2016

POSTBANK GROUP
INTERIM MANAGEMENT STATEMENT AS OF SEPTEMBER 30, 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 September 30, 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 (Betriebs-Center für Banken AG, VÖB-ZVD Processing GmbH, Postbank Direkt GmbH, Postbank Service GmbH, and BHW Kreditservice GmbH) bundled in PBC Banking Services GmbH from April 1, 2014, until December 31, 2015, were fully reacquired by Postbank. In consequence of the extended basis of consolidation resulting from the reacquisition, other expenses previously incurred outside the Group for the procurement of services from the service companies as well as other income from the transfer of staff to the service companies in the first nine months of 2016 are no longer included in the corresponding items in the consolidated income statement given the extended basis of consolidation as of January 1, 2016. Instead, the consolidated income statement for the first nine months of 2016 now reports the original administrative expenses and the income generated by the service companies from non-Group services under net fee and commission income.

MACROECONOMIC ENVIRONMENT

Economic output in Germany grew solidly in the first three quarters of 2016. Momentum waned as time progressed, however, following a weather-related strong start to the year. Growth was driven almost exclusively by domestic demand compared with the corresponding prior-year period. An important driver of growth continued to be private consumption, which was bolstered by a substantial increase in real income as a result of markedly rising wages and salaries alongside very low inflation. Investments in machinery, equipment and construction also made significant contributions to growth. In addition, government spending increased sharply. The solid economy also had a positive effect on the job market. The unemployment rate dropped slightly during the first nine months of this year, while at the same time the number of people in the workforce climbed steeply. Despite the positive performance of the economy, business sentiment fluctuated severely. One factor contributing to this was not least the outcome of the referendum held in the United Kingdom in June 2016 on exiting the European Union. The ifo Business Climate Index saw a noticeable decline during the summer, which was followed by a recent marked improvement.

The European Central Bank (ECB) markedly stepped up its expansionary monetary policy in 2016 once again. In March, it put together a comprehensive package of measures to stimulate lending and bring the inflation rate back to the target value of just below 2 %. The interest rate on the deposit facility was decreased by ten basis points to – 0.40 %, the interest rate on the main refinancing operations by five basis points to 0.00 %, and the marginal lending rate by five basis points to 0.25 %. The monthly volumes of the ECB's bond purchasing program were increased by €20 billion to €80 billion as of April 2016. Since June 2016, the ECB for the first time has been acquiring bonds issued by corporations outside the banking sector as part of this program. In addition in June, the ECB began the rollout of four new targeted longer-term refinancing operations (TLTRO II) on a quarterly basis, each with a four-year maturity. The interest rate to be paid will initially correspond to the main refinancing rate applicable at the time of allotment. This rate can be reduced to the respective deposit facility rate prevailing at the time if certain criteria are met in lending operations. Through the TLTRO II, banks can – theoretically – borrow financial resources up to a total of 30 % of their portfolio volumes of specific loans. To date, use of that option has been limited and primarily served to repay those resources borrowed in the framework of TLTRO I.

BUSINESS PERFORMANCE

Customer business

In the first nine months of 2016, Postbank recorded a satisfying development in its new business with credit products. Total new lending in its business with retail, business and corporate customers rose €1.6 billion or 12.6% compared with the prior-year period to reach €14.6 billion. New retail customer lending climbed by more than €0.6 billion or 6.2 % year-on-year. New business in private mortgage lending including disbursed home savings loans grew by approximately €0.4 billion or 4.8 % to achieve a total volume of more than €9.3 billion. New consumer credit business saw gains of more than €0.2 billion or 12.5 % to arrive at €2.09 billion overall.

Improvements in the new lending business also had a positive impact on the development of book volumes[1]. With €6.7 billion, the consumer credit portfolio in particular improved by more than €0.5 billion or 8.3 % compared with the end of 2015. Portfolio volumes in the mortgage lending business in third-quarter 2016 remained stable at around €65.0 billion compared with year-end 2015.

In the first nine months of 2016, the Bank was able to boost new business with corporate loans and commercial real estate finance markedly by around €1.0 billion or 33.8 % year-on-year to €3.9 billion. As a result the portfolio of corporate loans and commercial real estate finance increased further from €13.8 billion at the end of 2015 to €14.4 billion as of September 30, 2016.

The Bank's announcement of its intention to reorganize its checking accounts effective November 1, 2016, received an understanding response from customers, given the low interest rate environment. Its book of private checking accounts, compared with year-end 2015, experienced a mild drop of 0.3 % as of the end of the 2016 third quarter. With the number of private checking accounts holding steady at some 5.2 million, Postbank remains the leader on the German market.

Savings deposits and demand deposits amounted to just over €76.4 billion as of September 30, 2016. Retail customer savings deposits stumbled a bit as a consequence of the persistent low level of interest rates, dropping €2.6 billion or 5.7 % compared with the end of 2015, while demand deposits increased by approximately €2.8 billion or 9.2 %.

[1]Calculation adjusted compared to previous quarters

Income statement

At €214 million, profit before tax in the first nine months of 2016 was down €177 million or 45.3 % year-on-year. Return on equity before tax amounted to 4.0 %, following 8.0 % in the previous year.

Profit before tax includes negative effects from contributions to deposit protection schemes that rose by €26 million, €49 million in higher expenses for strategic initiatives and a €12 million drop in other operating income from strategic initiatives, as well as extraordinary expenses to cover legal risks in the amount of €56 million. The sale of the strategic investment in Visa Europe Ltd. (€104 million) had a compensating effect in the observation period, whereas the corresponding prior-year period was positively influenced by conversion effects in the amount of €53 million related to the collection of commissions and interest income. Excluding these issues, profit before tax would have been €86 million or 20 % below the figure for the prior-year period.

In the first nine months of 2016, Postbank generated consolidated net profit amounting to €179 million (prior-year period: €374 million).

Total income held mostly steady at €2,566 million compared with last year's figure. When the income generated from the sale of the strategic investment in Visa Europe Ltd. in the first nine months of 2016 and the income generated from non-Group services by the reconsolidation of our service companies and reported under net fee and commission income in the amount of €70 million are taken into consideration, it is apparent that the interest environment had a negative impact overall on total income despite new lending business that remained strong.

Net interest income fell by €104 million or 5.5 % to €1,770 million year-on-year primarily due to the current interest rate environment, which is challenging for high-deposit volume banks. The palpable decline in interest expense could not fully compensate for interest income, which was retrograde overall.

Net fee and commission income, at €584 million, was €17 million or 2.8 % below the corresponding prior-year figure overall owing to such factors as customer restraint toward select products. Since the start of 2016, net fee and commission income has benefited from additional income to the tune of €70 million from the reconsolidation of our service companies; however positive effects from the change in the recognition of commissions for brokering payment protection insurance in the amount of €43 million from the prior-year period no longer applied.

Combined net trading income and net income from investment securities, at €212 million, was significantly above the result from the first nine months of 2015, thanks in particular to the sale of the strategic investment in Visa Europe Ltd.

The allowance for losses on loans and advances, at €121 million, was down a marked €24 million or 16.6 % compared with the first nine months of 2015, a development that reflects the high quality of our loans and the conservative nature of Postbank's business model. At 16 basis points, the annualized net additions ratio for the customer loan portfolio based on the third quarter of 2016 remained at low level. 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 €29 million or 1.2 % compared with the corresponding prior-year period thanks to consistently strict cost management. This shows that the strategic approaches we have used – e.g., investments in the branch network to do such things as equip the branches with cash dispensers or to optimize processes in back office units – have already had a positive impact on cost trends.

Administrative expenses rose by €306 million or 16.1 % to €2,201 million as a consequence of the reconsolidation of our service companies. This rise should be considered in connection with a €335 million or 76.7 % decline in other expenses, in which fees for services rendered by the service companies had been recognized in the comparable period in 2015. The cost/income ratio climbed from 81.3 % to 87.3 %. This gain can essentially be attributed to the reduction of other expenses, which had a proportionally stronger effect than the slightly improved overall cost base.

Total assets

Postbank's total assets fell by some €3.2 billion or 2.1 % to €147.4 billion, compared with year-end 2015.

On the assets side of the balance sheet, total volumes of loans and advances to customers were up €2.3 billion or 2.4 % compared with the end of last year – driven primarily by the positive performance of the new lending business. In addition to a noticeable increase in the consumer credit portfolio of just under €0.7 billion or 10.2 %, the Bank was also able to expand its portfolio of loans to corporate customers in a similar amount. In the same period loans and advances to other banks were reduced by €4.3 billion or 27.1 % to €11.6 billion and holdings of investment securities by €1.3 billion or 4.4 %.

On the liabilities side of the balance sheet, the amounts due to customers declined slightly from €0.9 billion or 0.7 % compared with year-end 2015 to €118.3 billion as of the reporting date. 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 €1.7 billion or 11.0 % to reach €13.7 billion during the same period. Recognized capital was slightly down by €55 million or 0.8 % as against year-end 2015, at just under €7.1 billion. This is due to an adjustment that had to be made to retained earnings because of the repurchase of the service companies.

Capital ratios

For the first nine months of 2016, the fully phased-in Common Equity Tier 1 (CET) capital ratio, subject to the inclusion of the interim profit for the first nine months of 2016, rose slightly to 11.6 % as of September 30, 2016, following 11.5 %[1] at the end of 2015. The regular phased-in CET1 capital ratio, also subject to the inclusion of the interim profit, was 13.2 % as of September 30, 2016, compared with a prior year-end figure of 13.8 %[1]. The decline in this latter figure can primarily be attributed to a rise in the applicable percentage rate in the transitional provisions for capital deductions from 40 % to 60 %.

[1]Based on the consolidated financial statements as of December 31, 2015, figures adjusted

At 3.9 %, the regular phased-in leverage ratio as of September 30, 2016, subject to the inclusion of the interim profit, was moderately below the prior year-end figure (December 31, 2015: 4.1 %). The fully phased-in leverage ratio, subject to the inclusion of the interim profit, sank slightly from 3.4 % to 3.3 % compared with the prior year-end figure. These calculations are based on the new regulatory requirements of the Commission Delegated Regulation (EU) 2015/62.

Outlook/Changes to the Outlook

In light of business developments at the Postbank Group in fiscal year 2016 and following the end of the first nine months of this year, we have been able to formulate our expectations more precisely at several points compared with those presented in the Group Management Report as of December 31, 2015, and the Group Interim Management Report as of June 30, 2016.

Owing to increased contributions to deposit protection schemes, we are correcting the improved half-year forecast for administrative expenses and now once again expect, as at the start of the year, a noticeable increase in those expenses following the reconsolidation of our service companies at the beginning of 2016. Adjustments made to our capacities and increasing digitization of processes have led us to revise our expectations for growth in the number of full-time equivalents (FTEs). It should be 200 less than the figure presented in the 2015 Group Management Report.

Net fee and commission income should see only a moderate rise for the full year, due to such factors as customer restraint toward select products and the reorganization of the checking account price model effective November 1, 2016. At the same time, we are revising our previous forecast for the allowance for losses on loans and advances; instead of a slight drop, we now foresee a marked reduction for fiscal year 2016.

For the adjusted profit before tax, we continue to affirm the forecast made in our 2016 half-year financial report.

Profit before tax is expected to decline by an amount in the middle three-digit million euro range instead of the low three-digit millions as previously anticipated. This new forecast is based on our expectations for the indicated earnings components, which owing in part to toughening regulatory requirements and the sustained low level of interest rates had to be revised by an amount in the middle two-digit million euro range compared with the 2016 half-yearly financial report.

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

KEY GROUP FIGURES (IFRSs) AS OF SEPTEMBER 30, 2016

INCOME STATEMENT FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30, 2016

	Jan. 1 – Sept. 30, 2016 €m	Jan. 1 – Sept. 30, 2015[1] €m
Interest income	3,086	3,296
Positive interest on financial liabilities	21	11
Interest expense	–1,299	–1,420
Negative interest on financial assets	–38	–13
Net interest income	1,770	1,874
Allowance for losses on loans and advances	–121	–145
Net interest income after allowance for losses on loans and advances	1,649	1,729
Fee and commission income	811	815
Fee and commission expense	–227	–214
Net fee and commission income	584	601
Net trading income	20	35
Net income from investment securities	192	57
Administrative expenses	–2,201	–1,895
Other income	72	301
Other expenses	–102	–437
Profit before tax	**214**	**391**
Total income tax	–35	–17
Profit from ordinary activities after tax	**179**	**374**
Non-controlling interests	0	0
Consolidated net profit	**179**	**374**

[1]Figures adjusted

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2016

Assets	September 30, 2016 €m	December 31, 2015[1] €m
Cash reserve	1,759	1,357
Loans and advances to other banks	11,575	15,876
Loans and advances to customers	100,722	98,397
Allowance for losses on loans and advances	–970	–923
Trading assets	661	647
Hedging derivatives	173	78
Investment securities	29,422	30,768
thereof transferred as collateral	3,367	5,971
Intangible assets	1,953	1,902
Property and equipment	680	678
Current tax assets	112	101
Deferred tax assets	148	72
Other assets	1,131	1,169
Assets held for sale	20	489
Total assets	**147,386**	**150,611**

Equity and liabilities	September 30, 2016 €m	December 31, 2015[1] €m
Deposits from other banks	13,748	15,443
Due to customers	118,289	119,150
Debt securities in issue	3,339	3,446
Trading liabilities	576	665
Hedging derivatives	101	208
Provisions	908	703
Current tax liabilities	78	110
Deferred tax liabilities	27	9
Other liabilities	571	466
Subordinated debt	2,632	3,239
Equity	7,117	7,172
a) Issued capital	547	547
b) Share premium	2,191	2,010
c) Retained earnings	4,194	4,003
d) Consolidated net profit	179	606
Non-controlling interests	6	6
Total equity and liabilities	**147,386**	**150,611**

[1]Figures adjusted

SEGMENT REPORTING BY BUSINESS DIVISION

	Retail Banking		Corporate Banking		Financial Markets	
	Jan. 1 – Sept. 30, 2016 €m	Jan. 1 – Sept. 30, 2015 €m	Jan. 1 – Sept. 30, 2016 €m	Jan. 1 – Sept. 30, 2015 €m	Jan. 1 – Sept. 30, 2016 €m	Jan. 1 – Sept. 30, 2015 €m
Net interest income	1,851	1,888	255	279	–74	–30
Net trading income	5	15	7	0	10	22
Net income from investment securities	90	0	0	–3	79	28
Net fee and commission income	481	534	93	96	–19	–17
Total income	**2,427**	**2,437**	**355**	**372**	**–4**	**3**
Administrative expenses	–1,146	–1,090	–72	–66	–23	–33
Allowance for losses on loans and advances	–81	–129	–33	–16	0	1
Other income	12	24	2	1	0	0
Other expenses	–151	–89	0	0	–1	0
Allocations	–619	–594	–120	–111	–36	–33
Profit/loss before tax	**442**	**559**	**132**	**180**	**–64**	**–62**
Revenues from external customers	2,424	2,434	353	370	–4	3
Intersegmental revenues	3	3	2	2	0	0
Impairment losses (IAS 36.129)	–18	–19	–1	–1	0	0
Reversal of impairment losses (IAS 36.129)	0	0	0	0	0	0
Depreciation and amortization	–18	–19	–1	–1	0	0
Cost/income ratio (CIR)	**80.1**	**74.0**	**56.2**	**50.5**	**1,005.6**	**1,262.4**
Return on equity before taxes (RoE)	**16.8**	**24.9**	**32.6**	**48.8**	**–5.2**	**–5.7**

[1]Figures adjusted

SEGMENT REPORTING BY BUSINESS DIVISION

	Non-Core Operating Unit		Cost Centers/Consolidation		Total	
	Jan. 1– Sept. 30, 2016 €m	Jan. 1– Sept. 30, 2015 €m	Jan. 1– Sept. 30, 2016 €m	Jan. 1– Sept. 30, 2015 €m	Jan. 1– Sept. 30, 2016 €m	Jan. 1– Sept. 30, 2015 €m
Net interest income	–267	–264	5	1	1,770	1,874
Net trading income	0	0	–2	–2	20	35
Net income from investment securities	9	10	14	22	192	57
Net fee and commission income	0	5	29	–17	584	601
Total income	**–258**	**–249**	**46**	**4**	**2,566**	**2,567**
Administrative expenses	–9	–15	–951	–691	–2,201	–1,895
Allowance for losses on loans and advances	–7	–1	0	0	–121	–145
Other income	0	4	58	272	72	301
Other expenses	–4	1	54	–349	–102	–437
Allocations	–32	–31	807	769	0	0
Profit/loss before tax	**–310**	**–291**	**14**	**5**	**214**	**391**
Revenues from external customers	–258	–249	51	9	2,566	2,567
Intersegmental revenues	0	0	–5	–5	0	0
Impairment losses (IAS 36.129)	0	0	–54	–62	–73	–82
Reversal of impairment losses (IAS 36.129)	0	0	0	0	0	0
Depreciation and amortization	0	0	–54	–62	–73	–82
Cost/income ratio (CIR)	**–17.5**	**–18.7**			**87.3**	**81.3**
Return on equity before taxes (RoE)	**–28.9**	**–24.0**	**0.0**	**0.0**	**4.0**	**8.0**

OTHER KEY FIGURES

		Jan. 1 – Sept. 30, 2016	Jan. 1 – Sept. 30 2015
Cost/income ratio	%	87.3	81.3
Return on equity before taxes	%	4.0	8.0
Earnings per share[1]	€	0.82	1.71
		September 30, 2016	**December 31, 2015**
Headcount (FTEs)	thousand	18.51[2]	14.76
Risk-weighted assets	€bn	43.60	45.17
Common Equity Tier 1 capital ratio, regular phased-in	%	13.2[3]	13.8[4]
Common Equity Tier 1 capital ratio, fully phased-in	%	11.6[3]	11.5[4]
Leverage ratio, regular phased-in[5]	%	3.9[3]	4.1
Leverage ratio, fully phased-in[5]	%	3.3[3]	3.4

Long-term rating	September 30, 2016	September 30, 2015
Fitch	BBB+/outlook stable	A–/outlook negative

[1]Based on 218.8 million shares
[2]Consolidation of service companies from January 1, 2016
[3]By factoring in the interim profit as of September 30, 2016
[4]Based on the Consolidated Financial Statements as of December 31, 2015, figures adjusted
[5]The calculations are based on the regulatory requirements of the Commission Delegated Regulation (EU) 2015/62 as of October 10, 2014

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