2016

DEUTSCHE POSTBANK AG, BONN
ANNUAL FINANCIAL STATEMENTS (HGB)
AS OF DECEMBER 31, 2016

Postbank

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ANNUAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2016
AND MANAGEMENT REPORT FOR FISCAL YEAR 2016

CONTENTS

POSTBANK MANAGEMENT REPORT

BUSINESS AND ENVIRONMENT

Corporate profile and business model of Postbank

Corporate profile

Postbank has been part of the Deutsche Bank Group, Frankfurt am Main, since December 3, 2010. On its journey to independence Postbank has succeeded with efforts to create in fiscal year 2016 the general framework for technical and operational deconsolidation from Deutsche Bank. These efforts have been based on the results of internal projects and constitute a necessary prerequisite for the planned deconsolidation on the balance sheet. Deutsche Postbank AG is now positioned in such a way that it will be able to operate independently within a short period of time.

Business model

Offering a range of simple, standardized products, Deutsche Postbank AG (Postbank) views itself as a banking and financial services provider that is oriented on the needs of our customer base. As a bank for retail, business and corporate customers, Postbank sells its products and services through a nationwide branch network in Germany of Finance, Advisory and Sales Centers, as well as through mobile sales, call centers, and direct banking via online sales channels. In addition, selected Postbank financial services are offered in third-party sales through brokers and cooperation partners.

On the basis of a unique cooperation with Deutsche Post AG in Germany, Postbank also generates fee and commission income through the provision of postal services in its branch network. The resultant increase in customer traffic allows for a more efficient operation of the branch network and offers numerous opportunities to approach customers for selling Postbank products.

Key locations

The head office of Postbank is located in Bonn. In addition, Postbank operates a national network of branches that had 1,043 Finance Centers in Germany at the end of 2016, as well as a branch in Luxembourg.

The subsidiary BHW Bausparkasse Aktiengesellschaft is domiciled in Hameln.

Fundamental sales markets and competitive position

In retail banking, Postbank conducts its business almost exclusively in Germany and is one of the largest financial service providers in the country. The Bank wants to position itself as a fair and reliable partner in financial questions and excels in the savings and deposit business owing primarily to a demand-actuated offer of checking accounts as well as home savings and investment products. With some 6.4 million retail and business customers who have the option of banking online, Postbank is one of the largest direct banks in Germany. In the lending business with private mortgage loans, Postbank with its DSL Bank and BHW brands is one of the largest mortgage lenders in Germany based on balance-sheet volumes. In its business with private mortgage lending and consumer loans, Postbank continues to grow faster than the German market when it comes to new business volumes. Private retirement provision solutions, diverse insurance products, and the securities business round out the product range for retail customers. In all these areas, Postbank offers some products and services as part of partnerships with fund companies, banks, and insurance companies. The Bank also wants to offer its customers prudent guidance on investments in a low interest rate environment that go above and beyond savings and checking products, and has recently introduced a new securities strategy in connection with a new integrated advisory concept for that purpose.

In its own 1,043 Finance Centers, including the recently established sales centers, Postbank offers both comprehensive banking and financial services as well as Deutsche Post AG services. In addition, the Bank has more than 4,300 Deutsche Post AG partner retail outlets, where customers can access select Postbank financial services, as well as some 700 Postbank Finanzberatung AG advisory centers. Postbank's major competitors in the retail banking business in Germany are providers from the sector of savings banks and cooperative banks as well as several major banks.

In addition to retail banking, Postbank is involved in the corporate banking business. As a mid-sized market player in this area, it focuses particularly on German SMEs and major payment transaction addresses. In the area of payment transactions, as well as in factoring, Postbank is one of the leading providers in Germany. It also serves as a partner for commercial real estate finance with an international orientation for its corporate customers. The Bank's most significant competitors also in this business area are providers from the sector of savings banks and cooperative banks as well as several major banks.

Management at Postbank

Postbank is responsible for the Group-wide management of the Postbank subgroup.

Non-financial key performance indicators at Postbank

In its corporate management, Postbank makes use of financial as well as non-financial key performance indicators. The essential non-financial key performance indicators are measures of employee and customer satisfaction. Both are Group targets within the target system and as such were relevant to the remuneration of all Management Board members in 2016.

Employee satisfaction is measured by evaluating the results of Postbank's annual people survey. It poses a number of questions related to the dimensions of identification, leadership, business success/targets, customer orientation, productivity and efficiency, vision and mission, ability to change, communication, and work load. Employees indicate their approval ratings on a five-point scale. The degree of employee satisfaction is primarily derived from the results from the "identification" dimension, which consists of various questions used to determine motivation and workforce loyalty to the Company.

Customer satisfaction is measured quarterly in telephone interviews using a structured questionnaire with consistent core content to ensure that trends in the results are comparable. The survey's underlying random sample is representative of the Postbank customer population. The research design makes it possible to conduct systematic time series analyses and causal analyses. The questions probe both the overall satisfaction of customers with the Postbank products and services as well as satisfaction with some of the Bank's central performance factors such as accessibility, speed, friendliness, propriety, professional advice, satisfaction with sales channels and self-service systems, and complaints management. Satisfaction is measured using a verbalized scale from one to five (1 = completely satisfied, 5 = dissatisfied). The study is conducted by a renowned external market research institute, which ensures high quality standards.

The target system for executive employees also includes target dimensions that make it possible to derive targets for Postbank executives from the non-financial key performance indicators at the Group level. Apart from the targets in the cost/ finance dimension as an individual financial target, each executive employee is assigned targets for the dimensions markets/customers, process/quality, and employees/team, which are relevant to the individual's own area of responsibility. This creates a consistent system that facilitates Group-wide management in accord with essential non-financial key performance indicators.

Financial key performance indicators

The key performance indicators at the subgroup level are relevant to management at Postbank.

Financial key performance indicators

Primary financial key performance indicators	Definition
Profit before tax	Profit before tax, as the most important metric used to judge and manage the performance of Postbank, contains all of the components of the consolidated income statement before taxation. Total income (consisting of net interest income, net fee and commission income, net income from investment securities, and net trading income), the allowance for losses on loans and advances, administrative expenses (consisting of staff costs, other administrative expenses, and writedowns) and other comprehensive income (net other income and expenses) are taken into consideration here.
Adjusted profit before tax	The starting point for determining adjusted profit before tax is profit before tax, which is then adjusted in relation to the following material issues: - Effects from the sale or acquisition of companies in connection with initial consolidation and/or deconsolidation - Non-recurring effects from writedowns of goodwill, equity investments and intangible assets - Expenses for strategic initiatives (ESI) that are incurred outside the normal line activities in temporary projects with separate governance structures[1] - Expenses for legal risks in conjunction with consumer protection rulings - Results from prior periods (e.g., interest on payments of tax arrears from previous years, additional payments under the bank levy). Potential sales of investment securities at the behest of Postbank for operational reasons occur regularly and are not adjusted. All effects that have a €10 million or more impact per case on profit before tax in a fiscal year are adjusted.
Return on tangible equity (RoTE) after tax	The value is calculated as the ratio of profit after tax to the average time-weighted equity minus the average time-weighted intangible assets in the reporting period. To calculate time-weighted equity and time-weighted intangible assets, monthly averages are calculated as the average value of the starting and closing balances of a month. The annual average is calculated as the average of the monthly averages.
Cost/income ratio (CIR)	The ratio of administrative expenses plus other expenses and expenses allocated to the segments to total income plus other income before the allowance for losses on loans and advances and income allocated to the segments.
Common Equity Tier 1 capital ratio (CET1 capital ratio)	The ratio of Common Equity Tier 1 capital, which meets the toughest requirements for capital positions as set out in the Capital Requirements Regulation (CRR), to risk-weighted assets.
Leverage ratio	The leverage ratio is calculated as an institution's capital measure (Common Equity Tier 1 capital (CET1) + Additional Tier 1 capital) divided by that institution's total exposure measure (leverage exposure). The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items. Specific regulatory measurement requirements are applied to derivatives, repurchase agreements, and off-balance sheet transactions in particular (requirements pursuant to Article 429 of the Capital Requirements Regulation (CRR)).

[1] In fiscal year 2016, these included projects conducted in the "deconsolidation" and "management agenda" steering committees.

Management at Postbank is based on an integrated and consistent system of key performance indicators that is used throughout the Group. The system links targets, planning, operational management, performance measurement, and remuneration. The objective of this management approach is a balanced optimization of profitability, efficiency, and capital resources and/or the leverage ratio.

The central profitability target for the capital market-oriented management of Postbank is equity costs in the form of a hurdle rate that is derived from return expectations of the capital market. The achievement of this return on equity in accordance with IFRSs is measured for the first time since the start of fiscal year 2016 by return on tangible equity (RoTE) after tax. Postbank's efficiency is measured by the cost/income ratio (CIR), which is the central metric for income and productivity management.

Owing to regular significant special factors that impact profit before tax, an adjusted profit before tax is calculated and used to provide a better assessment of the underlying operational performance of the Bank. Consequently, the metric also serves as a point of guidance for management of the Bank and Management Board remuneration. The reported adjusted figure is identical to the one determined by the Compensation Control Committee for Management Board remuneration.

In order to take other key requirements into account from a capital market perspective, Postbank has defined specific target values for the leverage ratio and the Common Equity Tier 1 capital ratio (CET1 ratio); the Postbank Group's mid-term planning is systematically oriented on achieving these target values. The CET1 ratio and the leverage ratio are calculated as part of management activities as fully phased-in metrics. The leverage ratio is calculated on the basis of regulatory requirements pursuant to Article 429 of the CRR.

For operational management, the strategic and operational targets are further defined as key performance indicators (KPIs) and subjected to regular reviews. This assures that all business activities are focused on achieving company objectives. The Bank continually refines the process used to conduct these regular reviews.

The variable remuneration of Management Board members, executives, and employees at Postbank is closely linked to this management system. It is based on individual targets, divisional targets, and Postbank Group targets measured against an adjusted profit before tax and the associated CIR. As a result of regulatory requirements and the company goal of sustainable success, a sustainability factor is used to calculate the long-term portion of the variable remuneration of the Management Board, risk takers (persons with substantial influence on the Bank's overall risk profile), and our other executives (long-term component). Additional details are provided in the section "Remuneration of the Management Board and the Supervisory Board" and in the Notes to the Annual Financial Statements.

Management process

At the level of the Postbank subgroup, Postbank directs its activities on the basis of a management information system whose core component is management accounting by business division. In general, management is performed much the way it is on the Postbank Group level, with the exception of the metric for capital resources (CET1 ratio) and the leverage ratio. The latter two metrics are managed exclusively at the Group level. The allocation of equity to the segments is based on their economic risk capital requirements.

In the management process, a comprehensive calculation of the contribution margin is also taken into account at the portfolio and/or product level and is supplemented with selected risk-adjusted performance indicators.

In addition to the established key management parameters that were previously mentioned, Postbank also uses return indicators in internal management based on the average time-weighted equity (return on equity (RoE)) as well as on the underlying total assets (return on assets – RoA) and the risk-weighted assets plus return on total capital demand (RoTCD). Similar to RoE, the return is calculated on the basis of regulatory capital (return on regulatory capital (RoReC)) and/or the economic capital requirement (return on risk-adjusted capital (RoRaC)), which forms a key basis for decision-making on the portfolio and product levels. The economic capital requirement is determined by the use of relevant types of risk depending on the management level (e.g., credit risk, market risk, operational risk). Both resources – regulatory capital and economic capital – are expected to yield an appropriate return in the form of hurdle rates, which are derived from the return expectations of the capital market and are to be generated by Postbank as a whole.

In light of the persistent low interest rate environment as well as investment opportunities of limited profitability for surplus liquidity and/or limited opportunity for transfer of surplus liquidity to the Deutsche Bank Group, Postbank has also defined a target value for the loan-to-deposit ratio (LtD) for the purpose of optimizing asset/liability management. Here Postbank is striving for a balanced ratio of customer loans to customer deposits. The loan-to-deposit ratio is the ratio of loans and advances to customers to amounts due to customers (excluding money and capital market borrowings) plus deposits from other banks resulting from development loan refinancing. It is reported on a monthly basis in a Management Board committee that addresses balance sheet management.

DISCLOSURES IN ACCORDANCE WITH SECTION 289(4) OF THE *HANDELSGESETZBUCH* (HGB – GERMAN COMMERCIAL CODE) AND EXPLANATORY REPORT

At the start of 2016, the trading of Deutsche Postbank AG shares was halted on all stock exchanges. Deutsche Postbank AG, as a result, has not been listed since January 14, 2016. Furthermore, as of December 31, 2016, the shares of Deutsche Postbank AG could not be traded on the Company's own initiative on a multilateral trading system – with the result that the following statements are voluntary.

Composition of issued capital

Postbank's share capital amounted to €547,000,000 as of December 31, 2016, and is composed of 218,800,000 no-par value registered shares. Each share conveys the same statutory rights and obligations and grants the holder one vote at the Annual General Meeting.

Restrictions that affect voting rights or the transfer of shares

Article 17 of the Articles of Association determines the requirements that must be met to attend the Annual General Meeting and exercise the right to vote as a shareholder. The Company only regards as shareholders those persons entered as such in the share register. Voting rights that arise from the shares in question are excluded by law in those cases described in section 136 of the *Aktiengesetz* (AktG – German Stock Corporation Act). According to section 71b of the AktG, companies derive no rights that may be exercised from the holding of own shares. The Management Board is not aware of any agreements between shareholders that restrict voting rights or the transfer of shares.

Equity interests in excess of 10 % of voting rights

On December 31, 2016, Deutsche Bank AG, Frankfurt am Main, held directly and indirectly 100 % of Postbank shares. 79.09 % is held indirectly through DB Beteiligungs-Holding GmbH, which for its part holds Postbank shares indirectly through DB-Finanz Holding GmbH.

Shareholders with special rights

No shares with special rights conveying powers of control were issued.

Type of voting rights control when employees with equity interests do not exercise their control rights directly

If an employee holds shares of Deutsche Postbank AG, he or she will exercise his or her rights of control in the future in the same manner as other shareholders, i.e., in accordance with statutory provisions and the Articles of Association.

Provisions concerning the appointment and dismissal of Management Board members and amendments to the Articles of Association

The members of the Company's Management Board are appointed by the Supervisory Board for a maximum term of five years in accordance with section 84 of the AktG and section 31 of the *Mitbestimmungsgesetz* (MitbestG – German Codetermination Act). According to statutory provisions, members may be reappointed or their term extended for a maximum of five years in either case. Under Article 5 of the Company's Articles of Association, the Management Board consists of at least two members. In addition, the Supervisory Board determines the number of members of the Management Board and can also appoint a chairperson of the Management Board and a deputy chairperson of the Management Board as well as deputy members.

Under sections 24(1) no. 1 and 25c(1) of the *Kreditwesengesetz* (KWG – German Banking Act), the Bank must demonstrate to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) and the Deutsche Bundesbank in advance of any purposed Management Board appointments that the proposed members are trustworthy, professionally qualified, and will devote adequate time to the performance of board duties. To be considered professionally qualified, such candidates must have managerial experience and sufficient theoretical and practical knowledge of the relevant business areas of the Bank. The national supervisory authority forwards the information with regard to the professional qualifications and the appointment of Management Board members to the European Central Bank (ECB) so that it may perform its duties.

The Supervisory Board, under section 84(3) of the AktG, is entitled to revoke the appointment of Management Board members or the appointment of a chairperson of the Management Board if there is good cause. Good cause includes in particular gross breach of duties, inability to manage the company properly or a vote of no confidence by the Annual General Meeting, unless such a vote of no confidence was made for manifestly arbitrary reasons.

Pursuant to section 45c(1) to (3) of the KWG, BaFin may appoint a special representative and entrust him/her with the tasks and powers of one or more members of the Management Board if such members are untrustworthy or lack the requisite professional expertise or if the institution no longer has the requisite number of Management Board members. If members of the Management Board are not trustworthy or lack the requisite knowledge, or if violations of the principles of the proper conduct of business remain concealed from them or if they have failed to eliminate the ascertained infringements, BaFin can also transfer the tasks and powers of the Management Board as a whole to the special representative. In all these cases, the tasks and powers of the Management Board or the Management Board members concerned are suspended.

If an institution is in danger of failing to discharge its obligations to its creditors or there are grounds for suspecting that effective supervision of the bank is not possible, BaFin can take temporary measures to avert the danger pursuant to section 46(1) of the KWG. In the exercise of this duty, it can also prohibit or limit Management Board members from performing their office. In this case, their function can be fulfilled by the special representative pursuant to section 45c of the KWG.

The Articles of Association of Deutsche Postbank AG may be amended in accordance with the provisions of section 119(1) no. 5 and section 179 of the AktG. Under these provisions, amendments to the Articles of Association require a resolution by the Annual General Meeting. Moreover, under Article 19(3) of the Articles of Association, the Supervisory Board is permitted to make amendments to the Articles of Association that relate exclusively to their wording. Under Article 19(2), the resolutions by the Annual General Meeting are passed by a simple majority of the votes cast, in the absence of binding legal requirements to the contrary. Where the law prescribes a shareholding majority in addition to a voting majority, resolutions are passed by a simple majority of the share capital represented during the vote. Amendments to the Articles of Association enter into force upon entry into the commercial register (section 181(3) of the AktG).

Powers of the Management Board to issue or repurchase shares

The Management Board is authorized, with the consent of the Supervisory Board, to increase the Bank's share capital on one or more occasions in whole or in part by up to a total of €218.8 million up to May 27, 2018, by issuing new no-par value registered shares against cash and/or non-cash contributions, including mixed non-cash contributions (Authorized Capital I). The shareholders are generally granted preemptive rights. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

The Management Board is also authorized, with the consent of the Supervisory Board, to increase the share capital on one or more occasions in whole or in part by up to a total of €54.7 million in the period up to May 27, 2018, by issuing new no-par value registered shares against cash contributions (Authorized Capital II).

The shareholders are generally granted preemptive rights. The resolution also provides the opportunity for simplified disapplication of preemptive rights in accordance with section 186(3) sentence 4 of the AktG. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

More details on Authorized Capital I and II can be found in Article 4(6) and (7) of the Articles of Association.

Pursuant to a resolution of the Annual General Meeting on July 9, 2014, the Management Board is authorized under agenda item 9a and the conditions described in detail therein to issue profit participation certificates, hybrid bonds, bonds with warrants, and convertible bonds, on one or more occasions, in the period up to July 8, 2019. The aggregate principal amount may not exceed a total of €3 billion. Options or conversion rights may only be issued for shares of the Company with a notional interest in the share capital of up to €273.5 million.

The share capital has been contingently increased by up to €273.5 million by the issue of up to 109.4 million new no-par value registered shares (Contingent Capital). The purpose of the contingent capital increase is to grant rights to the holders of profit participation certificates with warrants or convertible profit participation certificates, bonds with warrants and convertible bonds attached to profit participation certificates, convertible bonds, or bonds with warrants to be issued under agenda item 9a by the Company or by its affiliated companies, on the basis of the authorization granted to the Management Board by resolution of the Annual General Meeting on July 9, 2014. The contingent capital increase can be carried out until July 8, 2019, to the degree that use is made of these rights or that holders with a conversion obligation fulfill that obligation. The new shares shall be issued at the option or conversion prices to be calculated in each case in accordance with the aforementioned authorization. The new registered shares shall carry dividend rights from the beginning of the fiscal year in which they are created as a result of conversion or option rights being exercised or conversion obligations being fulfilled. The Management Board is authorized to determine the further details of the implementation of the contingent capital increase. More details on Contingent Capital can be found in Article 4(8) of the Articles of Association.

Material agreements that take effect in the event of a change of control following a takeover bid
No material agreements that take effect in the event of a change of control following a takeover bid have been concluded.

Compensation agreements in cases of a change of control
No company compensation agreements in the case of a takeover bid have been concluded with members of the Management Board or employees.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Deutsche Postbank AG (Postbank) hereby publishes the principles used to determine the remuneration of the Management Board and the Supervisory Board. The report also explains the amount of remuneration and structure of the remuneration in accordance with the statutory provisions, German Accounting Standard (GAS) 17 "Reporting on the Remuneration of Members of Governing Bodies," and the recommendations of the German Corporate Governance Code.

Remuneration system for members of the Management Board
Responsibility
The full Supervisory Board is responsible for designing the remuneration system and for setting the remuneration of the individual members of the Management Board.
It has been supported in these matters by the Compensation Control Committee. The Committee is primarily responsible for monitoring the appropriate design of the remuneration systems for senior managers and employees, and in particular for the heads of the Risk Control and Compliance units, as well as employees who have a material influence on the Bank's overall risk profile. The Compensation Control Committee assesses the impact of the remuneration systems on risk, capital and liquidity management, prepares the Supervisory Board resolutions on the remuneration of the senior managers, and assists the Supervisory Board in monitoring the proper integration of the internal control functions and all other relevant functions in the design of the remuneration systems.

Structure of the remuneration of the Management Board in fiscal year 2016
The overall structure of the remuneration of the Management Board and the principal components of Management Board contracts are stipulated and regularly reviewed by Postbank's Supervisory Board. This review focuses in particular on the appropriateness of the system's design and on changes that become necessary in response to new legislative and regulatory requirements.

The main goal for the design of the remuneration system and the amount of Management Board remuneration is to remunerate Management Board members appropriately in line with the market and competitors and in accordance with all statutory and regulatory requirements, taking into account members' areas of activity and responsibility, Postbank's overall long-term performance, and the collective and individual performance of the members of the Management Board. The appropriateness of the remuneration of the Management Board in both market terms and within the Postbank Group was confirmed for fiscal year 2014 in a horizontal and vertical remuneration comparison. A vertical remuneration comparison was performed within the Postbank Group for fiscal year 2016, which likewise confirmed the appropriateness of the remuneration; pursuant to a resolution of the Supervisory Board, horizontal remuneration comparisons are conducted at three-year intervals, so that the next comparison is planned for fiscal year 2017.

The aim is for the system to be designed in a way that generates incentive for the members of the Management Board to meet the Bank's objectives, to permanently promote positive corporate development, and to avoid disproportionately high risks. To this extent, the Supervisory

Board had already capped the ratio of variable remuneration to fixed remuneration before the statutory maximum ratio was introduced. Postbank's Annual General Meeting approved a ratio for fixed to variable remuneration of 1:2 for the members of the Management Board in the light of the requirements prescribed by section 25a(5) of the *Kreditwesengesetz* (KWG – German Banking Act).

The total remuneration awarded to the members of the Management Board is accordingly broken down into non-performance-related and performance-related components.

a) Non-performance-related components

The non-performance-related components are the base pay (fixed remuneration) and incidental benefits. The base pay is paid out monthly in twelve equal installments. Incidental benefits mainly comprise non-cash benefits in the form of company cars, the payment of insurance premiums, and the reimbursement of business-related expenses including any taxes on these items. Incidental benefits are available to all members of the Management Board equally; however, the amount may vary depending on their individual personal circumstances.

b) Performance-related component (variable remuneration)

The performance-related component is the variable remuneration. The amount of the variable remuneration awarded to the members of the Management Board is dependent on the achievement of quantitative and qualitative Postbank Group, board department and individual goals defined as an agreed target for variable remuneration and is determined on the basis of key performance indicators. For this purpose, uniform Postbank Group goals have been given a weighting of 50 % in the performance measurement. The goals are laid down in a target agreement entered into at the start of each fiscal year (base year). The maximum variable remuneration is capped in individual contracts at 150 % of the agreed target.

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant[1] of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board once again with effect from fiscal year 2015. The purpose of these modifications was to position Postbank as a banking institution independent of the Deutsche Bank Group in the future and, in this connection, to establish the right incentives in the structure of the deferral system. This has been agreed with the individual members of the Management Board by amending their employment contracts accordingly.

Variable remuneration for 2016: grant, performance, deferral and forfeiture provisions

The award arrangements for the variable remuneration fixed were modified with effect on the variable remuneration for 2014 and modified again for 2015 due to Deutsche Bank's changed strategic plans with respect to Postbank's positioning. It was therefore not necessary to change the award arrangements again for fiscal year 2016.

Variable remuneration is largely granted in deferred form and spread over several years in accordance with the regulatory and bank-specific requirements applicable in each case. This ensures a long-term incentive effect over a period of several years.

In accordance with the requirements of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions), at least 60 % of the total variable remuneration is granted on a deferred basis. Furthermore, the deferral matrix established in the Deutsche Bank Group, which may lead to a higher percentage of deferred remuneration depending on the amount of the variable remuneration, is applied. In line with this, the upfront portion of the variable remuneration is capped at a total of €225,000 for each member of the Management Board.

Half of the upfront portion of the variable remuneration is awarded in the form of a share-based remuneration component (equity upfront award) and the other half is paid out directly (cash bonus). Half of the deferred portion of the variable remuneration comprises share-based remuneration components (restricted equity award), while the remaining half is granted as a deferred cash payment (restricted incentive award). The value of the share-based remuneration components depends on the performance of Deutsche Bank's shares during the deferral and holding periods. In connection with the share-based remuneration components to be granted for fiscal year 2016, contracts have already been signed providing for the Deutsche Bank share awards which have not yet been allocated as of that date to be converted into Postbank share awards or another value-based remuneration component in case Postbank is deconsolidated from the Deutsche Bank Group. In this way, the performance of the deferred remuneration components remains linked to the performance contributions made by the members of the Management Board.

Equity upfront award

The non-deferred component of the share-based remuneration is awarded to members of the Management Board in the form of an equity upfront award (EUA). The EUA vests immediately but is subject to a further holding period during which the performance, deferral and forfeiture provisions outlined below apply. The holding period for the EUA granted for fiscal year 2016 is twelve months. At time of publication, the EUA is granted as Deutsche Bank shares on the expiry of the holding period.

Restricted equity award

The deferred component of the share-based remuneration takes the form of a restricted equity award (REA). The REA is subject to a three-year holding period and vests in a single tranche ("cliff vesting").

Following the above deferral period, there is a twelve-month holding period for all members of the Management Board before the share-based remuneration components at time of publication are granted as Deutsche Bank shares. Special performance, deferral and forfeiture provisions, which are described separately below, apply during the deferral period and, where applicable, the holding period.

[1] In this connection, "grant" refers to the splitting of the variable remuneration defined for the year under review into separate remuneration components and the prospect of the defined variable remuneration in these remuneration components.

For fiscal year 2016 this means that, in light of the performance, deferral and forfeiture provisions, none of the members of the Management Board may realize the value of the REA granted for 2016 until 2021 at the earliest (four years after it was defined).

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of EUA and REA will be calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017.

Restricted incentive award

The non-share-based component of the deferred remuneration is granted as a deferred cash payment (restricted incentive award – RIA); this vests in three equal tranches over a period of three years. Special performance, deferral and forfeiture provisions apply during the deferral period. The final tranche of the RIA awarded to members of the Management Board for 2016 will be paid out in 2020 at the earliest.

The above-mentioned awards do not entail entitlements to interest or dividend payments.

Performance, deferral and forfeiture provisions

The EUA, RIA, and REA remuneration components are subject to certain performance, deferral and forfeiture provisions during the deferral and holding periods. These provisions and periods form a core element of the structure of deferred remuneration. They ensure that the awards are aligned with future behavior and performance, and that certain events are also accounted for appropriately in remuneration over the long term. The REA and RIA remuneration components granted on a deferred basis are subject to performance conditions, i.e., clawback provisions linked to the performance of the Postbank Group or the Deutsche Bank Group. Under these provisions, up to 100 % of the outstanding RIA and REA tranches may be forfeited if the Postbank Group and/or the Deutsche Bank Group fail to satisfy the performance conditions relating to profit before tax. This means that up to one-third of the REA granted for 2016 can be forfeited for each year of the deferral period in which the performance conditions are not met. A further performance condition is the Common Equity Tier 1 provision, under which up to 100 % of the REA which has not yet vested is forfeited if at the end of any given quarter prior to the expiry of the deferral period the Common Equity Tier 1 ratio of the Deutsche Bank Group and of the Postbank Group drops below the applicable regulatory minimum capital (including an additional risk buffer of 200 basis points). Reflecting the plans to deconsolidate Postbank from the Deutsche Bank Group, the measurement of compliance with the performance conditions relating to Deutsche Bank's performance is no longer intended from 2017. Postbank's profit and the performance of the members of its Management Board will no longer have any (notable) effect on Deutsche Bank's profit after it has been deconsolidated from the Deutsche Bank Group.

In addition, all remuneration components granted on a deferred basis (REA, RIA) as well as EUA and REA during their holding period are subject to a (partial) clawback, for example if the member of the Management Board breaches internal guidelines or regulatory requirements, or if the conditions for performance are no longer met.

Variable remuneration for 2014 and 2015: grant, performance, deferral and forfeiture provisions

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board again with effect from fiscal year 2015, although no changes were made to the underlying structures. Accordingly, the explanations provided for fiscal year 2016 largely also apply to the conditions for the grant, performance, deferral and forfeiture of variable remuneration entitlement for fiscal years 2014 and 2015. This applies above all to the division of the variable remuneration into the remuneration components cash bonus, equity upfront award (EUA), restricted incentive award (RIA), and restricted equity award (REA). The following specifics must be taken into account.

a) Fiscal year 2015

The number of share awards granted to members of the Management Board in 2016 for fiscal year 2015 in the form of EUA and REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2016 (€15.4705).

The above-mentioned remuneration components for fiscal year 2015 do not entail entitlements to interest or dividend payments.

b) Fiscal year 2014

The number of share awards granted to members of the Management Board in 2015 for fiscal year 2014 in the form of REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the first ten trading days of February 2015 (€27.1080).

Reflecting the responsibilities within the Group structure, different deferral periods apply to the deferred share-based remuneration (REA). As a general rule, the REA granted for fiscal year 2014 vested ratably in three equal tranches over a period of three years. Special rules applied to the members of the Management Board who were also members of Deutsche Bank Group's Senior Management Group in fiscal year 2014 (i.e., Susanne Klöss-Braekler, Frank Strauss, Marc Hess, and Hanns-Peter Storr); contrary to the above, a 4.5-year deferral period applies, after which the awards vest in a single tranche ("cliff vesting"). REA is subject to a uniform holding period of six months following the deferral period. For fiscal year 2014 this means that, in light of the performance, deferral and forfeiture provisions, members of the Management Board who were members of the Senior Management Group cannot realize the value of the REA granted for 2014 until 2020 at the earliest (i.e., five years after it was granted). For the remaining members of the Management Board, the value of the final tranche of the REA can be realized in 2018 at the earliest (i.e., 3.5 years after the REA was granted).

The following (interest) premiums were added to the remuneration components for fiscal year 2014:

- Equity upfront award:
  A dividend equivalent is granted during the holding period.

- Restricted equity award:
  A one-time premium of 5 % is added when the award is granted. Members of the so-called Senior Management Group receive a dividend equivalent.

- Restricted incentive award:
  A one-time premium of 2 % is added when the award is granted.

The forfeiture conditions for the RIA and REA deferred remuneration components provide for benchmarking against the consolidated profit of both the Postbank Group and the Deutsche Bank Group.

Granting and payment of variable remuneration until the end of 2013

Under the remuneration system valid until the end of 2013, the variable remuneration was split into a short-term component (40 %) and a long-term component (60 %). It was not fully paid out in cash, even if the agreed targets were met. There were still outstanding long-term components in 2016 for the remuneration years 2011 to 2013; payment is and/or was due on the agreed dates in accordance with the contractual provisions applicable at the time the components were granted.

The entire long-term component was granted conditionally in accordance with the Postbank Group's sustainable performance, which was determined subject to a sustainability criterion being satisfied during the subsequent three-year assessment period (three calendar years following the base year). This is still to be assessed for the year 2013. In the year immediately following the fiscal year for which the remuneration was to be granted, the Supervisory Board examined and determined whether the targets had been met for that year, and stipulated the sustainability criterion for the assessment period. In the case of the variable remuneration until 2013, this was defined as the adjusted profit after cost of capital (APACC). Sustainable Group performance and the sustainability criterion will have been achieved if the value of the APACC is equal to, or exceeds, or at the end of the sustainability phase cumulatively exceeds on average, the value of the APACC in the base year.

In line with the three-year sustainability phase, the long-term component was divided into three equal tranches. In turn, half of each tranche was paid out in cash and half was converted into phantom shares, or is still to be converted for the year 2013.

If, at the end of each of the years in the three-year assessment period for the remuneration components still outstanding, the Supervisory Board determines that the sustainability criterion has been met, the proportionate cash component is paid out immediately, and the remainder converted into phantom shares, which are converted into a euro amount after the expiry of the twelve-month lock-up period.

If the sustainability criterion is not met for a particular year in the assessment period, payment of the corresponding tranches of the long-term component is deferred to the following year for a renewed examination based on the sustainability criterion. If the sustainability criterion has not been met at the end of the assessment period, the payment of all deferred long-term components lapses without compensation. In this way, remuneration of the Management Board is affected by any negative Company performance during the entire measurement period (negative bonus system). Under an additional negative bonus system, payment for outstanding components can be retroactively reduced or canceled completely based on the overall performance of the Management Board member concerned during the assessment period.

These remuneration mechanisms still affect the deferred remuneration components granted in the years 2011 to 2013 and continue to apply to this extent.

The converted phantom share amounts of the long-term component for base years 2011 (Tranche 3), 2012 (Tranche 2), and 2013 (Tranche 1) were paid out in 2016 after the expiry of the lock-up period. For this purpose, the remuneration components that had been converted into phantom shares of Deutsche Bank AG in 2015 were multiplied by the average Xetra closing price of Deutsche Bank shares on the last ten trading days up to the end of the lock-up period (€17.41). In addition, one tranche of the cash component of the long-term component for each of the base years 2012 (Tranche 3) and 2013 (Tranche 2) was paid out in 2016 upon the sustain-ability criteria being satisfied. The other halves of the above tranches were converted into phantom shares of Deutsche Bank AG on the basis of the average share price (Xetra closing price) on the last ten trading days preceding March 23, 2016 (€17.47) and are due for payment in 2017 upon expiry of the lock-up period.

No dividend equivalent was calculated for the phantom shares that were blocked on the date of the Annual General Meeting of Deutsche Bank AG in 2016, because Deutsche Bank did not distribute any dividend for 2015.

Other benefits for Management Board members leaving the Company prematurely

Postbank will provide compensation for no more than the remaining term of the contract in cases in which the contract of a member of the Management Board is terminated prematurely other than for good cause, and will limit the payment to a maximum of two annual salaries (severance payment cap).

If the contract of a Management Board member is terminated prematurely as a result of permanent incapacity to work or death, the remuneration (basic remuneration plus variable remuneration) is paid pro rata up to the end of the agreed term of the contract, for a maximum of six months.

In 2016, one Management Board member, Hans-Peter Schmid, left the Management Board prematurely, effective as of the end of September 30, 2016. A severance payment of

€625,000 was agreed on the basis of the termination agreement. The severance payment was paid out in October 2016. In addition, the exact amounts of the benefits already set out in the employment contract for this case of termination were specified and the payment dates were determined.

Other provisions

The members of the Management Board are not permitted to use hedging transactions or other countermeasures to mitigate or offset the risk orientation of deferred remuneration components.

The Supervisory Board may award an appropriate special bonus in recognition of exceptional performance, the amount of which is capped by the maximum variable remuneration (150 % of the agreed target).

Remuneration of the Supervisory Board in fiscal year 2016

The remuneration system is laid down in Article 15 of the Articles of Association of Deutsche Postbank AG. In accordance with this article, the annual remuneration of members of the Supervisory Board comprises fixed, non-performance-related remuneration only. The positions of Chairman and Deputy Chairman as well as the membership of committees are reflected in the remuneration.

The fixed annual remuneration (base pay) for each member of the Supervisory Board is €40,000. The Chairman of the Supervisory Board receives double, and the Deputy Chairman receives one-and-a-half times the base pay.

The base pay increases by the following fixed additional annual remuneration for members and chairs of Supervisory Board committees:

Members of the Audit Committee and the Risk Committee receive an additional €30,000 each; the chairs of these committees receive an additional €60,000 in each case. Members of the Executive Committee, the Human Resources Committee, the Compensation Control Committee, and the Nomination Committee each receive an additional €20,000; the chairs of these committees receive an additional €40,000 in each case. No additional fixed remuneration is granted to the members and the chair of the Mediation Committee.

The members of the Supervisory Board are entitled to claim out-of-pocket expenses and any value-added tax expenses incurred in the exercise of their office. In addition, the members of the Supervisory Board receive an attendance allowance of €500 for each meeting of the Supervisory Board and its committees that they attend.

The members of the Supervisory Board receive remuneration and the attendance allowance after the Annual General Meeting to which the consolidated financial statements for the fiscal year concerned are submitted, or that decides on their approval.

Persons who are members of the Supervisory Board and/or its committees for only part of a fiscal year receive the corresponding pro rata amount of remuneration. Remuneration is rounded up or down to full months. Pro rata remuneration for committee positions requires the committee concerned to have met during the corresponding period of time in order to perform its duties.

In line with Deutsche Bank AG's internal policies, Deutsche Bank Group employees do not receive any remuneration for supervisory board positions held at Group companies. The remuneration of employee representatives for their work on the supervisory boards of Deutsche Bank Group companies remains unaffected by this.

For further information on and explanations of the remuneration of both the Management Board and the Supervisory Board, please see the Notes to the Annual Financial Statements.

CORPORATE GOVERNANCE STATEMENT

Setting target values for the percentage of women on the Supervisory Board, Management Board, and management levels

In compliance with the *Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst* (German Act on the Equal Participation of Women and Men in Management Positions in the Private Sector and Civil Service), women are given the appropriate consideration when decisions are made to fill managerial positions, make appointments to the Management Board, and compose the Supervisory Board.

Of Supervisory Board members 30 % must be women. Since the Supervisory Board elections in 2003, between 15 % and 35 % of the members of our Supervisory Board have been women. Seven women served on the Supervisory Board during the reporting period, which corresponds to 35 %. As a result, the Supervisory Board has met the set quota.

On September 9, 2015, the Supervisory Board resolved that the Management Board must continue to have at least one woman among its members. The first deadline set for achieving that target is June 30, 2017.

In addition, on August 18, 2015, the Management Board resolved binding target values and deadlines for the percentage of women in the first two management levels below the Management Board: 20 % for each level by June 30, 2017, and 25 % for 2020. Target values were also set for subsidiaries subject to the law.

EMPLOYEES

At the end of 2016, Deutsche Postbank AG employed 3,703 full-time equivalents, 902 less than on December 31, 2015. This reduction in staff numbers vis-à-vis the prior year can primarily be attributed to the fact that civil servants working at the Betriebs-Center für Banken AG, BHW Kreditservice GmbH, Postbank Service GmbH, Postbank Direkt GmbH and VÖB-ZVD Processing GmbH subsidiaries are counted at the subsidiary level. Of the 3,703 employees, 74 civil servants on a full-time equivalent basis have been delegated to the Bundesamt für Migration und Flüchtlinge (German Federal Office for Migration and Refugees – BAMF) in Saarbrücken and are not actively involved in operations at Postbank.

In total, active civil servants account for about 17 % of the entire workforce. About 12 % of our staff works part-time.

Our external turnover rate – calculated as a departure rate in relation to the number of full-time equivalents at the start of the year – was around 6 % in 2016. The primary reasons for that figure can be found in early retirement agreements in 2016 as well as transfers of civil servants to other agencies. The average length of employment at the Company was approximately 19 years. Postbank remunerates almost all of its employees on the basis of performance and profit-related criteria that flow into a variable remuneration component.

SIGNIFICANT EVENTS AT POSTBANK IN 2016

Executive bodies

On February 1, 2016, pursuant to a resolution of the Annual General Meeting, Karen Meyer and Michael Spiegel were elected as shareholder representatives to the Supervisory Board with immediate effect until the close of the Annual General Meeting which resolves upon the approval of actions for fiscal year 2020. Karen Meyer succeeded Christian Ricken, who resigned from office as of the end of January 31, 2016. The designated deputy, Roland Manfred Folz, had decided to resign from his office as deputy and not join the Supervisory Board. Michael Spiegel was appointed as a new member of the Supervisory Board by the Bonn Local Court (Amtsgericht Bonn) on November 17, 2015, pursuant to section 104(2) in conjunction with 104(3) no. 2 of the AktG. He replaces Stefan Krause, who resigned as a shareholder representative from the Supervisory Board. Martina Scholze was appointed to the Supervisory Board as an employee representative by the Bonn Local Court (Amtsgericht Bonn) on April 21, 2016, with her appointment effective from that date. She succeeded Rolf Bauermeister, who resigned from his office as of March 31, 2016. Jens Isselmann joined the Supervisory Board effective December 31, 2016, as a representative of executive staff. He was the designated deputy of Wolfgang Zimny, who resigned from the Supervisory Board as of the end of December 30, 2016, owing to his retirement.

Hans-Peter Schmid stepped down as a member of the Management Board of Deutsche Postbank AG and as Chairman of the Management Board of Postbank Filialvertrieb AG as of September 30, 2016. Frank Strauss has been serving as acting successor for the Board member responsible for branch sales in addition to performing his office as CEO of Postbank.

Changes in the Group

Effective January 1, 2016, the service companies (Betriebs-Center für Banken AG, VÖB-ZVD Processing GmbH – 25 % of the share capital of VÖB-ZVD Processing GmbH is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of the Bank –, 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.

REPORT ON ECONOMIC POSITION

OVERALL ECONOMIC PARAMETERS IN 2016

Macroeconomic environment

Global economic growth remains weak

Global economic growth slowed slightly in 2016. This was attributable to weakening economic momentum in the industrialized countries, with average growth in their gross domestic product (GDP) falling to 1.6 %. In contrast, growth in emerging markets remained relatively stable at 4.1 %, although this is still restrained in long-term comparison. At the same time, recessions in several of the large emerging economies eased, due in part to stabilization of raw material prices. Overall, global economic activity rose by just 3.1 % in 2016 as compared to 3.2 % in the previous year. The International Monetary Fund (IMF) had predicted growth of 3.4 % at the start of the year.

The economic upswing in the United States slowed significantly in 2016 in large part as a result of a clear downturn in corporate investments. The very low oil price at the start of the year and the consequently low level of investments in the energy sector played a major role here. Adding to the strain on the economy was a sharp decline in inventory investments. Private consumption, on the other hand, once again grew markedly. Although it lost some momentum, it remained the most important driver of growth. Both exports and imports experienced only minimal growth. All in all, foreign trade did not have a significant impact on growth. In total, GDP growth slowed from 2.6 % in the previous year to 1.6 %. Accordingly, growth remained below the 2.0 % we had anticipated at the beginning of the year. Despite weaker growth momentum, employment in the United States continued to rise, although at a slower pace. The unemployment rate fell moderately at the same time.

The emerging countries of Asia remained the leading economic powerhouses. At 6.3 %, however, GDP growth lagged slightly behind the 6.7 % seen in the previous year. The economy in China continued to slow, with exports falling sharply by 7.7 % year-on-year. Industrial production growth stabilized at the same time, however, although at a moderate level by Chinese standards. GDP growth fell to 6.7 %, the lowest level since the early 1990s. The Japanese economy continued to experience moderate growth. Private consumption and gross capital expenditures both increased moderately. As a result of weak global demand and the strengthening of the yen in the first nine months, growth in exports was very moderate. Overall, this led to a weakening of GDP growth to 1.0 % as compared to the 0.9 % growth we had anticipated.

The economic recovery in the eurozone continued in 2016, driven by domestic demand. According to the available data, private consumption rose 1.7 % while government spending climbed 1.9 %. Gross capital expenditures rose by approximately 2.8 %. In contrast, growth momentum in foreign trade slowed significantly. Exports were more strongly affected by this than imports, leading to a slight negative impact on the economy. Ultimately, this led to a weakening of GDP growth to 1.7 % following growth of 2.0 % in the previous year. The individual countries continued to develop very differently, but did achieve generally positive growth rates.

As a result, the annual average unemployment rate fell to 10.0 %, a high level nonetheless.

Europe's economic performance thus largely lived up to our expectations, although the GDP rose more moderately than we had projected at the beginning of the year.

Solid upturn in Germany

The German economy grew continuously in 2016, even through stronger fluctuations. Domestic demand generated strong momentum. As in the previous year, private consumption again increased by 2.0 %, continuing to benefit from a noticeable increase in disposable income. At the same time, the inflation rate remained very low, although it did rise minimally from 0.3 % to 0.5 %. The consequent strong growth in real income enabled private households to keep their savings rate relatively constant, despite growth in consumption. Government spending rose exceptionally sharply by 4.2 %, propelled among other things by additional expenditures associated with caring for and integrating refugees. Growth in gross capital expenditures rose to 2.5 %. Investments in machinery and equipment expanded at a disproportionately low rate of 1.7 %, thus noticeably slower than in the previous year. Uncertainty among companies regarding the British vote to leave the European Union (EU) likely played a role here. In contrast, investments in construction grew strongly by 3.1 %, attributable in particular to a strong 4.3 % increase in residential construction. Exports, on the other hand, grew only moderately by 2.5 % as a result of overall weak global demand. Because of the somewhat stronger growth in imports, foreign trade put a moderate brake on growth. Overall GDP growth of 1.9 % in 2016 was somewhat stronger than in the previous year. The robust upswing had a positive impact on the German labor market. On average, the number of unemployed persons fell by 104,000 to 2.69 million, causing the unemployment rate to drop from 6.4 % to 6.1 %. At the same time, the number of people in the workforce increased by 429,000 to 43.49 million.

In summary, macroeconomic performance in 2016 was largely in line with our expectations at the time of our last Annual Report, although GDP growth was somewhat weaker than we had projected.

Market developments

In 2016, the global financial markets were shaped by political events such as in particular the outcome of the referendum in the UK to leave the EU, changing assessments of global growth prospects, and the different monetary policies pursued by the European Central Bank (ECB) and the U.S. Federal Reserve (Fed). While the ECB continued to pursue a more expansionary monetary policy, the Fed once again slightly raised its federal funds rate.

Prices on the German stock market came under downward pressure at the start of the year. This was caused in particular by concerns regarding the state of the Chinese economy, leading to fear of a noticeable global slowdown in growth. The DAX slipped, tumbling at maximum nearly 19 % between the end of 2015 and February 2016. Following a recovery phase, the outcome of the referendum in the UK triggered yet another setback. This was quickly overcome, however, when the growth concerns associated with the vote initially proved unfounded. Toward the end of the year, share price levels rose sharply buoyed by a marked rise in economic optimism. All in all, the DAX climbed 6.9 % above its year-end level for 2015. The EURO STOXX 50, on the other hand, generated a gain of just 0.7 %. Stock price performance in the United States was substantially better, due in good part to the fact that U.S. markets suffered only a brief negative effect from the outcome of the referendum in the UK. The S&P 500 rose by 9.5 %. The generally positive trend was also reflected in the corporate bond market. Risk premiums for bonds with weak ratings benefited greatly from increasing economic optimism, falling markedly year-on-year, while premiums for highly rated bonds decreased only slightly.

Yield spreads for government bonds from the member states of the European Monetary Union (EMU) once again rose noticeably in 2016, but generally remained at a moderate level by historical standards. The yield spreads of Italian, Spanish and Portuguese government bonds over German Bunds all broadened, but to greatly varying degrees. Portuguese government bonds were most strongly affected, with risk premiums reaching their highest levels since early 2014. This development was driven by the country's continued weak growth in combination with a still high government deficit and ambiguity regarding the government's future economic policy. Italian government bonds meanwhile saw a much more moderate but nonetheless strong rise in risk premiums due to the weak economic recovery in that country and problems in its banking sector. At the end of the year, this situation was further compounded by the uncertainty regarding the referendum for senate reform in Italy, which ultimately failed, and the resulting resignation of the government. Spanish government bonds meanwhile performed much better, although their yield spreads also rose moderately in the first half of the year. Uncertainty was caused both by general factors, such as global economic uncertainty at the start of the year and the British vote within the scope of the referendum in the UK in June on exiting the EU, as well as difficulties associated with forming a new government and sustainable reduction of excessive new debt. At the same time, however, the Spanish capital market profited from the strong continued economic recovery in that country, which extended into the second half of the year as well. Additionally, the political stalemate was overcome in fall and a new government formed. Yield spreads dropped again in this environment. By late 2016 they were only minimally above their closing level for 2015.

The ECB continued to follow an expansionary monetary policy in 2016. In March it put together an extensive 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 0.10 percentage points to –0.40 %, the interest rate on the main refinancing operations by 0.05 percentage points to 0.00 %, and the marginal lending rate by 0.05 percentage 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. At the same time, the minimum term of the program was extended from September 2016 to March 2017. In June, the ECB also for the first time began acquiring bonds issued by corporations outside the banking sector as part of this program. In addition, the ECB decided to launch four new targeted longer-term refinancing operations (TLTRO-2) on a quarterly basis, each with a four-year maturity. The first of these operations took place in June 2016. 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 December, the ECB decided to extend the minimum term of its bond-buying program to the end of 2017. Starting in April 2017, however, the monthly purchasing volume will be reduced from €80 billion to €60 billion. As a result of an even more expansionary monetary policy, money market interest rates dropped even further. At the end of 2016, the three-month Euribor was –0.32 %, 0.19 percentage points lower than at the prior year-end.

The U.S. Federal Reserve continued cautiously raising the interest rate in light of the robust upswing on the U.S. labor market and the gradually increasing inflation rate. In December 2016, it raised its federal funds rate by 0.25 percentage points to a range of 0.50 % to 0.75 %.

Capital market interest rates decreased sharply well into the second half of the year, attributable primarily to the most recent expansionary measures by the ECB. The decline was also facilitated by the reluctant stance of the U.S. Federal Reserve, which repeatedly delayed the envisaged and anticipated tightening of its monetary policy due to the uncertain economic situation. At the end of the first half of the year, the situation was further compounded by the outcome of the referendum in the UK to leave the EU. This made German Bunds all the more attractive as a safe haven for investment. Accordingly, the yields of ten-year German Bunds tumbled from 0.63 % in late 2015 to a historic low of –0.19 % on July 8, 2016. Yields subsequently rose again somewhat. The economic fears associated with the outcome of the referendum in the UK were not initially confirmed. In fact, a sense of increasing economic optimism pervaded at toward the end of the year. In addition, the U.S. Federal Reserve raised its federal funds rate, a move felt in European markets as well. By the end of 2016, the yields of ten-year German Bunds were nonetheless 0.42 percentage points below the close of 2015, at 0.21 %. Money market interest rates fell less markedly, leading to a flatter yield curve in Germany. In the United States, the yield of ten-year Treasuries rose slightly. Money market interest rates climbed somewhat more sharply at the same time, leading to a marginally flatter U.S. yield curve.

Despite the further expansionary monetary policy of the ECB, the euro was able to stage a recovery against the U.S. dollar in the first several months of the year: Starting at US$1.09 in late 2015, it rose to US$1.15 by May. Subsequently it came under downward pressure, however, attributable among other things to the outcome of the referendum in the UK. This trend was further strengthened at the end of the year by a significant increase in expectations regarding the U.S. economy as well as by the hike in the federal funds rate from the U.S. Federal Reserve. In late 2016, the euro was trading at about US$1.05, down 2.9 % year-on-year.

The market developments did not reflect our expectations at the time of our last Annual Report. We expected the yields of ten-year German Bunds to end 2016 at a somewhat higher level than they began it. At the same time, we also assumed that ECB key interest rates would remain constant and that the yield curve would steepen moderately.

Sector situation

Further expansion of the low interest rate policy of the European Central Bank, increasing regulatory demands, and growing pressure to find a solution to non-performing loans of Italian banks were the predominant issues in the European banking sector in 2016.

At the beginning of March 2016, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) informed the 15 national systemically important German banks of their individual CET1 ratio add-ons. This add-on varies between 50 and 150 basis points for each institution. The global systemically important banks are informed of their CET1 ratio add-ons by the Financial Stability Board. As part of its annual Supervisory Review and Evaluation Process (SREP), the ECB defines the individual add-ons for the banks it directly supervises. BaFin intends to gradually introduce the SREP to the approximately 1,600 German banks not under direct ECB supervision.

In the first quarter of 2016, the European Banking Authority (EBA) informed the banks that would have to submit to its stress test in 2016. All nine of the German institutes tested by the EBA satisfied the minimum common equity capital ratio, even for a crisis scenario. One bank fell moderately short of the minimum requirement for the leverage ratio in this extreme scenario.

In the third quarter, the EBA carried out a transparency exercise at over 100 European banks. The average Tier 1 capital ratio at the banks examined improved from 12.1 % in late June 2015 to 13.2 % in late June 2016. However, the EBA feels that the share of non-performing loans in the overall loan portfolio is still too high at 5.4 %, in particular since this share is over 10 % in more than one-third of EU countries.

Additional new developments in 2016 included the introduction of the Mortgage Credit Directive in March and the EU General Data Protection Regulation in May. Furthermore, every German citizen has had the right to a basic account since June. In October, the finance ministers of the ten euro countries that want to introduce a financial transaction tax agreed on the core points for such a tax.

The volume of loans issued to domestic companies and private individuals in Germany increased by 2.3 % to €2,497 billion in the first three quarters of 2016. Lending growth thus rose slightly above the prior-year period. Growth in lending volumes to companies was stronger than in the previous year, increasing by 2.3 % to €940 billion. Loans to self-employed private individuals rose by 1.4 % to €401 billion, slightly up over the same period in 2015. Loans issued to non-self-employed persons and other private individuals rose by 2.7 % to €1,142 billion in the first three quarters of 2016. Growth here was thus also stronger than in 2015. In this category, residential construction loans climbed by 2.6 % to €910 billion. New business with residential construction loans for private individuals fell by 4.7 % in the first eleven months of 2016. The overall moderate improvement of the lending business was primarily fueled by the continuation of the economic upswing. The decline in new business with residential construction loans should be viewed against the backdrop of a massive increase in 2015 and thus classified more as stabilization at a high level rather than a slowdown.

Between January and October of 2016, the number of bankruptcies in Germany fell noticeably by 3.8 % year-on-year. The number of business bankruptcies dropped sharply by 6.6 %. Accordingly, the positive trend seen in previous years continued. The economic upswing and the very low level of interest rates likely contributed to this development. The number of consumer bankruptcies (including the bankruptcies of formerly self-employed individuals and other bankruptcies) dropped by a further 3.1 % after falling even more sharply in recent years. The continued improvement of employment may have had a positive impact here once again.

The German banking landscape continues to feature a three-pillar structure consisting of private, public and cooperative banks. In 2016, there were no significant developments between the individual pillars to report. The merge of the two leading banks in the cooperative sector was legally concluded on July 29, 2016, with the entry into the commercial register. In the public sector, Nord/LB took over all the shares in the Bremer Landesbank owned by the state of Bremen and the Sparkassenverband Niedersachsen (savings banks association of Lower Saxony). Additional mergers of smaller institutions, both in the public and the cooperative sector, were also reported. Increasing regulatory demands and the continuing low interest rate levels were likely key drivers of this trend.

In analyzing the business performance of German banks, we considered the banks listed in the industry index – Deutsche Börse's Prime Standard – and Postbank, as we have done in the past. We compared the banks' results for the period of January through September 2016 with the previous year's results. All five banks generated profit both before and after tax. However, profit in both parameters was lower than in the prior-year period for three of the five banks. Continuing low interest rates, tough competition in Germany, and the volatile market environment in the first nine months of 2016 left a clear mark on the balance sheets of the banks. This was also evident in the development of individual items on their income statements. All five banks reported a decline in net interest income. Both net fee and commission income as well as net trading income decreased at four of the banks. Many banks responded to these declines in operating business by enforcing heightened cost control measures. Three of the banks reduced their administrative expenses in the period under review. Three banks were able to reduce their cost/income ratio. Only four of the banks published their return on equity after tax. Of these, two reported an increase and two a decrease in this metric.

The DAX climbed 6.9 % in 2016. In contrast, both banks listed in Germany's blue-chip index saw stock price drops in the period under review.

COURSE OF BUSINESS

Results of operations, financial position, and net assets
In fiscal year 2016, Postbank's profit before tax and profit transfer amounted to €20 million, after €29 million in the previous year.

Net profit for the period after tax and before profit transfer amounted to €9 million (previous year: €2 million). In accordance with the control and profit and loss transfer agreement, Postbank will transfer the profit to DB Finanz-Holding GmbH in full.

Net interest income was down again due to persistent pressure from low interest rates and the reduction in income from profit and loss transfer agreements with subsidiaries. Net fee and commission income was well below the previous year's level.

In contrast, risk provisions for securities in the liquidity reserve and risk provisions in the lending business moved in the opposite direction. This result underscores the high quality of our loan portfolio, the persistently robust German real estate market, and the ongoing positive labor market situation in Germany. The significant negative impact on earnings in the previous year from the measurement at fair value of assets transferred under the contractual trust arrangement (CTA) to cover pension obligations was not repeated in the reporting period. In the year under review, netting the interest income from plan assets and the interest expense from pension obligations resulted in a significant positive contribution to earnings, which offset the elimination of non-recurring income from compensation payments received in connection with the termination of the IT cooperation agreement with Deutsche Bank AG.

RESULTS OF OPERATIONS

Individual items

Net interest income
In line with our expectations, net interest income, i.e., the balance of interest income and interest expense (including current income from equities, equity investments and investments in affiliated companies, and income from profit and loss transfer agreements) amounted to €2,263 million, thus falling below the prior-year figure of €2,421 million. The persistently difficult, very low interest rate environment made generating interest income challenging for all banks holding large amounts of deposits.

The systematic reduction of investment securities portfolios and the low interest rates resulted in a €117 million decline in interest income from securities to €565 million.

Net interest income of €80 million was generated by closing out derivatives prior to maturity (previous year: €32 million).

Current income from equities, equity investments, and investments in affiliated companies of €59 million (previous year: €25 million) mainly comprises income from distributions from special funds.

Income from profit and loss transfer agreements was down by €77 million in the reporting year to €70 million, which was in line with expectations.

The low interest rate environment had a positive effect on interest expense, which fell €85 million year-on-year. The decline was also due to debt securities in issue and profit participation certificates reaching maturity.

Net fee and commission income
In view of the change in presentation associated with mortgage loan brokerage made in the year under review (€–176 million), net fee and commission income was down €34 million from the previous year, contrary to our expectations.

The decline in net fee and commission income stemmed chiefly from the lending and guarantee business and a year-on-year decrease in commission for brokering payment protection insurance. In addition, the increased compensation paid to affiliated companies for services in conjunction with the sale of payment services had an additional negative impact in the year under review.

At the end of the year, Postbank actively countered these trends by introducing a new pricing model for private checking accounts and a new securities strategy based on an improved consulting process.

Net income from the trading portfolio
In fiscal year 2016, Postbank reported net income from its trading portfolio of €6 million (previous year: net expense of €1 million).

Negative changes of €1 million (previous year: positive changes of €5 million) in the fair value of the interest rate derivatives held in the trading portfolio were offset by a positive effect from risk discounts on derivatives in the trading portfolio recognized in prior periods (including credit/debt valuation adjustment) in the amount of €8 million (previous year: €–6 million).

A total of €1 million of the net income from trading operations was added to the fund for general banking risks in accordance with section 340e(4) of the *Handelsgesetzbuch* (HGB – German Commercial Code).

Administrative expenses
Administrative expenses (including depreciation of property and equipment and amortization of intangible assets) decreased by €120 million to €2,138 million (previous year: €2,258 million).

Adjusted for the change in presentation associated with mortgage loan brokerage in the fiscal year (€176 million), administrative expenses rose as expected.

Personnel expenses decreased by €10 million to €654 million due to lower additions to staff-related provisions than in the previous year.

Non-personnel operating expenses stood at €1,484 million, down €110 million year-on-year. Adjusted for the change in presentation in the fiscal year, the non-personnel operating expenses grew in line with our expectations. This relates mainly to intragroup expenses for IT products and is attributable to measures relating to deconsolidation from the Deutsche Bank Group.

Net measurement gains/losses
Contrary to our expectations, net measurement losses for securities in the liquidity reserve improved by €20 million to €29 million during the reporting period. Despite historically low interest rates, the result is adversely affected by writedowns of securities measured above their par value. The writedowns amounted to €80 million, while reversals of writedowns totaled €6 million.

Price gains of €58 million were generated on the sale of securities. Interest rate-related changes in the fair value of securities held to maturity resulted in losses of €21 million and gains of €3 million.

Transactions involving derivatives in the non-trading portfolio generated gains of €5 million.

Contrary to expectations, net measurement losses in the lending business improved by €9 million to €160 million. This result underscores the high quality of our loan portfolio, the persistently robust German real estate market, and the ongoing positive labor market situation in Germany.

Writedowns and adjustments of equity investments, investments in affiliated companies, and securities treated as fixed assets
In the reporting period, impairment losses were mainly recognized on the carrying amount of an investment in a subsidiary.

Income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets
In addition to price gains realized in the amount of €120 million, the “income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets” item includes income from the disposal of shares in Visa Europe Limited totaling €104 million. In addition, another positive impact on earnings amounting to €17 million was realized by reducing an equity investment based on a sales cooperation agreement.

Contrary to what we had anticipated, the net measurement loss of €50 million from equity investments, investments in affiliated companies, and securities treated as fixed assets grew substantially (previous year: €8 million).

Other income
Net other income and expenses (including other taxes) amounted to €29 million in the year under review (previous year: €–49 million). The considerable downturn expected in our forecast failed to materialize due to income arising from the netting of interest expense for pension obligations with interest income from plan assets in the amount of €86 million (previous year: expense of €110 million). Additional factors included positive non-recurring effects stemming from compensation for participation in the TLTRO group for the ECB’s refinancing program in the amount of €40 million. In addition, other operating income primarily includes reimbursements of civil servants’ salaries from affiliated companies amounting to €175 million (previous year: €184 million), rental income of €91 million (previous year: €86 million),

and income of €33 million from the reversal of provisions (previous year: €57 million).

Other operating expenses were down 23.1 % and mainly comprised expenses for services provided by the service companies of €412 million (previous year: €432 million). In addition, they include court and litigation costs amounting to €54 million (previous year: €53 million) and payments made to the Bundesanstalt für Post und Telekommunikation of €12 million (previous year: €11 million).

Expenses from loss absorption
Expenses of €89 million arose in the year under review from contractually agreed absorption of the losses of subsidiaries.

Addition to the fund for general banking risks
Contrary to our forecast, we made no addition to the fund for general banking risks in accordance with section 340g of the HGB during the reporting period (previous year: €155 million) with the exception of the addition pursuant to section 340e(4) of the HGB totaling €1 million.

Profit before tax
Profit before tax and profit transfer amounted to €20 million in fiscal year 2016, following €29 million in the previous year. Profit before tax was not negative as forecast in the previous year.

Taxes on income
The income tax expense of €11 million (previous year: €27 million) is attributable to the taxes that Postbank was legally required to pay under the control and profit and loss transfer agreement for the Luxembourg branch, as well as to prior-period taxes.

Net profit for the period
Postbank reported net profit of zero in fiscal year 2016 after transferring its profit of €9 million to DB Finanz-Holding GmbH.

NET ASSETS AND FINANCIAL POSITION

Changes in the balance sheet structure

Total assets
Postbank's total assets amounted to €126.8 billion, down from €128.4 billion in the prior year.

The assets side of the balance sheet was characterized largely by the reduction in securities repurchase agreements and the scaling back of the securities portfolio. The funds freed up were mostly invested in increasing loans and advances to customers. On the liabilities side of the balance sheet, the decline was reflected in a reduction in securities repurchase transactions and savings deposits. Demand deposits saw the opposite trend.

Loans and advances to customers
Loans and advances to customers amounted to €73.3 billion as of December 31, 2016, an increase of 6.9 % compared with the previous year. The increase was mainly attributable to private mortgage lending (€2.0 billion), commercial loans (€2.0 billion), and public sector loans (€0.6 billion).

Money and capital market investments
Money and capital market investments, comprising loans and advances to other banks, the trading portfolio, and bonds, amounted to €42.7 billion as of the reporting date (previous year: €50.0 billion).

Loans and advances to other banks decreased by 19.4 % to €18.3 billion, due in particular to securities repurchase agreements (€–7.7 billion). In contrast, demand deposits increased by €4.2 billion to €5.6 billion.

Efforts to enhance Postbank's risk structure and earnings quality saw a further reduction in the Bank's securities portfolio, which was down €2.6 billion year-on-year.

The trading portfolio amounted to €0.3 billion as of the reporting date (previous year: €0.5 billion) and mainly comprised positive fair values of derivative financial instruments.

Amounts due to customers
Amounts due to customers totaled €101.4 billion as of the reporting date, up €2.0 billion from the prior-year figure of €99.4 billion. Whereas savings deposits decreased by 7.8 % year-on-year from €41.8 billion to €38.6 billion, demand deposits rose by €4.3 billion and term deposits grew by €1.4 billion.

Money and capital market liabilities
Money and capital market liabilities, comprising deposits from other banks, debt securities in issue, and the trading portfolio, amounted to €15.2 billion (previous year: €18.3 billion).

The trading portfolio amounted to €0.1 billion as of the reporting date (previous year: €0.2 billion) and comprised negative fair values of derivative financial instruments.

The €2.9 billion decrease in deposits from other banks to €11.8 billion was mainly attributable to a decline in the volume of securities repurchase agreements (€–2.2 billion).

The portfolio of debt securities in issue declined by €0.1 billion to €3.4 billion due to maturities.

The year-on-year decline in profit participation certificates by €0.7 billion to €0.2 billion was due to certificates reaching maturity.

Fund for general banking risks
In the period under review, €1 million was added to the fund for general banking risks in accordance with section 340e(4) of the HGB. As of the reporting date, this fund totaled €2,426 million.

Equity
In fiscal year 2016, Postbank's share premium was increased by €143 million by DB Finanz-Holding GmbH and by €38 million by Deutsche Bank AG.

As of December 31, 2016, equity amounted to €2,921 million. The regular phased-in Common Equity Tier 1 capital ratio rose from 10.6 %[1] at the 2015 year-end to 11.0 %[2].

The fully phased-in Common Equity Tier 1 capital ratio rose from 10.2 %[1] at the 2015 year-end to 10.6 %[2].

The positive performance of the capital ratios on the basis of the 2016 annual financial statements is due in particular to the boost in equity from the increase in the share premium.

A more detailed presentation of the capital ratios can be found in the Notes to the Annual Financial Statements.

Postbank's investment focuses in 2016
After investments in the first half of 2016 focused on establishing operational deconsolidation from Deutsche Bank, the emphasis in the second half of the year was on improving Postbank's future viability.

Efforts to strengthen competitiveness included in particular investments to improve digital efficiency and to increase new business entered into via digital channels. To this end, Postbank continued to invest in the development of holistic digital process models (end-to-end optimization). Our customers have already been able to experience this since August 2016 with the option to open an account based on a fully digital process. In line with the "digital & personal" strategic orientation, a modern branch infrastructure was created with additional customer-friendly, automated self-service offerings for Postbank's customers, while simultaneously expanding sales centers and piloting new branch concepts. This now includes 13 sales centers in major cities in which all Postbank customer groups – among them SME customers – are served. "Compact branches" were piloted in summer 2016 in addition to the sales centers. These are intended chiefly for regions with a comparatively low customer frequency.

In addition to investments in digitally supported consulting, sales and service processes (video legitimation for verifying identities, digital signatures, combination of digital and personal securities advice), we continued to invest in measures to comply with regulatory requirements. These included meeting the requirements of IFRS 9, the recently drafted EU Markets in Financial Instruments Directive, (MiFID II), the Payment Accounts Directive and the Payment Services Directive (PAD/PSD), the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), Basel III/IV, as well as the specifications of the ECB and BaFin.

Overall assessment of business performance in 2016
Results of operations declined due to the persistently challenging market environment and low interest rate levels. In 2016, Postbank addressed these challenges by implementing a variety of measures that will not fully impact earnings until subsequent periods. Postbank's net assets and financial position in 2016 were shaped by the ongoing focus on growing the loan portfolio in our business with retail, business and corporate customers, which remains relatively immune to fluctuation, with the aim of reaching an equal balance between customer loans and deposits. The lending business – which has a significant proportion of highly collateralized German real estate loans – continued to have the greatest influence on net assets. Whereas the holdings of investment securities and debt securities in issue were further reduced, the lending business with retail and corporate customers was expanded.

Financial and non-financial key performance indicators
The following information on financial key performance indicators relates to the Postbank Group.

Profit before tax declined by €277 million or 47.4 % year-on-year to €307 million in fiscal year 2016. Profit was therefore down on the previous year by an amount in the low three-digit million euro range, as we had anticipated. The prior-year figure had benefited from various positive non-recurring effects associated with establishing operational independence, particularly the income of €280 million from the initial measurement of Deutsche Postbank Funding Trust I, Deutsche Postbank Funding Trust II, Deutsche Postbank Funding Trust III, and Deutsche Postbank Funding Trust IV.

At €468 million, adjusted profit before tax – which is used to assess operational performance – was down year-on-year as forecast at the beginning of the reporting year. The income streams generated by Postbank's business with retail, business and corporate customers were again the foundation of its earnings performance. Postbank counteracts the continued high dependency on interest income with stringent cost discipline and various measures to increase net fee and commission income.

At just under 6.2 %, return on tangible equity after tax was down significantly on the previous year's figure (13.1 %), which had been particularly high due to special factors, because of the lowest interest rates seen to date and despite persistently high expenses of €209 million for strategic initiatives to improve Postbank's future viability.

At 85.8 %, the cost/income ratio was up on the prior-year level of 80.3 %, as had been anticipated. This increase was mainly driven by the significant change in net other income and expenses, which had been much higher in fiscal year 2015 as a result of various non-recurring effects in connection with the preparations for the Bank's operational and technical deconsolidation from Deutsche Bank.

The fully phased-in Common Equity Tier 1 capital ratio, including the profit for fiscal year 2016, improved from

[1]Based on the audited annual financial statements as of December 31, 2015
[2]Subject to the adoption of the annual financial statements as of December 31, 2016

11.5 % at the 2015 year-end to 12.4 %, a figure that is significantly above our expectations. This positive development was largely due to the successful management of risk-weighted assets, which were significantly reduced by scaling back investment securities.

As forecast, the fully phased-in leverage ratio, including the profit for fiscal year 2016, remained stable at 3.4 % as of December 31, 2016. The calculations were based on the regulatory requirements as laid out in Article 429 of the CRR.

The development of key non-financial indicators year-on-year is reported in the following.

The results of the people survey carried out in 2016 confirm the good prior-year score in the "identification" category (formerly "commitment"). This sends a positive message despite the challenging environment in which Postbank currently operates. Employee satisfaction was therefore at a consistently high level compared with the previous year. Employees' willingness to adapt to the changing banking environment was illustrated by the "ability to change" category, which again achieved the highest approval ratings. This positive trend can be attributed especially to the range of measures put in place to improve Postbank's leadership culture, realize its mission statement, and implement the Postbank Agenda in 2016.

By introducing the new checking account world in the second half of 2016, Postbank has implemented a measure for its retail customers that will have a significant impact on the relationship between customers and the Bank. The introduction of the new account models was followed by a decline in satisfaction ratings for key aspects covered in regular satisfaction surveys. A turnaround was observed in the fourth quarter, when the trend became positive again.

Corporate customers have continued to show high levels of customer satisfaction with Postbank. The positive development in customer satisfaction confirms the Bank's adopted course of orienting on SME customers.

OPPORTUNITY REPORT

Postbank has a broadly diversified business with retail, business and corporate customers and operates primarily in Germany. Due to high volumes in its demand and savings deposits, the Bank has a deposit surplus compared to the current lending business. In times of negative money market interest rates that coincide with a conservative investment strategy, that surplus has a negative impact on net interest income. The interest rates, still historically low, are also spurring demand for private residential mortgages. In 2016, Postbank profited from these trends thanks to its new residential mortgages business, which remained brisk (€7.0 billion). It also benefited from the German population's increased willingness to spend, a trend driving its new business with consumer loans up to €2.7 billion. If the Bank is able to reduce its current deposit surplus more rapidly than anticipated, it would have a positive impact on Postbank's profit.

If measures to heighten efficiency turn out to be more effective than planned, they could have a positive impact on both profit and regulatory metrics like the leverage ratio and the CET1 (Common Equity Tier 1) capital ratio that would be equal in scope to surprisingly high customer demand and an expanded market share.

A better than anticipated development in economic conditions in Germany, in the interest rate environment and in competitive conditions in the financial services industry could lead to higher income that would only be partially eroded by additional costs. Overall, it could lead to improvements in profit before tax and the cost/income ratio.

A reversal of European monetary policy, acting as an altered macroeconomic scenario, in addition to rising interest income could contribute to private investors rethinking their positioning in terms of asset allocation going forward. This, in turn, would fuel commission business. Broader understanding among banking customers for the revision of fee models in light of the low interest rate environment could likewise benefit the commission business more than is expected.

The changed demands of today's banking customers – which have evolved from the desire for personal advisory sessions to a need for multi-channel advisory and other services – have not only noticeably altered the banking business, they also present opportunities for growth. Should the acceptance and use of both digital opportunities to approach customers for advisory services and of fully digitized end-to-end processes proceed faster than forecast, they too could positively influence the generation of additional income and in equal measure make cost cuts possible. In its own pursuit of the digitization trend, Postbank has positioned itself as a bank available to customers both "digitally & personally," and now continues to invest in the digitization of its business with such things as video advisory calls and opportunities to obtain savings and credit products fully online. The creation of a "Digital Factory" with interdisciplinary teams and the goal of continually evolving its digital products and services have made Postbank confident that it is well-equipped to compete for customers who increasingly prefer digitally available offers.

The short-term opportunities for improved income and expenses at Postbank that would be created by these possible developments are counterposed by mid- and long-term risks that could arise in the areas of credit, interest rate and liquidity risks in particular.

RISK REPORT

Summary overview of risk exposure
The focus of Postbank's risk profile is on lending and deposit business with retail, business and corporate customers. Risk management at Postbank in 2016 focused on strengthening the regulatory and economic capital base while maintaining our risk profile. This was against the background of the low interest rate policy still being maintained by the European Central Bank (ECB) and at times historically low yields in the bond market. Long-term interest rates only rose again in the fourth quarter. In addition, the year under review was characterized by growing regulatory demands on the banking sector. Postbank continues to operate in a solid economic environment. The healthy state of the labor market at present, as documented by falling unemployment coupled with a rise in the number of people in work, and the upward trend in both real estate prices and German industry spawn opportunities for expanding lending to retail and business customers. At the same time, the macroeconomic environment in Germany is having a positive effect on credit risk for our existing business. The measures taken by the Bank to permanently reduce risk also contributed to a positive trend in the allowance for losses on loans and advances. The allowance for losses on loans and advances and the economic capital requirement for credit risk declined as against the previous year and the 2015 year-end.

Postbank's market risk capital requirement as of December 31, 2016, was down on the prior year-end. Postbank is exposed to market risk solely from banking book positions; as was the case throughout the previous year, there were no trading book activities in the year under review. The Bank's asset side-focused strategic interest rate risk position in the banking book decreased slightly compared with the prior year-end. Credit spread sensitivity in the portfolio also declined.

Postbank's operational risk profile is largely defined by its strategic positioning as a multi-channel bank with a comprehensive branch and service network and online banking in the German retail market.

No risks that could impair the development of Postbank, or that could even jeopardize its existence as a going concern, are discernible at present. However, downside variance in our current assumptions with regard to the development of European sovereign debt or a prolonged low level of interest rates, coupled with a tangible downturn in macroeconomic conditions, could negatively impact the performance of the banking sector as a whole, and hence Postbank's performance as well.

Overall bank risk
Taking risks in order to generate earnings is a core function of Postbank's business activities. Risks entered into are regularly identified, measured, monitored, and allocated limits using the ICAAP (Internal Capital Adequacy Assessment Process), and are incorporated in the overall management of the Bank via the assessment of the Bank's risk-bearing capacity. As the leading institution of the Postbank Group, Postbank monitors and manages risk limits at the level of the Postbank Group. Group limits, in particular the limits for market, credit and operational risks, were consistently complied with throughout 2016. Risk-bearing capacity was ensured at all times.

Credit risk
In 2016, the allowance for losses on loans and advances was moderately down on the prior-year level due to the ongoing positive trend in Postbank's customer business. This was also attributable to the persistently favorable macroeconomic environment in which the Bank operates, strong proceeds from collateral realization in the mortgage lending area, and systematic risk management.

For 2017, we are expecting the risk situation to continue on a positive footing with a solid economic environment, supported by a stable trend in economic growth and the labor market.

Market risk
Postbank's market risk is influenced in particular by interest rate and credit spread trends in the European capital market. In the first three quarters of the year under review, interest rates in the money and capital markets dropped to a historically low level, with yields negative in some cases. This trend reflected the expansionary monetary policy stance still being maintained by the European Central Bank (ECB). Longer-term interest rates only picked up again in the fourth quarter. Operational value at risk (VaR) in the banking book had declined significantly as of the reporting date due to a reduction in the open interest rate and credit spread risk positions.

The market risk capital requirement, which is calculated on the basis of a stressed value at risk approach, also declined significantly compared with the prior year-end. This was likewise due to the reduction in the interest rate and credit spread exposures described above. Looking to the future, the uncertainty that continues to dominate the markets and the resulting higher volatility may again cause market risk utilization to increase from the present level in 2017.

Liquidity risk
Adequate liquidity buffers were maintained at all times in 2016 to ensure solvency and compliance with the regulatory liquidity requirements. Postbank's liquidity position continues to be solid thanks to its stable refinancing base in the form of customer deposits and its extensive holdings of highly liquid securities.

The high level of surplus liquidity was consciously reduced in the year under review. Based on our liquidity forecasts and planning, we will continue to reduce surplus liquidity and expect the liquidity position to remain adequate in the foreseeable future.

Operational risk

Postbank's operational risk loss profile primarily reflects its strategic focus as a retail bank. One consistent focus over recent years has been on high frequency/low impact losses, i.e., loss events that individually are only minor but that occur repeatedly during a year.

In addition, recent years have seen an increase in litigation and complaints about investment advice. Most of these relate to advice provided and transactions entered into in the area of closed-end funds. This trend continued in the year under review, although the distribution of closed-end funds was discontinued in 2012. The number of legal actions relating to consumer protection rulings also increased in the year under review.

Postbank assumes that operational risk losses will gradually decline over the coming years as a result of measures that have been initiated or already implemented.

The following sections describe in detail Postbank's risk position and risk management, and the measures taken.

Developments in risk management

Postbank implemented a number of new banking regulatory requirements during the reporting period, in particular the extended requirements with regard to reporting risk-bearing capacity, the additional liquidity monitoring metrics in accordance with Commission Implementing Regulation (EU) 2016/313, and the leverage ratio.

Since year-end 2015, Postbank has continued to calculate its regulatory capital requirements for operational risk using the Standardized Approach.

In addition, Postbank faced extensive further regulatory changes in 2016 and is currently pushing ahead with the projects to implement these. These changes include the principles for effective risk data aggregation and risk reporting issued by the Basel Committee on Banking Supervision (BCBS; consultative document 239), the Analytical Credit Dataset (AnaCredit) project launched by the ECB, and various new regulatory proposals submitted by the Basel Committee on Banking Supervision to complete and reform the Basel III framework and its implementation in European law (CRR II – Capital Requirements Regulation II/ CRD V – Capital Requirements Directive V).

Postbank has been continuously implementing liquidity risk management projects designed to meet new/more specific regulatory requirements since 2011. In 2016, the emphasis was on enhancing the data basis, systems, and processes for implementing the additional liquidity monitoring metrics and the changes to the liquidity coverage ratio (LCR) in line with the Commission Delegated Regulation. The main focus in 2016 was the initial reporting of the additional liquidity monitoring metrics, as well as the establishment of an ongoing reporting process. In addition, first steps to measure and monitor intraday liquidity risk based on the requirements of BCBS 248 were taken in 2016.

As part of the deconsolidation, the Postbank Group successfully implemented the measures required for it to take on independent risk management functions as of June 30, 2016. For the purposes of group risk management, Postbank is nevertheless integrated with Deutsche Bank's risk management activities by way of the established structural links between the relevant bodies and the functional reporting lines between Postbank and Deutsche Bank. Postbank submits regular risk reports to Deutsche Bank, ensuring that risks are comprehensively captured and managed. A joint reporting system has been drawn up for the key management reports and core ratios.

Risk management within the Deutsche Bank Group

Subject to the applicable company law and supervisory law requirements, Postbank is integrated into Deutsche Bank AG's risk management system, the aim being to guarantee uniform, appropriate, and effective risk management at the level of the Deutsche Bank Group. To this end, Postbank is integrated in the processes for identifying, assessing, managing, monitoring, and communicating risk that permit an end-to-end overview of the risk situation and the institutional protection system as a whole, and that allow the Bank to exert a corresponding influence. In addition, an established, uniform risk governance structure ensures a common risk culture is put into practice.

Postbank is integrated into the Single Supervisory Mechanism (SSM) through the Deutsche Bank Group. Postbank, as part of the Deutsche Bank Group, is therefore directly supervised by the European Central Bank (ECB) and also included in banking supervisory inquiries from the ECB addressed to Deutsche Bank. In addition, Postbank maintains regular communication with national supervisors.

Due to the announcement by Deutsche Bank as Postbank's owner of its strategy to preferably place Postbank on the stock market or sell it, Postbank successfully implemented the measures required for it to take on independent risk management functions as of June 30, 2016, as part of the deconsolidation. To this end, the necessary technical requirements were put in place and a number of activities in the various disciplines further developed.

Regardless of this, group risk management functions shared with Deutsche Bank will continue to be performed in full and in parallel.

Risk types

The risk types that are tracked within Postbank are determined on the basis of a Bank-wide risk inventory.

The risk inventory, which is performed at least annually, reviews the materiality of the risk types and the existence of additional, previously untracked risks. When performing the risk inventory, Postbank uses instruments that, in the aggregate, cover all material organizational units and risk areas within the Bank. The risk types identified as material in the risk inventory are quantified during the risk-bearing capacity assessment and – with the exception of liquidity risk – are backed by risk capital. They are monitored on a regular basis.

The risk types were reviewed and some of the definitions of risk types were refined in the risk inventory performed in the fourth quarter of 2016.

Postbank distinguishes between the following risk types:

- Market risk
  Market risk is the result of uncertainty regarding changes in market prices and factors determining fair value (e.g., interest rates, credit spreads, exchange rates), the correlations between them, and the specific volatilities.

  Postbank is exposed to market risk from its trading and banking book positions. In particular, this includes:

  a) Interest rate risk in the banking book (IRRBB): risk of deterioration in the financial position of the institution due to changes in the general market interest rates. Two measures of IRRBB are taken into account:

     - Earnings-based measure, i.e., the effect on net interest income for the period

     - Economic value measure, i.e., the effect on the economic value of equity

  b) Market risk relating to defined benefit pension plans as a result of a potential decline in the fair value of assets or an increase in the fair value of pension obligations.

  Postbank defines market risk in the broader sense of the word as also including:

  c) Real estate risk: rental default risk and risk associated with losses on sales relating to properties owned by the Postbank Group

  d) Investment risk: potential losses due to fluctuations in the fair value of strategic equity investments, to the extent that these are not already included in the other risk types.

Real estate and investment risks were identified as immaterial for Postbank in the risk inventory but are still backed by risk capital.

- Credit risk
  Credit risk arises in the case of transactions founding actual, contingent, or future claims against counterparties, borrowers, or debtors, including receivables intended for resale. These transactions generally relate to our traditional, non-trading lending activities (such as loans and contingent liabilities) or to direct trading activities with customers (such as over-the-counter (OTC) derivatives, currency forwards, and interest rate forwards). Postbank distinguishes between three different types of credit risk:

  a) Counterparty credit risk and credit quality risk: Whereas credit quality risk measures the deterioration of a counterparty's credit quality, counterparty credit risk is the risk that counterparties will not meet their contractual obligations in respect of the above-mentioned claims. Dilution risk is taken into account for purchased receivables in the factoring business. This includes the risk that the purchased receivables have a lower value due to the seller of the receivables not fulfilling its obligations.

  b) Settlement risk arises when the settlement or netting of transactions is unsuccessful. It represents potential losses arising in the case of counterparty default when cash and cash equivalents, securities, or other assets are not exchanged simultaneously.

  c) Country risk arises in the context of a variety of macroeconomic or social events as a result of unexpected default or settlement risks, accompanied by corresponding losses, in specific countries; these risks primarily impact the counterparties in the jurisdictions concerned. The risks include a deterioration in the overall macroeconomic framework, political unrest, the nationalization and appropriation of assets, the refusal by governments to honor foreign debts, or an extreme devaluation of national currencies. Country risk also includes transfer risk. This arises when debtors are unable to transfer assets to non-residents to meet their obligations due to direct state intervention.

- Liquidity risk
  Liquidity risk is the result of uncertainty that current or future payment obligations cannot be met in the full amount due, as they fall due, or only at higher costs. When managing liquidity risk, Postbank makes a distinction between three types of risk:

  a) Illiquidity risk describes the risk of being unable to meet current or future payment obligations – including intraday payment obligations – in the full amount due or as they fall due. The focus is on the current year and the provision of an adequate buffer of liquid assets.

  b) Financing risk describes the risk that the expected refinancing capabilities provided by the funding strategy are not sufficient to close potential refinancing gaps in time.

  c) Liquidity maturity transformation (LMT) risk describes the risk arising from higher refinancing costs when remedying the maturity mismatch due to an increase in the Bank's funding spreads on the swap rate.

  The liquidity maturity transformation risk was identified as immaterial for Postbank in the risk inventory and is therefore not backed by risk capital.

- Operational risk
  The likelihood of losses that could be incurred as a result of inadequate or failed internal processes and systems, people, or external events.

  a) Legal risk is part of operational risk. It consists among other things of the potential requirement to pay administrative or other fines, or other penalties resulting from supervisory measures or private law agreements. Legal risk can also arise as a result of changes in the legal situation following new rulings or of legislative amendments affecting transactions that have already been entered into. It does not include the costs of modifying processes to implement changes in the framework. Under the EBA Guidelines, compliance risk is also a part of operational risk. This is defined as "the current or prospective risk to earnings and capital arising from violations of or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards." There is therefore significant overlap between compliance risk and legal risk.

  b) Conduct risk is the current or prospective risk of losses to an institution arising from the inappropriate supply of financial services, including willful or negligent misconduct. At the Postbank Group, this includes all operational risk losses attributable to the "clients, products, and business practices" and "internal fraud" event categories.

  c) Model risk is the risk arising from the miscalculation of capital requirements in internal models approved by the supervisory authority and from the development, introduction, or incorrect use of other models used for decision-making purposes.

  d) IT risk is the current or prospective risk of losses due to the inappropriateness or failure of the hardware and software of technical infrastructure, which may compromise the availability, integrity, accessibility, and security of this infrastructure or of data.

- Business risk
  Business risk covers savings and checking account risk, reputational risk, and residual business risk:

  a) Savings and checking account risk: Potential losses that can occur as a result of volume or margin changes and that are triggered by the unexpected behavior of savings and checking account customers.

  b) Reputational risk: The risk of events that damage Postbank's reputation among its stakeholders in such a way that this may result in indirect or direct financial loss for Postbank.

  c) Residual business risk is the risk of a decline in earnings due to unexpected variances in income and associated expenses compared with the original planning that are not caused by other risks.

Risk capital is allocated at segment level for all quantifiable risk types as part of the internal management process. Internal transfer pricing is used to transfer essentially all interest rate risks to the Financial Markets segment.

This Risk Report provides an overview of risk management in general and also discusses in detail the risk types that can be managed in the course of business operations, i.e., market, credit, operational and liquidity risks.

Organization of risk management
Postbank has a risk management organization that serves as the basis for risk- and earnings-oriented management of the Bank as a whole by identifying all key risks and risk drivers, and measuring and evaluating these independently. Risks are limited and managed while strictly reflecting the Bank's risk-bearing capacity, with the aim of generating a corresponding return and exploiting market opportunities.

Risk management within the Bank is the responsibility of the units at head office and the local units networked with these.

The internal risk management system that has been established at Postbank ensures that the risks associated with the individual business segments are identified, assessed, managed, and monitored. The goal of the relevant processes is to ensure a permanent improvement in the management of earnings, capital, and risk, with continuous quality enhancements being considered a cross-divisional task. In this context, the portfolios are also subjected to a risk-return analysis as part of the Bank's overall management, so as to identify opportunities to enhance the business and risk strategy for the individual business divisions in a more risk-appropriate manner.

Responsibilities and risk strategy

The Group Management Board is responsible for the Bank's risk profile and capital profile, its risk strategy, the appropriate organization of risk management, as well as for managing and monitoring the risk associated with all transactions. It also ensures capital and liquidity adequacy.

The control function is exercised by the Supervisory Board and its Risk Committee. The Risk Committee advises the Supervisory Board in particular on issues related to risk appetite, the risk profile, and the risk strategy, and addresses topics relating to current market developments or events with significant effects on the risk profile or individual portfolios. The Management Board regularly informs the Supervisory Board and the Supervisory Board's Risk Committee of Postbank's risk profile and capital profile.

As required by the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), the Bank's risk strategy is consistent with its business strategy and takes into account all significant areas of business and types of risk.

The nature and extent of the risks taken, as well as the strategy for managing such risks, depend on the strategies defined by the individual business divisions in line with Postbank's risk appetite, risk profile, and target returns. They are defined and documented as part of the risk strategy that is adopted each year on the basis of the divisions' business strategies.

The objective of risk management is to safeguard earnings and optimize the risk-return profile by improving capital allocation and by ensuring operational excellence. As part of this process, the integrated risk management function strengthens the future viability of Postbank and enhances the risk culture and risk discipline.

The continuation of the restrictive risk policy aims to create opportunities for growth over the long term. Measures include strengthening the regulatory and economic capital base (e.g., through earnings retention). As a result, there is no systematic increase in the risk appetite of the individual divisions.

Risk committees

The Management Board is supported in its tasks by the Bank Risk Committee (BRC), which serves as the central risk committee. As the Management Board's management and monitoring committee, the BRC has material decision-making powers. The Management Board has delegated risk management for the individual risk types to additional, subordinate risk committees. The following graphic illustrates the committees' areas of responsibility.

Tasks of the Bank Risk Committee and its subordinate risk committees

	Bank Risk Committee (BRC)	Credit Risk Committee (CRC)	Market Risk Committee (MRC)	Operational Risk Committee (ORC)	Cover Business Committee (CBC)	Model and Validation Committee (MVC)	Outsourcing Committee (OutCo)	Data Quality Committee (DQC)	Regulatory RADAR Committee (RRC)
Frequency of meetings	Monthly	Quarterly	Monthly	Half-yearly	Monthly	Monthly	Quarterly	Quarterly	Monthly, as required
Tasks	Advise the Management Board with respect to: • Risk appetite (economic, regulatory) • Risk strategies and risk profile • Allocation of risk capital • Measures to limit and manage Bank-wide risk positions	Allocate credit risk limits Define limit system Analyze and evaluate credit risk Issue credit risk management guidelines	Allocate market risk limits Define liquidity risk profile Analyze and evaluate savings and checking account risk Manage strategic focus of the banking book Discuss the Bank's earnings and risk positions	Define minimum requirements for Group units Define operational risk parameters Allocate risk capital amounts to the business divisions	Address issues relating to the cover business register Implement regulatory requirements relating to the *Pfandbrief* business Ensure conformity with targets relating to strategic orientation and ability to access the capital markets	Monitor and validate all rating systems and risk classification procedures Validate all models annually Modify rating systems, risk classification procedures, and internal models	Manage cover business Ensure compliance with all regulatory requirements relating to the *Pfandbrief* business Establish and maintain (risk) management information system for the *Pfandbrief* business Develop cover business strategy	Establish and develop DQ framework along established guidelines Monitor and analyze data quality Develop DQ framework and procure budgets and ressources	Ensure due compliance of the Postbank Group Structure regulatory agenda Escalation authority

The Bank Risk Committee is an overarching risk committee in which the Chief Risk Officer is represented. It aggregates all risk issues and submits them to the Group Management Board. The Credit Risk Committee (CRC), the Market Risk Committee (MRC), the Operational Risk Committee (ORC), the Cover Business Committee (CBC), and the Model and Validation Committee (MVC) are headed by members of the Bank's senior management. The Cover Business Committee develops management triggers for Postbank's cover business. The Model and Validation Committee is responsible for modifications to and extensions of risk models and risk classification procedures, as well as for approving the validation reports. Other bodies are the Data Quality Committee (DQC), the Outsourcing Committee (OC), and the Regulatory RADAR Committee (RRC). These committees perform their duties in close cooperation with the Bank Risk Committee and the operational management units.

Postbank has established a separate Reputation Committee, on which the Management Board is also represented, in order to manage its reputational risk.

Centralized risk monitoring and management

Risk Control function

The Chief Risk Officer (CRO) is responsible throughout the Bank for risk monitoring and risk management functions. He heads the Risk Control function and reports directly to the Group Management Board, the Supervisory Board's Risk Committee, and the Supervisory Board on Postbank's overall risk position.

The organizational structure of the Chief Risk Office provides the basis for active portfolio management across different risk types and serves to bundle all credit decisions. A Chief Operating Office (COO) ensures that credit processing standards are complied with and implements central project and resource management for the Chief Risk Office. The COO is also responsible for outsourcing management, business continuity management, and authorization management for Postbank.

The Risk Management and Credit Risk Control units ensure the management of all risk types. The Credit Office, which comprises the Credit Analysis and Credit Recovery and Workout units, bundles all credit decisions and organizes the implementation of the Bank's business and risk strategies in close cooperation with the sales units. The Operations Financial Markets unit is responsible for trade settlement and collateral management.

The Pfandbrief Management unit, which includes the Trusteeship unit, is also allocated to the CRO board department. The Trusteeship unit monitors the required cover for Postbank's *Pfandbriefe* and maintains the cover register. The unit thus works together closely with the Cover Business Management unit, which is allocated to the Products board department.

The following overview explains the roles of the individual CRO functions.

Risk management units and tasks

Unit	Tasks
Chief Operating Office	Resource management and projects Credit framework/guidelines Compliance with credit processing standards Quality assurance Internal control system Outsourcing management Business continuity management (BCM) Authorization management
Risk Management	Overall bank risk management and reporting including risk-bearing capacity, integrated stress tests, and support of the risk committees Definition of risk strategy and risk profile Management and reporting of market, liquidity, business and operational risks Quality assurance of market data and fair values for risk management and financial reporting
Credit Risk Control	Responsibility for all rating and scoring procedures Portfolio management Credit risk reporting Coordination of process for allowance for losses on loans and advances and watch list Authority over risk quantification methods and models
Credit Analysis	Credit approvals, support, and credit monitoring for banks, countries, corporates, and real estate finance Collateral management relating to credit processes
Credit Recovery and Workout	Problem loan processing Workouts Collection Collateral realization Increase of recovery rate
Operations Financial Markets	Control and settlement of Treasury trading business Collateral management
Pfandbrief Management	Trusteeship Maintenance of the cover register and monitoring of the required cover for Postbank's *Pfandbriefe*

Seminars are held on an ongoing basis to ensure that Risk Management employees are appropriately qualified. Consequently, Postbank’s training offering also includes courses that are dedicated solely to risk management issues (and particularly to credit risk).

Risk management by risk type

Within the Bank, responsibility for risk management at an operational level – in the sense of position-taking activities – is spread across a number of units. Chief among these are the Financial Markets division (including the Non-Core Operating Unit), the Corporate Finance, Commercial Real Estate Finance and Banks & Capital Markets credit units, and the Retail Banking credit functions.

Operational management of Postbank’s market risk is performed centrally by the Financial Markets division within the Corporates & Markets board department, as a matter of principle. Limit monitoring and reporting of market risk is performed centrally by the Market Risk Management team within the Risk Management unit.

As a matter of principle, monitoring and management of liquidity risk is performed centrally in the CRO board department. The primary goal of the Liquidity Risk Management unit is to ensure Postbank’s solvency at all times by acting as a lender of last resort, including in certain stress situations. Operational management of liquidity risk and of the necessary liquidity buffer takes place centrally in the Corporates & Markets board department of Deutsche Postbank AG.

The Credit Risk Control Risk Models unit is responsible for developing, validating, and calibrating the rating models, whereas the Credit Risk Control Credit Risk Management unit performs credit risk limit monitoring, reporting and management. The Chief Operating Office Risk Standards unit is responsible for issuing standards on the treatment of credit risk exposure.

A two-tier organizational structure with decentralized operational risk managers has been created for each division to ensure the management of operational risk at an operational level. Operational Risk Control is responsible for central coordination and reporting. Postbank’s Legal Affairs department is primarily responsible for identifying and managing legal risk.

The individual board departments are responsible at an operational level for achieving the goals defined for them as part of the business strategy and for complying with the framework set for them, and by so doing contribute to operational income and risk management.

The Market Risk Management unit performs central risk analysis and reporting for savings and checking account risk and for residual business risk; responsibility for these business risks remains with the relevant front office units.

Postbank is not exposed to significant reputational risk in the course of its business activities. The main focus is on risk in respect of its “customer” stakeholder group in the small-scale retail business. Key reputational risks are managed at Bank level by Postbank’s Reputation Committee.

Overarching risk management

Risk-bearing capacity
Postbank is included in the Postbank Group's risk-bearing capacity concept both from the perspective of a liquidation approach (economic creditor protection) and in line with the going concern concept (regulatory going concern approach). Postbank considers its risk-bearing capacity to be adequate if the risk cover amount exceeds the allocated risk capital and the current level of overall risk (VaR).

For the purposes of economic creditor protection, risk potential is calculated using a confidence level of 99.93 %. In this approach, the risk cover amount represents the economic asset value and serves above all to protect prior-ranking liabilities in a liquidation scenario.

Under the regulatory going concern perspective, the difference between Tier 1 capital for regulatory purposes in accordance with the CRR/CRD IV (Capital Requirements Directive IV) and the minimum Tier 1 capital required to satisfy the Postbank Group's risk appetite is calculated. The resulting free Tier 1 capital and the planned income represent the risk cover amount. Under this approach, risk potential is calculated using a confidence level of 95 %.

Risk capital and risk limitation
The capital from the risk cover amount that is allocated to the various units and risk types is known as risk capital. Risk capital allocation is reviewed on at least a quarterly basis by the Group Management Board and/or the Bank Risk Committee, and adjusted as necessary. The risk committees are responsible for breaking down the risk capital allocated to the individual risk types in greater detail and, where necessary, for adjusting the individual limits for them.

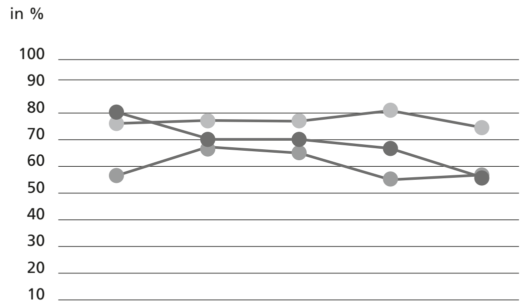
Economic capital is allocated to all the material risk types listed in the section entitled "Risk types" with the exception of liquidity risk and reputational risk. To prevent the risk of illiquidity, Postbank maintains a liquidity buffer consisting of highly liquid and liquid assets for a two-month survival period in a stress scenario in accordance with the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management).

In addition to limiting the risk positions for the individual risk types on the basis of the allocated risk capital, product, volume and sensitivity limits are used to restrict risk concentrations in individual positions or risk types above and beyond the risk positions themselves.

Market risk is managed by allocating VaR and loss limits both at Group level and for the relevant portfolios. A stressed value at risk (sVaR) concept is used for market risk – a method of calculating capital requirements for market risk assuming a period of stress. The period used to determine the stressed VaR at year-end was the period from August 4, 2011, to July 26, 2012, since this historical period represented a period of significant stress by comparison with the Bank's positioning as of the reporting date. For loans to banks, corporates, and countries (central and regional governments and local authorities), credit risk is primarily managed by allocating limits at portfolio level and by defining a target portfolio. The retail business volume is managed using variance analyses. In the case of operational risk, limits are defined both for the Bank as a whole and for each segment. The other risk types are managed using Bank-wide limits.

The following graphic depicts the changes in limit utilization for operationally managed risk types at the Postbank Group over time. Postbank aims to actively manage its limits so as to effectively control risk.

Development of the limit utilization for operationally managed risk types



	Dec. 31, 2014	June 30, 2015	Dec. 31, 2015	June 30, 2016	Dec. 31, 2016
Market risk	80 %	70 %	70 %	68 %	55 %
Credit risk	77 %	79 %	79 %	81%	73 %
Operational risk	57 %	66 %	65 %	56 %	58 %

Risk concentrations and stress testing

Concentrations of credit, liquidity, market and business risks are identified and monitored using sensitivity analyses and stress tests, among other things, and are limited using risk factor or gap limits (e.g., in the area of interest rate risk and credit spread risk). Sensitivity analyses and stress scenarios are used to describe hypothetical future developments for the various portfolios, value drivers, and risk drivers. Macroeconomic scenarios for inflation, recession, and other hypothetical or historical scenarios are calculated across all risk types.

Due to its business model – that of a retail bank operating primarily in Germany – Postbank is also subject to earnings risk in the sense that the earnings generated from its customer business could be lower than planned. Such earnings risk is monitored with the help of the Group Controlling/Treasury department as part of the planning process. This involves monitoring earnings risk concentrations using sensitivity analyses and statistical techniques, and taking appropriate measures to manage it.

Concentration risks are managed as part of management activities. The holdings of European government and federal state bonds are particularly relevant due to their spread risk.

In the course of credit portfolio management, risk concentrations are systematically identified and reported at the borrower unit level as well as at sector level (industries, regions, etc.) and limited using a predetermined procedure that takes risk-bearing capacity and risk/return considerations into account. Guidelines for improving the management of risk concentrations are laid down in Postbank's organizational instructions. The focus is on specifically identified sectors – commercial real estate finance, banks, and countries – for which additional rules exist above and beyond the limit matrix applicable to corporates. Risk concentrations are closely monitored in a timely manner using the segment-specific risk assessment reports and the risk circles used in risk management.

At present, based on the economic capital, a risk concentration is discernible in particular with respect to sovereign exposures. Monthly reporting of the economic capital requirement for credit risk and risk concentrations is a key component of Postbank's credit risk reporting.

In the Non-Core Operating Unit segment, Postbank further reduced concentration risk due to its holdings of investment securities reaching maturity.

A strategy designed to prevent regional specific concentration risks is being pursued for the commercial mortgage portfolio. The focus is mainly on Germany and Europe.

End-to-end risk assessment is ensured by regularly subjecting the key risk types for which operational limits are used (credit, market, liquidity, business and operational risks) to defined scenario analyses and stress tests as part of the assessment of risk-bearing capacity. Stress tests across all risk types at the level of the Bank as a whole are supplemented by inverse stress tests and risk type-specific stress tests. The stress tests are performed as required by market developments and are continuously and dynamically enhanced on the basis of Postbank's risk profile.

New products process

The risk factors for new and modified products are systematically identified and documented using a new products process. The resulting risks are included in Postbank's risk measurement and monitoring system.

Risk reporting

Postbank's risk reporting focuses on risk-bearing capacity and risk utilization in the individual risk types. Above and beyond the regular management reports, rules have been established for an ad hoc early warning reporting system that is differentiated by risk type. This means that recipients can be kept informed of changes in relevant parameters in a timely manner. The following table provides an overview of the content of the key reports, their publication frequency, and their recipients, broken down by risk type.

Group-wide reporting

Topic	Report contents	Frequency	Addressees
Cross-risk type	Risk-bearing capacity, individual risks, risk concentrations, performance calculated periodically and on a present value basis, stress test results	Quarterly	Supervisory Board, Risk Committee, Group Management Board, Bank Risk Committee
Market risk	Risk indicators, limit utilization, performance calculated on a present value basis, material transactions	Daily	Group Management Board, operational front office units
	Market development, trends in material market risk, limit utilization, performance calculated on a present value basis and risk indicators, stress test and scenario analyses, risk concentrations, backtesting results	Monthly	Group Management Board, Market Risk Committee, operational front and back office units
Credit risk	Counterparty limit monitoring	Daily	Group Management Board, operational front and back office units
	Economic capital (EC) reporting, key performance indicators, country risk, trends in allowance for losses on loans and advances including variance analyses	Monthly	Operational back office units
	Portfolio development/early warning, specific portfolio analyses, key performance indicators, rating distributions, country risk, limit utilization including EC/risk-bearing capacity trends, trends in allowance for losses on loans and advances including variance analyses, problem loans/watch list, risk concentrations, development of risk-weighted assets (RWA), expected loss (EL) trends, results of scenario analyses/stress tests, mandatory MaRisk disclosures	Quarterly	Group Management Board, Risk Committee, Bank Risk Committee, Credit Risk Committee
Liquidity risk	Liquidity status including limit utilization, cash flows, liquidity sources	Daily	Group Management Board, Market Risk Committee, Financial Markets
	Liquidity status including limit utilization, cash flows, liquidity sources, results of scenario analyses/stress tests	Weekly	Bank Risk Committee, operational front office units
	Liquidity status, stress test, liquidity reserve, funding structure, surplus liquidity, liquidity coverage ratio (LCR)	Monthly	Group Management Board, Market Risk Committee
Operational risk	Loss events	Weekly	Fraud Committee, Operational Risk Committee
	Loss events, risk indicators, results from scenario analyses and self-assessments, utilization of VaR limits, risk assessment related to new products and the outsourcing of functions	Monthly	Group Management Board, Operational Risk Committee
Business risk	Volume growth in customer products	Daily	Group Management Board, operational front and back office units
	Risk indicators related to savings and checking account risk, stress test results related to savings and checking account risk	Monthly	Group Management Board, Market Risk Committee

There is an ad hoc escalation requirement for all decision-relevant events and developments, regardless of the risk type involved.

Monitoring and managing market risk

Postbank manages its market risk in the narrower sense of the term using, on the one hand, VaR limits and present value-based loss limits at Bank level and for subportfolios. On the other, sensitivity indicators and maturity structures are used as additional management indicators. The changes in value of positions exposed to market risk are derived from daily marking to market. In the case of inactive market segments, a special process has been instituted to regularly review whether the market data available still permits adequate valuations to be made. As a result, specific portfolios are marked to model. The management of market risk exposures from an earnings perspective focuses primarily on the present value. All market risk is measured using value at risk. Risks from potential changes in spreads have been taken into account in risk measurement.

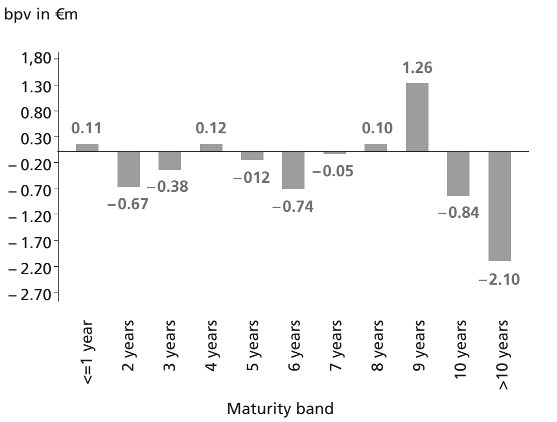
Escalation mechanisms have been defined for critical management parameters and for exogenous events so as to account for the relative significance of market risk to Postbank. These mechanisms ensure a prompt reaction to situations in which limits are approached or exceeded, or to extreme market movements impacting Postbank.

Interest rate risk management

Interest rate risk – a significant component of market risk – is the term used to denote the risk of a decline in the fair value of interest-sensitive financial instruments resulting from a change in the market rate of interest or a deterioration in net interest income for the period due to changes in the general market rate of interest. Specific behavioral assumptions are made on the basis of past behavioral patterns in order to quantify the interest rate risk for customer transactions involving significant implicit options. Particularly important in this connection are the variable-interest customer deposits. The assumptions and inputs used in interest rate risk modeling and management are reviewed for appropriateness on an ongoing basis.

Interest rate risk analysis is an integral part of daily market risk measurement. The following chart presents the profile of Postbank's open interest rate positions as of December 31, 2016, in the form of a basis point value (bpv) graph.

Postbank's interest rate positions (bpv) as of December 31, 2016



Value at risk measurement, limit setting, and backtesting

Postbank uses the value at risk (VaR) concept to quantify and monitor the market risk it assumes. The VaR of a portfolio describes the potential decline in fair value that will not be exceeded in that portfolio within a certain period for a given probability. VaR is calculated consistently for all positions with market risk exposures, regardless of how they are presented in the financial statements.

VaR is calculated uniformly throughout Postbank using a Monte Carlo simulation. Operational management is based on a confidence level of 99 % and a holding period appropriate to day-to-day risk management of ten days. The material risk factors taken into account when calculating VaR are interest rates and credit spread curves, share prices, exchange rates, and volatilities. During the first half of 2016, the VaR model used to quantify market risk was fully adapted in relation to interest rate risk modeling so as to reflect the current low interest rate environment.

Volatilities and correlations between the risk factors are derived from historical data. Whereas historical values for the past 250 trading days are always used for operational management, VaR for assessing risk-bearing capacity is based on a historical period that represents a period of significant financial stress by comparison with the positioning as of the reporting date (stressed VaR).

In addition to total VaR, which reflects all diversification effects for the risk factors, VaR inputs are also calculated and analyzed daily for the subtypes of market risk (interest rate risk, credit spread risk, equity risk, and currency risk).

Market risk is managed using a system of risk limits. The aggregate risk capital for market risk is resolved by the Bank Risk Committee and allocated by the Market Risk Committee to the individual units and portfolios in the form of operating sublimits. In addition to risk limits for total VaR and for the main subtypes of market risk, loss limits are allocated for potential fair value losses in individual portfolios. Risks are measured and monitored on a daily basis. The limits used are dynamic outcome-based limits; any losses incurred over and above the loss limit reduce the limit, while gains replenish it, at a maximum, to the originally defined level. The authorized VaR limits were complied with at all times during the reporting period.

In addition to the VaR limits, the Market Risk Committee has defined sensitivity limits that restrict the credit spread and interest rate sensitivities in the different segments, portfolios, and maturities.

The methods used to compute VaR are regularly validated and tested for reliability. The predictive accuracy of the calculated VaR is tested by comparing it with the hypothetical gains and losses arising from actual changes in fair value for the same portfolio (clean mark-to-market backtesting), among other things. The backtesting results as of December 31, 2016 (one-sided binomial test in accordance with the Basel traffic light approach) produced three outliers and were thus in the green zone, thereby confirming the general adequacy of the market risk model.

Stress testing

In addition to VaR calculations, scenario analyses and stress tests are performed at regular intervals to permit the specific analysis of the impact of extreme market movements and to identify risk concentrations. These analyses quantify the effects of extraordinary events and extreme market conditions on the relevant Postbank exposures. Scenario analyses and stress tests are performed for all material risk factors within market risk. The assumptions and inputs underlying the stress tests are regularly reviewed for appropriateness. Stress tests comprise both scenarios derived from historical changes in risk factors and hypothetical extreme scenarios. The Group Management Board, the members of the BRC and the MRC, and the Supervisory Board are kept regularly informed of the key results of the scenario analyses. The greatest risks that emerge from the regularly performed internal stress tests for market risk continue to be those in connection with interest rates and spreads due to the Bank's positioning. Sensitivities to changes in equity prices, currency rates, and volatilities are significantly less pronounced due to the small number of exposures.

Particular attention is paid to the requirement to take risk concentrations into account when measuring market risk. This is done by regularly analyzing the effects of the stress tests per exposure class and segment and identifying existing risk concentrations using sensitivity analyses. Instruments used in this context include interest rate gap analyses, credit spread sensitivity analyses by issuer, asset class, or credit rating, and analyses of the Bank's exposure to equities and foreign currencies.

Appropriate market terms

In addition to monitoring market risk, Postbank checks trades entered into in its own name and for its own account to ensure that market prices have been applied (market conformity verification). This is monitored by internal units that are independent of the trading functions.

Risk indicators

The following VaR figures were calculated for fiscal year 2016 and fiscal year 2015:

Postbank VaR relating to market risk

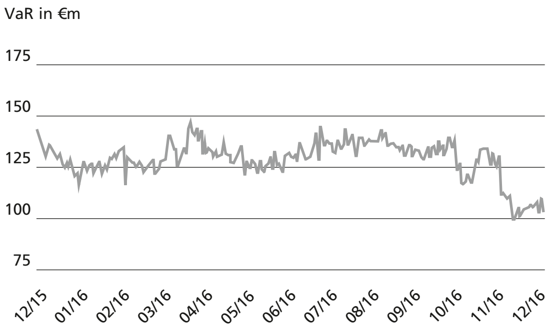
Postbank VaR (10 days, 99 %)	Year-end VaR		Maximum VaR		Minimum VaR		Average VaR	
Market risk types	Dec. 31, 2016 €m	Dec. 31, 2015 €m	2016 €m	2015 €m	2016 €m	2015 €m	2016 €m	2015 €m
Interest rate risk	53.0	81.0	83.0	90.9	42.3	35.7	66.2	56.0
Equity/stock index risk	6.2	8.6	9.8	9.2	6.0	3.5	8.0	6.2
Currency risk	7.4	7.3	13.5	13.3	3.7	1.6	5.7	6.9
Other market risk (spread)	76.8	102.6	120.8	121.4	71.7	94.8	95.8	106.6
Diversification effects	–40.0	–52.9	–27.7	–63.3	–64.9	–28.6	–44.9	–45.1
Total	**103.4**	**146.6**	**148.8**	**157.2**	**99.8**	**107.7**	**130.9**	**130.6**

The VaR for market risk (confidence level of 99 %, holding period of 10 days) amounted to a total of €103 million as of December 31, 2016 (for comparative purposes: €147 million as of December 31, 2015).

The calculation incorporates all material market risk-bearing positions, including pension obligations and the corresponding plan assets. In line with Postbank's business strategy, which has a clear focus on the customer loans and deposits business, the level of market risk is largely determined by the interest rate risk and spread risk. The present value risks resulting from foreign currency positions are input into the daily market risk measurements and reports. Management focuses on the one hand on present value considerations, and on the other on minimizing potential risk to the income statement as a result of foreign currency positions. Equity risk is minor, since Postbank does not currently invest in shares or share index products as part of its financial markets activities.

The following graphic shows the VaR (confidence level of 99 %, holding period of 10 days) for Postbank:

Postbank VaR for the period from January 1, 2016, to December 31, 2016



The VaR trend in Postbank's banking book is driven mainly by the development of two risk factors: interest rate spread and credit spread. While the operational VaR figures, at a level of approximately €120 million to €150 million, were comparably stable in the first three quarters of the fiscal year, the VaR declined significantly in the fourth quarter to €103 million (the most recent figure) as a result of a reduction in the interest rate and credit spread exposures.

Real estate risk management

The properties in the Postbank portfolio are primarily owner-occupied properties used by Postbank. They are reappraised every three years in order to monitor their value on an ongoing basis.

Investment risk management

Equity investments are defined as all equity interests recognized in Postbank's annual financial statements under "equity investments" and "investments in affiliated companies," and investments in companies pursuant to section 16(2) and (4) of the *Aktiengesetz* (AktG – German Stock Corporation Act). As of the reporting date of December 31, 2016, Deutsche Postbank AG held a total of 45 (previous year-end: 42) direct and a large number of indirect equity investments.

Postbank has established procedures to ensure the adequate management and monitoring of key investment risks at Group level. The relevant lending departments within Postbank monitor credit-equivalent investment risks or risks serving as credit substitutes.

These also include the interests held by Postbank in special-purpose entities (SPEs). Postbank has no interests in SPEs designed for asset transfer. The large number of management and monitoring systems in existence, which are continually being enhanced, guarantees that Postbank is in a position to monitor and manage shareholding risks, including strategic investment risks, at all times.

Monitoring and managing credit risk

Postbank uses a target portfolio as a reference for the overall composition of its loan portfolio, which focuses on retail banking, corporates including commercial real estate finance, banks, and countries (central and regional governments and local authorities), in addition to related risk concentrations. This target portfolio was constructed in line with the principle of a balanced risk/return profile and is used as the basis for structuring allocations to rating classes, sectors, and regions. The current portfolio of receivables is compared quarterly with the target portfolio. In the case of the corporate banking business, an individual profitability analysis is also performed on the basis of the ratio of the risk-adjusted net margin to the regulatory capital tied up. Due to the high degree of risk diversification in the retail business, no proportionate limit is set on this in principle when defining the target portfolio; instead, it is managed using the expected net margin less the expected risk.

Counterparty credit risk is managed and monitored, and hence the credit risk strategy implemented, on the basis of individual risks on the one hand and the entire portfolio on the other.

Managing individual risks

Credit approval procedures

Postbank's credit policies contain detailed targets for all lending transactions. Credit approvals are subject to an established system of approval powers, which act as a framework within which decision-makers (including the Risk Committee and the Executive Committee in the case of loans to members of executive bodies) are authorized to enter into lending transactions. Credit approval powers are defined on the basis of fixed upper limits per group of connected clients, depending on the rating and amount in the case of corporate banking, commercial mortgage financing, and the transactions in the case of Financial Markets. An important feature of the credit approval procedure is the separation of front office functions (sales/trading) and back office units in accordance with the supervisory requirements (MaRisk). A permissible exception to the strict separation of functions according to banking supervision law is the standardized credit approval process in business that is not relevant for risk purposes, which Postbank defines as loans for up to €1 million to which, as a matter of principle, simplified and standardized processes apply.

Scoring and rating

Postbank has internal rating systems that have been approved for the use of the IRB Approach in accordance with the CRR and the SolvV. In addition to meeting the methodological and procedural/organizational requirements, these rating systems have proven their suitability in relation to the classification of existing portfolios and new business. Regardless of the size and type of the loan, individual rating or scoring is performed during the credit approval process as well as at least annually and on an as-needed basis.

The Credit Risk Control Risk Models unit is responsible for the design, methodological supervision, and calibration of all rating procedures used, as well as for implementing the internal rating procedures that have been transposed into internal IT routines. Since 2016, the Model Risk and Validation function established in November 2015 has gradually assumed responsibility for designing and maintaining a superordinate validation process that will govern all the Bank's (relevant) models. In addition, all internal rating processes will be validated by the newly established unit on a regular and as-needed basis from 2017 onward. A Model and Validation Committee (MVC), which was established to provide process support, is responsible together with its subordinate Model Change Policy Committee (MCPC) for ensuring that the results of the monitoring of internal rating processes are incorporated into the internal reporting system and the Bank's management processes. Postbank's Management Board is provided with regular information on the operability of the rating systems, as well as on the results of the ratings performed as part of the management reporting process, by the bodies responsible (BRC, CRC, MVC). The Risk Standards unit, which is attached to the Chief Operating Office of the CRO function, is responsible for monitoring the processes. In addition to ongoing deconsolidation projects, the work performed by the Bank's Credit Risk Control function in the past year focused among other things on the enhancement, ongoing validation, and, where necessary, recalibration of the scoring and rating systems. Internal Audit audits the appropriateness of the internal rating systems, including adherence to the minimum requirements for use of the rating systems, on an annual basis.

In Retail Banking, loans are approved, decisions to extend them are made, and terms are defined using the results of statistical scoring models and approval policies. The scoring models utilized at Postbank make use of internal and external information about the borrower and employ statistical methods to individually estimate the probability of default for borrowers or loans (PD). The loss given default (LGD) is calculated to estimate the recovery rates individually, taking any eligible collateral into account, or globally, in the case of small-scale uncollateralized retail business. The credit conversion factor (CCF) is calculated to estimate the degree of utilization of open credit lines at the time of default.

Rating models, which generally comprise a statistical balance sheet rating or a simulation of expected cash flows, and which also incorporate qualitative, shorter-term information in the internal rating in the form of a heuristic component, are used to make loan decisions and define terms for customers and guarantors in the corporates, banks, and countries areas.

All internal ratings and scorings are presented using a uniform master scale, which assigns each rating or scoring result a rating class, as well as the default probability determined for that class. Postbank uses the terminology of the Standard & Poor's rating agency here. In 2016, the CCC rating category was expanded to include the ratings CCC+ and CCC–.

The explicit validation of rating and scoring methods is part of Postbank's annual model validation process and of ongoing monitoring. The model validation process is based in particular on standard core analyses comprising the stability of the model formula/the estimated inputs and the distributions, as well as the accuracy of the rating model, and the predictive power of the models, but also takes qualitative aspects of the entire rating process into account. This will ensure that an end-to-end assessment of the appropriateness of the respective rating system is carried out. During the validation process, any changes in the loss history are taken into account in any subsequent recalibration (where necessary) by adjusting the inputs.

By including the individual responsibilities for managing rating procedures in Postbank's processes, it is generally possible to derive business policy and model-specific measures directly from the results of the core analyses. Electronic records are maintained of all relevant input factors and rating results, enabling a continuous rating history to be kept for each customer and transaction.

In addition to supporting the loan approval process, these ratings and scores serve among other things as a basis for calculating the expected loss, i.e., the loss that is to be expected as a statistical average over a one-year period. They are factored indirectly into margin calculations as standard risk costs (see the following section), along with other variables.

Risk/return key performance indicators

When calculating the loan losses expected for Postbank, the average standard risk costs are factored into the advance calculation on an individual loan basis. This allows all lending transactions to be evaluated during the advance calculation. The standard risk costs are priced in as a premium for the expected loss and are included in the profitability calculation for exposures to corporates. The profitability calculation aims to ensure an end-to-end assessment of customer relationships and is performed at product or portfolio level for retail customers, and at an individual level for non-retail customers.

Collateral management and credit risk mitigation techniques

Collateral management is an important and integral component of the credit management process at Postbank. Strict standards have been established regarding the quality (e.g., the legal validity and enforceability) of the collateral accepted. The value of the collateral is continuously monitored on the basis of uniform standards, not only when the loan is granted but also during its term. The associated collateral processes are regularly reviewed with respect to the regulatory requirements and further enhanced.

Postbank uses the following protection instruments as prudential credit risk mitigation techniques:

- Real estate liens to secure private and commercial real estate financing

- Master netting agreements

- Guarantees and trade credit insurance

- Financial collateral (cash collateral).

Postbank does not recognize other physical collateral (e.g., assignment of receivables) in the portfolios calculated using IRB Approaches to determine own funds.

The back office units are responsible for collateral management (there are partial exemptions for Postbank's non-risk-relevant lending transactions). This includes recognition of an instrument as collateral, its legal ranking, and regular review and measurement, as well as the administration of the eligible collateral. The exposure management systems provide electronic support for the management of immovable collateral. The amounts recognized as eligible collateral are reviewed at fixed intervals, depending on the type of protection; as a rule, this occurs annually or at shorter intervals in the case of critical exposures.

Guarantees and trade credit insurance must be irrevocable and unconditional in order to qualify as credit risk mitigation instruments when calculating the minimum capital requirements for credit and counterparty risk. Only guarantees by governments (central and regional governments and local authorities), other public-sector entities, banks, supranational organizations, and legal persons are recognized. Real estate liens are taken into account when calculating the possible loss arising from default on a loan. The collateral is realized in the event that a borrower becomes more than temporarily insolvent. To secure private real estate financing, Postbank uses real estate liens as a key instrument for minimizing the risks associated with the lending business. As a matter of principle, the real estate liens are included directly in the calculation of the supervisory LGD for the retail business and for the portfolios calculated using the Advanced IRB Approaches.

Loan collateral in the Corporate Banking segment taking the form of real estate liens is reviewed regularly, and at least annually, for impairment at the level of the properties concerned. In Germany, market developments are also monitored using the fair value fluctuation concepts produced by vdpResearch GmbH (the real estate market research company belonging to the Verband deutscher Pfandbriefbanken e.V.) and, in the case of hotel properties, by Deutsche Kreditwirtschaft, while the front office and back office units perform qualitative monitoring of the relevant sectors and real estate markets on an ongoing basis. In the case of loans and property values with volumes in excess of €3 million, valuations are always reviewed at the latest after three years by independent, qualified collateral specialists or a new appraisal is performed by real estate experts, as appropriate.

Where it is not possible or feasible to immediately realize the collateral furnished to Postbank as security for a loan for legal or economic reasons, its liquidation can be postponed until the legal situation is clarified or until a more favorable economic situation arises, in which case it will be managed and enhanced as best possible (active/passive retention).

In the case of prudential credit risk mitigation using netting agreements, the underlying exposure is reduced either by netting offsetting individual transactions or by using netting agreements. As part of its collateral management activities, Postbank uses netting agreements for derivatives and repurchase agreements. The agreements are entered into on the basis of standard international master agreements and comply with the requirements of the CRR. Netting agreements are entered into with most key trading counterparties.

Collateral is managed using a computerized process that complies with the required collateral management standards. Netted positions are integrated into risk management for the counterparties concerned and the aggregate credit risk exposure.

In order to manage credit risk concentrations as part of its credit risk mitigation measures, Postbank applies a conservative approach to positive correlations between the borrower's counterparty credit risk and the risk of deterioration in the value of the collateral. Postbank's collateral acceptance and monitoring process takes account of risk concentration when collateral is initially recognized. In particular, Postbank monitors guarantees together with loans granted by guarantors.

Credit monitoring and problem loan procedures

In the case of non-standardized loans, credit risks are monitored using credit assessments performed at least once annually and whenever events occur that could affect a borrower's credit quality. The checks are made by the operational lending units in the back office in accordance with banking supervision requirements and, in the case of trading transactions, by Risk Control as well.

In the area of individual lending to corporate customers and mortgage lending in excess of €750,000 per borrower or borrowing entity, Postbank has implemented a credit monitoring process in accordance with banking regulatory requirements. The process enables higher-risk loans to be identified using defined qualitative and quantitative early warning and risk indicators (e.g., sector information, management accounting data, customer and account data, and rating changes). The use of early warning and risk indicators to enable advance identification of an increasing risk of default enables Postbank to take risk mitigation measures in a timely manner, to develop and implement loan restructuring plans with the borrower if necessary, or to arrange for workout.

When a corporate loan is identified as having a higher risk, the borrower in question is placed in the monitoring category if early warning indicators are present and on the watch list (intensive care, restructuring, or workout) if risk indicators are present. In the case of hard ("rule-based") risk indicators, transfer is mandatory; if there are only soft ("principle-based") risk indicators, the decision is made at the discretion of the credit specialist responsible for the account, in cooperation with the workout specialists. The watch list report is produced and submitted to the CRC on a quarterly basis. The largest individual exposures and loans that were approved by the Group Management Board are reported to the Group Management Board and the Supervisory Board's Risk Committee as part of the quarterly credit risk report.

Past due and impaired exposures

An exposure is classified as "delinquent" or "past due" in cases of delinquency – i.e., when the obligor has exceeded an external limit notified to the obligor or has borrowed funds without prior agreement – but where the corresponding exposures have not yet been classified as "impaired."

The "impaired" classification indicates that Postbank has recognized an allowance for losses on loans and advances or that an event of default has occurred. The "impaired" category includes all loans and advances in respect of which specific valuation allowances, writedowns, and provisions for defaulted exposures in relation to sureties, other guarantees, and irrevocable loan commitments have been recognized, or for which obligors are more than 90 consecutive calendar days past due with respect to a material portion of their overall debt. The regulatory classification of "impaired" is more comprehensive than the concept used in accounting, e.g., the former applies to all exposures of a customer as a result of a cross-default clause.

Under Article 178 of the CRR, an obligor is in default if a material portion of its total credit exposure to the institution is more than 90 consecutive calendar days past due. A borrower may be placed in default prior to the end of this period if the institution is of the opinion that the obligor is unlikely to meet all of its payment obligations without recourse by the institution to additional measures to enhance the credit, such as the realization of collateral.

In the retail business, defaults are detected automatically using the data fields specified as relevant for the individual transactions. Defaults of purchased loans are also automatically flagged. Indicators of default for the central governments, institutions and corporates asset classes, including specialized lending, are recorded manually in a separate system (ABIT Banknology). Capital market securities, as well as the securities and derivative exposures of the investment funds, are analyzed and recorded in conjunction with daily marking-to-market.

Allowance for losses on loans and advances

The allowance for losses in the lending business comprises specific valuation allowances, collective specific valuation allowances, and portfolio-based valuation allowances.

A specific valuation allowance is recognized if – taking into account any collateral – the estimated recoverable amount of the loans and advances is lower than their carrying amount, i.e., if a loan or advance is wholly or partly uncollectible and is, therefore, permanently impaired. The amount of the specific valuation allowance is measured for the respective unsecured portions of the loans and advances as the difference between the carrying amount of the loans and advances and the present values of estimated future cash flows, including cash flows from the realization of collateral. In general, the original effective rate is used to discount the cash flows, with the effective rate for the current fixing period being used for variable-interest loans. The proceeds from the realization of the collateral and the time of its realization are taken into account on a case-by-case basis. An ongoing review of all exposures is performed for objective evidence of impairment and impairment tests are conducted where needed. In addition, an impairment test is performed each quarter, depending on the existence of certain risk characteristics.

A collective specific valuation allowance is recognized for a portfolio of homogeneous loans with similar characteristics, to the extent that there is objective evidence that the loans have become impaired and the amount of the impairment for each loan can be estimated with reference to past statistics on loan performance. Collective specific valuation allowances are measured using flow rates and the loss given default (LGD). The combined flow rate indicates the probability of a receivable being transferred to a portfolio designated for termination. The LGD represents the size or percentage amount of the economic loss for the outstanding exposure amount. The ratio is calculated regularly on the basis of the repayments obtained from recovery proceedings. Postbank recognizes collective specific valuation allowances on overdrafts, installment loans, and credit card loans, as well as on mortgage loans that have been past due for between three and six months.

Global valuation allowances are recognized for latent credit risks. Postbank factors in expected default probabilities, loss rates, and the estimated time between when the default occurs and when this is identified (loss identification period, LIP), depending on the type of product and customer group concerned in each case. The default probabilities and the loss rates for defaults at the portfolio level are calculated at portfolio level and updated where necessary on the basis of the results of the annual validation and recalibration of the IRBA rating systems; LIP factors are estimated on an individual basis, reviewed on an annual basis, and adjusted where necessary in line with the relevant risk monitoring processes.

Uncollectible loans are written off directly through profit or loss.

Provisions are recognized for liabilities under sureties, other guarantees, and loan commitments involving an acute default risk.

Managing credit risk at portfolio level

Portfolio management

Above and beyond monitoring individual risks, Postbank calculates the necessary economic capital (EC) for all exposures subject to credit risk. The credit portfolio model used by Postbank takes account of internal and external risk inputs, concentration risks in the credit portfolio, and reinvestment effects in the case of maturities of less than one year, as well as the ability to drill down to individual debtors.

At Postbank, EC is the potential negative change in the present value of the total loan portfolio resulting from actual or potential credit risk losses that will not be exceeded within one year for a 99.93 % probability. Under Postbank's risk-bearing capacity concept, EC (as a measure of the unexpected loss from credit risk) must be backed by risk capital.

In contrast to EC, the expected loss is the expected amount of losses due to credit risk in the bank portfolio over a one-year period. This is calculated approximately as the product of the default probability, the total size of exposure, and the loss rate. It depends on the counterparty/transaction rating and on the transaction term. The expected loss does not contribute to the Bank's overall risk, but is factored into margin calculations via the standard risk costs.

EC is calculated on the basis of the migration behavior of borrower-specific creditworthiness and correlation effects within the portfolio, so as to quantify risks arising from an adverse concentration of borrowers in terms of their sector, creditworthiness, and country. The probability of a rating change (migration) is continually updated and adjusted to reflect the changes observed in the current economic environment. In calculating EC, all loans and advances are recorded together with their future cash flows and are discounted to the observation date. This allows the loan loss risk to be measured over a one-year observation period, as well as quantifying the effects on the present value of all changes in creditworthiness occurring outside the observation period. Credit risk is measured using current internal and external credit ratings as well as internally and externally calculated assumptions relating to loss rates.

External inputs used to calculate the EC include constantly updated rating agency data, migration tables derived from this data, yield curves, and a covariance matrix for the risk factors used in the correlation model. Homogeneous, granular exposures are aggregated when calculating EC and are not computed at individual transaction level. These relate in particular to retail products.

The updated portfolio and market data is used to calculate EC in the loan portfolio on a monthly basis. The calculation of EC in the loan portfolio takes diversification effects between the portfolios in the business divisions into account. The utilization of the EC limits made available to individual profit centers by the CRC and of the aggregate credit risk limit is monitored regularly.

In addition to the calculation of the EC, the loan portfolio is subject to regular stress testing and sensitivity analyses across all risk types with the aim of quantifying losses that might arise from extreme events.

Portfolio structure

The following table provides an overview of material credit risk indicators for the various segments as of December 31, 2016, compared with the end of 2015 (volumes: carrying amounts). As the EC including portfolio effects is not calculated at the level of Deutsche Postbank AG, the portfolio structure is shown at Group level.

Credit risk	Volume		Expected loss		Economic capital (EC)[1]	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Retail Banking[2]	76.737	75.486	318	318	569	877
Corporate Banking	16.336	14.495	56	41	392	354
Financial Markets	42.977	47.336	5	5	379	382
Non-Core Operating Unit	6.414	8.989	6	8	582	581
Pension funds	n/a	n/a	1	0	49	11
Total[2]	**142.464**	**146.306**	**386**	**373**	**1.971**	**2.205**

[1]The underlying confidence level is 99.93%.
[2]2015 figures adjusted (see Note 6 to the Annual Financial Statements: “Adjustments of prior-year figures“)

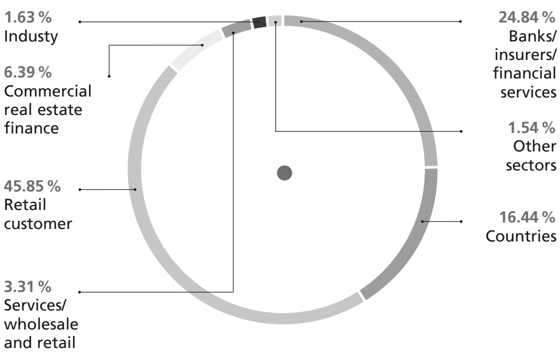
The economic capital (EC) decreased compared with the prior year-end while the expected loss (EL) increased. The increase in the EL is due to higher volumes in the strategic business areas of the Retail Banking and Corporate Banking segments (installment loans, commercial mortgages, corporate customer business) as well as to individual rating downgrades.

The change in EC was influenced by the updated model inputs for the retail portfolio, which led to lower EC in the overall portfolio and in the Retail Banking segment. The rise in EC in the Corporate Banking segment was the result of higher volumes, individual rating downgrades, and the business customer portfolio being moved from the Retail Banking segment to Corporate Banking. In the Non-Core Operating Unit, a rating downgrade means that EC remained stable despite the scaling back of portfolios. In the pension funds, the shift from government bonds to corporate bonds increased EC.

Sector structure of the loan portfolio
Overall, the sector distribution of the instruments subject to credit risk, measured in terms of volume, displays a balanced structure except for the concentrations with respect to banks and countries. The loan portfolio consists mainly of loans to retail customers with a focus on domestic private mortgage lending. It also includes loan exposures in the Corporate Banking division, predominantly in the German business customers segment and in domestic and international commercial real estate finance. The holdings of investment securities consist for the most part of a portfolio of mainly German and European government bonds as well as bonds issued by banks (including covered bonds and *Pfandbriefe*), insurers, and other financial services providers.

A target portfolio that has been aligned in terms of diversification has been defined as part of the credit risk strategy to manage investments in the non-retail area.

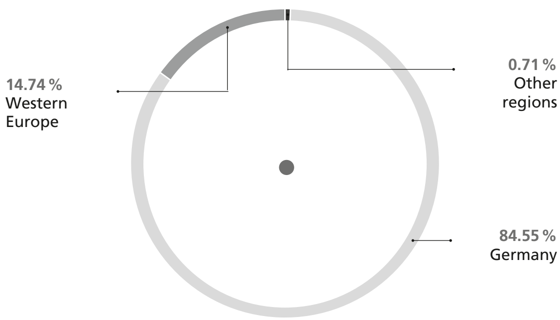
Sector structure



Regional distribution of the loan portfolio
Postbank has established country-specific limits for credit approvals in order to manage country risk. The country limits are largely determined by internal and external ratings, and by the economic strength of the particular country as measured by its gross domestic product. A central database keeps track of the limits established for each country and their current utilization, as well as the economic data used in allocating countries to risk categories. Postbank also uses an early warning system to monitor country limits.

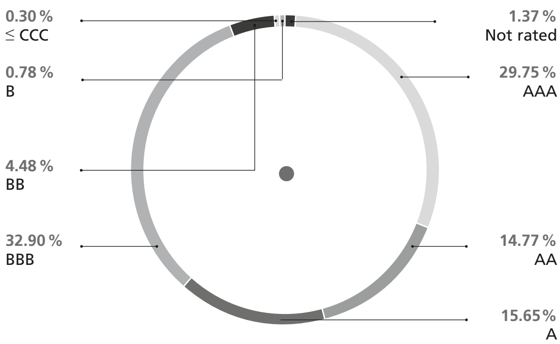
The regional distribution of the credit volume reveals a concentration on the domestic German market in line with Postbank's strategy, as well as selected exposures in Western Europe.

Regional distribution



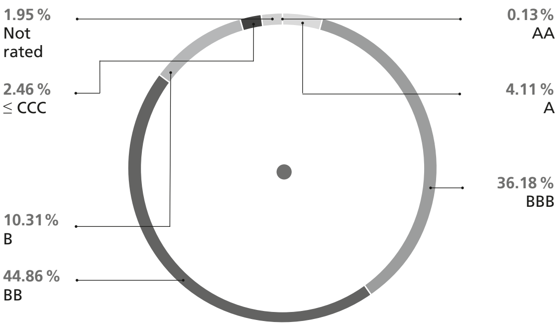
Rating structure of the loan portfolio
The distribution of rating categories in the loan portfolio reflects Postbank's conservative approach. The following graphic depicts the rating structure of the loan portfolio for the non-retail business. The good rating categories classified as investment grade predominate.

Credit rating structure (non-retail)



Similarly, the following graphic shows the credit quality of the risk-bearing financial instruments for Postbank's retail business that were neither past due nor individually impaired as of the December 31, 2016, reporting date. Postbank's retail business continued to exhibit a stable rating performance.

Credit rating structure (retail)



Environmental risk

Postbank also takes into account environmental risk when making credit decisions. Postbank and its employees are aware of their social responsibility both in their lending policy and in individual credit decisions.

Identifying and quantifying environmental risk forms part of Postbank's standard risk assessment and management procedures in its domestic and foreign business. With regard to its customers, Postbank believes that fulfilling current environmental standards and acting responsibly toward the environment are key factors for assessing corporate governance.

As a result, Postbank meets the requirements for sustainable and future-oriented management and complies with international guidelines such as the UN Global Compact.

Monitoring and managing liquidity risk

The primary goal of liquidity risk management is to ensure Postbank's solvency at all times, including in certain stress situations.

To achieve this, Postbank has laid down the principles for handling liquidity risk, among other things, in its overarching risk strategy. The definition of liquidity risk was revised following the 2016 risk inventory. Effective 2017, the definition of illiquidity risk was refined and the definition of financing risk was expanded. Based on the new definitions of risk types, measures were drawn up for 2016 and 2017 to implement the full control process.

The liquidity risk management process is based on several pillars and is generally performed on a stress basis at the level of the Postbank Group. The scenarios cover both institution-specific and general market issues and, in the MaRisk scenario, the combination of the two. This permits changes in a variety of market factors, panic reactions by customers, and structural changes in funding resources (e.g., due to a decline in market liquidity) to be reflected. The MaRisk scenario simulates severe outflows of savings, demand and corporate customer deposits, restricted access to the uncollateralized money market, and increased haircuts on central bank-eligible securities.

The internally defined survival period is two months, longer than the minimum required under supervisory law. A requirement for all stress scenarios was to maintain customer loans at existing levels at least, even in times of stress. In the event of unexpected cash outflows, cash holdings, central bank balances, and an extensive portfolio of unencumbered, highly liquid, central bank-eligible securities can be used to obtain liquidity rapidly, including on (private) repo markets.

The Liquidity Risk Management unit determines Postbank's liquidity status under both normal conditions and the stress conditions described above on each business day using funding matrices and cash flow forecasts. This is also managed using a monthly forecast, taking into account the expected product volumes based on the measures adopted. Surplus liquidity, which likewise reflects the MaRisk scenario, is calculated on a monthly basis for each of the coming 12 months. As an early warning indicator, the minimum for a 12-month horizon is limited under the risk strategy and monitored by the Liquidity Risk Management team.

For a longer-term view of liquidity above and beyond this, Postbank has also incorporated the surplus liquidity approach into its annual liquidity and funding planning as part of the Bank-wide planning process. In so doing, Liquidity Risk Management ensures that the liquidity risk appetite defined by the Management Board will be accounted for from a planning perspective over the multi-year planning horizon on the basis of specific measures and thus that adequate liquidity buffers can be maintained.

Since 2016, Liquidity Risk Management has also modeled the business planning adopted by the Management Board, including refinancing measures, in the EBA funding plan for the Postbank Group and reports this to the supervisory authority.

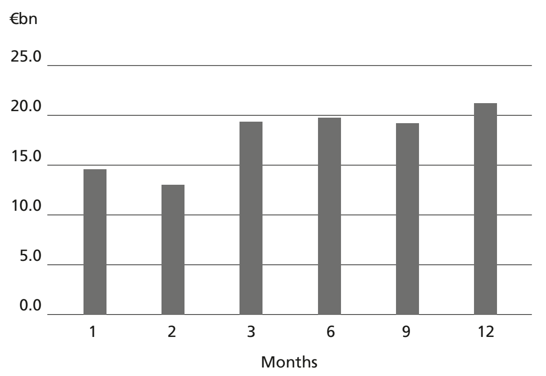
Due to its strategic focus as a bank for retail, business and corporate customers, Postbank enjoys a broad and stable refinancing base from its customer business and is therefore largely independent of the money and capital markets.

Concentration risk during refinancing is taken into account implicitly in the stress tests presented above. We do not see any key concentration risks in respect of individual creditors from a liquidity perspective due to the Bank's business strategy. To further diversify its refinancing activities, Postbank has a *Pfandbrief* license allowing it to issue public-sector *Pfandbriefe* and mortgage *Pfandbriefe*. While there are still no plans to issue public-sector *Pfandbriefe* under Register E, it is foreseen to issue mortgage *Pfandbriefe* under Register D as a long-term refinancing instrument as part of multi-year funding planning.

Data on the stability of the refinancing structure is regularly reviewed and evaluated in internal analyses. The net stable funding ratio (NSFR) is also used to assess this. Since 2016, the NSFR for the Postbank Group has been calculated on a quarterly basis in accordance with the requirements of the Quantitative Impact Study (QIS) of the Basel Committee on Banking Supervision and made available to the supervisory authority as part of the short term exercise.

The following overview of Postbank's liquidity status as of December 31, 2016, presents the expected cash inflows/outflows for the coming twelve months on a cumulative basis under normal conditions, in accordance with the principles of internal liquidity management:

Postbank's liquidity status as of December 31, 2016



The liquidity status includes, among other things, the expected values for changes in liabilities with no fixed capital commitment period, such as savings and checking account deposits, the probability that irrevocable loan commitments will be utilized, as well as loan extensions, which are based in part on estimates from the Product functions and in part on observed historical data. These show that Postbank has significant liquidity surpluses across all maturity bands, which serve as liquidity buffers for stress situations and hence underscore its adequate liquidity position.

The results of the daily stress tests in 2016 also confirm Postbank's solid liquidity position. Even after the combined stress effects in the MaRisk scenario were taken into account, comfortable surpluses existed in the net liquidity position at all times, both during and beyond the survival period.

Postbank, at the level of the Postbank Group, is integrated with Deutsche Bank's liquidity risk management process.

Monitoring and managing operational risk

The economic capital requirements for operational risk for the Bank as a whole and for the individual business divisions are determined using the AMOR (Advanced Measurement of Operational Risk) operational risk capital model. Postbank's EC capital model is based on a loss distribution approach (LDA) that uses internal and external loss events, supplemented by scenario analyses, in its calculations. The results of the scenario analysis are used in two ways. On the one hand, the estimates are used as inputs in risk capital modeling and therefore complement the loss data collected with risk estimates for losses that are extremely uncommon but that could have a significant impact. On the other, the results also provide a starting point for specific control measures and thus serve to improve the risk situation.

Operational risk is fully integrated with Postbank's risk-bearing capacity concept. In the case of limit exceedances, the limit for operational risk is increased (including during the course of the year) at the expense of other risk types or of the unallocated risk cover amount. Postbank's business divisions have been allocated specific risk capital amounts, utilization of which is also monitored each quarter.

In addition to the regular calculation of the operational risk indicators, quarterly stress tests are performed. Their results are used to analyze how the risk indicators behave under extreme conditions. For example, the effects of a general increase in loss frequencies or an additional, "artificial" major loss are examined.

Apart from the quantification model, Postbank uses the following qualitative instruments in particular:

- Structured capture of internal losses of €1,000 or more (fraud cases starting at €0)
- Definition of risk indicators as an early warning instrument
- Half-yearly self-assessment to evaluate the internal control framework
- Definition of scenarios for evaluating specific risk situations
- IT-based central activity tracking system to reduce operational risk.

Operational risk losses declined slightly year-on-year.

The main drivers of the trend in loss events in 2016 were the number of legal actions and complaints by customers – still high compared with the long-term average – in connection with closed-end funds, the distribution of which has been discontinued, as well as legal actions and complaints relating to consumer protection rulings. Losses from cases of fraud, which were mainly caused externally, were up year-on-year at €27 million in the year under review (2015: €19 million). These were mainly attributable to two cases of fraud in the corporate banking business that were uncovered in 2016. Other losses from cases of external fraud, which individually are only minor but that occur repeatedly during a year (high frequency/low impact losses), were at the previous year's low level. The focus in the fight against fraud remains on using the FRAUD Committee to communicate all material cases of fraud promptly throughout the Bank, as well as on raising the awareness of the employees involved in the relevant processes in order to ensure the systematic and widespread early identification of cases of fraud. The technical and organizational measures taken in previous years continued to prove their worth.

As part of the identification and management of legal risk, the Legal Affairs department regularly reports to the Management Board and prepares analyses to ensure that the business divisions have access to differentiated estimates for decision-making purposes. The Legal Affairs department uses various individual measures to identify legal risk. It helps to measure Postbank's risk tolerance with respect to legal risk. The necessary steps to address or mitigate potential legal risks arising from the Bank's business activities are agreed by the Legal Affairs department in consultation with the corporate divisions.

Legal risks are also identified within Operational Risk Control using various procedures in the established structure with decentralized operational risk managers. Risks are identified and measured both systematically and comprehensively using scenario analyses and self-assessments, as well as on an as-needed basis when introducing new products and assessing outsourcing projects. The information on the business divisions contained in the following table covers both core and non-core portfolios.

Business segment in accordance with the CRR	Weighting for operational risk	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Corporate finance	0	0
Trading and sales	–26	–6
Retail banking	344	356
Commercial banking	47	40
Payment and settlement	0	0
Agency services	1	1
Asset management	0	0
Retail brokerage	10	9
Total Postbank	**376**	**400**

Postbank performs business continuity management (BCM), which comprises both preventive and reactive measures along its value chain. The objective is to develop and then implement BCM planning (also known as emergency planning) to guarantee the continuity, regularity, and robustness of the Bank's business operations in exceptional situations such as emergencies. Regular BCM risk identification and assessment exercises (RIAs) and business impact analyses (BIAs), which focus on the Bank's main tasks and business processes, are used as the basis for planning. The proper functioning of the emergency planning is reviewed, monitored, and documented on an ongoing basis.

Monitoring and managing business risk

Business risk covers savings and checking account risk, reputational risk, and residual business risk. These risks are managed by the system of decision-making bodies at Postbank.

Managing savings and checking account risk

Theoretical scenarios are defined for customer transactions with non-deterministic interest rates and capital commitment periods (primarily savings and checking account deposits) in order to permit interest rate risk to be managed. These scenarios appropriately reflect the repricing and capital commitment behavior associated with these customer products. Over time, unexpected volume and margin fluctuations can occur as a result of unexpected customer behavior or changes in the Bank's own interest rate adjustment policy (or as a result of a lack of opportunities for interest rate adjustments in marginal areas); this could endanger the ability to generate stable net interest income in the long term and hence also impact economic capital.

Limit monitoring and reporting of savings and checking account risk is performed centrally by Market Risk Management within the Risk Management unit.

Managing reputational risk

The core element of Postbank's reputational risk management is the prophylactic treatment of issues relevant to reputational risk resulting from certain customer-related transactions, business partners, or business practices. The primary responsibility for the identification, assessment, and escalation of such issues rests with the management of the relevant board departments and subsidiaries. The principle of local management responsibility applies, with the local units being assisted in the performance of their tasks by the central infrastructure units.

The Reputation Committee (RepCo), as Postbank's escalation instance, must be consulted on issues representing a major reputational risk. This committee provides risk management support to the Group Management Board for the monitoring and management of reputational risk. The main management objective is to prevent reputational risk entirely if possible or, failing that, to minimize the effects of any reputational damage that has occurred by reacting with appropriate measures.

Managing residual business risk

The procedures for quantifying business risk have a direct and consistent relationship to the method used to determine the economic capital in Postbank's risk-bearing capacity concept. Residual business risk is calculated on the basis of historical variance analyses for the periods.

It is quantified and monitored partly on the basis of the value at risk concept and partly using scenario analyses, with the methods used being reviewed for accuracy at regular intervals. The BRC formally resolves the relevant limits.

In addition, extraordinary events are analyzed at regular intervals using both historically based and hypothetical scenario analyses and stress tests. Postbank's Risk Management unit is responsible for limit monitoring and reporting which must be performed at least quarterly.

Controlling and the business divisions provide an early warning system by gathering and analyzing market and competitor data on an ongoing basis in order to identify potential risks, and by developing appropriate countermeasures.

Internal control and risk management system for the financial reporting process

The following section describes the key features of the internal control and risk management system for the financial reporting process. In this respect, Postbank complies with the requirement set out in section 289(5) of the *Handelsgesetzbuch* (HGB – German Commercial Code). Postbank regards information as being material within the meaning of section 289(5) of the HGB if failure to disclose it could influence the economic decisions taken on the basis of the annual financial statements and the other components of financial reporting. Materiality cannot always be determined in general terms, but is rather established on the basis of the nature and scope of the issues involved. Postbank assesses the question of the materiality of an issue by reference to its importance with respect to the annual financial statements.

Tasks of the internal control and risk management system relevant for financial reporting

Postbank sets high standards in regard to the correct presentation of transactions in its financial reporting. One of the tasks of the internal control system is to ensure due and proper financial reporting.

Postbank's internal control and risk management system comprises rules for managing corporate activities (internal management system/risk management system) and rules for monitoring compliance with these rules (internal monitoring system).

Postbank's internal control system performs the following tasks:

- Ensuring the effectiveness and economic efficiency of business activities in line with the corporate strategy
- Ensuring the propriety and reliability of both internal and external financial reporting
- Compliance with the legal provisions applicable to the Company.

Postbank's Management Board is responsible for establishing the internal control system. Appropriate principles, procedures, and measures ensure the system's implementation.

Organization of the internal control and risk management system relevant for financial reporting

The Management Board is responsible for preparing the annual financial statements and the management report. The Management Board has assigned responsibilities for the individual components and procedural steps relating to financial reporting in the form of organizational policies. The Finance, CEO, Resources and Chief Risk Office board departments are the main units involved in the preparation of the policies.

Financial reporting is performed primarily by the departments within the Finance board department, whose main tasks are as follows:

- Monitoring of new legislation
- Preparation and maintenance of accounting policies
- Due and proper capture and processing of data/transactions relevant for financial reporting by the IT applications
- Preparation of the annual financial statements and the management report
- Provision of information for segment reporting.

In addition, certain tasks with the following main functions are performed by the CEO board department:

- Provision of certain disclosures relating to the notes.

With regard to the financial reporting process, the Resources board department primarily performs the following tasks:

- Creation of the conditions for recognition, measurement (best estimate), and ongoing review of the provisions for pensions and other employee benefits as well as provision of the relevant disclosures for the notes
- Provision of additional relevant disclosures relating to the notes and the risk report.

The Chief Risk Office performs the following tasks:

- Decisions on specific valuation allowances relating to domestic and foreign loans
- Provision of the information required to be disclosed with respect to market, credit, liquidity and operational risks
- Provision of relevant disclosures relating to the notes and the risk report.

The Supervisory Board supervises the Management Board. In the area of financial reporting, it is responsible for approving Postbank's annual financial statements. The Audit Committee set up by the Supervisory Board has the following tasks:

- Advice and supervision with respect to financial reporting, the internal control system, risk management and risk control (insofar as the Risk Committee is not responsible for this), internal audit, and compliance

- Discussion of questions relating to the requirement of auditor independence
- Engagement of the auditors, determination of the areas of emphasis of the audit, and agreement of the fee.

The Audit Committee makes use of its right to demand information from the Internal Audit function when performing its duties.

In addition, Postbank's Internal Audit unit plays a process-independent monitoring role. It performs audits in all areas of the Company on behalf of the Management Board and is directly assigned to the Management Board, to which it also reports. In addition to reviewing the propriety and functional reliability of the processes and systems, it assesses the effectiveness and appropriateness of the internal control system in particular and of risk management in general.

The annual financial statements and the management report must be audited by the auditor elected by the Annual General Meeting before the annual financial statements are approved.

The audit report to be prepared by the auditor must be submitted to Postbank's Supervisory Board.

Components of the internal control and risk management system relevant for financial reporting

Postbank's control environment, as a component of its internal control and risk management system relevant for financial reporting, is the framework within which the rules applicable at Postbank are introduced and applied. It is determined by management's basic attitude, problem awareness, and behavior toward the internal control system. The control environment materially influences employees' control awareness. A positive control environment is a precondition for an effective internal control system.

Accounting policies and other rules serve to ensure the due and proper treatment of business transactions; the policies and rules are reviewed on an ongoing basis and modified as necessary. Postbank prepares its annual financial statements and management report in accordance with the provisions of German commercial law applicable to major stock corporations (sections 242 – 256a, 264 – 286, and 289 – 289a of the HGB), taking into consideration the legal-form specific requirements for German stock corporations (sections 150 – 161 of the AktG), the sector-specific requirements for credit institutions, and the requirements of the Bank's Articles of Association.

Generally applicable measurement procedures are used. The procedures used and the underlying inputs are reviewed at regular intervals and modified as necessary.

The risk of non-compliant financial statements is addressed by corresponding instructions in the policies. The quality of the annual financial statements is assured by the Accounting and Tax department.

The core principle behind the design of these processes is the clear separation of irreconcilable activities. All transactions are processed in line with the principle of dual control. Dual control can be exercised at the technical or organizational level, or a combination of both.

The financial reporting process for the annual financial statements comprises technical support for the business transactions, data capture and processing, reporting, and the publication of the components of financial reporting.

The entire financial reporting process is IT-based. Both standard applications and custom software are used. Rules and procedures, which are based on Postbank's IT strategy and risk strategy, exist for program development and modifications, data backups, and access control, thus ensuring the propriety of the financial reporting.

Integrated process controls take the form of plausibility tests within the programs and automated and manual reconciliations. The Bank regularly reconciles the general ledger and the subledger.

Internal Audit

The Internal Audit unit is a key element of Postbank's business and process-independent monitoring system. In terms of the Bank's organizational structure, it is assigned to the CEO and reports independently to the Group Management Board.

Internal Audit is obliged to comply with the standards issued by the Institute of Internal Auditors (IIA) and the Deutsches Institut für Interne Revision (German Institute for Internal Auditing). It reviews the effectiveness and appropriateness of risk management in general and of the internal control system in particular in a risk-oriented and process-independent manner, in line with the MaRisk. Internal Audit's responsibilities also extend, in a scaled-down form, to the subsidiaries of Postbank. Its activities in the subsidiaries range from advisory functions to full-scale Internal Audit procedures.

In line with Deutsche Bank's methodology, Internal Audit's audit planning is based on a dynamic process. The inherent risks associated with the business divisions and core processes, as well as the corresponding control measures are analyzed and assessed as part of a continuous risk assessment. Together with statutory audits and an audit interval of no more than three years for material issues, this is used to draw up the risk-oriented audit plan for the fiscal year, which the Management Board commissions Internal Audit to implement.

In addition to its regular audits, Internal Audit performs special examinations in certain circumstances, and provides audit and consulting services relating to the introduction and implementation of material projects. Audit concepts are continuously adapted to reflect the findings of the risk assessments. For instance, new products, changes in the internal control system, or organizational changes in the way audits are performed are all taken into account, as are any changes in the legal framework.

Remuneration systems

The *Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten* (InstitutsVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions) dated December 16, 2013, sets out specific requirements for the remuneration systems of banks. Accordingly, Postbank has established both a Compensation Control Committee (Supervisory Board committee) and the function of a compensation control officer. Postbank also implemented the remaining changes to the InstitutsVergV.

Postbank's remuneration systems comply with the general and specific requirements of the InstitutsVergV. They are in keeping with the goals laid down in the strategies and are designed in such a way that negative incentives are avoided. Employees are remunerated appropriately for their tasks and responsibilities.

With respect to the specific requirements to be met by the remuneration systems for senior managers and employees whose activities have a material influence on the overall risk profile, the remuneration systems were designed in such a way as to provide support for sustainability-oriented enterprise goals. The remuneration systems comply with the requirements of the InstitutsVergV, in particular with respect to the amount of variable remuneration to be deferred and the deferral periods. Following a review in accordance with section 14 of the InstitutsVergV, the necessary changes were implemented in the relevant employment contracts in a timely manner insofar as this was possible under civil, employment and company laws.

Pending litigation

The actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 28, 2015, on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement are still pending. However, Deutsche Postbank AG considers these actions to be unfounded.

OUTLOOK

Overall economic parameters

Macroeconomic environment

Global economy

Global growth will likely accelerate moderately in 2017. The upswing in the industrialized countries is expected to strengthen slightly, prospectively driven by continued low interest rates. Furthermore, stronger expansionary momentum will likely be generated by the fiscal policy in several large countries. Political events such as the UK's anticipated request to leave the EU and the large number of upcoming elections in eurozone member countries are expected to create uncertainty. This could have a negative impact on the economy at times. Growth rates in the emerging markets are expected to be higher than in the previous year, propelled in particular by the easing of the in some cases severe recessions in several of the large emerging economies. As a result of recovery of raw material prices, improvement tendencies are evident in particular for those countries with economies dependent on the export of raw materials. At the same time, however, there are still a number of political and structural risks which could brake growth in the emerging economies. For 2017, the IMF expects world economic output to grow by 3.4 %, compared with 3.1 % in 2016.

The economic upswing in the United States will likely accelerate in 2017. Spurred on by high levels of employment and rising income, private consumption should continue to generate growth momentum. Corporate investments are expected to pick up again as well after having declined in 2016 due to the continued slump in oil prices and downward adjustment in inventory investments. A shift in fiscal policy trends could have a stimulating effect. During his campaign, the new president of the United States announced that he intends to lower taxes and increase investments in infrastructure. However, it will likely take some time to formulate and implement the corresponding resolutions, meaning that slightly positive impulses from such a development can be expected at the earliest in the second half of the year. We anticipate GDP growth reaching 2.2 % in 2017.

The Japanese economy should continue to experience moderate growth, with private consumption and gross capital expenditures rising slightly. Export growth will likely accelerate due to the most recent weakening of the yen and somewhat more brisk increase in global demand. Overall, GDP growth should again be moderate at 1.1 %.

The economic recovery in the eurozone is expected to continue, but the pace of growth will likely slow slightly. Political risks from the UK's anticipated request to exit the EU and the numerous upcoming elections in member countries of the eurozone could dampen companies' willingness to invest. At the same time, growth in private consumption is expected to slow slightly because it will no longer be supported by falling energy prices. Exports and imports will likely strengthen at approximately the same rate, meaning that no noticeable growth effects can be expected from foreign trade. Overall, GDP growth will likely slow to 1.4 %.

Economic outlook for Germany

The German economy was in a solid upswing at the end of last year. Early indicators such as the ifo Business Climate Index have improved over the last several months, which signalize an acceleration of the growth trend. We anticipate, however, that political risks will exert a somewhat negative influence on growth of corporate investments and exports. Residential construction, on the other hand, is expected to generate strong momentum once again. At the same time, growth in real consumption will likely decline moderately, with a prospectively noticeably increasing inflation rate putting a brake on real income. Significantly slower growth is evident in government consumption spending as the driving effect from the rising costs of caring for and integrating refugees in 2016 is largely disappearing. All in all, we expect a noticeable decrease in GDP growth to 1.4 % in 2017, also attributable in part to the lower number of working days in this year in comparison to the previous one. Despite the growth slowdown, the average annual employment rate is expected to rise again. At the same time, however, there is likely to be a moderate increase in the number of unemployed persons as a result of a growing labor force.

Markets

The ECB's monetary course for 2017 appears generally well sketched-out based on decisions made by its Governing Council in December 2016. Pursuant to these decisions, the ECB will extend its bond-buying program until at least December 2017. However, starting in April 2017, the monthly purchasing volume of this program will be reduced from €80 billion to €60 billion. Further, the ECB announced that its key interest rates will remain at the current or an even lower level for some time after termination of the purchasing program. We therefore believe that the ECB will carry out its bond-buying program as planned and leave its key interest rates for all of 2017 on a par with the level at the end of 2016. Later in the year, however, the ECB will likely decide to reduce the monthly purchasing volume even further but not make the change effective until the following year. Nonetheless, it is impossible to exclude that ECB may deviate from the path laid out. If inflation in the eurozone increases more significantly than currently expected while the economy grows robustly at the same time, the central bank could lower the monthly purchasing volume below the presently defined level during the course of 2017. If the economy slows considerably, however, and the inflation rate decreases once again, the ECB could lower the deposit facility rate again or further expand the monthly volume of its bond purchases.

The U.S. Federal Reserve will likely raise its federal funds rate over the course of 2017. In light of a prospective significantly rising inflation rate and continued robust labor market, we expect two interest rate increases of 0.25 percentage points each. By the end of the year, we anticipate a fed funds target rate of between 1.00 % and 1.25 %.

As a result of sustained expansionary ECB monetary policy, capital market interest rates in the eurozone are likely to remain low, although some factors point toward a rise in yields over the course of the year. These include an anticipated clear increase in the inflation rate should the economic recovery in the eurozone continue. Moreover, as a result of the slightly tighter monetary policy in the United States, returns on U.S. Treasuries may tend to rise – a situation that commonly impacts the German market. The upward momentum this will generate for the yield level could be mostly offset by continued extensive ECB bond purchases. We expect to see a marginal increase in yields of ten-year German Bunds by the end of 2017. With key interest rates remaining constantly low, the yield curve may become minimally steeper.

Prospects for corporate bonds are restrainedly positive in our opinion. However, the continued economic upswing that we anticipate in the industrialized countries points to a slight decrease in risk premiums. Impending unknowns, in particular in the political arena, could nonetheless create uncertainty regarding economic prospects, both for individual sectors and companies, and thus have a negative impact on corporate bonds. All in all, we expect to see a slight decrease in risk premiums for European bonds in the investment-grade category.

In light of the risk premiums demanded for the government bonds of the so-called peripheral eurozone countries, we expect to see differentiated, country-specific developments rather than one uniform tendency. We see narrowing potential for bonds issued by countries able to noticeably reduce their new debt as well as adopt and implement sustainable reforms that promote growth. In contrast, countries weak on growth and reform and with a high level of new debt will face a rise in risk premiums for their bonds. Government bonds will remain fundamentally susceptible to setbacks in the case of economic or political crises.

Sector situation

The sustained low level of interest rates in the eurozone will likely continue to make improvements in the operating business of German banks considerably difficult. We do not expect a significant rise in interest rates by the end of 2017. This will make interest margin increases difficult for most banks, especially since tough competition in the German retail and corporate banking segments continues to put a strain on both net interest income and net fee and commission income. In addition, only moderate growth is to be expected for the lending business with these customer groups. Substantial increases in net fee and commission income and net interest income should therefore be quite difficult to achieve. High volatility on the capital markets and the ECB's bond-buying program are curbing trading business as well. Low financing costs, however, could have a positive effect on the equity and debt capital markets business issues as well as stimulate the mergers and acquisitions activities (M&A) of companies. This should have a positive impact on income from investment banking. Due to the persistently difficult conditions on the income side, many banks are likely to have additional cost optimization measures on their agendas in 2017 as well. The financial resources that banks must employ to implement new regulatory requirements also have a negative impact on income statements. In addition, many banks are investing in digitizing numerous processes. While such projects tie up resources, digitization appears necessary for strengthening customer relationships and responding to new competitors in the digital world.

The outcome of the referendum in the UK to leave the European Union could also have a negative impact on German banks. Heightened uncertainty associated with the many outstanding issues related to the EU exit will increase the risk of a growth slowdown for the UK and for important trade partners in continental Europe. This could cause the central banks to continue pursuing their low interest rate policy even longer. At the same time, a growth slowdown usually also reduces the potential for an expansion in lending while the risk of loan defaults may rise. In addition, the increase in volatility associated with the heightened uncertainty on the markets could have a negative impact on the trading business of banks.

We believe that the three-pillar structure of private, public and cooperative banks is unlikely to change in 2017. Mergers and/or acquisitions will likely take place primarily within the respective sectors and for the most part involve smaller institutions.

Legal disputes may also have a negative impact on the reputation and the business performance of German banks.

Together with BaFin, the Deutsche Bundesbank will subject some 1,500 small and mid-sized German banks to a stress test in 2017. Test results will be announced in the second half of 2017 and be incorporated into the Supervisory Review and Evaluation Process (SREP) of the Bundesbank and BaFin.

The ECB is currently analyzing the internal risk assessment models used by the banks it supervises. This targeted review of internal models (TRIM) will help to reduce major differences in internal risk assessment by individual banks in the sector. The process will take several years to complete, according to the ECB.

Outlook for Postbank

Postbank's investment focuses

In mid-2016 Postbank markedly shifted the focus of its investments to growth and efficiency for the purpose of improving its competitiveness and will adhere to this same investment strategy in fiscal year 2017. In that vein, Postbank plans to invest increasingly in strategic measures to intensify the linkage of "digitally & personally" supported advisory, sales and services processes for installment loans and securities advisory services. Since new marketing processes such as the online acquisition of mortgage lending customers have already proven popular with our customers, investments in expanded digitization will continue to be oriented on customer needs to ensure a "digitally & personally"-linked customer experience.

To improve efficiency in the front/back offices and central areas Postbank will also maintain efforts to adapt its capacities to the challenging banking environment and invest in a modern infrastructure.

The Bank's investment portfolio in 2017 will remain committed to developing a modern branch infrastructure with additional self-service options for retail and business customers and to further expanding the sales centers. In fiscal year 2017, Postbank will once again find it necessary to use its investments to ensure an efficient response to pending regulatory requirements. This will include meeting requirements from international financial reporting standards (IFRS 9) as well as from the finalization and/or implementation of Basel III/IV, BCBS consultative document 239, TRIM, ICAAP, and ILAAP.

Non-financial key performance indicators

It is to be expected that customer and employee satisfaction, given their recent assessment, will reach the same level as last year. In the retail customer segment the Bank will seek to stabilize satisfaction at least at the average level of 2016. This expectation, however, does not imply any fundamental changes in the strategic orientation of Postbank.

Expected development of Postbank's earnings situation

The following assessment of the presumed direction of business at Postbank in 2017 is based on expectations concerning overall economic parameters. Unforeseen events such as a new flare up of the sovereign debt crisis in Europe, an unexpected change in the monetary policy framework, political risks and/or possible setbacks or disruptions in international capital and real estate markets could have a negative impact on the expected earnings situation. Even the continuing discussion about additional, unexpected and markedly stricter regulation of the banking industry could have a significant effect on the financial position, net assets, and results of operations at Postbank that is not taken into consideration in the following base scenario.

Our expectations for 2017 are based on our forecast for interest rates, which are nearly unchanged in the negative range for maturities up to three months. However, for maturities of more than three months, those rates are expected to rise slightly above the market level reached at the end of 2016.

The income streams generated by Postbank's business with retail, business and corporate customers remain the foundation of its future earnings performance. Here the Bank will focus on stabilizing net interest income, expanding net fee and commission income, and reducing the cost base.

More specifically, despite increasing lending volumes, we expect net interest income to decline slightly overall in 2017 due to the sustained low level of interest rates.

In light of our introduction of a new price model for checking accounts in November 2016, a step whose full impact on the income statement will first be felt in 2017, as well as a new securities strategy with an integrated advisory approach, we anticipate markedly rising net fee and commission income.

For risk provisions for securities in the liquidity reserve, we expect a stronger negative impact in the low triple-digit million euro range in 2017 due primarily to interest-induced fair value trends.

For risk provisions in the lending business in 2017, we foresee a volume-related appreciable rise compared with the historically low prior-year level, attributable to planned growth in our core business.

Administrative expenses are expected to experience a moderate improvement in 2017 thanks to strict cost management and a decline in the costs for deconsolidation from Deutsche Bank.

For other operating income, we anticipate a negative amount in the low triple-digit million euro range in 2017 following a positive result in 2016, as interest rate trends will cause net expenses from pension obligations and assets to have a strong negative impact on the item.

Following a negative result from reversals of writedowns/ writedowns of equity investments and securities in 2016 in the mid double-digit million euro range whose essential feature was a writedown of one equity investment, we expect a positive earnings contribution in the mid double-digit euro range in 2017. Overall, we believe profit before tax will decline in 2017 by an amount in the mid double-digit million euro range.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of Postbank, and the Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Bonn, February 21, 2017

Deutsche Postbank AG

The Management Board

Frank Strauss

Marc Hess

Susanne Klöss-Braekler

Ralph Müller

Ralf Stemmer

Hanns-Peter Storr

BALANCE SHEET AS OF DECEMBER 31, 2016 – DEUTSCHE POSTBANK AG, BONN

Assets	€m	€m	€m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
1. Cash reserve					
a) Cash balance			1,426		963
b) Balances with central banks			11		53
of which: with Deutsche Bundesbank	11				(53)
				1,437	1,016
2. Loans and advances to other banks					
a) Payable on demand			5,564		1,388
b) Other loans and advances			12,733		21,326
of which:					
mortgage loans	–				(0)
public-sector loans	20				(20)
				18,297	22,714
3. Loans and advances to customers				73,345	68,589
of which:					
mortgage loans	23,184				(21,092)
public-sector loans	4,765				(4,118)
4. Bonds and other fixed-income securities					
a) Money market securities					
aa) Public-sector issuers		–			–
of which:					
eligible as collateral with Deutsche Bundesbank	–				(–)
ab) other issuers		–			–
of which:					
eligible as collateral with Deutsche Bundesbank	–				(–)
			–		–
b) Bonds					
ba) Public-sector issuers		15,541			15,760
of which:					
eligible as collateral with Deutsche Bundesbank	15,378				(15,518)
bb) other issuers		8,613			11,015
of which:					
eligible as collateral with Deutsche Bundesbank	6,135				(10,191)
			24,154		26,775
c) Own bonds			–		–
Principal amount	–				(–)
				24,154	26,775
5. Equities and other non-fixed-income securities				–	–
5a. Trading portfolio				279	520
6. Equity investments				30	20
of which:					
in other banks	–				(–)
in financial services providers	–				(–)
7. Investments in affiliated companies				5,666	5,619
of which:					
in other banks	–				(–)
in financial services providers	12				(12)
8. Trust assets				381	441
of which: trustee loans	380				(440)
9. Intangible assets					
a) Internally generated industrial and similar rights and assets			–		–
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets			0		0
c) Goodwill			–		–
d) Prepayments			–		–
				0	0
10. Property and equipment				356	367
11. Other assets				2,152	1,782
12. Prepaid expenses					
a) From issuing and lending business			303		247
b) Other			23		27
				326	274
13. Deferred tax assets				–	8
14. Excess of plan assets over pension liabilities				332	234
Total assets				126,755	128,359

Equity and liabilities	€m	€m	€m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
1. Deposits from other banks					
a) Payable on demand			602		578
b) With an agreed maturity or withdrawal notice			11,149		14,093
of which:					
registered mortgage *Pfandbriefe* issued	170				(167)
registered public-sector *Pfandbriefe* issued	76				(76)
Pfandbriefe lodged with lenders (as collateral for loans received):					
registered mortgage *Pfandbriefe*	–				(–)
registered public-sector *Pfandbriefe*	–				(–)
registered bonds (mixed cover) in accordance with DSL Bank Reorganization Act (DSLBUmwG)	1,015				(1,129)
				11,751	14,671
2. Due to customers					
a) Savings deposits					
aa) With an agreed withdrawal notice of three months		38,482			41,729
ab) With an agreed withdrawal notice of more than three months		103			113
			38,585		41,842
b) Registered mortgage *Pfandbriefe* issued			1,672		1,661
c) Registered public-sector *Pfandbriefe* issued			136		136
d) Registered bonds (mixed cover) in accordance with DSLBUmwG			10,585		10,915
e) Other amounts due					
ea) Payable on demand		47,021			42,699
eb) With an agreed maturity or withdrawal notice		3,400			2,125
			50,421		44,824
of which: *Pfandbriefe* lodged with lenders as collateral for loans received:					
registered mortgage *Pfandbriefe*	–				(–)
registered public-sector *Pfandbriefe*	–				(–)
				101,399	99,378
3. Debt securities in issue					
a) Bonds issued					
aa) Mortgage *Pfandbriefe*		2,429			2,499
ab) Public-sector *Pfandbriefe*		56			66
ac) Bonds (mixed cover) in accordance with DSLBUmwG		–			–
ad) Other bonds		881			910
			3,366		3,475
b) Other debt securities in issue			–		–
of which: money market securities	–				(–)
				3,366	3,475
3a. Trading portfolio				107	161
4. Trust liabilities				381	441
of which: trustee loans	380				(440)
5. Other liabilities				1,214	1,116
6. Deferred income					
a) From issuing and lending business			7		9
b) Other			32		22
				39	31
7. Provisions					
a) Provisions for pensions and other employee benefits			–		–
b) Provisions for taxes			35		57
c) Other provisions			493		566
				528	623
8. Subordinated debt				2,443	2,441
9. Profit participation capital				180	856
of which: due within two years	112				(697)
10. Fund for general banking risks				2,426	2,426
of which: special reserve in accordance with section 340e(4) HGB	7				(6)
11. Equity					
a) Issued capital			547		547
b) Capital contributions by typical silent partners			20		20
c) Share premium			1,271		1,090
d) Retained earnings			1,083		1,083
e) Net retained profit for the period			–		–
				2,921	2,740
Total equity and liabilities				126,755	128,359

1. Contingent liabilities					
a) Contingent liabilities from endorsed bills settled with customers			–		–
b) Liabilities from guarantees and indemnity agreements[1]			754		769
c) Liabilities from the provision of collateral for third-party liabilities			–		–
				754	769
2. Other commitments					
a) Repurchase obligations from non-genuine securities repurchase agreements			–		–
b) Placement and underwriting obligations			–		–
c) Irrevocable loan commitments			6,693		5,170
				6,693	5,170

[1] Commitments under letters of comfort are disclosed under point C. IV. in the notes

INCOME STATEMENT – DEUTSCHE POSTBANK AG, BONN, FOR THE PERIOD FROM JANUARY 1, 2016 TO DECEMBER 31, 2016

Comparative figures from January 1, 2015 to December 31, 2015

Expenses	€m	€m	€m	2016 €m	2015 €m
1. Interest expense			1,178		1,248
less positive interest from money market transactions			–31		–16
				1,147	1,232
2. Fee and commission expense				**526**	328
3. Net expense from the trading portfolio				**–**	1
4. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		480			494
ab) Social security contributions, pensions, and other employee benefits		174			170
of which: for pensions	120				(118)
			654		664
b) Other administrative expenses			1,462		1,566
				2,116	2,230
5. Depreciation, amortization, and writedowns of intangible assets and property and equipment				**22**	28
6. Other operating expenses				**510**	663
7. Writedowns and adjustments to loans and advances and certain securities, and additions to provisions for credit risks				**189**	218
8. Writedowns and adjustments of equity investments, investments in affiliated companies, and securities treated as fixed assets				**300**	52
9. Expenses from loss absorption				**89**	101
10. Taxes on income				**11**	27
of which from change in recognized deferred taxes	8				(12)
11. Other taxes not reported under item 6				**3**	2
12. Profit transferred on the basis of profit pooling, profit transfer, or partial profit transfer agreements				**9**	2
13. Addition to the fund for general banking risks				**–**	155
14. Net profit for the period				**–**	–
Total expenses				**4,922**	5,039

Income	€m	€m	€m	2016 €m	2015 €m
1. Interest income from					
a) Lending and money market transactions		2,776			2,819
less negative interest from lending and money market transactions		−60			−20
			2,716		2,799
b) Fixed-income and book entry securities			565		682
				3,281	3,481
2. Current income from					
a) Equities and other non-fixed-income securities			0		0
b) Equity investments			1		2
c) Investments in affiliated companies			58		23
				59	25
3. Income from profit pooling, profit and loss transfer agreements, or partial profit and loss transfer agreements				70	147
4. Fee and commission income				714	726
5. Net income from the trading portfolio				6	–
of which: appropriated to special reserve in accordance with section 340e(4) HGB	1				(–)
6. Income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets				250	44
7. Other operating income				542	616
Total income				4,922	5,039

	2016 €m	2015 €m
1. Net profit/loss for the period	–	–
2. Net retained profit/net accumulated loss for the period	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE POSTBANK AG FOR FISCAL YEAR 2016

A. GENERAL INFORMATION

I. Information on the Company and basis of preparation of the annual financial statements

Deutsche Postbank AG, Bonn, is entered in the commercial register of the Bonn Local Court (Amtsgericht Bonn) under HRB 6793. The annual financial statements of Deutsche Postbank AG (Postbank) have been prepared in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code), as amended by the *Bilanzrichtlinie-Umsetzungsgesetz* (BilRUG – German Accounting Directive Implementation Act), the *Aktiengesetz* (AktG – German Stock Corporation Act), the *Pfandbriefgesetz* (PfandBG – German *Pfandbrief* Act), as well as the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Regulation); they cover the period from January 1 to December 31, 2016.

II. Accounting policies

1. General information

Essentially, the accounting policies were applied in the same way as in the previous year.

In order to present the product results appropriately, expenses of €176 million incurred in connection with the brokerage of mortgage lending loans were recognized in fee and commission expense in the year under review. These were previously recognized in other administrative expenses.

In contrast to the previous year, the balance sheet and income statement amounts for the year under review were presented in millions of euros for reasons of clarity and transparency.

2. Accounting policies

Current assets

The cash reserve, loans and advances to other banks and customers, trust assets, and other assets are carried at their principal amounts. Purchased loans and advances are recognized at cost. The registered securities and promissory note loans included in loans and advances to other banks and customers are measured at their principal amounts plus deferred interest in accordance with section 340e(2) sentence 1 of the HGB. Differences between the principal amounts and cost – to the extent that interest is involved – are reported under deferred income/prepaid expenses and reversed to profit or loss on a pro rata basis over the term of the loans.

All discernible individual risks in the lending business as well as country risks are adequately reflected by recognizing specific valuation allowances and provisions. General valuation allowances are recognized for potential risks from loans and advances. A fund for general banking risks has also been set up in accordance with section 340g of the HGB.

Bonds and other fixed-income securities, as well as equities and other non-fixed-income securities classified as current assets (with the exception of the trading portfolio) are recognized at historical cost, taking into account the strict principle of lower of cost or market value and the requirement to reverse writedowns (section 340e(1) sentence 2 in conjunction with section 253(4) sentence 1 of the HGB and section 253(5) sentence 1 of the HGB).

Market data in the form of indicative prices (arranger quotes) are used to the greatest possible extent in order to measure structured credit products (SCPs) such as residential mortgage-backed securities. The synthetic collateralized debt obligations (CDOs) included in these assets are structured products as defined by IDW AcP HFA 22 and are presented separately in the balance sheet.

Hedge accounting

Postbank groups assets and liabilities into hedged items, and associated financial instruments held for hedging purposes into hedges in accordance with the requirements of section 254 of the HGB and IDW AcP HFA 35. This takes place in the form of microhedges, the aim being to hedge changes in the value of hedged items arising from fluctuations in market interest rates by using hedging instruments with matching amounts, currencies, or maturities. Hedging relationships end when the hedged item or hedging instrument expires or has been sold or exercised, or the requirements for hedge accounting are no longer met.

Effectiveness testing for all hedges is performed prospectively by way of a sensitivity analysis of the hedged item and the hedging instrument. The changes in the fair value of the hedged item attributable to the hedged risk are compared retrospectively with the change in the fair value of the hedging instrument for each hedging relationship. If the changes in fair value offset each other (effective portion), the fair values of both the hedged item and the hedging instrument are reported in other assets/other liabilities (gross hedge presentation method). If they are negative, ineffective changes in the value of the hedging instrument are recognized in provisions for expected losses. Changes in the value of the hedged item that are not attributable to the hedged risk are recognized in accordance with general accounting rules.

When close-out payments received and paid on microswaps whose hedged items are still in the portfolio are reversed, these are offset against the carrying amount of the hedging instrument and, where necessary, against ineffective changes in value recognized in the provision for expected losses. Any remaining amounts are recognized in profit or loss. Changes in the value of the hedged item attributable to the hedged risk that are recognized during the term of the hedging relationship are reversed ratably over the remaining term of the hedged item and, to ensure transparent presentation, reported gross in interest income, not on a net basis as in the previous year.

Determining fair value

Fair value is defined as the amount at which an asset could be exchanged or a liability could be settled between knowledgeable, willing, and independent business partners. If an active market exists for a financial instrument, the fair value is determined by reference to the market or quoted exchange price at the balance sheet date. A market is considered active when market prices are readily and regularly available from a stock exchange, trader, or independent third party, and these market prices are founded on genuine, regular transactions taking place between independent business partners.

If an active market does not exist, fair value is determined using recognized valuation techniques.

Observable market data is used to the greatest possible extent when determining fair values using valuation techniques. In most cases, Postbank utilizes discounted cash flow analysis, which mainly uses yield and spread curves (credit spreads, basis spreads) as inputs. In addition, CDS spreads and hazard rates are used to value credit derivatives. Option pricing models also use share prices, index prices, and volatilities as inputs.

Trading portfolio
Postbank allocates individual financial instruments to the trading portfolio on the basis of internal guidelines and processes. Postbank's criteria for including transactions in the trading book in accordance with Article 102ff. of the Capital Requirements Regulation (CRR) and the provisions of section 340e of the HGB are applied here. The criteria used to allocate financial instruments to the trading portfolio did not change in the fiscal year under review.

Postbank's trading portfolio mainly comprises derivative financial instruments and is presented in the "trading portfolio" balance sheet item under assets or liabilities, as applicable.

Derivative netting is applied when settling derivative transactions via a central counterparty. In this case, the positive and negative fair values are offset or netted against the variation margin received or paid.

Interest income and expense from non-derivative financial instruments in the trading portfolio are reported in net interest income.

Financial instruments in the trading portfolio are measured at fair value less a risk discount in accordance with section 340e(3) of the HGB.

The risk discount was calculated using the value-at-risk method (ten-day holding period, 99 % confidence level, one-year historical analysis period), taking the correlations between risk factors and portfolios into account. As part of risk-adjusted marking-to-market as of December 31, 2016, a risk discount of €2 million (previous year: €8 million) was determined for Postbank's trading portfolio.

In addition to the aforementioned risk discount, credit value/debt value adjustments on the risk relating to the parties involved in the financial instrument of €4 million (previous year: €5 million) were taken into account for OTC derivatives. Both these discounts were carried as net expenses from the trading portfolio and recognized separately in the Notes in the "trading portfolio" balance sheet item under assets.

Additions to be made pursuant to section 340e(4) of the HGB to the special "fund for general banking risks" item under section 340g of the HGB are recognized in net income from the trading portfolio.

Derivatives in the non-trading portfolio
Derivatives (in particular interest rate swaps, interest rate futures, forward rate agreements, and equity and index derivatives) that are not allocated to the trading portfolio are treated as executory contracts in accordance with the applicable principles.

Gains or losses on derivatives in the non-trading portfolio are generally recognized in net interest income. If the derivatives serve the purpose of preparing for acquisitions, the results are recognized in "writedowns and adjustments to loans and advances and certain securities, and additions to provisions for credit risks."

If negative changes in value are established in the course of subsequent measurement, derivatives are accounted for in the balance sheet in accordance with the established accounting convention at banks (banking book measured at net realizable value).

Options for which Postbank is the beneficiary are initially measured in the amount of the option premium paid. They are reported in "other assets" or in "equities and other non-fixed-income securities" if they are warrants. They are subsequently measured in accordance with the general measurement rules for current assets under section 340e(1) sentence 2 of the HGB.

Paid initial margins are included in "other assets" (and received initial margins in "other liabilities"). If securities are pledged to hedge derivatives, they continue to be reported by Postbank as the legal and beneficial owner.

Repurchase transactions
Genuine repurchase transactions are accounted for in accordance with section 340b(4) of the HGB. Securities lent are still reported in Postbank's balance sheet, as the beneficial ownership here has not changed. Securities borrowed are not reported in the balance sheet.

Receivables and liabilities with matching maturities, currencies and the same depositories and counterparties are offset in the area of collateralized money market trading, provided the conditions for offset are met. The net amount after offsetting is reported in the balance sheet.

Negative interest
Negative interest from asset-side money market and repurchase transactions is reported atypically as interest income. Positive interest from negative money market and repurchase transactions is reported atypically as interest expense. In the case of derivative financial instruments, cash flows are presented on a net basis per derivative in the same way as in a normal interest rate environment. Negative interest of €60 million was reported as interest income and positive interest of €31 million as interest expense in the reporting period.

Fixed assets
In accordance with section 340e(1) of the HGB in conjunction with section 253(3) sentence 3 of the HGB, securities recognized as fixed assets are measured using the less strict principle of lower of cost or market value. They are written down to their fair value if permanent impairment is deemed likely. The differences between cost and settlement amount (premiums/discounts) are amortized ratably.

In accordance with section 340e(1) sentence 1 of the HGB, equity investments including investments in affiliated companies as well as operating and office equipment are measured using the rules applicable to fixed assets.

Shares in PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen (PB Spezialinvest) are reported under investments in affiliated companies and measured as current assets to ensure continuity and consistency of measurement.

Intangible assets
Purchased intangible assets are recognized at cost less amortization and, where applicable, writedowns. Amortization reflects the actual useful lives of the assets.

Property and equipment
Purchased property and equipment are recognized at cost less depreciation and, where applicable, writedowns. Depreciation reflects the actual useful lives of the assets.

Ongoing maintenance and acquisition costs of up to €150 are expensed in full as incurred. Replacement part costs for property and equipment are capitalized.

Low-value assets up to €410 are immediately recognized as an expense in the year of acquisition.

Deferred taxes
Postbank exercises the recognition and offsetting option as provided for by section 274(1) sentences 2 and 3 of the HGB.

As Postbank is a member of Deutsche Bank AG's consolidated tax group, deferred taxes are recognized for foreign branches only. No income tax allocation agreement has been entered into with the tax group parent.

Liabilities
Liabilities are carried at their settlement amount. Premiums/discounts are reported under deferred income/prepaid expenses and reversed to profit or loss. Zero coupon bonds issued are recognized at their issue amount, plus pro rata interest up to the balance sheet date. The pro rata interest on zero coupon bonds added to the carrying amount is amortized using the effective interest method.

Provisions
Provisions for pensions and other employee benefits are calculated by independent actuaries in accordance with actuarial principles based on the projected unit credit method.

The calculation is based on the following actuarial assumptions:

	Dec. 31, 2016	Dec. 31, 2015
Discount rate	4.01 %	3.89 %
Salary growth	1.90 %	2.10 %
Pension growth	1.60 %	1.50 %
Fluctuation	4.0 % p.a.	4.0 % p.a.
Pensionable age	60–63 years	60–63 years
Mortality, disability, etc.	Heubeck tables 2005G	Heubeck tables 2005G

The amendment of section 253(2) of the HGB in 2016 extended the period used to calculate the average discount rate from seven to ten years. The difference between measurement using the ten-year average and measurement using the seven-year average is subject to the restriction on distribution (see section C. I. Restriction on distribution).

When discounting, Postbank uses the discount rate calculated and published by the Deutsche Bundesbank for an assumed remaining maturity of 15 years.

The plan assets used to cover pension obligations were measured at fair value in accordance with section 253(1) sentence 4 of the HGB, and offset against the corresponding pension provisions. The resulting excess assets are reported in the item "excess of plan assets over pension liabilities."

Income and expense arising from the discounting of pension provisions were offset against income and expense from plan assets in accordance with section 246(2) sentence 2 of the HGB.

Provisions for taxes and other provisions are recognized at the settlement amount in accordance with section 253(1) sentence 2 of the HGB. Other provisions with a remaining maturity of more than one year (not including provisions for expected losses on derivative transactions) are discounted using the discounting rates made available by the Deutsche Bundesbank in accordance with the *Rückstellungsabzinsungsverordnung* (German Discounting of Provisions Regulation). In subsequent periods, expenses (income) from interest accrued on (discounting) provisions are recognized as interest expense (interest income) for banking transactions and as other operating expenses (other operating income) for other transactions.

Measurement of the banking book at net realizable value
Postbank compares the present value according to the interest rate book with the carrying amount under German GAAP when it measures net realizable value as of December 31 every year. In doing so, it includes interest rate derivatives entered into for interest rate risk management in the banking book. A provision for expected losses in accordance with section 340a in conjunction with section 249(1) of the HGB in the amount of the difference is recognized if the present value is lower than the carrying amount. In fiscal year 2016, it was not necessary to recognize any such provision.

Currency translation
In accordance with section 256a of the HGB, assets and liabilities denominated in foreign currency are translated into euros at the middle spot rate prevailing at the reporting date. Forward contracts still open at the balance sheet date are measured at the forward rate prevailing at the balance sheet date. In the case of foreign currency transactions in the banking book, the forward rate is always split into its constituent components and the swap points are accrued.

Gains and losses on the translation of hedged balance sheet items and corresponding executory contracts are offset by recognizing adjustment items.

Balance sheet items and executory contracts denominated in foreign currency are classified and measured as separately covered in each currency because they are managed in the aggregate by Treasury and because strategic currency positions are not used (section 340h in conjunction with section 256a of the HGB). All gains and losses from currency translation are recognized net in other operating income/expenses. There was no requirement to eliminate any of the income because the items existing at the balance sheet date had been established recently due to the high turnover rate.

III. Information on investors and investees

The parent company of Deutsche Postbank AG, Bonn, is DB Finanz-Holding GmbH, Frankfurt am Main, which has been a wholly-owned subsidiary of DB Beteiligungs-Holding GmbH, Frankfurt am Main since December 2016. DB Beteiligungs-Holding GmbH is in turn a wholly-owned subsidiary of Deutsche Bank AG, Frankfurt am Main. The Postbank subgroup companies are included in Deutsche Postbank AG's subgroup consolidated financial statements and Deutsche Bank AG's consolidated financial statements.

The consolidated financial statements of Deutsche Postbank AG and Deutsche Bank AG are published in the Federal Gazette.

A control and profit and loss transfer agreement exists between Postbank, as the dependent company, and DB Finanz-Holding GmbH, Frankfurt am Main.

IV. Regulatory capital ratios

Postbank measures and reports its regulatory capital and the risk-weighted assets in accordance with the requirements of the CRR/CRD IV at individual bank level. Postbank fulfilled the regulatory capital requirements at all times in 2016.

The following ratios applied as of December 31, 2016:

	Dec. 31, 2016[1] €m	Dec. 31, 2015[2] €m
Credit and counterparty risk (including CVA)	40,722	41,372
Market risk positions	44	26
Operational risk	5,005	5,263
Total risk-weighted assets	45,771	46,661
regular phased-in:		
Common Equity Tier 1 capital (CET1)	5,028	4,953
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital	5,028	4,953
Tier 2 capital	2,137	2,291
Own funds	7,165	7,244
	%	%
CET 1 capital ratio	11.0	10.6
Tier 1 ratio	11.0	10.6
Total capital ratio	15.7	15.5
fully phased-in:		
CET1 capital ratio	10.6	10.2
Tier 1 ratio	10.6	10.2
Total capital ratio	15.3	15.2

[1] Subject to the adoption of the annual financial statements as of December 31, 2016.
[2] On the basis of the audited annual financial statements as of December 31, 2015.

The ratios reported as of December 31, 2016 are based on the audited figures published in the annual financial statements as of December 31, 2015. Thus, the regular phased-in Common Equity Tier 1 capital ratio amounted to 10.8 %, while the regular phased-in total capital ratio amounted to 15.4 %.

B. BALANCE SHEET AND INCOME STATEMENT DISCLOSURES

I. Balance sheet disclosures

Assets

(1) Loans and advances to other banks

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	18,297	22,714
thereof:		
to affiliated companies	8,300	14,463
to long-term investees and investors	–	–
used as coverage for bonds issued	23	23
Remaining maturities:		
payable on demand	5,564	1,388
up to 3 months	5,436	10,526
> 3 months, ≤ 1 year	3,481	6,009
> 1 year, ≤ 5 years	3,254	4,329
more than 5 years	562	462

The balance sheet as of December 31, 2015 included margin payments made (€680 million; remaining maturity: payable on demand), which have been reported in the "other assets" item since fiscal year 2016.

(2) Loans and advances to customers

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet[1]	73,345	68,589
thereof:		
to affiliated companies	3,579	2,793
to long-term investees and investors	12	20
used as coverage for bonds issued	13,485	13,578
Remaining maturities:		
up to 3 months	3,657	5,528
> 3 months, ≤ 1 year	6,396	5,661
> 1 year, ≤ 5 years	28,270	24,552
more than 5 years	32,545	30,375
without fixed maturity	2,477	2,473

[1] As of fiscal year 2016, the "loans and advances to customers" balance sheet item does not include loans and advances of €102 million, because a pass-through arrangement has been entered into for these loans (see "(13) Deposits from other banks").

(3) Bonds and other fixed-income securities

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	24,154	26,775
thereof:		
to affiliated companies	3,032	3,409
to long-term investees and investors	–	–
negotiable and listed securities	23,697	26,307
negotiable and unlisted securities	450	461
amounts due in the following year	4,272	3,950
used as coverage for bonds issued	4,316	5,574
negotiable securities not measured at the lower of cost or market value	6,107	8,177

Negotiable securities that are not measured at the lower of cost or market value are distinguished from those that are measured at the lower of cost or market value by means of general ledger accounts and inputs defined for the relevant portfolio.

(4) Trading portfolio

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	279	520
thereof:		
Derivatives	284	532
Receivables	–	–
Bonds and other fixed-income securities	1	1
Equities and other non-fixed-income securities	–	–
Other assets	–	–
Risk discount	–6	–13

(5) Equity investments

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	30	20
thereof:		
negotiable and listed securities	3	9
negotiable and unlisted securities	0	0

(6) Investments in affiliated companies

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	5,666	5,619
thereof:		
negotiable and listed securities	–	–
negotiable and unlisted securities	1,573	1,664

(7) Trust assets

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	381	441
thereof:		
Loans and advances to other banks	1	1
Loans and advances to customers	380	440

(8) Property and equipment

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	356	367
thereof:		
Land and buildings used in Postbank's own operations	311	333
Operating and office equipment	16	19

(9) Other assets

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	2,152	1,782
thereof:		
to affiliated companies	129	356
to long-term investees and investors	–	–
therein:		
Margin payments made	951	–
Derivative hedging instruments	806	1,176
Receivables arising from non-banking business	73	222
Receivables arising from profit and loss transfer agreements with affiliated companies	70	147
Claims to tax reimbursement	67	58
Claims to reimbursement from payment protection insurance	59	73
Claims to reimbursement from life insurance	39	48
Adjustment item from currency translation	19	–

The margin payments made as of December 31, 2015 (€680 million) were included in “loans and advances to other banks.”

The derivative hedging instruments reported under other assets represent effective positive changes in the value of the hedging instruments in the context of hedge accounting using the gross hedge presentation method.

Of the receivables arising from non-banking business, €10 million is attributable to a receivable in connection with the collateralization of the irrevocable payment obligation arising from the annual contribution for 2016 to the restructuring fund of the Bundesanstalt für Finanzmarktstabilität (FMSA – German Financial Market Stabilization Agency).

(10) Prepaid expenses

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	326	274
thereof:		
Premiums from receivables in acc. with section 340e(2) sentence 3 HGB	267	206
Discounts from liabilities in acc. with section 250(3) HGB	30	35
Investment allowances	1	2

(11) Deferred tax assets

Deferred tax assets in respect of domestic business have not been recognized since fiscal year 2012 as Postbank is a member of Deutsche Bank AG’s consolidated tax group. As of the balance sheet date, there were no deferred taxes at the Luxembourg branch (previous year: €8 million).

(12) Excess of plan assets over post-employment benefit liabilities

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	332	234
Fair value of plan assets	1,223	1,120
Settlement amount of pension obligations	891	886
Excess cover of plan assets over post-employment benefit liabilities (excess of plan assets)	332	234
Cost of plan assets	923	896
Offset amounts		
Interest cost of pension provisions	34	35
Gain (+)/expense (–) from the change in the discount rate	17	–79
Income from plan assets	103	4

The fair value of the plan assets is calculated on the basis of the fair values of the fund units held by Treuinvest e.V., Frankfurt am Main.

Equity and liabilities

(13) Deposits from other banks

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet[1]	11,751	14,671
thereof:		
to affiliated companies	3,295	5,713
to long-term investees and investors	–	–
Remaining maturities:		
payable on demand	602	578
up to 3 months	3,234	5,897
> 3 months, ≤ 1 year	961	487
> 1 year, ≤ 5 years	3,553	4,031
more than 5 years	3,401	3,678

[1]As of fiscal year 2016, the "deposits from other banks" balance sheet item does not include deposits of €102 million, because a pass-through arrangement has been entered into for the associated loans (see "(2) Loans and advances to customers").

The balance sheet as of December 31, 2015 included margin payments received (€93 million; remaining maturity: payable on demand; of which €14 million to affiliated companies), which have been reported in the "other liabilities" item since fiscal year 2016.

(14) Due to customers

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	101,399	99,378
thereof:		
to affiliated companies	1,819	470
to long-term investees and investors	5	4
Remaining maturities:		
Sub-items:		
Savings deposits with an agreed withdrawal notice of more than three months	103	113
> 3 months, ≤ 1 year	33	36
> 1 year, ≤ 5 years	70	77
more than 5 years	0	0
Other amounts due to customers with an agreed maturity or withdrawal notice and registered mortgage *Pfandbriefe* issued, registered public-sector *Pfandbriefe* issued and registered bonds (mixed cover)	15,793	14,837
up to 3 months	2,459	752
> 3 months, ≤ 1 year	2,432	711
> 1 year, ≤ 5 years	5,915	6,593
more than 5 years	4,987	6,781

(15) Debt securities in issue

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	3,366	3,475
thereof:		
to affiliated companies	–	–
to long-term investees and investors	–	–
Remaining maturities:		
Sub-items:		
Bonds issued	3,366	3,475
thereof: amounts due in the following year	61	78

(16) Trading portfolio

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	107	161
thereof:		
Derivatives	107	161

(17) Trust liabilities

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	381	441
thereof:		
Due to customers	381	441

(18) Other liabilities

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	1,214	1,116
thereof:		
to affiliated companies	150	174
to long-term investees and investors	–	–
therein:		
Derivative hedging instruments	740	725
Liabilities arising from non-banking business	175	209
Margin payments received	126	–
Tax liabilities	12	15
Value-added tax liabilities to Deutsche Bank AG	2	5
Adjustment item from currency translation	–	17

The margin payments received as of December 31, 2015 (€93 million) were included in "deposits from other banks."

The derivative hedging instruments reported under other liabilities represent effective negative changes in the value of the hedging instruments in the context of hedge accounting using the gross hedge presentation method.

Liabilities from non-banking business mainly concern commissions in the amount of €33 million arising from the service framework agreement with PB Firmenkunden AG, as well as the absorption of losses of €49 million from Postbank Filialvertrieb AG, €25 million from Postbank Systems AG, and €15 million from BHW Holding AG under the contractual arrangements with these companies. Liabilities of €9 million to DB Finanz-Holding GmbH relate to the control and profit and loss transfer agreement.

(19) Deferred income

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	39	31
thereof:		
Discount from hedged securities	14	17
Discounts from receivables in acc. with section 340e(2) sentence 2 HGB	4	6
Issue costs/premiums on bonds issued	2	2

(20) Provisions

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	528	623
Sub-items:		
Other provisions	493	566
Provisions for credit risks	48	47
Staff-related provisions	174	237
Provisions for anticipated losses on derivatives	35	36
Other provisions	236	246

The interest cost added back to other provisions amounted to €1 million (previous year: €2 million) in fiscal year 2016. Of this amount, €1 million was attributable to non-banking provisions, as in the previous year.

(21) Subordinated debt

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	2,443	2,441
thereof:		
to affiliated companies	1,631	1,608
thereof to long-term investees and investors	–	–

Subordinated debt ranks equally with all other subordinated liabilities; in the event of bankruptcy or liquidation, it may be paid back only after all non-subordinated creditors have been satisfied. A premature repayment obligation cannot arise. Conversion into capital or into another form of debt does not form part of the contract.

As of the balance sheet date, the following borrowings exceeded 10 % of total subordinated debt:

ISIN	Currency	Amount	Interest rate	Due
XF0002431657	€	300,027,000	variable	Dec. 2, 2034
XF0002431707	€	500,027,000	variable	Dec. 23, 2034
XF0002431756	€	300,027,000	variable	June 7, 2035
XF0002432002	€	500,076,000	5.991 %	June 29, 2037

Expenses for subordinated debt (including proportionate interest and premiums) amounted to €95 million in fiscal year 2016 (previous year: €97 million).

(22) Profit participation capital

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Presentation in the balance sheet	180	856
thereof:		
Bearer profit participation certificates outstanding	–	500
Registered profit participation certificates outstanding	180	356

Profit participation capital declined due to maturities.

(23) Fund for general banking risks

	Dec. 31, 2015 €m	Additions in acc. with section 340g HGB €m	Additions in acc. with section 340e(4) HGB €m	Dec. 31, 2016 €m
Fund for general banking risk[1]	2,426	–	1	2,426

[1]The individual figures have been rounded. This may result in minimal deviations in the totals provided.

(24) Equity

	Dec. 31, 2015 €m	Changes €m	Dec. 31, 2016 €m
Issued capital	547	–	547
Contributions by typical silent partners	20	–	20
Share premium	1,090	181	1,271
Retained earnings			
Statutory reserve	–	–	–
Other retained earnings	1,083	–	1,083
Net retained profit for the period	–	–	–
Equity under German GAAP	**2,740**	**181**	**2,921**

Postbank's issued capital amounts to €547 million and is composed of 218,800,000 no-par value registered shares.

Based on the principal amount of their capital contributions, the typical silent partners receive a share of profits for every fiscal year in the amount of the percentage that Postbank uses to calculate the dividend payment on its share capital, including disclosed reserves. The percentage is limited in each case by minimum and maximum rates.

In fiscal year 2016, DB Finanz-Holding GmbH paid €143 million and Deutsche Bank AG paid €38 million into the share premium of Postbank.

Authorized capital

The Management Board is authorized, with the consent of the Supervisory Board, to increase the Bank's share capital on one or more occasions in whole or in part by up to a total of €218.8 million up to May 27, 2018, by issuing new no-par value registered shares against cash and non-cash contributions, including mixed non-cash contributions (Authorized Capital I). The shareholders must be granted preemptive rights as a general rule. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

The Management Board is further authorized, with the consent of the Supervisory Board, to increase the Bank's share capital on one or more occasions in whole or in part by up to a total of €54.7 million up to May 27, 2018, by issuing new no-par value registered shares against cash contributions (Authorized Capital II). The shareholders must be granted preemptive rights as a general rule. The resolution also provides the opportunity for simplified disapplication of preemptive rights in accordance with section 186(3) sentence 4 of the AktG. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

Additional details on Authorized Capital I and II can be found in Article 4(6) and (7) of the Articles of Association.

Contingent capital

The Management Board is authorized by way of a resolution of the Annual General Meeting under the terms of agenda item 9a on July 9, 2014 to issue, on one or more occasions in the period up to July 8, 2019, profit participation certificates, hybrid bonds, and convertible bonds or bonds with warrants. The aggregate principal amount may not exceed €3 billion. The options or conversion rights may only be issued for shares of the Company with a notional interest in the share capital of up to €273.5 million.

The share capital has been contingently increased by up to €273.5 million by issuing up to 109.4 million new no-par value registered shares (Contingent Capital). The purpose of the contingent capital increase is to grant rights to the holders of profit participation certificates with warrants or convertible profit participation certificates, convertible bonds, and bonds with warrants attached to the profit participation certificates and/or convertible bonds and bonds with warrants to be issued under agenda item 9a by the Company or by its affiliated companies, on the basis of the authorization granted to the Management Board by resolution of the Annual General Meeting on July 9, 2014. The contingent capital increase may only be implemented in the period up to July 8, 2019 to the extent that these rights are exercised or that the holders fulfill their conversion obligation.

The new shares are issued at the option or conversion price to be calculated in each case in accordance with the aforementioned authorization. The new registered shares shall carry dividend rights from the beginning of the fiscal year in which they are created as a result of conversion or option rights being exercised or conversion obligations being fulfilled. The Management Board is authorized to determine the further details of the implementation of the contingent capital increase. Additional details on the contingent capital can be found in Article 4(8) of the Articles of Association.

II. Additional balance sheet disclosures

(1) Fixed assets

	Historical cost	Additions	Disposals	Reclassif-ications	Currency translation gains/losses	Historical cost	Cumulative depreciation, amortiza-tion, writedowns	Carrying amount	Carrying amount
	Jan. 1, 2016	in fiscal year				Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Investment securities									
Bonds and other fixed-income securities	8,076	649	–2,596	–	2	6,131	–17	6,114	8,184
thereof hedge accounting	3,002	–	–391	–1,323	–	1,288	–	1,288	3,002
Equity investments	60	16	–27	–	1	50	–20	30	20
Investments in affiliated companies	7,371	709	–726	–	–	7,354	–1,688	5,666	5,619
Intangible assets	33	–	–27	–	–	6	–6	0	0
Property and equipment	818	9	–20	–	–	807	–451	356	367
Total	**16,358**	**1,383**	**–3,396**	**–**	**3**	**14,348**	**–2,182**	**12,166**	**14,190**

In contrast to the previous year, accrued or deferred interest was not included in the changes in bonds and other fixed-income securities in the statement of changes in fixed assets.

Changes in cumulative depreciation, amortization, and writedowns of fixed assets:

	Cumulative depreciation, amortization, writedowns	Depreciation	Reversals of impairment losses	Additions	Disposals	Reclassifications	Cumulative depreciation, amortization, writedowns
	Jan. 1, 2016	in fiscal year					Dec. 31, 2016
	€m	€m	€m	€m	€m	€m	€m
Investment securities							
Bonds and other fixed-income securities	–17	–	–	–	–	–	–17
Equity investments	–40	–	–	–	20	–	–20
Investments in affiliated companies	–1,752	–298	6	–	356	–	–1,688
Intangible assets	–33	0	–	–	27	–	–6
Property and equipment	–451	–22	2	–	20	–	–451
Total	**–2,293**	**–320**	**8**	**–**	**423**	**–**	**–2,182**

The following securities are carried at fair value because an impairment loss in accordance with section 253(3) sentence 6 of the HGB was not recognized:

	Carrying amount	Fair value	Carrying amount	Fair value
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2015 €m
Bonds	1,431	1,375	2,147	2,087

The issuers of the bonds are governments, banks, and other companies with good or very good credit ratings. Postbank intends to hold these securities as long-term investments and expects full repayment on maturity.

Additions of bonds and other fixed-income securities mainly relate to securities of affiliated companies, while disposals mainly relate to several bullet bonds with a nominal volume of €512 million and the sale of 13 bonds with a carrying amount of €2,117 million.

Premiums of €–39 million were reversed to income and derecognized in fiscal year 2016. Credit/debt value adjustments in the amount of €73 million were recognized for current and terminated hedges as a result of the application of the gross hedge presentation method.

Additions to and disposals of investments in affiliated companies include the capital increase at the subpool of assets 8 as well as the reacquisition of the equity interests in the service companies Betriebs-Center für Banken AG, Postbank Direkt GmbH, Postbank Service GmbH, BHW Kreditservice GmbH, and VÖB-ZVD Processing GmbH from PBC Banking Services GmbH with effect from January 1, 2016, and the simultaneous sale of Postbank's shares in PBC Banking Services GmbH to Deutsche Bank Privat- und Geschäftskunden AG.

Additions to and disposals of equity investments mainly relate to the sale of shares in Visa Europe Ltd., in the course of which Postbank received shares in Visa Inc., Foster City, U.S.A., as well as the reduction in an equity investment based on a sales cooperation.

(2) Investment funds

Units in domestic investment funds in accordance with section 285 no. 26 of the HGB:

Fund Name	Investment objective	Fair value	Carrying amount	Difference between fair value/carrying amount	Dividend payment
		Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m	2016 €m
PB Spezialinvest					
TGV PB 02	Bond funds	512	468	44	8
TGV PB 08	Bond funds	855	775	80	11
TGV PB 09	Bond funds	581	529	52	21
TGV PB 11	Mixed fund	684	609	75	4
TGV PB 13	Bond funds	367	333	34	4
TGV PB 14	Bond funds	367	333	34	6
TGV PB 21	Bond funds	227	193	34	3
TGV PB 26	Bond funds	310	300	10	1

All subpools of assets may be redeemed daily. They are reported in "investments in affiliated companies". The subpools of assets are measured as current assets to ensure continuity and consistency of measurement.

(3) Genuine repurchase agreements

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Carrying amount of the assets purchased under repurchase agreements	2,885	5,971

(4) Hedge accounting

The following table shows the carrying amounts at which hedged items were grouped into hedges, along with the corresponding risk being hedged by this means:

	Carrying amount	Hedged item hedged against	Hedging instruments	Change in fair value of hedged item	Change in fair value of hedging instruments
	Dec. 31, 2016 €m			€m	€m
Assets	13,013	interest rate risk	interest rate swaps	59	−59
Liabilities	−7,496	interest rate risk	interest rate swaps	45	−45

Changes in the value of the hedged items and of the hedging instruments virtually balanced each other out as of the balance sheet date. Future interest rate-related changes in the value of the hedged items are likely to be balanced out by changes in the value of hedging instruments with matching maturities until the hedged items mature. Executory contracts and transactions that are highly likely to materialize were not grouped into hedges as hedged items.

(5) Foreign currency amounts

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Translated into euros:		
from assets denominated in foreign currency	3,151	3,023
from liabilities denominated in foreign currency	3,147	3,012

(6) Forward contracts

Postbank primarily uses derivatives to hedge exposures as part of its asset/liability management policy, as well as to manage foreign currency exposure. In addition, a small number of derivative financial transactions is allocated to the trading portfolio.

The volume of unsettled derivatives subject to settlement risk, and currency, interest, and/or market risk from open and (in the case of counterparty credit risk) from closed positions amounted to €161 billion as of December 31, 2016.

The disclosures in the following tables are based on the requirements of section 285 nos. 19 and 20 of the HGB in connection with section 36 of the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Regulation). The notional amounts shown represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

The fair values of the individual contracts were calculated using the valuation techniques described in the accounting policies. Credit/debt value adjustments were also taken into account for derivatives carried in the banking book.

A rise in the market interest rate by one basis point would lead to an increase in the fair value of interest-based derivative financial instruments of approximately €6.846 million (previous year: €4.457 million).

Derivatives (non-trading portfolio) not recognized at fair value

Broken down by volume	Notional amounts	Carrying amounts	Positive fair values	Negative fair values
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Interest rate risk				
OTC products				
Interest rate swaps	69,929	–	2,526	–2,984
FRAs	–	–	–	–
Interest rate options	0	–	1	–78
Swaptions (long)	3	–	0	–
Swaptions (short)	43	–	–	0
Caps, floors	1,779	–	3	–4
Other interest rate forwards	–	–	–	–
Exchange-traded products				
Interest rate futures (Bund, Bobl, Schatz)	–	–	–	–
Interest rate options (Bund, Bobl, Schatz)	–	–	–	–
Subtotal	**71,754**	**–**	**2,530**	**–3,066**
Currency risk				
OTC products				
Currency forwards/swaps	5,001	–	44	–40
Cross-currency swaps	872	–	137	–34
Currency options (long)[1]	457	–	10	–
Currency options (short)[1]	428	–	–	–10
Other currency forwards	–	–	–	–
Exchange-traded products				
Currency futures	–	–	–	–
Currency options	–	–	–	–
Subtotal	**6,758**	**–**	**191**	**–84**
Equity and other price risk				
OTC products				
Equity forwards	–	–	–	–
Equity/index options (long)	–	–	–	–
Equity/index options (short)	–	–	–	–
Other equity/index contracts	–	–	–	–
Exchange-traded products				
Equity/index futures	–	–	–	–
Equity/index options	–	–	–	–
Subtotal	**–**	**–**	**–**	**–**
Credit derivatives				
Calls	–	–	–	–
Puts	–	–	–	–
Subtotal	**–**	**–**	**–**	**–**
Total	**78,512**	**–**	**2,721**	**–3,150**

[1]Including gold options, which are recognized under currency risk

Derivatives (non-trading portfolio) not recognized at fair value

Remaining maturities	Interest rate risk	Currency risk[1]	Equity and other price risk	Credit derivatives
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Remaining maturities				
less than 3 months	1,176	4,468	–	–
3 months to 1 year	4,930	1,096	–	–
1 year to 5 years	39,587	641	–	–
more than 5 years	26,061	553	–	–
Total	71,754	6,758	–	–

[1]Including gold options, which are recognized under currency risk

Derivatives (non-trading portfolio) not recognized at fair value

Broken down by counterparty	Notional amounts	Positive fair values	Negative fair values
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Counterparties			
Banks in OECD countries	73,257	2,501	−3,096
Banks outside OECD countries	–	–	–
Other counterparties	5,255	220	−54
Total	78,512	2,721	−3,150

Derivatives (trading portfolio) recognized at fair value

Broken down by volume	Notional amounts	Carrying amounts	Positive fair values	Negative fair values
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Interest rate risk				
OTC products				
Interest rate swaps	81,774	170	277	– 107
FRAs	–	–	–	–
Interest rate options	–	–	–	–
Swaptions (long)	–	–	–	–
Swaptions (short)	–	–	–	–
Caps, floors	495	0	1	0
Other interest rate forwards	–	–	–	–
Exchange-traded products				
Interest rate futures (Bund, Bobl, Schatz)	–	–	–	–
Interest rate options (Bund, Bobl, Schatz)	–	–	–	–
Subtotal	82,269	170	278	– 107
Currency risk				
OTC products				
Currency forwards/swaps	–	–	–	–
Cross-currency swaps	–	–	–	–
Currency options (long)[1]	–	–	–	–
Currency options (short)[1]	–	–	–	–
Other currency forwards	–	–	–	–
Exchange-traded products				
Currency futures	–	–	–	–
Currency options	–	–	–	–
Subtotal	–	–	–	–
Equity and other price risk				
OTC products				
Equity forwards	–	–	–	–
Equity/index options (long)	–	–	–	–
Equity/index options (short)	–	–	–	–
Other equity/index contracts	–	–	–	–
Exchange-traded products				
Equity/index futures	–	–	–	–
Equity/index options	–	–	–	–
Subtotal	–	–	–	–
Credit derivatives				
Calls	–	–	–	–
Puts	–	–	–	–
Subtotal	–	–	–	–
Total	82,269	170	278	– 107

[1]Including gold options, which are recognized under currency risk

Derivatives (trading portfolio) recognized at fair value

Remaining maturities	Interest rate risk	Currency risk[1]	Equity and other price risk	Credit derivatives
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Remaining maturities				
less than 3 months	4,813	–	–	–
3 months to 1 year	11,723	–	–	–
1 year to 5 years	46,049	–	–	–
more than 5 years	19,684	–	–	–
Total	**82,269**	–	–	–

[1]Including gold options, which are recognized under currency risk

Derivatives (trading portfolio) recognized at fair value

Broken down by counterparty	Notional amounts	Positive fair values	Negative fair values
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Counterparties			
Banks in OECD countries	82,269	278	– 107
Banks outside OECD countries	–	–	–
Other counterparties	–	–	–
Total	**82,269**	**278**	**– 107**

III. Income statement disclosures

(1) Allowance for losses on loans and advances

Postbank exercises its right under section 340f(3) of the HGB to offset gains and losses on the measurement of its lending business with gains and losses on the measurement of securities in the liquidity reserve. The net expense amounted to €189 million (previous year: €218 million).

The “writedowns and adjustments of equity investments, investments in affiliated companies, and securities treated as fixed assets” item primarily concerns the carrying amount of the investment in BHW Holding AG, which was written down as the impairment is expected to be permanent.

In addition to price gains of €120 million on the sale of securities, the “income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets” item mainly comprises income from the sale of the shares in Visa Europe Ltd. (€104 million) and the reduction in an equity investment based on a sales cooperation (€17 million).

(2) Other operating expenses

	2016 €m	2015 €m
Presentation in the income statement	510	663
therein		
Expense for services rendered by affiliated companies	412	432
Court and litigation costs	54	53
Payments made to Bundesanstalt für Post- und Telekommunikation Deutsche Bundespost	12	11
Offsetting of expenses and income from pension provisions and the plan assets in acc. with section 246(2) sentence 2 HGB	–	110
Expense for legal risk from processing fees for consumer loans	–	2

(3) Taxes on income

The income tax expense of €11 million (previous year: €27 million) is attributable to the taxes that Postbank is still legally required to pay under the control and profit and loss transfer agreement for the branch in Luxembourg, as well as to prior-period taxes.

(4) Other operating income

	2016 €m	2015 €m
Presentation in the income statement	542	616
therein		
Reimbursements of civil servants’ salaries from affiliated companies	175	184
Rental income	91	86
Offsetting of expenses and income from pension provisions and the plan assets in acc. with section 246(2) sentence 2 HGB	86	–
Remuneration for participation in ECB's refinancing program	40	–
Income from the reversal of provisions	33	57
Income from separately covered foreign currency positions	10	23
Compensation payments for termination of IT cooperation	–	101

(5) Breakdown of income by geographical area

The total includes the following items reported on the income statement:

- Interest income
- Current income from equities and other non-fixed-income securities, equity investments, and investments in affiliated companies
- Fee and commission income
- Net income from the trading portfolio
- Other operating income

was generated in the following geographical areas:

	2016 €m	2015 €m
Germany	4,506	4,704
Europe (without Germany)	96	144
Total	4,602	4,848

(6) Auditor’s fee

With regard to the total fee for fiscal year 2016 charged by auditors PricewaterhouseCoopers Aktiengesellschaft in accordance with section 285 no. 17 of the HGB, please refer to the disclosure in Deutsche Postbank AG’s consolidated financial statements, which contain all the relevant figures of Postbank.

(7) Administration and brokerage services

Postbank provides brokerage services in connection with insurance, home savings contracts, and investment fund units under cooperation agreements with HUK Coburg, the Talanx Group, and the DWS Group as well as with BHW Bausparkasse AG.

C. OTHER DISCLOSURES

I. Restriction on distribution

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Amounts subject to a restriction on distribution in acc. with section 268(8) HGB (section 285 no. 28 HGB)		
Difference between cost of plan assets and measurement at fair value	300	224
Recognized internally generated intangible fixed assets	–	–
Deferred taxes recognized	–	8
Total amounts subject to restriction in acc. with section 268(8) HGB	300	232
Difference subject to restriction on distribution in acc. with section 253(6) HGB from the measurement of pension provisions	115	–

Postbank considers the difference in accordance with section 253(6) of the HGB as not restricted from transfer within the meaning of section 301 of the AktG.

The restrictions on distribution do not apply to fiscal year 2016 due to the sufficient availability of equity components that are at least equivalent to the amounts subject to distribution restrictions.

II. Contingent liabilities

The contingent liabilities, reported off-balance sheet, mainly comprise guarantees and warranties to third parties assumed on behalf of customers. They also include, to a minor extent, guarantees in favor of affiliated companies. Corresponding provisions are recognized if it is likely that a contingent liability will be incurred. Contingent liabilities are reported at their respective amounts as of the balance sheet date, less existing cash collateral and provisions.

The actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 18, 2015, on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement are still pending. However, Deutsche Postbank AG considers these actions to be unfounded.

The contingent liabilities include a guarantee in favor of the Luxembourg branch of BHW Bausparkasse AG in the amount of €12 million, unchanged as against the previous year, which will cover the first loss piece of a retail credit portfolio of the BHW Bausparkasse AG branch in Luxembourg.

III. Other commitments

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Irrevocable loan commitments	6,693	5,170
thereof building loans provided	4,175	3,175

The contingent liabilities and other commitments disclosed do not contain any individual amounts of material significance to the overall business activities of Postbank.

The risk of a contingent liability or other commitment being incurred is assessed within the framework of Postbank's credit monitoring process, which is described in the "Monitoring and managing credit risk" section of the risk report in Postbank's management report. As of December 31, 2016, Postbank had credit lines amounting to €13,553 million (previous year: €14,163 million) that can be called immediately.

There were no placement or underwriting obligations as of the balance sheet date.

IV. Other financial obligations

Civil servant pensions

In accordance with section 16 of the *Postpersonalrechtsgesetz* (Deutsche Bundespost Former Employees Act), Postbank pays an annual contribution for civil servant pensions to the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (BAnst PT – German posts and telecommunications agency), Postbeamtenversorgungskasse (PVK – postal civil servant pension fund), in the amount of 33 % of the gross compensation of its active civil servants and of the notional gross compensation of its civil servants on leave of absence who are eligible for pensions. Postbank has no further obligations for benefits paid by the pension fund.

Leases

Future minimum lease payments for non-cancelable operating leases amount to €219 million.

Additional funding obligation

The existing additional funding obligations derive from statutory provisions and other arrangements.

There are additional funding obligations in respect of the deposit protection fund of the Bundesverband deutscher Banken e.V., Berlin, in the amount laid down in its statutes, as well as in respect of the Entschädigungseinrichtung deutscher Banken GmbH, Berlin, the mandatory compensation scheme for all CRR institutions in Germany, on the basis of the provisions of the *Einlagensicherungsgesetz* (German Deposit Protection Act) and the *Anlegerentschädigungsgesetz* (German Investor Compensation Act).

In the above cases, there is a risk that the Bank has to meet the obligations concerned but this is offset by the opportunity to participate in the stabilization and development of confidence in the private commercial banking sector in Germany.

Early retirement scheme and severance payments
In addition to the provisions recognized in 2015, each company must bear the risk for the remaining budget for the voluntary early retirement scheme and the severance payments, jointly announced in 2015 with Postbank Filialvertrieb AG and for the resulting termination benefits. This amounted to €27 million as of December 31, 2016 (previous year €41 million).

Restructuring fund
The annual contribution for 2016 (€10 million) to the restructuring fund was made under the irrevocable payment obligation and collateralization agreement.

Statutory deposit guarantee scheme
The irrevocable payment obligation of €18 million to Entschädigungseinrichtung deutscher Banken GmbH, Berlin, which forms part of the annual contribution to the statutory deposit protection scheme, was secured by a security.

Letters of comfort
The letters of comfort issued in favor of subsidiaries and creditors of subsidiaries of Postbank primarily lead to benefits for the subsidiaries in the form of improved terms and conditions for business and finance. Postbank profits from these benefits since they have a positive impact on the enterprise value of the subsidiary concerned. Conversely, there is the possibility of the creditors having recourse against Postbank.

Postbank ensures that, with the exception of political risk, its PB Factoring GmbH (Bonn) and BHW Bausparkasse AG (Hameln) subsidiaries will be able to meet their obligations.

Postbank has issued subordinated letters of comfort in connection with the issuance of subordinated bonds by Deutsche Postbank Funding LLC I, Deutsche Postbank Funding LLC II, Deutsche Postbank Funding LLC III, and Deutsche Postbank Funding LLC IV, all of which are domiciled in Wilmington, Delaware, U.S.A.

V. Employees (average headcount)

	2016	2015
Full-time	**3,735**	**4,640**
Salaried employees	2,934	2,811
thereof: trainees	158	158
Civil servants	801	1,829
Part-time	**637**	**1,015**
Salaried employees	469	454
Civil servants	168	561
Total	**4,372**	**5,655**

As part of the reacquisition of the shares in the service companies that did not belong to the Postbank Group in 2015, the number of civil servants employed by the companies is now once again reported directly under the service companies, in contrast to 2015.

VI. Equity investments and investments in affiliated companies

Name and domicile of the company	Equity interest %	Equity € thousand	Profit/loss for the period[1] € thousand
Companies in which an equity interest of at least 20 % is held			
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	190,835	0[3b]
BHW Bausparkasse Aktiengesellschaft, Hameln	100.0	915,274	10,205
BHW Gesellschaft für Vorsorge mbH, Hameln	100.0	242,370	0[3a]
BHW-Gesellschaft für Wohnungswirtschaft mbH, Hameln	100.0	918,946	0[3a]
BHW Holding AG, Hameln	100.0	727,503	0[3a]
BHW Invest, Société à responsabilité limitée, Luxembourg, Luxembourg	100.0	5,020	–62
BHW Kreditservice GmbH, Hameln	100.0	2,870	0[3b]
CREDA Objektanlage- und verwaltungsgesellschaft mbH, Bonn	100.0	1,000	0[3a]
Deutsche Postbank Finance Center Objekt GmbH, Schuttrange (Munsbach), Luxembourg	100.0	2,620	500
Deutsche Postbank Funding LLC I, Wilmington, Delaware, U.S.A.	100.0		[4]
Deutsche Postbank Funding LLC II, Wilmington, Delaware, U.S.A.	100.0		[5]
Deutsche Postbank Funding LLC III, Wilmington, Delaware, U.S.A.	100.0		[6]
Deutsche Postbank Funding LLC IV, Wilmington, Delaware, U.S.A.	100.0		[7]
Deutsche Postbank Funding Trust I, Wilmington, Delaware, U.S.A.	100.0	14	–19[4]
Deutsche Postbank Funding Trust II, Wilmington, Delaware, U.S.A.	100.0	5	–44[5]
Deutsche Postbank Funding Trust III, Wilmington, Delaware, U.S.A.	100.0	35	–13[6]
Deutsche Postbank Funding Trust IV, Wilmington, Delaware, U.S.A.	100.0	225	8[7]
DSL Portfolio GmbH & Co. KG, Bonn	100.0	5,177	33
DSL Portfolio Verwaltungs GmbH, Bonn	100.0	57	1
EC EUROPA IMMOBILIEN FONDS NR. 3 GmbH & CO. KG in Insolvenz, Hamburg	65.2	–10,390	–6,745
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Dresden „Louisenstraße" KG, Bad Homburg v.d. Höhe	30.6	0	–23
Fünfte SAB Treuhand und Verwaltung GmbH & Co. „Leipzig-Magdeburg" KG, Bad Homburg v.d. Höhe	41.2	0	9
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl "Rimbachzentrum" KG, Bad Homburg v.d. Höhe	74.9	0	–63
giropay GmbH, Frankfurt am Main	33.3	0	20
PB Factoring GmbH, Bonn	100.0	11,546	0[3a]
PB Firmenkunden AG, Bonn	100.0	1,100	0[3a]
PB International S.A., Schuttrange (Munsbach), Luxembourg	100.0	55,389	–361
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0	3,554,867	–47,320[2]
Postbank Akademie und Service GmbH, Hameln	100.0	1,004	–163
Postbank Beteiligungen GmbH, Bonn	100.0	310,970	0[3a]
Postbank Direkt GmbH, Bonn	100.0	15,858	0[3b]
Postbank Filialvertrieb AG, Bonn	100.0	31,135	–4,357[3a]
Postbank Finanzberatung AG, Hameln	100.0	65,214	–5,309
Postbank Immobilien GmbH, Hameln	100.0	2,908	0[3a]
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	18,874	0[3a]
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn	90.0	22,566	6,486
Postbank Leasing GmbH, Bonn	100.0	500	0[3a]
Postbank Service GmbH, Essen	100.0	125	0[3b]
Postbank Systems AG, Bonn	100.0	60,172	–1,394[3a]
SAB Real Estate Verwaltungs GmbH, Hameln	100.0	33	4
Starpool Finanz GmbH, Berlin	49.9	339	12
VÖB-ZVD Processing GmbH, Frankfurt am Main	75.0	15,177	0[3b, 8]
Equity interests in large corporations in which more than 5 % of the voting rights are held			
BSQ Bauspar AG, Nuremberg	14.1	29,208	109
Landgesellschaft Mecklenburg-Vorpommern mit beschränkter Haftung, Leezen	11.0	45,611	3,152

[1] The data on equity and profit and loss for the year are based on the most recently adopted annual financial statements of the companies concerned.
[2] The company also includes the shares in Teilgesellschaftsvermögen PB 25 which are not held by a company belonging to the Postbank Group.
[3a] Profit and loss transfer agreement within the Deutsche Postbank Group
[3b] Profit and loss transfer agreement with third parties until December 31, 2015
[4] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust I. These include both Deutsche Postbank Funding Trust I and Deutsche Postbank Funding LLC I.
[5] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust II. These include both Deutsche Postbank Funding Trust II and Deutsche Postbank Funding LLC II.
[6] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust III. These include both Deutsche Postbank Funding Trust III and Deutsche Postbank Funding LLC III.
[7] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust IV. These include both Deutsche Postbank Funding Trust IV and Deutsche Postbank Funding LLC IV.
[8] 25 % of the share capital is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of Deutsche Postbank AG.

VII. Remuneration of the Management Board and the Supervisory Board

Deutsche Postbank AG (Postbank) hereby publishes the principles used to determine the remuneration of the Management Board and the Supervisory Board. The report also explains the amount of remuneration and structure of the remuneration in accordance with the statutory provisions, German Accounting Standard (GAS) 17 "Reporting on the Remuneration of Members of Governing Bodies," and the recommendations of the German Corporate Governance Code.

Remuneration system for members of the Management Board

Responsibility

The full Supervisory Board is responsible for designing the remuneration system and for setting the remuneration of the individual members of the Management Board. It has been supported in these matters by the Compensation Control Committee. The Committee is primarily responsible for monitoring the appropriate design of the remuneration systems for senior managers and employees, and in particular for the heads of the Risk Control and Compliance units, as well as employees who have a material influence on the Bank's overall risk profile. The Compensation Control Committee assesses the impact of the remuneration systems on risk, capital and liquidity management, prepares the Supervisory Board resolutions on the remuneration of the senior managers, and assists the Supervisory Board in monitoring the proper integration of the internal control functions and all other relevant functions in the design of the remuneration systems.

Structure of the remuneration of the Management Board in fiscal year 2016

The overall structure of the remuneration of the Management Board and the principal components of Management Board contracts are stipulated and regularly reviewed by Postbank's Supervisory Board. This review focuses in particular on the appropriateness of the system's design and on changes that become necessary in response to new legislative and regulatory requirements.

The main goal for the design of the remuneration system and the amount of Management Board remuneration is to remunerate Management Board members appropriately in line with the market and competitors and in accordance with all statutory and regulatory requirements, taking into account members' areas of activity and responsibility, Postbank's overall long-term performance, and the collective and individual performance of the members of the Management Board. The appropriateness of the remuneration of the Management Board in both market terms and within the Postbank Group was confirmed for fiscal year 2014 in a horizontal and vertical remuneration comparison. A vertical remuneration comparison was performed within the Postbank Group for fiscal year 2016, which likewise confirmed the appropriateness of the remuneration; pursuant to a resolution of the Supervisory Board, horizontal remuneration comparisons are conducted at three-year intervals, so that the next comparison is planned for fiscal year 2017.

The aim is for the system to be designed in a way that generates incentive for the members of the Management Board to meet the Bank's objectives, to permanently promote positive corporate development, and to avoid disproportionately high risks. To this extent, the Supervisory Board had already capped the ratio of variable remuneration to fixed remuneration before the statutory maximum ratio was introduced. Postbank's Annual General Meeting approved a ratio for fixed to variable remuneration of 1:2 for the members of the Management Board in the light of the requirements prescribed by section 25a(5) of the *Kreditwesengesetz* (KWG – German Banking Act).

The total remuneration awarded to the members of the Management Board is accordingly broken down into non-performance-related and performance-related components.

a) Non-performance-related components

The non-performance-related components are the base pay (fixed remuneration) and incidental benefits. The base pay is paid out monthly in twelve equal installments. Incidental benefits mainly comprise non-cash benefits in the form of company cars, the payment of insurance premiums, and the reimbursement of business-related expenses including any taxes on these items. Incidental benefits are available to all members of the Management Board equally; however, the amount may vary depending on their individual personal circumstances.

b) Performance-related component (variable remuneration)

The performance-related component is the variable remuneration. The amount of the variable remuneration awarded to the members of the Management Board is dependent on the achievement of quantitative and qualitative Postbank Group, board department and individual goals defined as an agreed target for variable remuneration and is determined on the basis of key performance indicators. For this purpose, uniform Postbank Group goals have been given a weighting of 50 % in the performance measurement. The goals are laid down in a target agreement entered into at the start of each fiscal year (base year). The maximum variable remuneration is capped in individual contracts at 150 % of the agreed target.

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant[1] of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board once again with effect from fiscal year 2015. The purpose of these modifications was to position Postbank as a banking institution independent of the Deutsche Bank Group in the future and, in this connection, to establish the right incentives in the structure of the deferral system. This has been agreed with the individual members of the Management Board by amending their employment contracts accordingly.

[1] In this connection, "grant" refers to the splitting of the variable remuneration defined for the year under review into separate remuneration components and the prospect of the defined variable remuneration in these remuneration components.

Variable remuneration for 2016: grant, performance, deferral and forfeiture provisions

The award arrangements for the variable remuneration fixed were modified with effect on the variable remuneration for 2014 and modified again for 2015 due to Deutsche Bank's changed strategic plans with respect to Postbank's positioning. It was therefore not necessary to change the award arrangements again for fiscal year 2016.

Variable remuneration is largely granted in deferred form and spread over several years in accordance with the regulatory and bank-specific requirements applicable in each case. This ensures a long-term incentive effect over a period of several years.

In accordance with the requirements of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions), at least 60 % of the total variable remuneration is granted on a deferred basis. Furthermore, the deferral matrix established in the Deutsche Bank Group, which may lead to a higher percentage of deferred remuneration depending on the amount of the variable remuneration, is applied. In line with this, the upfront portion of the variable remuneration is capped at a total of €225,000 for each member of the Management Board.

Half of the upfront portion of the variable remuneration is awarded in the form of a share-based remuneration component (equity upfront award) and the other half is paid out directly (cash bonus). Half of the deferred portion of the variable remuneration comprises share-based remuneration components (restricted equity award), while the remaining half is granted as a deferred cash payment (restricted incentive award). The value of the share-based remuneration components depends on the performance of Deutsche Bank's shares during the deferral and holding periods. In connection with the share-based remuneration components to be granted for fiscal year 2016, contracts have already been signed providing for the Deutsche Bank share awards which have not yet been allocated as of that date to be converted into Postbank share awards or another value-based remuneration component in case Postbank is deconsolidated from the Deutsche Bank Group. In this way, the performance of the deferred remuneration components remains linked to the performance contributions made by the members of the Management Board.

Equity upfront award

The non-deferred component of the share-based remuneration is awarded to members of the Management Board in the form of an equity upfront award (EUA). The EUA vests immediately but is subject to a further holding period during which the performance, deferral and forfeiture provisions outlined below apply. The holding period for the EUA granted for fiscal year 2016 is twelve months. At time of publication, the EUA is granted as Deutsche Bank shares on the expiry of the holding period.

Restricted equity award

The deferred component of the share-based remuneration takes the form of a restricted equity award (REA). The REA is subject to a three-year holding period and vests in a single tranche ("cliff vesting").

Following the above deferral period, there is a twelve-month holding period for all members of the Management Board before the share-based remuneration components at time of publication are granted as Deutsche Bank shares. Special performance, deferral and forfeiture provisions, which are described separately below, apply during the deferral period and, where applicable, the holding period.

For fiscal year 2016 this means that, in light of the performance, deferral and forfeiture provisions, none of the members of the Management Board may realize the value of the REA granted for 2016 until 2021 at the earliest (four years after it was defined).

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of EUA and REA will be calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017.

Restricted incentive award

The non-share-based component of the deferred remuneration is granted as a deferred cash payment (restricted incentive award – RIA); this vests in three equal tranches over a period of three years. Special performance, deferral and forfeiture provisions apply during the deferral period. The final tranche of the RIA awarded to members of the Management Board for 2016 will be paid out in 2020 at the earliest.

The above-mentioned awards do not entail entitlements to interest or dividend payments.

Performance, deferral, and forfeiture provisions

The EUA, RIA, and REA remuneration components are subject to certain performance, deferral and forfeiture provisions during the deferral and holding periods. These provisions and periods form a core element of the structure of deferred remuneration. They ensure that the awards are aligned with future behavior and performance, and that certain events are also accounted for appropriately in remuneration over the long term. The REA and RIA remuneration components granted on a deferred basis are subject to performance conditions, i.e., clawback provisions linked to the performance of the Postbank Group or the Deutsche Bank Group. Under these provisions, up to 100 % of the outstanding RIA and REA tranches may be forfeited if the Postbank Group and/or the Deutsche Bank Group fail to satisfy the performance conditions relating to profit before tax. This means that up to one-third of the REA granted for 2016 can be forfeited for each year of the deferral period in which the performance conditions are not met. A further performance condition is the Common Equity Tier 1 provision, under which up to 100 % of the REA which has not yet vested is forfeited if at the end of any given quarter prior to the expiry of the deferral period the Common Equity Tier 1 ratio of the Deutsche Bank Group and of the Postbank Group drops below the applicable regulatory minimum capital (including an additional risk buffer of 200 basis points). Reflecting the plans to deconsolidate Postbank from the Deutsche Bank Group, the measurement of compliance with the performance conditions relating to Deutsche Bank's performance is no longer intended from 2017. Postbank's profit and the performance of the members of its Management Board will no longer have any (notable) effect on Deutsche Bank's profit after it has been deconsolidated from the Deutsche Bank Group.

In addition, all remuneration components granted on a deferred basis (REA, RIA) as well as EUA and REA during their holding period are subject to a (partial) clawback, for example if the member of the Management Board breaches internal guidelines or regulatory requirements, or if the conditions for performance are no longer met.

Variable remuneration for 2014 and 2015: grant, performance, deferral and forfeiture provisions

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board again with effect from fiscal year 2015, although no changes were made to the underlying structures. Accordingly, the explanations provided for fiscal year 2016 largely also apply to the conditions for the grant, performance, deferral and forfeiture of variable remuneration entitlement for fiscal years 2014 and 2015. This applies above all to the division of the variable remuneration into the remuneration components cash bonus, equity upfront award (EUA), restricted incentive award (RIA), and restricted equity award (REA). The following specifics must be taken into account.

a) Fiscal year 2015

The number of share awards granted to members of the Management Board in 2016 for fiscal year 2015 in the form of EUA and REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2016 (€15.4705).

The above-mentioned remuneration components for fiscal year 2015 do not entail entitlements to interest or dividend payments.

b) Fiscal year 2014

The number of share awards granted to members of the Management Board in 2015 for fiscal year 2014 in the form of REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the first ten trading days of February 2015 (€27.1080).

Reflecting the responsibilities within the Group structure, different deferral periods apply to the deferred share-based remuneration (REA). As a general rule, the REA granted for fiscal year 2014 vested ratably in three equal tranches over a period of three years. Special rules applied to the members of the Management Board who were also members of Deutsche Bank Group's Senior Management Group in fiscal year 2014 (i.e., Susanne Klöss-Braekler, Frank Strauss, Marc Hess, and Hanns-Peter Storr); contrary to the above, a 4.5-year deferral period applies, after which the awards vest in a single tranche ("cliff vesting").

REA is subject to a uniform holding period of six months following the deferral period. For fiscal year 2014 this means that, in light of the performance, deferral and forfeiture provisions, members of the Management Board who were members of the Senior Management Group cannot realize the value of the REA granted for 2014 until 2020 at the earliest (i.e., five years after it was granted). For the remaining members of the Management Board, the value of the final tranche of the REA can be realized in 2018 at the earliest (i.e., 3.5 years after the REA was granted).

The following (interest) premiums were added to the remuneration components for fiscal year 2014:

- Equity upfront award:
  A dividend equivalent is granted during the holding period.

- Restricted equity award:
  A one-time premium of 5 % is added when the award is granted. Members of the so-called Senior Management Group receive a dividend equivalent.

- Restricted incentive award:
  A one-time premium of 2 % is added when the award is granted.

The forfeiture conditions for the RIA and REA deferred remuneration components provide for benchmarking against the consolidated profit of both the Postbank Group and the Deutsche Bank Group.

Granting and payment of variable remuneration until the end of 2013

Under the remuneration system valid until the end of 2013, the variable remuneration was split into a short-term component (40 %) and a long-term component (60 %). It was not fully paid out in cash, even if the agreed targets were met. There were still outstanding long-term components in 2016 for the remuneration years 2011 to 2013; payment is and/or was due on the agreed dates in accordance with the contractual provisions applicable at the time the components were granted.

The entire long-term component was granted conditionally in accordance with the Postbank Group's sustainable performance, which was determined subject to a sustainability criterion being satisfied during the subsequent three-year assessment period (three calendar years following the base year). This is still to be assessed for the year 2013. In the year immediately following the fiscal year for which the remuneration was to be granted, the Supervisory Board examined and determined whether the targets had been met for that year, and stipulated the sustainability criterion for the assessment period. In the case of the variable remuneration until 2013, this was defined as the adjusted profit after cost of capital (APACC). Sustainable Group performance and the sustainability criterion will have been achieved if the value of the APACC is equal to, or exceeds, or at the end of the sustainability phase cumulatively exceeds on average, the value of the APACC in the base year.

In line with the three-year sustainability phase, the long-term component was divided into three equal tranches. In turn, half of each tranche was paid out in cash and half was converted into phantom shares, or is still to be converted for the year 2013.

If, at the end of each of the years in the three-year assessment period for the remuneration components still outstanding, the Supervisory Board determines that the sustainability criterion has been met, the proportionate cash component is paid out immediately, and the remainder converted into phantom shares, which are converted into a euro amount after the expiry of the twelve-month lock-up period.

If the sustainability criterion is not met for a particular year in the assessment period, payment of the corresponding tranches of the long-term component is deferred to the following year for a renewed examination based on the sustainability criterion. If the sustainability criterion has not been met at the end of the assessment period, the payment of all deferred long-term components lapses without compensation. In this way, remuneration of the Management Board is affected by any negative Company performance during the entire measurement period (negative bonus system). Under an additional negative bonus system, payment for outstanding components can be retroactively reduced or canceled completely based on the overall performance of the Management Board member concerned during the assessment period.

These remuneration mechanisms still affect the deferred remuneration components granted in the years 2011 to 2013 and continue to apply to this extent.

The converted phantom share amounts of the long-term component for base years 2011 (Tranche 3), 2012 (Tranche 2), and 2013 (Tranche 1) were paid out in 2016 after the expiry of the lock-up period. For this purpose, the remuneration components that had been converted into phantom shares of Deutsche Bank AG in 2015 were multiplied by the average Xetra closing price of Deutsche Bank shares on the last ten trading days up to the end of the lock-up period (€17.41). In addition, one tranche of the cash component of the long-term component for each of the base years 2012 (Tranche 3) and 2013 (Tranche 2) was paid out in 2016 upon the sustainability criteria being satisfied. The other halves of the above tranches were converted into phantom shares of Deutsche Bank AG on the basis of the average share price (Xetra closing price) on the last ten trading days preceding March 23, 2016 (€17.47) and are due for payment in 2017 upon expiry of the lock-up period.

No dividend equivalent was calculated for the phantom shares that were blocked on the date of the Annual General Meeting of Deutsche Bank AG in 2016, because Deutsche Bank did not distribute any dividend for 2015.

Other benefits for Management Board members leaving the Company prematurely

Postbank will provide compensation for no more than the remaining term of the contract in cases in which the contract of a member of the Management Board is terminated prematurely other than for good cause, and will limit the payment to a maximum of two annual salaries (severance payment cap).

If the contract of a Management Board member is terminated prematurely as a result of permanent incapacity to work or death, the remuneration (basic remuneration plus variable remuneration) is paid pro rata up to the end of the agreed term of the contract, for a maximum of six months.

In 2016, one Management Board member, Hans-Peter Schmid, left the Management Board prematurely, effective as of the end of September 30, 2016. A severance payment of €625,000 was agreed on the basis of the termination agreement. The severance payment was paid out in October 2016. In addition, the exact amounts of the benefits already set out in the employment contract for this case of termination were specified and the payment dates were determined.

Other provisions

The members of the Management Board are not permitted to use hedging transactions or other countermeasures to mitigate or offset the risk orientation of deferred remuneration components.

The Supervisory Board may award an appropriate special bonus in recognition of exceptional performance, the amount of which is capped by the maximum variable remuneration (150 % of the agreed target).

Remuneration of members of the Management Board

The Supervisory Board resolutions establishing the variable remuneration for the members of the Management Board were discussed in depth at the end of January 2017 by the Compensation Control Committee, which prepared these for the full Supervisory Board. The Supervisory Board established the variable remuneration for the members of the Management Board for fiscal year 2016 on the basis of the recommendation made by the Compensation Control Committee.

The total remuneration defined for the seven members of the Management Board for their work on the Management Board in 2016 amounted to €7,872.2 thousand (previous year: €8,231.1 thousand), excluding incidental benefits and pension expense. Of this figure, €4,150.0 thousand (previous year: €4,250.0 thousand) related to fixed (non-performance-related) remuneration and €3,722.2 thousand (previous year: €3,981.1 thousand) to performance-related components.

The remuneration disclosed in the following covers all activities performed by members of the Management Board within the Postbank Group.

Postbank does not currently have a separate share-based remuneration program.

Benefits granted and received

The following tables present the benefits granted to each individual member of the Management Board for the fiscal year, as well as the benefits received in/for the fiscal year and the pension expense in/for the year under review in accordance with the recommendations contained in section 4.2.5(3) of the German Corporate Governance Code, which is implemented on a voluntary basis.

The following table shows the benefits granted for fiscal year 2016 (2015):

Benefits granted	Frank Strauss[2] Chairman of the Management Board						Marc Hess CFO					
	Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015		Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target	defined	target	min	max	defined	target
	€ thousand						€ thousand					
Fixed remuneration	750.0	750.0	750.0	750.0	750.0	750.0	660.0	660.0	660.0	660.0	660.0	660.0
Incidental benefits	27.2	27.2	27.2	27.2	22.5	22.5	31.6	31.6	31.6	31.6	35.1	35.1
Total (fixed remuneration components)	**777.2**	**777.2**	**777.2**	**777.2**	**772.5**	**772.5**	**691.6**	**691.6**	**691.6**	**691.6**	**695.1**	**695.1**
One-year variable remuneration	**112.5**	**112.5**	**0**	**112.5**	**112.5**	**112.5**	**112.5**	**112.5**	**0**	**112.5**	**112.5**	**112.5**
thereof paid out immediately	112.5	112.5	0	112.5	112.5	112.5	112.5	112.5	0	112.5	112.5	112.5
Multi-year variable remuneration	**563.5**	**537.5**	**0**	**862.5**	**589.5**	**537.5**	**465.0**	**465.0**	**0**	**753.7**	**511.2**	**465.0**
thereof equity upfront award	112.5	112.5	0	112.5	112.5	112.5	112.5	112.5	0	112.5	112.5	112.5
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	225.5	212.5	0	375.0	238.5	212.5	176.2	176.2	0	320.6	199.3	176.2
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	225.5	212.5	0	375.0	238.5	212.5	176.3	176.3	0	320.6	199.4	176.3
Total (variable remuneration components)	**676.0**	**650.0**	**0**	**975.0**	**702.0**	**650.0**	**577.5**	**577.5**	**0**	**866.2**	**623.7**	**577.5**
Total (variable and fixed remuneration components)	**1,453.2**	**1,427.2**	**777.2**	**1,752.2**	**1,474.5**	**1,422.5**	**1,269.1**	**1,269.1**	**691.6**	**1,557.8**	**1,318.8**	**1,272.6**
Pension expense	534.9	534.9	534.9	534.9	617.4	617.4	519.6	519.6	519.6	519.6	592.5	592.5
Total remuneration (German Corporate Governance Code)	**1,988.1**	**1,962.1**	**1,312.1**	**2,287.1**	**2,091.9**	**2,039.9**	**1,788.7**	**1,788.7**	**1,211.2**	**2,077.4**	**1,911.3**	**1,865.1**
Total remuneration[1]	1,426.0	1,400.0	750.0	1,725.0	1,452.0	1,400.0	1,237.5	1,237.5	660.0	1,526.2	1,283.7	1,237.5

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1]Excluding incidental benefits and pension expense

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

Benefits granted	Susanne Klöss-Braekler[3] Products						Ralph Müller Corporates and Markets					
	Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015		Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target	defined	target	min	max	defined	target
	€ thousand						€ thousand					
Fixed remuneration	480.0	480.0	480.0	480.0	480.0	480.0	550.0	550.0	550.0	550.0	500.0	500.0
Incidental benefits	24.4	24.4	24.4	24.4	24.1	24.1	16.0	16.0	16.0	16.0	15.2	15.2
Total (fixed remuneration components)	**504.4**	**504.4**	**504.4**	**504.4**	**504.1**	**504.1**	**566.0**	**566.0**	**566.0**	**566.0**	**515.2**	**515.2**
One-year variable remuneration	**88.0**	**88.0**	**0**	**112.5**	**88.9**	**88.0**	**105.0**	**105.0**	**0**	**112.5**	**105.0**	**100.0**
thereof paid out immediately	88.0	88.0	0	112.5	88.9	88.0	105.0	105.0	0	112.5	105.0	100.0
Multi-year variable remuneration	**352.0**	**352.0**	**0**	**547.5**	**355.5**	**352.0**	**420.0**	**420.0**	**0**	**675.0**	**420.0**	**400.0**
thereof equity upfront award	88.0	88.0	0	112.5	88.9	88.0	105.0	105.0	0	112.5	105.0	100.0
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	132.0	132.0	0	217.5	133.3	132.0	157.5	157.5	0	281.2	157.5	150.0
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	132.0	132.0	0	217.5	133.3	132.0	157.5	157.5	0	281.3	157.5	150.0
Total (variable remuneration components)	**440.0**	**440.0**	**0**	**660.0**	**444.4**	**440.0**	**525.0**	**525.0**	**0**	**787.5**	**525.0**	**500.0**
Total (variable and fixed remuneration components)	**944.4**	**944.4**	**504.4**	**1,164.4**	**948.5**	**944.1**	**1,091.0**	**1,091.0**	**566.0**	**1,353.4**	**1,040.2**	**1,015.2**
Pension expense	251.2	251.2	251.2	251.2	278.7	278.7	359.4	359.4	359.4	359.4	415.7	415.7
Total remuneration (German Corporate Governance Code)	**1,195.6**	**1,195.6**	**755.6**	**1,415.6**	**1,227.2**	**1,222.8**	**1,450.4**	**1,450.4**	**925.4**	**1,712.9**	**1,455.9**	**1,430.9**
Total remuneration[1]	920.0	920.0	480.0	1,140.0	924.4	920.0	1,075.0	1,075.0	550.0	1,337.5	1,025.0	1,000.0

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1]Excluding incidental benefits and pension expense

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

Benefits granted	Hans-Peter Schmid[4] Branch Sales						Ralf Stemmer Resources					
	Jan. 1–Sept. 30, 2016				Jan. 1–Dec. 31, 2015		Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target	defined	target	min	max	defined	target
	€ thousand						€ thousand					
Fixed remuneration	450.0	450.0	450.0	450.0	600.0	600.0	660.0	660.0	660.0	660.0	660.0	660.0
Incidental benefits	17.6	17.6	17.6	17.6	23.3	23.3	28.1	28.1	28.1	28.1	23.7	23.7
Total (fixed remuneration components)	**467.6**	**467.6**	**467.6**	**467.6**	**623.3**	**623.3**	**688.1**	**688.1**	**688.1**	**688.1**	**683.7**	**683.7**
One-year variable remuneration	**77.2**	**78.8**	**0**	**112.5**	**105.5**	**105.0**	**112.5**	**112.5**	**0**	**112.5**	**112.5**	**112.5**
thereof paid out immediately	77.2	78.8	0	112.5	105.5	105.0	112.5	112.5	0	112.5	112.5	112.5
Multi-year variable remuneration	**308.7**	**315.0**	**0**	**478.1**	**422.2**	**420.0**	**459.3**	**465.0**	**0**	**753.7**	**485.3**	**465.0**
thereof equity upfront award	77.2	78.8	0	112.5	105.5	105.0	112.5	112.5	0	112.5	112.5	112.5
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	115.8	118.1	0	182.8	158.3	157.5	173.4	176.2	0	320.6	186.4	176.2
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	115.7	118.1	0	182.8	158.4	157.5	173.4	176.3	0	320.6	186.4	176.3
Total (variable remuneration components)	**385.9**	**393.8**	**0**	**590.6**	**527.7**	**525.0**	**571.8**	**577.5**	**0**	**866.2**	**597.8**	**577.5**
Total (variable and fixed remuneration components)	**853.5**	**861.4**	**467.6**	**1,058.2**	**1,151.0**	**1,148.3**	**1,259.9**	**1,265.6**	**688.1**	**1,554.3**	**1,281.5**	**1,261.2**
Pension expense	373.3	373.3	373.3	373.3	424.0	424.0	147.9	147.9	147.9	147.9	163.0	163.0
Total remuneration (German Corporate Governance Code)	**1,226.8**	**1,234.7**	**840.9**	**1,431.5**	**1,575.0**	**1,572.3**	**1,407.8**	**1,413.5**	**836.0**	**1,702.2**	**1,444.5**	**1,424.2**
Total remuneration[1]	835.9	843.8	450.0	1,040.6	1,127.7	1,125.0	1,231.8	1,237.5	660.0	1,526.2	1,257.8	1,237.5

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1]Excluding incidental benefits and pension expense

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

Benefits granted	Hanns-Peter Storr Risk Management					
	Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target
	€ thousand					
Fixed remuneration	600.0	600.0	600.0	600.0	600.0	600.0
Incidental benefits	12.5	12.5	12.5	12.5	17.9	17.9
Total (fixed remuneration components)	**612.5**	**612.5**	**612.5**	**612.5**	**617.9**	**617.9**
One-year variable remuneration	**109.2**	**105.0**	**0**	**112.5**	**112.1**	**105.0**
thereof paid out immediately	109.2	105.0	0	112.5	112.1	105.0
Multi-year variable remuneration	**436.8**	**420.0**	**0**	**675.0**	**448.4**	**420.0**
thereof equity upfront award	109.2	105.0	0	112.5	112.1	105.0
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	163.8	157.5	0	281.2	168.1	157.5
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	163.8	157.5	0	281.3	168.2	157.5
Total (variable remuneration components)	**546.0**	**525.0**	**0**	**787.5**	**560.5**	**525.0**
Total (variable and fixed remuneration components)	**1,158.5**	**1,137.5**	**612.5**	**1,400.0**	**1,178.4**	**1,142.9**
Pension expense	292.5	292.5	292.5	292.5	325.4	325.4
Total remuneration (German Corporate Governance Code)	**1,451.0**	**1,430.0**	**905.0**	**1,692.5**	**1,503.8**	**1,468.3**
Total remuneration[1]	1,146.0	1,125.0	600.0	1,387.5	1,160.5	1,125.0

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1] Excluding incidental benefits and pension expense

[2] Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3] Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group,
her fixed and her performance-related remuneration was reduced by 20%.

[4] Member of the Management Board until September 30, 2016.

The following table shows the benefits received in/for fiscal year 2016 (2015):

Benefits received	Frank Strauss[3]		Marc Hess		Susanne Klöss-Braekler[4]		Ralph Müller		Hans-Peter Schmid[5]		Ralf Stemmer		Hanns-Peter Storr	
	Chairman of the Management Board		CFO		Products		Corporates and Markets		Branch Sales		Resources		Risk Management	
	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Sept. 30, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015
	€ thousand													
Fixed remuneration	750.0	750.0	660.0	660.0	480.0	480.0	550.0	500.0	450.0	600.0	660.0	660.0	600.0	600.0
Incidental benefits	27.2	22.5	31.6	35.1	24.4	24.1	16.0	15.2	17.6	23.3	28.1	23.7	12.5	17.9
Total (fixed remuneration components)	777.2	772.5	691.6	695.1	504.4	504.1	566.0	515.2	467.6	623.3	688.1	683.7	612.5	617.9
One-year variable remuneration	112.5	267.0	112.5	221.7	88.0	88.9	105.0	105.0	77.2	219.1	112.5	243.3	109.2	236.8
thereof paid out immediately[1]	112.5	112.5	112.5	112.5	88.0	88.9	105.0	105.0	77.2	105.5	112.5	112.5	109.2	112.1
thereof short-term component II[2]	0	154.5	0	109.2	0	0	0	0	0	113.6	0	130.8	0	124.7
Multi-year variable remuneration	305.2	382.9	245.8	446.0	7.5	16.8	12.3	19.1	268.6	439.1	298.7	474.1	257.8	372.0
thereof long-term component I														
long-term component I for 2011 (until 2015), (Tranche 3 in 2015)	0	26.5	0	54.0	0	0	0	0	0	47.5	0	50.0	0	41.7
long-term component I for 2012 (until 2016), (Tranche 2 in 2015 and Tranche 3 in 2016)	61.7	61.7	52.0	52.0	0	0	0	0	49.9	49.9	54.9	54.9	52.5	52.5
long-term component I for 2013 (until 2017), (Tranche 1 in 2015 and Tranche 2 in 2016)	75.0	75.0	53.0	53.0	0	0	0	0	55.1	55.1	63.5	63.5	60.5	60.5
restricted incentive award paid out (RIA granted in previous years)	72.3	0	47.1	0	7.5	0	8.5	0	50.9	0	56.0	0	53.6	0
thereof long-term component II														
long-term component II for 2010 (until 2015), (Tranche 3 in 2015)	0	0	0	72.1	0	0	0	0	0	72.1	0	72.1	0	0
long-term component II for 2011 (until 2016), (Tranche 2 in 2015 and Tranche 3 in 2016)	15.6	27.3	31.8	55.6	0	0	0	0	28.0	48.9	29.5	51.5	24.6	43.0
long-term component II for 2012 (until 2017), (Tranche 1 in 2015 and Tranche 2 in 2016)	36.4	63.6	30.6	53.5	0	0	0	0	29.4	51.4	32.3	56.5	30.9	54.1
long-term component II for 2013 (until 2018), (Tranche 1 in 2016)	44.2	0	31.2	0	0	0	0	0	32.5	0	37.4	0	35.7	0
thereof equity upfront award[6]	0	128.8	0	105.8	0	16.8	0	19.1	0	114.2	0	125.6	0	120.2
restricted equity award paid out (from previous years)	0	0	0	0	0	0	3.8	0	22.8	0	25.1	0	0	0
Total (variable remuneration components)	417.7	649.9	358.3	667.7	95.5	105.7	117.3	124.1	345.7	658.2	411.2	717.4	367.0	608.8
Total (variable and fixed remuneration components)	1,194.8	1,422.4	1,050.0	1,362.8	599.9	609.8	683.3	639.3	813.4	1,281.5	1,099.2	1,401.1	979.5	1,226.7
Pension expense	534.9	617.4	519.6	592.5	251.2	278.7	359.4	415.7	373.3	424.0	147.9	163.0	292.5	325.4
Total remuneration (German Corporate Governance Code (DCGK))	1,729.7	2,039.8	1,569.6	1,955.3	851.0	888.5	1,042.7	1 ,055.0	1,186.7	1,705.5	1,247.1	1,564.1	1,272.0	1,552.1

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually received, in particular in the totals provided.

[1]The amount comprises the cash component of the variable remuneration for 2015 and/or 2016 that is paid out immediately.

[2]The amount comprises the amounts received under this component for the year 2013.

[3]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[4]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20 %.

[5]Member of the Management Board until September 30, 2016.

[6]No benefits received for 2016 due to the extended holding period (increased from 6 to 12 months).

Benefits in accordance with the requirements of German Accounting Standard 17 (GAS 17)
Based on the requirements of German Accounting Standard 17, the benefits granted to the members of the Management Board in fiscal year 2016 for their work on the Management Board amounted to a total of €7,759.2 thousand (previous year: €7,949.2 thousand). Of this amount, €4,307.4 thousand (previous year: €4,411.8 thousand) related to non-performance-related remuneration, €2,734.9 thousand (previous year: €2,788.4 thousand) to performance-related components with a long-term incentive effect, and €716.9 thousand (previous year: €749.0 thousand) to performance-related components without a long-term incentive effect.

The long-term component I and/or the restricted incentive awards are deferred, non-share-based remuneration and are subject to certain (forfeiture) provisions. In accordance with GAS 17, these are only included in the total benefits in the fiscal year in which they are paid out (i.e., the fiscal year in which unconditional payment is made), and not in the fiscal year in which the commitment, or the award, was originally granted. Accordingly, the individual members of the Management Board received the following benefits for/in the years 2016 and 2015 for their work on the Management Board, including incidental benefits.

GAS 17	Frank Strauss[2]		Marc Hess		Susanne Klöss-Braekler[3]		Ralph Müller		Hans-Peter Schmid[4]		Ralf Stemmer		Hanns-Peter Storr		Total	
	Chairman of the Management Board		CFO		Products		Corporates and Markets		Branch Sales		Resources		Risk Management			
	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Sept. 30, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015
	€ thousand															
Remuneration																
Performance-related components																
Without long-term incentive effect																
paid out immediately	112.5	112.5	112.5	112.5	88.0	88.9	105.0	105.0	77.2	105.5	112.5	112.5	109.2	112.1	716.9	749.0
With long-term incentive effect																
Cash																
long-term component I[1]	136.7	163.2	105.0	159.0	0	0	0	0	105.0	152.5	118.4	168.4	113.0	154.7	578.0	797.8
restricted incentive award paid out[5]	72.3	–	47.1	–	7.5	–	8.5	–	50.9	–	55.9	–	53.6	–	295.8	–
Share-based																
equity upfront award	112.5	112.5	112.5	112.5	88.0	88.9	105.0	105.0	77.2	105.5	112.5	112.5	109.2	112.1	716.9	749.0
restricted equity award	225.5	238.5	176.3	199.4	132.0	133.3	157.5	157.5	115.7	158.3	173.4	186.4	163.8	168.2	1,144.2	1,241.6
Total of performance-related components	659.5	626.7	553.4	583.4	315.5	311.1	376.0	367.5	426.0	521.8	572.7	579.8	548.8	547.1	3,451.8	3,537.4
Non-performance related components																
Fixed remuneration	750.0	750.0	660.0	660.0	480.0	480.0	550.0	500.0	450.0	600.0	660.0	660.0	600.0	600.0	4,150.0	4,250.0
Incidental benefits	27.2	22.5	31.6	35.1	24.4	24.1	16.0	15.2	17.6	23.3	28.1	23.7	12.5	17.9	157.4	161.8
Total	1,436.7	1,399.2	1,245.0	1,278.5	819.9	815.2	942.0	882.7	893.6	1,145.1	1,260.8	1,263.5	1,161.3	1,165.0	7,759.2	7,949.2

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted, in particular in the totals provided.
[1]Benefit received from the long-term component I granted in the previous years (details see benefits received table).
[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.
[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private & Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and performance-related remuneration was reduced by 20%.
[4]Member of the Management Board until September 30, 2016.
[5]Benefit received from restricted incentive awards granted in previous years.

Share awards

The number of share awards granted to members of the Management Board in 2016 for fiscal year 2015 in the form of equity upfront awards (EUA) and restricted equity awards (REA) was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the first ten trading days of February 2016 (€15.4705). This resulted in the following number of share awards (rounded):

Member of the Management Board	Year	Equity upfront award(s) (with holding period)	Restricted equity award(s) (deferred with additional holding period)
Frank Strauss	2015	7,271.90	15,416.44
Marc Hess	2015	7,271.90	12,885.81
Susanne Klöss-Braekler	2015	5,745.19	8,617.69
Ralph Müller	2015	6,787.11	10,180.67
Hans-Peter Schmid[1]	2015	6,822.02	10,233.02
Ralf Stemmer	2015	7,271.90	12,048.74
Hanns-Peter Storr	2015	7,246.05	10,869.07

[1]Member of the Management Board until September 30, 2016

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of equity upfront awards (EUA) and restricted equity awards (REA) will be calculated by dividing the respective euro amounts (see "Defined figures" in the grant table) by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017. As this price was not available at the time of preparation of the annual financial statements, details of the share awards will be disclosed in the Notes for the following year.

Retirement benefits

The members of the Management Board have individually agreed direct retirement benefits. Because each Board member has a different career history, the precise arrangements differ.

Benefits are paid if the member of the Management Board leaves the Company's service as a result of disability, death, or old age. As a rule, old-age pensions are paid from the age of 62.

Under the standard retirement benefits valid until February 28, 2007, pension rights generally accrue after at least five years of service. Exceptions to this minimum waiting period requirement exist in some cases for disability.

The size of the pension depends on the length of service and the amount of the pensionable benefits. Only the fixed income component (fixed remuneration) is pensionable. A cap on the pensionable fixed remuneration has been specified in the cases of Management Board members Hans-Peter Schmid (until September 30, 2016) and Ralf Stemmer. The basic rule is that pension benefits of 50% of their final salary accrue to members of the Management Board after five years of service. Benefits regularly accrue at a rate of 2% for each eligible year of service. The maximum level of pension benefits (60%) is generally reached after ten years of service.

In addition, the retirement benefits include rules governing the payment of a transitional allowance for Management Board members who leave the Company upon reaching the age limit or for reasons of disability. The benefit period is two years.

Should the Management Board contracts of Hans-Peter Schmid and Ralf Stemmer be terminated by Postbank prior to the expiration of their regular contract terms, their pensions are calculated as if their contracts had been fulfilled until their regular expiration. This does not apply if Postbank terminates the employment relationship for good cause.

Future pension payments will be adjusted in line with the percentage growth in the highest pay group of the collective agreement for the Verband öffentlicher Banken (Association of German Public Sector Banks). Otherwise, payments are adjusted in line with Germany's consumer price index.

In May 2007, the Executive Committee of Postbank's Supervisory Board resolved to restructure the pension arrangements for members of the Management Board appointed for the first time after March 31, 2007, and to replace the previous final salary-based pension system by a defined contribution plan. The retirement benefits for the members of the Management Board appointed after that date – Frank Strauss, Marc Hess, Susanne Klöss-Braekler, Ralph Müller, and Hanns-Peter Storr – are therefore based on the following basic system: A benefit contribution in the amount of 25% of the pensionable fixed remuneration is granted for each eligible year of service. The benefit contributions are credited to a virtual pension account that bears annual interest at the interest rate used in the assessment for tax purposes of direct retirement benefits from the time of the grant until the insured event. When the insured event occurs, the amount of the pension is determined by distributing the pension assets accumulated in the pension account across the expected benefit period of the pension in accordance with actuarial principles. There is no waiting period and the entitlements from retirement benefits vest immediately. The pensions have a 1% p.a. adjustment rate.

These retirement benefits provide for a right to choose between regular pension payments and a lump-sum capital payment.

Retirement benefits for individual members of the Management Board

Occupational pension plan	Frank Strauss		Marc Hess		Susanne Klöss-Braekler		Ralph Müller		Hanns-Peter Storr	
	Chairman of the Management Board		CFO		Products		Corporates and Markets		Risk Management	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	€ thousand									
Pension component	187.5	187.5	165.0	165.0	120.0	120.0	137.5	125.0	150.0	150.0
Interest	66.4	52.1	151.2	133.3	28.7	21.0	28.0	18.6	60.7	48.7
Pension capital at end of fiscal year	1,173.6	919.6	2,671.6	2,355.4	521.2	371.6	494.1	328.7	1,071.9	861.3
Service cost (IFRSs) in fiscal year	534.1	617.4	519.6	592.5	251.2	278.7	359.4	415.7	292.5	325.4
Settlement value at the end of the fiscal year	2,057.4	1,655.5	4,745.4	4,424.9	814.1	600.3	860.7	587.6	1,478.7	1,235.2

Occupational pension plan	Hans-Peter Schmid[1]		Ralf Stemmer	
	Branch Sales		Resources	
	2016	2015	2016	2015
	€ thousand			
Pension benefit at end of fiscal year	60.00 %	60.00 %	60.00 %	60.00 %
Maximum level of pension benefits	60.00 %	60.00 %	60.00 %	60.00 %
Service cost (IFRSs) in fiscal year	373.3	424.0	147.9	163.0
Settlement value at the end of the fiscal year	4,479.8	2,928.9	3,450.7	3,419.8

[1]Member of the Management Board until September 30, 2016

The benefits paid to former members of the Management Board and their surviving dependents amounted to €3.74 million (previous year: €4.34 million). The benefits comprise the retirement benefits and remuneration components accruing in the year concerned, as well as remuneration components from active service on the Management Board. The obligation for current pensions and entitlements attributable to this group of individuals amounted to €69.24 million (previous year: €66.37 million).

Remuneration of the Supervisory Board

The remuneration system is laid down in Article 15 of the Articles of Association of Deutsche Postbank AG. In accordance with this article, the annual remuneration of members of the Supervisory Board comprises fixed, non-performance-related remuneration only. The positions of Chairman and Deputy Chairman as well as the membership of committees are reflected in the remuneration.

The fixed annual remuneration (base pay) for each member of the Supervisory Board is €40,000. The Chairman of the Supervisory Board receives double, and the Deputy Chairman receives one-and-a-half times the base pay.

The base pay increases by the following fixed additional annual remuneration for members and chairs of Supervisory Board committees:

Members of the Audit Committee and the Risk Committee receive an additional €30,000 each; the chairs of these committees receive an additional €60,000 in each case. Members of the Executive Committee, the Human Resources Committee, the Compensation Control Committee, and the Nomination Committee each receive an additional €20,000; the chairs of these committees receive an additional €40,000 in each case. No additional fixed remuneration is granted to the members and the chair of the Mediation Committee.

The members of the Supervisory Board are entitled to claim out-of-pocket expenses and any value-added tax expenses incurred in the exercise of their office. In addition, the members of the Supervisory Board receive an attendance allowance of €500 for each meeting of the Supervisory Board and its committees that they attend.

The members of the Supervisory Board receive remuneration and the attendance allowance after the Annual General Meeting to which the consolidated financial statements for the fiscal year concerned are submitted, or that decides on their approval.

Persons who are members of the Supervisory Board and/or its committees for only part of a fiscal year receive the corresponding pro rata amount of remuneration. Remuneration is rounded up or down to full months. Pro rata remuneration for committee positions requires the committee concerned to have met during the corresponding period of time in order to perform its duties.

In line with Deutsche Bank AG's internal policies, Deutsche Bank Group employees do not receive any remuneration for supervisory board positions held at Group companies. The remuneration of employee representatives for their work on the supervisory boards of Deutsche Bank Group companies remains unaffected by this.

The total remuneration paid to members of the Supervisory Board for fiscal year 2016 amounted to €1,137.7 thousand including attendance allowances (previous year: €1,541.3 thousand).

The total remuneration paid to the individual members of the Supervisory Board in fiscal year 2016 was as follows:

Members of the Supervisory Board	Fiscal year 2016			Fiscal year 2015		
	Fixed remuneration	Variable remuneration[1a]	Total	Fixed remuneration	Variable remuneration[1b]	Total
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Rainer Neske[2, 4]	–	–	–	–	–	–
Stefan Krause[2, 4]	–	–	–	–	–	–
Werner Steinmüller[2]	–	–	–	–	–	–
Frank Bsirske	160.0	11.0	171.0	160.0	58.0	218.0
Rolf Bauermeister	10.0	1.0	11.0	40.0	19.5	59.5
Susanne Bleidt	60.0	3.5	63.5	60.0	29.0	89.0
Wilfried Boysen[5]	–	–	–	–	7.6	7.6
Edgar Ernst	100.0	8.5	108.5	100.0	41.0	141.0
Stefanie Heberling[2]	–	–	–	–	–	–
Timo Heider	70.0	6.0	76.0	70.0	30.5	100.5
Tessen von Heydebreck	120.0	11.0	131.0	120.0	40.5	160.5
Peter Hoch[5]	–	–	–	–	15.2	15.2
Jens Isselmann[3]	–	–	–	–	–	–
Hans-Jürgen Kummetat	40.0	2.0	42.0	40.0	19.5	59.5
Katja Langenbucher-Adolff	40.0	2.5	42.5	40.0	4.5	44.5
Karen Meyer[2]	–	–	–	–	–	–
Christian Ricken[2]	–	–	–	–	–	–
Christiana Riley[2]	–	–	–	–	–	–
Karl von Rohr[2]	–	–	–	–	–	–
Bernd Rose	100.0	8.5	108.5	100.0	41.0	141.0
Lawrence Rosen[4]	–	–	–	26.7	14.8	41.5
Martina Scholze	26.7	1.5	28.2	–	–	–
Christian Sewing[2]	–	–	–	–	–	–
Michael Spiegel[2]	–	–	–	–	–	–
Eric Stadler	100.0	10.0	110.0	100.0	35.5	135.5
Gerd Tausendfreund	70.0	6.0	76.0	70.0	30.5	100.5
Renate Treis	90.0	4.5	94.5	90.0	38.0	128.0
Wolfgang Zimny	70.0	5.0	75.0	70.0	29.5	99.5
Total	**1,056.7**	**81.0**	**1,137.7**	**1,086.7**	**454.6**	**1,541.3**

[1a] There are no longer any entitlements to performance-related remuneration from fiscal year 2016 onward due to a change to the remuneration rules valid until December 31, 2013. Variable remuneration therefore only comprises the attendance allowance.

[1b] The reported variable remuneration comprises the long-term remuneration and the attendance allowance to be paid to the Supervisory Board member for the relevant fiscal year.

[2] Remuneration not paid because of Deutsche Bank AG’s internal Group policies.

[3] Jens Isselmann has been a member of the Supervisory Board since December 31, 2016. He is therefore not entitled to remuneration for 2016 in accordance with Article 15(5) of the Articles of Association.

[4] Stepped down from Supervisory Board in 2015

[5] Stepped down from Supervisory Board in 2014

The employee representatives received remuneration of €719 thousand in fiscal year 2016 as set out in their respective employment contracts.

No further remuneration or benefits were granted to members of the Supervisory Board in return for services provided individually in addition to their Supervisory Board activities, especially consulting and brokerage services. This does not apply to the remuneration of employee representatives as set out in their respective employment contracts.

Shareholdings of the members of the Management Board and Supervisory Board

As of December 31, 2016, no shares issued by Deutsche Postbank AG were held by members of the Management Board or the Supervisory Board.

As of the balance sheet date, loans of €0 thousand (previous year: €0 thousand) had been granted to members of the Management Board and €48.5 thousand (previous year: €58.2 thousand) to members of the Supervisory Board. No other contingent liabilities were entered into.

D&O insurance

The members of the Management Board and the members of the Supervisory Board are covered by D&O insurance in line with international standards. If a claim is brought, the individual Management Board and Supervisory Board members are required to pay a deductible.

VIII. Cover for bonds outstanding

- Registers A and B: closed registers for old issues under the *Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten* (ÖPG – German Act on *Pfandbriefe* and Related Debt Instruments Issued by Public-Sector Credit Institutions)

- Register C: issues under the Gesetz über die *Umwandlung der Deutschen Siedlungs- und Landesrentenbank in eine Aktiengesellschaft* (DSLBUmwG – German Act on the Reorganization of Deutsche Siedlungs- und Landesrentenbank as a Stock Corporation)

- Registers D and E: issues under the *Pfandbriefgesetz* (PfandBG – German Pfandbrief Act)

	Cover assets	*Pfandbriefe* outstanding	Excess cover
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Mortgage *Pfandbriefe* Register A			
Principal amount	–	–	–
Present value	–	–	–
Public-sector *Pfandbriefe* Register B			
Principal amount	97	53	44
Present value	109	59	50
Bonds Register C (mixed cover)			
Principal amount	12,004	10,688	1,316
Present value	13,453	12,699	754
Mortgage *Pfandbriefe* Register D			
Principal amount	5,428	3,764	1,664
Present value	6,458	4,563	1,895
Public-sector *Pfandbriefe* Register E			
Principal amount	295	205	90
Present value	319	256	63

	Cover assets	*Pfandbriefe* outstanding	Excess cover
	Dec. 31, 2015 €m	Dec. 31, 2015 €m	Dec. 31, 2015 €m
Mortgage *Pfandbriefe* Register A			
Principal amount	6	0	6
Present value	6	0	6
Public-sector *Pfandbriefe* Register B			
Principal amount	118	53	65
Present value	134	61	73
Bonds Register C (mixed cover)			
Principal amount	12,758	11,074	1,684
Present value	14,155	13,352	802
Mortgage *Pfandbriefe* Register D			
Principal amount	5,998	3,804	2,194
Present value	7,169	4,627	2,542
Public-sector *Pfandbriefe* Register E			
Principal amount	295	215	80
Present value	312	266	46

IX. Disclosures in accordance with section 28 of the PfandBG

Section 28(1) nos. 1–3 of the PfandBG

Mortgage *Pfandbrief* issues outstanding and associated cover assets:

	Nominal amount	Nominal amount	Present value	Present value	Present value of risk[1]	Present value of risk[1]
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Cover assets[2]	5,428	5,998	6,458	7,169	6,070	6,722
thereof: derivatives	–	–	–	–	–	–
Mortgage *Pfandbriefe*	3,764	3,804	4,563	4,627	4,316	4,326
Excess cover in %	**44.2**	**57.7**	**41.5**	**55.0**	**40.6**	**55.4**

[1]Dynamic method
[2]Including additional cover assets in accordance with section 19(1) of the PfandBG

Public-sector *Pfandbrief* issues outstanding and associated cover assets:

	Nominal amount	Nominal amount	Present value	Present value	Present value of risk[1]	Present value of risk[1]
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Cover assets[2]	295	295	319	312	320	320
thereof: derivatives	–	–	–	–	–	–
Public-sector *Pfandbriefe*	205	215	256	266	268	286
Excess cover in %	**43.9**	**37.2**	**24.2**	**17.4**	**19.5**	**11.8**

[1]Dynamic method
[2]Including additional cover assets in accordance with section 20(2) of the PfandBG

Maturity structure of mortgage *Pfandbrief* issues outstanding as well as fixed-interest periods of the associated cover assets (nominal amount):

	Cover assets[1]	Cover assets[1]	Mortgage *Pfandbriefe*	Mortgage *Pfandbriefe*
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
less than 6 months	364	365	–	40
from 6 months to 12 months	157	127	50	–
from 12 months to 18 months	345	374	–	–
from 18 months to 2 years	190	155	15	50
from 2 to 3 years	632	553	301	15
from 3 to 4 years	500	665	1,040	301
from 4 to 5 years	310	550	1,125	1,040
from 5 to 10 years	1,817	1,997	586	1,460
more than 10 years	1,113	1,212	647	898
Total	**5,428**	**5,998**	**3,764**	**3,804**

[1]Including additional cover assets in accordance with section 19(1) of the PfandBG

Maturity structure of public-sector *Pfandbrief* issues outstanding as well as fixed-interest periods of the associated cover assets (nominal amount):

	Cover assets[1] Dec. 31, 2016 €m	Cover assets[1] Dec. 31, 2015 €m	Public-sector *Pfandbriefe* Dec. 31, 2016 €m	Public-sector *Pfandbriefe* Dec. 31, 2015 €m
less than 6 months	10	–	–	–
from 6 months to 12 months	–	–	–	10
from 12 months to 18 months	–	10	–	–
from 18 months to 2 years	–	–	35	–
from 2 to 3 years	40	–	–	35
from 3 to 4 years	20	65	60	–
from 4 to 5 years	20	20	–	60
from 5 to 10 years	205	200	50	50
more than 10 years	–	–	60	60
Total	**295**	**295**	**205**	**215**

[1]Including additional cover assets in accordance with section 20(2) of the PfandBG

Section 28(1) nos. 4–6 of the PfandBG
Additional cover assets (nominal amount) for mortgage *Pfandbriefe* by country/country of registration:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Germany		
Money claims in acc. with section 19(1) no. 3 of the PfandBG	200	200
Total Germany	200	200
Total	**200**	**200**
of which statutory overcollateralization in acc. with section 4(1) PfandBG	200	200

Additional cover assets (nominal amount) for public-sector *Pfandbriefe* by country/country of registration:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total	–	–

Section 28(1) nos. 7–11 of the PfandBG and section 28(2) no. 3 of the PfandBG
Indicators for outstanding mortgage *Pfandbriefe* and the associated cover assets:

	Dec. 31, 2016	Dec. 31, 2015
Interest rate structure in acc. with section 28(1) no. 9 of the PfandBG		
Percentage of fixed-interest *Pfandbriefe*	97.2 %	96.5 %
Percentage of fixed-interest cover assets	98.8 %	98.7 %
Exceedance in acc. with section 28(1) no. 8 of the PfandBG		
Total of the claims used for coverage exceeding the limits in acc. with section 19(1) no. 2 of the PfandBG in €m	–	–
Total of the claims used for coverage exceeding the limits in acc. with section 19(1) no. 3 of the PfandBG in €m	–	–
Further ratios		
Total of the claims which exceed the limits in acc. with section 13(1) of the PfandBG in €m (section 28(1) no. 7 of the PfandBG)	–	–
Net present value in acc. with section 6 of the *Pfandbrief* present value regulation for each foreign currency in €m (section 28(1) no.10 of the PfandBG)	–	–
Volume-weighted average of the maturity of the claims (seasoning) in years (section 28(1) no. 11 of the PfandBG)	6.1	5.6
Average, weighted loan-to-value ratio (section 28(2) no. 3 of the PfandBG)	55.6 %	54.8 %

Section 28(1) nos. 8–10 of the PfandBG
Indicators for outstanding public-sector *Pfandbriefe* and the associated cover assets:

	Dec. 31, 2016	Dec. 31, 2015
Interest rate structure in acc. with section 28(1) no. 9 of the PfandBG		
Percentage of fixed-interest *Pfandbriefe*	100.0 %	100.0 %
Percentage of fixed-interest cover assets	100.0 %	100.0 %
Exceedance in acc. with section 28(1) no. 8 of the PfandBG		
Total of the claims used for coverage exceeding the limits in acc. with section 20(2) of the PfandBG in €m	–	–
Further ratios		
Net present value in acc. with section 6 of the *Pfandbrief* Present Value Regulation for each foreign currency in €m (section 28(1) no. 10 of the PfandBG)	–	–

Section 28(2) no. 1a of the PfandBG
Receivables used to cover mortgage *Pfandbrief* issues, by size category (nominal amount):

	Mortgage cover assets Dec. 31, 2016 €m	Mortgage cover assets Dec. 31, 2015 €m
up to and including €300,000	5,174	5,739
more than €300,000 up to €1 million	54	57
more than €1 million up to €10 million	–	2
more than €10 million	–	–
Total	5,228	5,798

Section 28(2) nos. 1b and c of the PfandBG
Receivables used to cover mortgage *Pfandbrief* issues (nominal amount), by country in which the mortgaged properties are located, type of property, and type of use:

	Mortgage cover assets			
	Residential properties	Residential properties	Commercial properties	Commercial properties
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total	5,228	5,798	–	–

	Mortgage cover assets			
	Residential properties	Residential properties	Commercial properties	Commercial properties
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Germany				
Condominiums	766	897	–	–
One- and two-family houses	4,305	4,708	–	–
Multi-family houses	157	193	–	–
Total Germany	5,228	5,798	–	–

Section 28(2) no. 2 of the PfandBG
Total amount of payment arrears on mortgage receivables, past due at least 90 days (nominal amount):

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total	–	–

Total amount of payment arrears, insofar as the amount due in each case is at least 5 % of the mortgage receivable (nominal amount):

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total	–	–

Section 28(2) nos. 4a, b, and c of the PfandBG
Receivables used to cover mortgage *Pfandbrief* issues, by number of foreclosures and compulsory administration proceedings and foreclosed property acquisitions, as well as the total amount of late interest owed by mortgagees:

	Residential properties		Commercial properties	
	Dec. 31, 2016 Number	Dec. 31, 2015 Number	Dec. 31, 2016 Number	Dec. 31, 2015 Number
Number of foreclosures pending at the balance sheet date	1	2	–	–
Number of compulsory administration proceedings at the balance sheet date	–	–	–	–
Number of foreclosures carried out during the fiscal year	–	–	–	–
Number of properties taken over during the fiscal year to prevent losses	–	–	–	–
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total amount of outstanding interest	–	–	–	–

Section 28(3) no. 1 of the PfandBG
Receivables used to cover public-sector *Pfandbrief* issues, by size category (nominal amount):

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
up to and including €10 million	10	10
more than €10 million up to €100 million	285	285
more than €100 million	–	–
Total	295	295

Section 28(3) no. 2 of the PfandBG
Receivables used to cover public-sector *Pfandbrief* issues, by type of debtor/guaranteeing unit and its registered office (country):

	Public-sector cover assets	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Germany		
State	–	–
Regional authorities	295	295
Local authorities	–	–
Other debtors	–	–
Total Germany	295	295
Total	295	295

Section 28(3) no. 3 of the PfandBG
Total amount of payment arrears on public-sector receivables, past due at least 90 days (nominal amount):

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total	–	–

Total amount of payment arrears, insofar as the amount due in each case is at least 5 % of the public-sector receivable (nominal amount):

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total	–	–

X. Other disclosures

In accordance with section 2(4) of the *Postumwandlungsgesetz* (PostUmwG – German Postal Service Transformation Act), the German federal government guarantees settlement of all liabilities existing at the time of Deutsche Postbank AG's registration in the commercial register.

The government guarantee for savings deposits expired five years after the date of the entry in the commercial register.

Postbank is a member of the deposit protection fund of the Bundesverband deutscher Banken e.V. and the Entschädigungseinrichtung deutscher Banken GmbH investor compensation scheme.

XI. Declaration of Conformity

Deutsche Postbank AG has not been listed since January 14, 2016. Since that date, the Management Board and Supervisory Board of Deutsche Postbank AG are no longer required to make a "Declaration of Conformity" in accordance with section 161 of the AktG. For that reason, the last joint Declaration of Conformity, made by the Management Board and the Supervisory Board on December 17, 2015 and the reasoning it contains no longer apply. Postbank has likewise not given any undertaking to comply with the recommendations of the German Corporate Governance Code in any other respect.

D. Report on post-balance sheet date events

No significant reportable events occurred between December 31, 2016 and the preparation of the annual financial statements by the Management Board on February 21, 2017.

E. Members of executive bodies

Management Board

The members of the Management Board of Deutsche Postbank AG are:

Frank Strauss, Bad Nauheim (Chairman)	
Marc Hess, Bonn	
Susanne Klöss-Braekler, Munich	
Ralph Müller, Bonn	
Hans-Peter Schmid, Baldham	until September 30, 2016
Ralf Stemmer, Königswinter	
Hanns-Peter Storr, Bonn	

Offices held by members of the Management Board of Deutsche Postbank AG as of December 31, 2016, on supervisory boards or other supervisory bodies:

Frank Strauss
Chairman of the Management Board

Function	Company
Chairman of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Chairman of the Supervisory Board (until January 31, 2016)	PB Firmenkunden AG, Bonn
Chairman of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Chairman of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Chairman of the Supervisory Board (until February 12, 2016)	Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main
Chairman of the Supervisory Board (until February 29, 2016)	norisbank GmbH, Bonn

Marc Hess

Function	Company
Chairman of the Supervisory Board	BHW Holding AG, Hameln
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln

Susanne Klöss-Braekler

Function	Company
Chairperson of the Supervisory Board (since December 1, 2016) Member of the Supervisory Board (since July 1, 2016)	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board (until February 12, 2016)	Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main
Member of the Supervisory Board	Eurex Frankfurt AG, Frankfurt am Main
Member of the Board of Directors	Eurex Zürich AG, Zurich (Switzerland)

Ralph Müller

Function	Company
Chairman of the Supervisory Board (since February 1, 2016)	PB Firmenkunden AG, Bonn
Member of the Supervisory Board Deputy Chairman of the Supervisory Board (until April 14, 2016)	Postbank Systems AG, Bonn
Member of the Supervisory Board (until May 31, 2016)	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Board of Directors (until May 24, 2016)	MyMoneyPark AG, Zurich (Switzerland)

Hans-Peter Schmid

Member of the Management Board until September 30, 2016

Function	Company
Chairman of the Supervisory Board (until September 30, 2016)	Bayerische Börse AG, Munich
Deputy Chairman of the Supervisory Board (until September 30, 2016)	Postbank Akademie und Service GmbH, Hameln
Member of the Supervisory Board (until September 30, 2016)	PB Lebensversicherung AG, Hilden
Member of the Supervisory Board (until September 30, 2016)	PB Versicherung AG, Hilden

Ralf Stemmer

Function	Company
Chairman of the Supervisory Board	Postbank Akademie und Service GmbH, Hameln
Chairman of the Board of Directors	PB International S.A., Luxembourg
Deputy Chairman of the Supervisory Board	Postbank Direkt GmbH, Bonn
Deputy Chairman of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Deputy Chairman of the Supervisory Board (since April 14, 2016) Member of the Supervisory Board	Postbank Systems AG, Bonn
Deputy Chairman of the Supervisory Board	PB Pensionsfonds AG, Hilden
Member of the Supervisory Board	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Administrative Board	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Hanns-Peter Storr

Function	Company
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board (since February 8, 2016)	Postbank Systems AG, Bonn
Member of the Supervisory Board (until March 17, 2016)	norisbank GmbH, Bonn

The members of the Supervisory Board of Deutsche Postbank AG are:

1. Shareholder representatives

Werner Steinmüller, (Chairman) Member of the Management Board of Deutsche Bank AG, Dreieich-Buchschlag	
Edgar Ernst President of the Financial Reporting Enforcement Panel, DPR e.V., Bonn	
Stefanie Heberling Regional Management, Retail Customers, central Ruhr region Deutsche Bank Privat- und Geschäftskunden AG, Wuppertal	
Tessen von Heydebreck Chairman of the Board of Trustees of Deutsche Bank Foundation, Berlin	
Katja Langenbucher-Adolff Professor for Private Law, Corporate and Financial Law, Goethe University Frankfurt am Main, Frankfurt am Main	
Karen Meyer Global HR Business Partner PWCC&AM, Deutsche Bank AG, Frankfurt am Main	since February 1, 2016
Christian Ricken Chief Operating Officer PBC, Deutsche Bank AG, Bad Homburg v.d.Höhe	until January 31, 2016
Christiana Riley CFO Corporate & Investment Banking Deutsche Bank AG, Bad Homburg v.d.Höhe	
Karl von Rohr Member of the Management Board of Deutsche Bank AG, Oberursel	
Christian Sewing Member of the Management Board of Deutsche Bank AG, Osnabrück	
Michael Spiegel Global Head of Trade Finance and Cash Management Corporates Deutsche Bank AG, London	

2. Employee representatives

Frank Bsirske Chairman of the ver.di Trade Union, Berlin (Deputy Chairman)	
Rolf Bauermeister Head of National Postal Services Group, at ver.di Trade Union (national administration), Berlin	until March 31, 2016
Susanne Bleidt Member of Postbank Filialvertrieb AG's General Works Council, Bell	
Timo Heider Chairman of the Group Works Council of Deutsche Postbank AG and Chairman of the General Works Council of BHW Kreditservice GmbH, Emmerthal	
Jens Isselmann Executive employee of Deutsche Postbank AG, Bornheim	since December 31, 2016
Hans-Jürgen Kummetat Civil servant, Cologne	
Bernd Rose Chairman of the General Works Council of Postbank Filialvertrieb AG/Postbank Filial GmbH, Menden (Sauerland)	
Martina Scholze Trade union secretary of the ver.di Trade Union, Munich	since April 21, 2016
Eric Stadler Chairman of Betriebs-Center für Banken AG's Works Council, Markt Schwaben	
Gerd Tausendfreund Trade union secretary of the ver.di Trade Union, Nidderau	
Renate Treis Deputy Chair of Deutsche Postbank AG's General Works Council, Brühl	
Wolfgang Zimny Banking lawyer, Head of Department, Deutsche Postbank AG, Head Office, Bornheim	until December 30, 2016

Offices held by members of the Supervisory Board of Deutsche Postbank AG as of December 31, 2016, on supervisory boards or other supervisory bodies:

Shareholder representatives:

Werner Steinmüller
Chairman of the Supervisory Board

Function	Company
Chairman of the Supervisory Board (until June 30, 2016)	Deutsche Bank Nederland N.V., Amsterdam
Member of the Advisory Board (until October 30, 2016)	True Sale International GmbH, Frankfurt am Main

Edgar Ernst

Function	Company
Member of the Supervisory Board	DMG SEIKI AG, Bielefeld
Member of the Supervisory Board	TUI AG, Hanover
Member of the Supervisory Board	VONOVIA SE, Düsseldorf
Member of the Supervisory Board (until January 3, 2016)	Wincor Nixdorf AG, Paderborn

Tessen von Heydebreck

Function	Company
Chairman of the Advisory Board	IFA Rotorion Holding GmbH, Haldensleben
Member of the Board of Trustees	Dussmann Stiftung & Co. KGaA, Berlin
Member of the Supervisory Board	Vattenfall GmbH, Berlin
Member of the Supervisory Board (until December 31, 2016)	Kommanditgesellschaft CURA Vermögensverwaltung GmbH & Co. KG, Hamburg
Member of the Advisory Board (until December 31, 2016)	DECM Deutsche Einkaufs-Center-Management G.m.b.H., Hamburg

Karen Meyer
Member of the Supervisory Board since February 1, 2016

Function	Company
Member of the Advisory Board	Deutsche Bank HR Solutions GmbH, Frankfurt am Main

Christian Ricken
Member of the Supervisory Board until January 31, 2016

Function	Company
Chairman of the Advisory Board (until January 31, 2016)	PBC Banking Services GmbH, Frankfurt am Main
Deputy Chairman of the Supervisory Board (until January 31, 2016)	norisbank GmbH, Bonn
Member of the Supervisory Board (until January 31, 2016)	Deutsche Bank Europe GmbH, Rotterdam
Member of the Supervisory Board (until January 31, 2016)	Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main
Member of the Board of Directors (until January 31, 2016)	HuaXia Bank Co., Ltd., Beijing

Karl von Rohr

Function	Company
Member of the Supervisory Board (since June 24, 2016)	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board (since June 24, 2016)	BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Member of the Supervisory Board (until March 15, 2016)	Deutsche Bank Luxembourg S.A., Luxembourg

Christian Sewing

Function	Company
Chairman of the Supervisory Board (since June 11, 2016)	Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main

Employee representatives:

Frank Bsirske
Deputy Chairman of the Supervisory Board

Function	Company
Deputy Chairman of the Supervisory Board (since July 1, 2016)	innogy SE, Essen
Deputy Chairman of the Supervisory Board	RWE AG, Essen
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board	IBM Central Holding GmbH, Ehningen
Member of the Board of Supervisory Directors	Kreditanstalt für Wiederaufbau, Frankfurt am Main

Rolf Bauermeister
Member of the Supervisory Board until March 31, 2016

Function	Company
Member of the Supervisory Board	Deutsche Post AG, Bonn

Susanne Bleidt

Function	Company
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the General Assembly of Members	Erholungswerk Post, Postbank, Telekom e.V., Stuttgart

Timo Heider

Function	Company
Deputy Chairman of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Deputy Chairman of the Supervisory Board	Pensionskasse der BHW Bausparkasse VVaG, Hameln
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Advisory Board (until December 31, 2015)	PBC Banking Services GmbH, Frankfurt am Main

Bernd Rose

Function	Company
Deputy Chairman of the Supervisory Board	ver.di Vermögensverwaltungs-gesellschaft mbH, Berlin
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Martina Scholze
Member of the Supervisory Board since April 21, 2016

Function	Company
Deputy Chairman of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	ERGO Group AG, Düsseldorf

Eric Stadler

Function	Company
Deputy Chairman of the Advisory Board (until June 30, 2016)	PBC Banking Services GmbH, Frankfurt am Main

Gerd Tausendfreund

Function	Company
Member of the Supervisory Board	Betriebs-Center für Banken AG, Frankfurt am Main

Renate Treis

Function	Company
Member of the General Assembly of Members (until December 31, 2016)	Erholungswerk Post, Postbank, Telekom e.V., Stuttgart

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of Postbank, and the Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Bonn, February 21, 2017

Deutsche Postbank Aktiengesellschaft

The Management Board

Frank Strauss

Marc Hess

Susanne Klöss-Braekler

Ralph Müller

Ralf Stemmer

Hanns-Peter Storr

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Deutsche Postbank AG, Bonn, for the business year from 1st January 2016 to 31st December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements, complies with legal requirements, as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 22, 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Ralf Schmitz	Christian F. Rabeling
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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

The English version of the Report constitutes a translation of the original German version. Only the German version is legally binding.