB) substantially eased its monetary policy once again. In March it put together a comprehensive package of measures to stimulate lending in the eurozone and bring the inflation rate back to the target value of just below 2 %. The interest rate on the deposit facility was decreased by 10 basis points to –0.40 %, the interest rate on the main refinancing operations by 5 basis points to 0.00 %, and the marginal lending rate by 5 basis points to 0.25 %. The ECB also expanded the monthly volumes of its bond purchasing program to €80 billion effective in April. In addition, it will also begin acquiring bonds issued by corporations outside the banking sector. Starting in June 2016, the ECB will launch four new targeted longer-term refinancing operations (TLTRO II) on a quarterly basis, each with a four-year maturity. Through the TLTRO II, banks can borrow financial resources up to a total of 30 % of its portfolio volumes of specific loans. The interest rate to be paid will correspond initially to the main refinancing rate prevalent at the time of allotment. This rate can be reduced to the respective deposit facility rate prevailing at the time provided that certain criteria are met in lending operations.

The low interest rate policy of the ECB continued to have a massive impact on the business environment of German banks in the first quarter of 2016. As a result, interest margin increases are likely to have been possible in this kind of environment for only a few banks. Marked price fluctuations on the stock and bonds markets are also thought to have posed greater challenges to the trading and investment banking departments of banks. It is unlikely that a majority of banks operating in these business fields successfully increased their earnings contributions compared with the corresponding prior-year quarter. Many banks will have concentrated on expanding net fee and commission income and further optimizing their cost structures.

In the first quarter of 2016, the European Banking Authority (EBA) notified all banks that will be subject to their stress test in the current year. The EBA plans to publish the results in the third quarter. It has expanded the number of institutions that will be subjected to stress testing to include other banks under their direct supervision. Stress tests for these banks will be less comprehensive and the EBA does not plan to publish the results separately for each institution. The Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) issued individual capital buffer specifications to the 15 system-relevant German banks at the start of March, capital amounts that these banks must also maintain in addition to their capital ratio. The buffer is to be kept available as Common Equity Tier 1 capital and varies between 50 to 150 basis points depending on the financial institution.

BUSINESS PERFORMANCE

Customer business

In its business with retail, business and corporate customers, Postbank can look back on a satisfying first quarter of 2016 thanks to the continuing vigor of its new business with credit products that marked the period. Compared with the same prior-year quarter, total new lending business – across all customer groups – increased by 11.1 % or around €460 million, reaching a total volume of approximately €4.6 billion.

New retail customer lending involving consumer credits grew by around 19 % or €0.1 billion compared with the first quarter of the previous year, to reach €0.7 billion. Here the volume of digitally transacted consumer credits was up 14 % compared with the previous year. As a result, more than 25 % of new business transactions involving consumer credits now occur online at the Postbank Group. The consumer credit portfolio increased by 11% year-on-year to reach €6.3 billion.

New business in private mortgage lending including disbursed home savings loans continues to be buoyed by attractive terms for customers, and registered a record quarter. Compared with the first three months of 2015, Postbank achieved very good gains of 13 % or €0.3 billion, driving its total to nearly €2.9 billion. The private mortgage lending portfolio, at €67.1 billion as of March 31, 2016, was approximately 1 % below the comparable prior-year figure, an outcome that can be attributed primarily to the scheduled reduction of purchased portfolios and the maturation of mortgage loans in Italy that are no longer part of the core business.

In its business with corporate loans and commercial real estate finance, the Bank was able to keep new business volumes stable at around €1 billion in the first quarter of 2016 in year-on-year comparison. The portfolio of corporate loans and commercial real estate finance increased from €14.4 billion on March 31, 2015, to €14.7 billion on March 31, 2016.

In private checking, some 100,000 new accounts were opened at Postbank in the first quarter of 2016, pushing the total number to 5.3 million and maintaining Postbank's distinction as a leader on the German market. Compared with the end of 2015, savings deposits declined as planned by approximately €1.0 billion owing primarily to muted inclinations to save in the current interest environment. Demand deposits, however, rose by some €0.6 billion.

The home savings business, which Postbank operates under the BHW brand, had a stable performance compared with the prior year, generating volumes of around €2.5 billion in new total home savings written in the first three months of 2016.

Income statement

Profit before tax, at €75 million, was down €56 million year-on-year, as expected. Return on equity before tax amounted to 4.3 %, following 8.0 % in the previous year.

Profit before tax in the first quarter of 2016, however, includes €10 million in negative effects from EU deposit guarantee schemes as well as €9 million in higher expenses for strategic initiatives, whereas the corresponding prior-year quarter was positively influenced by conversion effects of €25 million related to the collection of commissions and interest income. When these effects are taken into account, profit before tax was only €12 million down on the prior-year figure.

In the first quarter of 2016, Postbank generated consolidated net profit of €66 million (first quarter of 2015: €124 million). Postbank's total income fell by €34 million to €854 million, with income in the first quarter of 2015 having benefited from conversion effects of €10 million related to the collection of interest income in the factoring business and of €15 million related to the collection of commissions for brokering payment protection insurance. The impact of the interest rate environment on total income, when additional income of €21 million generated from the integration of the service companies is taken into account, was negative overall despite a thriving new lending business.

Net interest income fell by €23 million to €595 million year-on-year primarily due to the current interest rate environment, which is challenging for high-deposit volume banks, and to conversion effects in the factoring business. The palpable decline in interest expense could not fully compensate for interest income, which was retrograde overall.

Although net fee and commission income has benefited since the start of 2016 from additional income from the reconsolidation of our service companies to the tune of €23 million, positive effects from the prior-year quarter in the amount of €15 million no longer applied. They arose from conversion effects related to the collection of commissions for brokering payment protection insurance. Overall, net fee and commission income, at €206 million, was €9 million below the corresponding prior-year figure owing to such factors as investor restraint in the securities and insurance business.

Combined net trading income and net income from investment securities, down slightly by €2 million, remained at a comparable level compared to the first quarter of 2015. Net trading income fell by €17 million to €9 million primarily because of market-related measurement effects – including from currencies and derivatives – that, at €26 million, had made an extraordinarily positive impact in the first quarter of 2015. Net income from investment securities rose €15 million to €44 million thanks to, among other things, a positive effect to the tune of €22 million from the reduction of an equity investment based on a sales cooperation.

In the first quarter of 2016, the allowance for losses on loans and advances, at €41 million, was down a marked €13 million on the corresponding prior-year figure, which reflects the high quality of our loans and the conservative nature of Postbank's business model. The retail lending business, with its significant proportion of highly collateralized German real estate loans, is continuing to benefit from the stable economic environment in Germany and persistently good conditions on the German labor market in particular.

Company expenses considered as a whole, i.e., factoring in administrative expenses and other expenses, were cut by €25 million compared with the same quarter last year thanks to consistently sound cost discipline. The Bank managed to achieve these cuts despite €9 million in higher expenses for strategic initiatives to enhance competitiveness, dis-synergies related to deconsolidation from Deutsche Bank, and contributions to EU deposit guarantee schemes of €10 million that weighed down the cost base compared with the first quarter of 2015.

Administrative expenses rose by €92 million to €740 million due to technical reasons arising primarily from the reconsolidation of our service companies. This rise should be considered in connection with a €117 million decline in other expenses, in which fees for services rendered by the service companies had been recognized in the comparable quarter in 2015. The cost/income ratio rose from 81.1 % to 86.9 % in quarterly comparison. This rise can be primarily attributed to a €34 million decline in total income.

Total assets

Postbank's total assets fell by just under €2.0 billion compared with year-end 2015 to €148.6 billion.

On the assets side of the balance sheet, we continued to scale back investment securities and to increase slightly total volumes of loans and advances to customers – which include securitized assets such as promissory note loans – compared with the end of 2015. In addition to an increase in the consumer credit portfolio, the Bank was also able to expand its portfolio of loans to corporate customers. Loans and advances to other banks declined by €1.3 billion to €14.6 billion in the same period.

On the liabilities side of the balance sheet, the amounts due to customers declined from €119.1 billion at the end of 2015 to €118.3 billion as of March 31, 2016. 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 €1.4 billion to reach €14.0 billion during the same period. Recognized capital was slightly up by €5 million as against year-end 2015, at just under €7.2 billion.

Capital ratios

The positive performance of the reported fully phased-in Common Equity Tier 1 capital ratio (CET1 ratio), when interim profit is factored in, continued in the first quarter of 2016. It rose from its initial value of 11.4 % at the end of last year to 11.8 %. Here, the interest rate level, once again lower, had a beneficial effect on the revaluation reserve and thus on the CET1 capital ratio.

The regular phased-in CET1 ratio was 13.3 % when interim profit is factored in for the first quarter of 2016, compared with prior year-end figure of 13.7 %. The decline in this figure can be attributed to the scheduled rise of capital deductions in CET1 based on the statutory transitional provisions.

The fully phased-in leverage ratio, when interim profit is factored in for the first quarter of 2016, remained unchanged at 3.4 % as of March 31, 2016, compared with year-end 2015. The regular phased-in leverage ratio was 4.0 %, just slightly below the prior year-end figure of 4.1 %.

The above statements on the leverage ratio are based on the technical requirements of the Commission Delegated Regulation (EU) 2015/62 for determining the measured value of the overall risk positions.

Capital Ratios	March 31, 2016 Interim profit factored in %	Dec. 31, 2015 %
CET1 ratio, fully phased-in	11.8	11.4
CET1 ratio, regular phased-in	13.3	13.7
Leverage ratio, fully phased-in	3.4	3.4
Leverage ratio, regular phased-in	4.0	4.1

Outlook/Changes to the Outlook

Our expectations for profit before tax have not changed from those expressed in the detailed Outlook contained in the 2015 Annual Report. We expect that figure to decline by an amount in the low three-digit million euro range in fiscal year 2016.

The persistent low level of interest rates, however, has led us to modify our expectations for individual items in the consolidated income statement for fiscal year 2016. As a result, we have moderately lowered our expectations for net interest income. The introduction of additional cost-cutting measures among others has a compensatory effect and should lead administrative expenses to improve moderately. Despite the expected volume growth in the mortgage lending and consumer credit business, our forecast for the allowance for losses on loans and advances has improved appreciably thanks primarily to a persistently stable economic environment in Germany.

Over the further course of 2016, measures to heighten efficiency and expand the new lending business as well as investments in digitization will remain a top priority for Postbank. Current plans also include additional strategic measures to enhance our operational performance.

KEY GROUP FIGURES (IFRSs) AS OF MARCH 31, 2016
INCOME STATEMENT FOR THE PERIOD JANUARY 1 TO MARCH 31, 2016

	Jan. 1 – March 31, 2016 €m	Jan. 1 – March 31, 2015[1] €m
Interest income	1,035	1,113
Positive interest on financial liabilities	6	3
Interest expense	–436	–495
Negative interest on financial assets	–10	–3
Net interest income	595	618
Allowance for losses on loans and advances	–41	–54
Net interest income after allowance for losses on loans and advances	554	564
Fee and commission income	282	279
Fee and commission expense	–76	–64
Net fee and commission income	206	215
Net trading income	9	26
Net income from investment securities	44	29
Total income	**854**	**888**
Administrative expenses	–740	–648
Staff costs	–347	–287
Non-staff operating expenses	–370	–332
Amortization, depreciation, and writedowns	–23	–29
Net other income/expenses	2	–55
Other income	29	89
Other expenses	–27	–144
Profit before tax	**75**	**131**
Taxes	–9	–7
Profit from ordinary activities after tax	**66**	**124**
Non-controlling interests	0	0
Consolidated net profit	**66**	**124**

[1]Figures adjusted

CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2016

Assets	March 31, 2016 €m	December 31, 2015[1] €m
Cash reserve	880	1,357
Loans and advances to other banks	14,586	15,876
Loans and advances to customers	98,964	98,397
Allowance for losses on loans and advances	–947	–923
Trading assets	705	647
Hedging derivatives	136	78
Investment securities	30,233	30,768
thereof: transferred as collateral	3,270	5,971
Intangible assets	1,914	1,902
Property and equipment	666	678
Current tax assets	95	101
Deferred tax assets	136	72
Other assets	1,160	1,169
Assets held for sale	111	489
Total assets	**148,639**	**150,611**

Equity and liabilities	March 31, 2016 €m	December 31, 2015[1] €m
Deposits from other banks	14,034	15,443
Due to customers	118,343	119,150
Debt securities in issue	3,406	3,446
Trading liabilities	670	665
Hedging derivatives	191	208
Provisions	763	703
Provisions for pensions and other employee benefits	89	56
Other provisions	674	647
Current tax liabilities	91	110
Deferred tax liabilities	4	9
Other liabilities	640	466
Subordinated debt	3,320	3,239
Equity	7,177	7,172
Issued capital, share premium, retained earnings	7,105	6,560
Consolidated net profit	66	606
Non-controlling interests	6	6
Total equity and liabilities	**148,639**	**150,611**

[1]Figures adjusted

SEGMENT REPORTING BY BUSINESS DIVISION

	Retail Banking		Corporate Banking		Financial Markets	
	Jan. 1– March 31, 2016 €m	Jan. 1– March 31, 2015[1] €m	Jan. 1– March 31, 2016 €m	Jan. 1– March 31, 2015[1] €m	Jan. 1– March 31, 2016 €m	Jan. 1– March 31, 2015[1] €m
Net interest income	627	618	86	98	–35	–4
Net trading income	2	9	7	1	1	17
Net income from investment securities	0	0	0	–3	35	18
Net fee and commission income	164	182	34	34	–7	–6
Total income	**793**	**809**	**127**	**130**	**–6**	**25**
Administrative expenses	–383	–370	–25	–23	–7	–22
Allowance for losses on loans and advances	–16	–48	–23	–7	0	0
Other income	8	10	1	0	0	0
Other expenses	–36	–29	0	0	–1	0
Allocations	–199	–190	–41	–37	–17	–13
Profit/loss before tax	**167**	**182**	**39**	**63**	**–31**	**–10**
Revenues from external customers	792	808	127	129	–6	25
Intersegmental revenues	1	1	0	1	0	0
Impairment losses	–5	–7	0	0	0	0
Reversal of impaiment losses	0	0	0	0	0	0
Depreciation and amortization	–5	–7	0	0	0	0
Cost/income ratio (CIR)	**79.1 %**	**73.6 %**	**54.6 %**	**49.1 %**	**–2,549.5 %**	**141.4 %**
Return on equity before taxes (RoE)	**19.6 %**	**24.7 %**	**31.3 %**	**52.0 %**	**–7.4 %**	**–3.1 %**

[1]Figures adjusted

SEGMENT REPORTING BY BUSINESS DIVISION

	Non-Core Operating Unit		Cost Centers/Consolidation		Total	
	Jan. 1– March 31, 2016 €m	Jan. 1– March 31, 2015[1] €m	Jan. 1– March 31, 2016 €m	Jan. 1– March 31, 2015[1] €m	Jan. 1– March 31, 2016 €m	Jan. 1– March 31, 2015[1] €m
Net interest income	–87	–95	4	1	595	618
Net trading income	0	0	–1	–1	9	26
Net income from investment securities	9	8	0	6	44	29
Net fee and commission income	2	2	13	3	206	215
Total income	**–76**	**–85**	**16**	**9**	**854**	**888**
Administrative expenses	–4	–4	–321	–229	–740	–648
Allowance for losses on loans and advances	–2	1	0	0	–41	–54
Other income	0	0	20	79	29	89
Other expenses	–3	–1	13	–114	–27	–144
Allocations	–15	–15	272	255	0	0
Profit/loss before tax	**–100**	**–104**	**0**	**0**	**75**	**131**
Revenues from external customers	–76	–85	17	11	854	888
Intersegmental revenues	0	0	–1	–2	0	0
Impairment losses	0	0	–18	–22	–23	–29
Reversal of impairment losses	0	0	0	0	0	0
Depreciation and amortization	0	0	–18	–22	–23	–29
Cost/income ratio (CIR)	**–28.5 %**	**–25.3 %**			**86.9 %**	**81.1 %**
Return on equity before taxes (RoE)	**–27.3 %**	**–24.5 %**			**4.3 %**	**8.0 %**

[1]Figures adjusted

OTHER KEY FIGURES

		Jan. 1 – March 31, 2016	Jan. 1 – March 31, 2015[1]
Cost/income ratio	%	86.9	81.1
Return on equity before taxes	%	4.3	8.0
Earnings per share[2]	€	0.30	0.57
		March 31, 2016	**December 31, 2015[1]**
Headcount (FTEs)	thousand	18.89[3]	14.76
Risk-weighted assets	€bn	43.30	45.17
Common Equity Tier 1 capital ratio, regular phased-in[4]	%	13.3	13.7
Common Equity Tier 1 capital ratio, fully phased-in[4]	%	11.8	11.4
Leverage ratio, regular phased-in[4]	%	4.0	4.1
Leverage ratio, fully phased-in[4]	%	3.4	3.4

Long-term rating	March 31, 2016	March 31, 2015
Fitch	BBB+/outlook evolving	A+/outlook negative

[1]Figures adjusted
[2]Based on 218.8 million shares
[3]Consolidation of service companies from January 2016
[4]By factoring in the interim profit for the first three months

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