

2017

DEUTSCHE POSTBANK AG, BONN
ANNUAL FINANCIAL STATEMENTS (HGB)
AS OF DECEMBER 31, 2017

DEUTSCHE POSTBANK AG, BONN
ANNUAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017
AND MANAGEMENT REPORT FOR FISCAL YEAR 2017

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POSTBANK MANAGEMENT REPORT

BUSINESS AND ENVIRONMENT

Corporate profile and business model of Postbank

Corporate profile

Deutsche Postbank AG including its subsidiaries (Postbank Group) has been part of the Deutsche Bank Group, Frankfurt am Main, since December 3, 2010. On March 5, 2017, as part of a series of measures in line with its strategy, Deutsche Bank announced its intention of merging Postbank in the mid-term with Deutsche Bank's Private & Commercial Clients business and its business with high-net-worth (HNW) customers. Deutsche Bank's new strategic positioning and clear dedication to its home market is aimed at forming a market-leading retail and corporate banking presence in Germany that benefits from greater efficiency through scale.

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 Germany-wide branch network 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 and sell Postbank products.

Key locations

The head office of Postbank is located in Bonn. In addition, Postbank operates both a national network of branches that had 1,023 Finance Centers in Germany at the end of 2017 as well as a branch in Luxembourg, which makes an essential earnings contribution to the Bank's corporate banking business.

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 6.3 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, the Postbank Group with its DSL Bank and BHW brands is one of the largest mortgage lenders in Germany based on balance-sheet volumes. Postbank also increasingly engages in the installment loans business. 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 has also developed an integrated advisory concept for securities and securities accounts and recently relaunched an associated online brokerage platform as part of its intention to offer customers prudent guidance on investments in low interest rate environments that go above and beyond savings and checking products.

In its own 1,023 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 cooperates with some 4,200 Deutsche Post AG partner retail outlets, where customers can access select Postbank financial services, as well as some 600 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, the Postbank Group is one of the leading providers in Germany. It also serves as a partner for commercial real estate finance with a European orientation for its corporate customers. The Bank's most significant competitors in this business area also include providers from the sector of savings banks and cooperative banks as well as several major banks.

Management at the Postbank Group

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

Non-financial key performance indicators at the Postbank Group

In its Group 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 2017.

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, work load, and the digital transformation. 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 market/customers, process/quality, and employees/team that 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 at the Postbank Group
The IFRS subgroup figures of the Postbank Group are relevant for management at Postbank.

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: <ul style="list-style-type: none"> - 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 structures¹ - Expenses for legal risks in conjunction with customer 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)).

¹In fiscal year 2017, these included projects conducted in the "deconsolidation" and "management agenda" steering committees as well as negative effects from the planned integration of the Postbank Group into the Deutsche Bank Group.

Management at the Postbank Group 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 the Postbank Group 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 by return on tangible equity (RoTE) after tax. The Postbank Group'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 and Control Committee for Management Board remuneration.

In order to take other key requirements into account from a capital market perspective, the Postbank Group 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 the Postbank Group 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 Notes to the Consolidated Financial Statements.

Management process

The Postbank Group directs its activities at the segment level 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 LtD 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 and is discussed on a monthly basis in a Management Board committee that addresses balance sheet management.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Information on and explanations of the remuneration of both the Management Board and Supervisory Board can be found in section C. VII. of the Notes to the Annual Financial Statements.

NON-FINANCIAL STATEMENT

Owing to the existing parent-subsidiary relationship with Deutsche Bank AG, Postbank makes use of the existing exemption option in accordance with section 289b(2) and section 315b(2) of the *Handelsgesetzbuch* (HGB – German Commercial Code). The Postbank Group is included in the publication of the non-financial Group reporting on Deutsche Bank's website (<https://www.db.com/ir>).

COMPOSITION OF ISSUED CAPITAL

Disclosures in accordance with section 160 of the *Aktien-gesetz* (AktG – German Stock Corporation Act) can be found in section B. 24 of 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 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 have at least one woman among its members. The first deadline set for achieving that target was June 30, 2017. One woman served on the Management Board during the reporting period. As a result, the Management Board has met the set quota. Another woman joined the Management Board as of January 1, 2018.

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. On July 1, 2017, the percentage of women working in the first management level below the Management Board (VS-1) was 17 % and in the second level (VS-2) 19 %. On December 31, 2017, the percentage of women working in the VS-1 management level was 18 %

and the percentage working in VS-2 21 %. As a result, the quota set for management level VS-2 was met. The quota for the VS-1 management level was slightly below the set target despite the positive trend.

The non-achievement of these target values at two levels despite the markedly positive trend can be attributed to a historically less favorable baseline. The initiatives undertaken as of 2015 have turned out to be effective. At all levels of management, the percentage of women is rising. Identifying, promoting and placing talented women in the relevant positions is a multi-year process. Postbank began by establishing and then building on a strong pool of female talent. Viewed from a long-term perspective of sustainability, this is the right approach. As a result, the percentages of women in programs for young talent, at 30 %–50 %, are significantly higher than target rates. The task of building up a pool of talented women employees who begin their careers in non-managerial positions and later advance to lower levels of management is one that takes several years. Experience has shown, however, that this timeframe is necessary to prepare staff adequately to take on markedly more challenging tasks at the next managerial levels. In addition, important framework parameters have changed, such as the decision to fully integrate Postbank into the Deutsche Bank Group and persistent cost pressures resulting from this phase of historically low interest rates. Both factors have considerably shrunk the Bank's range of options.

EMPLOYEES

At the end of 2017, Deutsche Postbank AG employed 3,716 full-time equivalents, 13 more than the total employed as of December 31, 2016. Of those 3,716 employees, 75 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 Deutsche Postbank AG.

In total, active civil servants account for about 16 % of the entire workforce.

About 16 % of our employees work 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 4 % in 2017. The main reasons for departures were the expiration of fixed-term employment contracts and the start of legal retirement. The average length of a person's employment at the Bank was approximately 19 years. Deutsche Postbank AG 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 2017

Executive bodies

Renate Treis stepped down from her position on the Supervisory Board effective as of the end of February 28, 2017, owing to her retirement.

After the Annual General Meeting that resolved on the formal approval of the Supervisory Board's activities for fiscal year 2016, the terms of office of Tessen von Heydebreck and Christian Sewing as shareholder representatives on the Supervisory Board came to an end. By resolution of the Annual General Meeting on March 22, 2017, Tessen von Heydebreck was again elected to serve for a period of one year and Christian Sewing was also again elected to serve until the close of the Annual General Meeting that resolves on the formal approval of the Supervisory Board's activities for fiscal year 2021, with both to act as shareholder representatives.

Hans-Jürgen Kummetat stepped down from the Supervisory Board following the completion of his term of office on March 22, 2017. During the election of delegates on March 9, 2017, Anna Lisa Trompa and Frank Fuss were elected to serve as the new employee representatives on the Supervisory Board of Deutsche Postbank AG. Their terms of office began at the end of the Annual General Meeting of Deutsche Postbank AG on March 22, 2017.

On June 1, 2017, Lars Stoy was appointed to the Management Board of Deutsche Postbank AG. At the same time the Bank's retail business, which in the past had been distributed across different areas and sales channels, was restructured. Susanne Klöss-Braekler, previously responsible for Products on Postbank's Management Board, has been responsible for the Retail Banking areas of "Postal Business" and "Banking" (checking accounts, savings, personal loans) since then. Lars Stoy has accepted responsibility for "Real Estate" (retail mortgage lending, home savings, real estate) and "Securities." Bundling these four newly established fields of expertise allows for integrated management of the retail banking business. It also enables Postbank to orient itself better on the interests of customers and establish end-to-end processes across sales channels by integrating all areas participating in the value chain. Susanne Klöss-Braekler (Branch Sales and Call Centers) and Lars Stoy (Mobile Sales including real estate agents and mortgage lending specialists in the branches) also manage the four sales channels in the retail banking business.

Ralf Stemmer stepped down from his position as Board Member responsible for Resources at Deutsche Postbank AG effective May 31, 2017. His successor is Philip Laucks, who joined the Management Board effective June 1, 2017.

Changes at the subsidiaries

Deutsche Postbank Funding Trust IV and Deutsche Postbank Funding LLC IV were wound up as of September 22, 2017.

The sale of the Frankfurt-based girocard network operation of VÖB-ZVD Processing GmbH in the third quarter of 2017 was yet another important step toward focusing on our core business. VÖB-ZVD Processing is a licensed commercial network operator for technical processing of the most common forms of payment with cards.

In the fourth quarter of 2017, Postbank Beteiligungen GmbH, a wholly-owned subsidiary of Deutsche Postbank AG, increased its share capital against non-cash contributions. The sole shareholder, Deutsche Postbank AG, acquired the new share capital, putting up all of its shares in PB Factoring GmbH as non-cash contributions.

REPORT ON ECONOMIC POSITION

OVERALL ECONOMIC PARAMETERS IN 2017

Macroeconomic conditions in 2017

Global economy accelerates

Global economic growth strengthened in 2017, attributable to a broad-based rise in economic momentum. Average growth in the gross domestic product (GDP) of the industrialized countries climbed to 2.3 %, while growth in the emerging markets rose to 4.7 %. This recovery was attributable in part to several of the large emerging economies moving out of the in some cases severe recessions they had been facing. Overall, global economic activity – adjusted for purchasing power – rose by 3.7 % 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 economy in the United States accelerated significantly in 2017. Corporate investments in particular climbed sharply. This was caused not least by the rising oil price as compared to the prior year and the resulting increase in investment in the energy sector. At the same time, inventory investments had a much less negative impact on growth than in the prior year. Private consumption once again grew markedly and remained the most important growth driver. Both exports and imports rose significantly. All in all, foreign trade had a slightly damping impact on growth. As a whole, GDP growth accelerated markedly from 1.5 % in the prior year to 2.3 % in 2017. This corresponds to our projection at the start of the reporting year. Against the backdrop of the positive economic environment, hiring continued to grow in the United States at only a slightly diminished pace. At the same time, the already low unemployment rate decreased substantially once again.

The emerging countries of Asia remained the leading economic powerhouses. At 6.5 %, GDP growth was slightly above the 6.4 % seen in the previous year. Surprisingly, China reported a slight increase in growth to 6.9 % following 6.7 % last year. The upward trend in industrial production strengthened after a weak prior year. In particular the Chinese economy strengthened its exports sharply by 7.9 %. The Japanese economy accelerated markedly in 2017. Private consumption grew moderately, while gross capital expenditures increased significantly. Exports in particular provided strong momentum, benefiting from increasing global demand and moderate weakening of the yen. Overall, this led to a strengthening of GDP growth to 1.8 % as compared to the 1.1 % we had anticipated.

The economic upswing in the eurozone intensified in 2017. Domestic demand continued to generate strong momentum. According to the available data, private consumption rose 1.9 % while government spending climbed 1.1 %. Gross capital expenditures rose by approximately 4.0 %. The upward

trend in exports increased sharply. As a result, foreign trade had a positive impact on economic growth after exerting an adverse effect on it in the prior year. Ultimately, this propelled acceleration of GDP growth to 2.5 % following growth of 1.8 % in the previous year. From a regional perspective, economic development was more balanced than in previous years. Several countries that had previously experienced relatively weak growth were able to largely catch up with the average in the eurozone. In line with the robust upswing, the average unemployment rate sank markedly to 9.1 %.

Economic development in Europe was much more positive than we expected. The GDP continued to grow more strongly than the 1.4 % forecast at the start of the reporting year.

Strong upturn in Germany

The upturn in the German economy gained significantly in strength and breadth in 2017. Domestic demand generated sustainable momentum. At 2.0 %, growth in private consumption was on a par with the prior year, although inflation rose markedly from 0.5 % to 1.8 %. Private consumption benefited from the continuing historically low interest rate level as well as from an accelerated increase in disposable income. This enabled private households to keep their savings rate relatively constant despite growth in consumption. Government spending, on the other hand, increased only moderately. At 3.0 %, growth in gross capital expenditures stabilized at a substantial level, however. Investments in machinery and equipment accelerated notably to 3.5 %. This development was favorably influenced by the improving global environment. In contrast, growth in construction investments weakened slightly to 2.6 %. This was attributable to a decrease in the growth rate of residential construction to a nevertheless still very robust 3.1 %. Exports, on the other hand, strengthened by 4.7 % as a result of increased global demand. Although imports grew as well, foreign trade made a positive contribution to GDP growth after curbing it in 2016. Overall GDP growth of 2.2 % in 2017 was notably 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 158,000 to 2.53 million, causing the unemployment rate to drop from 6.1 % to 5.7 %. At the same time, the number of people in the workforce increased by 659,000 to 44.29 million.

In summary, macroeconomic performance in 2017 was much more positive than we expected at the time of our last Annual Report. GDP growth in particular significantly exceeded our forecast of 1.4 %.

Market development

Political factors influenced global financial markets especially in the first half of 2017. Later in the year, the market was driven primarily by the accelerating global upswing.

Prices on the international stock markets rose significantly over the course of the year. This development was driven by the acceleration of global GDP growth paired with continuing low interest rates. Many companies were able to boost revenue and profits in this environment, laying the foundation for rising stock prices. Political uncertainty – arising from such factors as the numerous elections in the eurozone, the stalled negotiations on the terms of Great Britain's exit from the European Union (EU), and the conflict between the United States and North Korea – on the German stock market and other European markets lasted well into the summer and repeatedly led to temporary setbacks. The upswing in share prices accelerated and strengthened in the final months of the reporting year as a result of ever improving global growth prospects. All in all, in 2017 the DAX climbed 12.5 % above its year-end level for 2016. The EURO STOXX 50 generated a significantly lower gain of 6.5 %. Stock price performance in the United States was substantially better, and the markets there remained untouched by marked temporary setbacks. The S&P 500 rose by 19.4 %.

As a whole, risk premiums for government bonds from the member states of the European Monetary Union (EMU) decreased in 2017. The yield spreads of Italian, Spanish and Portuguese government bonds over German Bunds all decreased, but to greatly varying degrees. Portuguese government bonds showed the strongest improvement. While risk premiums rose significantly in 2016 due to uncertainty regarding government economic policies and the sustained high government deficit, they dropped sharply in 2017 as a result of unexpectedly strong growth and considerable progress in reducing government deficit as well as the related ratings increase for Portuguese government bonds by several rating agencies. The Spanish capital market continued to benefit from the country's sustained strong economic recovery in 2017. Political factors such as the independence movement in the region of Catalonia caused some intermittent uncertainty, however. All in all, the yield spreads of Spanish government bonds dropped nonetheless. At the end of 2017 they were slightly below their closing level for the prior year. The latter also holds true of Italian government bonds, although the announcement of early elections toward the end of the year caused risk premiums to rise slightly once again.

In regard to ECB monetary policy, 2017 saw an important but very cautious shift in trends. After having drastically relaxed the monetary policy environment in the past several years to combat crises and what it deemed deflationary risks, the central bank has now initiated its exit from the bond-buying program. It proceeded very cautiously in order to minimize the risk of market turbulence and an economic downturn in the EMU. In April, the monetary authorities lowered the monthly purchasing volume for bonds from €80 billion to €60 billion, thereby putting the decision of December 2016 into effect. In October 2017, a decision was made to further reduce purchases to €30 billion a month starting in January 2018. As with the previous change in volume, the monetary authorities again opted to extend the purchases for another nine months. The change in the forward

guidance during the council meeting in June 2017, according to which the ECB expects no further lowering of key interest rates, can also be evaluated as a cautious shift in trends in monetary policy. The ECB Governing Council left key interest rates untouched throughout 2017. The main refinancing rate remained stable at 0.00 %, the deposit facility rate at –0.40 % and the marginal lending rate at 0.25 %. As a result of the constant interest rate policy, money market interest rates remained at a low level. At the end of 2017, the three-month Euribor was –0.33 %, 0.01 percentage points lower than at the prior year-end.

The U.S. Federal Reserve accelerated the departure from its low interest rate policy in 2017 due to the solid economic recovery and the continuing improvement in the U.S. labor market. In three steps, it raised its federal funds rate by a total of 0.75 percentage points to a range of 1.25 % to 1.50 % by the end of the year and was thus above our forecast range of 1.00 % to 1.25 %. In addition, since October 2017, the Fed has been only partially reinvesting the money it collects from maturing bonds in its holdings.

Capital market interest rates fluctuated quite sharply in 2017. Yields moved up and down in quick succession, in particular in the first half of the year. This fluctuation was initially triggered by alternating forecasts regarding the direction the new U.S. administration would take in its future economic policies. Political uncertainty in Europe was also a crucial factor, however. At mid-year, yields experienced a boost fueled by eurozone economic data in combination with statements made by the ECB president that were interpreted as preparation for a reversal in monetary policy. The statements were later substantially relativized, however. In the context of heightening geopolitical tensions and the resulting “flight to quality,” this led to a downward adjustment in capital market interest rates. Toward the end of the year, the good economic outlook and the increasing expectation of a soon forthcoming tightening of ECB monetary policy caused capital market interest rates to rise again. By the end of 2017, the yields of ten-year German Bunds were at 0.43 %, 0.22 percentage points above their prior-year closing point. Money market rates fell slightly in the same time period, leading to a somewhat steeper yield curve in Germany. In the United States, the yield of ten-year Treasuries dropped slightly. Money market interest rates climbed markedly at the same time, leading to a significant flattening of the U.S. yield curve.

Despite the widening gap in key interest rates in favor of the United States, the euro rose markedly against the U.S. dollar during the course of 2017. It benefited in particular from the clearly accelerating economic upswing in the eurozone, which in turn strengthened expectations of the ECB also raising its key interest rate in the foreseeable future. At the end of the year, the euro was trading at about US\$ 1.20, up 14.0 % year-on-year.

The market developments largely reflected our expectations at the time of our last Annual Report. We expected the yields of ten-year German Bunds to end 2017 at a slightly higher level than at the beginning of the year. 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

The issues dominating the European banking sector in 2017 were the continuation of the low interest rate policy by the European Central Bank (ECB), regulatory demands, and finding a solution to the problem of non-performing loans of Italian banks and one Spanish institution.

Together with the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority), the Deutsche Bundesbank had subjected some 1,500 small and mid-sized German banks to a stress test by the end of June 2017. The test results were announced at the end of August 2017 and will be incorporated into the Supervisory Review and Evaluation Process (SREP) of the Bundesbank and BaFin. Overall, the conclusion was positive. Nearly all small and mid-sized banks have good resilience. The average (across all participating banks) Common Equity Tier 1 capital ratio following stress was 13.3 %. Only approximately 4.5 % of the banks were unable to satisfy the regulatory requirements.

While the stress tests were being performed, the ECB carried out a Europe-wide survey of banks’ earnings power. Although these banks are not under the direct control of the ECB, they are of regulatory significance for other reasons. The LSI Profitability Forecast Survey involved the ECB surveying – in addition to banks in other countries – 41 German financial institutions that have likewise been examined by the Deutsche Bundesbank and BaFin.

In mid-May 2017, the German Bundesrat adopted the *Zweites Finanzmarktnovellierungsgesetz* (2. FiMaNoG – Second Financial Markets Amendment Act), which transposes MiFID II (Markets in Financial Instruments Directive II) into national law. It also adopted amendments to the EU Mortgage Credit Directive in a move to allay legal concerns that had arisen in implementing the Directive.

MiFID II and MiFIR (Markets in Financial Instruments Regulation) went into effect on January 3, 2018. PSD2 (Payment Service Directive) was implemented into German law on January 13, 2018.

The volume of loans issued to domestic companies and private individuals in Germany increased by 3.1 % to €2,589 billion in the first three quarters of 2017. Lending growth thus rose above the prior-year period. Growth in lending volumes to companies was significantly stronger than in the previous year, increasing by 3.8 % to €982 billion. Loans to self-employed private individuals rose by 2.3 % to €410 billion, also growing more briskly than in the same period in 2016. Loans issued to non-self-employed persons and other private individuals rose by 2.8 % to €1,182 billion in the first three quarters, only marginally higher than 2016. In this category, residential construction loans climbed by 2.9 % to €945 billion. New business with residential construction loans for private individuals fell by 2.2 % in 2017, however. The overall notable improvement of the lending business was primarily fueled by the continuation of the economic upswing. The slight decline in new business with residential construction loans should be classified as stabilization at a high level.

Between January and October of 2017, the number of bankruptcies in Germany fell significantly by 5.9% year-on-year. The number of business bankruptcies dropped sharply by 7.2%. Accordingly, the positive trend seen in previous years continued. The economic upswing and the very low 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 5.6% after already falling noticeably 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 2017, there were no significant developments between the individual pillars to report. However, mergers between smaller institutions, both in the public and the cooperative sector, continued to occur. Increasing regulatory demands 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 2017 with the previous year's results. All five banks generated profits both before and after tax. However, profit in both parameters was lower than in the prior-year period for three of the five banks. The continuing low interest rate environment left its mark on the income statements of all financial institutions. This was evident in particular in the development of net interest income: Four banks reported a decline in net interest income both before and after accounting for the allowance for losses on loans and advances. The banks were predominately able to successfully master the generally less volatile market. Four of the five financial institutions improved their net trading income. Four of the institutions were also able to improve net fee and commission income compared with the prior year. The trend in administrative expenses revealed that the majority of financial institutions continue to focus strongly on cost control. Four of the banks reduced their administrative expenses in the period under review. As a result, these four banks were able to reduce their cost/income ratio. However, only two banks were able to increase their return on equity (RoE) after tax.

The DAX climbed 12.5% over 2017 as a whole. The two banks listed in Germany's blue-chip index reported opposing trends. While share prices of one of the banks rose significantly, the other institution's stock trended downward.

COURSE OF BUSINESS

Results of operations, financial position, and net assets

In fiscal year 2017, Postbank's profit before tax and profit transfer amounted to €227 million, after €20 million in the previous year.

Net profit for the period after tax and before profit transfer amounted to €217 million (previous year: €9 million). In accordance with the control and profit and loss transfer agreement, Postbank will transfer the entire profit to DB Beteiligungs-Holding GmbH, Frankfurt am Main.

Despite significant investments in the planned further integration with the Deutsche Bank Group, net profit for the period before profit transfer was increased, including a €200 million withdrawal from the fund for general banking risks.

Net interest income declined further due to the continued impact of the low interest rate environment. By contrast, net fee and commission income improved considerably, in particular because of the reorganization of the account models for retail customers and the new securities strategy. Personnel expenses and other operating expenses rose sharply due to the recognition of provisions for personnel-related measures in connection with the integration with Deutsche Bank's Private & Commercial Clients business. Negative earnings contributions from pension obligations were reported in the aggregate in the fiscal year from the balance of income from plan assets and interest expense from pension obligations.

In addition, positive non-recurring effects were recorded in the fiscal year from the intragroup transfer of a subsidiary – accompanied by writedowns of other subsidiaries – and a positive trend in the risk provisions in the lending business.

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) declined moderately by 3.6% to €2,181 million.

The persistently low interest rate environment made generating interest income challenging for all banks holding large amounts of deposits. Interest income was additionally impacted by the further high willingness of borrowers to repay. These effects were partially cushioned by the continued satisfactory performance of the new lending business. Interest expense declined by €119 million year-on-year, primarily as a result of adjustments to loan terms and the further reduction in high-interest liabilities. Interest income from securities fell by €123 million to €442 million due to the systematic reduction of investment securities portfolios and the low interest rates. Net interest income of €92 million was generated by closing out derivatives prior to maturity (previous year: €80 million). Current income from equities, equity investments, and investments in affiliated companies of €76 million (previous year: €59 million) mainly comprises income from distributions from special funds amounting to €60 million (previous year: €58 million). Income from profit and loss transfer agreements rose by €10 million in the reporting period to reach €80 million.

Net fee and commission income

In line with our expectations, net fee and commission income improved significantly in the reporting period by €95 million to €283 million. The factors contributing to the increase were in particular the reorganization of the account models for retail customers in November 2016 and the successful introduction of the new securities strategy in conjunction with an integrated advisory concept. Increased expenses for mortgage lending brokerage fees were negative factors.

Net income from the trading portfolio

In fiscal year 2017, Postbank reported net income from its trading portfolio of €6 million (previous year: €6 million). This comprises positive changes in the fair value of interest rate derivatives held in the trading portfolio amounting to €2 million (previous year: negative changes of €1 million), positive effects from risk allowances on derivatives in the trading portfolio recognized in prior periods (including credit value adjustments/debt value adjustments) amounting to €5 million (previous year: €8 million), and the addition to the fund for general banking risks pursuant to section 340e(4) of the HGB amounting to €1 million (previous year: €1 million).

Administrative expenses

Contrary to our projection, administrative expenses (including depreciation of property and equipment and amortization of intangible assets) rose moderately by €135 million to €2,273 million (previous year: €2,138 million). This was attributable to growth in personnel expenses by €179 million to €833 million (previous year: €654 million), in particular because of the recognition of provisions of €179 million (previous year: €0 million) for the planned integration of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG and the reorganization of the sales organization. Despite higher costs for deposit guarantee schemes, other administrative expenses, depreciation of property and equipment, and amortization of intangible assets declined slightly by 3.0% year-on-year to €1,440 million.

Provisions for risks/net measurement gains and losses

Lending business

Contrary to expectations, net measurement losses in the lending business improved by €70 million to €90 million largely because of the successful realization of a corporate customer exposure and the resulting reversal of provisions for risks (€63 million) and the sale of two loan portfolios. This was also supported by the high quality of our loan portfolio, the persistently robust German real estate market, and the ongoing positive labor market situation in Germany.

Securities in the liquidity reserve

Net measurement losses for securities in the liquidity reserve were €60 million in the reporting period (previous year: €29 million), and thus considerably better than our expectations, which had been for losses in the low three-digit millions of euros. Despite the historically low interest rates, the result is again adversely affected by writedowns of securities measured above their par value. The writedowns amounted to €88 million (previous year: €80 million), while reversals of writedowns totaled €9 million (previous year: €6 million). Price gains of €52 million were generated on the sale of securities. Redemption losses of €38 million and redemption gains of €2 million attributable to maturing securities were recorded. Transactions involving derivatives in the non-trading portfolio generated gains of €3 million.

Equity investments, investments in affiliated companies, and securities treated as fixed assets

The net measurement gain of €310 million (previous year: loss of €50 million) from equity investments, investments in affiliated companies, and securities treated as fixed assets was considerably higher than expected. The increase is due primarily to income from the transfer of the investment in PB Factoring GmbH amounting to €439 million and to lower writedowns of affiliated companies than in the previous year. Price gains of €18 million (previous year: €120 million) on securities were realized in fiscal year 2017. The ongoing reduction of a strategic equity investment based on a sales cooperation generated net income of €11 million (previous year: €17 million).

Fund for general banking risks

€200 million was withdrawn from the fund for general banking risks pursuant to section 340g of the HGB during the reporting period.

Other income

As expected, the change in net other income and expenses (including other taxes) from €29 million to €-185 million is mainly attributable to the reduction in the balance of expenses from pension obligations and income from plan assets from €86 million to €-110 million. Other operating income primarily comprises reimbursements from affiliated companies for civil servants' salaries amounting to €169 million (previous year: €175 million), rental income of €98 million (previous year: €91 million), compensation for participation in the TLTRO group for the ECB's refinancing program amounting to €34 million (previous year: €40 million), and income of €39 million from the reversal of provisions (previous year: €33 million). Other operating expenses relate in particular to expenses for services provided by the service companies of €392 million (previous year: €412 million). In addition, they contain expenses for debt assumption agreements for early retirement and severance packages offered at subsidiaries amounting to €46 million (previous year: €0 million), for court and litigation costs amounting to €22 million (previous year: €54 million), and payments made to the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost amounting to €14 million (previous year: €12 million).

Expenses from loss absorption

Expenses of €145 million (previous year: €89 million) arose in the reporting period from the contractually agreed absorption of losses of subsidiaries.

Profit before tax

Profit before tax and profit transfer amounted to €227 million in fiscal year 2017 (previous year: €20 million).

Taxes on income

The income tax expense of €10 million (previous year: €11 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 2017 after transferring its profit of €217 million to DB Beteiligungs-Holding GmbH, Frankfurt am Main.

NET ASSETS AND FINANCIAL POSITION**Changes in the balance sheet structure****Total assets**

Postbank's total assets amounted to €124.6 billion, down 1.7 % on the prior-year figure of €126.8 billion.

The assets side of the balance sheet was characterized largely by a reduction in securities repurchase agreements and the continued scaling back of the securities portfolio. There was an increase in loans and advances to customers. On the liabilities side of the balance sheet, the decline was reflected mainly by a reduction in securities repurchase transactions.

Loans and advances to customers

Loans and advances to customers amounted to €78.8 billion as of December 31, 2017, an increase of 7.4 % compared with the previous year. The increase was mainly attributable to private mortgage lending (€2.9 billion) and commercial loans (€1.1 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 €36.1 billion as of the reporting date (previous year: €42.7 billion). Loans and advances to other banks fell by 15.5 % year-on-year to €15.5 billion. This was due mainly to the reduction in securities repurchase transactions (down €5.1 billion). By contrast, demand deposits increased by €3.1 billion to €8.6 billion. Efforts to enhance Postbank's risk structure and earnings quality saw a further reduction in the Bank's securities portfolio, which was down €3.7 billion year-on-year to €20.5 billion. The trading portfolio amounted to €0.1 billion as of the reporting date (previous year: €0.3 billion) and mainly comprised positive fair values of derivative financial instruments.

Amounts due to customers

Amounts due to customers totaled €101.1 billion as of the reporting date, on a level with the prior-year figure of €101.4 billion. Whereas savings deposits decreased by 4.9 % year-on-year, from €38.6 billion to €36.7 billion, demand deposits and other liabilities with agreed maturities or withdrawal notice rose by 7.4 % to €54.2 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 €14.0 billion (previous year: €15.2 billion). The trading portfolio at the reporting date amounted to €0.1 billion, as in the previous year, and comprised negative fair values of derivative financial instruments. The €1.1 billion decrease in deposits from other banks to €10.7 billion was mainly attributable to a decline in the volume of securities repurchase agreements (down €0.4 billion) and to maturing registered securities (down €0.6 billion). The portfolio of debt securities in issue declined by €0.1 billion to €3.2 billion due to maturing securities.

Fund for general banking risks

In the reporting period, €200 million was withdrawn from the fund for general banking risks pursuant to section 340g of the HGB and €1 million was added pursuant to section 340e(4) of the HGB. This fund totaled €2,227 million at the reporting date.

Equity

Equity as of December 31, 2017, amounted to €2,921 million. The regular phased-in Common Equity Tier 1 capital ratio rose from 11.0 %¹ at the 2016 year-end to 12.9 %².

The fully phased-in Common Equity Tier 1 capital ratio rose from 10.6 %¹ at the 2016 year-end to 12.7 %².

The positive change in the capital ratios based on the 2017 annual financial statements is due mainly to the approved application to use a risk weighting of 0% for intragroup receivables in accordance with Article 113(6) of the CRR, which reduced the risk-weighted assets to be recognized in the prior-year period by approximately €8,831 million.

This is offset in part by the decline in Common Equity Tier 1 capital, primarily because of the €200 million withdrawal from the fund for general banking risks in accordance with section 340g of the HGB. The return on capital pursuant to section 26a(1) sentence 4 of the KWG, calculated as the ratio of net profit for the period before profit transfer to total assets, was 0.17 % for 2017 (previous year: 0.01 %).

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

Postbank's investment focuses in 2017

The investment portfolio was driven by significant investments in the management agenda to improve long-term viability and the further integration of the Deutsche Postbank Group with the Deutsche Bank Group. In light of this, an amount in the mid-three digit millions of euros was made available in fiscal year 2017 and mainly used to recognize provisions for a voluntary early retirement and severance program.

Apart from the measures in connection with the integration, investments focused on digital transformation to improve Postbank's future viability and on initiatives to meet regulatory requirements.

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). In addition to digital account opening, customers have been able since mid-2017 to enter into an installment loan entirely digitally within a few minutes. The "Financial Assistant" is a cornerstone of Postbank's strategy of making mobile payments attractive for consumers on a large scale. In addition, online brokerage received a new web presence as part of the securities campaign, and now offers an even more attractive platform for our securities account customers. In line with the "digital & personal" strategic orientation, the optimization of the branch network was driven forward with the expansion of the Sales Centers and the establishment of "compact branches" in regions with a relatively low customer frequency. We also invested in efficiency increases

and the modernization of our branches through additional customer-friendly, automated self-service facilities.

In addition to investments in digitally supported consulting, sales and service processes (video identity verification, digital signatures, relaunch of the online brokerage and the customer service portal), we continued to invest in measures to comply with regulatory requirements. These efforts included meeting the requirements of IFRS 9, the recently revised 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 the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority).

Overall assessment of business performance in 2017

Excluding the withdrawal from the fund for general banking risks and the realization of hidden reserves from the intragroup transfer of an equity investment, results of operations declined due to the persistently challenging market environment and low interest rates. The negative growth in total income, comprising net interest income, net fee and commission income, net income from the trading portfolio, and net measurement gains/losses, which was due in particular to the interest rate environment and the absence of positive non-recurring effects recognized in the previous year, was almost totally offset in the reporting period in light of the successful implementation of numerous strategic initiatives, and was thus caused almost entirely by non-recurring effects. In particular in light of the reorganization of the account models and a securities campaign that met with a positive customer response, Postbank succeeded in the reporting period to achieve a better balance in its income mix and to make it less dependent on interest rate products. At the same time, administrative expenses – excluding expenses for the recognition of provisions in connection with the planned integration of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG and the reorganization of the sales organization – were successfully reduced.

As before, Postbank's net assets and financial position in 2017 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 successful portfolio growth in the lending business and the active management of holdings of investment securities enabled Postbank to align its balance sheet more strongly on the customer business.

Financial and non-financial key performance indicators

The following information on financial key performance indicators relates to the IFRS subgroup figures of the Postbank Group relevant for management purposes.

¹Based on the audited annual financial statements as of December 31, 2016

²Subject to the adoption of the annual financial statements as of December 31, 2017

Profit before tax declined by €56 million or 18.4 % year-on-year to €248 million in fiscal year 2017. Earnings were thus not up considerably year-on-year, contrary to our expectations. The reason for the variation from the forecast is the fact that the 2016 annual financial statements were prepared before the planned integration of the Postbank Group with the Deutsche Bank Group was announced, so the resulting effects on Postbank's earnings in fiscal year 2017 were not reflected in the outlook. Accordingly, the expenses for strategic initiatives far exceeded our expectations and weighed on earnings in the reporting period more strongly than we had anticipated.

At €649 million, adjusted profit before tax – which is used to assess operational performance – increased by €183 million or 39.3 % year-on-year. This result significantly exceeded the forecast increase in the mid double-digit millions of euros. This positive trend was driven by the measures taken to reduce our dependence on net interest income and the successful implementation of our strategic plans to improve cost efficiency.

At 4.7 %, return on tangible equity (RoTE) after tax – relating to fiscal year 2017 – was not on a level with the previous year (6.1 %) as we had expected, because of the unplanned increase in expenses for strategic initiatives in fiscal year 2017. Excluding the adjusted non-recurring effects, RoTE after tax would have been 9.9 %, after 8.3 % in the previous year. Eliminating only the expenses for strategic initiatives would have produced RoTE after tax of 10.3 % (previous year: 8.9 %).

Due to the considerably higher expenses for strategic initiatives in the course of the planned integration, we were unable to achieve the expected moderate improvement in the cost/income ratio. At 89.9 %, this ratio was higher than the previous year's figure of 85.9 %. Excluding non-recurring effects, we would have recorded an improvement in the cost/income ratio by 2.7 percentage points to 77.9 %.

The fully phased-in Common Equity Tier 1 capital ratio including the profit for fiscal year 2017 posted a moderate decline compared with the 2016 year-end to 11.9 %, after 12.4 % in the previous year. Only a slight decrease had been expected at the beginning of the reporting period. The main reasons for the variation from our forecast were the higher than expected profit transfer in fiscal year 2017 and the negative impact on earnings of unscheduled provisions in connection with the integration of the Postbank Group with the Deutsche Bank Group, which reduced CET1. Excluding the effects described above, the year-end fully phased-in CET1 capital ratio would have been 13.2 %.

The fully phased-in leverage ratio including the profit for fiscal year 2017 declined to 3.3 % as of December 31, 2017 (previous year: 3.4 %) and was thus lower than our expectation of a moderate improvement. In the same way as the change in the CET1 capital ratio, the profit distribution and the impact on earnings were negative factors here despite the reduction in the leverage exposure.

The calculations were based on the regulatory requirements set out in Article 429 of the CRR.

Changes in non-financial key performance indicators year-on-year are reported in the following.

The people survey conducted in 2017 focused on the future development of Deutsche Bank's strategy and the integration. At 71 %, participation was up year-on-year and at a very encouraging level in absolute terms. Employees' approval ratings also rose in all areas although we had expected the level to remain constant. Employees' willingness to adapt to the changing banking environment was again illustrated by the "ability to change" category, which achieved the highest approval rating, at 78 %. The newly introduced category of "digital transformation" received the second-highest approval rating; this again underscores willingness to change in the organization. The strongest rise – in each case by 4 percentage points – was recorded by the "productivity and efficiency" and "business success/targets" categories. This positive trend can be attributed especially to the range of measures put in place to improve Postbank's leadership culture, to realize its mission statement, and to implement the Postbank Agenda in 2017, together with the good business performance in fiscal year 2017.

In line with our expectations, the customer satisfaction results in the Retail Banking segment stabilized at the average level of the prior-year period. A turnaround emerged in the fourth quarter of 2017 in the form of a positive trend reversal for the core aspects that are surveyed in regular satisfaction surveys.

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

The current historically low – and in some cases negative – interest rate environment has had an adverse impact on the Bank's earnings power given the high volumes in Postbank's book of demand deposits and savings deposits compared with the existing lending business. The deposit surplus resulting from those volumes negatively affects net interest income in times when negative money market interest rates coincide with a conservative investment strategy. Nevertheless the ongoing historically low interest rates have also spurred demand for financing solutions, making it possible for the Bank to shrink its deposit surplus. If the surplus can be reduced at a faster than expected pace Postbank's profit levels would benefit. Postbank has already gained from the low interest rate environment in the form of growth in new business with installment and residential construction loans and the opportunity to reduce the deposit surplus in conjunction with stable customer deposit volumes.

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. Net fee and commission income would benefit if Postbank's savings customers use their deposits in greater volumes than expected to acquire securities. The commission business could likewise profit more than anticipated from banking customers with a broader understanding for the revision of fee models against the backdrop of the low interest rate environment.

Major opportunities for the Bank will arise from disciplined cost management, which is closely linked with its digitization strategy. 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 noticeably altered the banking business. The acceptance and use of digital opportunities to approach customers for advisory services has proceeded faster than forecast, giving Postbank the opportunity to operate its customer business more efficiently.

In its own pursuit of the digitization trend, Postbank has positioned itself as a bank available to customers both "digitally & personally," and has continued systematically to pursue its strategy of digitization. Objectives here include both improving the Bank's ability to earn additional income and generating cost savings from process optimizations and higher levels of automation – to be achieved, for example, through such means as end-to-end processes that are fully digitized. As part of strategic efforts, the Bank was able to fully digitize its process for setting up, increasing and reducing an overdraft facility in fiscal year 2017, allowing it to offer customers a digital service that is markedly faster and itself to enjoy significantly lower internal processing times and expenses. Postbank also launched an end-to-end digital process for applying for installment loans. With this new service, customers can get a decision on their loan in minutes.

If, in addition to that, efficiency heightening measures prove 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.

Better than anticipated developments 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. This could improve profit before tax and the cost/income ratio.

The strategy announced by Deutsche Bank – its intent to expedite the integration of Postbank into its Private & Commercial Clients business – offers Postbank the opportunity to generate synergy effects.

The short-term opportunities for improved income and expenses at Postbank from these possible developments may be hindered 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 in Germany. Risk management at Postbank in 2017 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) as well as political uncertainty in Great Britain (Brexit) and France (elections).

Postbank continues to operate in a solid economic environment. Economic growth accelerated in Germany and the eurozone in 2017. 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.

Given its business model and its focus on business with customers in Germany, at present Postbank assumes that it will have little exposure to the expected developments in other European countries as a result of Brexit. Postbank does not currently see any reportable default and liquidity risks in this context. However, the political uncertainty could increase volatility, bringing corresponding fluctuations in present values and the associated risks for its assets.

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 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 2017. Risk-bearing capacity was ensured at all times. No risks that could impair Postbank's development, or that could even jeopardize its existence as a going concern, are discernible at present.

Credit risk

The lending business with retail, business and corporate customers was expanded in the year under review. In 2017, the allowance for losses on loans and advances was well below the prior-year level due to the ongoing positive trend in Postbank's customer business. This decline was also attributable to the persistently favorable macroeconomic environment in which the Bank operates, strong proceeds from collateral realization, and systematic risk management.

In the period under review, a new method for quantifying risk, the customer rating, was introduced into the so-called "use test" for key parts of the retail banking business.

Economic capital consumption slowed in 2017, which led to a reduction of the credit risk limit and an adjustment of the individual limits for the segments.

For 2018, 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. Money market interest rates were nearly unchanged in negative territory throughout 2017 as a consequence of the continued low-interest-rate policy of the European Central Bank (ECB), and therefore remained at a historically low level. In contrast, interest rates on the capital market increased slightly across all maturities. On average, credit spreads of both European government bonds and European bank and corporate bonds narrowed as a result of the positive economic situation. Given this market situation, a slight decrease in the open interest rate risk position and a further reduction in credit spread risk, operational value at risk (VaR) in the banking book was down significantly year-on-year.

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 due on the one hand to a reduction in the interest rate and credit spread exposures and to an adjustment in the modeling of the relevant risk parameters on the other. Looking ahead, we expect risk capital requirements to remain at the current level in 2018. However, the political uncertainty that continues to dominate, for instance due to the current Brexit negotiations, could also result in a return to increased market volatility and thus to corresponding fluctuations in present value.

Postbank is exposed to market risk solely from banking book positions; as was the case in the previous year, there were no trading book activities in the year under review.

Liquidity risk

Based on a stable refinancing structure, adequate liquidity buffers were maintained at all times in 2017 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.

Based on our liquidity forecasts and planning, we will reduce surplus liquidity and expect the liquidity position to remain adequate in the foreseeable future, even taking into account the current Brexit negotiations.

Operational risk

Postbank's operational risk loss profile primarily reflects its strategic focus as a retail bank for retail, business and corporate customers. 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. The resulting loss was lower year-on-year. In addition, in recent years litigation and complaints about investment advice have been high. Most of these relate to advice provided and transactions entered into in the area of closed-end funds, although the distribution of closed-end funds was discontinued in 2012. The number of proceedings remained at the level of the prior year.

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.

Developments in risk management

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

In addition to using the Foundation IRB Approach and the IRB Approach to calculate the capital requirements for its retail business, Postbank uses the Advanced IRB Approach (A-IRBA) to calculate the capital requirements for its corporates, banks and commercial real estate finance portfolios and, since the second half of 2017, for its portfolio of overdraft facilities for retail customers.

Postbank continues to calculate its regulatory capital requirements for operational risk using the Standardized Approach.

In 2017, Postbank pushed ahead with the implementation of comprehensive regulatory changes. These included measures aimed at improving IT security and ensuring business continuity during IT outages. In response to the risk data aggregation (RDA) requirements set out in BCBS consultation document 239, in 2017 Postbank greatly extended its central database in keeping with the strategic target architecture for the risk and finance functions. Building on this, standardized data in conformance with the balance sheet is gradually being transferred to the reporting systems.

Postbank also continued its measures for implementing the new Analytical Credit Dataset (AnaCredit) project launched by the ECB and other new regulatory reporting requirements as well as 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).

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 directly supervised by the European Central Bank (ECB). It is therefore also included in banking supervisory inquiries from the ECB addressed to Deutsche Bank. In addition, Postbank maintains regular communication with national supervisors.

As the owner of Postbank, in 2017 Deutsche Bank announced its intent to merge Postbank with Deutsche Bank's Private & Commercial Clients business. This new strategic positioning and clear dedication to its home market is aimed at forming a market-leading retail and corporate banking presence in Germany that benefits from greater efficiency through scale. 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.

• 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 solely from its 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 they are still backed by risk capital as part of a conservative quantification of risk.

- 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 macro-economic 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 macro-economic 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. Transfer risk 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.

In addition, Postbank monitors other risks that cannot be clearly allocated to any of the above risk types. These include, in particular, pension risk. Credit and market risks arising from pension obligations are allocated to the respective risk type and backed by equity. Furthermore, the longevity risk is taken into account through a capital deduction in the assessment of risk-bearing capacity.

Organization of risk management

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.

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 risk return and exploiting market opportunities.

Bank-wide risk management 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)
Frequency of meetings	Monthly	Quarterly	Monthly	Quarterly	Monthly	Monthly
Tasks	Advise the Management Board with respect to: <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> Define limit system Analyze and evaluate credit risk Issue credit risk management guidelines 	Allocate market risk limits <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> Define operational risk parameters Allocate risk capital amounts to the business divisions 	Address issues relating to the cover business register <ul style="list-style-type: none"> Implement regulatory requirements relating to the <i>Pfandbrief</i> 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 <ul style="list-style-type: none"> Validate all models annually Modify rating systems, risk classification procedures, and internal models

The Bank Risk Committee is a Bank-wide risk committee on which the Management Board 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 headed by members of the senior management are the Data Quality Committee (DQC), the Outsourcing Committee (OC), the Regulatory RADAR Committee (RRC), and the Business Control Forum (BCF). 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 for the Bank-wide 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 Group 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 Regulatory Requirements Retail Banking Pfandbrief/Principles unit, which is allocated to the Retail Banking II board department.

The following overview explains the roles of the individual units in the CRO board department.

Risk management units and tasks

Unit	Tasks
Chief Operating Office	Resource management and projects Credit framework/guidelines Internal control system (CISO) 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 Compliance with loan processing standards Quality assurance
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 <i>Pfandbriefe</i>

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 Postbank, 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 business division, the Corporate Finance, Commercial Real Estate Finance and Banks & Capital Markets credit units, and the Retail Banking credit functions.

As a matter of principle, operational management of Postbank's market risk is performed centrally by the Financial Markets division within the Corporates & Markets board department. 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, and to maintain a stable refinancing structure. Operational management of liquidity and of the liquidity buffer necessary for managing liquidity risk is located centrally in the Corporates & Markets board department of Deutsche Postbank AG.

The Group Risk Control Risk Models unit is responsible for developing and calibrating the rating models, whereas the Group Risk Control Credit Risk Management unit performs credit risk limit monitoring, reporting and management. In this context, the Model Risk Management and Validation function acts as the independent validation unit (for IRBA procedures) as required by supervisory regulations. 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 doing so 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 banking 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 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.

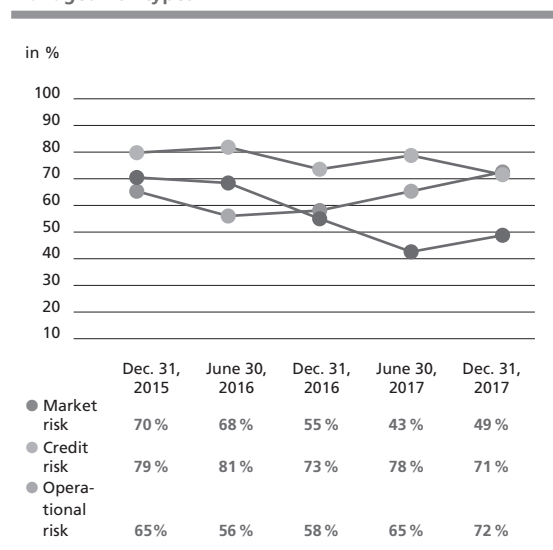
Economic capital is allocated to all the material risk types listed in the section entitled "Risk types" with the exception of liquidity risk and reputational risk. To prevent the risk of illiquidity, Postbank maintains a liquidity buffer consisting of highly liquid and liquid assets for a two-month 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. In the assessment of risk-bearing capacity (in economic creditor protection), 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 as of year-end 2017 was the period from August 8, 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



Risk concentrations

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.

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, stress test (solely operational front office units)	Daily	Group Management Board, Market Risk Committee, operational front office units
	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, intraday liquidity, stress test, liquidity reserve, liquidity coverage ratio (LCR), funding structure, net stable funding ratio (NSFR), forecasts regarding surplus liquidity, LCR, and NSFR	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

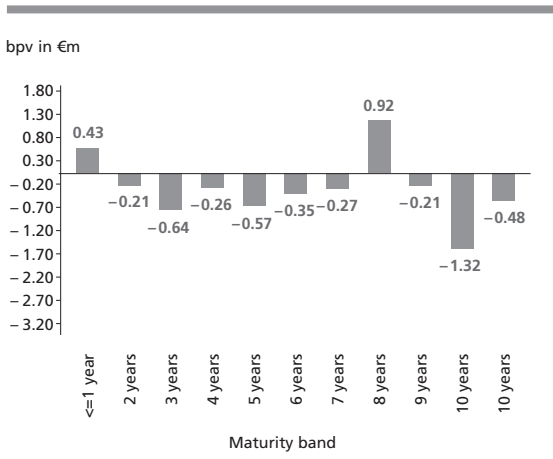
Postbank manages its market risk in the narrower sense of the term using, on the one hand, VaR limits and present value-based loss limits at Bank level and for subportfolios. On the other, sensitivity indicators and maturity structures are used as additional management indicators. The changes in value 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. 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, 2017, in the form of a basis point value (bpv) graph.

Postbank’s interest rate positions (bpv) as of December 31, 2017



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 spreads, share prices, exchange rates, and volatilities.

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, volatility 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 VaR limits authorized at Group level 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, 2017 (one-sided binomial test in accordance with the Basel traffic light approach) produced four outliers and were thus in the green zone, thereby confirming the general adequacy of the market risk model.

Stress testing and risk concentrations

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 2017 and fiscal year 2016:

Postbank VaR relating to market risk

Postbank VaR (10 days, 99%)	Year-end VaR		Maximum VaR		Minimum VaR		Average VaR	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	2017 €m	2016 €m	2017 €m	2016 €m	2017 €m	2016 €m
Market risk types								
Interest rate risk	35.5	53.0	75.0	83.0	34.9	42.3	50.1	66.2
Equity/stock index risk	4.9	6.2	6.5	9.8	4.7	6.0	5.7	8.0
Currency risk	5.8	7.4	8.8	13.5	2.8	3.7	4.4	5.7
Other market risk (spread)	45.3	76.8	91.3	120.8	41.7	71.7	69.3	95.8
Diversification effects	-27.2	-40.0	-23.2	-27.7	-46.1	-64.9	-33.6	-44.9
Total	64.3	103.4	123.0	148.8	59.0	99.8	95.9	130.9

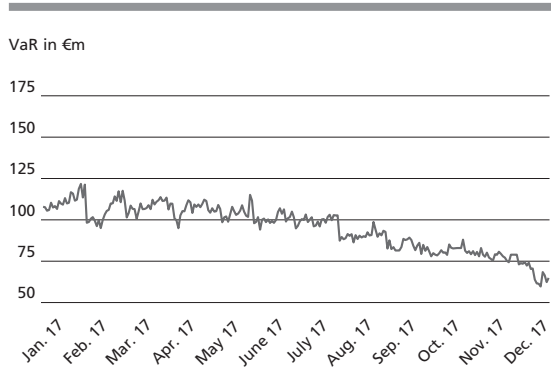
VaR for market risk (confidence level of 99%, holding period of 10 days) amounted to a total of €64 million as of December 31, 2017 (for comparative purposes: €103 million as of December 31, 2016).

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, with the exception of strategic investments.

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

Postbank VaR for the period from January 1, 2017, to December 31, 2017



The VaR trend in Postbank's banking book is driven mainly by the development of two risk factors: interest rate spread and credit spread. The operational VaR figures fluctuated in a range between €95 million and €125 million until the end of July 2017. Hedging activity in the third quarter of 2017 (principally hedging of mortgage portfolios), which aimed at reducing open interest rate risk positions, triggered a reduction in interest rate VaR and total VaR to a level of between €60 million and €90 million. This trend was reinforced by a reduction in credit spread volatilities. At the end of the reporting period, the VaR was at a historically low level of around €60 million.

Real estate risk management

The properties in the Postbank portfolio are primarily owner-occupied properties of 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 December 31, 2017, Deutsche Postbank AG held a total of 42 (previous year-end: 45) 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 risks from credit-equivalent investments or from investments 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 customers, 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/or 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 corporates, commercial mortgage financing, and transactions in the Financial Markets division. 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 *Solvabilitätsverordnung* (SolV – German Solvency Regulation). 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. The Model Risk Management and Validation function is responsible for designing and maintaining a superordinate validation process that governs all the Bank's (relevant) models and constitutes the key component of Postbank's model risk management. In addition, all internal rating processes in particular 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 (PD) for borrowers or loans. 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.

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 the retail business, and at an individual level for the non-retail business.

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 business 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 regulatory 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 exposure 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 global 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 (EL) indicated in the "Credit risk" table in the section entitled "Portfolio structure" 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 and pension funds as of December 31, 2017, compared with December 31, 2016 (volumes: economic exposure). 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 ¹	Economic exposure		Expected loss		Economic capital (EC) ²	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Retail Banking	95,860	93,286	336	323	703	576
Business and Corporate Banking	21,838	19,060	52	56	567	394
Financial Markets	38,363	46,730	6	6	501	953
Pension funds	1,881	1,910	1	1	67	49
Total	157,942	160,985	395	386	1,838	1,971

¹Differing presentation in the breakdown vis-à-vis the prior-year closing date owing to the closure of the Non-Core Operating Unit in 2017. For the purpose of consistent presentation, the figures for 2016 are also disclosed in line with the new portfolio breakdown.

²The underlying confidence level is 99.93%.

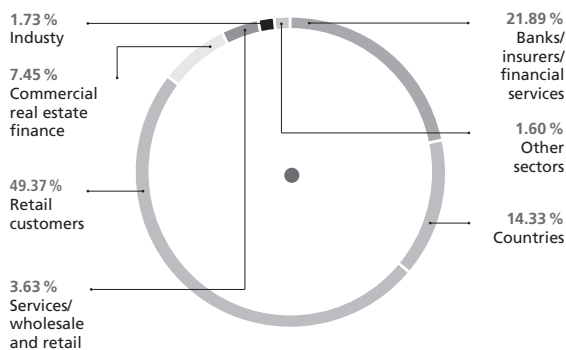
The economic capital (EC) decreased compared with the prior year-end while the expected loss (EL) increased. The decrease in EC resulted from lower concentration risks at Financial Markets. In the Retail Banking and Business and Corporate Banking strategic segments, the EC increased due to higher volumes and model adjustments, e.g., updating of the time series used to estimate the correlation coefficients relating to the non-retail portfolio and adjustments to the rating model for retail banking and commercial mortgages. The EL for the Retail Banking segment increased as a result of these factors, while a significant improvement in the rating of commercial mortgages reduced the EL for the Business and Corporate Banking segment.

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 Business and 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

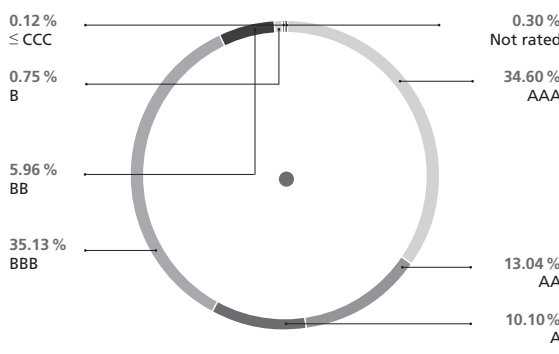
Postbank has established country-specific limits for credit approvals in order to manage country risk. The country limits are largely determined by internal and external ratings, and by the economic strength of the particular country as measured by its gross domestic product. A central database keeps 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 (approximately 86 % as of December 31, 2017) in line with Postbank's strategy, as well as selected exposures in Western Europe (approximately 14 % as of December 31, 2017).

Rating structure of the loan portfolio

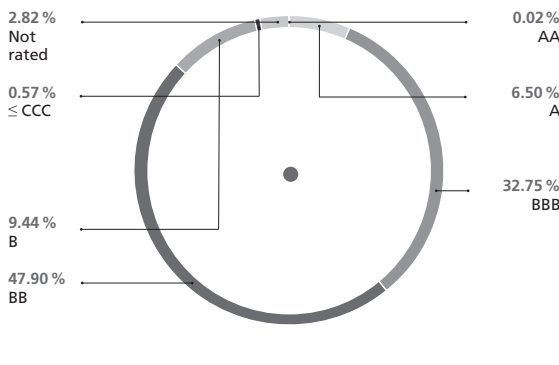
The distribution of ratings in the loan portfolio reflects Postbank's conservative approach. The following graphic shows the rating structure of the loan portfolio for the non-retail business. The good rating categories classified as investment grade predominate:

Credit rating structure (non-retail)



Similarly, the following graphic shows the credit quality of the risk-bearing financial instruments for Postbank's retail banking business that were neither past due nor individually impaired as of the December 31, 2017, reporting date (excluding "contingent liabilities" and "other liabilities"). Postbank's retail banking business continues to exhibit a stable rating distribution.

Credit rating structure (retail)



Environmental risk

Following a review conducted most recently in December 2017, Postbank received a management certification report in accordance with ISO 14001:2015 (environmental management systems standard) from DNV GL Business Assurance Zertifizierung und Umweltgutachter GmbH, located in Essen, Germany. The report assessed the Bank's management system as both effective and compliant with the ISO standard. The certification's scope of application encompasses services in the retail, corporate and B2B business as well as central functions including facilities management.

The relevant principles for handling environmental risk are published as part of the lending process. They include guidelines for evaluating environmental risk in lending.

Monitoring and managing liquidity risk

As a matter of principle, monitoring and management of liquidity risk is performed centrally in the CRO board department. 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 liquidity risk management process is based on several pillars and is generally performed on a stress basis. 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. Further highly liquid reserves are held to ensure the necessary intra-day liquidity.

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 twelve months. As an early warning indicator, the minimum for a twelve-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.

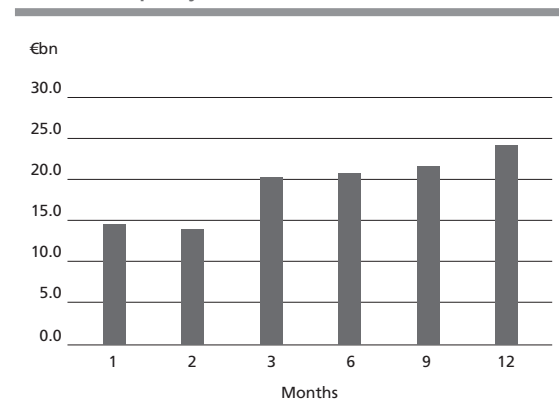
The stability of the refinancing structure is regularly reviewed on the basis of internal analyses and also guaranteed by limiting the net stable funding ratio (NSFR). For this purpose, the NSFR for the Postbank Group is calculated and monitored in accordance with the requirements of the Quantitative Impact Study (QIS) of the Basel Committee on Banking Supervision.

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.

The following overview of Postbank's liquidity status as of December 31, 2017, 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, 2017



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 the year under review 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). Calculation is based on internal and external loss events and scenario analyses. In the year under review, the model was fundamentally revised and adjusted. The primary changes to the model involve the modification of the risk matrix (the reduction of the number of cells from ten to three, with one cell per segment) and the change in source for external loss event data (loss events now provided by the Operational Risk Data Consortium (DaKOR) and no longer by the Operational Riskdata eXchange Association (ORX)). In addition, the loss history used to determine frequency was reduced from ten to five years. The result is a model that responds sooner to trends in loss events.

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.

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.

Total operational risk losses declined significantly year-on-year.

The main drivers of the trend in loss events in 2017 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. Losses from cases of fraud, which were mainly caused externally, were down significantly year-on-year at approximately €13 million in 2017 (2016: €27 million). 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 also below the previous year's low level at approximately €9 million. 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, among other things. 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.

Business segment in accordance with the CRR	Weighting for operational risk	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Corporate finance	0	0
Trading and sales	-61	-26
Retail banking	320	344
Commercial banking	57	47
Payment and settlement	0	0
Agency services	1	1
Asset management	0	0
Retail brokerage	11	10
Postbank total	328	376

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 (RIA) exercises and business impact analyses (BIA), 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.

Reputational risk management

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 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.

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 of German stock corporations (sections 150–160 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 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.

Pending litigation

On October 20, 2017, the Cologne Regional Court ruled in favor of 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. Deutsche Postbank AG has filed an appeal against this decision with the Higher Regional Court in Cologne.

OUTLOOK

Overall economic parameters

Macroeconomic environment

Global economy

Global growth will likely accelerate slightly again in 2018. The industrialized countries are in a robust, self-sustaining upturn that will be supported by the continued expansionary monetary policy and prospectively by expansionary fiscal impulses as well. However, the pace of growth is not expected to accelerate as a result of the political risks still present as well as the gradual reduction of available production capacity. In contrast, growth rates in the emerging markets as a whole are expected to be somewhat higher. This will likely be driven in particular by an economic upswing in those countries that until very recently were struggling with recessionary tendencies. Furthermore, the upward trend in regions that showed strong growth in the past is expected to continue at a virtually unchanged pace. On the one hand, the large number of geopolitical trouble spots continues to pose risks to this outlook. On the other hand, it is not impossible that mutual intensification of cyclical upward forces will lead to more pronounced acceleration of global economic growth. For 2018, the IMF expects world economic output to grow by 3.9 %, compared with 3.7 % in 2017.

The economic upswing in the United States will likely accelerate slightly in 2018. Private consumption will prospectively remain the most important driver of growth, spurred on by high employment levels and rising income. Corporate investments are anticipated to climb markedly at the same time. Their growth will prospectively be encouraged by the reduction of corporate taxes. Concurrently, we expect a moderate rise in government spending. Exports will prospectively grow more rapidly than in the previous year due to increasing global demand and the somewhat weaker U.S. dollar. Because imports are also likely to accelerate, however, foreign trade is not expected to contribute to overall economic growth. All in all, we anticipate GDP growth to 2.4 % in 2018.

The Japanese economy is expected to experience moderate growth in 2018. While moderate growth is anticipated in private consumption, gross capital expenditures will prospectively increase significantly. Exports, on the other hand, are not likely to continue the exceptionally strong growth seen in the previous year. We therefore anticipate a decrease in GDP growth to 1.2 %.

The robust economic recovery in the eurozone will likely continue. Fundamental risks such as an uncontrolled Brexit or the continuing debt problem in the eurozone are not expected to have a significant negative impact on momentum. Growth will prospectively be protected in particular by the meanwhile very broad base of the economic upturn. We anticipate that private consumption and gross capital expenditures will be able to more or less maintain their pace of growth, as will government spending. Exports will likely once again grow strongly due to the positive global environment, but less rapidly than in the prior year in light of the recent appreciation of the euro. The positive growth effect from foreign trade should therefore decrease slightly. Overall, GDP growth will likely slow to 2.2 %.

Economic outlook for Germany

The German economy was in a solid upswing at the end of last year. Early indicators such as in particular the Ifo Business Climate Index are at very high levels, in itself signaling strengthening of the growth trend. We anticipate that private consumption will continue to grow very robustly but less vigorously than in the prior year due to a slight increase in the inflation rate. In contrast, growth in government spending could accelerate slightly as a result of additional expenditures by a new German government yet to be formed. Corporate and residential construction are expected to continue generating strong growth momentum. Despite the strengthening of the euro, growth in exports is expected to remain high in light of increasing global demand, meaning that foreign trade should once again make a positive contribution to growth. All in all, we anticipate GDP growth to accelerate slightly to 2.3 % in 2018. In light of the robust economy, employment figures will likely rise sharply once again. The number of unemployed persons, on the other hand, is expected to continue dropping.

Markets

The ECB's monetary course for 2018 appears largely well sketched-out based on decisions made by its Governing Council in October 2017. In keeping with announcements, the monthly volumes of the bond purchasing program were reduced from €60 billion to €30 billion as of January 2018. According to ECB decisions, these volumes should be valid through the end of September 2018. The ECB is expected to follow through accordingly. In light of the robust economy in the eurozone, we anticipate that the ECB will terminate its bond purchasing program by the end of 2018. However, it will likely leave its key interest rates unchanged throughout all of 2018 particularly as it had announced that these would remain at their current level for some time after termination of the purchasing program.

The U.S. Federal Reserve will likely raise its federal funds rate over the course of the year. In light of prospective solid GDP growth and continued robust labor market, we expect three interest rate increases of 0.25 percentage points each. By the end of the year, we anticipate a fed funds target rate of between 2.00 % and 2.25 %.

As a result of the still expansionary ECB monetary policy, capital market interest rates in the EMU are likely to remain low, although some factors point toward a rise in yields over the course of the year. These include in particular continuation of the robust economic recovery in the eurozone. 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. We anticipate an increase in yields of ten-year German Bunds to 0.80 % by the end of 2018. With key interest rates remaining constantly low, the yield curve may become somewhat steeper once again.

Prospects for corporate bonds are slightly negative in our opinion. The continued economic upswing that we anticipate in the industrialized countries points to risk premiums remaining at a low level. On the other hand, however, these were so low at the end of last year that possible concerns regarding further economic prospects, both for individual sectors and companies, could create uncertainty and thus have a negative impact on the bond class. All in all, we expect to see a slight rise in risk premiums for European bonds in the investment-grade category.

The risk premiums demanded for the government bonds of the so-called peripheral eurozone countries have meanwhile reached a level that we believe leaves little room for further drops. At best, we see continued narrowing potential for bonds issued by countries able to noticeably improve their financial situation as well as adopt and implement sustainable reforms that promote growth. In contrast, countries weak on growth and reform and with a high or once again increasing level of new debt will face a rise in risk premiums for their bonds. The reduction of the ECB bond buying program will likely prove a stress factor as well. Government bonds will remain fundamentally susceptible to setbacks following economic or political crises.

Sector situation

The sustained low level of interest rates in the eurozone will prospectively continue to make it quite difficult for German banks to improve their operating business. By the end of 2018, we anticipate only a moderate rise in interest rates. This will make it difficult for most banks to significantly widen their margins, especially since tough competition in the German retail and corporate banking segments continues to push down net interest income and impede increases in net fee and commission income. 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 effect on investment banking income. Due to the persistently difficult conditions on the income side, many banks are likely to have additional cost optimizations on their agendas in 2018 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 admittedly tie up resources, digitization appears necessary for strengthening customer relationships and responding to new competitors in the digital world.

The decision of the UK to leave the European Union could also have a negative impact on German banks. Heightened uncertainty in conjunction with the many outstanding issues related to the EU exit will increase the risk of a growth slowdown in 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 expanded lending while potentially increasing the risk of loan defaults. 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 2018. Mergers and/or acquisitions are expected to 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.

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 until 2019, according to the ECB.

One key component in the finalization of Basel III – generally referred to as Basel IV – within the scope of the consultation process of the Basel Committee on Banking Supervision (BCBS; consultative document 424) is the output floor for internal models. The percentage proposed by BCBS 424 for the minimum requirement will begin at 50 % in 2022 and rise annually by 5 % during a transition phase until 2026 before reaching 72.5 % in 2027. In addition to the output floor, other specifications such as the leverage ratio were also substantiated. In the future, financial institutions classified as global systemically important banks (G-SIBs) must maintain half of this capital add-on (G-SIB buffer) additionally as a buffer for the leverage ratio. The leverage ratio buffer will become effective on January 1, 2022 for those banks identified as G-SIBs in the Financial Stability Boards list from 2020.

In 2018, the European Banking Authority (EBA) will again conduct a stress test of the banks it supervises. The results of the test will be published on November 2, 2018.

Outlook for Postbank

Postbank's investment focuses

In addition to investments in its integration into the Deutsche Bank Group in fiscal year 2018, Postbank will continue to invest predominantly in measures to heighten its competitiveness. In that vein, Postbank will further pursue the digital transformation of its advisory, sales and service processes, a path on which it has already made progress. After success in establishing a fully digitized lending process for installment loans in 2017, the Bank will now concentrate increasingly in 2018 on the digitization of lending for mortgage loans. Our systematic pursuit of the Bank's digital transformation will remain 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 2018 will remain committed to developing additional self-service options for retail and business customers and to further expanding the Sales Centers. We will also make greater use of our "compact branches" to maintain efficient branch operations even in locations with low customer traffic. Postbank will also continue to push forward with the automation of back office processes to create more efficient processes.

In fiscal year 2018, 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 the EU General Data Protection Regulation, PSD II, and BCBS consultative document 239.

The Bank also expects to have additional investment needs related to its further integration into the Deutsche Bank Group.

Non-financial key performance indicators at the Postbank Group

While the integration of Postbank into the Deutsche Bank Group has led to heavier workloads and the need for change, we still intend to maintain our employee satisfaction results at the same level as last year. With regard to our retail and corporate customer satisfaction, the Bank will seek to stabilize each of them at the level of 2017.

Financial key performance indicators at the Postbank Group Profit before tax, adjusted for non-recurring effects, is expected to turn out markedly lower than its level in 2017.

While product income should see gains thanks to the continuingly positive performance of the business, we expect a normalization of net trading income and risk provisions – both of which were markedly higher or lower in 2017 than their long-time average values. Risk provisions could also rise owing to the mandatory initial application of IFRS 9 effective January 1, 2018. Adjusted profit should be positively impacted by the reduction of our administrative expenses that we foresee.

In light of the expectations described above, we expect a noticeable improvement in the cost/income ratio. Return on tangible equity after tax should markedly improve compared with fiscal year 2017.

Given the strategic expansion in the lending business and the adverse impact on Postbank's capital from the initial application of IFRS 9, we anticipate with regard to regulatory metrics a slight downward development for the fully phased-in Common Equity Tier 1 capital ratio despite the forecasted profit gains. For the fully phased-in leverage ratio we foresee a moderate improvement from the expected reduction of leverage exposure in 2018.

Expected development of Postbank's earnings situation

The following assessment of the presumed direction of business at Postbank in 2018 is based on expectations concerning overall economic parameters and an interest rates forecast that was generated exclusively on the basis of market data (implied forwards). Unforeseen events such as 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. The following outlook reflects the impact on profit that the purposed further integration of the Bank into the Deutsche Bank Group – and the associated merger of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG that is currently pursued – may have insofar as the resulting effects could be unequivocally assigned to Postbank.

The income streams generated by the retail, business and corporate customer business will remain the foundation of the future earnings performance of Postbank, whose brand will remain unchanged following the intended merger under the motto "One Bank, Two Brands." Going forward, the Bank will focus on improving net interest income as well as net fee and commission income, and reducing the cost base.

Despite the planned expansion of the lending business and the further reduction in high-interest liabilities, we are expecting a slight decline in net interest income in 2018. Our forecast is based on a further negative impact on the deposit business due to the persistently negative, albeit slightly rising interest rates in maturities up to three months – in conjunction with the continued high willingness of our customers to repay higher rate loans.

Net fee and commission income should improve significantly. The basis for this expectation is two-fold, the securities campaign that will continue in 2018 and an expected gain in fee and commission income in the Bank's core checking account business – driven primarily by the reorganization of the account model for business customers in mid-2017.

We expect the risk provisions to increase substantially in 2018 after they were able to profit in 2017 from the successful realization of a corporate customer exposure and the resulting reversal of provisions for risks, and the sale of two loan portfolios, as well as the continued good health of the German real estate market and the ongoing positive labor market situation in Germany, among other factors.

Administrative expenses are expected to experience an improvement in 2018 in the low three-digit millions of euros. Markedly lower expenses for strategic initiatives compared with fiscal year 2017 are also assumed in our outlook for 2018. In line with the fundamental assumptions of our forecast, here too the expectations that we have for our administrative expenses only take into consideration the impact on profit that the purposed further integration of the Bank into the Deutsche Bank Group may have insofar as the resulting effects could be unequivocally assigned to Postbank.

Following a positive result from writedowns of and reversals of writedowns of equity investments and securities in 2017 in the mid three-digit millions of euros, due mainly to the realization of hidden reserves from the intragroup transfer of an equity investment, we are expecting a positive earnings contribution for 2018 in the mid two-digit millions of euros.

Whereas profit before tax in fiscal year 2017 benefited from a reversal of the fund for general banking risks pursuant to section 340g of the HGB, our forecast does not anticipate any change in the fund for general banking risks with an effect on profit or loss.

Due to the expected developments in the above-mentioned areas of the income statement, profit before tax should decrease in the low three-digit millions of euros.

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 Deutsche Postbank AG, 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, 2018

Deutsche Postbank AG

The Management Board



Frank Strauss




Marc Hess

Susanne Klöss-Braekler



Philip Laucks



Ralph Müller



Zvezdana Seeger



Hanns-Peter Storr



Lars Stoy

BALANCE SHEET AS OF DECEMBER 31, 2017 – DEUTSCHE POSTBANK AG, BONN

Assets	€m	€m	€m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
1. Cash reserve					
a) Cash balance			1,178		1,426
b) Balances with central banks of which: with Deutsche Bundesbank	20		20	1,198	11 (11) 1,437
2. Loans and advances to other banks					
a) Payable on demand			8,618		5,564
b) Other loans and advances of which: mortgage loans public-sector loans	- 20		6,843	15,461	12,733 (-) (20) 18,297
3. Loans and advances to customers of which: mortgage loans public-sector loans	25,171 4,734			78,785	73,345 (23,184) (4,765)
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 of which: eligible as collateral with Deutsche Bundesbank	12,537	12,682			15,541 (15,378)
bb) Other issuers of which: eligible as collateral with Deutsche Bundesbank	5,297	7,815			8,613 (6,135) 24,154
c) Own bonds Principal amount	-		20,497	20,497	- (-) 24,154
5. Trading portfolio				145	279
6. Equity investments of which: in other banks in financial services providers	- -			23	30 (-) (-)
7. Investments in affiliated companies of which: in other banks in financial services providers	- 1			5,943	5,666 (-) (12)
8. Trust assets of which: trustee loans	327			328	381 (380)
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
c) Goodwill			-		-
d) Prepayments			-		-
10. Property and equipment				336	356
11. Other assets				1,404	2,152
12. Prepaid expenses					
a) From issuing and lending business			226		303
b) Other			21	247	23 326
13. Excess of plan assets over pension liabilities				223	332
Total assets				124,590	126,755

Equity and liabilities	€m	€m	€m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
1. Deposits from other banks					
a) Payable on demand			558		602
b) With an agreed maturity or withdrawal notice			10,100		11,149
of which:					
registered mortgage <i>Pfandbriefe</i> issued	128				(170)
registered public-sector <i>Pfandbriefe</i> issued	53				(76)
<i>Pfandbriefe</i> lodged with lenders					
(as collateral for loans received):					
registered mortgage <i>Pfandbriefe</i>	-				(-)
registered public-sector <i>Pfandbriefe</i>	-				(-)
registered bonds (mixed cover) in accordance					
with DSL Bank Reorganization Act (DSLBUmwG)	575				(1,015)
				10,658	11,751
2. Due to customers					
a) Savings deposits					
aa) With an agreed withdrawal notice of three months		36,593			38,482
ab) With an agreed withdrawal notice					
of more than three months		95			103
			36,688		38,585
b) Registered mortgage <i>Pfandbriefe</i> issued			1,637		1,672
c) Registered public-sector <i>Pfandbriefe</i> issued			135		136
d) Registered bonds (mixed cover) in accordance					
with DSLBUmwG			8,511		10,585
e) Other amounts due					
ea) Payable on demand		51,363			47,021
eb) With an agreed maturity or withdrawal notice		2,780			3,400
			54,143		50,421
of which:					
<i>Pfandbriefe</i> lodged with lenders					
as collateral for loans received:					
registered mortgage <i>Pfandbriefe</i>	-				(-)
registered public-sector <i>Pfandbriefe</i>	-				(-)
				101,114	101,399
3. Debt securities in issue					
a) Bonds issued					
aa) Mortgage <i>Pfandbriefe</i>		2,363			2,429
ab) Public-sector <i>Pfandbriefe</i>		56			56
ac) Bonds (mixed cover) in accordance					
with DSLBUmwG		-			-
ad) Other bonds		819			881
			3,238		3,366
b) Other debt securities in issue					
of which: money market securities	-				(-)
				3,238	3,366
4. Trading portfolio				86	107
5. Trust liabilities				328	381
of which: trustee loans	327				(380)
6. Other liabilities				1,130	1,214
7. Deferred income					
a) From issuing and lending business			5		7
b) Other			28		32
				33	39
8. Provisions					
a) Provisions for pensions and					
other employee benefits			-		-
b) Provisions for taxes			15		35
c) Other provisions			638		493
				653	528
9. Subordinated debt				2,043	2,443
10. Profit participation capital				159	180
of which: due within two years	105				(112)
11. Fund for general banking risks				2,227	2,426
of which: special reserve in accordance					
with section 340e(4) HGB	8				(7)
12. Equity					
a) Issued capital			547		547
b) Capital contributions by typical silent partners			20		20
c) Share premium			1,271		1,271
d) Retained earnings			1,083		1,083
e) Net retained profit for the period			-		-
				2,921	2,921
Total equity and liabilities				124,590	126,755
1. Contingent liabilities					
a) Contingent liabilities from endorsed bills settled with customers			-		-
b) Liabilities from guarantees and indemnity agreements ¹			1,036		754
c) Liabilities from the provision of collateral for third-party liabilities			-		-
				1,036	754
2. Other commitments					
a) Repurchase obligations from non-genuine securities repurchase agreements			-		-
b) Placement and underwriting obligations			-		-
c) Irrevocable loan commitments			6,914		6,693
				6,914	6,693

¹Commitments 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, 2017 TO DECEMBER 31, 2017**

Expenses	€m	€m	€m	2017 €m	2016 €m
1. Interest expense			1,074		1,178
less positive interest on financial liabilities			<u>-46</u>		<u>-31</u>
				1,028	1,147
2. Fee and commission expense				535	526
3. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		657			480
ab) Social security contributions, pensions, and other employee benefits		176			174
of which: for pensions	121				<u>(120)</u>
			833		654
b) Other administrative expenses			<u>1,420</u>		<u>1,462</u>
				2,253	2,116
4. Depreciation, amortization, and writedowns of intangible assets and property and equipment				20	22
5. Other operating expenses				604	510
6. Writedowns and adjustments to loans and advances and certain securities, and additions to provisions for credit risks				150	189
7. Writedowns and adjustments of equity investments, investments in affiliated companies, and securities treated as fixed assets				160	300
8. Expenses from loss absorption				145	89
9. Taxes on income				10	11
of which from change in recognized deferred taxes	0				<u>(8)</u>
10. Other taxes not reported under item 5				3	3
11. Profit transferred on the basis of profit pooling, profit transfer, or partial profit transfer agreements				217	9
12. Net profit for the period				-	-
Total expenses				5,125	4,922

Income	€m	€m	€m	2017 €m	2016 €m
1. Interest income from					
a) Lending and money market transactions less negative interest on financial assets		2,683 -72	2,611		2,776 -60 2,716
b) Fixed-income and book entry securities			442	3,053	565 3,281
2. Current income from					
a) Equities and other non-fixed-income securities			-		0
b) Equity investments			1		1
c) Investments in affiliated companies			75	76	58 59
3. Income from profit pooling, profit and loss transfer agreements, or partial profit and loss transfer agreements				80	70
4. Fee and commission income				818	714
5. Net income from the trading portfolio of which: appropriated to special reserve in accordance with section 340e(4) HGB	1			6	6 (1)
6. Income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets				470	250
7. Other operating income				422	542
8. Withdrawals from the fund for general banking risks				200	-
Total income				5,125	4,922
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 2017

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, 2017.

II. Accounting policies

1. General information

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

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 collateral-

ized 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 reported gross in interest income.

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 allowance in accordance with section 340e(3) of the HGB.

The risk allowance 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, 2017, a risk allowance of €1 million (previous year: €2 million) was determined for Postbank's trading portfolio.

In addition to the aforementioned risk allowance, credit value/debt value adjustments on the risk relating to the parties involved in the financial instrument of €0 million (previous year: €4 million) were taken into account for OTC derivatives.

Both allowances 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 "fund for general banking risks" special reserve 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 €72 million was reported as interest income and positive interest of €46 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 is 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, 2017	Dec. 31, 2016
Discount rate	3.68 %	4.01 %
Salary growth	2.40 %	1.90 %
Pension growth	1.80 %	1.60 %
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 2017, 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 Beteiligungs-Holding GmbH, Frankfurt am Main, a wholly-owned subsidiary of Deutsche Bank AG, Frankfurt am Main.

Postbank and its subsidiaries 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 Beteiligungs-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 2017.

The following ratios applied as of December 31, 2017:

	Dec. 31, 2017 ¹ €m	Dec. 31, 2016 ² €m
Credit and counterparty risk (including CVAs)	32,193	40,722
Market risk positions	48	44
Operational risk	4,699	5,005
Total risk-weighted assets	36,940	45,771
regular phased-in:		
Common Equity Tier 1 capital (CET1)	4,760	5,028
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital	4,760	5,028
Tier 2 capital	1,521	2,137
Own funds	6,281	7,165
	%	%
CET 1 capital ratio	12.9	11.0
Tier 1 ratio	12.9	11.0
Total capital ratio	17.0	15.7
fully phased-in:		
CET1 capital ratio	12.7	10.6
Tier 1 ratio	12.7	10.6
Total capital ratio	16.9	15.3

¹Subject to the adoption of the annual financial statements as of December 31, 2017

²Based on the audited annual financial statements as of December 31, 2016

The ratios reported as of December 31, 2017, are based on the audited figures published in the annual financial statements as of December 31, 2016. The regular phased-in Common Equity Tier 1 capital ratio was thus 13.1 %, while the regular phased-in total capital ratio was 17.2 %.

B. BALANCE SHEET AND INCOME STATEMENT DISCLOSURES

I. Balance sheet disclosures

Assets

(1) Loans and advances to other banks

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	15,461	18,297
thereof:		
to affiliated companies	6,114	8,300
to long-term investees and investors	–	–
used as coverage for bonds issued	23	23
Remaining maturities:		
payable on demand	8,618	5,564
up to 3 months	1,565	5,436
> 3 months, ≤ 1 year	3,500	3,481
> 1 year, ≤ 5 years	1,367	3,254
more than 5 years	411	562

(2) Loans and advances to customers

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	78,785	73,345
thereof:		
to affiliated companies	4,192	3,579
to long-term investees and investors	18	10
used as coverage for bonds issued	12,566	13,485
Remaining maturities:		
up to 3 months	7,301	3,657
> 3 months, ≤ 1 year	5,515	6,396
> 1 year, ≤ 5 years	28,646	28,270
more than 5 years	34,584	32,545
without fixed maturity	2,739	2,477

(3) Bonds and other fixed-income securities

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	20,497	24,154
thereof:		
to affiliated companies	3,211	3,032
to long-term investees and investors	–	–
negotiable and listed securities	20,083	23,697
negotiable and unlisted securities	407	450
amounts due in the following year	4,672	4,272
used as coverage for bonds issued	2,788	4,316
negotiable securities not measured at the lower of cost or market value	5,631	6,107

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, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	145	279
thereof:		
Derivatives	145	284
Receivables	–	–
Bonds and other fixed-income securities	1	1
Equities and other non-fixed-income securities	–	–
Other assets	–	–
Risk discount	–1	–6

(5) Equity investments

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	23	30
thereof:		
negotiable and listed securities	1	3
negotiable and unlisted securities	0	0

(6) Investments in affiliated companies

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	5,943	5,666
thereof:		
negotiable and listed securities	–	–
negotiable and unlisted securities	1,418	1,573

(7) Trust assets

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	328	381
thereof:		
Loans and advances to other banks	1	1
Loans and advances to customers	327	380

(8) Property and equipment

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	336	356
thereof:		
Land and buildings used in Postbank's own operations	312	311

(9) Other assets

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	1,404	2,152
thereof:		
to affiliated companies	289	129
to long-term investees and investors	–	–
therein:		
Derivative hedging instruments	522	806
Margin payments made	406	951
Claims to reimbursement from payment protection insurance	74	67
Claims to tax reimbursement	69	59
Adjustment item from currency translation	43	19
Claims to reimbursement from life insurance	32	39

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.

Other receivables from affiliated companies include receivables from profit and loss transfer agreements amounting to €80 million (previous year: €70 million) and receivables from margin payments made amounting to €119 million (previous year: €0 million).

(10) Prepaid expenses

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	247	326
thereof:		
Premiums from receivables in acc. with section 340e(2) sentence 3 HGB	199	267
Discounts from liabilities in acc. with section 250(3) HGB	23	30
Investment allowances	0	1

(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.

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

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	223	332
Fair value of plan assets	1,197	1,223
Settlement amount of pension obligations	974	891
Excess cover of plan assets over post-employment benefit liabilities (excess of plan assets)	223	332
Cost of plan assets	947	923
Offset amounts		
Interest cost of pension provisions	35	34
Gain (+)/expense (-) from the change in the discount rate	-49	17
Income from plan assets	-26	103

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, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	10,658	11,751
thereof:		
to affiliated companies	3,225	3,295
to long-term investees and investors	–	–
Remaining maturities:		
payable on demand	558	602
up to 3 months	3,060	3,234
> 3 months, ≤ 1 year	724	961
> 1 year, ≤ 5 years	3,250	3,553
more than 5 years	3,066	3,401

(14) Due to customers

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	101,114	101,399
thereof:		
to affiliated companies	1,378	1,819
to long-term investees and investors	0	5
Remaining maturities:		
Sub-items:		
Savings deposits with an agreed withdrawal notice of more than three months	95	103
> 3 months, ≤ 1 year	31	33
> 1 year, ≤ 5 years	64	70
more than 5 years	0	0
Other amounts due to customers with an agreed maturity or withdrawal notice and registered mortgage <i>Pfandbriefe</i> issued, registered public-sector <i>Pfandbriefe</i> issued and registered bonds (mixed cover)	13,063	15,793
up to 3 months	1,931	2,459
> 3 months, ≤ 1 year	2,011	2,432
> 1 year, ≤ 5 years	5,135	5,915
more than 5 years	3,986	4,987

(15) Debt securities in issue

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	3,238	3,366
thereof:		
to affiliated companies	–	–
to long-term investees and investors	–	–
Remaining maturities:		
Sub-items:		
Bonds issued	3,238	3,366
thereof: amounts due in the following year	10	61

(16) Trading portfolio

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	86	107
thereof:		
Derivatives	86	107

(17) Trust liabilities

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	328	381
thereof:		
Deposits from other banks	1	1
Due to customers	327	380

(18) Other liabilities

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	1,130	1,214
thereof:		
to affiliated companies	404	150
to long-term investees and investors	–	–
therein:		
Margin payments received	465	740
Derivative hedging instruments	66	0
Tax liabilities	15	12
Value-added tax liabilities to Deutsche Bank	3	2
Adjustment item from currency translation	–	0

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 to affiliated companies mainly relate to commissions of €32 million arising from the service framework agreement with PB Firmenkunden AG, as well as the absorption of losses of €106 million from Postbank Filialvertrieb AG and €39 million from Postbank Systems AG under the contractual arrangements with these companies. Liabilities of €217 million to DB Beteiligungs-Holding GmbH relate to the control and profit and loss transfer agreement.

(19) Deferred income

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	33	39
thereof:		
Discount from hedged securities	10	14
Discount from receivables in acc. with section 340e(2) sentence 2 HGB	4	4
Issue costs/premiums on bonds issued	1	2

(20) Provisions

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	653	528
Sub-items:		
Other provisions	638	493
Provisions for credit risks	30	48
Staff-related provisions	365	174
Provisions for anticipated losses on derivatives and purchase obligations entered	35	35
Miscellaneous provisions	208	236

Of the staff-related provisions of €365 million, €179 million relates to new provisions in connection with the planned merger of Postbank with Deutsche Bank Privat- und Geschäftskunden AG and the reorganization of the sales organization. Additionally, the miscellaneous provisions contain €46 million in this context for the payment obligation assumed and explained in B. III. (2).

The miscellaneous provisions include provisions for litigation and customer redress amounting to €108 million (previous year: €136 million), which relate primarily to risks in connection with revoked loan agreements and for legal actions and complaints about investment advice. Most of the latter legal actions and complaints relate to advice provided and transactions entered into in the area of closed-end funds, the distribution of which was discontinued in 2012. The amount also includes provisions for numerous claims brought by customers in relation to various matters.

The unwinding of discounted other provisions resulted in expenses of €1 million (previous year: €1 million) in fiscal year 2017. Of this amount, €1 million was attributable to non-banking provisions, as in the previous year.

(21) Subordinated debt

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	2,043	2,443
thereof:		
to affiliated companies	1,322	1,631
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. An early 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

Subordinated debt declined in fiscal year 2017, primarily because of the repayment of a debt issue. Expenses for subordinated debt (including proportionate interest and premiums) amounted to €76 million (previous year: €95 million).

(22) Profit participation capital

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Presentation in the balance sheet	159	180
thereof:		
Bearer profit participation certificates outstanding	–	–
Registered profit participation certificates outstanding	159	180

Profit participation capital declined due to maturing instruments.

(23) Fund for general banking risks

	Dec. 31, 2016	With- drawals	Additions in acc. with section 340e(4) HGB	Dec. 31, 2017
	€m	€m	€m	€m
Fund for general banking risks	2,426	200	1	2,227

(24) Equity

	Dec. 31, 2016 €m	Changes €m	Dec. 31, 2017 €m
Issued capital	547	–	547
Contributions by typical silent partners	20	–	20
Share premium	1,271	–	1,271
Retained earnings			
Other retained earnings	1,083	–	1,083
Net retained profit for the period	–	–	–
Equity under German GAAP	2,921	–	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.

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 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).

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

II. Additional balance sheet disclosures

(1) Fixed assets

	Historical cost	Additions	Disposals	Reclassifications	Currency translation gains/losses	Historical cost	Cumulative depreciation, amortization, writedowns	Carrying amount	Carrying amount
	Jan. 1, 2017	in fiscal year				Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Investment securities	13,535	971	-1,042	-	-2	13,462	-1,859	11,603	11,810
Bonds and other fixed-income securities	6,131	520	-1,004	-	-	5,647	-10	5,637	6,114
thereof hedge accounting	1,288	-	-134	-405	-	749	-	749	1,288
Equity investments	50	1	-20	-	-2	29	-6	23	30
Investments in affiliated companies	7,354	450	-18	-	-	7,786	-1,843	5,943	5,666
Intangible assets	6	-	-	-	-	6	-6	0	0
Property and equipment	807	18	-43	-	-	782	-446	336	356
Land and buildings	691	10	-36	26	-	691	-378	313	311
Operating and office equipment	89	3	-7	-	-	85	-68	17	16
Assets under development	27	5	-	-26	-	6	-	6	29
Total	14,348	989	-1,085	-	-2	14,250	-2,311	11,939	12,166

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, 2017	in fiscal year					Dec. 31, 2017
	€m	€m	€m	€m	€m	€m	€m
Investment securities	-1,725	-159	1	-	24	-	-1,859
Bonds and other fixed-income securities	-17	-	1	-	6	-	-10
Equity investments	-20	-4	-	-	18	-	-6
Investments in affiliated companies	-1,688	-155	-	-	-	-	-1,843
Intangible assets	-6	0	-	-	-	-	-6
Property and equipment	-451	-19	-	-	24	-	-446
Land and buildings	-380	-16	-	-	18	-	-378
Operating and office equipment	-71	-3	-	-	6	-	-68
Assets under development	-	-	-	-	-	-	-
Total	-2,182	-178	1	-	48	-	-2,311

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	
	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Bonds	1,468	1,424	1,431	1,375

The issuers of the bonds are 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 relate to securities of affiliated companies, while disposals mainly relate to several bullet bonds with a nominal volume of €644 million and the sale of two bonds with a carrying amount of €300 million.

Premiums of €-23 million were reversed to income and derecognized in fiscal year 2017. Credit/debit value adjustments in the amount of €31 million were recognized for current and terminated hedges as a result of the application of the gross hedge presentation method and reduced the portfolio by this amount.

In December 2017, PB Factoring GmbH was transferred to Postbank Beteiligungen GmbH in the course of a capital increase with non-cash contributions by contributing all shares of PB Factoring GmbH.

(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, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m	2017 €m
PB Spezialinvest					
TGV PB 02	Bond funds	514	468	46	0
TGV PB 08	Bond funds	863	775	88	0
TGV PB 09	Bond funds	586	529	57	0
TGV PB 11	Mixed fund	667	609	58	22
TGV PB 13	Bond funds	350	333	17	18
TGV PB 14	Bond funds	361	333	28	7
TGV PB 21	Bond funds	215	193	22	13
TGV PB 26	Bond funds	312	300	12	0

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, 2017 €m	Dec. 31, 2016 €m
Carrying amount of the assets purchased under repurchase agreements	2,585	2,885

(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 Dec. 31, 2017 €m	Hedged item hedged against	Hedging instruments	Change in fair value of hedged item €m	Change in fair value of hedging instruments €m
Assets	11,916	interest rate risk	interest rate swaps	-202	203
Liabilities	-7,855	interest rate risk	interest rate swaps	158	-158

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. Executive contracts and transactions that are highly likely to materialize were not grouped into hedges as hedged items.

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/debit 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 €10.684 million (previous year: €6.846 million).

(5) Foreign currency amounts

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Translated into euros:		
from assets denominated in foreign currency	3,293	3,151
from liabilities denominated in foreign currency	3,293	3,147

(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 €150 billion as of December 31, 2017.

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

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, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m
Interest rate risk				
OTC products				
Interest rate swaps	74,976	–	1,742	–2,092
FRAs	–	–	–	–
Interest rate options	0	–	1	–8
Swaptions (long)	86	–	1	–
Swaptions (short)	86	–	–	–1
Caps, floors	2,450	–	2	–3
Other interest rate forwards	–	–	–	–
Exchange-traded products				
Interest rate futures (Bund, Bobl, Schatz)	–	–	–	–
Interest rate options (Bund, Bobl, Schatz)	–	–	–	–
Subtotal	77,598	–	1,746	–2,104
Currency risk				
OTC products				
Currency forwards/swaps	3,203	–	34	–27
Cross-currency swaps	656	–	63	–10
Currency options (long) ¹	332	–	12	–
Currency options (short) ¹	332	–	–	–12
Other currency forwards	–	–	–	–
Exchange-traded products				
Currency futures	–	–	–	–
Currency options	–	–	–	–
Subtotal	4,523	–	109	–49
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	82,121	–	1,855	–2,153

¹Including gold options, which are recognized under currency risk

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

	Interest rate risk	Currency risk ¹	Equity and other price risk	Credit derivatives
	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m
Remaining maturities				
less than 3 months	5,422	2,852	–	–
3 months to 1 year	7,627	983	–	–
1 year to 5 years	34,843	459	–	–
more than 5 years	29,706	229	–	–
Total	77,598	4,523	–	–

¹Including gold options, which are recognized under currency risk

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

	Notional amounts	Positive fair values	Negative fair values
	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m
Counterparties			
Banks in OECD countries	76,104	1,663	–2,134
Banks outside OECD countries	–	–	–
Other counterparties	6,017	192	–19
Total	82,121	1,855	–2,153

Derivatives (trading portfolio) recognized at fair value

Broken down by volume	Notional amounts		Carrying amounts		Positive fair values		Negative fair values	
	Dec. 31, 2017 €m		Dec. 31, 2017 €m		Dec. 31, 2017 €m		Dec. 31, 2017 €m	
Interest rate risk								
OTC products								
Interest rate swaps	67,592	58	144	-86				
FRA	-	-	-	-				
Interest rate options	-	-	-	-				
Swaptions (long)	-	-	-	-				
Swaptions (short)	-	-	-	-				
Caps, floors	415	0	0	0				
Other interest rate forwards	-	-	-	-				
Exchange-traded products	-	-	-	-				
Interest rate futures (Bund, Bobl, Schatz)	-	-	-	-				
Interest rate options (Bund, Bobl, Schatz)	-	-	-	-				
Subtotal	68,007	58	144	-86				
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	68,007	58	144	-86				

¹Including gold options, which are recognized under currency risk

Derivatives (trading portfolio) recognized at fair value

	Interest rate risk	Currency risk ¹	Equity and other price risk	Credit derivatives
	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m
Remaining maturities				
less than 3 months	4,903	-	-	-
3 months to 1 year	12,498	-	-	-
1 year to 5 years	34,466	-	-	-
more than 5 years	16,140	-	-	-
Total	68,007	-	-	-

¹Including gold options, which are recognized under currency risk

Derivatives (trading portfolio) recognized at fair value

	Notional amounts	Positive fair values	Negative fair values
	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m
Counterparties			
Banks in OECD countries	68,007	144	-86
Banks outside OECD countries	-	-	-
Other counterparties	-	-	-
Total	68,007	144	-86

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 €150 million (previous year: €189 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 and Postbank Filialvertrieb AG, which was written down as the impairment is expected to be permanent.

In addition to realized price gains of €18 million, the “income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets” item comprises income from the transfer of the investment in PB Factoring GmbH (€439 million) and the reduction in an equity investment based on a sales cooperation (€11 million).

(2) Other operating expenses

	2017 €m	2016 €m
Presentation in the income statement	604	510
therein		
Expense for services rendered by affiliated companies	392	412
Offsetting of expenses and income from pension provisions and the plan assets in acc. with section 246(2) sentence 2 HGB and effect of the change in the discount rate	110	–
Assume payment obligations subsidiaries	46	–
Expense for litigation risks and costs	22	54
Payments made to Bundesanstalt für Post und Telekommunikation Deutsche Bundespost	14	12
Expense for legal risk from processing fees for corporate loans	6	–

Under the terms of debt assumption agreements, Deutsche Postbank AG has issued an undertaking to its subsidiaries Betriebs-Center für Banken AG, BHW Kreditservice GmbH, and Postbank Service GmbH to assume the obligations from the voluntary early retirement and severance offers issued by those subsidiaries as of December 31, 2017, with a discharging effect. Other operating expenses increased by €46 million in this respect.

(3) Taxes on income

The income tax expense of €10 million (previous year: €11 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.

(4) Other operating income

	2017 €m	2016 €m
Presentation in the income statement	422	542
therein		
Reimbursements of civil servants' salaries from affiliated companies	169	175
Rental income	98	91
Income from the reversal of provisions	39	33
Remuneration for participation in ECB's refinancing program	34	40
Income from separately covered foreign currency positions	9	10
Offsetting of expenses and income from pension provisions and the plan assets in acc. with section 246(2) sentence 2 HGB and effect of the change in the discount rate	–	86

(5) Breakdown of income by geographical area

The total of the following items reported in 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:

	2017 €m	2016 €m
Germany	4,298	4,506
Europe (without Germany)	77	96
Total	4,375	4,602

(6) Auditor's fee

With regard to the total fee for fiscal year 2017 charged by auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft in accordance with section 285 no. 17 of the HGB, please refer to the disclosure in Deutsche Postbank AG's consolidated financial statements, which contains all the relevant figures for Postbank. The fees for audit and related services include the audit of the single-entity financial statements, the audit of the consolidated financial statements, the audit of the group reporting package as of December 31, 2017, and the review of the half-yearly financial report. The fees for other assurance services mainly comprise the review of the group reporting packages and statutory, contractual or voluntary assurance services. The fees for other services primarily consist of fees for project-related consulting services.

(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, 2017 €m	Dec. 31, 2016 €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	250	300
Recognized internally generated intangible fixed assets	–	–
Deferred taxes recognized	–	–
Total amounts subject to restriction in acc. with section 268(8) HGB	250	300
Difference subject to restriction on distribution in acc. with section 253(6) HGB from the measurement of pension provisions	152	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 2017 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.

On October 20, 2017, the Cologne District Court ruled in favor of 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. Deutsche Postbank AG has filed an appeal against this decision with the Higher Regional Court in Cologne.

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, 2017 €m	Dec. 31, 2016 €m
Irrevocable loan commitments	6,914	6,693
thereof building loans provided (excluding promotional loans)	4,605	4,175

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, 2017, Postbank had credit lines amounting to €14,458 million (previous year: €13,553 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. The cost of this was €92 million in 2017. Postbank has no further obligations for benefits paid by the pension fund.

Leases

Future minimum lease payments for non-cancelable operating leases amount to €224 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 €14 million as of December 31, 2017 (previous year: €27 million).

Restructuring fund

The annual contribution for 2017 (€13 million) to the restructuring fund was made under the irrevocable payment obligation and collateralization agreement.

Statutory deposit guarantee scheme

The irrevocable payment obligation of €37 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, and Deutsche Postbank Funding LLC III, all of which are domiciled in Wilmington, Delaware, U.S.A.

V. Employees (average headcount)

	2017	2016
Full-time	3,720	3,735
Salaried employees	3,002	2,934
thereof: trainees	145	158
Civil servants	718	801
Part-time	711	637
Salaried employees	525	469
Civil servants	186	168
Total	4,431	4,372

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	197,860	7,025
BHW Bausparkasse Aktiengesellschaft, Hameln	100.0	952,432	37,159
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln	100.0	918,946	0 ³
BHW Holding AG, Hameln	100.0	727,503	0 ³
BHW Kreditservice GmbH, Hameln	100.0	6,980	4,110
CREDA Objektanlage- und -verwaltungsgesellschaft mbH, Bonn	100.0	1,000	0 ³
Deutsche Postbank Finance Center Objekt GmbH, Schuttrange (Munsbach), Luxembourg	100.0	3,000	380
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 Trust I, Wilmington, Delaware, U.S.A.	100.0	14	-19 ⁴
Deutsche Postbank Funding Trust II, Wilmington, Delaware, U.S.A.	100.0	88	-21 ⁵
Deutsche Postbank Funding Trust III, Wilmington, Delaware, U.S.A.	100.0	17	-17 ⁶
DSL Portfolio GmbH & Co. KG, Bonn	100.0	4,620	12
DSL Portfolio Verwaltungs GmbH, Bonn	100.0	58	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	-8
Fünfte SAB Treuhand und Verwaltung GmbH & Co. „Leipzig-Magdeburg“ KG, Bad Homburg v.d. Höhe	41.2	0	-20
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl „Rimbachzentrum“ KG, Bad Homburg v.d. Höhe	74.9	0	-20
giropay GmbH, Frankfurt am Main	33.3	0	13
MT „CAPE BEALE“ Tankschiffahrts GmbH & Co. KG, Hamburg	25.7	29	-883
MT „KING DANIEL“ Tankschiffahrts GmbH & Co. KG, Hamburg	24.3	1,772	-3,396
MT „KING DOUGLAS“ Tankschiffahrts GmbH & Co. KG, Hamburg	24.3	9,420	-2,902
PB Factoring GmbH, Bonn	100.0	11,546	0 ³
PB Firmenkunden AG, Bonn	100.0	1,100	0 ³
PB International S.A., Schuttrange (Munsbach), Luxembourg	100.0	57,735	2,346
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0	3,967,186	168,024 ²
Postbank Akademie und Service GmbH, Hameln	100.0	1,020	16
Postbank Beteiligungen GmbH, Bonn	100.0	310,970	0 ³
Postbank Direkt GmbH, Bonn	100.0	19,004	3,145
Postbank Filialvertrieb AG, Bonn	100.0	31,135	0 ³
Postbank Finanzberatung AG, Hameln	100.0	67,285	2,070
Postbank Immobilien GmbH, Hameln	100.0	2,908	0 ³
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	18,874	0 ³
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn	90.0	23,098	532
Postbank Leasing GmbH, Bonn	100.0	500	0 ³
Postbank Service GmbH, Essen	100.0	5,010	4,885
Postbank Systems AG, Bonn	100.0	60,170	-2 ³
SAB Real Estate Verwaltungs GmbH, Hameln	100.0	37	4
SRC Security Research & Consulting GmbH, Bonn	22.5	4,971	942
Starpool Finanz GmbH, Berlin	49.9	407	68
VÖB-ZVD Processing GmbH, Bonn	75.0	22,699	7,522 ⁷
Equity interests in large corporations in which more than 5 % of the voting rights are held			
BSQ Bauspar AG, Nuremberg	14.1	29,044	-163
Landgesellschaft Mecklenburg-Vorpommern mit beschränkter Haftung, Leezen	11.0	48,990	3,379

¹The data on equity and profit and loss for the year are based on the most recently adopted annual financial statements of the companies concerned.

²The company also includes the shares in Teilgesellschaftsvermögen PB 25 which are not held by a company belonging to the Postbank Group.

³Profit and loss transfer agreement within the Deutsche Postbank Group

⁴The 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.

⁵The 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.

⁶The 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.

⁷25 % 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 includes summarized quantitative disclosures on the remuneration of the members of the governing bodies.

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 is 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's 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 2017

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 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. For fiscal year 2017, a vertical and a horizontal remuneration comparison was performed that confirmed the appropriateness of the remuneration.

The Supervisory Board has capped the ratio of variable to fixed remuneration. 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. Incidental benefits mainly comprise contributions to occupational pensions (pension benefits based on individual agreements), 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. 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 grant¹ 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. This has been agreed with the individual members of the Management Board by amending their employment contracts accordingly.

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.

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.

¹In 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.

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's resolutions establishing the variable remuneration for the members of the Management Board were discussed in depth at the end of January 2018 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 2017 on the basis of the recommendation made by the Compensation Control Committee.

The aggregate remuneration of the Management Board in fiscal year 2017 was €7,601.1 thousand (2016: €7,759.2 thousand). Of this amount, €4,003.9 thousand (previous year: €4,307.4 thousand) related to non-performance-related remuneration, €2,863.7 thousand (previous year: €2,734.9 thousand) to performance-related components with a long-term incentive effect, and €733.5 thousand (previous year: €716.9 thousand) to performance-related components without a long-term incentive effect. Former members of the Management Board and their surviving dependents received pension payments of €2,652.2 thousand in fiscal year 2017 (2016: €2,394.1 thousand).

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.

In February, 2017, Deutsche Postbank AG's Supervisory Board resolved to establish a "Digital Transformation" Committee on a temporary basis until the end of 2018. The Committee has only an advisory function and did not meet in fiscal year 2017.

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 2017 amounted to €1,091.3 thousand including attendance allowances (previous year: €1,137.7 thousand). In addition, members of the Supervisory Board who receive remuneration for supervisory board offices at subsidiaries received aggregate remuneration, including attendance allowances, of €15.5 thousand for fiscal year 2017 (previous year: €14.3 thousand).

The employee representatives received remuneration of €627.7 thousand in fiscal year 2017 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, 2017, no shares issued by Deutsche Postbank AG were held by members of the Management Board or the Supervisory Board.

As of the reporting date, loans of €481.8 thousand (previous year: €0 thousand) had been granted to members of the Management Board and €557.7 thousand (previous year: €48.5 thousand) to members of the Supervisory Board.

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 members are required to pay a deductible.

VIII. Cover for bonds outstanding

- Register B: closed register 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, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m
Public-sector Pfandbriefe Register B			
Principal amount	95	31	64
Present value	104	34	70
Bonds Register C (mixed cover)			
Principal amount	9,583	8,401	1,182
Present value	10,511	9,916	595
Mortgage Pfandbriefe Register D			
Principal amount	5,403	3,714	1,690
Present value	6,187	4,368	1,819
Public-sector Pfandbriefe Register E			
Principal amount	295	205	90
Present value	313	248	65

	Cover assets	Pfandbriefe outstanding	Excess cover
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
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

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, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Cover assets ²	5,403	5,428	6,187	6,458	5,857	6,070
thereof: derivatives	–	–	–	–	–	–
Mortgage <i>Pfandbriefe</i>	3,714	3,764	4,368	4,563	4,182	4,316
Overcollateralization in %	45.5	44.2	41.6	41.5	40.0	40.6

¹Dynamic method²Including additional cover assets in accordance with section 19(1) of the PfandBGPublic-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, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Cover assets ²	295	295	313	319	315	320
thereof: derivatives	–	–	–	–	–	–
Public-sector <i>Pfandbriefe</i>	205	205	248	256	259	268
Overcollateralization in %	43.9	43.9	26.2	24.2	21.6	19.5

¹Dynamic method²Including additional cover assets in accordance with section 20(2) of the PfandBGMaturity 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 <i>Pfandbriefe</i>	Mortgage <i>Pfandbriefe</i>
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
less than 6 months	313	364	–	–
from 6 months to 12 months	329	157	15	50
from 12 months to 18 months	446	345	246	–
from 18 months to 2 years	329	190	55	15
from 2 to 3 years	500	632	1,040	301
from 3 to 4 years	293	500	1,125	1,040
from 4 to 5 years	239	310	55	1,125
from 5 to 10 years	1,717	1,817	688	586
more than 10 years	1,237	1,113	490	647
Total	5,403	5,428	3,714	3,764

¹Including 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	Cover assets ¹	Public-sector <i>Pfandbriefe</i>	Public-sector <i>Pfandbriefe</i>
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
less than 6 months	–	10	–	–
from 6 months to 12 months	–	–	35	–
from 12 months to 18 months	20	–	–	–
from 18 months to 2 years	20	–	–	35
from 2 to 3 years	30	40	60	–
from 3 to 4 years	20	20	–	60
from 4 to 5 years	205	20	–	–
from 5 to 10 years	–	205	50	50
more than 10 years	–	–	60	60
Total	295	295	205	205

¹Including 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, 2017 €m	Dec. 31, 2016 €m
Germany		
Equalization claims under section 19(1) no. 1 of the PfandBG	–	–
Claims within the meaning of section 19(1) no. 2 of the PfandBG	–	–
of which covered bonds within the meaning of Article 129 of Regulation (EU) No. 575/2013	–	–
Claims within the meaning of section 19(1) no. 3 of the PfandBG	200	200
Total Germany	200	200
Total	200	200
of which statutory overcollateralization within the meaning of section 4(1) of the PfandBG	200	200

Additional cover assets (nominal amount) for public-sector *Pfandbriefe* by country/country of registration:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Germany		
Equalization claims under section 20(2) no. 1 of the PfandBG	–	–
Claims within the meaning of section 20(2) no. 2 of the PfandBG	–	–
of which covered bonds within the meaning of Article 129 of Regulation (EU) No. 575/2013	–	–
Total Germany	–	–
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, 2017	Dec. 31, 2016
Interest rate structure under section 28(1) no. 9 of the PfandBG		
Percentage share of fixed-rate <i>Pfandbriefe</i>	97.2 %	97.2 %
Percentage share of fixed-rate cover assets	98.8 %	98.8 %
Claims exceeding limits under section 28(1) no. 8 of the PfandBG		
Total amount of claims used for cover exceeding the limits under section 19(1) no. 2 of the PfandBG, in €m	–	–
Total amount of claims used for cover exceeding the limits under section 19(1) no. 3 of the PfandBG, in €m	–	–
Other indicators		
Total of the claims which exceed the limits under section 13(1) of the PfandBG, in €m (section 28(1) no. 7 of the PfandBG)	–	–
Net present value under section 6 of the <i>Pfandbrief</i> Net Present Value Regulation (<i>Pfandbrief-Barwertverordnung</i>) for each foreign currency, in €m (section 28(1) no. 10 of the PfandBG)	–	–
Volume-weighted average of the maturity of claims (seasoning) in years (section 28(1) no. 11 of the PfandBG)	6.4	6.1
Average weighted loan-to-value ratio (section 28(2) no. 3 of the PfandBG)	55.6 %	55.6 %

Section 28(1) nos. 8–10 of the PfandBG

Indicators for outstanding public-sector *Pfandbriefe* and the associated cover assets:

	Dec. 31, 2017	Dec. 31, 2016
Interest rate structure under section 28(1) no. 9 of the PfandBG		
Percentage share of fixed-rate <i>Pfandbriefe</i>	100.0 %	100.0 %
Percentage share of fixed-rate cover assets	100.0 %	100.0 %
Claims exceeding limits under section 28(1) no. 8 of the PfandBG		
Total amount of claims used for cover exceeding the limits under section 20(2) of the PfandBG, in €m	–	–
Other indicators		
Net present value under section 6 of the <i>Pfandbrief</i> Net Present Value Regulation (<i>Pfandbrief-Barwertverordnung</i>) 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	Mortgage cover assets
	Dec. 31, 2017 €m	Dec. 31, 2016 €m
up to and including €300,000	5,104	5,174
more than €300,000 up to €1 million	97	54
more than €1 million up to €10 million	2	-
more than €10 million	-	-
Total	5,203	5,228

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, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Total	5,203	5,228	-	-

	Mortgage cover assets			
	Residential properties	Residential properties	Commercial properties	Commercial properties
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Germany				
Condominiums	736	766	-	-
One- and two-family houses	4,295	4,305	-	-
Multi-family houses	172	157	-	-
Office buildings	-	-	-	-
Trade buildings	-	-	-	-
Industrial buildings	-	-	-	-
Other commercial buildings	-	-	-	-
Buildings under construction	-	-	-	-
Construction sites	-	-	-	-
Total Germany	5,203	5,228	-	-

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, 2017 €m	Dec. 31, 2016 €m
Total Germany	-	-
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, 2017 €m	Dec. 31, 2016 €m
Total Germany	-	-
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, 2017 Number	Dec. 31, 2016 Number	Dec. 31, 2017 Number	Dec. 31, 2016 Number
Number of foreclosures pending at the balance sheet date	-	1	-	-
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, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €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, 2017 €m	Dec. 31, 2016 €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, 2017 €m	Dec. 31, 2016 €m
Germany		
State	–	–
Regional authorities	275	295
Local authorities	–	–
Other debtors	–	–
Total Germany	275	295
Guaranteed or guarantees for reasons of promoting exports	–	–
Luxembourg		
State	20.0	–
Regional authorities	–	–
Local authorities	–	–
Other debtors	–	–
Total Luxembourg	20.0	–
Guaranteed or guarantees for reasons of promoting exports	–	–
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, 2017 €m	Dec. 31, 2016 €m
Germany		
State	–	–
Regional authorities	–	–
Local authorities	–	–
Other debtors	–	–
Total Germany	–	–
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, 2017 €m	Dec. 31, 2016 €m
Germany		
State	–	–
Regional authorities	–	–
Local authorities	–	–
Other debtors	–	–
Total Germany	–	–
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 time, the Supervisory Board and the Management Board of Deutsche Postbank AG have not been required to make a Declaration of Conformity pursuant to section 161 of the AktG. The most recent Declaration of Conformity made by the Supervisory Board and the Management Board on December 17, 2015, and the rationale contained therein, is no longer valid. Postbank has not otherwise undertaken to comply with the recommendations of the German Corporate Governance Code.

D. Report on post-balance sheet date events

No significant reportable events occurred between December 31, 2017 and the preparation of the annual financial statements by the Management Board on February 21, 2018.

E. Members of executive bodies

Management Board

The members of the Management Board are:

Frank Strauss, Bad Nauheim (Chairman)	
Marc Hess, Bonn	
Susanne Klöss-Braekler, Munich	
Philip Laucks, Goldbach	since June 1, 2017
Ralph Müller, Bonn	
Zvezdana Seeger, Berlin	since January 1, 2018
Ralf Stemmer, Königswinter	until May 31, 2017
Hanns-Peter Storr, Bonn	
Lars Stoy, Bonn	since June 1, 2017

Offices held by members of the Management Board of Deutsche Postbank AG on supervisory boards or other supervisory bodies:

Frank Strauss

Chairman of the Management Board

Function	Company
Chairman of the Supervisory Board (until August 31, 2017)	BHW Bausparkasse Aktiengesellschaft, Hameln
Chairman of the Supervisory Board (until August 31, 2017)	Postbank Filialvertrieb AG, Bonn
Chairman of the Supervisory Board (until August 31, 2017)	Postbank Finanzberatung AG, Hameln

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	Postbank Direkt GmbH, Bonn
Chairperson of the Supervisory Board (since September 27, 2017) Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board	Eurex Frankfurt AG, Frankfurt am Main
Member of the Board of Directors	Eurex Zürich AG, Zurich (Switzerland)

Philip Laucks

Member of the Management Board since June 1, 2017

Function	Company
Member of the Supervisory Board	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board	BHW Kreditservice GmbH, Hameln
Member of the Supervisory Board (from July 1, 2017 to November 30, 2017)	Postbank Akademie und Service GmbH, Hameln
Member of the Supervisory Board	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board (since August 8, 2017)	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board (until Oktober 31, 2017)	Postbank Service GmbH, Essen
Member of the Supervisory Board (since July 1, 2017)	Postbank Systems AG, Bonn
Member of the Administrative Board (since June 1, 2017)	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Ralph Müller

Function	Company
Chairman of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board (until April 5, 2017)	Postbank Systems AG, Bonn
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Zvezdana Seeger

Member of the Management Board since January 1, 2018

Function	Company
Chairperson of the Supervisory Board	Betriebs-Center für Banken AG, Frankfurt am Main
Chairperson of the Supervisory Board	BHW Kreditservice GmbH, Hameln
Chairperson of the Supervisory Board	Postbank Service GmbH, Essen
Chairperson of the Supervisory Board	Postbank Systems AG, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln

Ralf Stemmer

Member of the Management Board until May 31, 2017

Function	Company
Chairman of the Supervisory Board (until May 31, 2017)	Postbank Akademie und Service GmbH, Hameln
Chairman of the Board of Directors (until May 31, 2017)	PB International S.A., Luxembourg
Deputy Chairman of the Supervisory Board (until May 29, 2017)	Postbank Direkt GmbH, Bonn
Deputy Chairman of the Supervisory Board (until May 31, 2017)	Postbank Finanzberatung AG, Hameln
Deputy Chairman of the Supervisory Board (until May 31, 2017)	Postbank Systems AG, Bonn
Deputy Chairman of the Supervisory Board (until June 30, 2017)	PB Pensionsfonds AG, Hilden
Member of the Supervisory Board (until May 31, 2017)	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board (until May 31, 2017)	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board (until May 31, 2017)	PB Firmenkunden AG, Bonn
Member of the Supervisory Board (until May 31, 2017)	Postbank Filialvertrieb AG, Bonn
Member of the Administrative Board (until May 31, 2017)	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 August 31, 2017)	Postbank Finanzberatung AG, Hameln
Member of the Supervisory Board	Postbank Systems AG, Bonn

Lars Stoy

Member of the Management Board since June 1, 2017

Function	Company
Chairman of the Supervisory Board (since September 13, 2017) Member of the Supervisory Board (since August 3, 2017)	BHW Bausparkasse Aktiengesellschaft, Hameln
Chairman of the Supervisory Board (since September 1, 2017) Member of the Supervisory Board (since June 1, 2017)	Postbank Finanzberatung AG, Hameln
Member of the Supervisory Board	BHW Kreditservice GmbH, Hameln
Member of the Supervisory Board (since October 9, 2017)	Postbank Filialvertrieb AG, 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-Buchsschlag

Edgar Ernst
President of the Financial Reporting Enforcement Panel,
DPR e.V., Bonn

Stefanie Heberling
Regional Manager, 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 Chief Operating Officer, HR,
Deutsche Bank AG, Frankfurt am Main

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
Head of Cash Management and Head of GTB Germany,
Deutsche Bank AG, Bad Homburg v. d. Höhe

2. Employee representatives

Frank Bsirske (Deputy Chairman)
Chairman of the ver.di Trade Union, Berlin

Susanne Bleidt
Member of Postbank Filialvertrieb AG's
General Works Council, Bell

Frank Fuss since March 22, 2017
Chairman of the General Works Council of
Deutsche Postbank AG, Elsdorf

Timo Heider
Chairman of the General Works Council of
BHW Bausparkasse Aktiengesellschaft and
Postbank Finanzberatung AG, Emmerthal

Jens Iselmann
Executive employee of Deutsche Postbank AG,
Bornheim

Hans-Jürgen Kummetat until March 22, 2017
Civil servant, Cologne

Bernd Rose
Chairman of the General Works Council of
Postbank Filialvertrieb AG and Postbank Filial GmbH,
Menden (Sauerland)

Martina Scholze
Trade union secretary of the ver.di
Trade Union, Munich

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 until February 28, 2017
Deputy Chair of Deutsche Postbank AG's
General Works Council, Brühl

Anna Lisa Trompa since March 22, 2017
Chairperson of the Group Youth
and Trainee Delegation of
Deutsche Postbank AG, Lehrte

Offices held by members of the Supervisory Board of Deutsche Postbank AG on supervisory boards or other supervisory bodies:

Shareholder representatives:

Edgar Ernst

Function	Company
Chairman of the Supervisory Board (since September 7, 2017) Member of the Supervisory Board (until September 6, 2017)	VONOVIA SE, Düsseldorf
Member of the Supervisory Board (until May 31, 2017)	DMG SEIKI AG, Bielefeld
Member of the Supervisory Board (since February 1, 2017)	METRO AG, Düsseldorf
Member of the Supervisory Board	TUI AG, Hanover

Tessen von Heydebreck

Function	Company
Chairman of the Advisory Board	IFA Rotorion Holding GmbH, Haldensleben
Member of the Board of Trustees (until December 31, 2017)	Dussmann Stiftung & Co. KGaA, Berlin
Member of the Supervisory Board (until March 31, 2017)	Vattenfall GmbH, Berlin

Karen Meyer

Function	Company
Member of the Advisory Board	Deutsche Bank HR Solutions GmbH, Frankfurt am Main

Karl von Rohr

Function	Company
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e.V., Berlin

Christian Sewing

Function	Company
Chairman of the Supervisory Board	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	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 (until Juni 30, 2017)	IBM Central Holding GmbH, Ehningen
Member of the Board of Supervisory Directors	Kreditanstalt für Wiederaufbau, Frankfurt am Main

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

Bernd Rose

Function	Company
Deputy Chairman of the Supervisory Board	ver.di Vermögensverwaltungsgesellschaft mbH, Berlin
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Martina Scholze

Function	Company
Deputy Chair of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board (until July 31, 2017)	ERGO Group AG, Düsseldorf

Gerd Tausendfreund

Function	Company
Member of the Supervisory Board	Betriebs-Center für Banken AG, Frankfurt am Main

Renate Treis

Member of the Supervisory Board until February 28, 2017

Function	Company
First substitute member of the General Assembly of Members	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 Deutsche Postbank AG, 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, 2018

Deutsche Postbank Aktiengesellschaft

The Management Board



Frank Strauss




Marc Hess

Susanne Klöss-Braekler



Philip Laucks



Ralph Müller



Zvezdana Seeger



Hanns-Peter Storr



Lars Stoy

INDEPENDENT AUDITOR'S REPORT

To Deutsche Postbank AG, Bonn

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Deutsche Postbank AG, Bonn, which comprise the balance sheet as at 31 December 2017, and the statement of profit and loss for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Deutsche Postbank AG for the financial year from 1 January to 31 December 2017. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards) in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German com-

mercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of shares in affiliated companies
2. Provisions for litigation and redress
3. Provisions for restructuring

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Measurement of shares in affiliated companies

1. In the Deutsche Postbank AG's annual financial statements shares in affiliated companies amounting to € 5,943 million are reported under the "Shares in affiliated companies" balance sheet item as at 31 December 2017.

Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. As at the balance sheet date, market values were not available for shares in affiliated companies. The present values of the expected future net income according to the planning projections prepared by the executive directors are calculated using the standardized income approach in order to determine the fair values of the material shares. This includes taking into consideration expectations concerning future market developments and discounting using the determined cost of capital. On the basis of the values determined for the annual financial statements, writedowns amounting in total to € 155 million were required with respect to shares in affiliated companies for the financial year.

The outcome of this measurement depends to a large extent on assumptions made by the executive directors of the future net income and the discount rates used. The measurement is therefore subject to material uncertainties. Against this background and due to its materiality for Deutsche Postbank AG's assets, liabilities, and results of operations, this matter was of particular significance during our audit.

2. As part of our audit, we evaluated the methodology used for the purposes of the measurement, among other things. In particular, we assessed whether the fair values of the significant shares in affiliated companies had been appropriately determined using the standardized income approach in compliance with the relevant measurement standards. In doing so, we assessed whether the underlying future net income and the costs of capital used form, as a whole, an appropriate basis. We based our assessment, among other things, on a comparison with sector-specific market expectations as well as the executive directors' explanations regarding key planning value drivers. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the values of the shares calculated in this way, we focused our testing on the parameters used to determine the discount rate applied, and evaluated the calculation model.

Overall, taking into consideration the information available, in our view the measurement parameters applied and underlying assumptions used by the executive directors are appropriate for the purpose of appropriately measuring shares in affiliated companies.

3. The Company's disclosures on shares in affiliated companies are contained in the sections "A.II.2. Accounting policies" and "B.II. (1) Fixed assets" in the notes to the annual financial statements.

2. Provisions for litigation and redress

1. In the Deutsche Postbank AG's annual financial statements obligations for litigation and redress amounting to € 108 million are reported under the "Other provisions" balance sheet item as at 31 December 2017.

The provisions are primarily intended for risks in connection with revocable loan agreements and for legal actions and complaints about investment advice. Furthermore, provisions were recognized for numerous other claims brought by customers. The risk assessment with respect to the course of legal disputes and the assessment of whether and to what extent it is necessary to recognize a provision for this purpose are largely influenced by the estimates and assumptions made by the executive directors. Against this background, this matter was of particular significance in the context of our audit.

2. As part of our audit, we assessed the process implemented by the Company, including the relevant controls, to record legal risks, estimate the outcome of the proceedings, and account for litigation and redress. This assessment also included an evaluation of the Company's two material legal risks mentioned above. In the knowledge that estimated values bear an increased risk of accounting misstatements and that the executive directors' recog-

niton and measurement decisions have a direct effect on the Company's results of operations, we assessed the recognition and appropriateness of the carrying amounts for both material legal risks, including by taking past experience into consideration with respect to the course and outcome of legal disputes and by evaluating the consistently applied calculation method. In addition to this and with respect to the overall legal disputes, we regularly conducted interviews with the executive directors and the Company's legal department in order to gain an understanding of current developments and of the reasons underlying the estimates concerning the outcomes of proceedings. Furthermore, we obtained external legal confirmations as at the balance sheet date.

On the basis of our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were substantiated and sufficiently documented to justify the recognition and amount of the provisions for litigation and redress.

3. The Company's disclosures on other provisions are contained in the sections "A.II.2. Accounting policies" and "B.I. (20) Provisions" in the notes to the annual financial statements.

3. Provisions for restructuring

1. In the Deutsche Postbank AG's annual financial statements obligations for restructuring amounting in total to € 225 million are reported under the "Other provisions" balance sheet item as at 31 December 2017.

These provisions relate to obligations from the Company's voluntary early retirement and severance payment program in connection with the planned merger of Deutsche Postbank AG and Deutsche Bank Privat- und Geschäftskunden AG as well as other obligations in connection with the reorganization of the sales organization. In accordance with § 249 Abs. 1 Satz 1 HGB, provisions must be recognized for uncertain liabilities. There must be an obligation for this which was caused legally or economically during the financial year, and there must be a serious assumption that the provisions will be utilized. The amount of the provisions for planned offers and measures depends to a large extent on the estimates and assumptions made by the executive directors. Against this background and due to its materiality for Deutsche Postbank AG's results of operations, this matter was of particular significance during our audit.

2. As part of our audit, we firstly assessed whether the recognition criteria for the provisions were met. In the knowledge that estimated values bear an increased risk of accounting misstatements and that the executive directors' measurement decisions have a direct effect on the Company's results of operations, we assessed the appropriateness of the amounts of the provisions primarily by inspecting the Company's documents underlying the calculation and by examining the calculations. To the extent the amounts of the provisions were calculated on the basis of historical data from previous restructuring measures, we evaluated that the historical data were appropriately used. In addition, we conducted interviews with the executive directors and the Company's responsible departments in order to gain an understanding of

the assumptions underlying the respective estimates and assess the utilization of the voluntary early retirement and severance payment program.

On the basis of our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were substantiated and sufficiently documented to justify the recognition and amount of the provisions for restructuring.

3. The Company's disclosures on other provisions are contained in the sections "A.II.2. Accounting policies" and "B.I. (20) Provisions" in the notes to the annual financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism through-out the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 22 March 2017. We were engaged by the supervisory board on 2 June 2017. We have been the auditor of the Deutsche Postbank AG, Bonn, without interruption since the financial year 1999.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Christian F. Rabeling.

Düsseldorf, 22 February 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes Wirtschaftsprüfer (German Public Auditor)	Christian F. Rabeling Wirtschaftsprüfer (German Public Auditor)
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Head Office

Investor Relations

Friedrich-Ebert-Allee 114–126
53113 Bonn, Germany
Postfach 40 00
53105 Bonn, Germany
Phone: +49 228 920 0

Investor Relations

E-mail: ir@postbank.de
www.postbank.com/ir

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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.