

## IMPORTANT NOTICE

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3. represented that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located;
4. represented that you will not forward or distribute the Prospectus to any other person or reproduce it, in whole or in part, in any manner whatsoever; and
5. acknowledged that any subscription or purchase of the Securities may only be made on the basis of the information contained in the Prospectus.

This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

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€ 300,000,000 Registered Noncumulative Trust Preferred Securities  
(Liquidation Preference Amount of € 1,000 per Trust Preferred Security)

**Deutsche Postbank Funding Trust I,  
Wilmington, Delaware, United States of America**  
(a wholly-owned subsidiary of Deutsche Postbank AG, Bonn, Federal Republic of Germany)

FONDS CODE: 11648; ISIN: DE000A0DEN75; WKN: A0DEN7

The noncumulative trust preferred securities (the **"Trust Preferred Securities"**), liquidation preference amount € 1,000 per security (the **"Liquidation Preference Amount"**), offered hereby represent preferred undivided beneficial ownership interests in the assets of Deutsche Postbank Funding Trust I, a statutory trust created under the laws of the State of Delaware, United States of America (the **"Trust"**). One common security of the Trust will be owned by Deutsche Postbank AG (**"Postbank"**) or a wholly-owned subsidiary of Postbank. The assets of the Trust will consist solely of noncumulative Class B Preferred Securities (the **"Class B Preferred Securities"**) issued by Deutsche Postbank Funding LLC I (the **"Company"**), a Delaware limited liability company which has the benefit of a support undertaking issued by Postbank. The terms of the Trust Preferred Securities will be substantially identical to the terms of the Class B Preferred Securities. The Company will invest the proceeds from the sale of the Class B Preferred Securities in subordinated debt obligations issued by Postbank.

The Trust Preferred Securities and the Class B Preferred Securities will not have a maturity date and will not be redeemable at any time at the option of the holder thereof. The Trust and the Company may redeem the Trust Preferred Securities and the Class B Preferred Securities, as the case may be, on the Initial Redemption Date (as defined herein) scheduled to occur on December 2, 2010 (or any Capital Payment Date (as defined herein) thereafter), except upon the occurrence of certain tax and capital disqualification events as more fully described herein. Noncumulative Capital Payments (as defined herein) will accrue on the Liquidation Preference Amount (i) from (and including) December 2, 2004 (the **"Issue Date"**) to (but excluding) December 2, 2005 (the **"Reset Date"**) at a fixed rate of 6.00 per cent. per annum, payable in arrears on the Reset Date and (ii) for each Capital Payment Period (as defined herein) commencing on or after the Reset Date at the Reference Rate (as defined herein) for such Capital Payment Period plus 0.025 per cent. per annum, payable semi-annually in arrears on June 2 and December 2 in each year, commencing on June 2, 2006 (each, together with the Reset Date, a **"Capital Payment Date"**), *provided* that no Capital Payment for any Capital Payment Period commencing on or after the Reset Date shall accrue at a rate of more than 8.00 per cent. per annum. Capital Payments are subject to certain conditions, including that Postbank has an amount of Distributable Profits (as defined herein) for the preceding fiscal year at least equal to the Capital Payments. See "Prospectus Summary – Summary of the Terms of the Trust Preferred Securities and the Class B Preferred Securities – Capital Payments."

The Trust Preferred Securities will be initially evidenced by one or more temporary global certificates, interests in which will be exchangeable for interests in one or more permanent global certificates not earlier than after expiry of 40 days after the Issue Date upon certification of non-U.S. beneficial ownership by or on behalf of the holders of such interests. These global certificates will be deposited with Clearstream Banking AG, Frankfurt am Main, Federal Republic of Germany (**"Clearstream AG"**).

The Trust Preferred Securities are expected, on issue, to be assigned an "A3" rating by Moody's Investors Service Ltd., a BBB+ rating by Standard and Poor's (a division of The McGraw-Hill Companies, Inc.) and an "A-" rating by Fitch Ratings Ltd. A rating is not a recommendation to buy, sell, or hold securities, and may be subject to revision, suspension, or withdrawal at any time by the rating agency.

**An investment in the Trust Preferred Securities involves certain risks. See "Risk Factors" beginning on page 28 for a discussion of certain factors that should be considered by prospective investors.**

Application has been made to admit the Trust Preferred Securities to trading and official quotation on the Frankfurt Stock Exchange. Application has been made to list the Trust Preferred Securities on the Official Segment of Euronext Amsterdam N.V.'s Stock Market (**"Euronext Amsterdam"**). This Sales Prospectus constitutes a prospectus for the purposes of the listing and issuing rules of Euronext Amsterdam.

**Issue Price: 100 per cent. (equivalent to € 1,000 per Trust Preferred Security).**

**THESE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND ARE BEING OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES OF AMERICA TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S").**

*Lead Managers and Joint Bookrunners*

**BNP PARIBAS**  
*Structuring Advisor*

**Morgan Stanley**

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POSTBANK, THE COMPANY AND THE TRUST ASSUME RESPONSIBILITY FOR THE CONTENTS OF THIS SALES PROSPECTUS (THE "SALES PROSPECTUS"). POSTBANK, THE COMPANY AND THE TRUST, HAVING MADE REASONABLE INQUIRIES, CONFIRM THAT (I) THIS SALES PROSPECTUS CONTAINS ALL INFORMATION WITH RESPECT TO POSTBANK, ITS AFFILIATES, ITS SUBSIDIARIES, THE TRUST PREFERRED SECURITIES, THE CLASS B PREFERRED SECURITIES AND THE DEBT SECURITIES (AS DEFINED HEREIN) THAT IS MATERIAL IN THE CONTEXT OF THE LISTING, ISSUE AND OFFERING OF THE TRUST PREFERRED SECURITIES; (II) THE INFORMATION CONTAINED IN THIS SALES PROSPECTUS IS TRUE AND ACCURATE IN ALL MATERIAL RESPECTS AND IS NOT MISLEADING; (III) THE OPINIONS AND INTENTIONS EXPRESSED IN THIS SALES PROSPECTUS ARE HONESTLY HELD; AND (IV) THERE ARE NO OTHER FACTS THE OMISSION OF WHICH MAKES THIS SALES PROSPECTUS AS A WHOLE OR ANY OF THE INFORMATION OR THE EXPRESSION OF ANY OF THE OPINIONS OR INTENTIONS MISLEADING IN ANY RESPECT.

NO PERSON IS AUTHORIZED TO PROVIDE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS SALES PROSPECTUS, AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED IN THIS SALES PROSPECTUS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY POSTBANK, THE TRUST OR THE COMPANY OR BY THE LEAD MANAGERS. THE DELIVERY OF THIS SALES PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

THIS SALES PROSPECTUS IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2001 (THE "**ORDER**") OR (III) HIGH NET WORTH INDIVIDUALS, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THE TRUST PREFERRED SECURITIES ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH TRUST PREFERRED SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY UPON THIS DOCUMENT OR ANY OF ITS CONTENTS.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY IN THE UNITED STATES HAS APPROVED OR DISAPPROVED OF THE TRUST PREFERRED SECURITIES OR DETERMINED WHETHER THIS SALES PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

OTHER THAN IN THE NETHERLANDS AND GERMANY, NO ACTION HAS BEEN TAKEN TO PERMIT A PUBLIC OFFERING OF THE TRUST PREFERRED SECURITIES IN ANY JURISDICTION WHERE ACTION WOULD BE REQUIRED FOR SUCH PURPOSE. THE DISTRIBUTION OF THIS SALES PROSPECTUS AND THE OFFERING OF THE TRUST PREFERRED SECURITIES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. EACH PURCHASER OF THE TRUST PREFERRED SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE TRUST PREFERRED SECURITIES OR POSSESSES OR DISTRIBUTES THIS SALES PROSPECTUS AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE TRUST PREFERRED SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE TRUST, THE COMPANY, POSTBANK OR THE LEAD MANAGERS SHALL HAVE ANY RESPONSIBILITY THEREFOR.

THIS SALES PROSPECTUS IS NOT A “*VERKAUFSPROSPEKT*” WITHIN THE MEANING OF THE GERMAN SECURITIES SALES PROSPECTUS ACT (*WERTPAPIER-VERKAUFSPROSPEKTGESETZ*) AND HAS NOT BEEN APPROVED OR REVIEWED BY ANY GERMAN REGULATORY AUTHORITY.

**IN CONNECTION WITH THE OFFERING, BNP PARIBAS OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICES OF THE TRUST PREFERRED SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO OBLIGATION ON BNP PARIBAS OR ANY OF ITS AGENTS TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. STABILIZING MEASURES COULD BE TAKEN NO EARLIER THAN THE DATE ON WHICH THE NOTICE SPECIFYING THE TERMS OF THE TRUST PREFERRED SECURITIES WAS PUBLISHED AND MUST END AT THE LATEST ON THE THIRTIETH DAY FOLLOWING SUCH DATE (“STABILIZATION PERIOD”). SUCH TRANSACTIONS MAY BE EFFECTED ON EURONEXT AMSTERDAM, ON THE FRANKFURT STOCK EXCHANGE OR OTHERWISE. PRIOR TO THE COMMENCEMENT OF THE OFFER PERIOD, POSSIBLE STABILIZATION MEASURES WERE ANNOUNCED BY PUBLICATION OF A NOTICE IN THE *FRANKFURTER ALLGEMEINE ZEITUNG* AND THE *HET FINANCIEELE DAGBLAD*. THE PERFORMANCE OR NON-PERFORMANCE OF STABILIZATION MEASURES, THE DATE OF THE COMMENCEMENT OF STABILIZATION MEASURES, THE DATE OF THE LAST STABILIZATION MEASURE AS WELL AS THE PRICE RANGE WITHIN WHICH THE STABILIZATION MEASURES WERE CONDUCTED WILL BE ANNOUNCED BY PUBLICATION OF A NOTICE IN THE *FRANKFURTER ALLGEMEINE ZEITUNG* AND THE *HET FINANCIEELE DAGBLAD* WITHIN ONE WEEK FOLLOWING THE END OF THE STABILIZATION PERIOD. DETAILS OF ANY OVER-ALLOTMENTS, INCLUDING THE DATE AND AMOUNT THEREOF, WILL ALSO BE PROMPTLY PUBLISHED.**

## DEFINITIONS

**"1940 Act"** means the U.S. Investment Company Act of 1940, as amended.

**"Additional Amounts"** means any additional amounts payable by the Company or the Trust pursuant to the terms of the Class B Preferred Securities and the Trust Preferred Securities as may be necessary in order that the net amounts received by the holders of the Class B Preferred Securities and the Trust Preferred Securities, after deduction or withholding for or on account of any Withholding Taxes, on payments thereon and any amount payable in liquidation or on repayment upon redemption thereof, will equal the amounts that otherwise would have been received had no such deduction or withholding been required.

**"Additional Interest Amounts"** means any additional interest amounts payable by Postbank or another obligor pursuant to the terms of the Debt Securities as may be necessary in order that the net amounts received by the Company as a result of deduction or withholding upon payment of interest on the Debt Securities or repayment upon redemption thereof will equal the amount that otherwise would have been received had no such deduction or withholding been required.

**"Administrative Action"** means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt certain procedures or regulations) by any legislative body, court, governmental authority or regulatory body.

**"BaFin"** means the German Federal Agency for Financial Services Supervision (*Bundesanstalt für Finanzdienstleistungsaufsicht*).

**"Board of Directors"** means the board of directors of the Company.

**"Business Day"** means a day (other than Saturday or Sunday) on which all relevant parts of TARGET are operational.

**"Bylaws"** means the by-laws of the Company.

**"Calculation Agent"** means Deutsche Bank AG, Frankfurt am Main, Federal Republic of Germany.

**"Capital Payment Date"** means the Reset Date, and subsequently June 2 and December 2 of each year, commencing on June 2, 2006.

**"Capital Payment Period"** means the period from and including a Capital Payment Date (or, in the case of the first Capital Payment Period, the Issue Date) to, but excluding, the next succeeding Capital Payment Date.

**"Capital Payments"** means the periodic distributions on the Trust Preferred Securities and the Class B Preferred Securities.

**"Class A Preferred Security"** means the noncumulative Class A Preferred Security evidencing a preferred ownership interest in the Company.

**"Class B Preferred Securities"** means the noncumulative Class B Preferred Securities evidencing preferred ownership interests in the Company.

**"Clearstream AG"** means Clearstream Banking AG, Frankfurt am Main, Federal Republic of Germany.

**"Clearstream Luxembourg"** means Clearstream Banking, *société anonyme*, Luxembourg.

**"Code"** means the United States Internal Revenue Code of 1986, as amended.

**"Company"** means Deutsche Postbank Funding LLC I, a Delaware limited liability company.

**"Company Common Security"** means the voting common security representing an ownership interest in the Company.

**"Company Preferred Securities"** means the Class A Preferred Security and the Class B Preferred Securities.

**"Company Securities"** means the Company Common Security and the Company Preferred Securities.

**"Company Special Redemption Event"** means (i) a Regulatory Event, (ii) a Tax Event or (iii) an Investment Company Act Event with respect to the Company.

**"Company Successor Securities"** means other securities having substantially the same terms as the Class B Preferred Securities.

**"Debt Redemption Date"** means any Capital Payment Date on or after the Initial Debt Redemption Date.

**"Debt Securities"** means the Initial Debt Securities and the Substitute Debt Securities.

**"Delaware Trustee"** means Deutsche Bank Trust Company Delaware.

**"Determination Date"** means, in respect of each Capital Payment Period (or Interest Payment Period, in the case of the Initial Debt Securities) commencing on or after the Reset Date, the second Business Day prior to the Capital Payment Date (or the Interest Payment Date, in the case of the Initial Debt Securities) on which such Capital Payment Period (or Interest Payment Period, in the case of the Initial Debt Securities) commences.

**"Distributable Profits"** of Postbank for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of Postbank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), *plus* any profit carried forward from previous years, *minus* any loss carried forward from previous years, *plus* transfers from capital reserves and earnings reserves, *minus* allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect. In determining the availability of sufficient Distributable Profits of Postbank related to any fiscal year to permit Capital Payments to be declared with respect to the Class B Preferred Securities, any Capital Payments already paid on the Class B Preferred Securities and any capital payments, dividends or other distributions already paid on Parity Securities, if any, on the basis of such Distributable Profits for such fiscal year will be deducted from such Distributable Profits.

**"Enforcement Event"** under the Trust Agreement with respect to the Trust Securities means the occurrence, at any time, of (i) non-payment of Capital Payments (plus Additional Amounts thereon, if any) on the Trust Preferred Securities or the Class B Preferred Securities at the Stated Rate in full, for the first Capital Payment Period or subsequently for two consecutive Capital Payment Periods or (ii) a default by Postbank in respect of any of its obligations under the Support Undertaking, *provided* that, pursuant to the Trust Agreement, the holder of the Trust Common Security will be deemed to have waived any Enforcement Event with respect to the Trust Common Security until all Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated.

**"Euroclear"** means Euroclear Bank S.A./N.V., as operator of the Euroclear system.

**"Fixed Rate"** means the fixed coupon rate of 6.00 per cent. per annum for the accrual of Capital Payments (or, in the case of the Initial Debt Securities, the minimum fixed coupon rate of 6.00 per cent. per annum for the accrual of interest) for the first Capital Payment Period (or, as applicable, the first Interest Payment Period).

**"Floating Rate"** means the Reference Rate for the accrual of Capital Payments plus 0.025 per cent. per annum for Capital Payment Periods commencing on or after the Reset Date *provided, however*, that no Capital Payments shall in any event accrue at a rate of more than 8.00 per cent. per annum.



**"Global Certificates"** means the Permanent Global Certificates together with the Temporary Global Certificates.

**"Global Securities"** means one or more global certificates representing the Class B Preferred Securities which the Company will use reasonable efforts to have issued and registered in the name of Clearstream AG if the Class B Preferred Securities are distributed to holders of the Trust Preferred Securities in connection with the involuntary or voluntary liquidation, dissolution, winding up or termination of the Trust.

**"Independent Enforcement Director"** means the independent member of the Board of Directors elected by the holders of the Class B Preferred Securities under specified circumstances.

**"Initial Debt Redemption Date"** means December 2, 2010, the first day on which the Initial Debt Securities will be redeemable by Postbank other than upon the occurrence of a Company Special Redemption Event or in the event of replacement with Substitute Debt Securities.

**"Initial Debt Securities"** means subordinated notes of Postbank to be acquired by the Company using the proceeds from the issuance of the Class B Preferred Securities, the Class A Preferred Security and the Company Common Security.

**"Initial Redemption Date"** means December 2, 2010, the first day on which the Class B Preferred Securities are redeemable at the option of the Company other than upon the occurrence of a Company Special Redemption Event, in whole or in part.

**"Interest Payment Date"** means, in respect of the Initial Debt Securities, the Reset Date and subsequently June 2 and December 2 of each year, commencing on June 2, 2006.

**"Interest Payment Period"** means, in respect of the Initial Debt Securities, the period from and including an Interest Payment Date (or, in the case of the first Interest Payment Period, the Issue Date) to, but excluding, the next succeeding Interest Payment Date.

**"Investment Company"** means an investment company within the meaning of the 1940 Act.

**"Investment Company Act Event"** means the request and receipt by Postbank of an opinion of a nationally recognized U.S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Company or the Trust is or will be considered an Investment Company as a result of (i) any judicial decision, pronouncement or interpretation (irrespective of the manner made known), or (ii) the adoption or amendment of any law, rule or regulation, or any notice or announcement (including any notice or announcement of intent to adopt such law, rule or regulation), by any U.S. legislative body, court, governmental agency, or regulatory authority, in each case after November 30, 2004 (the date of signing of the Purchase Agreement).

**"IRS"** means the United States Internal Revenue Service.

**"Issue Date"** means December 2, 2004, the date of issue of the Trust Preferred Securities.

**"Issue Price"** means the initial offering price of 100 per cent. (equivalent to € 1,000 per Trust Preferred Security).

**"Junior Distributions"** means capital payments, dividends or other distributions on Junior Securities (excluding capital payments, dividends or other distributions by a subsidiary of Postbank exclusively to Postbank or a wholly-owned subsidiary of Postbank).

**"Junior Securities"** means (i) common stock of Postbank, (ii) each class of preference shares of Postbank ranking junior to Parity Securities of Postbank, if any, and any other instrument of Postbank ranking *pari passu* therewith or junior thereto and (iii) preference shares or any other instrument of any subsidiary of Postbank subject to any guarantee or support agreement of Postbank ranking junior to the obligations of Postbank under the Support Undertaking.

**"Lead Managers"** means BNP Paribas and Morgan Stanley & Co. International Limited.

**"Liquidation Preference Amount"** means the Liquidation Preference Amount of € 1,000 per Trust Preferred Security.

**"LLC Act"** means the Delaware Limited Liability Company Act, as amended.

**"LLC Agreement"** means the amended and restated limited liability company agreement of the Company.

**"Maturity Date"** means, in respect of the Initial Debt Securities, December 2, 2034.

**"Netherlands Paying Agent"** means Deutsche Bank AG, Amsterdam, Netherlands.

**"Offer Period"** means the period from and including November 12, 2004 to and including November 19, 2004.

**"Offering"** means the offering by Deutsche Postbank Funding Trust I of the Trust Preferred Securities.

**"Operating Profits"** of the Company for any Capital Payment Period means the excess of the amounts payable (whether or not paid) on the Debt Securities or, after the Maturity Date, on the Permitted Investments that the Company may then hold in accordance with the LLC Agreement during such Capital Payment Period, over any operating expenses of the Company not paid or reimbursed by Postbank or one of its branches or affiliates during such Capital Payment Period, plus any reserves.

**"Original Trust Preferred Securityholder"** means a person that acquires Trust Preferred Securities on their original issue at their original Issue Price.

**"Parity Securities"** means each class of the most senior ranking preference shares, if any, or other instruments of Postbank qualifying as Tier I regulatory capital, and Parity Subsidiary Securities.

**"Parity Subsidiary Securities"** means preference shares or other instruments qualifying as consolidated Tier I regulatory capital of Postbank, or any other instrument of any subsidiary of Postbank subject to any guarantee or support agreement of Postbank ranking *pari passu* with the obligations of Postbank under the Support Undertaking.

**"Permanent Global Certificates"** means permanent global certificates representing the Trust Preferred Securities.

**"Permitted Investments"** means investments by the Company in debt obligations of Postbank or one or more Qualified Subsidiaries unconditionally guaranteed by Postbank (which may in either case act through a non-German branch) on a subordinated basis or in U.S. Treasury securities; *provided*, in each case, that such investment does not result in a Company Special Redemption Event.

**"Postbank"** means Deutsche Postbank AG.

**"Postbank Group"** means Postbank and its consolidated subsidiaries.

**"Postbank Group Company"** means Postbank or a Qualified Subsidiary.

**"Potential Securityholder"** means Postbank or a Qualified Subsidiary.

**"Principal Amount"** means € 300,027,000 (equal to the gross proceeds from the issuance of the Class B Preferred Securities plus certain amounts contributed by Postbank for the Class A Preferred Security and the Company Common Security).

**"Principal Paying Agent"** means Deutsche Bank AG, Frankfurt am Main, Federal Republic of Germany.

**"Property Account"** means a segregated non-interest bearing trust account under the exclusive control of the Property Trustee.

**"Property Trustee"** means Deutsche Bank Trust Company Americas.



**"Purchase Agreement"** means the purchase agreement, to be entered into among Postbank, the Company, the Trust and the Lead Managers, pursuant to which the Trust will agree to sell to the Lead Managers and the Lead Managers will agree to purchase the Trust Preferred Securities.

**"Qualified Subsidiary"** means a subsidiary that is consolidated with Postbank for German bank regulatory purposes of which more than 50 per cent. of the outstanding voting stock or other equity interest entitled ordinarily to vote in the election of the directors or other governing body (however designated) and of which more than 50 per cent. of the outstanding capital stock or other equity interest is, at the time, beneficially owned or controlled directly or indirectly by Postbank, which subsidiary meets the definition of "a company controlled by its parent company" as defined in Rule 3a-5 under the 1940 Act.

**"Redemption Date"** means the date of redemption of the Class B Preferred Securities.

**"Redemption Notice"** means notice of any redemption of the Class B Preferred Securities.

**"Reference Rate"** means in respect of any Capital Payment Period (or Interest Payment Period in the case of the Initial Debt Securities) commencing on or after the Reset Date, "EUR-ISDA-EURIBOR Swap Rate – 11:00" (the annual Euro swap rate expressed as a percentage for Euro swap transactions with a 10-year maturity, the **"Designated Maturity"**), which appears on the Reuters screen "ISDAFIX2" under the heading "EURIBOR BASIS" and above the caption –"11:00 AM Frankfurt" (as such headings and captions may appear from time to time) as of 11:00 a.m., Central European time (or such other page or service as may replace it for the purposes of such rate) (the **"Relevant Screen Page"**) on the relevant Determination Date.

In the event that the foregoing rate does not appear on the Relevant Screen Page on any Determination Date, the Reference Rate for the relevant Capital Payment Period (or Interest Payment Period in the case of the Initial Debt Securities) will be the "Reference Banks' Swap Rate" on such Determination Date. **"Reference Banks' Swap Rate"** means the percentage rate determined on the basis of the quotations of the "mid-market annual swap rate" provided by five leading swap dealers in the interbank market (the **"Reference Banks"**) to the Calculation Agent at approximately 11:00 a.m., Central European time, on the Determination Date. If at least three quotations are provided, the Reference Rate for that Capital Payment Period (or Interest Payment Period in the case of the Initial Debt Securities) will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

The **"mid-market annual swap rate"** means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating Euro interest rate swap transaction which transaction (a) has a term equal to the Designated Maturity and commencing on the first day of such Capital Payment Period (or Interest Payment Period in the case of the Initial Debt Securities), (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (c) the floating leg of which is based on the 6-months EURIBOR rate (calculated on an Actual/360 day count basis).

**"Regulation S"** means Regulation S under the Securities Act.

**"Regular Trustee"** means three of the Trustees who are employees or officers of Postbank or one of its affiliates.

**"Regulatory Event"** means that (i) Postbank is notified by a relevant regulatory authority that, as a result of the occurrence of any amendment to, or change (including any change that has been adopted but not yet become effective) in, the applicable banking laws of the Federal Republic of Germany (or any rules, regulations, interpretations or administrative practice thereunder, including rulings of the relevant banking authorities) or the guidelines of the Basel Committee for Banking Supervision after November 30, 2004, Postbank is not, or will not be, allowed to treat either the Class B Preferred Securities or the Trust Preferred Securities as Tier I regulatory capital for capital adequacy purposes on a consolidated basis, or (ii) the BaFin notifies Postbank or otherwise announces that neither the Class B Preferred Securities nor the Trust Preferred Securities (or securities substantially similar to the Class B Preferred Securities or the Trust Preferred Securities) may or may any longer be treated as Tier I regulatory capital for capital adequacy purposes on a consolidated basis.

**"Relevant Jurisdiction"** means the United States of America, Germany or the jurisdiction of residence of any obligor of the Debt Securities or any jurisdiction from which payments on the Trust Preferred Securities, the Class B Preferred Securities or the Debt Securities are made.

**"Reset Date"** means December 2, 2005.

**"Restricted Period"** means the period ending on the expiry of the 40th day after the later of the Issue Date and the completion of the distribution of the Trust Preferred Securities.

**"Securities Act"** means the United States Securities Act of 1933, as amended.

**"Servicer"** means PB Capital Corporation.

**"Services Agreement"** means the services agreement among the Trust, the Company and the Servicer.

**"Stated Rate"** means, for the first Capital Payment Period the Fixed Rate, and for each subsequent Capital Payment Period, the Floating Rate, in each case calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360), *provided* that no Capital Payment for any Capital Payment Period commencing on or after the Reset Date shall accrue at a rate of more than 8.00 per cent. per annum.

**"Substitute Debt Securities"** means any debt securities issued in substitution for the Initial Debt Securities.

**"Successor Securities"** means other securities having substantially the same terms as the Trust Securities.

**"Support Undertaking"** means the support agreement between Postbank and the Company as set forth in Appendix A.

**"TARGET"** means the Trans-European Automated Real-time Gross settlement Express Transfer system.

**"Tax Event"** means the receipt by Postbank of an opinion of a nationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of a Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action, or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, after the date of issuance of the Company Securities and the Trust Securities, there is more than an insubstantial risk that (a) the Trust or the Company is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges, or (b) the Trust, the Company or an obligor of the Debt Securities would be obligated to pay Additional Amounts or Additional Interest Amounts.

**"Temporary Global Certificates"** means temporary global certificates representing the Trust Preferred Securities.

**"Trust"** means Deutsche Postbank Funding Trust I, a statutory trust created under the laws of the State of Delaware, United States of America.

**"Trust Act"** means the Delaware Statutory Trust Act.

**"Trust Agreement"** means the declaration of trust among the Trustees and the Company, as sponsor, as amended and restated.

**"Trust Common Security"** means one common security of the Trust.

**"Trust Preferred Securities"** means € 300,000,000 registered noncumulative Trust Preferred Securities offered in the Offering.

**"Trust Securities"** means the Trust Common Security together with the Trust Preferred Securities.

**"Trust Special Redemption Event"** means (i) a Tax Event solely with respect to the Trust, but not with respect to the Company, or (ii) an Investment Company Act Event solely with respect to the Trust, but not with respect to the Company.

**"Trustees"** means the trustees of the Trust, pursuant to the Trust Agreement.

**"Withholding Taxes"** means any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or on behalf of a Relevant Jurisdiction or any political subdivision or authority therein or thereof having the power to tax by way of withholding or deduction.

## FORWARD-LOOKING STATEMENTS

This Sales Prospectus contains certain forward-looking statements relating to the business, financial performance and results of operations of Postbank and to the business segments in which Postbank operates. Forward-looking statements concern future circumstances and results and other circumstances that are not historical facts, and may be identified by words such as “believes,” “expects,” “predicts,” “intends,” “projects,” “plans,” “estimates,” “aims,” “foresees,” “anticipates,” “targets,” and similar expressions. Such statements only reflect the current views of Postbank with respect to future events and are subject to risks and uncertainties. In this Sales Prospectus, forward-looking statements include, among others, statements relating to:

- the implementation of Postbank’s strategic initiatives and the effects of these initiatives (see “– Postbank Group – Business – Strategy”), in particular, Postbank’s assumptions and expectations with respect to establishing and expanding the Transaction Banking business segment (see also “– Postbank Group – Business – Strategy”);
- the development of aspects material to Postbank’s results of operations, in particular the interest rate level;
- Postbank’s expectations of the impact of economic, operational, legal and other risks affecting Postbank’s business, in particular risks associated with:
  - changes in interest rates and share prices;
  - the functioning of complex IT-systems; and
  - legal uncertainties relating to state aid, taxation and other legal issues; and
- other statements relating to Postbank’s future business development and economic performance and general economic trends and developments.

These forward-looking statements are based on Postbank’s current plans, estimates, projections, expectations and certain assumptions that, although reasonable at this time in Postbank’s view, may prove to be erroneous. Many factors could cause Postbank’s actual development, results or performance to be materially different from the future development, results or performance expressly or implicitly assumed in the forward-looking statements. These factors include:

- changes in general economic, business-related or legal conditions;
- changes and volatility in interest rates and share prices;
- changes in governmental policy and regulation;
- changes in Postbank’s competitive environment;
- the success of Postbank’s acquisitions (in particular of banks and loan portfolios), mergers and strategic alliances;
- Postbank’s ability to achieve cost savings and synergy effects and improve productivity;
- Postbank’s ability to successfully develop the new Transaction Banking business segment; and
- factors that are not known to Postbank at this time.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions of Postbank prove incorrect, actual outcomes may differ materially from those described in the forward-looking statements in this Sales Prospectus. As a result, Postbank may be prevented from achieving its financial targets and strategic objectives. Postbank does not intend, and does not assume any obligation beyond its German statutory obligation, to update forward-looking statements or industry or customer-related information set forth in this Sales Prospectus.

## PROSPECTUS SUMMARY

*This section contains a transaction overview, a summary of the terms of the Trust Preferred Securities and the Class B Preferred Securities, as well as information relating to this Offering. For a more complete description of the terms of the Trust Preferred Securities, the Class B Preferred Securities, the Initial Debt Securities and the Support Undertaking, see "Description of the Trust Securities," "Description of the Company Securities," "Description of the Initial Debt Securities" and "Description of the Support Undertaking," as well as "Distributable Profits of Postbank." For a description of the Trust, the Company and Postbank, see "Deutsche Postbank Funding Trust I", "Deutsche Postbank Funding LLC I" and "Postbank Group."*

*The following summary is qualified in its entirety by the detailed information and financial data presented elsewhere in this Sales Prospectus. Capitalized terms used in this Sales Prospectus have the meanings as set forth under "Definitions."*

### Postbank Group

With approximately 12 million active customers and approximately 4.8 million checking accounts, Postbank is the largest retail bank (single institution) in the Federal Republic of Germany. In the first nine months of 2004, Postbank Group generated income before taxes of € 449 million. Postbank Group has organized its operations into the following business segments:

- The **Retail Banking** business segment, which generated income before taxes of € 343 million in the first nine months of 2004, offers Postbank Group's private and business customers a broad range of banking and financial services. In addition to checking and savings accounts, the product range covers credit and debit cards, real estate finance, installment loans, brokerage of home savings and loan contracts (*Bausparverträge*), securities brokerage and custody service, mutual funds and life and casualty insurance.
- The **Corporate Customers** business segment, which generated income before taxes of € 106 million in the first nine months of 2004, counts approximately 40,000 large and medium-sized businesses as its customers. Through this business segment, Postbank Group provides services relating to payment transactions (processing of payment transactions and complementary products for investment of surplus liquidity on a short-term basis, credit lines to support the clearance of payments, and credit cards). In addition, this business segment offers commercial finance (especially in connection with real estate, factoring and leasing), as well as logistics finance.
- The **Financial Markets** business segment, which generated income before taxes of € 82 million in the first nine months of 2004, is mainly responsible for investing Postbank Group's liquidity and the management of interest rate and market risk (particularly equity, foreign currency, credit spread risk (from corporate and high-yield bonds) and volatility risk). In addition to proprietary trading activities, this business segment is also responsible for Postbank Group's activities conducted out of Luxembourg as well as the administration and management of various Postbank Group retail mutual and institutional investment funds.
- The recently formed **Transaction Banking** business segment offers organizational and technical services relating to the clearance and processing of domestic and cross-border payment transactions within the Postbank Group and to other banks and generated income before taxes of € 3 million in the first nine months of 2004.
- The business segment **Other**, which generated a loss before taxes of € -85 million in the first nine months of 2004, includes the results of Postbank Group's own-account business and treasury activities. In addition, the historical issuance business of DSL Bank and the portion of provisions for losses on loans and advances in the Retail Banking, Corporate Customers and Financial Markets business segments that exceeds standard loan loss costs are accounted for in this segment.

The group headquarters of Postbank are located at Friedrich-Ebert-Allee 114-126, D-53113 Bonn, Federal Republic of Germany.

## Transaction Overview

Deutsche Postbank Funding Trust I (the “**Trust**”) exists for the sole purposes of (i) issuing the noncumulative Trust Preferred Securities and one noncumulative Trust Common Security, (ii) investing the gross proceeds thereof in the noncumulative Class B Preferred Securities issued by Deutsche Postbank Funding LLC I (the “**Company**”), and (iii) engaging in activities necessary or incidental thereto. The Trust Securities will represent all of the ownership interests in the Trust. The Trust Preferred Securities were offered to potential investors on the basis of this Sales Prospectus. The Trust Common Security will initially be owned by Postbank; thereafter it will be owned by a Postbank Group Company.

In addition to the Class B Preferred Securities to be acquired by the Trust, the Company will also issue the Company Common Security and the Class A Preferred Security. The Company Securities will represent all of the ownership interests in the Company. The Company Common Security and the Class A Preferred Security will initially be owned by Postbank and thereafter will be owned by a Postbank Group Company.

The Company will use the gross proceeds from the issuance of the Company Securities to acquire the Initial Debt Securities. The Initial Debt Securities will be issued by Postbank, will have a Principal Amount of € 300,027,000 and will have a Maturity Date of December 2, 2034. They will also be subordinated to the claims of other creditors of Postbank pursuant to their terms. The income received by the Company from the Initial Debt Securities and any Substitute Debt Securities will be available for distribution, as appropriate, to the holders of the Class B Preferred Securities, the Class A Preferred Security and the Company Common Security.

In accordance with the Trust Agreement (as to be amended prior to the issuance of the Trust Securities) among, *inter alia*, the Trustees, Postbank and the Company, the Trust will pass through to the holders of the Trust Preferred Securities any periodic distributions declared (or deemed declared) and paid by the Company in accordance with the LLC Agreement (as to be amended prior to the issuance of the Company Securities) between Postbank and the Trust and received by the Trust on the Class B Preferred Securities. These Capital Payments on the Trust Preferred Securities will be limited to the amount of the Capital Payments on the Class B Preferred Securities.

Pursuant to the LLC Agreement, Capital Payments on the Class B Preferred Securities shall, for any given Capital Payment Period, be paid out of the excess of (i) the amounts paid on the Initial Debt Securities and the Substitute Debt Securities by the issuer thereof, or, after the Maturity Date, Permitted Investments that the Company may then hold or, if applicable, under the Support Undertaking over (ii) any operating expenses of the Company not paid or reimbursed by Postbank during such Capital Payment Period.

Subject to the provisions of the LLC Agreement and the Trust Agreement, Capital Payments on the Class B Preferred Securities and the Trust Preferred Securities will accrue on the respective liquidation preference amount of € 1,000 thereof (i) from (and including) the Issue Date to (but excluding) the Reset Date at the Fixed Rate and be payable in arrears on the Reset Date and (ii) for each Capital Payment Period commencing on or after the Reset Date at the Floating Rate and be payable semi-annually in arrears on June 2 and December 2 in each year, commencing on June 2, 2006.

For each Capital Payment Period, Capital Payments will be calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

**If the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, holders of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to make a Capital Payment in respect of such Capital Payment Period, whether or not Capital Payments on the Class B Preferred Securities are declared (or deemed to have been declared) and paid in respect of any future Capital Payment Period. In such a case, investors will not receive any corresponding Capital Payments on the Trust Preferred Securities in relation to such Capital Payment Period.**



For a summary of the terms of the Trust Preferred Securities and the Class B Preferred Securities, see “Description of the Trust Securities” and “Description of the Company Securities – Class B Preferred Securities.”

Postbank and the Company will enter into the Support Undertaking for the benefit of the holders of the Class B Preferred Securities upon the terms set forth in Appendix A hereto. Pursuant to the Support Undertaking, Postbank undertakes to ensure, among other things, that (i) the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable, including Capital Payments declared (or deemed declared) on the Class B Preferred Securities (plus Additional Amounts thereon, if any), any payments due on redemption of the Class B Preferred Securities, and (ii) in liquidation or dissolution of the Company, the Company will have sufficient funds to pay the aggregate liquidation preference amount of the Class B Preferred Securities, including accrued and unpaid Capital Payments on the Class B Preferred Securities for the then current Capital Payment Period to, but excluding, the date of liquidation or dissolution and Additional Amounts, if any.

**The Support Undertaking does not constitute a guarantee or an undertaking of any kind that the Company will at any time have sufficient assets to declare a Capital Payment on the Class B Preferred Securities or another distribution. Postbank’s obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of Postbank, will rank at least *pari passu* with each class of the most senior ranking preference shares, if any, and other instruments of Postbank qualifying as Tier I regulatory capital, and will rank senior to any other preference shares and the common shares of Postbank.**

The holders of Class B Preferred Securities will be third-party beneficiaries of the Support Undertaking. For a summary of the terms of the Support Undertaking, see “Description of the Support Undertaking.”

**The Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.**

On or after the Initial Redemption Date, the Class B Preferred Securities will be redeemable at the option of the Company, in whole or in part, on any Capital Payment Date. The Class B Preferred Securities may also be redeemed by the Company upon the occurrence of a Company Special Redemption Event.

Any redemption of the Class B Preferred Securities will be at a redemption price per Class B Preferred Security equal to the liquidation preference amount thereof, plus accrued and unpaid Capital Payments thereon for the then current Capital Payment Period to, but excluding, the Redemption Date, plus Additional Amounts, if any.

Subject to the provisions of the Trust Agreement, upon redemption of the Class B Preferred Securities, the Trust must apply the redemption price received in connection therewith to redeem, on a *pro rata* basis, Trust Securities.

Upon the occurrence of a Trust Special Redemption Event or in the event of any dissolution, liquidation, winding up or termination of the Trust, holders of the Trust Preferred Securities will be entitled to receive a corresponding number of the Class B Preferred Securities. See “Description of the Trust Securities – Redemption.”

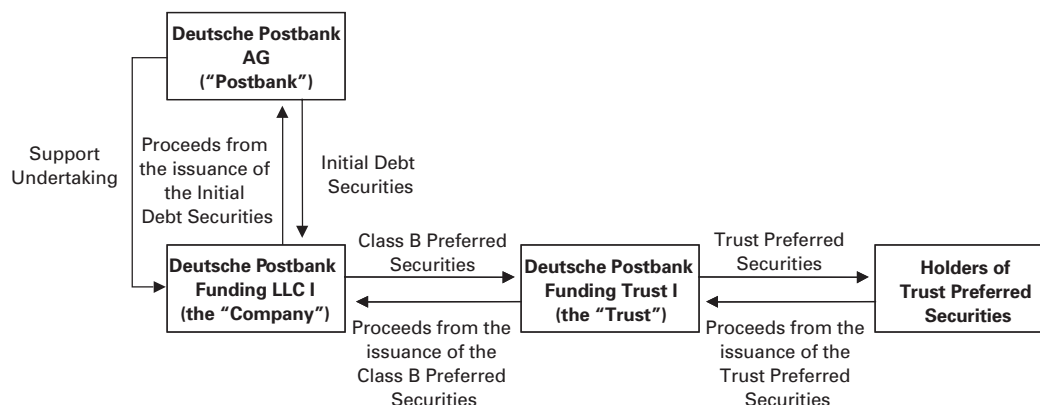
**Since the sole assets of the Trust consist of the Class B Preferred Securities and because the holders of the Trust Preferred Securities may receive the Class B Preferred Securities in certain circumstances, prospective purchasers of the Trust Preferred Securities are also making an investment decision with respect to the Class B Preferred Securities and, accordingly, should carefully review all of the information regarding the Class B Preferred Securities. See “Description of the Company Securities – Class B Preferred Securities” and “Risk Factors – Special Redemption Risks.”**

Concurrently with the purchase of the Trust Preferred Securities by the Lead Managers as described under “Subscription and Sale”, the Company, the Trust and Postbank will engage in the following transactions: (i) the Company will issue to Postbank the Company Common Security; (ii) the Company will issue to Postbank the Class A Preferred Security; (iii) the Trust will

issue to Postbank the Trust Common Security; (iv) the Trust will issue the Trust Preferred Securities, which will be registered in the name of Clearstream AG, to the Lead Managers, who will sell the Trust Preferred Securities to investors; (v) the Company will issue to the Trust the Class B Preferred Securities and (vi) the Company will acquire from Postbank the Initial Debt Securities.

Postbank, as the holder of the Company Common Security, will elect the Board of Directors, which initially will consist of four directors.

The following diagram outlines the relationship among the Company, the Trust and Postbank following completion of the Offering.



## The Offering

*The Trust* ..... Deutsche Postbank Funding Trust I is a Delaware statutory trust formed for the purpose of holding the Class B Preferred Securities, the Capital Payments and redemption payments from which will be passed through to holders of the Trust Securities.

*The Company* ..... Deutsche Postbank Funding LLC I, a Delaware limited liability company, is a wholly-owned subsidiary of Postbank. The sole assets of the Company will be the Debt Securities and Permitted Investments.

*Subject Matter of the Offering* ..... € 300,000,000 registered noncumulative Trust Preferred Securities with a Liquidation Preference Amount of €1,000 per Trust Preferred Security. The terms of the Trust Preferred Securities will be substantially identical to the terms of the Class B Preferred Securities. The offering consists of public offerings in the Federal Republic of Germany and the Netherlands, as well as an international offer in the form of private placements outside the United States in reliance on Regulation S. See "Subscription and Sale."

*Offer Period* ..... Potential investors were permitted to submit offers to purchase Trust Preferred Securities from November 12, 2004 to November 19, 2004.

*Issue Price* ..... 100 per cent. (equivalent to € 1,000 per Trust Preferred Security).

*Use of Proceeds* ..... The proceeds from the sale of the Trust Securities will be invested by the Trust in the Class B Preferred Securities. The Company will use the funds from the sale of the Class B Preferred Securities, together with funds contributed by Postbank in return for the Class A Preferred Security and in return for the Company Common Security, to make an investment in the Initial Debt Securities. Postbank intends to use the proceeds from the sale of the Initial Debt Securities for general corporate purposes. Postbank intends to treat the Class B Preferred Securities or, as the case may be, the Trust Preferred Securities, as consolidated Tier I regulatory capital.

### *Postbank's Support*

*Undertaking* ..... Postbank will execute a Support Undertaking with the Company for the benefit of the Company and the holders of the Class B Preferred Securities under which it will agree that

- (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Capital Payments declared (or deemed declared) on the Class B Preferred Securities, plus Additional Amounts thereon, if any, and any payment due on redemption of the Class B Preferred Securities, and
- (ii) in liquidation or dissolution, the Company will have sufficient funds to pay the liquidation preference amounts of the Class B Preferred Securities, plus accrued and unpaid Capital Payments for the then current Capital Payment Period to, but excluding, the date of liquidation or dissolution and Additional Amounts, if any.

**The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare a Capital Payment or other distribution.**

Postbank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of

Postbank, will rank at least *pari passu* with the most senior ranking preference shares, if any, and other instruments of Postbank qualifying as Tier I regulatory capital, and will rank senior to any other preference shares and the common shares of Postbank. The holders of the Class B Preferred Securities will be third party beneficiaries of the Support Undertaking. If a holder of the Class B Preferred Securities has notified the Company that Postbank has failed to perform any obligation under the Support Undertaking, and such failure continues for 60 days or more after such notice is given, the holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to elect the Independent Enforcement Director who will be required to enforce the rights of the Company under the Support Undertaking without prejudice to the rights of the holders of the Class B Preferred Securities thereunder.

Postbank will also undertake not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, any other preference shares or similar securities of any other affiliated entity that would rank senior in any regard to the Support Undertaking unless the Support Undertaking is amended so that it ranks at least *pari passu* with and contains substantially equivalent rights of priority as to payment as any such other guarantee or other support agreement.

#### **Summary of the Terms of the Trust Preferred Securities and the Class B Preferred Securities**

##### *Form and*

*Denomination* ..... The Trust Preferred Securities will be issued in registered book-entry form only, in denominations of €1,000 Liquidation Preference Amount and will be evidenced by one or more global certificates deposited with Clearstream AG (except for special circumstances, in which definitive securities will be issued; see "Description of the Trust Securities – Transfer").

*Maturity* ..... The Trust Preferred Securities and the Class B Preferred Securities will not have a maturity date and will not be redeemable at any time at the option of the holders thereof. The Company may, under certain circumstances, redeem the Class B Preferred Securities. See "Description of the Company Securities – Class B Preferred Securities – Redemption of the Class B Preferred Securities."

*Capital Payments* ..... Subject to the terms of the Trust Agreement and LLC Agreement, as applicable, Capital Payments will accrue on the respective liquidation preference amounts of €1,000 per Trust Preferred Security (the "**Liquidation Preference Amount**") and €1,000 per Class B Preferred Security (i) from (and including) the Issue Date to (but excluding) the Reset Date at a fixed rate of 6.00 per cent. per annum (the "**Fixed Rate**"), payable in arrears on the Reset Date and (ii) for each Capital Payment Period commencing on or after the Reset Date at the Reference Rate plus 0.025 per cent. per annum (the "**Floating Rate**"), payable semi-annually in arrears on June 2 and December 2 in each year, commencing on June 2, 2006, *provided* that no Capital Payment for any Capital Payment Period commencing on or after the Reset Date shall accrue at a rate of more than 8.00 per cent. per annum. For each Capital Payment Period, Capital Payments will be calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

*Declaration of*

*Capital Payments*..... Capital Payments on the Class B Preferred Securities are expected to be paid out of payments with respect to interest received by the Company on the Debt Securities or Permitted Investments held by the Company from time to time.

**If the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, holders of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to pay a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, whether or not Capital Payments on the Class B Preferred Securities are declared (or deemed to have been declared) and paid on the Class B Preferred Securities in respect of any future Capital Payment Period.**

Capital Payments on the Class B Preferred Securities are authorized to be declared and paid on any Capital Payment Date to the extent that

- (i) the Company has an amount of Operating Profits for the Capital Payment Period ending on the day immediately preceding such Capital Payment Date at least equal to the amount of such Capital Payments, and
- (ii) Postbank has Distributable Profits for the preceding fiscal year for which audited unconsolidated financial statements are available in an amount at least equal to the aggregate amount of such Capital Payments and all capital payments, dividends or other distributions on Parity Securities, if any, which Distributable Profits for the preceding fiscal year are allocated among Capital Payments and capital payments, dividends or other distributions on Parity Securities, pro rata.

In determining the availability of sufficient Distributable Profits of Postbank related to any fiscal year to permit Capital Payments to be declared with respect to the Class B Preferred Securities, any Capital Payments already paid on the Class B Preferred Securities and any capital payments, dividends or other distributions already paid on Parity Securities, if any, on the basis of such Distributable Profits for such fiscal year will be deducted from such Distributable Profits.

*Deemed Declaration*

*of Capital Payments* ..... Notwithstanding the foregoing, the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities if Postbank or any of its subsidiaries declares or pays any capital payments, dividends or other distributions on any Parity Securities (excluding payments by subsidiaries of Postbank exclusively to Postbank or a wholly-owned subsidiary of Postbank). If such capital payment, dividend or other distribution on such Parity Securities was in the full stated amount payable on such Parity Securities in the then current fiscal year through the Capital Payment Date, then Capital Payments will be deemed declared at the Stated Rate in full for the then current fiscal year through such Capital Payment Date. If such capital payment, dividend or other distribution on such Parity Securities was only a partial payment of the amount so owing, the amounts of the Capital Payments deemed declared on the Class B Preferred Securities will be adjusted proportionally.

Further, notwithstanding the foregoing, if Postbank or any of its subsidiaries declares or pays any Junior Distributions, the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities in amounts that vary according to how often the relevant Junior Securities pay capital payments, dividends or other distributions:

- If such Junior Securities pay Junior Distributions annually, the Capital Payments will be deemed declared for payment at the Stated Rate in full on the first two Capital Payment Dates falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was declared or made.
- If such Junior Securities pay Junior Distributions semi-annually, the Capital Payments will be deemed declared for payment at the Stated Rate in full on the Capital Payment Date falling contemporaneously with or immediately following the date on which such capital payment, dividend or other distribution was declared or made.
- If such Junior Securities pay Junior Distributions quarterly:
  - (i) if only one Junior Distribution was made in the Capital Payment Period preceding the Capital Payment Date, the Capital Payments will be deemed declared for payment in one half of the amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was declared or made, or
  - (ii) if two such Junior Distributions were made in such Capital Payment Period, the Capital Payments will be deemed declared for payment in the full amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was declared or made.

If Postbank or any of its subsidiaries redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration except by conversion into or exchange for shares of common stock of Postbank and subject to certain exceptions set forth in "Description of the Company Securities – Class B Preferred Securities – Capital Payments", the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities at the Stated Rate in full for the first two Capital Payment Dates falling contemporaneously with and/or immediately following the date on which such redemption, repurchase or other acquisition occurred.

*Prohibition of*

*Capital Payments.....*

Even if there are sufficient Operating Profits of the Company and sufficient Distributable Profits of Postbank, the Company will not be permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the Federal Agency for Financial Services Supervision (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (the "**BaFin**") (or any other relevant regulatory authority) prohibiting Postbank from



making any distributions of profits (including to the holders of Parity Securities, if any).

*Payments of*

*Additional Amounts* ..... All payments on the Class B Preferred Securities and the Trust Preferred Securities, as the case may be (including any amount payable in liquidation or repayment upon redemption thereof) will be made without deduction or withholding for or on account of Withholding Taxes, unless such deduction or withholding is required by law. In such event, the Company or the Trust, as the case may be, will pay, as additional Capital Payments, such additional amounts as may be necessary in order that the net amounts received by the holders of the Class B Preferred Securities and the Trust Preferred Securities, after such deduction or withholding, will equal the amounts that would have been received had no such deduction or withholding been required ("**Additional Amounts**"). However, no such Additional Amounts will be payable in respect of the Class B Preferred Securities and the Trust Preferred Securities:

- if and to the extent that the Company is unable to pay such Additional Amounts because such payment would exceed the Distributable Profits of Postbank for the preceding fiscal year (after subtracting from such Distributable Profits the amount of Capital Payments on the Class B Preferred Securities and capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable);
- with respect to any Withholding Taxes that are payable by reason of the holder or beneficial owner of the Class B Preferred Securities (other than the Trust) or Trust Preferred Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Class B Preferred Securities or the Trust Preferred Securities;
- with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union Directive on the taxation of savings (including the Directive adopted on June 3, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive;
- with respect to any Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Class B Preferred Securities or the Trust Preferred Securities;
- with respect to any Withholding Taxes that can be avoided if the holder or beneficial owner of Class B Preferred Securities or the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- with respect to any Withholding Taxes that the holder or beneficial owner of the Class B Preferred Securities or Trust Preferred Securities can avoid by presenting the relevant Class B Preferred Securities or Trust Preferred Securities to

another paying agent in a member state of the European Union; or

- with respect to any Withholding Taxes that would not have been imposed if the holder of the Class B Preferred Securities or Trust Preferred Securities would have presented the relevant Class B Preferred Securities or Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Class B Preferred Securities or Trust Preferred Securities for payment on the last day of such period of 30 days.

*Redemption*..... If the Company redeems Class B Preferred Securities, the Trust must redeem a corresponding number of Trust Preferred Securities. The Class B Preferred Securities are redeemable at the option of the Company, in whole or in part, on the Initial Redemption Date and on each Capital Payment Date thereafter. The Company will also have the right, at any time, to redeem the Class B Preferred Securities in whole but not in part, upon the occurrence of a Company Special Redemption Event. Any such redemption will be at a redemption price equal to the liquidation preference amount of the Class B Preferred Securities being redeemed plus any accrued and unpaid Capital Payments for the then current Capital Payment Period to, but excluding, the Redemption Date, plus Additional Amounts, if any. The Company may exercise its right to redeem the Class B Preferred Securities only if it has

- (i) given at least 30 days' prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Class B Preferred Securities of its intention to redeem the Class B Preferred Securities on the Redemption Date;
- (ii) simultaneously therewith received notice from the issuer of the Debt Securities of the redemption of an aggregate principal amount of Debt Securities equivalent to the liquidation preference amount of the Class B Preferred Securities being redeemed; and
- (iii) obtained any required regulatory approvals. See "Description of the Company Securities – Class B Preferred Securities – Redemption of the Class B Preferred Securities."

No redemption of any Class B Preferred Securities for any reason may take place unless on the Redemption Date:

- the Company has sufficient funds (by reason of payments on the Debt Securities, Permitted Investments or pursuant to the Support Undertaking) to pay the redemption price and to pay in full an amount corresponding to the Capital Payments accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any;
- Postbank has an amount of Distributable Profits for the preceding fiscal year at least equal to the Capital Payments on the Class B Preferred Securities accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any; and

- no order of the BaFin (or any other relevant regulatory authority) is in effect prohibiting Postbank from making any distributions of profits (including to the holders of Parity Securities, if any).

Upon the occurrence of a Trust Special Redemption Event or in the event of any voluntary or involuntary dissolution, liquidation, winding up or termination of the Trust, holders of Trust Securities will be entitled to receive a corresponding number of the Class B Preferred Securities, but, in the event of any such distribution of Class B Preferred Securities, the rights of the holder of the Trust Common Security will be subordinated to the rights of the holders of the Trust Preferred Securities. See “Description of the Trust Securities – Redemption.”

**The Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.**

*Liquidation* ..... In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, the holders of the Trust Securities will be entitled to receive a corresponding amount of the Class B Preferred Securities. The holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to distributions upon liquidation of the Trust.

Upon liquidation or dissolution of the Company, (i) the holder of the Class A Preferred Security will be entitled to receive the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon) as its liquidation distribution and (ii) each holder of the Class B Preferred Securities will be entitled to receive the liquidation preference amount of such Class B Preferred Securities, plus accrued and unpaid Capital Payments in respect of the current Capital Payment Period up to, but excluding, the date of liquidation or dissolution and Additional Amounts, if any. The Company expects that the liquidation distribution to the holders of the Class B Preferred Securities will be paid out of funds received from Postbank under the Support Undertaking. Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Company will not be dissolved until all obligations under the Support Undertaking have been paid in full pursuant to its terms.

#### *Ranking of Trust*

*Securities*..... Payment of Capital Payments and other distributions and amounts on redemption of the Trust Securities will be made *pro rata* among the Trust Common Security and the Trust Preferred Securities based on the liquidation preferences thereof; *provided, however*, that upon the occurrence and during the continuance of a default under the Initial Debt Securities or the Support Undertaking, no payment of Capital Payments or any other distributions or amounts on redemption will be made to the holder of the Trust Common Security, unless payment in full in cash of all accrued and unpaid Capital Payments on, and amounts on redemption of, the Trust Preferred Securities have been made or provided for, and all funds immediately available to the Property Trustee will first be applied to payment in full in cash of all Capital Payments or other amounts on redemption of, the Trust Preferred Securities then due and payable before any such funds are applied to any payment on the Trust Common Security.

*Ranking of*

*Company Securities* ..... In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Company, the Class B Preferred Securities will rank junior to the Class A Preferred Security, and the Class B Preferred Securities will rank senior to the Company Common Security; *provided* that any payments made by Postbank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Class B Preferred Securities.

So long as any Class B Preferred Securities are outstanding, the Company will not, without the vote of the holders of at least 66% per cent. in aggregate liquidation preference amount of the Class B Preferred Securities, voting separately as a class (excluding any Class B Preferred Securities held by Postbank or any of its affiliates, other than the Trust), (i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Class B Preferred Securities, (ii) agree to modify or amend any provision of the Debt Securities, or waive any default in the payment of any amount under the Debt Securities, in any manner that would have a material adverse effect on the interests of the holders of the Class B Preferred Securities or (iii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, *provided* that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the provisions of the LLC Agreement. For a description of these provisions set forth in the LLC Agreement, see "Description of the Company Securities – Mergers, Consolidations and Sales."

*Further Issues*..... The Company will not, without the consent of all the holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by Postbank or any of its affiliates), issue any additional securities of the Company ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company; *provided, however*, that the Company may, from time to time, and without the consent of the holders of the Class B Preferred Securities, issue further Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (in all respects except for the date of issue, the date as of which Capital Payments accrue, the issue price, and any other deviations required for compliance with law) so as to form a single series with the Class B Preferred Securities.

*Enforcement Rights*..... Upon the occurrence of any event causing a liquidation or dissolution of the Company or if (i) the Company fails to pay Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities at the Stated Rate in full for the first Capital Payment Period or subsequently for two consecutive Capital Payment Periods, or (ii) the Property Trustee or a holder of the Class B Preferred Securities or a holder of the Trust Preferred Securities has notified the Company that Postbank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given, then a majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent

Enforcement Director. Any Independent Enforcement Director so appointed will vacate office if, in such Independent Enforcement Director's sole determination: (i) Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities have been made on the Class B Preferred Securities at the Stated Rate in full by the Company for two consecutive Capital Payment Periods and (ii) Postbank is in compliance with its obligations under the Support Undertaking.

Upon the occurrence of an Enforcement Event, the Property Trustee will have the right to enforce certain rights of the holders of the Class B Preferred Securities. If the Property Trustee fails to enforce such rights under the Class B Preferred Securities, the holder of record of the Trust Preferred Securities, *i.e.* Clearstream AG, but not an investor in the Trust Preferred Securities, may directly institute legal proceedings against the Company to enforce the Property Trustee's rights under the Class B Preferred Securities without first instituting any legal proceeding against the Property Trustee, the Trust or any other person or entity. See "Description of the Trust Securities – Enforcement Events."

*Voting Rights* ..... Except as expressly required by applicable law, or except as provided for in the Trust Agreement or the LLC Agreement, the holders of the Trust Preferred Securities will not be entitled to vote on the affairs of the Trust or the Company. So long as the Trust holds any Class B Preferred Securities, the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to enforce the voting rights attributable to such Class B Preferred Securities. These voting rights may be waived by the holders of the Trust Preferred Securities by written notice to the Property Trustee and in accordance with applicable laws. For more information, see "Description of the Trust Securities – Voting and Enforcement Rights."

The Class B Preferred Securities will have no voting rights except as expressly required by applicable law or except as indicated in the LLC Agreement. For more information, see "Description of the Company Securities – Class B Preferred Securities – Voting and Enforcement Rights."

*Listing* ..... Application has been made to list the Trust Preferred Securities on Euronext Amsterdam and the Frankfurt Stock Exchange.

*Clearing and Settlement* ..... Delivery of the Trust Preferred Securities will be made on or about December 2, 2004 to Clearstream AG. The Trust Preferred Securities will be credited to accountholders with Euroclear, Clearstream Luxembourg or Clearstream AG on the settlement date against payment in Euro in same-day funds.

*Principal Paying Agent; Calculation Agent* ..... Deutsche Bank AG, Frankfurt am Main, Federal Republic of Germany.

*Netherlands Paying Agent* ..... Deutsche Bank AG, Amsterdam, Netherlands.

*Notices* ..... For so long as the Trust Preferred Securities are listed on Euronext Amsterdam and the rules of such exchange so require, notices to holders of the Trust Preferred Securities will be published in a daily newspaper of general circulation in the Netherlands (which is expected to be the *Het Financieele Dagblad*), notice thereof given to Euronext Amsterdam, and publication in the *Officiële Prijscourant*.

For so long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange, all notices concerning the Trust Preferred Securities will be published in at least one daily newspaper having general circulation in the Federal Republic of Germany and admitted to carry Frankfurt Stock Exchange announcements (which is expected to be the *Börsen-Zeitung*).

*Governing Law*..... The LLC Agreement, including the terms of the Class A Preferred Security and the Class B Preferred Securities, and the Trust Agreement, including the terms of the Trust Securities, will be governed by Delaware law. The Support Undertaking will be governed by the laws of the Federal Republic of Germany.

#### **Summary of the Terms of the Class A Preferred Security**

*Class A Preferred Security*..... The Company expects the Class A Preferred Security to receive capital payments only to the extent that (i) Capital Payments are not permitted to be paid on the Class B Preferred Securities in full on any Capital Payment Date due to insufficient Distributable Profits of Postbank or an order of the BaFin (or any other relevant regulatory authority) prohibiting Postbank from making any distributions of profits (including to the holders of Parity Securities, if any), and (ii) the Company has sufficient Operating Profits.

#### **Summary of the Terms of the Initial Debt Securities**

*Maturity*..... December 2, 2034.

*Principal Amount*..... € 300,027,000, equal to the gross proceeds from the offer and sale of the Trust Securities and the resulting issuance of the Class B Preferred Securities plus the aggregate amounts contributed by Postbank for the Class A Preferred Security and the Company Common Security, (as the same may be reduced by redemptions from time to time, the "**Principal Amount**"), *provided*, however, that the Initial Debt Securities do not include any obligation of Postbank shown as a liability on the books of a U.S. branch of Postbank.

*Interest Payments*..... Interest will accrue on the Principal Amount of the Initial Debt Securities (i) from (and including) the Issue Date to (but excluding) the Reset Date at a fixed rate of at least 6.00 per cent. per annum payable in arrears on the Reset Date and (ii) for each Interest Payment Period commencing on or after the Reset Date at a rate of at least 0.025 per cent. per annum above the Reference Rate, payable semi-annually in arrears on June 2 and December 2 in each year, commencing on June 2, 2006, *provided* that no Interest Payment for any Interest Payment Period commencing on or after the Reset Date shall accrue at a rate of more than 8.00 per cent. per annum. For each Interest Payment Period, interest will be calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The rate of interest payable on the Initial Debt Securities will be at least equal to the rate at which Capital Payments will accrue on the Class B Preferred Securities and the Trust Preferred Securities.

*Payment of Additional Amounts*..... Payment of interest on the Initial Debt Securities and any repayment upon redemption thereof will be made without deduction or withholding for Withholding Taxes imposed by the Federal Republic of Germany or any political subdivision thereof



or any other jurisdiction from which such payment is made unless such deduction or withholding is required by law. In such event, Postbank will pay as additional interest such amounts ("**Additional Interest Amounts**") as may be necessary in order that the net amounts received by the Company, after such withholding or deduction, will equal the amounts that would have been received had no such withholding or deduction been required; *provided*, that the obligation of Postbank (or Postbank as guarantor) to pay the Additional Interest Amounts will not apply:

- (i) with respect to any Withholding Taxes that are payable by reason of the holder of the Initial Debt Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Initial Debt Securities;
- (ii) with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union Directive on the taxation of savings (including the Directive adopted on June 3, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iii) with respect to any Withholding Taxes imposed on account of any personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Initial Debt Securities; or
- (iv) with respect to any Withholding Taxes that can be avoided if the holder of the Initial Debt Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

*Ranking*..... The obligations under the Initial Debt Securities will constitute direct, unconditional, unsecured and subordinated obligations of Postbank ranking *pari passu* with all other subordinated obligations of Postbank. In the event of dissolution, liquidation, bankruptcy, composition or other proceedings for the avoidance of bankruptcy of, or against, Postbank such obligations will be subordinated to the claims of all unsubordinated creditors of Postbank so that in any event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of Postbank shall have been satisfied in full.

*Redemption*..... The Initial Debt Securities will not be redeemable prior to December 2, 2010 (the "**Initial Debt Redemption Date**"), except upon the occurrence of a Company Special Redemption Event (and the redemption of the Class B Preferred Securities) or in the event of the replacement of the Initial Debt Securities with Substitute Debt Securities. Except as set forth under "– Substitution" below, the Initial Debt Securities may not be redeemed for any reason unless the Company has the right to, and has given notice that it will, redeem Class B Preferred Securities in an aggregate liquidation preference amount equal to the aggregate Principal Amount of Initial Debt Securities to be redeemed or, in the case of a Company Special Redemption Event, in an amount equal to the Principal Amount to be redeemed, plus accrued and unpaid interest up to, but excluding, the Redemption Date, and Additional Interest Amounts, if any.

*Substitution*..... At any time, Postbank will have the right to (i) substitute as obligor of the Debt Securities a Qualified Subsidiary, or (ii) replace the

Debt Securities with Substitute Debt Securities issued by Postbank (including on behalf of a branch other than a U.S. branch) or by a Qualified Subsidiary (including on behalf of a branch other than a U.S. branch), in each case, with identical terms to those of the Initial Debt Securities; *provided*, in each case, that (a) such substitution or replacement does not result in a Company Special Redemption Event, (b) Postbank (if it is not itself the substitute obligor) guarantees on a subordinated basis the obligations of any such Qualified Subsidiary, and (c) for this purpose, a Qualified Subsidiary does not include a subsidiary organized under the laws of the United States of America or any of its states.

*Reinvestment* ..... The LLC Agreement provides that after the Maturity Date, if the Class B Preferred Securities have not been redeemed, the Company will invest in debt obligations of one or more Qualified Subsidiaries, unconditionally guaranteed by Postbank on a subordinated basis or in U.S. Treasury securities (together, "**Permitted Investments**"); *provided*, in each case, that such investment does not result in a Company Special Redemption Event.

*Governing Law*..... The Initial Debt Securities will be governed by the laws of the Federal Republic of Germany.

## **RISK FACTORS**

*An investment in the Trust Preferred Securities involves certain risks. An investor should carefully consider the following discussion, in conjunction with the other information contained in this Sales Prospectus, before deciding whether an investment in the Trust Preferred Securities is suitable.*

### **Risks associated with the financial condition of Postbank and its affiliates**

If the financial condition of Postbank or its affiliates were to deteriorate, then it could result in: (i) Postbank having insufficient Distributable Profits for the Company to declare and pay Capital Payments on the Class B Preferred Securities at the Stated Rate in full, or (ii) the Company receiving reduced payments from Postbank under the Initial Debt Securities or the Support Undertaking. This could reduce the amounts received by the Trust in respect of the Class B Preferred Securities, which, in turn, would reduce the amounts available to the Trust for periodic distributions to holders of the Trust Preferred Securities. In addition, if a voluntary or involuntary liquidation, dissolution or winding up of Postbank were to occur, holders of the Trust Securities may lose part or all of their investment.

### **The Company is not required to make Capital Payments**

The declaration of Capital Payments by the Company on the Class B Preferred Securities (and, accordingly, the payment of Capital Payments on the Trust Preferred Securities by the Trust) is limited by the terms of the LLC Agreement. Although it is the policy of the Company to distribute the full amount of Operating Profits for each Capital Payment Period as Capital Payments to the holders of the Class B Preferred Securities if Postbank has sufficient Distributable Profits, the Board of Directors of the Company has discretion in declaring and making Capital Payments (except with respect to deemed declarations which are mandatory). Notwithstanding the foregoing, however, the Company will be deemed to have authorized Capital Payments on the Class B Preferred Securities under certain circumstances involving payments made in respect of Parity Securities or Junior Securities. See “Description of Company Securities – Class B Preferred Securities – Capital Payments.”

In addition, even if Postbank has sufficient Distributable Profits and the Company has sufficient Operating Profits, the Company will not be permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date if on such date there is in effect an order of the BaFin or any other relevant regulatory authority prohibiting Postbank from making any distributions of profits (including to the holders of Parity Securities, if any). To the extent the Company is not permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date, this will reduce the amount available to the Trust to make Capital Payments on the Trust Preferred Securities. See “Description of the Company Securities – Class B Preferred Securities – Capital Payments” and “Description of the Trust Securities.”

### **Capital Payments are noncumulative**

The right of the holders of the Trust Securities to receive Capital Payments is noncumulative. Accordingly, if the Trust does not have funds available for payment of a Capital Payment in respect of any Capital Payment Period, the holders will have no right to receive a Capital Payment in respect of such Capital Payment Period, and the Trust will have no obligation to pay a Capital Payment in respect of such Capital Payment Period, whether or not Capital Payments are paid in respect of any future Capital Payment Period.

### **No voting rights; relationships with Postbank and its affiliates; certain conflicts of interest**

Postbank will control the Company through the Postbank Group Company's power, as holder of the Company Common Security, to elect a majority of the Board of Directors. Generally, the Trust, to the extent that it is the holder of the Class B Preferred Securities, will have no right to vote to elect members of the Board of Directors. The only exception is that it will have the right to elect one independent member to the Board of Directors, the Independent Enforcement Director, upon the occurrence of any event causing a liquidation or dissolution of the Company or if (i) the Company fails to make Capital Payments (and any Additional Amounts thereon) on the Class B Preferred Securities at the Stated Rate in full for the first Capital Payment Period or subsequently for two consecutive Capital Payment Periods, or (ii) a holder of the Class B Preferred Securities

has notified the Company that Postbank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given.

### **Special redemption risk**

*Redemption upon occurrence of a Company Special Redemption Event.* The Class B Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at any time at the option of the Company, in whole but not in part, upon the occurrence of a Company Special Redemption Event. A Company Special Redemption Event will arise if, as a result of certain changes in law, there are: (i) changes in the tax status of the Company, (ii) Additional Amounts become applicable to payments on the Class B Preferred Securities, the Trust Securities or the Debt Securities, (iii) Postbank is permitted to treat neither the Class B Preferred Securities nor, as the case may be, the Trust Preferred Securities, as Tier I regulatory capital on a consolidated basis or (iv) the Company will be considered an “investment company” within the meaning of the 1940 Act. See “Description of the Trust Securities – Redemption.”

*Liquidation of the Trust upon occurrence of a Trust Special Redemption Event.* If there has occurred a Tax Event or an Investment Company Act Event, each solely with respect to the Trust, then the Trust will be dissolved and liquidated. Upon such dissolution and liquidation of the Trust, each holder of the Trust Preferred Securities would receive as its liquidation distribution a corresponding number of the Class B Preferred Securities. Upon such distribution, the Class B Preferred Securities might never be listed on any securities exchange or eligible for trading through Euroclear, Clearstream Luxembourg or Clearstream AG, and holders of the Class B Preferred Securities and their nominees would become subject to Form K-1 and nominee reporting requirements under the Code. Accordingly, the Class B Preferred Securities which an investor may subsequently receive on dissolution and liquidation of the Trust may trade at a discount to the price of the Trust Preferred Securities for which they were exchanged.

### **The Support Undertaking is not a guarantee that Capital Payments will be made**

Postbank and the Company have entered into the Support Undertaking for the benefit of the Company and the holders of the Class B Preferred Securities. However, the Support Undertaking does not represent a guarantee (*Garantie*) from Postbank that the Company will be authorized to declare and make a Capital Payment for any Capital Payment Period. Furthermore, the obligations of Postbank under the Support Undertaking rank junior to all indebtedness of Postbank with the effect that, if Postbank (and therefore the Company) were liquidated, holders of the Trust Preferred Securities would have the right to receive, if any, payments equal to the Liquidation Preference Amount, plus any accrued and unpaid Capital Payments for the then current Capital Payment Period to, but excluding, the date of liquidation, and Additional Amounts, if any, pursuant to the Support Undertaking *pari passu* with amounts payable to the holders of the most senior preference shares of Postbank. See “Description of the Support Undertaking.”

### **No prior public market**

There was no prior public market for the Trust Preferred Securities. Application has been made to admit the Trust Preferred Securities to trading and official quotation on Euronext Amsterdam and the Frankfurt Stock Exchange. Listing is expected to occur shortly after closing. The Trust Preferred Securities may trade at a discount to the price that the investor paid to purchase the Trust Preferred Securities. There can be no assurance that an active secondary market for the Trust Preferred Securities will develop. The liquidity and the market prices for the Trust Preferred Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of Postbank and other factors that generally influence the secondary market prices of securities. Such fluctuations may significantly affect liquidity and market prices for the Trust Preferred Securities.

### **Capital Payments accruing for any Capital Payment Period after the Reset Date are limited to a maximum amount**

Capital Payments on the Liquidation Preference Amount of the Trust Preferred Securities for the first Capital Payment Period until the Reset Date will accrue at the Fixed Rate as further specified herein. For Capital Payment Periods commencing on or after the Reset Date, Capital Payments

will accrue at the Floating Rate. The Floating Rate will be calculated for each Capital Payment Period as the sum of the Reference Rate and a margin thereon as further specified herein. However, the maximum rate at which Capital Payments will accrue is limited to 8.00 per cent. per annum. Therefore, if interest rates rise after the Reset Date, thereby increasing the applicable Reference Rate, the rate at which Capital Payments will accrue may be less than the sum of the Reference Rate and the margin or even lower than the Reference Rate. Investors will therefore be exposed to the risk that the yield on their investment will not correspond to then-current interest rates. As the Trust Preferred Securities will not be redeemable at any time at the option of the holder thereof, investors may therefore continue to be exposed to such risk in the long term. See "Prospectus Summary – Summary of the Terms of the Trust Preferred Securities and the Class B Preferred Securities – Capital Payments" and "Description of the Trust Securities – Capital Payments."

### **Regulatory restrictions on the Company's operations**

The Company is a subsidiary of Postbank. German bank regulatory authorities could make determinations in the future with respect to Postbank that could adversely affect the Company's ability to make Capital Payments in respect of the Class B Preferred Securities. In addition, German and European Union regulatory authorities and regulatory authorities in other countries have regulatory authority over Postbank and/or Postbank's subsidiaries. Under certain circumstances, any of such regulatory authorities could make determinations or take decisions in the future with respect to Postbank and/or any of Postbank's subsidiaries or a portion of their respective operations or assets that could adversely affect the ability of any of them to, among other things, make distributions to their respective securityholders, engage in transactions with affiliates, purchase or transfer assets, pay their respective obligations or make any redemption or liquidation payments to their securityholders.

### **No fixed maturity date**

There is no fixed maturity date for the Class B Preferred Securities and, hence, for the Trust Preferred Securities. Neither the Class B Securities nor the Trust Preferred Securities will be redeemable at the option of the holder thereof. Even though the Class B Preferred Securities and the Trust Preferred Securities may be redeemed on the Initial Redemption Date, there can be no assurance that the Company will opt to redeem the Class B Preferred Securities on the Initial Redemption Date.

Whether or not the Company decides to redeem the Class B Preferred Securities will depend on a number of factors (most of which are outside the control of Postbank and the Company) including, for example:

- the regulatory capital position/requirements and the refinancing options of Postbank at such time;
- the regulatory assessment of the Class B Preferred Securities, the Initial Debt Securities and/or the Trust Preferred Securities;
- whether the required prior consent of the BaFin has been obtained; and
- the interest rate and credit spread environment for hybrid capital instruments and general capital market conditions.

### **Postbank Group is exposed to market risks and credit risks**

The amount of the customer deposits of Postbank Group considerably exceeds the volume of its lending business. This liquidity surplus is predominantly invested on the money markets and capital markets in interest-bearing instruments such as bonds and certificates of indebtedness (*Schuldscheindarlehen*) and other interest-bearing investments mostly with short and medium terms. Due to this balance sheet structure and the accompanying large portfolio of securities and derivatives, Postbank Group is especially exposed to market risks (in particular interest rate risks). Postbank Group is also susceptible to market-related risks with regard to the holdings in its bank and trading book that are not associated with the investment of liquidity surplus. These holdings primarily include fixed-income securities, stocks, foreign currency and financial derivatives. Postbank Group's two largest shareholdings as of September 30, 2004 had a



market value of €315 million (June 1, 2004: €339.2 million), which was €290 million (June 1, 2004: €272.2 million) below acquisition costs. This unrealized loss has been taken into account in the revaluation reserve and not in the income statement. In Postbank's view, neither of these two Dax-30 holdings is currently impaired. It cannot be excluded, however, that these holdings may have to be written down, affecting net profit and loss, in particular if share prices on stock markets continue to decline or the financial condition or results of operations of the issuers decline significantly.

Despite its risk management measures, Postbank Group's trading income and income from investment securities are influenced by a number of factors beyond Postbank's control, in particular the development of interest rate levels and the stock market. Postbank Group's trading income and income from investment securities, just as for other banks in the Federal Republic of Germany and the rest of Europe in general, have fluctuated significantly in the past few years due to the volatility of the markets. Adverse changes in general market conditions, downward developments on the stock, bond or currency markets and the materialization of other market risks could have material adverse effects on Postbank Group's trading income, income from investment securities and shareholders' equity (revaluation reserve).

Although Postbank Group's credit volume is relatively low as compared to other large German banks, it is exposed to credit risks as a result of engaging in lending. Postbank plans to expand its lending activities. In the future, an emphasis is expected to be placed on the original extension of private real estate finance and selective commercial financing. However, growth by means of acquisitions of credit portfolios or other retail banks is also conceivable. An expansion of the lending business will lead to additional risks of loan losses which – despite Postbank's conservative risk policy and the measures taken to manage risks – may result in substantial losses. Generally, additional loan default risks are also reflected in an increase in provisions for losses on loans and advances.

The reliability and accuracy of Postbank Group's risk management is subject to high demands. This is primarily due to the large volume of securities held by Postbank Group as a result of investing its liquidity surplus, but also to the holdings in its bank and trading book that are not associated with the investment of the liquidity surplus. See "Postbank Group – Risk Management". Although Postbank Group invests considerably in the development of risk management strategies and technologies and updates its risk management on an ongoing basis, in view of the complexity and volume of the business activities of Postbank Group and the volatility of the markets, it cannot be excluded that individual market risks may not, or may not completely, be taken into account, assessed and hedged against, or that risk management systems under certain circumstances may fail, in particular in the case of risks that Postbank fails to recognize or anticipate.

**Based on a recent decision by the European Commission, uncertainty exists as to whether the financing by the Federal Republic of Germany of the majority of the pension benefits of civil servants employed by Postbank constitutes prohibited state aid**

As a result of the privatization of Deutsche Bundespost, civil servants of the partial special asset (*Teilsondervermögen*) Deutsche Bundespost POSTBANK were transferred to Postbank with effect as of January 1, 1995. By law, the Federal Republic of Germany continued to be responsible for the pensions due to the transferred civil servants. The pension claims of civil servants employed by Postbank therefore continue to be directed toward the Federal Republic of Germany. In connection with the privatization, a cost sharing arrangement between the Federal Republic of Germany and the private successor companies of Deutsche Bundespost with regard to the pensions of civil servants was sought. In this regard, particular consideration was given to the fact that pension obligations due to civil servants typically involve additional costs that could not be imposed in full on its private successors, as competitors do not bear any comparable costs. It was also taken into account that many of the eligible civil servants had retired or served as civil servants prior to the privatization, and that the resulting pension obligations should be allocated to the Federal Republic of Germany and not to Postbank. At the same time, costs had to be shared in such a way so as to avoid granting competitive advantages to the successor companies. The cost sharing arrangement provided for in the privatization laws requires Postbank to contribute to the special pension fund from which the pension payments of civil



servants are drawn. Therefore, an amount corresponding to 33 per cent. of the gross salaries of active civil servants and the notional gross salaries of civil servants eligible for pensions who are on leave is contributed by Postbank to the pensions of its civil servants. The Federal Republic of Germany must pay for any differences between current payment obligations and current income or earnings from other assets of the special pension fund. The Federal Republic of Germany warrants that the special pension fund will be in a position to meet its obligations at all times. A duty of Postbank to reimburse the Federal Republic of Germany for such payments into the special pension fund does not exist under the provisions of the law. The average annual cost the special pension fund had to bear for civil servants of Postbank in 2001 through 2003 was €271 million per year. For the years 2001 through 2003, Postbank contributed amounts of €79 million, €75 million and €65 million, respectively. The gap in coverage was financed by the Federal Republic of Germany.

The European Commission has not objected to state financing of pension obligations as prohibited state aid in its decisions in comparable cases thus far (Deutsche Post AG, Poste Italiane, La Poste Belgen, Deutsche Lufthansa AG). In its decision of June 19, 2002 concerning the proceeding against Deutsche Post AG, the Commission conducted a detailed investigation of the regulations and provisions on the financing of the special pension fund. However, after investigating these provisions for several years and, as opposed to other aspects of the matter it was investigating, it did not find these provisions to constitute prohibited state aid required to be repaid nor did it subsequently revisit this matter. The provisions on the financing of the special pension fund by Deutsche Post AG are based on the same laws applicable to the financing of the special pension fund by Postbank. Postbank is therefore of the view that the financing of the special pension fund is not to be viewed as prohibited state aid. No court or authority has issued a decision to the contrary thus far.

Against this background it is unclear how a recent decision of the European Commission of January 21, 2004 should be assessed. This decision concerns the contractual assumption of pension claims of civil servants of the Belgian telecommunications company Belgacom S.A./N.V. ("**Belgacom**") by the Belgian State. In its decision, the Commission determined that transferring the obligations of the retired civil servants to the Belgian State did not constitute state aid because Belgacom had paid compensation to the Belgian State in an amount corresponding to the discounted cash value of these obligations. In the press, this decision was partially interpreted in such a manner that it could also be understood as a precedent for the financing of the special pension fund by Deutsche Post AG. In the view of Postbank, the Belgacom case differs from the situation of Postbank described here in one decisive respect. After Belgacom had been converted from a state enterprise into a stock corporation in 1992, the pension obligations that were the subject of the Commission's decision were explicitly transferred to Belgacom. Belgacom established a pension fund to finance these pension obligations, the assets and liabilities of which were then transferred back to the Belgian State. In this respect, the Belgacom decision concerns an obligation initially expressly allocated to the company that was transferred back to the state, while the pension payment obligation to the civil servants of the predecessor of Postbank constitutes an original obligation of the Federal Republic of Germany. Therefore, Postbank presumes that the provisions for financing the special pension fund, in keeping with the Commission's previous decisions, do not represent state aid by the Federal Republic of Germany. Nonetheless, it cannot be excluded that the Commission may conclude that the criteria for state aid requiring authorization to have been met. Whether, and the extent to which, the Belgacom decision is applicable to the situation of Postbank, and whether payments or other expenses incurred by Postbank will result therefrom, cannot be determined at present. If prohibited state aid were found to have been provided, this would have material adverse effects on the financial situation and results of operations of Postbank.

#### **Compensation paid by Postbank for the use of the Deutsche Post AG branch outlet network may constitute prohibited state aid**

In December 2003, the German Monopolies Commission issued a special report on "*Telekommunikation und Post 2003: Wettbewerbsintensivierung in der Telekommunikation – Zementierung des Postmonopols*" (Telecommunications and the Postal Service 2003: Intensifying Competition in the Telecommunications Industry – Cementing of the Postal Service Monopoly). In the report, it stated that the compensation paid by Postbank to Deutsche

Post AG for the use of the branch outlet network of Deutsche Post AG represents prohibited state aid within the meaning of European state aid law. As a rationale for this view, the Monopolies Commission states that Postbank is cross-subsidized by Deutsche Post AG from the income derived from the postal service (operated on the basis of an exclusive license). The Monopolies Commission based its allegation on the fact that the compensation under the Cooperation Agreement does not meet the "market compensation" test called for by the case law of the European Court of Justice. According to a press release of EP EuroPost AG & Co. KG dated June 16, 2004, based on the special opinion of the German Monopolies Commission, EP EuroPost AG & Co. KG has filed an unfair competition complaint against Deutsche Post AG and Postbank with the European Commission. Currently, neither Deutsche Post AG nor Postbank has been served with such a complaint. In this context, in October 2004 the European Commission submitted an inquiry to the Federal Republic of Germany regarding the use of the branch outlet network of Deutsche Post AG by Postbank.

In the view of Postbank, the allegation of prohibited state aid by Deutsche Post AG to Postbank is unfounded. The European Court of Justice has now proceeded to clarify its earlier decisions calling for "market compensation" in its "Chronopost" decision of July 3, 2003. In this judgment, the European Court of Justice stressed that compensation for the use of postal infrastructures that are established to meet basic public needs and the size of which is geared toward their role in public service does not constitute state aid, if the compensation covers the variable additional costs, an appropriate contribution to the fixed costs of the networks being used and appropriate compensation for the allocated equity capital. Postbank believes that the compensation paid by Postbank for the use of the branch outlet network of Deutsche Post AG meets these requirements under European state aid rules. Therefore, the prerequisites of the criteria for state aid under the provisions of EU law have not been met in the view of Postbank.

Nonetheless, it cannot be excluded that the European Commission or European courts could alter, develop or interpret the "Chronopost" decision in a way that is detrimental to Postbank, and could deem the arrangement between Postbank and Deutsche Post AG concerning compensation to constitute prohibited state aid. Any potential resultant repayments due with regard to state aid granted in the past and/or higher compensation in the future could result in a large one-time payment to Deutsche Post AG and considerably higher expenses for Postbank for the services to be rendered under the Cooperation Agreement in the future, with the scope of services remaining unchanged. At present, it is not possible to assess the amount of any such expenses.

#### **The use of tax loss carryforwards of Postbank may be jeopardized**

As of January 1, 1999, Postbank had tax loss carryforwards in the amount of approximately € 1.6 billion for corporate income tax and trade tax purposes. These were subsequently partly offset against Postbank's taxable income. The tax loss carryforwards are still subject to audit by the tax authorities.

Under current law, one prerequisite for using Postbank's tax loss carryforwards is that Postbank is legally and economically identical to the company which sustained the losses. Economic identity no longer exists in particular if over half of the shares of the Company has been transferred and the Company continues its business operations with predominantly new assets.

With effect as of January 1, 1999, over half of the shares of Postbank were transferred as a result of the sale of Postbank to Deutsche Post AG.

The use of the tax loss carryforwards depends on whether Postbank continues its business operations with predominantly new assets. According to the German tax authorities, economic identity generally is only lost if predominantly new assets are infused within a period of five years following the transfer of the shares. The use of the tax loss carryforwards of Postbank may therefore generally only be denied if predominantly new assets have been infused to Postbank during the five-year period applied by the tax authorities (through December 31, 2003).

Taking the special features of the banking business into account, Postbank does not believe that predominantly new assets were infused to Postbank during this period. In Postbank's view, this also applies to the merger of DSL Bank with Postbank as of January 1, 2000. However, a reliable

assessment is not possible because there is considerable uncertainty regarding the interpretation of the prerequisite “infusion of new assets”.

The five-year period referred to above has not yet been the subject of a tax audit. Therefore, it cannot be ruled out that the tax authorities will assess the substantive issues related to the infusion of new assets differently from the view of Postbank. This would on the one hand result in a release of the deferred tax assets that are based on the tax loss carryforwards with effect on the profit and loss statement. On the other hand, back taxes would be due for corporate income tax and trade tax on the income of Postbank generated in periods after the loss of economic identity. Postbank’s taxable income would therefore be subject to income taxation. For the 1999 and 2000 assessment periods under the German tax imputation system (*Anrechnungsverfahren*), an average rate of taxation of Postbank of 44.2 per cent. applies. Under the half-income system (*Halbeinkünfteverfahren*), an average tax rate of 39.9 per cent. applies to Postbank for the 2001 and subsequent assessment periods. Exclusively for the 2003 assessment period a tax rate of 41.6 per cent. applies. The above-mentioned tax rates are comprised of the average trade tax rates and of the corresponding corporate income tax rates after deduction of trade tax as an operating expense. Any back taxes due for corporate income tax and trade tax are currently subject to a monthly interest rate of 0.5 per cent. In this regard, the interest begins to accrue 15 months after the end of the calendar year in which the tax arises.

In light of potential procedural defects of the legislative process, doubts exist as to whether the provision jeopardizing the tax loss carryforwards was enacted in accordance with constitutional requirements. In a proceeding pending with regard to a different rule enacted in the same legislative process, the German Constitutional Court (*Bundesverfassungsgericht*) may hold that the legislative process was unconstitutional. If it does so, the legal basis for the law which is relevant in this case could be rescinded.

## CAPITALIZATION OF THE COMPANY AND THE TRUST

The following tables set forth the capitalization of the Company and the Trust, in each case as of the date hereof and as adjusted to reflect the consummation of the sale of € 300,000,000 Trust Preferred Securities and the use of the proceeds therefrom as described under "Use of Proceeds."

### Capitalization of the Company

	November 30, 2004	
	Actual	As Adjusted
	(€ in thousands)	
<b>Debt</b>		
Total long-term debt.....	0	0
<b>Securityholders' equity</b>		
Class B Preferred Securities; none issued and outstanding, actual; and 300,001 Class B Preferred Securities authorized, 300,001 Class B Preferred Securities issued and outstanding, as adjusted .....	0	300,001
Class A Preferred Security; none issued and outstanding, actual; and 1 Class A Preferred Security authorized, 1 Class A Preferred Security issued and outstanding, as adjusted.....	0	1
Company Common Security, none issued and outstanding, actual; and 1 Company Common Security authorized, 1 Company Common Security issued and outstanding, as adjusted.....	0	25
Total securityholders' interests .....	0	300,027
<b>Total capitalization</b> <sup>(1)</sup> .....	0	300,027

### Capitalization of the Trust

	November 30, 2004	
	Actual	As Adjusted
	(€ in thousands)	
<b>Debt</b>		
Total debt .....	0	0
<b>Securityholders' interests</b> .....	0	300,000
Trust Preferred Securities; none issued and outstanding, actual; and 300,000 securities authorized, 300,000 securities issued and outstanding, as adjusted.....	0	0
Trust Common Security; none issued and outstanding, actual; and 1 Trust Common Security authorized, 1 Trust Common Security issued and outstanding, as adjusted .....	0	1
Total securityholders' interests .....	0	300,001
<b>Total capitalization</b> <sup>(2)</sup> .....	0	300,001

(1) There has been no material change in the capitalization of the Company since its formation, except as disclosed in the above table.

(2) There has been no material change in the capitalization of the Trust since its creation, except as disclosed in the above table.

## DEUTSCHE POSTBANK FUNDING TRUST I

The Trust is a statutory trust formed under the Trust Act, pursuant to the declaration of trust executed by the Company, as sponsor, the Property Trustee and the Delaware Trustee, and the filing of a certificate of trust with the Secretary of State of the State of Delaware on October 18, 2004. Such declaration of trust will be amended and restated in its entirety prior to the issuance of the Trust Preferred Securities to reflect the terms of the Trust Preferred Securities (as so amended and restated, the **"Trust Agreement"**).

The Trust Common Security will rank *pari passu*, and payments thereon will be made *pro rata*, with the Trust Preferred Securities, except that in liquidation and in certain circumstances described under "Description of the Trust Securities – Ranking of the Trust Common Security," the rights of the holder of the Trust Common Security to periodic distributions and to payments and distributions upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the Trust Preferred Securities.

The Trust will use the proceeds derived from the issuance of the Trust Securities to purchase the Class B Preferred Securities from the Company, and, accordingly, the assets of the Trust will consist solely of the Class B Preferred Securities. The Trust exists for the sole purposes of (i) issuing the Trust Securities representing undivided beneficial ownership interests in the Class B Preferred Securities, (ii) investing the proceeds from the issuance of the Trust Securities in the Class B Preferred Securities, and (iii) engaging in those other activities necessary or incidental thereto. The Trust may also, from time to time, issue additional Trust Preferred Securities, *provided* it receives from the Company an equal number of additional Class B Preferred Securities.

Pursuant to the Trust Agreement, there will be five trustees (the **"Trustees"**) of the Trust. Three of the Trustees will be individuals who are employees or officers of Postbank or one of its affiliates (the **"Regular Trustees"**). The fourth Trustee, the **"Property Trustee"**, will be a financial institution that is unaffiliated with Postbank. The fifth Trustee will be the **"Delaware Trustee."** Deutsche Bank Trust Company Americas, a New York banking corporation, will act as Property Trustee, and Deutsche Bank Trust Company Delaware, a Delaware banking corporation, will act as Delaware Trustee, until, in each case, removed or replaced by the holder of the Trust Common Security.

The Property Trustee will hold title to the Class B Preferred Securities for the benefit of the holders of the Trust Securities, and the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Class B Preferred Securities under the LLC Agreement. In addition, the Property Trustee will maintain exclusive control of the Property Account to hold all payments made in respect of the Class B Preferred Securities for the benefit of the holders of the Trust Securities. A Postbank Group Company, as the holder of the Trust Common Security, will have the right to appoint, remove or replace any of the Trustees and to increase or decrease the number of Trustees, *provided* that at least one Trustee will be the Delaware Trustee, at least one Trustee will be the Property Trustee and at least one Trustee will be a Regular Trustee.

For so long as the Trust Preferred Securities remain outstanding, Postbank will covenant (i) that the Trust Common Security will be held by a Postbank Group Company, (ii) to cause the Trust to remain a statutory trust, (iii) to use its commercially reasonable efforts to ensure that the Trust will not be classified as other than a grantor trust for U.S. federal income tax purposes and (iv) to the fullest extent permitted by law, not to permit the dissolution, liquidation, termination or winding-up of the Trust, unless a Trust Special Redemption Event or a Company Special Redemption Event occurs, or the Company is itself in liquidation and the regulatory approvals necessary therefor have been obtained.

The rights of the holders of the Trust Preferred Securities, including economic rights, rights to information and voting rights, are as set forth in the Trust Agreement and the Trust Act. See "Description of the Trust Securities."

Under the services agreement among the Trust, the Company and the Servicer (the **"Services Agreement"**), the Servicer will be obligated, among other things, to provide tax and other administrative services to the Trust and the Company.

The Trust is not currently and has not been since its formation the subject of any legal proceedings, which might have an impact on the Trust's financial situation for the future.

The initial Regular Trustees will be Thomas J. Leissl, Martha Rebecca Robertson and Coleman Gregory. The address of all Regular Trustees is the principal executive office of the Trust, c/o PB Capital Corporation, 590 Madison Avenue, New York, New York 10022, United States of America.

The location of the offices of the Property Trustee is Deutsche Bank Trust Company Americas, 60 Wall Street – MSNYC60-2710, New York, New York 10005, United States of America. The location of the offices of the Delaware Trustee is Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, United States of America.

The financial year corresponds to the calendar year. The accounts of the Trust will not be audited.



## DEUTSCHE POSTBANK FUNDING LLC I

The Company is a limited liability company that was formed under the LLC Act on October 18, 2004 pursuant to an initial limited liability company agreement (as subsequently amended and restated, the “**LLC Agreement**”) and the filing of a certificate of formation of the Company with the Secretary of State of the State of Delaware. Pursuant to the LLC Agreement, the Company will issue two classes of preferred securities representing limited liability company interests in the Company, the Class A Preferred Security and the Class B Preferred Securities, and one class of common security representing limited liability company interests in the Company, the Company Common Security. The Property Trustee will initially hold 100 per cent. of the issued and outstanding Class B Preferred Securities. A Postbank Group Company will hold the issued and outstanding Company Common Security and the Class A Preferred Security.

The sole purposes of the Company are (i) to issue the Class A Preferred Security, the Class B Preferred Securities and the Company Common Security, (ii) to invest the proceeds thereof in the Initial Debt Securities, (iii) upon any redemption of the Initial Debt Securities prior to the Maturity Date, which does not involve a redemption of the Class B Preferred Securities, to reinvest the proceeds in Substitute Debt Securities issued by Postbank (including on behalf of a branch other than a U.S. branch) or by a Qualified Subsidiary (other than a U.S. Qualified Subsidiary) (including on behalf of a branch other than a U.S. branch) in replacement for the Initial Debt Securities, so long as any such reinvestment does not result in a Company Special Redemption Event, (iv) in the event of any default on the Debt Securities, to enforce its rights for payment of any overdue amounts, (v) after the Maturity Date, if the Class B Preferred Securities have not been redeemed, to invest in Permitted Investments, (vi) to enter into and, in certain circumstances, to enforce the Support Undertaking for the sole benefit of the holders of the Class B Preferred Securities, and (vii) to engage in those other activities necessary or incidental thereto.

The Company may also, from time to time and without the consent of the holders of the Class B Preferred Securities, issue additional Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (in all respects except for the issue date, the date from which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

For so long as the Class B Preferred Securities remain outstanding, the LLC Agreement provides that: (i) the Company will remain a limited liability company and, to the fullest extent permitted by law, will not voluntarily or involuntarily liquidate, dissolve, wind up or be terminated, except as permitted by the LLC Agreement; (ii) Postbank and the Company will use commercially reasonable efforts to ensure that the Company will not be an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes; (iii) Postbank undertakes that a Postbank Group Company will maintain sole ownership of the Company Common Security and the Class A Preferred Security; and (iv) a Postbank Group Company may transfer the Company Common Security or the Class A Preferred Security only to another Postbank Group Company, *provided* that prior to such transfer it has received an opinion of a nationally recognized law firm in the United States of America experienced in such matters to the effect that (A) the Company will continue to be treated as a partnership, and not as an association or publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes, (B) such transfer will not cause the Company to be required to register under the 1940 Act, and (C) such transfer will not adversely affect the limited liability of the holders of the Class B Preferred Securities.

The rights of the holders of the Class B Preferred Securities, including economic rights, rights to information and voting rights, are set forth in the LLC Agreement and the LLC Act. See “Description of the Company Securities – Class B Preferred Securities.”

The Company’s business and affairs will be conducted by its Board of Directors, which initially will consist of four members, elected by Postbank as initial holder of the Company Common Security. However, in the event that:

- any event causing a liquidation or dissolution of the Company has occurred, or
- the Company fails to pay Capital Payments (including any Additional Amounts thereon, if any) as and when due on the Class B Preferred Securities at the Stated Rate in full for the first Capital Payment Period or subsequently for two consecutive Capital Payment Periods; or
- a holder of the Class B Preferred Securities has notified the Company that Postbank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent Enforcement Director. The Independent Enforcement Director's term will end if, in such Independent Enforcement Director's sole determination, Capital Payments have been made on the Class B Preferred Securities at the Stated Rate in full for two consecutive Capital Payment Periods after the first Capital Payment Period and Postbank is in compliance with its obligations under the Support Undertaking.

So long as any Class B Preferred Securities are outstanding, the Company will not, without the vote of the holders of at least 66% per cent. in aggregate liquidation preference amount of the Class B Preferred Securities, voting separately as a class (excluding any Class B Preferred Securities held by Postbank or any of its affiliates, other than the Trust), (i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Class B Preferred Securities, (ii) agree to modify or amend any provision of the Debt Securities, or waive any default in the payment of any amount under the Debt Securities, in any manner that would have a material adverse effect on the interests of the holders of the Class B Preferred Securities, or (iii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, *provided* that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the requirements set forth under "Description of the Company Securities – Mergers, Consolidations and Sales."

The Company will not, without the consent of all the holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by Postbank or any of its affiliates), issue any additional securities of the Company ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company, *provided, however*, that the Company may, from time to time, issue additional Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

After the Maturity Date of the Initial Debt Securities, if the Class B Preferred Securities have not been redeemed, the Company will invest in Permitted Investments. The Company will select for purchase Permitted Investments on terms that are the best available in relation to providing funds for the payment of Capital Payments, any Additional Amounts and the redemption price of the Class B Preferred Securities:

- debt obligations of one or more Qualified Subsidiaries of Postbank, unconditionally guaranteed by Postbank on a subordinated basis that rank at least *pari passu* with the Initial Debt Securities, or
- United States Treasury securities,

*provided*, in each case, that such investment does not result in a Company Special Redemption Event.

The Company will also enter into the Services Agreement with the Trust and the Servicer, under which the Servicer will be obligated, among other things, to provide tax and other administrative services to the Company and the Trust. The fees and expenses of the Trust and the Company, including any taxes, duties, assessments or governmental charges of whatever nature (other than Withholding Taxes) imposed by the Federal Republic of Germany, the United States of

America or any other taxing authority upon the Company or the Trust, the fees and expenses of the Servicer, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities) will be paid by the Company pursuant to the Services Agreement.

The holders of the Class B Preferred Securities are third-party beneficiaries of the Support Undertaking between Postbank and the Company. See “Description of the Support Undertaking.”

The Company is not currently and has not been since its formation the subject of any legal proceedings, which might have an impact on the Company’s financial position for the future.

The initial directors of the Company will be Thomas J. Leissl, Martha Rebecca Robertson, Coleman Gregory and Jeffrey Frost. The initial officers of the Company will be Thomas J. Leissl, Martha Rebecca Robertson, Coleman Gregory and Jeffrey Frost. The location of the principal executive offices of the Company is c/o PB Capital Corporation, 590 Madison Avenue, New York, New York 10022, United States of America.

The financial year corresponds to the calendar year.

## **USE OF PROCEEDS**

The gross proceeds from the sale of the Trust Securities (aggregating € 300,001,000 including the € 1,000 proceeds from the sale of the Trust Common Security) will be invested by the Trust in the Class B Preferred Securities. The Company will use the funds from the sale of the Class B Preferred Securities, together with certain funds contributed by Postbank in return for the Class A Preferred Security and the Company Common Security, to make an investment in the Initial Debt Securities. Postbank intends to use the gross proceeds from the sale of the Initial Debt Securities for general corporate purposes. Postbank intends to treat the Class B Preferred Securities or, as the case may be, the Trust Preferred Securities, as consolidated Tier I regulatory capital. Postbank will pay certain commissions to the Lead Managers and reimburse the Lead Managers for certain expenses in connection with the Offering. See "Subscription and Sale." The net proceeds to the Postbank Group are expected to amount to approximately € 294,000,000.

## DISTRIBUTABLE PROFITS OF POSTBANK

The Company's authority to declare Capital Payments on the Class B Preferred Securities for any Capital Payment Period depends, among other things, on the Distributable Profits of Postbank for the preceding fiscal year.

Distributable Profits of Postbank for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of Postbank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), *plus* any profit carried forward from previous years, *minus* any loss carried forward from previous years, *plus* transfers from capital reserves and earnings reserves, *minus* allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect.

The following table sets forth, as of December 31, 2003, 2002, and 2001, the items derived from Postbank's audited unconsolidated balance sheet that affect the calculation of Postbank's Distributable Profits:

	Year Ended December 31		
	2001	2002	2003
	(€ in millions)		
Annual Profit After Allocations to Retained Earnings.....	137	99	589
Other Revenue Reserves .....	406	265	265
Additional Paid-in Capital and Legal Reserve available to offset a loss....	1,316	1,159	1,159
	<u>1,859</u>	<u>1,523</u>	<u>2,013</u>

Postbank has achieved Distributable Profits in respect of each of its past three fiscal years.

Postbank paid total dividends on its ordinary shares of €589 million, €99 million and €137 million in respect of the years ended December 31, 2003, 2002 and 2001, respectively.

## DESCRIPTION OF THE TRUST SECURITIES

*The Trust Securities will be issued pursuant to the terms of the Trust Agreement. The following summary sets forth the material terms and provisions of the Trust Securities. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Trust Agreement and the Trust Act.*

### General

The Trust Securities will be issued in fully registered form without coupons. The Trust Securities will not be issued in bearer form.

The Trust Agreement authorizes the Regular Trustees of the Trust to issue the Trust Securities, which represent undivided beneficial ownership interests in the assets of the Trust, which consist solely of Class B Preferred Securities. Title to the Class B Preferred Securities will be held by the Property Trustee for the benefit of the holders and beneficial owners of the Trust Securities. The Trust Agreement does not permit the Trust to acquire any assets other than the Class B Preferred Securities, issue any securities other than the Trust Securities or incur any indebtedness, *provided that*, as the Company may, from time to time and without the consent of the Trust as the holder of the Class B Preferred Securities, issue additional Class B Preferred Securities having the same terms as the Class B Preferred Securities so as to form a single series with the Class B Preferred Securities (in all respects except for the issue date, the date as of which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law), the Trust, accordingly, may also, from time to time and without the consent of the holders of the Trust Preferred Securities, issue additional Trust Preferred Securities having the same terms and conditions as the Trust Preferred Securities (in all respects except for the issue date, the date as of which Capital Payments accrue on the Trust Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Trust Preferred Securities in consideration for receipt of additional Class B Preferred Securities equal to the aggregate Liquidation Preference Amount of such Trust Preferred Securities.

### Capital Payments

Subject to the terms of the Trust Agreement, Capital Payments will accrue on the Liquidation Preference Amount (i) from (and including) the Issue Date to (but excluding) the Reset Date at a fixed rate of 6.00 per cent. per annum (the “**Fixed Rate**”), payable in arrears on the Reset Date and (ii) for each Capital Payment Period commencing on or after the Reset Date at the Reference Rate plus 0.025 per cent. per annum (the “**Floating Rate**”), payable semi-annually in arrears on June 2 and December 2 in each year, commencing on June 2, 2006, *provided that* no Capital Payment for any Capital Payment Period commencing on or after the Reset Date shall accrue at a rate of more than 8.00 per cent. per annum. For each Capital Payment Period, Capital Payments will be calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

If any Capital Payment Date or any Redemption Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day without adjustment, interest or further payment as a result thereof.

Capital Payments on the Trust Securities are expected to be paid out of Capital Payments received by the Trust with respect to the Class B Preferred Securities. See “Description of the Company Securities – Class B Preferred Securities – Capital Payments.” If the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, holders of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to pay a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, whether or not Capital Payments are declared (or deemed to be declared) and paid on the Class B Preferred Securities in respect of any future Capital Payment Period. In such a case, no Capital Payments will be made on the Trust Securities in respect of such Capital Payment Period.



Each declared Capital Payment will be payable to the holders of record of the Trust Securities as they appear on the books and records of the Trust at the close of business on the corresponding record date. The holder of record will be Clearstream AG, in whose name the Global Certificates will be registered. See "Form, Clearing and Settlement, Certifications by Holders." The record dates for the Trust Securities will be (i) so long as the Trust Securities remain in book-entry form, one Business Day prior to the relevant Capital Payment Date, and (ii) in all other cases, 15 calendar days prior to the relevant Capital Payment Date.

Such Capital Payments will be paid through the Property Trustee who will hold amounts received in respect of the Class B Preferred Securities in the Property Account for the benefit of the holders of the Trust Securities, subject to any applicable laws and regulations and the provisions of the Trust Agreement.

The right of the holders of the Trust Securities to receive Capital Payments is noncumulative. Accordingly, if the Trust does not have funds available for payment of a Capital Payment in respect of any Capital Payment Period, the holders will have no right to receive a Capital Payment in respect of such Capital Payment Period, and the Trust will have no obligation to pay a Capital Payment in respect of such Capital Payment Period, whether or not Capital Payments are paid in respect of any future Capital Payment Period.

Except as described under "– Subordination of Trust Common Security" below, all Capital Payments and other payments to holders of the Trust Securities will be distributed among holders of record *pro rata*, based on the proportion that the aggregate liquidation amount of the Trust Securities held by each holder bears to the aggregate liquidation amount of all Trust Securities.

#### **Payments of Additional Amounts**

All payments on the Trust Preferred Securities by the Trust (including any amount payable in liquidation or upon redemption thereof) will be made without deduction or withholding for or on account of Withholding Taxes unless such deduction or withholding is required by law. In such event, the Trust will pay, as additional Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Trust Preferred Securities will equal the amounts that otherwise would have been received had no such deduction or withholding been required. However, no such Additional Amounts will be payable in respect of the Trust Preferred Securities:

- if and to the extent that the Company is unable to pay corresponding amounts in respect of the Class B Preferred Securities because such payment would exceed the Distributable Profits of Postbank for the preceding fiscal year (after subtracting from such Distributable Profits the amount of the Capital Payments on the Class B Preferred Securities and capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable);
- with respect to any Withholding Taxes that are payable by reason of the holder or beneficial owner of the Trust Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Trust Securities;
- with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union Directive on the taxation of savings (including the Directive adopted on June 3, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive;
- with respect to any Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Class B Preferred Securities or the Trust Preferred Securities;
- with respect to any Withholding Taxes that can be avoided if the holder or beneficial owner of Class B Preferred Securities or the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority;

- with respect to any Withholding Taxes that the holder or beneficial owner of the Class B Preferred Securities or Trust Preferred Securities can avoid by presenting the relevant Class B Preferred Securities or Trust Preferred Securities to another paying agent in a member state of the European Union; or
- with respect to any Withholding Taxes that would not have been imposed if the holder of the Class B Preferred Securities or Trust Preferred Securities would have presented the relevant Class B Preferred Securities or Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Class B Preferred Securities or Trust Preferred Securities for payment on the last day of such period of 30 days.

## Enforcement Events

The occurrence, at any time, of (i) non-payment of Capital Payments (plus Additional Amounts thereon, if any) on the Trust Preferred Securities or the Class B Preferred Securities at the Stated Rate in full as and when due, for the first Capital Payment Period or subsequently for two consecutive Capital Payment Periods or (ii) a default by Postbank in respect of any of its obligations under the Support Undertaking will constitute an enforcement event under the Trust Agreement with respect to the Trust Securities (an **"Enforcement Event"**); *provided that*, pursuant to the Trust Agreement, the holder of the Trust Common Security will be deemed to have waived any Enforcement Event with respect to the Trust Common Security until all Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until such Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the holders of the Trust Preferred Securities and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee with respect to certain matters under the Trust Agreement. In the case of non-payment of Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities referred to in clause (i) above or the continuation of a failure by Postbank to perform any obligation under the Support Undertaking for a period of 60 days after notice thereof has been given to the Company by the Property Trustee or any holder of the Trust Preferred Securities or any holder of the Class B Preferred Securities, holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent Enforcement Director. See "Description of the Company Securities – Class B Preferred Securities – Voting and Enforcement Rights."

Upon the occurrence of an Enforcement Event, the Property Trustee will have the right to enforce the rights of the holders of the Class B Preferred Securities, including: (i) claims to receive Capital Payments (only if and to the extent declared or deemed to have been declared) (plus Additional Amounts thereon, if any) on the Class B Preferred Securities; (ii) appointment of an Independent Enforcement Director (to the extent that such Enforcement Event results from non-payment of Capital Payments on the Class B Preferred Securities for the first Capital Payment Period or subsequently for two consecutive Capital Payment Periods or the continuation of a failure by Postbank to perform any obligation under the Support Undertaking for a period of 60 days after notice thereof has been given to the Company by the Property Trustee or any holder of the Trust Preferred Securities or any holder of the Class B Preferred Securities); and (iii) assertion of the rights under the Support Undertaking as it relates thereto.

If the Property Trustee fails to enforce its rights under the Class B Preferred Securities after a holder of record of the Trust Preferred Securities has made a written request, such holder of record of the Trust Preferred Securities may directly institute a legal proceeding against the Company to enforce the Property Trustee's rights under the Class B Preferred Securities without first instituting any legal proceeding against the Property Trustee, the Trust or any other person or entity. The holder of record will be Clearstream AG, in whose name the Global Certificates will be registered. See "– Form, Clearing and Settlement; Certifications by Holders."

## Redemption

If the Company redeems Class B Preferred Securities, the Trust must redeem a corresponding number of Trust Securities. The Class B Preferred Securities are redeemable at the option of the Company, in whole or in part, on any Capital Payment Date falling on or after the Initial Redemption Date.

The Company will also have the right at any time to redeem the Class B Preferred Securities, in whole but not in part, upon the occurrence of a Company Special Redemption Event. Any such redemption will be at a redemption price equal to the liquidation preference amount of the Class B Preferred Securities being redeemed plus any accrued and unpaid Capital Payments for the then current Capital Payment Period up to, but excluding, the Redemption Date, plus Additional Amounts, if any.

The Company may exercise its right to redeem the Class B Preferred Securities only if it has (i) given at least 30 days' prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Class B Preferred Securities of its intention to redeem the Class B Preferred Securities on the Redemption Date, (ii) simultaneously therewith received notice from the issuer of the Debt Securities of the redemption of an aggregate principal amount of Debt Securities equivalent to the aggregate liquidation preference amount of the Class B Preferred Securities being redeemed and (iii) obtained any required regulatory approvals.

The Trust Agreement will provide that the Property Trustee will promptly give notice to the holders of the Trust Securities of the Company's intention to redeem the Class B Preferred Securities on the Redemption Date. Notice of any redemption shall be given to holders of the Trust Preferred Securities in the manner described below under "– Notices."

The Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof. Upon any redemption of the Class B Preferred Securities, the proceeds of such redemption will simultaneously be applied to redeem a corresponding amount of the Trust Preferred Securities. Any Class B Preferred Securities or Trust Preferred Securities that are redeemed will be cancelled, and not reissued, following their redemption.

Upon the occurrence of a Trust Special Redemption Event or in the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, holders of Trust Securities will be entitled to receive a corresponding number of the Class B Preferred Securities, but, in the event of any such distribution of Class B Preferred Securities, the rights of the holder of the Trust Common Security will be subordinated to the rights of the holders of the Trust Preferred Securities.

If, at any time, a Trust Special Redemption Event occurs and is continuing, the Regular Trustees will, within 90 days following the occurrence of such Trust Special Redemption Event, dissolve the Trust upon not less than 30 nor more than 60 days' notice to the holders of the Trust Securities and upon not less than 30 nor more than 60 days' notice to, and consultation with the Principal Paying Agent, registrar, Property Trustee and Clearstream AG, with the result that, after satisfaction of the claims of creditors of the Trust, if any, Class B Preferred Securities would be distributed on a *pro rata* basis to the holders of the Trust Preferred Securities and the holder of the Trust Common Security in liquidation of such holders' interest in the Trust, *provided, however,* that, if, at such time, the Trust has the opportunity to eliminate, within such 90-day period, the Trust Special Redemption Event by taking some ministerial action, such as filing a form or making an election, or some other similar reasonable measures, which in the sole judgment of Postbank will cause no adverse effect on the Company, the Trust, Postbank or the holders of the Trust Securities and will involve no material costs, then the Trust will pursue any such measure in lieu of dissolution.

On the date fixed for any distribution of the Class B Preferred Securities, upon dissolution of the Trust, (i) the Trust Securities will no longer be deemed to be outstanding and (ii) certificates representing Trust Securities will be deemed to represent Class B Preferred Securities having a liquidation preference amount equal to the Liquidation Preference Amount of, and bearing accrued and unpaid Capital Payments equal to accrued and unpaid Capital Payments on, the

Trust Preferred Securities and the liquidation amount of the Trust Common Security until such certificates are presented to the Company or its agent for transfer or reissuance.

If the Class B Preferred Securities are distributed to the holders of the Trust Preferred Securities, Postbank will use its commercially reasonable efforts to cause the Class B Preferred Securities (i) to be eligible for clearing and settlement through Clearstream AG or a successor clearing agent and (ii) to be listed on Euronext Amsterdam and the Frankfurt Stock Exchange or other securities exchange or other organization on which the Trust Preferred Securities are then listed.

### **Redemption Procedures**

On the date specified for redemption of any Trust Preferred Securities in a notice of redemption issued by the Trust in respect of any Trust Preferred Securities (which notice shall be irrevocable and given at least 30 calendar days prior to the Redemption Date), if the Company has paid to the Property Trustee a sufficient amount of cash in connection with the related redemption of the Class B Preferred Securities, then, by 9:00 a.m., Central European time, the Trust will irrevocably deposit with the Principal Paying Agent funds sufficient to pay the amount payable on redemption of the Trust Preferred Securities called for redemption. If notice of redemption will have been given and funds are deposited as required, then upon the date of such deposit, all rights of holders of such Trust Preferred Securities so called for redemption will cease, except the right of the holders of such Trust Preferred Securities to receive the redemption price, but without interest on such redemption price. In the event that fewer than all of the outstanding Trust Preferred Securities are to be redeemed, the Trust Preferred Securities will be redeemed *pro rata* in accordance with the procedures of Clearstream AG.

### **Purchases of the Trust Preferred Securities**

Subject to applicable law (including, without limitation, applicable securities laws and the regulations of any stock exchange and the BaFin), Postbank or its subsidiaries may at any time and from time to time purchase outstanding Trust Preferred Securities by tender, in the secondary market or by private agreement.

### **Ranking of the Trust Common Security**

Payment of Capital Payments and other distributions on, and amounts on redemption of, the Trust Securities will generally be made *pro rata* based on the liquidation amount of the Trust Securities. However, upon the liquidation of the Trust and during the continuance of a default under the Debt Securities or a failure by Postbank to perform any obligation under the Support Undertaking, holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to payments of Capital Payments and other distributions and amounts upon redemption or liquidation of the Trust, as no such payments on the Trust Common Security shall be made to the holder thereof unless payment in full has been made on the Trust Preferred Securities to the holders thereof.

In the case of any Enforcement Event, the holder of the Trust Common Security will be deemed to have waived any such Enforcement Event until all such Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until all Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will act solely on behalf of the holders of the Trust Preferred Securities and not on behalf of the holder of the Trust Common Security, and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to act on their behalf.

### **Liquidation Distribution upon Dissolution**

Pursuant to the Trust Agreement, the Trust will dissolve (i) upon the insolvency, liquidation or dissolution of Postbank, (ii) upon the consent of at least a majority of the outstanding Trust Securities, voting together as a single class, to dissolve the Trust, (iii) upon the distribution of all of the Class B Preferred Securities upon the occurrence of a Trust Special Redemption Event, (iv) upon the entry of a decree of a judicial dissolution of the Company or the Trust, or (v) upon the redemption of all of the Trust Securities; *provided* that, if a claim has been made under the Support Undertaking, the Trust shall not, to the fullest extent permitted by law, dissolve until (a) such claim has been satisfied and the proceeds therefrom have been distributed to the

holders of the Trust Securities or (b) the Class B Preferred Securities have been distributed to the holders of the Trust Securities.

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, the holders of the Trust Securities will be entitled to receive a corresponding amount of the Class B Preferred Securities. The holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to distributions upon liquidation of the Trust.

### **Statute of Limitations**

The prescription period for claims for the payment of Capital Payments, Additional Amounts and any redemption price payable on the Trust Preferred Securities is three years after the date on which the respective payment becomes due and payable.

### **Voting and Enforcement Rights**

Except as expressly required by applicable law, or except as provided for in the Trust Agreement or the LLC Agreement, the holders of the Trust Preferred Securities will not be entitled to vote on the affairs of the Trust or the Company. So long as the Trust holds any Class B Preferred Securities, the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to enforce the voting rights attributable to such Class B Preferred Securities. These voting rights may be waived by the holders of the Trust Preferred Securities by written notice to the Property Trustee and in accordance with applicable laws.

Subject to the requirement of the Property Trustee obtaining a tax opinion as set forth in the last sentence of this paragraph, the holders of a majority in Liquidation Preference Amount of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by Postbank or its affiliates) have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, and to direct the exercise of any trust or power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee, as holder of the Class B Preferred Securities, to (i) exercise the remedies available to it under the LLC Agreement as a holder of the Class B Preferred Securities, and (ii) consent to any amendment, modification or termination of the LLC Agreement or the Class B Preferred Securities where such consent will be required; *provided, however*, that, where a consent or action under the LLC Agreement would require the consent or act of the holders of more than a majority in liquidation preference amount of the Class B Preferred Securities affected thereby, only the holders of the percentage of the aggregate liquidation preference amount of the Trust Securities outstanding which is at least equal to the percentage of the liquidation preference amount of the Class B Preferred Securities required to so consent or act under the LLC Agreement, may direct the Property Trustee to give such consent or take such action on behalf of the Trust. See "Description of the Company Securities – Class B Preferred Securities – Voting and Enforcement Rights." Except with respect to directing the time, method and place of conducting a proceeding for a remedy as described above, the Property Trustee will be under no obligation to take any of the actions described in clause (i) or (ii) above unless the Property Trustee has obtained an opinion of independent tax counsel to the effect that as a result of such action, the Trust will not fail to be classified as a grantor trust for U.S. federal income tax purposes and that after such action each holder of the Trust Securities will continue to be treated as owning an undivided beneficial ownership interest in the Class B Preferred Securities.

Any required approval or direction of holders of the Trust Preferred Securities may be given at a separate meeting of holders of the Trust Preferred Securities convened for such purpose, at a meeting of all of the holders of the Trust Securities or pursuant to a written consent. The Regular Trustees will cause a notice of any meeting at which holders of the Trust Preferred Securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be made in the manner described below under "– Notices." Each such notice will include a statement setting forth the following information: (i) the date of such meeting or the date by which such action is to be taken; (ii) a description of any resolution proposed for adoption at such meeting on which such holders are entitled to vote or of such matter upon which written consent is sought; and (iii) instructions for the delivery of proxies or consents. No vote or consent of the holders of the Trust Preferred Securities will be required for the Trust to redeem and cancel Trust



Preferred Securities or distribute Class B Preferred Securities in accordance with the Trust Agreement.

Notwithstanding that holders of the Trust Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Trust Preferred Securities that are beneficially owned at such time by Postbank or any entity directly or indirectly controlled by, or under direct or indirect common control with, Postbank will in such case not be entitled to vote or consent and will, for the purposes of such vote or consent, be treated as if they were not outstanding, except for Trust Preferred Securities purchased or acquired by Postbank or its subsidiaries or affiliates in connection with transactions effected by or for the account of customers of Postbank or any of its subsidiaries or affiliates or in connection with the distribution or trading of or market-making in connection with such Trust Preferred Securities in the ordinary course of business. However, certain persons (other than subsidiaries or affiliates of Postbank), excluding the Trust, to whom Postbank or any of its subsidiaries or affiliates have pledged Trust Preferred Securities may vote or consent with respect to such pledged Trust Preferred Securities to the extent permitted by the terms of such pledge.

Holders of the Trust Preferred Securities will have no rights to appoint or remove the Regular Trustees, who may be appointed, removed or replaced solely by the Postbank Group Company, as the holder of the Trust Common Security.

### **Meetings of Holders**

Meetings of the holders of any class of Trust Securities may be called at any time by the Regular Trustees (or as provided in the terms of the Trust Securities) to consider and act on any matter on which holders of such class of Trust Securities are entitled to act under the terms of the Trust Agreement, the terms of the Trust Securities, the LLC Agreement, the rules of any stock exchange on which Trust Preferred Securities are listed or admitted for trading, the Trust Act or other applicable law. The Regular Trustees shall call a meeting of the holders of such class if directed to do so by the holders of at least 10 per cent. in liquidation amount of the Trust Securities of such class outstanding. Such direction shall be given by delivering to the Regular Trustees one or more notices in writing stating that the signing holders of the Trust Securities wish to call a meeting and indicating the general or specific purpose for which the meeting is to be called. Any holders of the Trust Securities calling a meeting shall specify in writing number and class of Trust Securities exercising the right to call a meeting and only those Trust Securities specified shall be counted for purposes of determining whether the required percentage set forth in the second sentence of this paragraph has been met.

### **Merger, Consolidation or Amalgamation of the Trust**

The Trust may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other entity, except as described below. The Trust may, with the consent of a majority of the Regular Trustees and without the consent of the holders of the Trust Securities, the Property Trustee or the Delaware Trustee, consolidate, amalgamate, merge with or into, or be replaced by a trust organized as such under the laws of any State of the United States of America; *provided that*:

- (i) if the Trust is not the survivor, such successor entity either (x) expressly assumes all of the obligations of the Trust to the holders of the Trust Securities or (y) substitutes for the Trust Securities other securities having substantially the same terms as the Trust Preferred Securities (the “**Successor Securities**”) and the Trust Common Security, so long as the Successor Securities rank the same as the Trust Preferred Securities with respect to Capital Payments, other distributions and rights upon liquidation, redemption or otherwise,
- (ii) the Company expressly acknowledges a trustee or another representative of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Class B Preferred Securities,
- (iii) the Successor Securities are listed or any Successor Securities will be listed upon notification of issuance, on any securities exchange or any other organization on which the Trust Preferred Securities are then listed or quoted,



- (iv) such merger, consolidation, amalgamation or replacement does not cause the Trust Preferred Securities (including the Successor Securities) to be downgraded by any statistical rating organization nationally recognized in the United States of America,
- (v) such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Successor Securities) in any material respect,
- (vi) such successor entity has purposes substantially identical to that of the Trust,
- (vii) the obligations of Postbank pursuant to the Support Undertaking will continue in full force and effect, and
- (viii) prior to such merger, consolidation, amalgamation or replacement, Postbank has received an opinion of a nationally recognized law firm in the United States of America experienced in such matters to the effect that: (A) such merger, consolidation, amalgamation or replacement will not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including the Successor Securities) in any material respect, (B) following such merger, consolidation, amalgamation or replacement, neither the Trust nor such successor entity will be required to register under the 1940 Act, (C) following such merger, consolidation, amalgamation or replacement, the Trust (or such successor entity) will be classified as a grantor trust for U.S. federal income tax purposes and (D) following such merger, consolidation, amalgamation or replacement, the Company will not be classified as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes.

Notwithstanding the foregoing, the Trust will not, except with the consent of holders of 100 per cent. in Liquidation Preference Amount of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by Postbank and its affiliates), consolidate, amalgamate, merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it, if such consolidation, amalgamation, merger or replacement would cause the Trust or the successor entity not to be classified as a grantor trust for U.S. federal income tax purposes.

### **Modification of the Trust Agreement**

The Trust Agreement may only be modified and amended if approved by a majority of the Regular Trustees (and in certain circumstances the Property Trustee and the Delaware Trustee), *provided* that, if any proposed amendment provides for, or the Regular Trustees otherwise propose to effect, (i) any action that would materially adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment to the Trust Agreement or otherwise, or (ii) the liquidation, dissolution, winding up or termination of the Trust other than pursuant to the terms of the Trust Agreement, then the holders of the Trust Securities voting together as a single class will be entitled to vote on such amendment or proposal and such amendment or proposal will not be effective except with the approval of at least a majority in liquidation amount of the outstanding Trust Securities affected thereby (excluding Trust Securities held by Postbank and its affiliates); *provided further* that, if any amendment or proposal referred to in clause (i) above would adversely affect only the Trust Preferred Securities or the Trust Common Security, then only the affected class will be entitled to vote on such amendment or proposal and such amendment or proposal will not be effective except with the approval of a majority of such class of the Trust Securities outstanding.

The Trust Agreement may be amended without the consent of the holders of the Trust Securities to (i) cure any ambiguity, (ii) correct or supplement any provision in the Trust Agreement that may be defective or inconsistent with any other provision of the Trust Agreement, (iii) add to the covenants, restrictions or obligations of Postbank, (iv) conform to any change in the 1940 Act or the rules or regulations thereunder, (v) modify, eliminate and add to any provision of the Trust Agreement to such extent as may be necessary or desirable; *provided* that no such amendment will have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities or (vi) accomplish the issuance, from time to time and without the consent of the

holders of the Trust Preferred Securities, of additional Trust Preferred Securities having the same terms and conditions as the Trust Preferred Securities (in all respects except for the issue date, the date from which Capital Payments accrue on the Trust Preferred Securities, the issue price and any other deviations required for compliance with applicable law) so as to form a single series with the Trust Preferred Securities in consideration for the receipt of Class B Preferred Securities equal to the aggregate Liquidation Preference Amount of such additional Trust Preferred Securities.

Notwithstanding the foregoing, no amendment or modification may be made to the Trust Agreement if such amendment or modification would (i) cause the Trust to fail to be classified as a grantor trust for U.S. federal income tax purposes, (ii) cause the Company to be classified as an association or publicly traded partnership taxable as a corporation for such purposes, (iii) reduce or otherwise adversely affect the powers of the Property Trustee or (iv) cause the Trust or the Company to be required to register under the 1940 Act.

#### **Form, Clearing and Settlement; Certifications by Holders**

The Trust Preferred Securities will be issued in fully registered form without coupons, in denominations of €1,000. The Trust Preferred Securities will be initially evidenced by one or more Temporary Global Certificates, in fully registered form, interests in which will be exchangeable, upon certification as described below, for interests in one or more Permanent Global Certificates, in fully registered form, no earlier than after the expiry of the 40th day after the later of the Issue Date and the completion of the distribution of the Trust Preferred Securities (the “**Restricted Period**”). The Global Certificates will be deposited upon issuance with, and registered in the name of Clearstream AG. Definitive certificates representing individual Trust Preferred Securities and coupons shall not be issued except in the limited circumstances described under “– Transfer” below. Copies of the Temporary Global Certificates and the Permanent Global Certificates are available free of charge at the specified offices of the paying agents. Beneficial interests in the Global Certificates may not be exchanged for Trust Preferred Securities in certificated form except as set forth below.

On or after the expiration of the Restricted Period, a certificate must be provided by or on behalf of each holder of a beneficial interest in a Temporary Global Certificate to the Principal Paying Agent, certifying that the beneficial owner of the interest in such Temporary Global Certificate is not a U.S. Person. Unless such certificate is *provided*, (i) the holder of such beneficial interest will not receive any payments of Capital Payments, redemption price or any other payment with respect to such holder’s beneficial interest in the Temporary Global Certificate, (ii) such beneficial interest may not be exchanged for a beneficial interest in a Permanent Global Certificate, and (iii) settlement of trades with respect to such beneficial interest will be suspended.

#### **Transfer**

Beneficial interests in the Trust Preferred Securities will be shown only on, and transfers thereof will be effected only through, book-entry records maintained by Clearstream AG and its participants and, except in the limited circumstances described below, Trust Preferred Securities in certificated form will not be issued. Holders of beneficial interests in the Global Certificates must rely upon the procedures of Clearstream AG and (if applicable) its participants to exercise any rights of a holder under the Global Certificates. None of Postbank, the Company and the Trust will have any responsibility or liability for any aspect of the records relating to the payments made on account of beneficial interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

A Permanent Global Certificate will cease to represent the Trust Preferred Securities, and Trust Preferred Securities in definitive registered form will be exchangeable therefor only if (i) Clearstream AG notifies the Trust that it is unwilling or unable to continue as depository for such Permanent Global Certificate and no successor depository shall have been appointed or (ii) the Trust determines in its sole discretion that such Permanent Global Certificate shall be so exchangeable. Such definitive Trust Preferred Securities will be in denominations of € 1,000 and will be registered in such names as Clearstream AG shall direct and payments with respect thereto will be made at the offices described below. In addition, in all cases where the Trust Preferred Securities are issued in definitive form, the record dates for Capital Payments thereon

will be 15 days prior to the relevant Capital Payment Date (whether or not such date is a Business Day). Except as set forth in this paragraph, no definitive securities will be issued.

The Trust Preferred Securities may not be purchased by or transferred to any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4975 of the Code, or any entity whose underlying assets include the assets of any such employee benefit plans, plans or arrangements.

### **Payment**

Payments in respect of the Trust Preferred Securities will be made to Clearstream AG as the registered holder of the Global Certificate representing the Trust Preferred Securities. Payments made to Clearstream AG shall be made by wire transfer, and Clearstream AG will credit the relevant accounts of their participants on the applicable dates.

All payments on the Trust Preferred Securities by the Trust, and any amount payable in liquidation or upon redemption thereof, will be made without withholding or deduction for or on account of Withholding Taxes unless such deduction or withholding is required by law. In such event, the Trust will pay, as additional Capital Payments, such Additional Amounts as may be necessary in order for the net amounts received by holders of the Trust Preferred Securities to equal the amounts that otherwise would have been received has no such deduction or withholding been required. However, no such Additional Amounts will be payable in respect of the Trust Preferred Securities under certain circumstances described in “– Payments of Additional Amounts.”

### **Registrar, Transfer Agent and Paying Agents**

Deutsche Bank AG, Frankfurt am Main, will act as registrar and principal transfer agent (the “**Transfer Agent**”) and principal paying agent (the “**Principal Paying Agent**”). Registration of transfers of the Trust Preferred Securities will be effected without charge by or on behalf of the Trust, but upon payment (with the giving of such indemnity as the Transfer Agent may require) in respect of any tax or other governmental charges that may be imposed in relation to it. After such Trust Preferred Securities have been called for redemption, the Transfer Agent will not be required to register or cause to be registered the transfer of such Trust Preferred Securities.

For as long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange and the rules of the Frankfurt Stock Exchange so require, the Trust will maintain a paying and transfer agent in Frankfurt am Main, Federal Republic of Germany. The initial paying and transfer agent in Frankfurt am Main will be Deutsche Bank AG, Frankfurt am Main, Federal Republic of Germany.

For as long as the Trust Preferred Securities are listed on Euronext Amsterdam and the rules of Euronext Amsterdam so require, the Trust will maintain a paying agent in Amsterdam, Netherlands (the “**Netherlands Paying Agent**”). The initial Netherlands Paying Agent will be Deutsche Bank AG, Amsterdam, Netherlands.

### **Information Concerning the Property Trustee**

The Property Trustee, prior to the occurrence of any Enforcement Event, and after the curing or waiver of all Enforcement Events that may have occurred, undertakes to perform only such duties as are specifically set forth in the Trust Agreement and, after the occurrence of any Enforcement Event, will exercise the same degree of care as a prudent person would exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the powers vested in it by the Trust Agreement at the request of any holder of the Trust Preferred Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The holders of the Trust Preferred Securities will not be required to offer such indemnity in the event such holders, by exercising their rights, direct the Property Trustee to take any action following an Enforcement Event.

### **Notices**

All notices or communications to a holder of the Trust Preferred Securities will be delivered, telecopied or mailed by first-class, registered or certified mail to such holder’s address as shown on the books and records of the Trust.

For so long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange, all notices concerning the Trust Preferred Securities will be published in at least one daily newspaper having general circulation in the Federal Republic of Germany and admitted to carry stock exchange announcements (expected to be the *Börsen-Zeitung*).

For so long as the Trust Preferred Securities are listed on Euronext Amsterdam and the rules of such exchange so require, notices to holders of the Trust Preferred Securities shall be deemed to have been given upon publication in a daily newspaper of general circulation in the Netherlands (which is expected to be the *Het Financieele Dagblad*), notice thereof given to Euronext Amsterdam, and publication in the *Officiële Prijscourant*.

#### **Governing Law**

The Trust Agreement and the Trust Securities will be governed by, and construed in accordance with, the laws of the State of Delaware, United States of America.

#### **Miscellaneous**

The Regular Trustees are authorized and directed to conduct the affairs of and to operate the Trust in such a way that the Trust will not be required to register under the 1940 Act and will not be characterized as other than a grantor trust for U.S. federal income tax purposes.

## DESCRIPTION OF THE COMPANY SECURITIES

*The following summary sets forth the material terms and provisions of the limited liability company interests of the Company, including the Class B Preferred Securities. This summary is qualified in its entirety by reference to the terms and provisions of the LLC Agreement.*

Upon the execution of the LLC Agreement, the Company will issue limited liability company interests consisting of the Company Common Security, the Class A Preferred Security and the Class B Preferred Securities. The Company Common Security and the Class A Preferred Security will initially be owned by Postbank and thereafter will be owned by a Postbank Group Company. All of the Class B Preferred Securities will be owned by the Trust. Postbank undertakes to maintain direct or indirect ownership of the Class A Preferred Security and the Company Common Security so long as any Class B Preferred Securities remain outstanding.

### **Company Common Security**

Subject to the rights of the holders of the Class B Preferred Securities to appoint the Independent Enforcement Director, all voting rights are vested in the Company Common Security. The Company Common Security is entitled to one vote per security. The Company Common Security, upon consummation of the Offering, will be held by a Postbank Group Company.

Capital Payments may be declared and paid on the Company Common Security only if all Capital Payments on the Class B Preferred Securities, if any, in respect of the relevant Capital Payment Period have been declared and paid. The Company does not expect to pay dividends on the Company Common Security.

In the event of the voluntary or involuntary liquidation, dissolution, termination or winding up of the Company, after the payment of all debts and liabilities and after there have been paid or set aside for the holders of all the Company Preferred Securities the full preferential amounts to which such holders are entitled, the holder of the Company Common Security will be entitled to share equally and *pro rata* in any remaining assets.

### **Class A Preferred Security**

The Class A Preferred Security of the Company will be non-voting. Capital payments on the Class A Preferred Security will be payable when, as and if declared by the Board of Directors; such a declaration will occur only to the extent the Board of Directors does not declare Capital Payments on the Class B Preferred Securities at the Stated Rate in full on any Capital Payment Date. The Company expects that the holder of the Class A Preferred Security will receive capital payments only to the extent that

- (i) Capital Payments are not permitted to be declared on the Class B Preferred Securities on any Capital Payment Date at the Stated Rate in full due to insufficient Distributable Profits of Postbank for the fiscal year preceding such Capital Payment Period or an order of the BaFin (or any other relevant regulatory authority) prohibiting Postbank from making any distribution of profits (including to the holders of Parity Securities, if any), and
- (ii) the Company has sufficient Operating Profits.

The Company currently does not intend to pay capital payments on the Class A Preferred Security. The payment of capital payments on the Class A Preferred Security is not a condition to the payment of Capital Payments on the Class B Preferred Securities.

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Company, the Class B Preferred Securities will rank junior to the Class A Preferred Security, and the Class B Preferred Securities will rank senior to the Company Common Security; *provided* that any payments made by Postbank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Class B Preferred Securities. Accordingly, upon any liquidation, the holder of the Class A Preferred Security will be entitled to receive a liquidation distribution of the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon). In the event of the liquidation of the Company, the Independent Enforcement Director will enforce the Support Undertaking solely for the benefit of the holders of the Class B



Preferred Securities and, with respect to the Company's rights under the Support Undertaking, the Class B Preferred Securities will rank senior to the Class A Preferred Security and payments thereunder will be distributed by the Company solely to the holders of the Class B Preferred Securities. For a description of the circumstances under which an Independent Enforcement Director may be elected, see "– Class B Preferred Securities – Voting and Enforcement Rights."

## **Class B Preferred Securities**

### ***General***

When issued, the Class B Preferred Securities will be validly issued, fully paid and non-assessable. The holders of the Class B Preferred Securities will have no pre-emptive rights with respect to any other securities of the Company. The Class B Preferred Securities will not have any scheduled maturity date, will not be redeemable at any time at the option of the holders thereof, will not be convertible into any other securities of the Company and will not be subject to any sinking fund or other obligation of the Company for their repurchase or redemption. The LLC Agreement prohibits the Company, without the consent of all holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by Postbank or any of its affiliates), from issuing any debt securities or any further class or series of equity securities ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights upon liquidation or dissolution of the Company, *provided, however*, that the Company may, from time to time, and without the consent of the holders of the Class B Preferred Securities, issue further Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (in all respects except for the issue date, the date as of which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

### ***Capital Payments***

Subject to the terms of the Trust Agreement and LLC Agreement, as applicable, Capital Payments will accrue on the liquidation preference amount of € 1,000 per Class B Preferred Security (i) from (and including) the Issue Date to (but excluding) the Reset Date at a fixed rate of 6.00 per cent. per annum (the "**Fixed Rate**") payable in arrears on the Reset Date and (ii) for each Capital Payment Period commencing on or after the Reset Date at the Reference Rate plus 0.025 per cent. per annum (the "**Floating Rate**"), payable semi-annually in arrears on June 2 and December 2 in each year, commencing on June 2, 2006, *provided* that no Capital Payment for any Capital Payment Period commencing on or after the Reset Date shall accrue at a rate of more than 8.00 per cent. per annum. For each Capital Payment Period, Capital Payments will be calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

If any Capital Payment Date or any Redemption Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day without adjustment, interest or further payment as a result thereof.

Capital Payments on the Class B Preferred Securities are expected to be paid out of the Company's Operating Profits or from payments received under the Support Undertaking. If the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, holders of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to pay a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, whether or not Capital Payments are declared (or deemed to have been declared) and paid on the Class B Preferred Securities in respect of any future Capital Payment Period.

Capital Payments on the Class B Preferred Securities will only be authorized to be declared and paid on any Capital Payment Date to the extent that



- (i) the Company has an amount of Operating Profits for the Capital Payment Period ending on the day immediately preceding such Capital Payment Date at least equal to the amount of such Capital Payments, and
- (ii) Postbank has an amount of Distributable Profits for the preceding fiscal year for which audited financial statements are available at least equal to the aggregate amount of such Capital Payments on the Class B Preferred Securities and capital payments, dividends or other distributions on Parity Securities, if any, *pro rata* on the basis of Distributable Profits for such preceding fiscal year.

Notwithstanding the foregoing, if Postbank or any of its subsidiaries declares or pays any capital payments, dividends or other distributions on any Parity Securities (excluding capital payments, dividends or other distributions by a subsidiary of Postbank exclusively to Postbank or a wholly-owned subsidiary of Postbank), the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities on the first Capital Payment Date falling contemporaneously with or immediately after the date on which such capital payment, dividend or other distribution was declared or made. If such capital payment, dividend or other distribution on such Parity Securities was in the full stated amount payable on such Parity Securities in the then current fiscal year through the Capital Payment Date, then Capital Payments will be deemed declared at the Stated Rate in full for the then current fiscal year through such Capital Payment Date. If such capital payment, dividend or other distribution on such Parity Securities was only a partial payment of the amount so owing, the amount of the Capital Payment deemed declared on the Class B Preferred Securities will be adjusted proportionally.

Further, notwithstanding the foregoing, if Postbank or any of its subsidiaries declares or pays Junior Distributions, the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities in amounts that vary according to how often the relevant Junior Securities pay capital payments, dividends or other distributions.

- If such Junior Securities pay Junior Distributions annually, the Capital Payments will be deemed declared for payment at the Stated Rate in full on the first two Capital Payment Dates falling contemporaneously with or immediately following the date on which such capital payment, dividend or other distribution was declared or made.
- If such Junior Securities pay Junior Distributions semi-annually, the Capital Payments will be deemed declared for payment at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was declared or made.
- If such Junior Securities pay Junior Distributions quarterly:
  - (i) if only one Junior Distribution was made in the Capital Payment Period preceding the Capital Payment Date, the Capital Payments will be deemed declared for payment in one half of the amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was declared or made, or
  - (ii) if two such Junior Distributions were made in such Capital Payment Period, the Capital Payments will be deemed declared for payment in the full amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was declared or made.

If Postbank or any of its subsidiaries redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration except by conversion into or exchange for shares of common stock of Postbank (other than (i) in connection with transactions effected by or for the account of customers of Postbank or any of its subsidiaries or in connection with the

distribution, trading or market-making in respect of such securities, (ii) in connection with the satisfaction by Postbank or any of its subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants, (iii) as a result of a reclassification of the capital stock of Postbank or any of its subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock or (iv) the purchase of fractional interests in shares of the capital stock of Postbank or any of its subsidiaries pursuant to the provisions of any security being converted into or exchanged for such capital stock), the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities at the Stated Rate in full for the first two Capital Payment Dates falling contemporaneously with and/or immediately following the date on which such redemption, repurchase or other acquisition occurred.

Despite sufficient Operating Profits of the Company and sufficient Distributable Profits of Postbank, the Company will not be permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the BaFin (or any other relevant regulatory authority) prohibiting Postbank from making any distribution of profits (including to the holders of Parity Securities, if any). The Company will have no obligation to make up, at any time, any Capital Payments not paid in full by the Company as a result of insufficient Operating Profits of the Company, insufficient Distributable Profits of Postbank or an order of the BaFin (or any other relevant regulatory authority).

In determining the availability of sufficient Distributable Profits of Postbank related to any fiscal year to permit Capital Payments to be declared with respect to the Class B Preferred Securities, any Capital Payments already paid on the Class B Preferred Securities and any capital payments, dividends or other distributions already paid on Parity Securities, if any, on the basis of such Distributable Profits for such fiscal year will be deducted from such Distributable Profits. Each Capital Payment declared (or deemed to be declared) on the Class B Preferred Securities will be payable to the holders of record as they appear on the books and records of the Company at the close of business on the corresponding record date. The record dates for the Class B Preferred Securities will be:

- for those Class B Preferred Securities held by the Property Trustee, so long as the Trust Preferred Securities remain in book-entry form, and for Class B Preferred Securities held in book-entry form, one Business Day prior to the relevant Capital Payment Date, and
- in all other cases, 15 calendar days prior to the relevant Capital Payment Date.

#### ***Payments of Additional Amounts***

All payments on the Class B Preferred Securities (including any amount payable in liquidation and any repayment upon redemption thereof) will be made without any deduction or withholding for or on account of Withholding Taxes, unless such deduction or withholding is required by law. The Company will pay, as additional Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Class B Preferred Securities and the Trust Preferred Securities, after any deduction or withholding for or on account of Withholding Taxes, will equal the amounts that would otherwise have been received in respect of the Class B Preferred Securities and the Trust Preferred Securities, respectively, in the absence of such withholding or deduction. No such Additional Amounts, however, will be payable in respect of the Class B Preferred Securities:

- (i) if and to the extent that the Company is unable to pay such Additional Amounts because such payment would exceed the Distributable Profits of Postbank for the preceding fiscal year (after subtracting from such Distributable Profits the amount of Capital Payments on the Class B Preferred Securities and any capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable);
- (ii) with respect to any Withholding Taxes that are payable by reason of the holder or beneficial owner of the Class B Preferred Securities (other than the Trust) or Trust

Preferred Securities having some connection with the Relevant Jurisdiction other than by reason only of the mere holding of the Trust Preferred Securities;

- (iii) with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union Directive on the taxation of savings (including the Directive adopted on June 3, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iv) with respect to any Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Class B Preferred Securities or the Trust Preferred Securities;
- (v) with respect to any Withholding Taxes that can be avoided if the holder or beneficial owner of Class B Preferred Securities or the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (vi) with respect to any Withholding Taxes that the holder or beneficial owner of the Class B Preferred Securities or Trust Preferred Securities can avoid by presenting the relevant Class B Preferred Securities or Trust Preferred Securities to another paying agent in a member state of the European Union; or
- (vii) with respect to any Withholding Taxes that would not have been imposed if the holder of the Class B Preferred Securities or Trust Preferred Securities would have presented the relevant Class B Preferred Securities or Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Class B Preferred Securities or Trust Preferred Securities for payment on the last day of such period of 30 days.

#### ***Voting and Enforcement Rights***

The Class B Preferred Securities will have no voting rights except as expressly required by applicable law or except as indicated below. In the event the holders of the Class B Preferred Securities are entitled to vote as indicated below, each Class B Preferred Security shall be entitled to one vote on matters on which holders of the Class B Preferred Securities are entitled to vote. In the event that

- (i) the Company fails to pay Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities at the Stated Rate in full as and when due for the first Capital Payment Period or subsequently for two consecutive Capital Payment Periods; or
- (ii) a holder of the Class B Preferred Securities has notified the Company that Postbank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent Enforcement Director. The Independent Enforcement Director will be appointed by resolution passed by a majority in liquidation preference amount of the holders of the Class B Preferred Securities entitled to vote thereon, as described in the LLC Agreement, present in person or by proxy at a separate general meeting of the holders of the Class B Preferred Securities convened for that purpose (which will be called at the request of any holder of a Class B Preferred Security entitled to vote thereon) or by a consent in writing adopted by a majority in liquidation preference amount of the holders of the Class B Preferred Securities entitled to vote thereon. Any Independent Enforcement Director so appointed will vacate office if, in such Independent Enforcement Director's sole determination:

- (i) the Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities have been made on the Class B Preferred Securities at the

Stated Rate in full by the Company for two consecutive Capital Payment Periods; and

- (ii) Postbank is in compliance with its obligations under the Support Undertaking.

Any such Independent Enforcement Director may be removed at any time, with or without cause by (and will not be removed except by) the vote of a majority in liquidation preference amount of the holders of the outstanding Class B Preferred Securities entitled to vote, at a meeting of the Company's securityholders, or of holders of the Class B Preferred Securities entitled to vote thereon, called for that purpose. If the office of the Independent Enforcement Director becomes vacant at any time during which the holders of a majority in liquidation preference amount of the Class B Preferred Securities are entitled to appoint an Independent Enforcement Director, the holders of a majority in liquidation preference amount of the Class B Preferred Securities will appoint an Independent Enforcement Director as provided above.

The Independent Enforcement Director will be an additional member of the Board of Directors referred to above and will have the sole authority, right and power to enforce and settle any claim of the Company under the Support Undertaking. However, the Independent Enforcement Director will have no right, power or authority to participate in the management of the business and affairs of the Company by the Board of Directors except for:

- actions related to the enforcement of the Support Undertaking on behalf of the holders of the Class B Preferred Securities, and
- the distribution of amounts paid pursuant to the Support Undertaking to the holders of the Class B Preferred Securities.

No director, including the Independent Enforcement Director, will be a resident of, or have his customary place of abode in, the Federal Republic of Germany.

So long as any Class B Preferred Securities are outstanding, the Company will not, without the affirmative vote of the holders of at least 66% per cent. in aggregate liquidation preference amount of the Class B Preferred Securities, voting separately as a class (excluding any Class B Preferred Securities held by Postbank or any of its affiliates, other than the Trust),

- (i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Class B Preferred Securities,
- (ii) agree to modify or amend any provision of the Debt Securities, or waive any default in the payment of any amount under the Debt Securities, in any manner that would have a material adverse effect on the interests of the holders of the Class B Preferred Securities, or
- (iii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, *provided* that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the requirements set forth under "– Mergers, Consolidations and Sales."

The Company will not, without the unanimous consent of all the holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by Postbank or any of its affiliates), issue any additional equity securities of the Company ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company *provided, however*, that the Company may, from time to time, and without the consent of the holders of the Class B Preferred Securities, issue additional Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (or in all respects except for the issue date, the date from which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Class B Preferred Securities in

consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

Notwithstanding that holders of the Class B Preferred Securities may become entitled to vote or consent under any of the circumstances described in the LLC Agreement or in the by-laws of the Company (the “**Bylaws**”), any of the Class B Preferred Securities that are owned by Postbank, the Company or any of their respective affiliates (other than the Trust), either directly or indirectly, will in such case not be entitled to vote or consent and will, for the purposes of such vote or consent, be treated as if they were not outstanding, except for Class B Preferred Securities purchased or acquired by Postbank or its subsidiaries or affiliates in connection with transactions effected by or for the account of customers of Postbank or any of its subsidiaries or affiliates or in connection with the distribution or trading of or market-making in connection with such Class B Preferred Securities in the ordinary course of business. However, certain persons (other than subsidiaries or affiliates of Postbank), excluding the Trust, to whom Postbank or any of its subsidiaries or affiliates have pledged Class B Preferred Securities may vote or consent with respect to such pledged Class B Preferred Securities to the extent permitted by the terms of such pledge.

### ***Redemption of the Class B Preferred Securities***

The Class B Preferred Securities are redeemable at the option of the Company, in whole or in part, on any Capital Payment Date falling on or after the Initial Redemption Date.

The Company will also have the right, at any time, to redeem the Class B Preferred Securities, in whole but not in part, upon the occurrence of a Company Special Redemption Event.

Any such redemption will be at a redemption price equal to (i) in the case of a redemption on or after the Initial Redemption Date, the liquidation preference amount of the Class B Preferred Securities being redeemed and (ii) in the case of a redemption prior to the Initial Redemption Date, the liquidation preference amount of the Class B Preferred Securities, in each case plus any accrued and unpaid Capital Payments for the then current Capital Payment Period up to, but excluding, the Redemption Date, plus Additional Amounts, if any.

No redemption of any Class B Preferred Securities for any reason may take place unless on the Redemption Date:

- (i) the Company has sufficient funds (by reason of the Debt Securities, Permitted Investments or the Support Undertaking) to pay the redemption price and to pay in full an amount corresponding to the Capital Payments accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any;
- (ii) the Debt Securities have been redeemed in an aggregate principal amount equivalent to the liquidation preference amount of the Class B Preferred Securities being redeemed;
- (iii) Postbank has an amount of Distributable Profits at least equal to the Capital Payments on the Class B Preferred Securities accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any; and
- (iv) no order of the BaFin (or any other relevant regulatory authority) is in effect prohibiting Postbank from making any distributions (including to the holders of Parity Securities, if any).

If the outstanding Class B Preferred Securities are to be redeemed in part, then the amount of the Class B Preferred Securities to be redeemed will be determined by the Board of Directors, and the securities will be redeemed by lot or *pro rata* as may be determined by the Board of Directors in its sole discretion to be equitable, *provided* that such method satisfies any applicable requirements of any securities exchange on which the Class B Preferred Securities may then be listed, and any rules of a relevant clearing corporation. In the case of a partial redemption, the Company will promptly notify the registrar and the transfer agent for the Class B Preferred Securities in writing of the Class B Preferred Securities selected for partial redemption and the liquidation preference amount thereof to be redeemed.



In the event that payment of the redemption price in respect of any Class B Preferred Securities, is improperly withheld or refused and not paid, Capital Payments on such Class B Preferred Securities will continue to accrue from the Redemption Date to the date of actual payment of such redemption price.

Any redemption of the Class B Preferred Securities, whether on a Capital Payment Date on or after the Initial Redemption Date or upon the occurrence of a Company Special Redemption Event, will not require the vote or consent of any of the holders of the Class B Preferred Securities.

### ***Redemption Procedures***

Notice of any redemption of the Class B Preferred Securities (a “**Redemption Notice**”) will be given by the Board of Directors on behalf of the Company by mail to the record holder of each Class B Preferred Security to be redeemed not fewer than 30 days before the date fixed for redemption, or such other time period as may be required by the relevant regulatory authorities. For purposes of the calculation of the Redemption Date and the dates on which notices are given pursuant to the LLC Agreement, a Redemption Notice will be deemed to be given on the day such notice is first mailed, by first-class mail, postage prepaid, to holders of the Class B Preferred Securities. Each Redemption Notice will be addressed to the holders of the Class B Preferred Securities at the address of each such holder appearing in the books and records of the Company. No defect in the Redemption Notice or in the mailing thereof with respect to any holder will affect the validity of the redemption proceedings with respect to any other holder.

If the Company gives a Redemption Notice (which notice shall be irrevocable) by 10:00 a.m., Central European time, on the Redemption Date, the Company, if the Class B Preferred Securities are in book-entry only form, will deposit irrevocably with the Principal Paying Agent funds sufficient to pay the redemption price and will give the Principal Paying Agent irrevocable instructions and authority to pay the redemption price in respect of the Class B Preferred Securities held through Clearstream AG, or if the Class B Preferred Securities are held in definitive form, will deposit with the Principal Paying Agent funds sufficient to pay the applicable redemption price and will give to the Principal Paying Agent irrevocable instructions and authority to pay such amounts to the holders of the Class B Preferred Securities, upon surrender of their certificates, by check, mailed to the address of the relevant holder of the Class B Preferred Securities appearing on the books and records of the Company on the Redemption Date.

However, for so long as the Property Trustee holds the Class B Preferred Securities, payment will be made by wire in same day funds to the holder of the Class B Preferred Securities by 12:00 noon, Central European time, on the Redemption Date. Upon satisfaction of the foregoing conditions, then immediately prior to the close of business on the date of payment, all rights of the holders of the Class B Preferred Securities so called for redemption will cease, except the right of the holders to receive the redemption price, but without interest on the redemption price, and from and after the date fixed for redemption, such Class B Preferred Securities will not accrue Capital Payments or bear interest.

If any Redemption Date falls on a day that is not a Business Day, payment of all amounts otherwise payable on such date will be made on the next succeeding Business Day, without adjustment, interest or further payment as a result of such delay in payment.

### ***Repurchase of Class B Preferred Securities.***

The Company may, subject to the LLC Act, from time to time repurchase or otherwise receive for cancellation outstanding Class B Preferred Securities from the Trust on such terms as an officer designated by the Board of Directors determines; *provided* that (i) so long as Trust Preferred Securities of the Trust are outstanding, the Trust has repurchased or otherwise received for cancellation Trust Preferred Securities in a like aggregate Liquidation Preference Amount, on the same terms (including payment of Capital Payments at the Stated Rate through the same date) as the Class B Preferred Securities being repurchased, (ii) Postbank has repurchased or otherwise cancelled an aggregate principal amount of the Initial Debt Securities equal to the aggregate liquidation preference amount of the Class B Preferred Securities being repurchased or cancelled on the same terms (including payment of accrued interest on the Initial Debt Securities through the same date), as the repurchase or cancellation of the Class B Preferred Securities and



(iii) Postbank, the Trust and the Company have received all governmental authorizations required in connection with such transactions. All Class B Preferred Securities so repurchased or otherwise received will be cancelled and no longer deemed to be outstanding.

### **Liquidation Distribution**

Upon liquidation of the Company, the holder of the Class A Preferred Security has a claim senior to that of the holders of the Class B Preferred Securities, and the holders of the Class B Preferred Securities have a claim senior to that of the holder of the Company Common Security; *provided* that any payments made by Postbank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Class B Preferred Securities. The holder of the Class A Preferred Security will be entitled to receive the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon) as its liquidation distribution.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Class B Preferred Securities will, subject to the limitations described below, be entitled to receive the liquidation preference amount of such Class B Preferred Securities, plus, in each case, accrued and unpaid Capital Payments in respect of the current Capital Payment Period to, but excluding the date of liquidation, dissolution or winding up, and Additional Amounts, if any. The Company expects that the liquidation distribution to the holders of the Class B Preferred Securities will be paid out of funds received from the Support Undertaking. The holders of the Class B Preferred Securities will be entitled to receive their liquidation distribution before any distribution of assets is made to the holder of the Company Common Security. Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Company will not be dissolved until all obligations under the Support Undertaking have been paid in full pursuant to its terms.

### **Mergers, Consolidations and Sales**

The Company may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other body, except as described below. The Company may, with the consent of the holders of the Class B Preferred Securities, consolidate, amalgamate, merge with or into, or be replaced by a limited partnership, limited liability company or trust organized as such under the laws of any state of the United States of America, *provided* that:

- such successor entity either expressly assumes all of the obligations of the Company under the Class B Preferred Securities or substitutes for the Class B Preferred Securities other securities having substantially the same terms as the Class B Preferred Securities (the “**Company Successor Securities**”) so long as the Company Successor Securities are not junior to any equity securities of the successor entity, with respect to participation in the profits, distributions and assets of the successor entity, except that they may rank junior to the Class A Preferred Security or any successor Class A Preferred Security to the same extent that the Class B Preferred Securities rank junior to the Class A Preferred Security;
- Postbank expressly acknowledges such successor entity as the holder of the Debt Securities and holds, directly or indirectly, all of the voting securities (within the meaning of Rule 3a-5 under the 1940 Act) of such successor entity;
- such consolidation, amalgamation, merger or replacement does not adversely affect the powers, preferences and other special rights of the holders of the Trust Preferred Securities or Class B Preferred Securities (including any Company Successor Securities) in any material respect;
- such successor entity has a purpose substantially identical to that of the Company;
- prior to such consolidation, amalgamation, merger or replacement, the Company has received an opinion of a nationally recognized law firm in the United States of America experienced in such matters to the effect that:
  - such successor entity will be treated as a partnership, and will not be classified as an association or a publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes,

- such consolidation, amalgamation, merger or replacement would not cause the Trust to be classified as other than a grantor trust for U.S. federal income tax purposes,
- following such consolidation, amalgamation, merger or replacement, such successor entity will not be required to register under the 1940 Act, and
- such consolidation, amalgamation, merger or replacement will not adversely affect the limited liability of the holders of the Class B Preferred Securities; and
- Postbank provides an undertaking to the successor entity under the Company Successor Securities equivalent to that provided by the Support Undertaking with respect to the Class B Preferred Securities.

### **Book-entry and Settlement**

If the Class B Preferred Securities are distributed to holders of the Trust Preferred Securities in connection with the involuntary or voluntary liquidation, dissolution, winding up or termination of the Trust, the Company and Postbank will use reasonable efforts to arrange for the Class B Preferred Securities to be issued in the form of one or more global certificates (each a “**Global Security**”) registered in the name of Clearstream AG. As of the date of this Sales Prospectus, the description herein of Clearstream AG’s book-entry system and practices as they relate to purchases, transfers, notices and payments with respect to the Trust Preferred Securities will apply in all material respects to any Class B Preferred Securities represented by one or more Global Securities.

### **Registrar and Transfer Agent**

Postbank will also act as the registrar and transfer agent for the Class B Preferred Securities. Registration of transfers of the Class B Preferred Securities will be effected without charge by or on behalf of the Company, but upon payment (with the giving of such indemnity as the transfer agent for the Class B Preferred Securities may require) in respect of any tax or other governmental charges that may be imposed in relation to it. After such Class B Preferred Securities have been called for redemption, the transfer agent for the Class B Preferred Securities will not be required to register or cause to be registered the transfer of the Class B Preferred Securities.

### **Governing Law**

The LLC Agreement and the Class B Preferred Securities will be governed by, and construed in accordance with, the laws of the State of Delaware, United States of America.

### **Miscellaneous**

The Board of Directors is authorized and directed to conduct the affairs of the Company in such a way that (i) the Company will not be deemed to be required to register under the 1940 Act, and (ii) the Company will not be treated as an “association” or as a “publicly traded partnership” (within the meaning of Section 7704 of the Code) taxable as a corporation for U.S. federal income tax purposes. In this connection, the Board of Directors is authorized to take any action, not inconsistent with applicable law or the LLC Agreement, that the Board of Directors determines in its discretion to be necessary or desirable for such purposes, so long as such action does not adversely affect the interests of the holders of the Class B Preferred Securities.

The Class B Preferred Securities may not be purchased by or transferred to any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4975 of the Code, or any entity whose underlying assets include the assets of any such employee benefit plans, plans or arrangements.

## DESCRIPTION OF THE SUPPORT UNDERTAKING

*The following summary sets forth the material terms and provisions of the Support Undertaking. This summary is qualified in its entirety by reference to the terms and provisions of such agreement, which is included herein as Appendix A.*

Postbank and the Company will enter into the Support Undertaking prior to the issuance of the Class B Preferred Securities, pursuant to which Postbank will undertake that (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Capital Payments declared (or deemed declared) on the Class B Preferred Securities (plus Additional Amounts thereon, if any) and any payment due on redemption of the Class B Preferred Securities and (ii) in liquidation or dissolution of the Company, the Company will have sufficient funds to pay the liquidation preference amounts of the Class B Preferred Securities, plus any accrued and unpaid Capital Payments for the then current Capital Payment Period up to, but excluding, the date of liquidation or dissolution, and Additional Amounts, if any. Postbank will also undertake not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, any other preference shares or similar instruments of any other affiliated entity that would rank senior in any regard to the Support Undertaking, unless the Support Undertaking is amended so that it ranks at least *pari passu* with and contains substantially equivalent rights of priority as to payment as any such other guarantee or other support agreement. So long as any Class B Preferred Securities remain outstanding, the Support Undertaking may not be modified or terminated without the consent of the holders of the Class B Preferred Securities except for such modifications that are not adverse to the interests of the holders of the Class B Preferred Securities. **The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare a Capital Payment or other distribution.**

Postbank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of Postbank (including profit participation rights (*Genussrechte*)), will rank at least *pari passu* with each class of the most senior ranking preference shares, if any, and other instruments of Postbank qualifying as Tier I regulatory capital, and will rank senior to any other preference shares and the common shares of Postbank.

The holders of the Class B Preferred Securities will be third-party beneficiaries of the Support Undertaking. As titleholder of the Class B Preferred Securities for the benefit of the holders of the Trust Securities, the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Class B Preferred Securities under the Support Undertaking. If a holder of the Class B Preferred Securities has notified the Company that Postbank has failed to perform any obligation under the Support Undertaking, and such failure continues for 60 days or more after such notice is given, the holders of a majority in liquidation preference amount of the Class B Preferred Securities (and, accordingly, the holders of the Trust Preferred Securities representing Class B Preferred Securities acting through the Property Trustee) will have the right to appoint the Independent Enforcement Director, who will be required to enforce the rights of the Company under the Support Undertaking.

All payments under the Support Undertaking will be distributed by the Company *pro rata* to holders of the Class B Preferred Securities until the holders of the Class B Preferred Securities receive the full amount payable under the Class B Preferred Securities. So long as the Trust holds Class B Preferred Securities, the Property Trustee will distribute such payments received by the Trust to the holders of the Trust Preferred Securities *pro rata*.

The Support Undertaking will be governed by the laws of the Federal Republic of Germany.

## DESCRIPTION OF THE INITIAL DEBT SECURITIES

*The following summary sets forth the material terms and provisions of the Initial Debt Securities. This summary is qualified in its entirety by reference to the terms and provisions of the Initial Debt Securities.*

### General

The Principal Amount of the Initial Debt Securities will be € 300,027,000 and will be equal to the sum of the aggregate liquidation preference amount of the Class B Preferred Securities plus certain amounts contributed by Postbank in return for the Class A Preferred Security and the Company Common Security. The proceeds from the issuance of the Class B Preferred Securities, together with the € 1,000 contributed by Postbank in return for the Class A Preferred Security and € 25,000 contributed by Postbank for the Company Common Security, will be used by the Company to purchase the Initial Debt Securities. The purchase of the Initial Debt Securities will occur contemporaneously with the issuance of the Class B Preferred Securities. The Initial Debt Securities will not be listed on any stock exchange

The Initial Debt Securities will consist of an issue of subordinated notes issued by Postbank, which will mature on December 2, 2034 (the “**Maturity Date**”) *provided*, however, that the Initial Debt Securities do not include any obligation of Postbank shown as a liability on the books of a U.S. branch of Postbank.

Interest will accrue on the Principal Amount of the Initial Debt Securities (i) from (and including) the Issue Date to (but excluding) the Reset Date at a fixed rate of at least 6.00 per cent. per annum payable in arrears on the Reset Date and (ii) for each Interest Payment Period commencing on or after the Reset Date at a rate of at least 0.025 per cent. per annum above the Reference Rate for such Interest Payment Period, payable semi-annually in arrears on June 2 and December 2 in each year, commencing on June 2, 2006, *provided* that no interest payment for any Interest Payment Period commencing on or after the Reset Date shall accrue at a rate of more than 8.00 per cent. per annum. For each Interest Payment Period, interest will be calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

If any Interest Payment Date or any Debt Redemption Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day, without adjustment, interest or further payment as a result thereof.

Payment of interest on the Initial Debt Securities and any repayment upon redemption thereof will be made without deduction or withholding for Withholding Taxes imposed by the Federal Republic of Germany or the jurisdiction of residence of any obligor of the Debt Securities or any other jurisdiction from which such payment is made or, in each case, any political subdivision or authority therein or thereof unless such deduction or withholding is required by law. In such event, Postbank or any other obligor will pay as additional interest such additional amounts (“**Additional Interest Amounts**”) as may be necessary in order that the net amounts received by the Company will equal the amounts that otherwise would have been received had no such withholding or deduction been required; *provided* that the obligation of Postbank or such obligor to pay such Additional Interest Amounts shall not apply:

- with respect to any Withholding Taxes that are payable by reason of the holder of the Initial Debt Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Initial Debt Securities;
- with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union Directive on the taxation of savings (including the Directive adopted on June 3, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive;
- with respect to any Withholding Taxes imposed on account of any personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Initial Debt Securities; or

- with respect to any Withholding Taxes that can be avoided if the holder of the Initial Debt Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

The Initial Debt Securities will not be redeemable prior to December 2, 2010, except as set forth below. Subject to having obtained any required regulatory approvals, Postbank may cause the redemption of the Initial Debt Securities in whole but not in part prior to December 2, 2010, upon: (i) the occurrence of a Company Special Redemption Event and the election of the Company to redeem the Class B Preferred Securities and (ii) at least 30 days' prior notice.

Subject to having obtained any required regulatory approvals, Postbank may also, at its option, redeem the Initial Debt Securities, in whole or in part, on any Debt Redemption Date, upon at least 30 days' prior notice, *provided* that the Company is permitted under the LLC Agreement and has elected to redeem an equivalent amount of the Class B Preferred Securities.

Any redemption will be at a redemption price equal to the Principal Amount to be redeemed plus accrued and unpaid interest thereon, and Additional Interest Amounts, if any.

In the event of any default in payment or the default in performance of any other covenant of Postbank on the Initial Debt Securities, the Company will enforce its rights for payment of any overdue amounts, but will not be able to accelerate the maturity of the Initial Debt Securities.

### **Subordination**

The Initial Debt Securities constitute direct, unconditional, unsecured and subordinated obligations of Postbank ranking *pari passu* with all other subordinated obligations of Postbank. In the event of dissolution, liquidation, bankruptcy, composition or other proceedings for the avoidance of bankruptcy of, or against, Postbank, such obligations will be subordinated to the claims of all unsubordinated creditors of Postbank so that in any event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of Postbank shall have been satisfied in full.

The Company, as the holder of the Initial Debt Securities, will also agree by its acceptance thereof that it waives any rights it may have to set off claims under the Initial Debt Securities against claims Postbank may have against it. Pursuant to § 10, subparagraph (5a) of the German Banking Act (*Kreditwesengesetz*), if Postbank repurchases or repays the Initial Debt Securities prior to a date on which such repurchase or repayment is permitted under the terms thereof, notwithstanding any agreements to the contrary, any amounts so paid to a holder of the Initial Debt Securities must be returned to Postbank unless the Principal Amount is replaced with at least equivalent own funds (*haftendes Eigenkapital*) or prior approval of the BaFin applies.

The obligations of Postbank under the Initial Debt Securities may not be secured by any lien, security interest or other encumbrance on any property of Postbank or any other person and, except as permitted by applicable law, Postbank will not, directly or indirectly, acquire for its own account, finance for the account of any other person the acquisition of, or accept as security for any obligation owed to it, any of the Initial Debt Securities. Postbank is also prohibited from amending the terms of the Initial Debt Securities to limit the subordination provisions or change the Initial Redemption Date to an earlier date.

### **Substitution**

At any time, Postbank will have the right to (i) substitute as obligor of the Debt Securities any Qualified Subsidiary, or (ii) replace the Debt Securities with Substitute Debt Securities issued by Postbank (including on behalf of a branch other than a U.S. branch) or by a Qualified Subsidiary (including on behalf of a branch other than a U.S. branch), in each case, with identical terms to those of the Initial Debt Securities; *provided*, in each case, that (a) such substitution or replacement does not result in a Company Special Redemption Event, (b) Postbank, unless it itself is the substitute obligor, guarantees on a subordinated basis that ranks at least *pari passu* with the Initial Debt Securities the obligations of the substitute obligor (as provided below), and (c) for this purpose, a Qualified Subsidiary does not include a subsidiary organized under the laws of the United States of America or any of its states.



In the event that Postbank is not the substitute obligor, Postbank shall guarantee the principal of and interest on the Substitute Debt Securities. The obligations of Postbank under such guarantee will be subordinated in the event of liquidation of Postbank to all obligations of Postbank that are not subordinated. All payments by Postbank under such guarantee will be made by Postbank without withholding or deduction for Withholding Taxes unless such deduction or withholding is required by law. In such event, Postbank or any other obligor will pay Additional Interest Amounts as may be necessary in order that the net amounts received by the Company will equal the amounts that otherwise would have been received had no such withholding or deduction been required; *provided* that the obligation of Postbank or such obligor to pay such Additional Interest Amounts shall not apply:

- with respect to any Withholding Taxes that are payable by reason of the holder of the Substitute Debt Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Substitute Debt Securities;
- with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union Directive on the taxation of savings (including the Directive adopted on June 3, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive;
- with respect to any Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Substitute Debt Securities; or
- with respect to any Withholding Taxes that can be avoided if the holder of the Substitute Debt Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

#### **Redemption and Reinvesting of Proceeds**

After the Maturity Date, if the Class B Preferred Securities have not been redeemed, the Company will invest the net proceeds from the repayment of the Debt Securities in Permitted Investments. The Company will attempt to purchase Permitted Investments on terms that are the best available in relation to providing funds for the payment of Capital Payments and the redemption of the Class B Preferred Securities:

- debt obligations of one or more Qualified Subsidiaries, unconditionally guaranteed by Postbank (which may act through a non-German branch), on a basis that ranks at least *pari passu* with the Initial Debt Securities or
- in United States Treasury securities.

#### **Governing Law**

The Initial Debt Securities will be governed by the laws of the Federal Republic of Germany.



## TIER I CAPITAL AND CAPITAL ADEQUACY

Postbank expects to treat the Class B Preferred Securities or, as the case may be, the Trust Preferred Securities, as consolidated Tier I regulatory capital for purposes of measuring regulatory capital adequacy.

Regulatory capital adequacy is monitored by the Postbank Group on the basis of the German Banking Act (*Kreditwesengesetz*) and the principles on regulatory banking capital issued thereunder.

The capital ratios under the German Banking Act (*Kreditwesengesetz*) compare a bank's regulatory capital with its counterparty and market risk. Counterparty risk is measured by assets and off-balance sheet exposures weighted according to broad categories of relative credit risk. The counterparty risk of derivatives is marked to market daily.

A bank's regulatory capital is divided into three tiers (Tier I capital, Tier II capital and Tier III capital). Tier I capital consists primarily of share capital and reserves. Certain hybrid capital instruments (such as the Class B Preferred Securities) have been accepted by the BaFin as Tier I capital on a consolidated basis. Tier II capital consists primarily of participatory capital, long-term subordinated liabilities and revaluation reserves for listed securities. Tier III capital is made up mainly of short-term, subordinated liabilities. The minimum BIS total capital ratio (Tier I + Tier II + Tier III) is 8 per cent. of the risk position, and the minimum BIS core (Tier I) capital ratio is 4 per cent. of the risk position. Under the guidelines set forth by directives of the Bank for International Settlements ("**BIS**"), the amount of subordinated debt that may be included as Tier II capital is limited to 50 per cent. of Tier I capital and total Tier II capital is limited to 100 per cent. of Tier I capital.

For further information, see "Postbank Group – Regulation."

## CAPITALIZATION OF POSTBANK AND POSTBANK GROUP

The following tables set forth the unaudited consolidated and unconsolidated capitalization and regulatory capitalization of Postbank as of September 30, 2004, on an actual basis and as adjusted to reflect the completion of the Offering. Postbank currently calculates its regulatory banking capital solely on the basis of the provisions of the German Banking Act. Postbank has so far not calculated capital adequacy ratios in accordance with the rules specified by the Basle Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements (BIS) because the focus of its activity is on the Federal Republic of Germany and it is only active internationally to a limited extent. For information on the financial condition of Postbank as of September 30, 2004, see the Consolidated Financial Statements included herein.

	As of September 30, 2004	As adjusted
	(€ in millions)	
<b>Capitalization (consolidated)<sup>(1)</sup></b>		
Amounts owed to other banks <sup>(2)</sup> .....	7,462	7,462
Amounts owed to customers <sup>(2)</sup> .....	9,775	9,775
Promissory notes and other securitized obligations <sup>(2)</sup> .....	12,120	12,120
Subordinated liabilities .....	1,958	2,258
Minority interests .....	14	14
Shareholders' equity:		
Share capital .....	410	410
Share premium .....	1,157	1,157
Retained earnings .....	2,635	2,635
Unappropriated surplus .....	291	291
Total shareholders' equity .....	4,493	4,493
<b>Total capitalization</b> .....	35,822	36,122
Contingent liabilities		
On guarantees and warranties .....	1,843	1,843
Other obligations		
Irrevocable loan commitments .....	13,512	13,512

(1) In accordance with IFRS.

(2) Total capitalization includes amounts owed to banks, amounts owed to customers and securitized obligations with remaining contractual terms of at least one year.

	As of September 30, 2004	As adjusted
	(€ in millions)	
<b>Capitalization (unconsolidated)<sup>(1)</sup></b>		
Amounts owed to other banks <sup>(2)</sup> .....	7,462	7,462
Amounts owed to customers <sup>(2)</sup> .....	9,721	9,721
Promissory notes and other securitized obligations <sup>(2)</sup> .....	8,648	8,648
Subordinated liabilities .....	1,388	1,688
Shareholders' equity:		
Share capital .....	410	410
Contributions of silent partners .....	87	87
Share premium .....	1,159	1,159
Retained earnings .....	262	262
Reserves for own shares .....	2	2
Unappropriated surplus .....	184	184
Total shareholders' equity .....	2,104	2,104
<b>Total capitalization</b> .....	29,323	29,623
Contingent liabilities .....	4,051	4,051
Irrevocable loan commitments .....	12,599	12,599

(1) In accordance with HGB.

(2) Total capitalization includes amounts owed to banks, amounts owed to customers and securitized obligations with remaining contractual terms of at least one year.

	As of September 30, 2004	As adjusted
	(€ in millions)	
<b>1. Regulatory capital of Postbank (unconsolidated)</b>		
Core capital.....	3,047	3,047
Paid-up capital .....	410	410
Reserves .....	1,423	1,423
Contributions to capital by silent partners.....	51	51
Items for general banking risks (Section 340g German Commercial Code) .....	1,165	1,165
Own shares .....	-2	-2
Supplementary capital.....	2,092	2,237
Unrealized reserves in securities.....	354	354
Liabilities represented by profit participation rights .....	359	359
Longer-term subordinated liabilities.....	1,379	1,524 <sup>(1)</sup>
Liable equity capital – Postbank .....	5,139	5,284
Tier III capital .....	0	155
<b>Total regulatory capital – Postbank .....</b>	<b>5,139</b>	<b>5,439</b>

(1) Because longer-term subordinated liabilities are limited to 50 per cent. of the amount of Tier I capital (see “Postbank Group – Regulation”), only a portion of the proceeds from the issuance of the Initial Debt Securities can be accounted for as Tier II capital on unconsolidated basis. The remaining amount is accounted for as a Tier III capital.

<b>2. Regulatory capital of the Postbank Group (consolidated)</b>		
Core capital.....	2,786	3,086
Paid-up capital .....	410	410
Reserves .....	1,295	1,295
Hybrid capital (Trust Preferred Securities) .....	0	300
Contributions to capital by silent partners.....	51	51
Items for general banking risks (Section 340g German Commercial Code) .....	1,165	1,165
Own shares .....	-2	-2
Intangible Assets .....	-133	-133
Supplementary capital.....	2,083	2,094
Unrealized reserves in securities.....	384	384
Liabilities represented by profit participation rights .....	359	359
Longer-term subordinated liabilities.....	1,393	1,404 <sup>(1)</sup>
Adjustment item .....	-53	-53
Liable equity capital – Postbank Group.....	4,869	5,180
Tier III capital .....	11	0
<b>Total regulatory capital – Postbank Group .....</b>	<b>4,880</b>	<b>5,180</b>

(1) Original maturity five years and more. On consolidated basis, the proceeds from the issuance of the Trust Preferred Securities increase Tier I capital. Consequently, Tier III capital that qualifies as longer-term subordinated liabilities (Tier II capital) but could not be accounted for as such because of the limit of 50 per cent. of the amount of Tier I capital, is now accounted for as Tier II capital.

For silent partnership agreements see “Postbank Group – Capital – Typical silent partnerships of five German insurance companies”.

## POSTBANK GROUP

### Business

#### Overview

With approximately 12 million active customers and approximately 4.8 million checking accounts, Postbank is the largest retail bank (single institution) in the Federal Republic of Germany. As a result of its strategic reorientation and acquisitions, in particular of DSL Bank in 2000, Postbank has evolved from a public agency into a modern retail bank. As of September 30, 2004, the sum of the amounts due to customers amounted to € 78.5 billion (December 31, 2003: € 73.9 billion; December 31, 2002: € 66.7 billion). The total credit extended to customers totaled € 47.5 billion as of September 30, 2004 (December 31, 2003: € 43.3; December 31, 2002: € 43.9 billion). In the first nine months of 2004, Postbank Group generated income before taxes of € 449 million (first nine months of 2003: € 324 million; 2003: € 497 million; 2002: € 399 million).

Postbank Group has organized its operations into the following business segments:

- **Retail Banking:** Through its Retail Banking business segment, which generated income before taxes of € 343 million in the first nine months of 2004 (first nine months of 2003: € 259 million; 2003: € 381 million; 2002: € 203 million), Postbank Group offers its approximately 12 million private and business customers (self-employed persons and persons engaged in a trade or business with annual external revenues of up to € 2.5 million) a broad range of banking and financial services that are largely standardized and geared toward typical needs. Postbank Group's core market is the Federal Republic of Germany, which is continental Europe's largest retail banking market in terms of the volume of banking sector revenues. In addition to the checking account and savings business, in which Postbank Group traditionally has a strong position, the product range of Postbank Group covers real estate finance, installment loans, credit and debit cards, brokerage of home savings and loan contracts (*Bausparverträge*), securities brokerage and custody service, mutual funds and life and casualty insurance.
- **Corporate Customers:** Postbank Group's Corporate Customers business segment includes approximately 40,000 large and medium-sized businesses (companies with annual external revenues of at least € 2.5 million) and generated income before taxes of € 106 million in the first nine months of 2004 (first nine months of 2003: € 88 million; 2003: € 118 million; 2002: € 93 million). The Payment Solutions business unit provides services relating to payment transactions, offers Postbank Group customers products for the short-term investment of liquidity surplus and provides credit lines to support the clearance of payments. The business unit Selective Commercial Finance is active in the field of national and international commercial finance (in North America through the PB Capital Group) as well as in factoring and leasing, and it also provides customers with financings along the logistics value chain, such as the financing of logistics-related real estate.
- **Financial Markets:** The Financial Markets business segment, which generated income before taxes of € 82 million in the first nine months of 2004 (first nine months of 2003: € 78 million; 2003: € 96 million; 2002: € 117 million) is mainly responsible for managing Postbank Group's money and capital markets transactions and the associated interest rate and market risks (particularly stock, currency, credit spread (from corporate and high-yield bonds), and volatility risks) as well as liquidity risks. In addition, this business segment is also responsible for making a contribution to Postbank Group's results by engaging in so-called own-account business. Postbank regards own-account business as covering the management of the historical issuance business of the former DSL Bank, meaning the debt financing raised by DSL Bank in connection with the refinancing of its loan business, as well as proprietary trading and treasury activities typically carried on by banks. Banking business conducted out of Luxembourg as well as fund management and administration activities relating to Postbank's retail mutual funds and institutional investment funds (*Spezialfonds*) are also allocated to the Financial Markets business segment.
- **Transaction Banking:** The newly established Transaction Banking business segment offers organizational and technical services relating to the clearance and processing of domestic and cross-border payment transactions and generated income before taxes of € 3 million

in the first nine months of 2004. In addition to the acceptance and processing of payment instructions, these services encompass clearing, the booking of entries, archiving and the handling of complaints. The Transaction Banking business segment provides these services on an intra-group basis to other business segments. In addition, Postbank Group recently acquired a subsidiary of Dresdner Bank AG through which it has been handling all domestic and cross-border payment transactions for Dresdner Bank AG, as its first external customer, since May 1, 2004. In July 2004, Postbank Group also acquired a subsidiary of Deutsche Bank AG through which it now handles domestic and standardized Euro-denominated payment transactions for Deutsche Bank AG.

- **Other:** The business segment Other, which generated a loss before taxes of €–85 million in the first nine months of 2004 (first nine months of 2003: €–101 million; 2003: €–98 million; 2002: €–14 million), includes the results of Postbank Group's own account business and treasury activities. In addition, the historical issuance business of DSL Bank and the portion of provisions for losses on loans and advances in the Retail Banking, Corporate Customers and Financial Markets business segments that exceeds standard loan loss costs are accounted for in this segment.

In addition, Postbank Group carries on the "fiduciary business" (*Treuhandgeschäft*) of former DSL Bank. This business consists of the management by Postbank Group, on the basis of agency agreements as well as administrative guidelines and instructions issued by the Federal Republic of Germany and the Federal States (*Bundesländer*), of public funds made available for disbursement in the form of development loans. These development loans primarily serve to finance measures relating to the integration of farmers who fled or were expelled from former German territories as well as to effect improvements in the structure of farming and the protection of the coastline. Postbank Group bears no credit risk in connection with these loans.

### **Strategy**

Postbank has set itself the following goals:

- **Expansion of its market position in the retail banking business.** In the Retail Banking business segment, Postbank intends to acquire new customers primarily through its offering of checking account and savings products. By means of a series of measures, such as further improving customer advice and support, rounding off the product range and intensifying the marketing of the entire product range, Postbank wants to increase the number of products and services sold per customer and increase sales of products requiring more advice. These measures are aimed at increasing the average profit per customer. In order to further expand its retail business, especially in consumer credit, Postbank intends to continue acquiring loan portfolios or other banks. In addition, consumer loans are to be marketed more intensively through external agents under the "DSL" brand.
- **Selective increase of services in the corporate customers business.** In the corporate customers business, Postbank intends to continue focusing on selected banking and financial services. In the business unit Payment Solutions, Postbank wants to consolidate its leading market position, in particular by launching new products for electronic and internet-based payment transfers and result-oriented support to its customers. In the business unit Selective Commercial Finance, Postbank intends to continue operating in the areas of national and international commercial finance while maintaining its current conservative risk strategy. Postbank also aims to further develop its logistics finance activities.
- **Taking over the processing of payment transactions for third parties (Transaction Banking).** Postbank intends to establish itself as a partner for banks with respect to the clearance of payment transactions. A first important step toward expanding this business is the processing of payment transactions for Dresdner Bank AG and Deutsche Bank AG.
- **Retention of relatively low credit risk profile.** Postbank does not intend to change its relatively low credit risk profile in the future. Lending by the Retail Banking business segment will continue to focus on real estate finance in the future while the Corporate

Customers business segment will carry on providing commercial finance on a selective basis.

## **Retail Banking**

### *Products and Services*

Through its Retail Banking business segment, Postbank Group offers its customers a broad range of products that are to a large extent standardized and geared towards typical needs with a focus on the traditional checking account and savings business.

- **Payment transfers.** Postbank Group is one of the Federal Republic of Germany's leading providers of domestic payment transfer services:
  - **Checking accounts:** "*Giro Plus*", which does not carry a fee provided that at least € 1,250 per month is paid into the account, is one of Postbank Group's most important products. "*Business Giro*" is a checking account that is geared towards the needs of business customers. Postbank Group grants private and business customers overdraft facilities to ensure the smooth processing of payment transfers.
  - **Credit and debit cards:** Postbank Group offers its customers bank and debit cards as well as Visa or MasterCard credit cards, both in the form of a charge card (the customer repays the amounts paid with the card to Postbank Group each month) as well as in the form of a "genuine" credit card (the customer is essentially free to choose what partial payments he will make in repaying sums paid with the card within a certain credit limit).
- **Savings and investment products:**
  - **Savings products:** Postbank Group saving products are geared toward basic customer needs relating to the accumulation of capital and to investment. Standardization as well as the IT-supported handling and management of products contribute to cost efficiency. Given its strong market position in savings products, Postbank Group was able to profit from stock market weakness over the past three years and from the resulting increase in customer needs for safe forms of investment. If stock market recovery gains momentum, this trend might, however, be reversed and result in an outflow of savings volume.
  - **Securities and funds:** Through mutual fund companies Postbank Group manages mutual funds (retail mutual funds). In addition to these retail mutual funds of its own, Postbank Group offers its customers an extensive range of third-party funds that are managed by fund companies not affiliated with Postbank Group. Furthermore, Postbank Group offers to its customers securities custody and brokerage services.
  - **Insurance:** Since 1999, Postbank Group has been offering selected insurance products for pension planning and risk coverage purposes through two joint ventures with Talanx AG, a subsidiary of HDI Haftpflichtverband der Deutschen Industrie VVaG. The product range essentially covers life insurance, pension insurance and casualty insurance. Postbank Group is currently holding talks with Talanx AG on possible changes to this cooperation.
  - **Building savings and loan products:** The brokerage of building savings and loan contracts in cooperation with Wüstenrot & Württembergische Aktiengesellschaft rounds off the product range in the field of savings and investment products.
- **Loans:**
  - **Real estate finance:** Postbank Group offers real estate finance with an emphasis on private residential property under two brands: "*DSL*" and "*Postbank Baufinanzierung*". The dual brand strategy enables Postbank Group to vary its real estate finance pricing structure depending on customer group and product complexity.
  - **Loans to retail customers:** With respect to retail customer loans, Postbank Group also offers a largely standardized installment loan through all its distribution channels. These installment loans generally have terms of between 12 and 84 months. The average sum



lent per customer is below € 10,000 with the maximum amount of any loan generally not exceeding € 25,000. These loans are largely unsecured.

### ***Customers and Distribution***

As a so-called multi-channel bank, Postbank distributes its products through various channels, that is, through branch outlets of Deutsche Post AG, call centers, the internet, mailings, mobile asset management advisors and, in the case of real estate finance in particular, agents and cooperation partners. Customers can essentially choose freely between the various distribution channels available.

- **Branch outlet network.** Postbank Group exclusively uses the Deutsche Post AG branch outlet network. Postbank Group products are currently offered in more than 9,000 branch outlets, including approximately 780 Postbank Centers. These Postbank Centers generated approximately 70 per cent. of new business in 2003 in the fixed sales channel. Postbank Group products and services are distributed through the Deutsche Post AG branch outlet network on the basis of a cooperation agreement concluded effective January 1, 2002. See “– Relationships with Related Parties”.
- **Call centers.** Postbank Group operates six call centers. For telephone call handling, the call centers employ an interactive speech recognition system and thus achieve a high degree of automation.
- **Internet.** Postbank Group administers more than 2.2 million online accounts. For the future, Postbank Group’s IT infrastructure is planned to make customer contacts via internet transparent for the branch outlet network at the same time. It is expected that the call centers will be integrated into these IT infrastructures in 2005. This technology makes it easier for customers to switch to such other distribution channels and thus supports Postbank Group’s multi-channel approach.
- **Mailings.** Postbank Group also uses mailings as a distribution channel. Mailings are standardized and take into account available customer information to draw inferences about particular customer needs.
- **DSL brand distribution.** Postbank Group offers real estate finance under the “DSL” brand indirectly as a partner of financial intermediaries. The distribution is exclusively made by distribution partners, such as financial and investment advisors, real estate and insurance brokers, property developers and architects as well as cooperation partners such as banks, building societies and insurance companies. The remuneration received by the distribution partners is exclusively performance based.
- **Asset management advisory services.** In the area of asset management advice to customers, Postbank Group distributes in particular those of its products that are more advice-intensive, such as mutual funds and other tax privileged investments as well as insurance policies, through commercial agents (Handelsvertreter). In addition to these mobile sales and marketing conducted through commercial agents, after the acquisition of Entrium City, Postbank Group has been operating asset management advice centers in Berlin, Dresden, Dusseldorf, Frankfurt am Main, Hamburg, Cologne, Leipzig, Munich and Nuremberg since January 2004.

### ***Corporate Customers***

#### ***Products and Services***

- **Payment Solutions.** Postbank Group is one of the Federal Republic of Germany’s leading providers of domestic payment transfer services. Postbank Group’s most important product in the Payment Solution field is the corporate customer checking account. In 2003, Postbank Group maintained an average 52,707 checking accounts for corporate customers. As an additional feature of checking accounts, Postbank Group offers interest-bearing fixed-term investment instruments in the Federal Republic of Germany and Luxemburg for liquidity surplus, payment transfer supporting credit lines (current account loans) as well as credit cards.

- **Selective Commercial Finance.** In the Selective Commercial Finance field, Postbank Group offers national and international commercial finance as well as factoring, leasing and logistics finance products. In the area of national commercial finance, Postbank Group is active in commercial real estate finance, leasing company refinancing (real estate and movable assets) and occasionally in financing property development companies (purchase of real estate and construction projects mainly involving residential property). The focus of such finance is on easily leasable property, such as office buildings, shopping malls and residential projects. The geographical focus of Postbank Group's activities in the field of international commercial finance is on the western and central regions of Europe. In the factoring area, Postbank Group offers its corporate customers (including Deutsche Post AG) various factoring options, which are tailored to typical customer needs and their finance requirements. In the leasing area, Postbank Group offers in cooperation with a German leasing company its commercial customers (especially sub-contractors of Deutsche Post AG) the lease finance of vehicles, machinery and other movable capital goods. Postbank Group also offers car-leasing products to its private and business customers via the internet. Since acquiring PB Capital Group in 2001, Postbank Group has been active in North America on a selective basis, primarily in the areas of real estate finance, logistics finance and syndicated loans. Before its acquisition by Postbank, PB Capital Group was involved in providing higher risk finance that has now been largely reduced in accordance with Postbank's conservative risk strategy.
- **Loan Portfolio Management.** The Corporate Customers business segment is also responsible for operations relating to Postbank Group's management of credit risks associated with its entire loan portfolio. Investment decisions in the context of loan portfolio management are made by the Postbank credit risk committee. Such activities are thus integrated into the risk management system of Postbank Group. See "Risk Management". To modify the structure of its loan portfolio, hedge itself against possible borrower default or transfer the risk associated with its loan portfolio to the capital market, Postbank Group uses a series of financial instruments, including asset-backed or mortgage-backed securities (instruments that securitize a share in receivables secured by mortgages) and credit derivatives (such as credit default swaps). In 2003, Postbank Group securitized, for the first time, a portfolio of residential property loans with a volume of €2.0 billion using the so-called Provide-Platform operated by KfW and thus sold the credit risk associated with the portfolio to capital market investors in synthetic form. The loan portfolio remains on the Postbank Group balance sheet. However, it need not be taken into account in computing requirements in respect of bank regulatory own funds requirements, with the exception of that proportion of any loss contractually retained by Postbank Group (so-called "**First Loss**"), as Postbank Group has been relieved of any excess credit risk. Postbank intends to engage in further securitization transactions in the future if need be.

### *Distribution*

With respect to corporate customers, Postbank Group's distribution activities (through PB Firmenkunden AG), which in compliance with bank regulatory requirements is organizationally separated from credit administration, is primarily directed at customers in the Federal Republic of Germany. The sales organization is supplemented by specialized distribution for factoring and leasing products. Distribution in North America is mainly conducted through the PB Capital Group.

Postbank Group has divided its corporate customers in the Federal Republic of Germany into segments according to income and business potential. This segmentation serves as the basis for varying the degree of intensity with which customer relationships are managed. The two top customer segments, to which approximately 10 per cent. of corporate customers belong, generated the vast majority of Postbank Group's total income from its checking account business in 2003. These customer segments are managed on a so-called key account management basis whereas the two remaining segments are managed on a so-called account management basis. In addition, Postbank Group has established a centralized form of "global relationship management" for handling the 100 customers yielding the highest revenues. Account and key account management in the Federal Republic of Germany is organized on a decentralized basis

and spread across 14 sites. The account manager allocated to the customer receives support from specialists in the respective product areas. The “global relationship management” system for the 100 customers yielding the highest revenues including Deutsche Post group companies coordinates the regionally organized key account management activities. The “global relationship management” system is organized on an industry basis to bring appropriate expertise into customer support and to be able to develop industry-oriented solutions. In addition “global relationship management” is responsible for the acquisition and management of accounts with multinational customers for financial service products.

## **Financial Markets**

### *Investing Liquidity Surplus*

The Financial Markets business segment performs a special role in Postbank Group’s “customer business”. Postbank Group’s customer business covers all assets and liabilities arising from its operations in the Retail Banking and Corporate Customers business segments. “Customer liabilities” essentially consist of the customer sight and savings deposits generated in the checking account and savings business while “customer assets” essentially comprise loans that have been extended. As a result of its strong position in the savings and checking account business and the relatively low volume of lending compared to customer deposits, the balance sheet of Postbank Group is characterized by surplus liquidity. As part of asset/liability management, the Financial Markets business segment invests this liquidity surplus on the money and capital markets. The goal is to minimize market risks arising from the investment of the liquidity surplus by the use of derivatives in compliance with the risk policy established by Postbank’s management board. This relieves the customer-related business segments of market risk.

### *Own Account Business*

In addition, the Financial Market business segment is assigned the task of making a contribution to Postbank Group’s earnings by engaging in the so-called own-account business. Postbank regards own-account business as consisting of the management of the historical issuance business of former DSL Bank with its high interest expense and other own-account business, especially treasury operations and proprietary trading activities. The “historical” issuance business includes long-term borrowings by former DSL Bank that are still outstanding and was primarily used by DSL Bank prior to its merger with Postbank in 2000 to refinance real estate loans on a matching term basis. The outstanding liabilities cannot be reduced sooner because of their fixed maturities. As these liabilities were assumed at a time when interest rates were relatively high, Postbank Group is unable to earn interest income that would be commensurate with the relevant interest expense from investing the funds on the money and capital markets because interest rates are currently at a low level. Thus, the contribution to results of €–192 million made by the historical issuance business in 2003 (first nine months of 2004: €–161 million) was significantly negative as was the case in preceding years. Other own-account business also includes proprietary trading by means of which Postbank Group assumes market risk in the interest-, stock- and credit spread markets (corporate bonds and high-yield bonds) as well as in the related derivatives and volatility markets within the framework of its conservative risk policy, to generate additional income by exploiting short-term market fluctuations.

### *Other Activities*

The Financial Markets business segment is responsible for the activities of Deutsche Postbank International S.A, which operates as a full-service bank with its registered office in Luxembourg and provides services to retail and corporate customers, in particular time deposits and individual and syndicated lending as well as securities business and securities custody services. The Financial Markets business segment also comprises various Postbank mutual fund companies in the Federal Republic of Germany and Luxembourg as well as an asset management company. Postbank also manages a number of institutional investment funds through which it mainly invests its own capital.

## **Transaction Banking**

### *Domestic Payment Transactions*

In the case of domestic payment transactions, Postbank Group offers all aspects of payment transaction processing. These services encompass the receipt of instructions (in both paper and paperless form), processing, account management (Disposition), clearing, the booking of entries, archiving and complaints investigation. In the case of paper-based payment transactions, Postbank Group offers the recording of payment documentation (digital inputting and recording of documents by means of scanners), the processing of payment documents by generating payment transaction data sets and the elimination of payment transaction differences as well as the archiving of paper documentation. In the account management field, Postbank Group offers the monitoring of customer account balances by checking incoming and outgoing payments as well as the archiving of data.

### *Foreign Payment Transactions*

Payments related to cross-border transactions are either handled through the correspondent bank system or – in the case of a single currency zone – through the clearing and settlement systems. Postbank Group offers products that cover the entire value chain for foreign payment transactions. Under the products offered, instructions are reviewed and allocated (including foreign currency positions), and the data sets are then relayed to the recipient bank by means of SWIFT or Eurogiro with appropriate entries booked. Postbank Group maintains clearing accounts, eliminates payment transaction differences, archives the paper documentation and correspondence, and conducts investigations if necessary.

### *Processing of Payment Transactions for Dresdner Bank AG*

In March 2004, Postbank and Dresdner Bank AG agreed on the transfer of responsibility for the processing of all domestic and cross-border payment transactions for Dresdner Bank AG and selected companies affiliated with Dresdner Bank AG ("**Dresdner Group**"). To this end, Dresdner Bank AG sold its subsidiary Dresdner Zahlungsverkehrsservice GmbH ("**Dresdner Zahlungsverkehr**"), which previously handled payment transaction processing, to Betriebs-Center für Banken Deutschland GmbH & Co. KG ("**Betriebs-Center**"), a wholly-owned subsidiary of Postbank, and concluded an outsourcing agreement with Betriebs-Center concerning payment transaction processing for the Dresdner Group. Under the terms of the outsourcing agreement, Betriebs-Center will initially provide payment transaction processing services for the Dresdner Group using the systems currently employed by Dresdner Zahlungsverkehr. Following a transitional period, Betriebs-Center intends to transfer a major part of the payment transaction processing services to a new or upgraded IT platform that can also be used to provide payment transaction processing services to other banks. The outsourcing agreement will run for several years and will be extended automatically unless terminated through the end of the original or respective subsequent term. In addition, Dresdner Bank AG may terminate the outsourcing agreement for good cause, in particular if the transfer of payment transaction processing to the new IT platform for payment transaction processing is not completed on time or if Postbank becomes an affiliated company or is being merged with a competitor of Dresdner Bank AG. In order to satisfy banking regulatory requirements, Dresdner Bank AG is also entitled to terminate the outsourcing agreement without cause upon serving nine months' notice and paying compensation that is based on the remaining term of the agreement. The parties have agreed that the number of Dresdner Zahlungsverkehr Full Time Equivalents will be reduced by approximately 450, and the number of sites at which Dresdner Zahlungsverkehr operates will be reduced by nine. Dresdner Bank AG will bear the economic consequences of the estimated costs associated with the downsizing of the 450 Full Time Equivalents and the relevant restructuring measures.

### *Processing of Payment Transactions for Deutsche Bank AG*

In April 2004, Postbank and Deutsche Bank AG agreed on the principal terms for the transfer of responsibility for handling domestic and standardized Euro-denominated payment transactions for Deutsche Bank AG and selected companies affiliated with Deutsche Bank ("**Deutsche Bank Group**"). Based on this agreement, on June 30, 2004, the parties entered into a sale agreement regarding DB Payments Projektgesellschaft AG ("**DB Payments**"), which has previously handled payment transaction processing for the Deutsche Bank Group, as well as an outsourcing

agreement with Betriebs-Center concerning payment transactions processing. Since July 1, 2004, Betriebs-Center provides payment transaction processing services for the Deutsche Bank Group using initially the systems currently employed by DB Payments. Following a transitional period, Betriebs-Center intends to transfer a major part of the payment transaction processing services to a new or upgraded IT platform that can also be used to provide payment transaction processing services to other banks. The outsourcing agreement is to run for several years and be extended automatically unless terminated through the end of the original or respective subsequent term. Deutsche Bank AG is entitled to terminate the outsourcing agreement for good cause, especially if the transfer of payment transaction processing to the new IT platform for payment transaction processing is not completed on time, or if the agreed quality of the services provided under the agreement is repeatedly inadequate and, given such circumstances, it would be unreasonable for Deutsche Bank AG to continue performing the agreement. In the event that the agreement is terminated, Deutsche Bank AG is entitled to buy DB Payments at book value. Until the IT platform is launched, Postbank is also entitled to sell DB Payments at book value to Deutsche Bank AG except in the event of termination for good cause by Deutsche Bank. In order to satisfy mandatory regulatory requirements, Deutsche Bank AG is also entitled to terminate the outsourcing agreement without citing any grounds against the payment of compensation based on the remaining term of the agreement. Postbank assumed the financial risk associated with the restructuring of DB Payments. This risk assumption was reflected in the purchase price for DB Payments.

### ***Trademarks, Patents***

Postbank has protected or filed applications for protection under trademark law for a large number of service marks in the Federal Republic of Germany and in some foreign jurisdictions. These include, for example, the trademarks "Postbank", "Deutsche Postbank AG" and "Postbank Giro-3000 plus". Moreover, Postbank has registered numerous internet domains. Postbank believes that, through these activities, it has established a sufficient basis for its internet operations, particularly in the eCommerce field. Postbank endeavors to protect its goods and services in their target markets, in particular under trademark law, to the extent economically reasonable. Postbank believes that patents, design and utility models of Postbank play a subordinate role in its business.

### ***Investments***

In 2003, 2002 and 2001, investments in tangible assets and intangible assets amounted to € 130 million, € 251 million and € 150 million, respectively. The decline in the volume of investment in 2003 is mainly a result of the consolidation phase following the introduction of the SAP platform. From 2005 onwards, investment activities will focus on IT implementation projects based on Postbank Group's existing IT infrastructure.

### ***Legal Proceedings***

Postbank and its subsidiaries are not party to any judicial or arbitration proceedings that in the opinion of Postbank could have a significant effect on the financial condition of Postbank or that have had such effect in the last two years.

## **Risk Management**

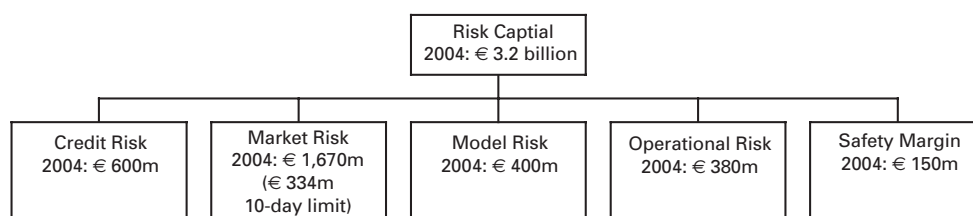
### ***Introduction***

Postbank Group has established a risk management system in accordance with German corporate law and bank regulatory requirements in order to analyze, measure, control and identify in a timely manner those risks that can arise in the course of conducting its business operations. The risk management system of Postbank Group is geared toward managing both individual risk (*i.e.*, the risk associated with a particular transaction) as well as overall risk exposure of Postbank Group (portfolio management), that is, its aggregated risk exposure. The aggregate risk to which Postbank Group is exposed, and consequently the risk management system, is influenced by the specific structure of its balance sheet and its substantial liquidity surplus. Postbank Group primarily invests this liquidity surplus on the money and capital markets in interest-bearing assets of varying maturities with high credit quality. The overall risk exposure of Postbank Group is thus characterized by a disproportionately high level of market risk (especially the risk associated with interest rates and with equities) compared to credit risk.



### **Risk Capital and Risk Limits**

Postbank allocates available risk capital to individual risk categories and, by means of limits, imposes restrictions on the extent to which risk may be assumed with the aim of ensuring that Postbank Group can bear the associated cost burden also in the event of a crisis. On May 18, 2004, Postbank's management board (subject to any future changes) set the overall risk limit at € 3.2 billion with a "safety margin" of € 150 million. In addition to this specific "safety margin", Postbank's management board generally only assigns 20 per cent. of the overall risk limit for market risk in the form of ten-day limits. The following chart shows the allocation of risk capital as in effect since May 18, 2004:



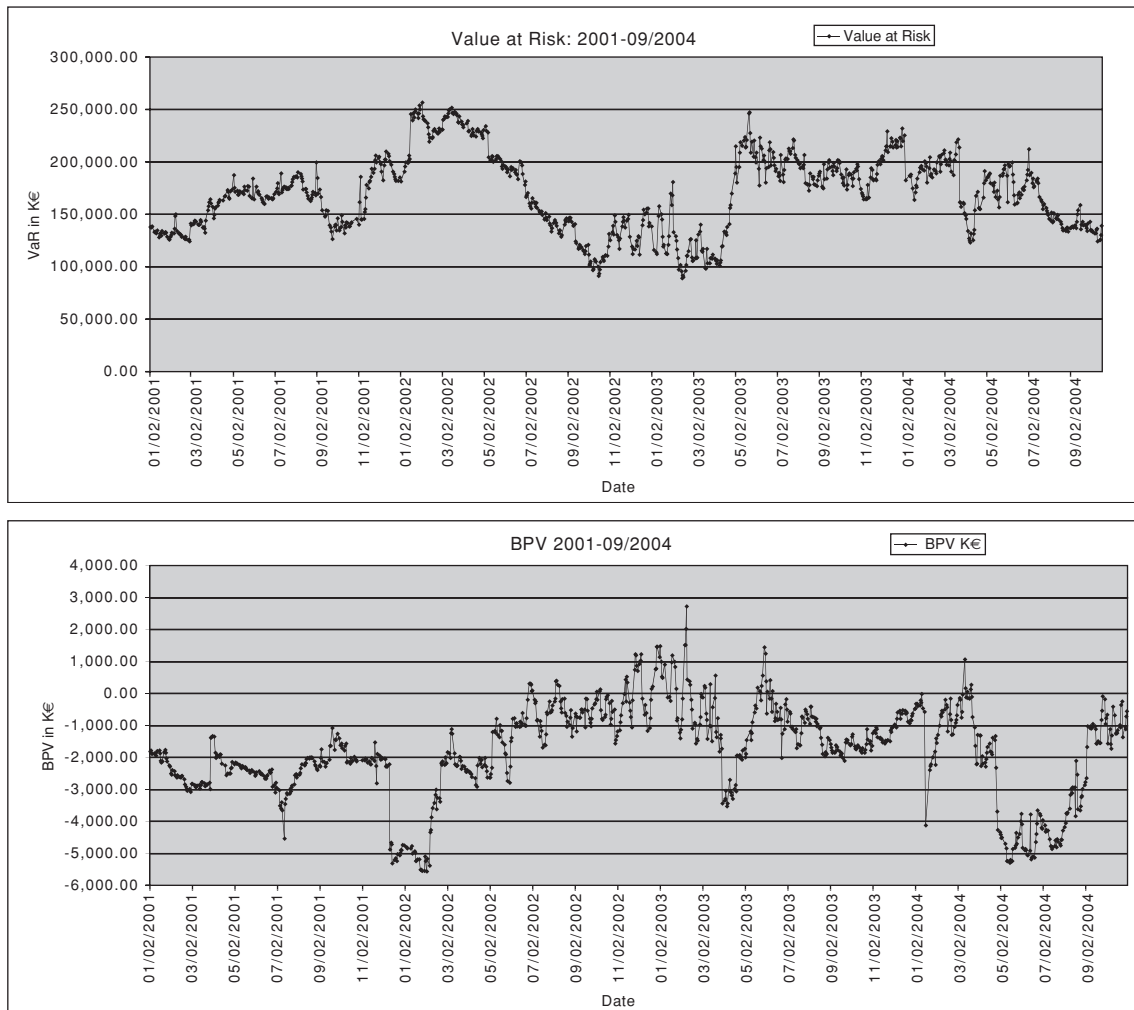
### **Market Risk**

Market risk denotes the potential risk associated with balance sheet items and off-balance sheet transactions, including derivatives, which may lead to losses from changes in interest rates, volatilities, exchange rates and equity prices. The aim of Postbank Group's risk policy is to invest the liquidity surplus deriving from the deposit business on the money and capital markets to ensure that the arithmetic margin for customer-related business is to a large extent hedged. In addition, Postbank Group also consciously assumes market risk to a limited extent in order to generate additional income. For Postbank Group, market risk is more important than any other risk category.

Postbank Group mainly uses two methods to measure its market risk: the "Basis Point Value" (BPV) method and the "Value at Risk" (VaR) method. BPV measures the amount by which the present value of all interest-bearing positions changes if the market yield rises or falls by one basis point (*i.e.*, by 0.01%). By contrast, VaR is an indicator that estimates probable future losses with the help of mathematical and statistical methods. The Postbank VaR model is based on a historical observation period of 250 trading days, a holding period of ten trading days and a 99% confidence level. VaR thus shows, on the basis of historical data, the anticipated maximum losses for all Postbank Group positions with market risk exposure that will not be exceeded with a probability of 99% over a holding period of ten trading days. However, no assurance can be given that the values forecast by the VaR model will not be exceeded.

The following charts show the risk limit assigned to market risk and the development of BPV and VaR for total transactions (banking book and trading book) for the years 2001 through 2003 and for the first nine months of 2004. Over the period shown in the tables, average utilization of the risk limit assigned was 51.4%.





### Credit Risk

Postbank Group defines credit risk as the potential loss that may arise as a result of a change of financial standing or the inability of a business partner to discharge its payment obligations (e.g., as a result of insolvency). Credit risk encompasses:

- the risk of counterparty default, that is, the potential losses that could arise as the result of a debtor being unable to discharge its payment obligations or of a deterioration in a debtor's financial standing;
- the country risk or transfer risk inherent in cross-border payments due to the unwillingness (political risk) or inability (economic risk) of a country to discharge its payment obligations; and
- the counterparty risk that can arise from default in the settlement of payment obligations (replacement risk) or the untimely performance of payment obligations (settlement risk).

### Credit Approval Procedure

Postbank's credit guidelines contain detailed instructions concerning all Postbank Group lending transactions. Responsibility for credit approval is allocated within a set framework in which the authority to conclude lending transactions is assigned to individuals or bodies with decision-making authority. Who is responsible for credit approval generally depends on the amount involved and additionally, in the case of corporate customers and transactions in the Financial Markets business segment, on the credit rating of the respective borrower or debtor. A key feature of the credit approval procedure in the Corporate Customers and Financial Markets business segments is the segregation of distribution/trading (front office) and risk management (back office functions) in line with bank regulatory guidelines (Minimum Requirements for Credit Transactions (*Mindestanforderungen an das Kreditgeschäft (MaK)*)).

## Risk Measurement and Management

Postbank generally measures its credit risk at two levels, that is, at the level of an individual lending transaction (on the basis of rating and scoring models) and in relation to the entire loan portfolio (on the basis of a portfolio model).

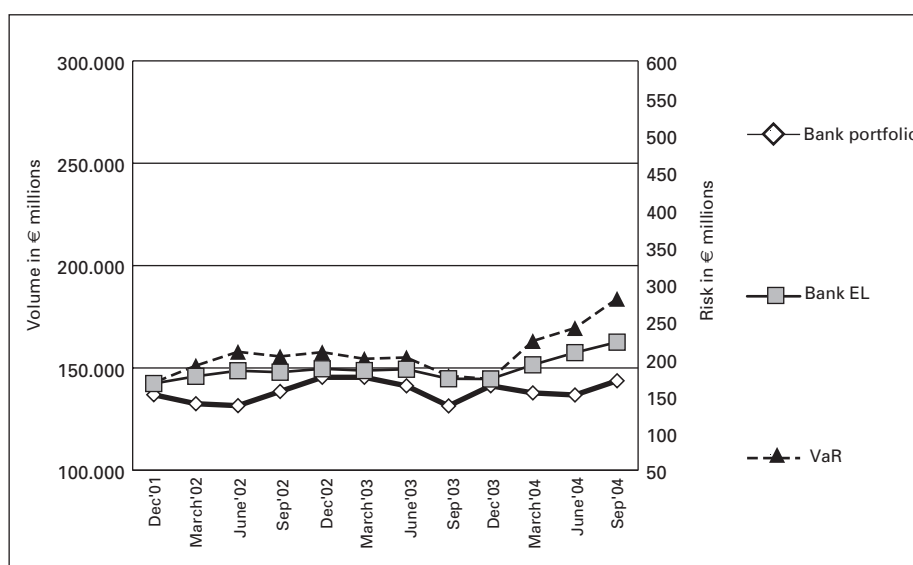
- **Scoring and Rating.** In the Retail Banking business segment, the extension of loans and advances and the setting of terms and conditions are based on the results of so-called statistical scorecards and the use of approval guidelines. Under the scorecard procedure, borrower data, such as age, postal district, marital status, income and external credit ratings are collected and the likelihood of default is estimated using statistical models. Both internal and external credit ratings assist the process of making lending decisions and fixing terms in the lending business relating to corporate customers and financial institutions, especially banks. The following table shows Postbank Group's credit risk volume. The allocation of a receivable to a particular rating class is based on external ratings, internal credit ratings as well as certain assumptions derived from random sampling (general ratings). An AAA credit rating constitutes the highest credit rating.

Rating class	As of December 31		As of September 30 2004
	2002	2003	
	(€ in millions)		
AAA.....	25,566	24,247	23,002
AA .....	40,960	40,626	44,759
A.....	47,394	42,499	42,739
BBB .....	11,308	10,327	8,264
BB and lower .....	2,228	1,788	2,254
no rating* .....	17,985	21,801	22,719
<b>Total.....</b>	<b>145,441</b>	<b>141,288</b>	<b>143,738</b>

\* Private real estate finance, overdrafts and current account loans for private and business customers, installment loans, as well as low-volume current account loans extended to corporate customers and commercial real estate finance that cannot be assigned a general rating either because they could not be fully rated or because the IT prerequisites for rating use within portfolio measurement had not been created yet.

- **Credit Value at Risk.** In fiscal year 2004, the management board of Postbank made available risk capital totaling € 600 million available for credit risk and allocated such risk capital as follows: Retail Banking € 90 million; Corporate Customers € 130 million; Financial Markets € 250 million; PB Capital Group € 80 million and the credit risk committee € 50 million. Postbank computes the extent to which the risk capital that has been allocated will be used on the basis of "unexpected loss," which is also referred to as "credit value at risk" or "CvaR." The CvaR shows the negative change in the value of the Postbank Group lending portfolio that will not be exceeded within one year with a 99% probability.

The following table shows the evolution of credit risk volume, credit value at risk and Postbank Group's expected loss:



"Bank portfolio" shows Postbank Group's credit risk volume (which differs from the volume for accounting purposes). "Bank EL" shows expected loss based on historical default rates. "Bank VaR" shows the credit value at risk or unexpected loss. On September 30, 2004, use of the risk limit of € 600 million was 47%. The increase in Bank EL and Bank VaR was mainly due to the extending of maturities and a greater concentration with respect to certain government and bank borrowers. Furthermore, due to a system-change, risk computation with respect to a portion of the bank refinancings in the Corporate Customers business segment has been based on maturities and no longer on the period over which interest was fixed.

#### *Credit Monitoring and Problem Loan Procedures*

In the case of larger-scale lending (individual transactions), credit risk is monitored by reviewing credit worthiness at regular intervals. Risk levels are contained by means of individual lending or borrower limits and measured and controlled using group-wide data processing systems in accordance with bank regulatory requirements. In the case of individual lending transactions involving corporate customers, business customers with credit lines of more than € 25,000 and real estate finance from € 500,000 upward per borrower or borrower unit, Postbank has implemented a credit monitoring process that is consistent with banking regulatory requirements and enables higher risk lending to be identified on the basis of hard and soft indicators defined for individual products. These indicators include industry information and microeconomic data, customer and account operation data as well as changes in ratings.

If as a result of the credit monitoring process by means of risk indicators an exposure involving a corporate customer is identified by Postbank as entailing increased risk, the borrower concerned is placed on a "watch list." Exposures placed on the watch list are assigned to one of the following categories: intensive support (category A), restructuring (category B) or settlement (category C). Credit exposures that fall into category A (intensive support) remain managed by the employee responsible for the lending but are nevertheless subject to more intensive monitoring. If there is no improvement in borrower quality over a reasonable period of time, or if further risk indicators emerge, such as the continual overdrawing of an account, repeated lack of funds to cover debt servicing or an inability to meet payment obligations, restructuring is required (category B). With the help of restructuring specialists, the employee responsible for the lending transaction regularly and intensively works together with the borrower to develop possible solutions for borrower restructuring (*Sanierung*). If the economic position of the borrower improves in a sustainable manner as a result of the successful implementation of restructuring measures, the exposure can be upgraded to category A or removed from the watch list. If restructuring is unsuccessful or in Postbank's view cannot be carried out on reasonable commercial terms, settlement (*Kreditabwicklung*) is initiated (category C).

#### **Liquidity Risk**

Liquidity risk is the risk that such payment obligations as are due and payable (e.g., withdrawal of customer deposits) might exceed the cash available to Postbank and the deposits received by it. Differences in asset- and liabilities-side capital commitment maturities are of central importance for liquidity risk. Postbank Group's liquidity management therefore differs according to the capital commitment maturity pattern. Short-term management is handled as part of money market activities, while Treasury is responsible for ensuring medium- and long-term liquidity. To avoid liquidity problems, liquidity positions are regularly subjected to stress tests in the form of simulations. All these stress tests have shown Postbank Group's liquidity to be adequate.

#### **Operational Risk**

According to the Basle Committee on Banking Supervision, operational risk denotes the risk of loss resulting from inadequacy or the malfunctioning of internal processes and systems or from external events and from human error. Operational risk is gaining increasing importance for Postbank Group in connection with the development of the Transaction Banking business division. The implementation of bank regulatory guidelines is the responsibility of the Risk Control department. The management of operational risk is the task of the individual units within Postbank Group. The market risk committee monitors operational risk. During the fourth quarter of 2004, Postbank intends to transfer the responsibility for operational risk to a committee for operational risk.

### **Model Risk**

Model risk denotes the risk that arises when information can only be presented to decision-makers for management purposes on the basis of simplified modeling and when an analytical model inadequately reflects reality. This model risk is of particular relevance to Postbank Group in connection with the correct reproduction of variable interest rate customer products (deposits and overdrafts). The model risk is backed separately by risk capital.

### **Strategic Risk**

Strategic risk denotes the risk of earnings targets not being met as a result of a business responding insufficiently to the then current business environment, which may have changed at short notice. Strategic risk may therefore result from an inadequate strategic decision-making process, from unforeseeable market changes, or from the inappropriate implementation of the chosen strategy. It is very difficult to quantitatively measure strategic risk.

## **Relationships with Related Parties**

### **General**

Postbank Group has a variety of relationships with Deutsche Post AG's corporate group, the Federal Republic of Germany and other companies controlled by the Federal Republic of Germany. In regard to its relationships with affiliated companies, a report on its dependence ("dependence report" (*Abhängigkeitsbericht*)) must be prepared by Postbank on an annual basis. All legal transactions of Postbank in the preceding fiscal year with the Federal Republic of Germany, as an indirect shareholder of Postbank, and Deutsche Post AG or any of their affiliated companies or at the instruction or in the interest of these companies, and all other measures taken or not taken by Postbank at the instruction or in the interest of these companies must be included in this report. With respect to transactions, the information on the mutual consideration involved in each case, and with respect to any measures taken or not taken the reasons for such measures and the benefits and detriments for Postbank, in each case, must be included. If Postbank has been compensated for detriments suffered, details of how such detriments were actually compensated for during the fiscal year or to which benefits Postbank has been granted a legal claim must be provided. At the end of the report, the management board must state whether Postbank, under the circumstances known to it at the time at which the transaction or measure was or was not effectuated or taken, received adequate compensation and was not adversely affected by taking or not taking the measure. To the extent Postbank was adversely affected, the management board must state whether Postbank has been compensated for such detriments.

The dependence report must be audited by the auditor of Postbank. The supervisory board of Postbank must review the dependence report and report to the general shareholders' meeting with regard to the results of its review and comment on the auditor's report. In the 2003 dependence report, Postbank's management board reported that Postbank, under the circumstances known at the time of the respective transactions, received adequate compensation for each transaction within the meaning of the dependence report. No measures were taken or not taken at the instruction or in the interest of Deutsche Post AG or its affiliated companies. The auditor confirmed that the factual matters listed in the 2003 dependence report are correct and that the consideration paid by Postbank with regard to transactions listed in the report was not inappropriately high.

For information on liabilities as well as profits and expenses towards affiliated companies, and companies in which an interest is owned, see Notes 52 and 53 to the audited consolidated financial statements of Postbank for the year ended December 31, 2003 included herein.

### **Cooperation Agreement**

#### **General**

As of January 1, 2002, Postbank and Deutsche Post AG have operated under a Cooperation Agreement ("**Cooperation Agreement**"), pursuant to which Postbank performs nationwide sales of financial services and other services (in particular, deposits and withdrawals) ("cooperation services") in currently more than 9,000 branch outlets of Deutsche Post AG, approximately 780 of which are so-called Postbank Centers, in the name of and for the account of Postbank.

The Cooperation Agreement was filed by Postbank with the BaFin in compliance with regulatory banking requirements for outsourcing of key areas of business. The long-term cooperation with Deutsche Post AG provides an assurance to Postbank of access to its most important sales channel. With regard to retail and commercial customers, compensation for cooperation services related to existing customer relations (in the following, "existing business") and for new business (concluding new financial services transactions) is value- and profit-based, respectively.

Ensuring that cooperation runs smoothly in the branch outlets for the benefit of both companies is also the main reason behind the current personnel overlap between Postbank and Deutsche Post AG, including the simultaneous membership of the chairman of the management board of Postbank, Prof. Dr. von Schimmelmann, in the management board of Deutsche Post AG.

#### *Cooperation Services*

The services rendered by Deutsche Post AG under the Cooperation Agreement may be divided into three categories:

- cooperation services for retail and commercial customers (including the distribution and sale of Postbank products, customer advice and customer service);
- cooperation services for corporate customers (including cash deposits and cash withdrawals and other services such as issuing, accepting and forwarding forms, providing information and services specific to corporate checking accounts); and
- servicing self-service installations (servicing of ATMs and account statement printers).

#### *Services Rendered*

In rendering services, Deutsche Post AG is required to use exclusively the general terms and conditions, price lists, lists of services, price catalogs, forms and advertising materials provided by Postbank, and to follow the procedural and product-related rules in Postbank's handbooks and instruction manuals. Deutsche Post AG is in particular required to ensure that the operational flows and technical systems at branch outlets conform to the state of the art of a modern stationary financial services operation in their appearance, quality and technical standard.

Audits of cooperation services are conducted by Postbank's internal auditing unit in cooperation with the internal auditing unit of Deutsche Post AG in regard to compliance with regulatory banking regulations.

With the consent of Postbank, Deutsche Post AG may use third parties to render cooperation services, for example, at the approximately 7,000 branch outlets of Deutsche Post AG that are operated by third parties. To guarantee that Postbank is able to satisfy its statutory filing and reporting obligations (e.g., reporting the outsourcing of banking business under the German Banking Act), Deutsche Post AG is required to inform Postbank in such a case on a timely basis. Deutsche Post AG is also required to ensure that compliance with the pertinent legal regulations and standards of quality is safeguarded and that Postbank is granted the legally required rights of influence in the agreements concluded with third parties to render cooperation services.

#### *Compensation for Cooperation Services*

For services and sales to retail and commercial customers, the Cooperation Agreement provides for value-based compensation for existing business and profit-based compensation for new business. Deutsche Post AG also receives compensation based on the numbers of transactions for services for corporate customers, compensation for servicing the self-service installations (ATMs and account statement printers) and investment subsidies in the branch outlet network. The clauses concerning compensation apply until December 31, 2008 and are renegotiated every five calendar years. On failure to reach agreement, the existing arrangements regarding compensation will continue to apply. The new business compensation for certain products (*inter alia*, checking account, credit card and savings products) increases annually by 3 per cent., beginning in 2009, with automatic effect on January 1 of each calendar year based on the amount of the new business compensation of the preceding year, provided that Postbank and Deutsche Post AG do not agree otherwise. This also applies to the new business compensation for the



distribution of other products, provided that the parties agree to compensation based on the number of transactions relating to such products.

The total compensation paid by Postbank to Deutsche Post AG under the Cooperation Agreement on the basis of a preliminary invoice for 2003 amounted to € 454 million. Since that time, Postbank and Deutsche Post AG agreed on a final invoice for the year. The final total compensation for 2003 amounts to € 458 million. The preliminary invoice for 2002 amounted to € 465 million, which is the amount appearing in the consolidated financial statements for that year. Final total compensation for 2002 amounted to € 454 million. In 2001, total compensation under the then current contractual arrangement was € 468 million.

### *Exclusivity*

With some exclusions, the Cooperation Agreement provides for mutual exclusivity in regard to rendering cooperation services for retail and commercial customers. Deutsche Post AG does not render any financial services for third parties through its distribution network, unless such services are rendered pursuant to the request of Postbank. Postbank has to use Deutsche Post AG's distribution network as its exclusive stationary distribution channel, unless Deutsche Post AG agrees otherwise. This exclusivity granted to Postbank is limited to stationary distribution and does not apply to any other distribution channels. Both Postbank and Deutsche Post AG have warranted that this mutual exclusivity is also generally complied with by their affiliated companies. Distribution of the current DSL brand products does not fall under the category of exclusivity.

### *Term and Termination*

Although the Cooperation Agreement has an unlimited term, it may be terminated by either party as of the end of any year with a notice period of three years. Such termination may, however, not be effective prior to December 31, 2012.

If it intends to relinquish its majority shareholding in Postbank, Deutsche Post AG may require a change of the terms of the Cooperation Agreement prior to December 31, 2012. Should such a change be required but the parties be unable to reach agreement within an appropriate period of time, Deutsche Post AG may terminate the Cooperation Agreement as of the end of any given calendar month with a notice period of two years.

## **Regulation**

### ***Introduction***

Postbank has had a full banking license since January 1, 1995, *i.e.*, it is entitled to engage in all types of banking business in the Federal Republic of Germany. Among other activities, this includes deposit-taking, lending, securities deposit business, mutual fund business, payment transfer business and e-cash business as well as underwriting business. Due to the merger with DSL Bank, Postbank is also entitled to DSL's special right to issue covered bonds (*gedeckte Schuldverschreibungen*).

The German Banking Act contains the most important supervisory regulations for banks in the Federal Republic of Germany. The German Banking Act and the regulations, directives and circulars adopted thereunder implement, *inter alia*, certain recommendations of the Basle Committee on Banking Regulations and Supervisory Practices ("**Basle Committee**") at the Bank for International Settlements ("**BIS**"), as well as certain European directives applicable to banks. These directives address issues such as accounting standards, regulatory capital, risk-based capital adequacy, consolidated supervision, the monitoring and control of large exposures, the establishment of branch outlets within the European Union and the creation of a single European Union-wide banking market with no internal barriers to cross-border banking services.

### ***Bank Supervision***

The *BaFin* is the most important supervisory authority for Postbank both on an unconsolidated basis (only Postbank) and on a consolidated basis (Postbank and its consolidated companies for bank regulatory purposes). A particular emphasis of BaFin's supervision is placed on the issuance of banking licenses and the appointment of managers, the compliance with capital



adequacy and liquidity requirements, large exposure limits and the restrictions on certain business activities.

The BaFin is a public law institution (*Anstalt des öffentlichen Rechts*) under the legal and professional supervision (*Rechts- und Fachaufsicht*) of the Federal Ministry of Finance (*Bundesministerium der Finanzen*). Under the umbrella of the BaFin, the former Federal Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*), the Federal Securities Trading Supervisory Authority (*Bundesaufsichtsamt für den Wertpapierhandel*) and the Federal Insurance Supervisory Authority (*Bundesaufsichtsamt für das Versicherungswesen*) were combined to form a single financial supervisory authority with comprehensive powers as of May 1, 2002. The BaFin is authorized to issue regulations (*Verordnungen*) as well as orders (*Verfügungen*) on banks operating in the Federal Republic of Germany. The BaFin reviews its measures and decisions if legal or factual circumstances change significantly, which is common for continuing supervision.

The BaFin fulfills its banking supervisory role in close cooperation with the German Bundesbank. The most important task of the German Bundesbank is the ongoing monitoring of German banks. This monitoring includes in particular the collection and analysis of statistics and reports from German banks, as well as the conduct and analysis of supervisory reviews in the area of compliance with the capital adequacy and risk management requirements.

In connection with their supervisory role, the BaFin and the German Bundesbank require banks in the Federal Republic of Germany to submit extensive information in order to ensure compliance with the German Banking Act and other legal provisions.

### ***Regulatory Capital Adequacy Requirements***

#### ***Regulatory Significance of Capital Adequacy***

From a regulatory point of view, capital adequacy serves as the basis for determining a series of restrictions under bank regulatory law. Pursuant to the German Banking Act, banks with registered offices in the Federal Republic of Germany must have sufficient capital for their ongoing business operations to satisfy their obligations towards creditors, particularly to safeguard assets entrusted to them. This capital serves in particular as a provision for covering counterparty risk (insolvency of a debtor) and the market risk associated with trading transactions. Market risks include in particular interest rate-related, share price-related and foreign exchange-related risks. Apart from these, there are several other supervisory regulations relating to capital adequacy, including the conditions for a suspension of an operating license, the limitation on large exposures and measures in the event of a threat of default.

#### ***Capital Adequacy***

Capital adequacy principles of banks with registered offices in the Federal Republic of Germany are based on the principle of risk weighting. Banks are required to cover counterparty risks (*Adressenausfallrisiko*) and market price risks (*Marktrisiko*) with Tier I capital (*Kernkapital* or **“core capital”**) and Tier II capital (*Ergänzungskapital* or **“supplementary capital”**) (together, *haftendes Eigenkapital* or **“regulatory banking capital”**). They may also cover market price risk with Tier III capital (*Drittangmittel*) and, to the extent not required to cover counterparty risk, with regulatory banking capital. The elements comprising Tier I capital and Tier II capital as well as the calculation of regulatory banking capital and Tier III capital are set forth below.

Principle I (*Grundsatz I*), in which the BaFin sets forth the principles for the capital adequacy of banks under the German Banking Act, requires all banks with registered offices in the Federal Republic of Germany to maintain a solvency ratio (*Eigenkapitalquote* or **“solvency ratio”**) of regulatory banking capital to risk-weighted assets (*gewichtete Risikoaktiva*) of at least 8 per cent. Risk-weighted assets include loans, securities, financial swaps, financial forward transactions, options and other off-balance sheet items, as further described below. The solvency ratio rules implement the European Directives on Regulatory Banking Capital and Capital Adequacy.

Postbank currently bases the calculation of its capital adequacy solely on the provisions of the German Banking Act. The capital adequacy ratios specified by the Basle Committee on Banking Regulations with the Bank for International Settlement are not calculated by Postbank at present

because the focus of its activity is on the Federal Republic of Germany and it is internationally active only to a limited extent.

### *Regulatory Banking Capital*

For a bank that is organized as a stock corporation, such as Postbank, regulatory banking capital is defined in the German Banking Act as consisting principally of the following items:

#### Tier I capital:

- *Paid-in subscribed capital* (not including capital paid on preferred shares with cumulative dividend rights).
- *Capital reserves.*
- *Retained earnings.*
- *Special item for general banking risks.* A bank may record this special item on the liability side of its balance sheet to reflect special risks inherent in the banking business. A bank must consider this necessary on the basis of reasonable commercial judgment.
- *Silent partnership interests (stille Beteiligungen).* Silent partnership interests are assets contributed to the business of a bank by silent partners. To qualify as regulatory banking capital, such interests are subject to certain conditions, including a minimum term of five years, non-cumulative dividends, participation in the bank's losses and subordination to the rights of all creditors in the event of insolvency or liquidation of the bank. For a description of the terms of the silent partnership interests currently outstanding, see "Capitalization of Postbank and Postbank Group."

Treasury shares, balance sheet losses and intangible assets are subtracted from the Tier I capital calculation. In addition, the BaFin may require further deductions from a bank's Tier I capital, in particular with respect to a bank's unrealized losses. The BaFin has never requested of Postbank to make such a deduction. As of September 30, 2004, the Tier I capital of Postbank on a consolidated basis was € 2.79 billion (December 31, 2003: € 2.76 billion; December 31, 2002: € 2.78 billion). Postbank expects to treat the Class B Preferred Securities or, as the case may be, the Trust Preferred Securities, as consolidated Tier I capital.

#### Tier II capital (limited to the amount of Tier I capital):

- *Preferred shares.* Preferred shares with cumulative preferred rights to distributions of profits are considered Tier II capital.
- *Profit-participation rights (Genussrechte).* These rights are subject to certain conditions, including a minimum term of five years, participation in the bank's losses and subordination to the rights of all non-subordinated creditors in the event of insolvency or liquidation of the bank.
- *Longer-term subordinated debt* (limited to 50 per cent. of the amount of Tier I capital). This debt is subject to certain criteria, including a minimum term of five years and subordination to the rights of all non-subordinated creditors in the event of insolvency or liquidation of the bank.
- *Reserves decreasing the taxable profits (Section 6b of the German Income Tax Act (Einkommensteuergesetz)).* A bank may include 45 per cent. of these reserves in regulatory banking capital. However, any reserves included in regulatory banking capital must have been created from the proceeds of the sale of real property, property rights equivalent to real property or buildings.
- *Reserves for general banking risks.* A bank may record certain receivables on its balance sheet at a lower value than would be permitted for industrial entities. Such receivables include loans and securities that are neither investment securities nor part of the trading portfolio. The bank may record these receivables at a lower value if the use of a lower value is advisable in its reasonable commercial judgment to safeguard against the special risks

inherent in the banking business. Reserves for general banking risks may not exceed 4 per cent. of the book value of the receivables and securities recorded.

- *Certain unrealized reserves.* These may include 45 per cent. of the difference between the book value and the lending value (*Beleihungswert*) of real property and buildings, and 35 per cent. of the difference between the book value and the market value of securities listed on a stock exchange or the published redemption price of shares issued by certain securities or real estate funds. A bank may include these reserves in Tier II capital only if its Tier I capital amounts to at least 4.4 per cent. of its risk-weighted assets. These reserves may be included in Tier II capital only up to a maximum of 1.4 per cent. of the risk-weighted assets.

As of September 30, 2004, the Tier II capital of Postbank on a consolidated basis was € 2.08 billion (December 31, 2003: € 1.78 billion; December 31, 2002: € 1.48 billion).

Capital components that meet the above criteria but are provided to another bank, financial services institution (*Finanzdienstleistungsinstitut*) or financial enterprise (*Finanzunternehmen*) not consolidated with the bank for regulatory purposes, may not be included in the bank's regulatory banking capital,

- if the bank holds more than 10 per cent. of the capital of such other bank, financial services institution or financial enterprise, or
- if the bank holds 10 per cent. or less of the capital of such other bank, financial services institution or financial enterprise, to the extent the aggregate book value of such investments exceeds 10 per cent. of the bank's regulatory banking capital.

#### *Risk-Weighted Assets*

The calculation of risk-weighted assets, the denominator of the solvency ratio, is also set forth in Principle I. Assets are assigned to one of five rating categories based on the debtor and the type of collateral, if any, securing the respective assets. Each rating category has a risk-classification multiplier (0%, 10%, 20%, 50% and 100%). The balance sheet value of each asset is then multiplied by the risk-classification multiplier for the asset's rating category. The resulting figure is the risk-weighted value of the asset.

Off-balance sheet items, such as financial guarantees, letters of credit and certain loan commitments, are subject to a two-tier procedure. First, the value of each item is determined. This value is multiplied by one of three risk-classification multipliers (20%, 50% and 100%) depending on the type of instrument. In the second step, the off-balance sheet item is assigned to one of the five rating categories. Selection of an appropriate risk multiplier is based on the type of counterparty or debtor and the type of collateral, if any, securing the asset. The adjusted value of the off-balance sheet item is then multiplied by the risk multiplier to arrive at the risk-weighted value of the off-balance sheet item.

As of September 30, 2004, Postbank had risk-weighted assets on a consolidated basis in the amount of € 46.81 billion (December 31, 2003: € 42.20 billion; December 31, 2002: € 40.34 billion).

#### *Tier III Capital and Market Price Risk*

Principle I also sets forth the principles governing capital adequacy requirements for market price risk. The market price risk positions of a bank include the following:

- foreign exchange positions;
- commodities positions;
- certain trading book positions, including those involving counterparty risk, interest rate risk and share price risk; and
- options positions.

The net risk-weighted market price risk positions, which amounted to € 7.24 billion as of September 30, 2004 (December 31, 2003: € 3.75 billion; December 31, 2002: € 4.20 billion) at

Postbank on a consolidated basis, must be covered by own funds (*Eigenmittel*) that are not required to cover counterparty risk. The calculation of risk-weighted market price risk positions must be made in accordance with specific rules set forth in Principle I or, at the request of a bank, in whole or in part in accordance with the bank's internal risk rating models approved by the BaFin. Own funds consist of regulatory banking capital (Tier I capital plus Tier II capital) and Tier III capital.

Tier III capital consists of the following items:

- *Net profits.* Net profits are defined as the proportionate profit of a bank which would result from closing all trading book positions at the end of a given day minus all foreseeable expenses and distributions as well as losses resulting from the investment book which would likely arise upon a liquidation of the bank unless such losses have to be deducted from Tier I capital at the request of the BaFin.
- *Short-term subordinated debt.* This debt must meet certain criteria, including a minimum term of two years, subordination to the rights of all non-subordinated creditors in the event of insolvency or liquidation of the bank and suspension of the payment of interest and principal if such payment would result in a breach of the own funds requirements applicable to the bank.

Net profits and short-term subordinated debt qualify as Tier III capital only up to an amount which, together with the Tier II capital not required to cover risks arising from the investment book (as described above), does not exceed 250 per cent. of the Tier I capital not required to cover risks arising from the investment book.

At the close of each business day, a bank's total net risk-weighted market price risk positions must not exceed the sum of:

- the difference between the bank's regulatory banking capital and 8 per cent. of its aggregate amount of risk-weighted assets; and
- the bank's Tier III capital.

#### *Consolidated Regulation and Supervision of Capital Adequacy Requirements*

The German Banking Act's provisions on consolidated supervision require that each group of institutions (*Institutgruppe*) taken as a whole meets capital adequacy requirements. Under the German Banking Act, a group of institutions consists of a bank or financial services institution, as the parent company, and all other banks, financial services institutions, financial enterprises and bank service enterprises (*Unternehmen mit bankbezogenen Hilfsdiensten*) in which the parent company holds more than 50 per cent. of the voting rights or on which the parent company can otherwise exert a controlling influence. Special rules apply to joint venture arrangements that result in the joint management of a bank, financial services institution, financial enterprise or bank service enterprise by a bank and one or more third parties.

#### *Capital Adequacy Requirements under the Basle Capital Accord (Basle II)*

In January 2001, the Basle Committee released a proposal to replace the 1988 capital accord with a new capital accord and to revise the existing international capital adequacy standards. The two principal goals of the proposals are (i) to align capital requirements more closely with the underlying risks; and (ii) to introduce a capital cover for operational risk (comprising, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). The proposals were published by the Basle Committee in June 2004. The proposals will be implemented in the various countries that participate in the Basle Committee partially by the end of 2006 and partially by the end of 2007. Based on preliminary analyses Postbank expects its risk-weighted assets and, thus its capital requirements, to be reduced once the new rules have entered into effect and the advanced Internal Ratings Based ("**IRB**") approach has been introduced. This expectation is based on the assumption that all other circumstances remain unchanged and it does not take into account capital requirements for operational risk.

### *Significance of Capital Adequacy*

The regulatory requirements relating to appropriate capital adequacy control the amount of loans as well as other risk assets held by a bank and limit the operation of the business and the strategic planning of a bank. A bank with low capital resources may under certain circumstances not be allowed to meet the loan requests of larger clients or must limit its active business, in particular the extension of loans. The alternative, to increase its capital, presents a significant cost factor, as persons underwriting such capital generally require a higher return than banks regularly pay on deposits due to the higher risk involved in providing such capital.

### **Liquidity Requirements**

The German Banking Act requires German banks to invest their funds so as to maintain adequate liquidity at all times. Liquidity requirements are set forth in Principle II (*Grundsatz II*) of the BaFin and are based on a comparison of the remaining terms of certain assets and liabilities. Principle II requires maintenance of a ratio (*Liquiditätskennzahl*) of liquid assets to liquid obligations expected during the month following the date on which the ratio is determined of at least one. The liquidity requirements set forth in Principle II do not apply on a consolidated basis. For further information on liquidity risk management, see “Postbank Group – Risk Management – Liquidity Risk.”

### **Limitations on Large Exposures**

The German Banking Act and the Large Exposure Regulation (*Großkredit- und Millionenkreditverordnung*) limit a bank's concentration of credit risks on an unconsolidated and a consolidated basis through restrictions on large exposures (*Großkredite*).

The large exposure rules contain separate restrictions for investment book large exposures (*Anlagebuch-Großkredite*) and aggregate book large exposures (*Gesamtbuch-Großkredite*) of a bank or group of institutions.

Investment book large exposures are exposures incurred in the investment book and related to a single customer (and companies associated with it) that equal or exceed 10 per cent. of a bank's or group of institutions' regulatory banking capital. Individual investment book large exposures must not exceed 25 per cent. of the bank's or group of institutions' regulatory banking capital (20 per cent. in the case of exposures to affiliates of the bank that are not consolidated for regulatory purposes).

Aggregate book large exposures are created when the sum of exposures related to a customer (and companies associated with it) (investment book and trading book) equals or exceeds 10 per cent. of the bank's or group of institutions' own funds. Individual aggregate book large exposures may not exceed 25 per cent. of a bank's or group's own funds (20 per cent. in the case of unconsolidated affiliates). Exposures incurred in the trading book include:

- the net amount of long and short positions in financial instruments involving interest rate risk (interest net positions);
- the net amount of long and short positions in financial instruments involving equity price risk (equity net positions); and
- the counterparty risk arising from positions in the trading book.

In addition to the above limits, the total investment book large exposures must not exceed eight times the bank's or group of institutions' regulatory banking capital, and the aggregate book large exposures must not exceed in the aggregate eight times the bank's or group of institutions' own funds.

A bank or group of institutions may exceed these ceilings only with the approval of the BaFin. In such a case, the bank or group is required to support the amount of the large exposure that exceeds the ceiling with regulatory banking capital (in the case of ceilings calculated with respect to regulatory banking capital) or with own funds (in the case of ceilings calculated with respect to own funds) on a one-to-one basis.



Furthermore, total trading book exposures to a single customer (and companies associated with it) must not exceed five times the bank's or group of institutions' own funds, to the extent such own funds are not required to meet the capital adequacy cover with respect to the investment book. Total trading book exposures to a single customer (and companies associated with it) in excess of the aforementioned ceilings are not permitted.

### **Financial Statements and Audits**

Compliance with the capital adequacy requirements is determined based on financial statements prepared in accordance with German GAAP. German GAAP for banks primarily reflects the German Commercial Code (*Handelsgesetzbuch*) and the Regulation on Accounting by Credit Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute*). The Regulation on Accounting by Credit Institutions requires a uniform format for the presentation of financial statements for all banks. German GAAP provide the basis for the calculation of the capital adequacy ratios pursuant to the German Banking Act both on an unconsolidated basis and on a consolidated basis. German GAAP differs from the International Financial Reporting Standards in many respects. For example, for purposes of the calculation of their regulatory banking capital based on German GAAP, banks may include funds for general banking risks.

Under German law, Postbank's annual financial statements must be audited by a certified public auditor (*Wirtschaftsprüfer*) or auditing company (*Wirtschaftsprüfergesellschaft*). The auditor is appointed by the shareholders' meeting. The audit committee of the supervisory board mandates and supervises the audit. The BaFin must be informed of the appointment of the auditor and may require the appointment of a different auditor.

The German Banking Act requires that a bank's auditor inform the BaFin of any facts that come to the auditor's attention which would lead it to refuse to issue an audit opinion or to qualify its audit opinion with respect to the bank's annual financial statements or which would adversely affect the financial position of the bank. The auditor is also required to notify the BaFin in the event of a material breach by the managers (members of the management board in the case of a stock corporation such as Postbank) of any applicable law or of the Articles of Association.

The auditor is required to prepare a detailed and comprehensive annual long-form audit reporting (*Prüfungsbericht*) for submission to the bank's supervisory board, the BaFin and the German Bundesbank.

### **Minimum Requirements for the Credit Business**

In December 2002, the BaFin released a circular regarding the Minimum Requirements for the Credit Business of Banks (*Mindestanforderungen an das Kreditgeschäft* or "**MaK**"), which must be observed by all credit institutions to limit the risks of the lending business. The MaK apply to all extensions of "credit", i.e., granting of loans, acquisition of other risk assets as well as off-balance sheet transactions involving counterparty risk. The following minimum requirements are considered by the BaFin to be essential:

- The lending business may only be conducted in accordance with the framework conditions set forth in a written plan of organization and of which the relevant employees have been informed.
- Employees and their representatives to which individual processes of the lending business are assigned must have the knowledge required to assess the risks of the business; appropriate education and ongoing training shall warrant that the level of qualification corresponds to the current status of developments.
- A written concept shall be prepared prior to engaging in business with new products, business types or on new markets (including new distribution channels).
- Each credit institution shall use standard loan documentation provided this is possible and appropriate for the respective type of business.
- Consistent functional separation of the areas (including the management level) that initiate the business and which have a say on loan decisions (front office) and the areas in which loan decisions are made by a further vote independent of the market (back office);



independent monitoring of risks at the portfolio level and of independent reporting must be performed outside the front office.

- Depending on type, scope, complexity and inherent risk of a loan commitment, two favorable votes of the front office and back office shall be required for a loan decision.
- Establishment of meaningful risk-classification procedures for the initial, periodic or project-related assessment of counterparty risk or, if applicable, property- or project-related risk.
- Depending on type, scope, complexity and inherent risk, procedures for early recognition of risks, for loan risk management and loan risk control shall be set up.
- A risk report on the essential structural features of the lending business shall be prepared and provided to the management by a unit independent of the front office – depending on the risk situation in the lending business – at periodic intervals, however, at least once per quarter.
- Contractual agreements in the lending business should be concluded on the basis of legally reviewed and properly documented materials.
- The lending business shall be submitted to audits by the internal auditing department at appropriate intervals.
- The auditor shall obtain an extensive overview of the lending business and its organization, the associated risks as well as the internal control systems and procedures and assess the appropriateness and effectiveness of the processes and procedures.

Irrespective of the internal delegation of responsibility, all managers share the responsibility for the proper organization of the lending business and its ongoing development as well as of the proper steering and monitoring of risks associated with the lending business. The managers are responsible for devising a risk strategy based on the ability of the credit institution to bear risk, taking into account an analysis of its underlying business situation as well as an estimate of the risks associated with the lending business. This strategy shall specify the lending business activities planned for an appropriate period of time. The MaK also include common banking standards for loan processing, loan processing control, intensive customer care, problem loan processing and risk provisions. The MaK requirements have been implemented by Postbank in a timely manner. Necessary adjustments in a bank's IT system must be made by December 31, 2005.

### ***Internal Auditing***

The BaFin requires every German bank to have a functioning internal auditing department that is adequately staffed and has adequate resources. The internal auditing department must be adequate in size and quality and must establish appropriate procedures for monitoring and controlling the bank's activities. The internal auditing department must comply with the Minimum Requirements for the Conduct of Internal Audits of Banks (*Mindestanforderungen an die Ausgestaltung der Internen Revision der Kreditinstitute* or "**Mal**") adopted by the BaFin in January 2002.

### ***Enforcement of Banking Regulations; Investigations and Audits***

#### ***Investigations and Audits***

The BaFin conducts audits of banks on a random basis, as well as for cause. It may require banks to furnish information and documents to ensure that the bank is complying with the German Banking Act and the regulations issued on the basis of the German Banking Act.

The BaFin may also conduct investigations at a foreign subsidiary that is part of a bank's group of institutions in order to verify information on consolidation, large exposure limitations and related compulsory reports. Investigations of foreign entities are limited by the laws of the jurisdiction where the entity has its seat. The BaFin may also mandate the German Bundesbank with the performance of investigations in individual cases.

The BaFin may attend meetings of a bank's supervisory board or shareholders' meetings. It also has the authority to require that such meetings be convened. Representatives of the BaFin attend the supervisory board meetings of large German banks, including those of Postbank, on a regular basis.

#### *Enforcement Powers Under Specific Circumstances*

The BaFin has a wide range of enforcement powers in the event it discovers any irregularities. It may remove the bank's managers from office or prohibit them from exercising their current functions. If a bank's own funds are inadequate or if a bank does not meet the liquidity requirements and the bank fails to remedy the deficiency within a certain period, then the BaFin may prohibit or restrict the bank from distributing profits or extending credit. This prohibition also applies to the parent bank of a group of institutions in the event that the own funds of the group are inadequate on a consolidated basis. If a bank fails to meet the liquidity requirements, the BaFin may also prohibit the bank from making further investments in illiquid assets.

If a bank is in danger of defaulting on its obligations to creditors, the BaFin may take emergency measures to directly avert default. These emergency measures may include:

- issuing instructions relating to the management of the bank;
- prohibiting the acceptance of deposits and the extension of credit;
- prohibiting or restricting the bank's managers from carrying on their functions; and
- appointing supervisors.

To avoid the insolvency of a bank, the BaFin may prohibit disposals of assets and payments, close down the bank's customer services, and prohibit the bank from accepting any payments other than payments of debts owed to the bank. Only the BaFin may file an application for the initiation of insolvency proceedings against a bank.

If these measures are insufficient, the BaFin may revoke the bank's license to conduct banking business and render financial services and, if appropriate, order the closure of the bank.

Furthermore, the German Federal Government (*Bundesregierung*) may for the benefit of a bank, through general regulation, extend the time for payment of the obligations of one or more banks if financial difficulties of banks give rise to material risks for the economy as a whole.

Violations of certain provisions of the German Banking Act may result in criminal and administrative penalties.

#### **General Information on Postbank**

##### ***Incorporation and Seat***

Postbank is incorporated under German law.

Until 1989, Postbank formed an undifferentiated part of Deutsche Bundespost, a special asset and agency (*Sondervermögen*) of the Federal Republic of Germany. In 1989, Deutsche Bundespost was reorganized into the three parts, Deutsche Bundespost POSTDIENST, Deutsche Bundespost POSTBANK and Deutsche Bundespost TELEKOM. In 1990, the Postbank of the former German Democratic Republic was integrated into Deutsche Bundespost POSTBANK. Deutsche Bundespost POSTBANK was then incorporated on December 20, 1994, as a stock corporation under the corporate name Deutsche Post AG by virtue of the "Act on the Conversion of the Enterprises of Deutsche Bundespost into a Stock Corporation" (*Gesetz zur Umwandlung der Unternehmen der Deutschen Bundespost in die Rechtsform der Aktiengesellschaft*) of September 14, 1994, and, by statutory provision, obtained a full banking license. On January 2, 1995, Postbank was registered with the commercial register of the Local Court of Bonn (*Amtsgericht Bonn*) under HRB 6793. Postbank's registered office and business address are located at Friedrich-Ebert-Allee 114-126, 53113 Bonn, Federal Republic of Germany.

In June 1999, an agreement was concluded between Postbank, the Federal Republic of Germany, the Federal State of Berlin and the State of Bavaria concerning the sale of the shares in *Deutsche*

*Siedlungs- und Landesrentenbank* ("**DSL Bank**") to Postbank with effect as of January 1, 2000. By virtue of the Act on the Conversion of DSL Bank into a Stock Corporation (*Gesetz über die Umwandlung der Deutschen Siedlungs- und Landesrentenbank in eine Aktiengesellschaft*) (the "**DSL Bank Act**") of December 16, 1999, DSL Bank was converted from a public law entity (*Anstalt des öffentlichen Rechts*) into the private law entity DSL Bank Aktiengesellschaft as of the end of December 31, 1999. DSL Bank Aktiengesellschaft was registered with the commercial register of the Local Court of Bonn (*Amtsgericht Bonn*) on January 24, 2000. Afterwards, DSL Bank Aktiengesellschaft was merged into Postbank under a merger agreement dated May 8, 2000. The merger was registered with the commercial register of Postbank of the Local Court of Bonn (*Amtsgericht Bonn*) on May 26, 2000.

### **Objects**

Postbank is a credit institution (*Kreditinstitut*) within the meaning of Section 1(1) of the German Banking Act (*Kreditwesengesetz*). The purpose of Postbank set forth in Article 2 of its articles of association is to conduct banking transactions of all types, and to render financial and other services, including any related activities. Postbank is also entitled to conduct any other business and take any other measures that seem suitable to serve Postbank's purpose. Postbank may also establish other companies for this purpose, acquire and participate in or manage such companies or restrict itself to the management of the participation. Postbank may spin off its operations to associated companies in part or in full and is entitled to conclude intercompany agreements.

Postbank may establish, operate and liquidate branch offices. Branch offices may also conduct business under the corporate name "DSL Bank – Ein Geschäftsbereich der Deutschen Postbank AG (DSL Bank – A business division of Deutsche Postbank AG)".

### **Management**

#### ***Supervisory Board***

Pursuant to the articles of association, the supervisory board at Postbank has twenty members. Ten members representing the shareholders are elected by the general shareholders' meeting in accordance with the provisions of the German Stock Corporation Act. A further ten members representing employees are elected in accordance with the provisions of the German Co-Determination Act (*Mitbestimmungsgesetz*) of 1976. Of these ten supervisory board members, seven must be Postbank employees and include a senior salaried employee. The remaining supervisory board members must be representatives of the unions represented within the enterprise.

The following table shows the supervisory board members elected by Postbank's shareholders and their mandates and occupations outside Postbank.

NAME	OCCUPATION AND MANDATES OUTSIDE POSTBANK
Dr. Klaus Zumwinkel (Chairman) .....	Chairman of the Management Board of Deutsche Post AG, Bonn; Chairman of the Supervisory Board, Deutsche Telekom AG, Bonn; Member of the Supervisory board, Deutsche Lufthansa AG, Cologne; Member of the Supervisory Board, KarstadtQuelle AG, Essen; Member of the Board of Directors, Morgan Stanley, Delaware; Member of the Board of Directors, C.V. International Post Corp. U.A., Amsterdam
Wilfried Boysen.....	Management consultant
Dr. Edgar Ernst.....	Member of the Management Board of Deutsche Post AG, Bonn; Member of the Supervisory Board of Allianz Versicherungs AG, Munich
Dr. Peter Hoch.....	President Mastercard Europe, Brussels (until June 30, 2004)
Prof. Dr. Ralf Krüger .....	Management consultant, Professor at the University of Applied Sciences Wiesbaden; Member of the Supervisory Board Deutsche Post AG, Bonn
Dr. Hans-Dieter Petram .....	Member of the Management Board of Deutsche Post AG, Bonn; Member of the Supervisory Board of HDI Industrie Versicherung AG, Hanover; Member of the Supervisory Board of HDI Privat Versicherung AG, Hanover; Member of the Supervisory Board of HDI Service AG, Hanover; Chairman of the Supervisory Board Gästehaus Petersberg GmbH, Königswinter
Dr. Klaus Schlede .....	Member of the Supervisory Board of Deutsche Lufthansa AG, Cologne; Member of the Supervisory Board of Deutsche Telekom AG, Bonn; Member of the Supervisory Board of Globale Rückversicherungs-AG, Cologne
Elmo von Schorlemer.....	Attorney-at-law, Aachen; Member of the Supervisory Board of VHV Autoversicherung AG, Hanover; Member of the Supervisory Board of VHV Beteiligungs AG, Hanover; Chairman of the Supervisory Board of Securess AG, Essen
Dr. Manfred Schüler .....	State Secretary (ret.), Wachtberg
Dr. Alfred Tacke .....	State Secretary at the Federal Ministry of Economic Affairs and Labor, Berlin; Member of the consultancies of IKB Deutsche Industriebank AG, Dusseldorf; Member of the Supervisory Board of Deutsche Bahn AG, Berlin

The following table shows the supervisory board members who were elected by Postbank's employees and their occupations outside Postbank.

NAME	OCCUPATION AND MANDATES OUTSIDE POSTBANK
Michael Sommer (deputy chairman) .....	Chairman of the German Trade Union Confederation ( <i>Deutscher Gewerkschaftsbund</i> ), Berlin
Marietta Auer .....	Unit head, Deutsche Postbank AG, Bonn <sup>(1)</sup>
Rosemarie Bolte.....	Head of the Management of the Unit I Specialist Department, ver.di trade union, Stuttgart; Member of the Supervisory Board of Karlsruher Lebensversicherung AG, Karlsruhe
Annette Harms .....	Deputy chairperson of the Works Council, Postbank Hamburg, Hamburg
Ralf Höhmann .....	Chairman of the Works Council, Postbank Stuttgart, Stuttgart; Member of the management of the State Unit I Specialist Department of Financial Services, ver.di, Stuttgart
Elmar Kallfelz .....	Deputy Chairman of the Group Works Council of Deutsche Post AG, Bonn
Harald Kuhlow .....	Expert at the Central Works Council of Deutsche Postbank AG, Bonn <sup>(2)</sup>
Sabine Schwarz .....	Chairman of the Works Council of Postbank Berlin, Berlin <sup>(2)</sup>
Christine Weiler .....	Chairman of the Works Council of Postbank Munich, Munich <sup>(2)</sup>
Christel Zobeley .....	Trade union secretary, ver.di, Berlin

(1) Member of the supervisory board of the Deutsche Bundespost POSTBANK special asset from 1989 through 1995.

(2) No activity "external to Postbank".

The business address of the members of the supervisory board is that of the head office of Postbank.

#### *Supervisory Board Compensation*

As of March 25, 2004, the rules concerning compensation contained in Postbank's articles of association provide for an additional performance-based annual compensation component with long-term incentive character in addition to a fixed compensation component and a short-term variable compensation component. In accordance with the articles of association and in consideration of the services rendered by them, supervisory board members thus receive a fixed sum of € 15,000 as annual compensation in addition to the reimbursement of expenses and of any value-added tax incurred on the compensation and expenses as well as:

- (i) annual variable compensation in the amount of € 300 for each € 0.03 by which Postbank group profits per share for a given fiscal year exceed the sum of € 2.00; and
- (ii) annual variable compensation in the amount of € 300 for every 1 per cent. by which Postbank group profits per share for the fiscal year (= year x +2) two years after a given fiscal year (= year x) exceed the Postbank group profits per share for the fiscal year preceding the given fiscal year (= year x -1). If these conditions are satisfied, this compensation component will be granted for the first time for the fiscal year of

2004 and will be due after conclusion of the general shareholders' meeting in the fiscal year of 2007.

The two variable compensation components may not exceed the sum of € 15,000 in each individual instance. In addition, the variable compensation components set out under (ii) may not exceed 0.5 per cent. of unappropriated net income (*Bilanzgewinn*), reduced by an amount corresponding to 4 per cent. of the total share capital.

The supervisory board chairman receives twice the amount of total compensation calculated in this way and the deputy chairman receives one-and-a-half times this amount. Compensation is increased by the same amount for chairmen of supervisory board committees and by 0.5 for any other committee member, although this rule does not apply to the chairman of the mediation committee (the committee required under the German Co-Determination Act) and its members. The higher compensation received by the chairman and members of a committee may not amount to more than twice the total compensation (= fixed amount + variable compensation components (i) + variable compensation components (ii)). Supervisory board members who serve on the supervisory board or its committees for only part of a fiscal year are compensated *pro rata*.

In addition, supervisory board members receive an attendance allowance of € 250 for each meeting of the supervisory board and its committees that they attend.

Before the rules governing compensation were revised, members of Postbank's supervisory board received, in addition to the reimbursement of expenses, fixed annual compensation in the amount of € 15,000 and variable compensation in the amount of € 1.00 for each basis point of the pre-tax return on equity up to a maximum amount of 10 per cent. of the fixed compensation. The supervisory board chairman received twice the amount and the deputy chairman received one-and-a-half times the amount. Members of the credit committee received an additional € 5,000 and members of the executive committee, audit committee and personnel committee received an additional € 2,500. The chairmen of these committees received twice the amount of compensation drawn by a member. Under these old rules, payments made to supervisory board members in fiscal year 2003 for their activities as supervisory board members totaled € 0.45 million (2002: € 0.43 million).

In addition, supervisory board members received emoluments from Postbank and group companies (salaries and wages of employee representatives serving on the supervisory board) totaling € 0.49 million in fiscal year 2003.

On September 30, 2004, members of the supervisory board of Postbank held 543 Shares.

#### *Relationships with Deutsche Post AG*

Dr. Zumwinkel, the supervisory board chairman of Postbank, is also the chairman of the management board of Deutsche Post AG. In addition, Postbank's supervisory board members Dr. Ernst and Dr. Petram are also members of the management board of Deutsche Post AG. As of September 30, 2004, members of the supervisory board who are simultaneously members of the management board of Deutsche Post AG held a total of 1,311,943 stock options of Deutsche Post AG. A total of 29,191 of these stock options were from a tranche issued in 2001, 468,156 from a tranche issued in 2002, 468,156 from a tranche issued in 2003 and 346,440 from a tranche issued in 2004. The exercise price for the 2001 tranche is € 23.05, for the 2002 tranche € 14.10, for the 2003 tranche € 12.40 and for the 2004 tranche € 17.00 per stock option. In the consolidated financial statements of Deutsche Post AG, a stock option from the 2001 tranche was valued, as of December 31, 2003, at € 1.40, a stock option from the 2002 tranche at € 0.86 and a stock option from the 2003 tranche at € 0.56. The conditions of exercise of the stock options include being linked to attaining certain performance targets that are related to the price of the shares of Deutsche Post AG. At the discretion of Deutsche Post AG, each stock option entitles the holder to acquire one share of Deutsche Post AG at the exercise price or to a cash settlement in the amount of the difference between the exercise price and the average price of the shares of Deutsche Post AG over a period of five trading days prior to the exercise date.



On September 30, 2004, the members of Postbank's supervisory board held a total of 77,307 shares of Deutsche Post AG. The share capital of Deutsche Post AG as of this date was comprised of 1,112,800,000 no-par value shares.

Members of the supervisory board of Postbank are co-insured by the current liability insurance (D&O Insurance) of Deutsche Post AG. A deductible of €5,000 applies to supervisory board members. Postbank pays a *pro rata* premium for being co-insured.

#### *Loans; Other Legal Relationships*

Loans extended to supervisory board members amounted to €206,372.21 on September 30, 2004. The loans were extended in the ordinary course of business of Postbank on the same terms on which Postbank also extends loans to employees. No other contingent liabilities were assumed.

No other material transactions or legal relationships have been entered into between Postbank and the members of the supervisory board or their spouses and relatives in the first degree.

Members of the supervisory board have not been involved in any transactions outside the scope of business of Postbank during the current and preceding fiscal years; however, members of the supervisory board with dual appointments fulfilled their respective functions at the Deutsche Post AG group (excluding Postbank). Members of the supervisory board were not involved in any transactions that were unusual in terms of their form or substance, neither during the current and preceding fiscal years, nor during earlier years that have not yet been definitively concluded.

### **Management Board**

According to the articles of association, the management board of Postbank is comprised of at least two members. The number of management board members is otherwise determined by the supervisory board. At present, the management board has seven members.

The members of the management board and their mandates and positions in other supervisory bodies outside Postbank are as follows:

NAME	OCCUPATION AND MANDATES OUTSIDE POSTBANK
Prof. Dr. Wulf von Schimmelmann .....	Member of the Supervisory Board, TCHIBO Holding AG, Hamburg; Member of the Board of Directors, Accenture Corp., Irving, Texas; Member of the Board of Directors, Altadis S.A., Madrid
Dirk Berensmann .....	Member of the Board of Directors, Eurogiro Network A/S, Taastrup (Denmark); Member of the Management Board, e-Finance Lab Universität Frankfurt/Main; Deputy Chairman of the Advisory Council, einsnull IT-Support GmbH, Bonn
Stefan Jütte .....	Member of the Supervisory Board, BVVG Bodenverwertungs – und Verwaltungsgesellschaft mbH, Berlin
Dr. Wolfgang Klein .....	Chairman of the Supervisory Board, Comma Soft AG, Bonn; Member of the Administrative Board, VISA Deutschland e.V., Frankfurt
Loukas Rizos .....	—
Lothar Rogg .....	Chairman of the Supervisory Board, McPaper AG, Bonn
Ralf Stemmer .....	Member of the Administrative Board, Bundesanstalt für Post und Telekommunikation, Deutsche Bundespost, Bonn; Member of the Supervisory Board, Danzas Deutschland Holding GmbH, Düsseldorf; Member of the Supervisory Board, Danzas GmbH, Düsseldorf; Member of the Advisory Council, einsnull IT-Support GmbH, Bonn; Chairman of the Advisory Council, Einlagensicherungsfonds des Bundesverbands öffentlicher Banken Deutschland e.V. (until June 30, 2004), Berlin

The business address of the members of the management board is that of the head office of Postbank.

### **Management Board Compensation**

The salary of each management board member comprises a fixed component and a variable component. The variable component, which may constitute up to 50 per cent. of total compensation, is based on various criteria, including the attainment of specific financial and operational performance goals. Part of the variable compensation is based on the consolidated earnings of Deutsche Post AG, which also includes Postbank's earnings. In fiscal year 2004, 25 per cent. of the total compensation in the case of Prof. Dr. von Schimmelmann is based on the consolidated earnings of Deutsche Post AG, while for the remaining current members, up to 12.5 per cent. of the total compensation is based on the consolidated earnings of Deutsche Post AG.

Currently, there are no concrete plans to discontinue tying part of variable compensation to the consolidated earnings of Deutsche Post AG in the near future.

In fiscal year 2003, salaries received by members of the management board of Postbank totaled € 4.28 million (2002: € 4.27 million; 2001: € 2.98 million).

The compensation of Prof. Dr. von Schimmelfmann and Mr. Rogg is paid by Postbank in full. Neither receives further compensation from Deutsche Post AG or from subsidiaries of Postbank. Compensation of Mr. Stemmer, who became a member of the management board as of July 1, 2004, was paid in full by Deutsche Post AG until June 30, 2004. Prior to that date, Mr. Stemmer did not receive any additional compensation from Postbank. Compensation of Mr. Stemmer is being paid mainly by Postbank since July 2004. The remaining members of the management board of Postbank receive their compensation in full from Postbank. They do not receive any further compensation from Deutsche Post AG or from subsidiaries of Postbank.

As of September 30, 2004, management board members held 284 Shares. Management board members do not hold rights to subscribe for Shares. No stock option plan relating to shares of Postbank is available to members of the management board at the present time, nor do any plans exist to introduce a stock option plan. Postbank does, however, intend to introduce capital market-oriented variable compensation tied to Postbank for the members of the management board starting in fiscal year 2005.

Pension payments in the amount of € 1.28 million were made to former management board members who left office before fiscal year 2003. Pension provisions for this group amounted to € 20.41 million on December 31, 2003.

#### *Relationships with Deutsche Post AG*

Prof. Dr. Wulf von Schimmelfmann, chairman of Postbank's management board, is simultaneously a member of the management board of Deutsche Post AG and responsible for the Financial Services division, which includes the branch outlet network and Pension Service in addition to Postbank. Lothar Rogg, the management board member responsible for Postbank's "Retail Customers – Stationary Sales" division, is the spokesman of Deutsche Post AG's "branch outlets" divisional management board, a tier of management directly subordinate to the management board. In addition, Ralf Stemmer, who has been head of the "Resources" division as of July 2004 as a member of the management board, is the group head of the central department of wages and salaries policy and personnel legal affairs at Deutsche Post AG.

As of September 30, 2004, the members of Postbank's management board held a total of 793,051 stock options issued by Deutsche Post AG in several tranches granting the right to subscribe for shares of Deutsche Post AG. A total of 28,639 of these stock options come from the tranche issued in 2001, 272,622 from the tranche issued in 2002, 263,268 from the tranche issued in 2003 and 228,522 from the tranche issued in 2004. For the 2001 tranche the exercise price is € 23.05, for the 2002 tranche it is € 14.10, for the 2003 tranche it is € 12.40 and for the 2004 tranche it is € 17.00 per stock option. In the consolidated financial statements of Deutsche Post AG, a stock option from the 2001 tranche was valued, as of December 31, 2003, at € 1.40, a stock option from the 2002 tranche at € 0.86 and a stock option from the 2003 tranche at € 0.56.

Among other conditions, the exercise of the stock options is linked to attaining certain performance targets relating to the price of the shares of Deutsche Post AG. At the discretion of Deutsche Post AG, each stock option entitles the holder either to acquire one share of Deutsche Post AG at the exercise price or to a cash settlement in the amount of the difference between the exercise price and the average price of Deutsche Post AG share over a period of five trading days prior to the exercise date. It is intended that members of the management board as well as members of the supervisory board who are members of the management board of Deutsche Post AG will continue to be granted stock options for shares of Deutsche Post AG for their management functions.

On September 30, 2004, the members of Postbank's management board held a total of 31,650 shares of Deutsche Post AG. The share capital of Deutsche Post AG on June 30, 2004 consisted of 1,112,800,000 no-par value shares.

Members of the management board of Postbank and members of representative bodies of subsidiaries of Postbank are insured by the current liability insurance (D&O Insurance) of Deutsche Post AG. A deductible of € 100,000 applies to management board members. Postbank pays a *pro rata* premium for being co-insured.

#### *Loans; Other Legal Relationships*

Loans extended to management board members amounted to € 229,731.07 on September 30, 2004. The loans were extended in the ordinary course of the business of Postbank on the same terms on which other employees of Postbank also receive loans. No other contingent liabilities were assumed.

No other material transactions or legal relationships have been entered into between Postbank and the members of the management board or their spouses and relatives in the first degree. Members of the management board have not been involved in any transactions outside the scope of business of Postbank during the current and preceding fiscal years; however, those members with dual appointments fulfilled their respective functions at Deutsche Post AG. Members of the management board were not involved in any transactions that were unusual in terms of their form or substance for Postbank, neither during the current and preceding fiscal years nor during earlier years that have not yet been definitively concluded.

### **Capital**

#### ***Share Capital***

The share capital of Postbank amounts to € 410,000,000 and is divided into 164,000,000 ordinary registered shares with no par value (*Stückaktien*) (the "**Shares**"), each Share representing a € 2.50 portion of Postbank's share capital.

Currently, 66.7 per cent. of the share capital of Postbank is held by Deutsche Post AG directly or indirectly through its subsidiary Postbank Beteiligungs GmbH. To the knowledge of Postbank, no other shareholder directly or indirectly holds 10 per cent. or more of the share capital of Postbank.

In June 2004, Deutsche Post AG issued € 1,081,550,000 2.65% Senior Exchangeable Notes due 2007 (the "**Exchangeable Notes**"). Deutsche Post AG has granted each holder of the Exchangeable Notes the right to exchange the Exchangeable Notes from and including August 11, 2004, up to and including June 25, 2007, into Shares at an initial exchange price for each Share of € 39.33. Deutsche Post AG is entitled, upon exercise of the exchange right by a noteholder, to pay a cash amount in lieu of delivery of Shares. The total exchange volume amounts to approximately 16.8 per cent. of the share capital of Postbank.

Deutsche Post AG agreed with the Federal Republic of Germany to sell an interest in the share capital of Postbank of 50 per cent. plus one share until January 5, 2009, in whole or in part, only with the consent of the Federal Republic of Germany. This also applies, *inter alia*, to the issuance of additional shares of Postbank to third parties, provided that such issuance of additional shares leads to a dominating influence on Postbank by such third parties. The Federal Republic of Germany may grant its consent at any time. Other than the Exchangeable Notes, neither Postbank nor any affiliate has issued any debt securities that are exchangeable or convertible into Shares, and neither of them has issued any debt securities with warrants to acquire Shares.

The Shares are represented by several global share certificates deposited with Clearstream AG, Frankfurt am Main. Shareholders of Postbank have co-ownership interests in the global share certificates, either directly if they are participants in Clearstream AG, or indirectly through organizations (such as banks) that are participants in such system. Any claims by the shareholders to obtain single or multiple share certificates are excluded to the extent permitted by law if certificates are not required by the rules of any stock exchange to which the Shares have been admitted.

Each Share confers one vote at the general shareholders' meeting and is fully entitled to dividends.

All of the Shares have been fully paid in and are freely transferable. There are no selling restrictions or other restrictions in regard to the transferability of the Shares.

The share capital of Postbank was divided into 16,000,000 shares as of April 27, 2004. By resolution of the general shareholders' meeting dated March 25, 2004, a share split was effected at the ratio of 1:10.25. Upon the registration of the resolution of the general shareholders' meeting with the commercial register of Postbank on April 27, 2003, the share capital of Postbank in the amount of € 410,000,000 is divided into 164,000,000 shares.

The amount of the share capital and the classes of shares of Postbank have not changed in the past three years. Only the number of Shares has changed as a result of the share split referred to above in the past three years.

As of September 30, 2004, Postbank held 80,054 Shares for trading purposes.

#### *Authorized Capital*

The ordinary general shareholders' meeting of Postbank held on March 25, 2004 authorized the management board, subject to the consent of the supervisory board, to increase the share capital of Postbank on or before March 24, 2009, by a total of up to € 41,000,000 (authorized capital), in whole or in part, in one or more tranches, through the issuance of new, non-voting registered shares (preference shares (*Vorzugsaktien*)) against contributions in kind. If preference shares are issued, the holders of the preference shares without voting rights will receive a preferred dividend of € 0.05 per preference share when the balance sheet profits of Postbank for the fiscal year are distributed. If the balance sheet profits for the fiscal year are not sufficient to pay a preferred dividend of € 0.05 per preference share, the deficit will subsequently be paid without interest from the balance sheet profits of the following fiscal years, once the preferred dividend for these fiscal years has been distributed and prior to the distribution of a share in the profits on the ordinary shares.

The subscription rights of shareholders have been excluded. Subject to the consent of the supervisory board, the management board has been authorized to determine all additional rights attached to the shares, as well as the conditions governing their issuance. This authorized capital was entered in the commercial register on May 28, 2004.

Postbank will not make use of the authorization to issue new shares without the prior consent of the management board of Deutsche Post AG to ensure that the issuance of new shares does not result in a breach of Deutsche Post AG's obligations *vis-à-vis* the Federal Republic of Germany not to issue additional Shares to third parties without the consent of the Federal Republic of Germany until January 5, 2009, if such issuance could lead to the controlling influence of a third party in Postbank.

#### **Authorization to Acquire Own Shares**

##### *Authorization for Trading Purposes*

*Authorization.* Postbank is authorized, in the period from March 25, 2004, until and including September 24, 2005, to buy and sell its own shares for trading purposes. The amount of shares to be acquired for this purpose may not exceed five percent of the share capital of Postbank at the end of any day. Moreover, the shares acquired pursuant to this authorization, together with any other shares of Postbank already acquired and held by Postbank, may not at any time exceed ten percent of the share capital. This authorization may be exercised in whole or in part and once or more than once.

*Purchase Price.* In the event of an acquisition on a stock exchange, the purchase price (excluding incidental acquisition costs) may not deviate by more than 10 per cent. from the arithmetical average of the closing prices for the shares of Postbank in XETRA trading (or a comparable successor system) of the Frankfurt Stock Exchange on the last ten consecutive trading days preceding the acquisition or the entering into an obligation to acquire.

In the event of an acquisition by means of a public tender offer to all shareholders or by other means, taking into account the principle of equal treatment of shareholders, the purchase price paid to the shareholders (excluding incidental acquisition costs) may not deviate by more than 10

per cent. from the arithmetical average of the closing prices for the shares of Postbank in XETRA trading (or a comparable successor system) of the Frankfurt Stock Exchange on the last ten consecutive trading days preceding the public announcement of the offer. In the event of an acquisition by other means, the purchase price may not be more than 20 per cent. higher or more than 10 per cent. lower than the arithmetical average of such closing prices prior to acquisition. If the shares offered for sale by the shareholders exceed the total amount of the public tender offer of Postbank, they will be accepted at a ratio of the total amount of the public tender offer to the total shares offered for sale by the shareholders. Provisions may, however, be made for accepting smaller numbers of up to 50 shares per shareholder on a preferential basis. The provisions of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) must be complied with if and to the extent applicable.

### ***Authorization for Other Purposes***

*Authorization.* Postbank is authorized, in the period from March 25, 2004, until and including September 24, 2005, to buy its own shares in a total amount of up to 10 per cent. of the share capital existing at the time the resolution was adopted. In this context, the shares acquired pursuant to this authorization, together with any other of the shares of Postbank already acquired and held by Postbank, may not at any time exceed 10 per cent. of the share capital. This authorization may be exercised in whole or in part and once or more than once.

*Purchase Price.* In the event of an acquisition on a stock exchange, the purchase price (excluding incidental acquisition costs) may not deviate by more than 10 per cent. from the arithmetical average of the closing prices for the shares of Postbank in XETRA trading (or a comparable successor system) of the Frankfurt Stock Exchange on the last ten consecutive trading days preceding the acquisition or the entering into an obligation to acquire.

In the event of an acquisition by means of a public tender offer to all shareholders or by other means, taking into account the principle of equal treatment of shareholders, the purchase price paid to the shareholders (excluding incidental acquisition costs) may not deviate by more than 10 per cent. from the arithmetical average of the closing prices for the shares of Postbank in XETRA trading (or a comparable successor system) of the Frankfurt Stock Exchange on the last ten consecutive trading days preceding the public announcement of the offer. In the event of an acquisition by other means, the purchase price may not be more than 20 per cent. higher or more than 10 per cent. lower than the arithmetical average of such closing prices prior to acquisition. If the shares offered for sale by the shareholders exceed the total amount of the public tender offer of Postbank, they will be accepted at a ratio of the total amount of the public tender offer to the total shares offered for sale by the shareholders. Provisions may, however, be made for accepting smaller numbers of up to 50 shares per shareholder on a preferential basis. The provisions of the German Securities Acquisition and Takeover Act must be complied with if and to the extent applicable.

*Purpose.* Pursuant to the statutory provisions, shares acquired pursuant to this authorization may be sold via a stock exchange. Any other form of sale must, however, be explicitly provided for in the authorization. In the event of the shares not being sold on a stock exchange, the shareholders also have a right of first refusal, which may, however, be excluded pursuant to the rules relating to the exclusion of subscription rights described above.

The authorization of March 25, 2004, provides that the management board of Postbank may exercise such authorization for any legally permissible purpose, in particular in order to meet one or more of the following objectives. The management board of Postbank is in particular authorized, with the approval of the supervisory board,

- to redeem any shares acquired pursuant to this authorization without any additional resolution by a general shareholders' meeting; or
- to use such shares in a manner other than by sale on a stock exchange or an offer to all shareholders, excluding the subscription rights of the shareholders, as follows:
  - sale against payment in kind, to the extent that this is done for the purpose of purchasing companies, parts of companies or shareholdings in companies or of implementing corporate mergers;



- sale against cash payment of up to 50,000 repurchased shares to investors acquiring a certain amount of investment fund shares from Postbank; or
- sale against cash payment, to the extent that the price paid is not substantially less than the stock market price of the shares of Postbank at the time of sale. This authorization is restricted, taking into consideration other authorizations pertaining to the issuance of new shares and excluding subscription rights pursuant to the statutory legal provisions to a maximum of 10 per cent. in total of the existing share capital of Postbank.

### ***Typical silent partnerships of five German insurance companies***

Five German insurance companies (the “**Silent Partners**”) have acquired typical silent partnership interests of DSL Bank in the total amount of approximately € 51 million (€ 10 million, € 10 million, € 10 million, € 15 million and € 6 million). Following the merger of DSL Bank into Postbank, Postbank is the legal successor of DSL Bank with respect to these silent partnership agreements. The Silent Partners participate in the profits and losses of Postbank pursuant to the ratio of their silent partnership interest to shareholders’ equity of Postbank. To the extent that payment of profit participations would result in, or increase the amount of an annual loss of Postbank (on an unconsolidated basis), the Silent Partners are not entitled to receive profit participations. The silent partnership interests also participate in annual losses of Postbank by corresponding reductions of their nominal amounts. In the event of a reduction of silent partnership interests, in the succeeding year as well as for three years after termination of the silent partnership, future profits will be applied to such silent partnership interests (prior to the allocation of reserves) until the silent partnership interest equals its original amount, and missed profit distributions will be made up, unless an annual loss results from such distributions or is increased thereby. The silent partnerships end on December 31, 2009 in three cases and on December 31, 2018 in two cases. In the event of Postbank’s insolvency or liquidation, the silent partnership interests will be repaid only after payment of all creditors, including holders of participation rights, however prior to payment of the shareholders and holders of atypical partnership interests within the meaning of § 4 para. 1 of the DSL Bank Act. Postbank treats the contributions made with respect to the silent partnership interests as Tier I Capital (on consolidated and unconsolidated basis).

### ***Profit Participation Rights***

As of September 30, 2004, Postbank reported profit participation capital (*Genussrechtskapital*) outstanding in the amount of € 451 million. This profit participation capital outstanding comprises profit participation rights (*Genussrechte*) issued by the former DSL Bank and Postbank.

Pursuant to the authorization of the general shareholders’ meeting held on May 26, 2003, the management board is authorized, in the period until May 25, 2008, in one or more tranches, to issue registered or bearer profit participation rights in an aggregate nominal amount of up to € 2,500,000,000. The terms and conditions of the profit participation rights to be issued must correspond to the requirements of the German Banking Act with respect to Tier II capital. The maximum term of the profit participation rights is up to 20 years. The management board is authorized, with the approval of the supervisory board, to determine the further details pertaining to the issuance and terms of the profit participation rights. The management board made use of this authorization between July 25, 2003, and October 20, 2003, by issuing seven tranches of registered profit participation rights with a nominal amount of € 99.5 million and placed such rights with domestic institutional investors. These profit participation rights serve to strengthen the regulatory banking capital in accordance with the provisions of the German Banking Act. The outstanding profit participation rights participate fully in Postbank’s losses. Interest payments will be paid only to the extent there is a balance sheet profit. The rights of the profit participation right holders to repayment of the capital rank subordinate to those of other creditors. The outstanding profit participation rights have a 10-year term. The outstanding profit participation rights grant no subscription rights with respect to new shares of Postbank or additional profit participation rights in the case of a capital increase of Postbank.

Pursuant to the authorization of the general shareholders’ meeting held on March 25, 2004, the management board is authorized, in the period until March 24, 2009, once or more than once, to issue registered or bearer profit participation rights in an aggregate nominal amount of up to

€ 41,000,000 or, taking into consideration the permissible aggregate nominal amount, not only in Euro but also in a legal currency of an OECD country. The management board is authorized, with the approval of the supervisory board, to exclude the shareholder's subscription rights to the extent that profit participation rights are issued against payment in kind and that this is done for the purpose of purchasing companies, parts of companies or shareholdings in companies or implementing corporate mergers. The management board is authorized, with the approval of the supervisory board, to determine further details pertaining to the issuance and terms of the profit participation rights. The management board has not yet made use of this authorization.

### Earnings and Dividend Per Share

The following table shows the earnings per share and the annual dividend paid per share for the fiscal years 2001, 2002 and 2003:

	2001	2002	2003
Dividend per share in €* .....	0.84	0.60	3.59
Earnings per share in €* (based on the consolidated financial statements) ..	1.16	0.81	2.14
Earnings per share in €* (based on the non-consolidated financial statements) .....	0.84	0.60	3.59

\* Figures are based on the current number of outstanding Shares (164 million no-par value shares). The corresponding information in Postbank's 2001, 2002 and 2003 consolidated financial statements differs because it was calculated on the basis of the share capital (16 million no-par value shares) existing on the respective statement dates.

### Shareholdings

Postbank does not have any subsidiaries with a book value representing 10 per cent. or more of the consolidated shareholders' equity of Postbank or contributing 10 per cent. or more to the consolidated net income of Postbank. A list of its shareholdings may be found in Note 57 of the Postbank 2003 consolidated financial statements contained herein.

### Branch Offices

Postbank has branch offices in Berlin, Bielefeld, Bonn, Cologne, Dortmund, Dresden, Dusseldorf, Erfurt, Essen, Frankfurt am Main, Hamburg, Hanover, Karlsruhe, Leipzig, Ludwigshafen, Magdeburg, Mannheim, Munich, Nuremberg, Saarbrücken, Schwerin and Stuttgart as well as Luxembourg.

### Publications

In accordance with its articles of association, all notifications to shareholders are published by Postbank in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*).

### Ratings

#### General

Individual ratings reflect the assessment of the relevant rating agency only on the date of being assigned. Rating agencies may change their ratings any time. The outlook for a particular Postbank rating provides an indication of the rating agency's view on the anticipated further development of the rating over the medium or long-term (S&P), the medium term (Moody's) or over a period of one to two years (Fitch). A positive or negative rating outlook does not suggest that a change in the rating is inevitable. A rating of long-term or short-term liabilities or of financial strength does not constitute a rating of shares or other securities. For this reason, the ratings indicated below do not constitute a statement with regard to the shares or other securities of Postbank. A rating is not a recommendation to buy, sell or hold securities. Each rating should be taken for itself and considered independently of other ratings.

#### Credit Rating

Postbank is rated by three major international rating agencies with respect to its creditworthiness: Standard & Poor's ("**S&P**"), Moody's Investors Service ("**Moody's**") and FitchRatings ("**Fitch**"). As of the date of this Sales Prospectus, Postbank's credit ratings were as follows:

	Long-term liabilities	Short-term liabilities
S&P .....	A*	A-1
Moody's .....	A1*	P-1
Fitch.....	A*	F1

\* Stable outlook

The rating agencies define the respective ratings assigned to Postbank as follows:

S&P:	A:	"An issuer rated 'A' is assigned to the group of debtors having a strong ability to meet their financial obligations. It is, however, somewhat more susceptible to adverse affects of changing circumstances and economic conditions than higher-rated issuers."
	A-1:	"An issuer rated 'A-1' has a strong capacity to meet its financial commitments. Standard & Poors assigns it to the highest rating category."
Moody's:	A1:	"A1" debt obligations are rated in the upper third of the group of debt obligations that are considered to be securities belonging to the upper-medium grade and subject to lower credit risk."
	P-1:	"An issuer with the rating "Prime-1" is in a superior position to repay its short term debt obligations."
Fitch:	A:	"High credit quality. An 'A'-Rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings."
	F1:	"Highest credit quality. This rating indicates the strongest capacity for timely payment of financial commitments."

S&P's ratings for long-term liabilities include ratings ranging from AAA (highest rating) to D (lowest rating). An A rating follows AAA and AA ratings and precedes BBB and lower ratings. An A1 rating for long-term liabilities by Moody's is beneath an Aa3 rating and above an A2 rating and lower ratings. Fitch's ratings for long-term liabilities include ratings ranging from AAA (highest rating) to D (lowest rating). Fitch's A rating follows an AA rating and precedes an A and lower ratings. Postbank's ratings for short-term liabilities are in each case in the highest rating category for short-term liabilities of each of the three above-mentioned rating agencies.

### **Financial Strength**

Moody's also assigned a financial strength rating to Postbank. The financial strength rating assigned to Postbank by Moody's as of the date hereof is C+.

Moody's financial strength rating for banks indicate its assessment of the internal security and solidity of a bank and is not related to the likelihood of timely payment. On the contrary, each financial strength rating constitutes an assessment of the probability that a bank requires support of third parties. Moody's defines the financial strength rating of C+ as follows:

Moody's:	C+:	"A bank with a C+ rating is assigned to the upper end of the group of banks having sufficient financial strength. As a rule, these are institutions with a somewhat limited yet definitely valuable and efficient service structure and sales organization. These banks can exhibit an acceptable financial condition in an attractive and stable operational business environment, or a good financial condition in a less attractive and stable operational business environment."
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### **Fiscal Year**

Postbank's fiscal year is the calendar year.

**Independent Auditors**

Independent auditors of Postbank are PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Moskauer Strasse 19, 40227 Dusseldorf, Federal Republic of Germany ("**PWC**").

PWC has audited the consolidated financial statements of Postbank for the years 2001, 2002 and 2003 and has issued in each case an unqualified opinion.

**Recent Developments and Outlook**

Revenues of Postbank Group continue to be adversely affected by the low interest rate level. Postbank Group's net interest income in 2004 may fall short of the previous year's level. Postbank does anticipate, however, that the other components of its results are likely to more than compensate for this effect. Postbank anticipates an increase in administrative expenses compared with the previous year, largely due to the acquisition of the payment transaction processing units of Deutsche Bank AG and Dresdner Bank AG. Overall, Postbank anticipates a higher result in 2004 in comparison with the previous year.

## TAXATION

PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS AS TO THE GERMAN, DUTCH AND UNITED STATES INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF TRUST PREFERRED SECURITIES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

### German Taxation

The following is a discussion of certain German tax considerations that may be relevant to a holder of Trust Preferred Securities that is a tax resident of the Federal Republic of Germany or for which income in respect of the Trust Preferred Securities is regarded as income from German sources, e. g., because such Trust Preferred Securities form part of the business property of a permanent establishment or fixed base maintained in the Federal Republic of Germany (a **"German Holder"**). The information contained in this summary is not to be construed as tax advice. It is based on an interpretation of the German tax laws as of the date hereof and is subject to change. Any such change may be applied retroactively and may adversely affect the tax consequences described herein. This summary does not purport to deal with all aspects of taxation that may be relevant to investors in the light of their individual circumstances. Prospective investors are advised to consult their own tax advisors with respect to the tax consequences of purchasing, holding, redeeming or disposing of Trust Preferred Securities.

### Income Taxation

Capital Payments received by or, in specific cases, owed to a German Holder with respect to the Trust Preferred Securities will be subject to German personal or corporate income tax (plus a "solidarity surcharge" thereon, which is currently levied at 5.5 per cent.), and, in the case of a German Holder who is an individual, may be subject to church tax. Upon the sale or redemption of the Trust Preferred Securities, a German Holder will also be required to include in its taxable income the difference between the amount realized on such sale or redemption and the cost of acquisition (or adjusted tax base) of the Trust Preferred Securities. Income derived from the Trust Preferred Securities will also be subject to German municipal trade tax on income (*Gewerbebeertragsteuer*) if the Trust Preferred Securities form part of the property of a German business establishment for trade tax purposes or are held by a German corporate investor.

A German Holder who is an individual and does not hold the Trust Preferred Securities as a business asset will be entitled to a standard deduction (*Werbungskosten-Pauschbetrag*) of € 51 in computing his or her investment income (including income derived from the Trust Preferred Securities) if no higher expenses are evidenced as well as an exemption (*Sparer-Freibetrag*) of € 1,370 with respect to such investment income. These amounts are doubled for couples filing a joint tax return.

### German Withholding Tax

If the Trust Preferred Securities are kept in a custodial account maintained by a German Holder with a German bank or a German financial services institution, each as defined in the German Banking Act (*Kreditwesengesetz*) (including a German branch of a foreign bank or a foreign financial services institution, but excluding a foreign branch of a German bank or German financial services institution) (a **"German Disbursing Agent"**), the German Disbursing Agent will generally be required to withhold tax (*Zinsabschlagsteuer*) at a rate of 30 per cent. (plus solidarity surcharge thereon at a rate of 5.5 per cent., resulting in an aggregate withholding rate of 31.65 per cent.) of the gross amount paid as income with respect to the Trust Preferred Securities. Upon the sale or redemption of the Trust Preferred Securities, a German Disbursing Agent will generally be required to withhold tax at an aggregate rate of 31.65 per cent. on:

- (i) the excess of the sale or redemption proceeds of the Trust Preferred Securities over the holder's acquisition cost, if the Trust Preferred Securities have been acquired through or purchased from and have since been held in custody with such German Disbursing Agent, or

- (ii) an amount equal to 30 per cent. of the sale or redemption proceeds of the Trust Preferred Securities, if the Trust Preferred Securities have not been so held with such German Disbursing Agent.

Tax withheld by the German Disbursing Agent will be credited against the German Holder's final liability for personal or corporate income tax or refunded if in excess of such final tax liability.

### ***Gift and Inheritance Taxation***

The gratuitous transfer of the Trust Preferred Securities by a holder as a gift or by reason of death is subject to German gift or inheritance tax, based on the market value of the Trust Preferred Securities at the time of the transfer, if the holder of the Trust Preferred Securities or the recipient is a resident, or deemed to be a resident, of the Federal Republic of Germany under German gift and inheritance tax law at the time of the transfer. If neither the holder of the Trust Preferred Securities nor the recipient is a resident, or deemed to be a resident, of the Federal Republic of Germany at the time of the transfer, no German gift or inheritance tax is levied unless the Trust Preferred Securities form part of the property of a permanent establishment or a fixed base maintained by the holder of the Trust Preferred Securities in the Federal Republic of Germany.

### ***Other German Taxes***

There are no German transfer, stamp or other similar taxes which would apply to the sale or transfer of the Trust Preferred Securities. Net-worth tax (*Vermögensteuer*) ceased to be levied by the Federal Republic of Germany on January 1, 1997 and trade tax on capital (*Gewerbekapitalsteuer*) ceased to be levied by the Federal Republic of Germany on January 1, 1998.

### ***European Union Savings Directive***

On June 3, 2003, the Council of the European Union adopted a directive on the taxation of savings income. Pursuant to the directive, a member state of the European Union will be required to provide to the tax authorities of other member states information regarding payments of interest (or other similar income) paid by a person within its jurisdiction to individual residents of such other member states, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments, unless during such period these member states elect otherwise. Subject to certain conditions, the provisions of the directive will be effective as of July 1, 2005.

### ***Taxation in the United States***

The following is a summary of the principal U.S. federal income tax consequences relating to an investment in the Trust Preferred Securities by an investor that is a Non-U.S. Holder (as defined below). This summary does not address any U.S. tax consequences to a person who is a U.S. Holder (as defined below) or is subject to U.S. federal income tax on a net income basis. For purposes of this summary, a **"Non-U.S. Holder"** is a beneficial owner of Trust Preferred Securities other than a U.S. Holder. A **"U.S. Holder"** is a beneficial owner of Trust Preferred Securities that for U.S. federal income tax purposes is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

This summary addresses the tax consequences to a Non-U.S. Holder that acquires Trust Preferred Securities on their original issue at their Issue Price (an **"Original Trust Preferred Securityholder"**). This summary does not address all tax consequences that may be applicable to a beneficial owner of the Trust Preferred Securities and does not address the tax consequences to a Non-U.S. Holder in special circumstances (for example, the summary does not address a Non-U.S. Holder subject to U.S. federal income tax on a net income basis). This summary is based upon the Internal Revenue Code of 1986, as amended (the **"Code"**), Treasury Regulations, Internal Revenue Service (**"IRS"**) rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect).



Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to the tax treatment of the Trust Preferred Securities and no assurance can be given that the IRS will not take contrary positions. Moreover, no assurance can be given that the tax consequences described herein will not be challenged by the IRS or, if challenged, that such a challenge would not be successful.

Prospective investors are urged to consult with their tax advisors as to the U.S. federal income tax consequences of the purchase, ownership and disposition of Trust Preferred Securities, as well as the effect of any state, local or foreign tax laws.

#### ***Tax Treatment of the Trust***

Assuming compliance with the terms of the Trust Agreement, the Trust will be treated as a grantor trust and will not be taxable as a corporation for U.S. federal income tax purposes.

#### ***Tax Treatment of the Company***

In purchasing the Trust Preferred Securities, each Original Trust Preferred Securityholder agrees with Postbank, the Company and the Trustee that Postbank, the Company, the Trustee and the Original Preferred Securityholders will treat Original Trust Preferred Securityholders for all purposes as holders of an undivided interest in Trust assets, including the Class B Preferred Securities, and not as holders of a direct interest in Postbank or in any other person, and the following discussion is based on the assumption that such treatment will apply for U.S. federal income tax purposes. Assuming full compliance with the LLC Agreement, the Company will not be taxable as a corporation and will not itself be subject to U.S. federal income tax, but will be treated as a partnership for U.S. federal income tax purposes.

#### ***Income and Withholding Tax***

Assuming compliance with the terms of the LLC Agreement and the Company does not engage in activities other than those described in this Sales Prospectus, the Company will not be treated as engaged in the conduct of a U.S. trade or business. Moreover, the Company intends to invest through the Maturity Date in securities that will be exempt from withholding of U.S. federal income tax when income attributable to such securities is distributed or allocated to beneficial holders of Class B Preferred Securities. So long as that is the case, a Non-U.S. Holder will not be subject to withholding of U.S. federal income tax on payments in respect of the Trust Preferred Securities. A Non-U.S. Holder also will not be subject to U.S. federal income tax on its allocable share of the Company's income unless such income is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States of America. A Non-U.S. Holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale or exchange of the Trust Preferred Securities, unless in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States of America for 183 days or more in the taxable year of the sale and certain other conditions are met.

#### ***Information Reporting and Backup Withholding***

In general, a Non-U.S. Holder who holds Trust Preferred Securities through a non-United States bank or other non-United States financial institution that is a participant in Euroclear, Clearstream AG or Clearstream Luxembourg will not be required to provide certification of non-U.S. status for U.S. withholding purposes and will not be subject to the information reporting rules or backup withholding. In other contexts, however, including where a Non-U.S. Holder withdraws from the Trust and directly holds the Class B Preferred Securities, Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of information reporting requirements and backup withholding tax.

#### ***Netherlands Taxation***

The following is a summary of certain Dutch tax consequences relating to the purchase, ownership, redemption and disposition of the Trust Preferred Securities or Class B Preferred Securities. This summary does not address any laws other than the tax laws of the Netherlands as currently in effect and in force and as interpreted in published case law by the courts of the Netherlands at the date hereof, and is subject to change after such date, including changes that

could have retroactive effect. This section solely addresses the situation of holders of the Trust Preferred Securities or Class B Preferred Securities resident or deemed resident of the Netherlands for Dutch tax purposes, including an individual holder of Trust Preferred Securities or Class B Preferred Securities who has opted to be taxed as a resident of the Netherlands for Dutch tax purposes. This summary does not purport to be complete and, in light of the limited nature of this summary, each holder or prospective holder should avoid placing undue reliance on this summary. Each holder or prospective holder of Trust Preferred Securities or Class B Preferred Securities should consult his or her professional tax advisor with respect to the Dutch tax consequences of an investment in Trust Preferred Securities or Class B Preferred Securities.

This summary does not address the Dutch tax consequences of an investor who holds a substantial interest (*aanmerkelijk belang*) in the Company within the meaning of Section 4.3 of the Income Tax Act 2001 (*Wet inkomstenbelasting 2001*). Generally speaking, a holder of Trust Preferred Securities or Class B Preferred Securities holds a substantial interest in the Company if such holder, alone or together with his or her partner (a statutorily defined term) or certain other related persons, directly or indirectly, holds: (i) an interest of 5 percent or more of the total issued capital of the Company or of 5 percent or more of the issued capital of a certain class of shares of the Company; (ii) rights to acquire, directly or indirectly, such interest; or (iii) certain profit sharing rights in the Company.

For the purposes of the principal Dutch tax consequences described herein, it is assumed that Postbank, the Company and the Trust are not resident nor deemed to be resident in the Netherlands for Dutch tax purposes.

#### ***Withholding Tax***

No Dutch withholding tax is due upon payments on the Trust Preferred Securities or Class B Preferred Securities.

#### ***Dutch Taxes on Income and Capital Gains***

Generally, a holder of Trust Preferred Securities or Class B Preferred Securities will be subject to Dutch corporate income tax with respect to distributions or capital gains realized upon the redemption, disposal or deemed disposal of Trust Preferred Securities or Class B Preferred Securities, if the holder is a resident of, or deemed to be resident of, the Netherlands. It is thereby assumed that a holder of Trust Preferred Securities or Class B Preferred Securities does not hold, either alone or together with affiliated companies (*verbonden lichamen*), an interest of 25 per cent. or more in the Trust or the Company.

Unless tax exempt, Dutch resident entities are generally subject to corporate income tax, levied at a rate of 29 per cent. of the first € 22,689 of the taxable profits and 34.5 per cent. of the excess over this amount.

A holder of Trust Preferred Securities or Class B Preferred Securities who is a resident of the Netherlands, deemed to be a resident of the Netherlands, or who has elected to be treated as a resident of the Netherlands for Dutch tax purposes is subject to income tax in respect of income or capital gains derived from the Trust Preferred Securities or Class B Preferred Securities at the progressive rates provided in the Income Tax Act 2001 if:

- (i) the holder of the Trust Preferred Securities or Class B Preferred Securities has an enterprise or an interest in an enterprise to which the Trust Preferred Securities or Class B Preferred Securities are attributable; or
- (ii) the income or gain qualifies as income from employment as defined in Section 3.3 of the Income Tax Act 2001 or income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in the Netherlands as defined in the Income Tax Act 2001.

If conditions (i) and (ii) provided above do not apply to the individual holder of the Trust Preferred Securities or Class B Preferred Securities, the holder of the Trust Preferred Securities or Class B Preferred Securities will be subject to Dutch income tax on a deemed return regardless of actual

income derived from the Trust Preferred Securities or Class B Preferred Securities or gain or loss realized upon disposal or deemed disposal of the Trust Preferred Securities or Class B Preferred Securities.

The deemed return equals 4 per cent. of the average value of the holder's net assets in the relevant fiscal year (including the Trust Preferred Securities or Class B Preferred Securities). The average value of the holder's net assets in a fiscal year is equal to the sum of the value of the net assets at the beginning of the fiscal year and at the end of the fiscal year divided by two. Taxation only occurs to the extent the average value of the holder's net assets exceeds the "exempt net asset amount" (*heffingsvrij vermogen*) which is, for the year 2004, € 19,252. The deemed return is reduced by the portion of the personal allowances on annual income the holder is entitled to. As so reduced, the deemed return shall be taxed at a rate of 30 per cent.

#### ***Dutch gift, estate and inheritance tax***

Dutch gift, estate or inheritance taxes will be due in the Netherlands in respect of the transfer of the Trust Preferred Securities or Class B Preferred Securities by way of gift by, or on the death of, a holder of the Trust Preferred Securities or Class B Preferred Securities if the holder is, or is deemed to be, a resident of the Netherlands, for the purpose of the relevant provisions, at the time of the gift or his or her death.

An individual of Dutch nationality is deemed to be resident of the Netherlands for the purpose of the Dutch gift and inheritance tax if he or she has been a resident of the Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of the Netherlands for the purpose of the Dutch gift tax only if he or she has been residing in the Netherlands at any time during the twelve months preceding the time of the gift. Applicable tax treaties may override deemed residency.

#### ***Other Taxes***

There is no Dutch registration tax, capital tax, customs duty, transfer tax, stamp duty, or any other similar tax or duty, other than court fees, payable in the Netherlands in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of the Netherlands) of any agreement relating to the Trust Preferred Securities or Class B Preferred Securities or the performance of the Company's obligations under the Trust Preferred Securities or Class B Preferred Securities.

No Dutch value added tax will arise in respect of any payment in consideration for the issue of the Trust Preferred Securities or Class B Preferred Securities.

## SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in the Purchase Agreement entered into among Postbank, the Company, the Trust and the Lead Managers, the Trust has agreed to sell to the Lead Managers and the Lead Managers have agreed to purchase the Trust Preferred Securities at a price of 100 per cent. (equivalent to € 1,000 per Trust Preferred Security) (the “**Issue Price**”).

The Trust Preferred Securities were offered to investors at the Issue Price during the Offer Period, i.e., from (and including) November 12, 2004 to (and including) November 19, 2004. Potential investors were permitted to submit offers to purchase Trust Preferred Securities with the Lead Managers, banks, brokers and other financial intermediaries during the Offer Period.

The Trust Preferred Securities will be delivered to investors, in book-entry form, against payment on the second business day following the Issue Date. Payment and delivery will be effected through Clearstream AG. The Purchase Agreement will also provide that the Lead Managers are entitled, under certain circumstances, to terminate the Purchase Agreement. In such event, no Trust Preferred Securities will be delivered to investors.

The Purchase Agreement provides that Postbank will (i) pay the Lead Managers a combined management, underwriting and selling commission and (ii) reimburse the Lead Managers for certain expenses of the Offering. Each of the Company, the Trust and Postbank has agreed to indemnify the Lead Managers against certain liabilities.

The Lead Managers or their affiliates have provided from time to time, and expect to provide in the future, investment services to Postbank and its affiliates, for which the Lead Managers or their affiliates have received or will receive customary fees and commissions.

### **Selling Restrictions**

#### ***United States of America***

Each of the Lead Managers has represented and agreed that, except as permitted by the Purchase Agreement, it will not offer or sell the Trust Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the closing date and the completion of the distribution of the Trust Preferred Securities, and it will send to each dealer to which it sells Trust Preferred Securities during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Trust Preferred Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Trust Preferred Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Trust Preferred Securities may not be purchased by or transferred to any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4975 of the Code, or any entity whose underlying assets include the assets of any such employee benefit plans, plan or arrangements.

#### ***United Kingdom***

Each of the Lead Managers has represented, warranted and agreed that:

- (i) it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date, will not offer or sell any Trust Preferred Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended from time to time, or any successor legislation;

- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended from time to time, or any successor legislation, ("**FSMA**") received by it in connection with the issue or sale of any Trust Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Trust or the Company; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom.

**General**

In addition to the specific restrictions set out above, each Lead Manager agrees that it will observe all applicable provisions of law in each jurisdiction in or from which it may offer Trust Preferred Securities or distribute any offering material.

## GENERAL INFORMATION

### Subject of this Sales Prospectus

The subject of this Sales Prospectus are the €300,000,000 noncumulative Trust Preferred Securities, Liquidation Preference Amount €1,000 per security, which represent undivided beneficial ownership interests in the assets of Deutsche Postbank Funding Trust I, a statutory trust created under the laws of the State of Delaware, United States of America.

### Responsibility

Postbank, the Company and the Trust are responsible for the Sales Prospectus and hereby confirm that, to the best of their knowledge, (i) the information contained in the Sales prospectus is true and accurate and (ii) no information has been omitted which, if it were disclosed, would change the purport of the Sales Prospectus.

### Clearing Codes

The Trust Preferred Securities have been accepted for clearance through the facilities of Euroclear, Clearstream Luxembourg and Clearstream AG under the following clearance codes:

ISIN: DE000A0DEN75

Common Code: 020467568

Dutch Security Code (*Fonds Code*): 11648

German Security Code (*WKN*): A0DEN7

### Issue Date

The Trust Preferred Securities will be issued on December 2, 2004. The rights attached to the Trust Preferred Securities take effect as of such issue date.

### Yield to Maturity

There is no explicit yield to maturity. The Trust Preferred Securities do not carry a fixed date for redemption and the Trust and the Company are not obliged, and under certain circumstances are not permitted, to make payments on the Trust Preferred Securities and Class B Preferred Securities at the full stated rate.

### Listing and Documents for Inspection

Application has been made to admit the Trust Preferred Securities to trading and official quotation on the Frankfurt Stock Exchange. Application has been made to list the Trust Preferred Securities on the Official Segment of the stock market of Euronext Amsterdam. At the date hereof it is not intended to list the Trust Preferred Securities on any other stock exchange.

For so long as the Trust Preferred Securities are listed on Euronext Amsterdam there will be a paying agent in the city of Amsterdam (the "**Netherlands Paying Agent**") and Capital Payments and the redemption price, if any, shall be made payable in Amsterdam in Euro at the offices of the Principal Paying Agent in Frankfurt and the Netherlands Paying Agent.

At any time during the term of the Trust Preferred Securities the most recently published consolidated and non-consolidated audited annual financial statements of Postbank, and, once available, the most recently available annual accounts of the Trust and the Company, will also be available for inspection and obtainable free of charge at the offices of the Principal Paying Agent in Frankfurt and the Netherlands Paying Agent.

Postbank does not publish non-consolidated interim financial statements. Neither the Trust nor the Company prepare interim financial statements.

In addition the following documents will be available for inspection and obtainable, free of charge, at the offices of the Netherlands Paying Agent:

- (a) the Articles of Association (*Satzung*) of Postbank;
- (b) the Amended and Restated Limited Liability Company Agreement and Certificate of Formation of the Company;



- (c) the Amended and Restated Trust Agreement and Certificate of Trust of the Trust;
- (d) the form of the Initial Debt Securities; and
- (e) the Support Undertaking.

Copies of these documents as well as financial statements and interim financial statements are also available at the office of Deutsche Postbank AG, Friedrich-Ebert-Allee 114-126, D-53113 Bonn, Federal Republic of Germany.

### **Incorporation by reference**

In addition to the consolidated financial statements of Postbank included in the Sales Prospectus, there are hereby incorporated herein by reference:

- the Articles of Association (*Satzung*) of Postbank; and
- the Trust Agreement dated October 18, 2004, and the Certificate of Trust of the Trust.

### **Internet Addresses**

Neither the Trust nor the Company has an internet address. The internet address of Postbank is: [www.postbank.de](http://www.postbank.de). Information included on, or linked to or from, this internet site does not form part of the Sales Prospectus unless the Sales Prospectus explicitly provides otherwise with respect to a particular document that can be downloaded from Postbank's web site.

### **Notices**

For so long as the Trust Preferred Securities are listed on Euronext Amsterdam and the rules of such exchange so require, notices to holders of the Trust Preferred Securities shall be deemed to have been given upon publication in a daily newspaper of general circulation in the Netherlands (which is expected to be the *Het Financieele Dagblad*), notice thereof given to Euronext Amsterdam, and publication in the *Officiële Prijscourant*.

For so long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange, all notices concerning the Trust Preferred Securities will be published in at least one daily newspaper having general circulation in the Federal Republic of Germany and admitted to carry stock exchange announcements (expected to be the *Börsen-Zeitung*).

### **Paying Agents**

*Principal Paying Agent*

#### **Deutsche Bank AG**

10-14 Große Gallusstrasse  
D-60311 Frankfurt am Main  
Germany

*Netherlands Paying Agent*

#### **Deutsche Bank AG**

Herengracht 450  
Amsterdam, 1017 CA  
Netherlands

### **No Material Change**

Save as described herein, there has been no material adverse change in the financial position or prospects of Postbank since December 31, 2003 or the Trust since its formation on October 18, 2004.

### **Other**

For so long as the Trust Preferred Securities are listed on the Official Segment of the Stock Market of Euronext Amsterdam N. V., the Trust will comply with the provisions of the Listing and Issuing Rules (*Fondsenreglement*) of Euronext Amsterdam N. V. (including Section 2.1.20 of Schedule B), as amended from time to time.

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## APPENDIX A: FORM OF SUPPORT UNDERTAKING

This support undertaking (the “**Agreement**”), dated December 2, 2004, is entered into between Deutsche Postbank AG, a German stock corporation, (“**Postbank**”) and Deutsche Postbank Funding LLC I, a Delaware limited liability company (the “**Company**”).

WITNESSETH:

WHEREAS, Postbank owns the Company Common Security (as defined below);

WHEREAS, pursuant to the LLC Agreement (as defined below), the Company will issue the Class A Preferred Security (as defined below) to Postbank, and the Class B Preferred Securities (as defined below) to the Trust (as defined below);

WHEREAS, pursuant to the Trust Agreement (as defined below), the Trust will issue the Trust Preferred Securities (as defined below) with the same terms as, and representing corresponding amounts of, the Class B Preferred Securities;

WHEREAS, the Company intends to use the proceeds from the issuance of the Class B Preferred Securities to purchase subordinated notes of Postbank;

WHEREAS, the Company may from time to time declare Capital Payments (as defined below) on the Class B Preferred Securities pursuant to and in accordance with the LLC Agreement; and

WHEREAS, Postbank wishes to undertake for the benefit of the Company and all current and future holders of the Class B Preferred Securities that (i) so long as Class B Preferred Securities remain outstanding, Postbank will maintain direct or indirect ownership of the Class A Preferred Security and the Company Common Security, (ii) the Company will at all times be in a position to meet its obligations when due and payable, including its obligation to pay Capital Payments, plus Additional Amounts (as defined below) thereon, if any, and the Redemption Price (as defined below), and (iii) in liquidation or dissolution, the Company will have sufficient funds to pay the Liquidation Preference Amount (as defined below), including accrued and unpaid Capital Payments to, but excluding, the date of liquidation or dissolution, and Additional Amounts, if any.

NOW, THEREFORE, the parties agree as follows:

Section 1. *Certain Definitions.*

“**Additional Amounts**” has the meaning specified in the LLC Agreement.

“**Agreement**” has the meaning specified in the preamble.

“**Capital Payment Period**” has the meaning set forth in the LLC Agreement.

“**Capital Payments**” means any capital payments or other distributions at any time after the date hereof declared by the Board of Directors of the Company (or deemed declared in accordance with the LLC Agreement), but not yet paid, on the Class B Preferred Securities.

“**Class A Preferred Security**” means the class of preferred limited liability company interests in the Company designated as Class A.

“**Class B Preferred Securities**” means the class of preferred limited liability company interests in the Company designated as Class B, with a liquidation preference amount of € 1,000 per security.

“**Company**” has the meaning specified in the preamble.

“**Company Common Security**” means the common limited liability company interest of the Company.

“**Independent Enforcement Director**” means the independent member of the board of directors of the Company elected by the holders of the Class B Preferred Securities upon the occurrence of certain events in accordance with, and under the terms set forth in, the LLC Agreement.

**"Liquidation Preference Amount"** means the stated Liquidation Preference Amount of the Class B Preferred Securities and any other amounts due and payable under the LLC Agreement upon the voluntary or involuntary liquidation, dissolution, winding up or termination of the Company to the holders of the Class B Preferred Securities.

**"LLC Agreement"** means the limited liability company agreement of the Company dated as of October 18, 2004, as amended and restated as of December 2, 2004 and as the same may be further amended from time to time in accordance with its terms.

**"Person"** means any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company, or other legal entity or organization.

**"Postbank"** has the meaning specified in the preamble.

**"Redemption Price"** has the meaning specified in the LLC Agreement.

**"Trust"** means Deutsche Postbank Funding Trust I, a Delaware statutory trust established pursuant to a declaration of trust dated as of October 18, 2004, as amended and restated in the amended and restated declaration of trust dated as of December 2, 2004 and as the same may be further amended from time to time in accordance with its terms (the **"Trust Agreement"**).

**"Trust Preferred Securities"** means the noncumulative Trust Preferred Securities issued by the Trust.

#### Section 2. *Support Undertaking.*

- (a) Postbank undertakes to ensure that the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable, including its obligations to pay Capital Payments, including Additional Amounts thereon, if any, and the Redemption Price when due.
- (b) Postbank undertakes to ensure that in the event of any liquidation or dissolution of the Company, the Company shall have sufficient funds to pay the Liquidation Preference Amount (including accrued and unpaid Capital Payments for the then current Payment Period to, but excluding, the date of liquidation and Additional Amounts, if any).
- (c) The obligations of Postbank under this Section 2 shall be subordinated to all senior and subordinated debt obligations of Postbank (including profit participation rights (*Genussrechte*)), and will rank at least *pari passu* with the most senior ranking preference shares, if any, and other instruments of Postbank qualifying as Tier 1 regulatory capital, and will rank senior to any other preference shares and the common shares of Postbank.
- (d) This Agreement shall not constitute a guarantee or undertaking of any kind that the Company will at any time have sufficient assets, or be authorized pursuant to the LLC Agreement, to declare a Capital Payment or other distribution.

#### Section 3. *Third Party Beneficiaries and Enforcement of Rights.*

- (a) The parties hereto agree that this Agreement is entered into for the benefit of the Company and all current and future holders of the Class B Preferred Securities and that the Company and any holder of any such Class B Preferred Securities may severally enforce the obligations of Postbank under Section 2.
- (b) The parties hereto acknowledge that, as provided in the LLC Agreement, if a holder of Class B Preferred Securities has notified the Company that Postbank has failed to pay any amount then due hereunder, and such failure continues for sixty (60) days or more after such notice is given, the holders of a majority in liquidation preference amount of the Class B Preferred Securities shall have the right to elect the Independent Enforcement Director who will be required to enforce the rights of the Company under this Agreement.

Section 4. *No Exercise of Rights.* Postbank shall not exercise any right of set-off, counterclaim or subrogation that it may have against the Company as long as any Class B Preferred Securities are outstanding.

Section 5. *Burden of Proof.* Any failure of the Company to pay Capital Payments, the Redemption Price or Liquidation Preference Amounts (or any part thereof), plus, in each case, Additional Amounts, if any, when due and payable, shall constitute prima facie evidence of a breach by Postbank of its obligation hereunder. Postbank shall have the burden of proof that the occurrence of such breach results neither from its negligent nor its intentional misconduct.

Section 6. *No Senior Support to Other Subsidiaries.* Postbank undertakes that it shall not give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support or payment of any amounts in respect of, any other preference shares or similar securities (or instruments ranking *pari passu* with or junior to preference shares or similar securities) of any other affiliated entity that would in any regard rank senior in right of payment to Postbank's obligations under this Agreement, *unless* the parties hereto modify this Agreement such that Postbank's obligations under this Agreement rank at least *pari passu* with, and contain substantially equivalent rights of priority as to payment as, such guarantee or support agreement.

Section 7. *Continued Ownership of the Class A Preferred Security and the Company Common Security.* Postbank undertakes to maintain direct or indirect ownership of the Class A Preferred Security and the Company Common Security so long as any Class B Preferred Securities remain outstanding.

Section 8. *No dissolution of the Company.* Under the terms of the LLC Agreement and to the fullest extent permitted by law, Postbank shall not permit the Company to be dissolved until all obligations under this Agreement have been paid in full pursuant to its terms.

Section 9. *Modification and Termination.* So long as any Class B Preferred Securities remain outstanding, this Agreement may not be modified or terminated without the consent of 100% of the holders of the Class B Preferred Securities as provided in the LLC Agreement, except for such modifications that are not adverse to the interests of the holders of the Class B Preferred Securities.

Section 10. *No Assignment.* So long as any Class B Preferred Securities remain outstanding, Postbank shall not assign its rights or obligations under this Agreement to any Person without the consent of 100% of the holders of such Class B Preferred Securities.

Section 11. *Successors.* This Agreement will be binding upon successors to the parties.

Section 12. *Severability.* Should any provision of this Agreement be found invalid, illegal or unenforceable for any reason, it is to be deemed replaced by the valid, legal and enforceable provision most closely approximating the intent of the parties, as expressed in such provision, and the validity, legality and enforceability of the remainder of this Agreement will in no way be affected or impaired thereby.

Section 13. *Governing Law and Jurisdiction.* This Agreement shall be governed by and construed in accordance with, the laws of the Federal Republic of Germany and the parties irrevocably submit to the non-exclusive jurisdiction of the district court (*Landgericht*) in Frankfurt am Main, Federal Republic of Germany.



IN WITNESS WHEREOF, Postbank and the Company have caused this Agreement to be duly executed and delivered by their respective authorized officers as of the date first written above.

**DEUTSCHE POSTBANK AG**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**DEUTSCHE POSTBANK FUNDING LLC I**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

## FINANCIAL STATEMENTS

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**CONSOLIDATED FINANCIAL STATEMENTS  
OF DEUTSCHE POSTBANK AG (IFRS)**

# **Consolidated Income Statement of Deutsche Postbank AG for the Fiscal Year 2003, 2002 and 2001**

	Notes	For the fiscal year ending December 31		
		2003	2002	2001
		€ million		
<b>Consolidated</b>				
Interest income .....	(6)	5,610	6,458	6,810
Interest expense.....	(6)	-3,957	-4,606	-5,171
Net interest income .....	(6)	1,653	1,852	1,639
Provision for losses on loans and advances.....	(7)	-154	-137	-102
Net interest income after allowance for losses on loans and advances.....		1,499	1,715	1,537
Fee and commission income .....	(8)	539	517	484
Fee and commission expense .....	(8)	-72	-62	-76
Net fee and commission income .....	(8)	467	455	408
Net trading income.....	(9)	183	80	56
Net income from investment securities .....	(10)	75	36	63
Administrative expenses.....	(11)	-1,809	-1,883	-1,811
Other income .....	(12)	218	121	360
Other expenses.....	(13)	-136	-125	-270
Income before taxes.....		497	399	343
Income tax expense .....	(14)	-144	-259	-152
Income from ordinary activities after taxes .....		353	140	191
Minority interest .....		-1	-8	-1
Net income for the period .....		352	132	190

## **Earnings per Share**

As in the previous years, the average number of shares outstanding in fiscal year 2003 was 16,000,000.

	2003	2002	2001
Basic earnings per share (€).....	21.97	8.26	11.91
Diluted earnings per share (€).....	21.97	8.26	11.91

**Consolidated Balance Sheet of Deutsche Postbank AG  
as of December 31, 2003, 2002 and 2001**

	Notes	For the fiscal year ending December 31		
		2003	2002	2001
		€ million		
<b>Assets</b>				
Cash reserve .....	(15)	1,623	1,307	1,373
Loans and advances to other banks.....	(16)	34,071	37,774	37,402
Loans and advances to customers .....	(17)	43,310	43,929	44,278
Allowance for losses on loans and advances .....	(19)	-597	-588	-621
Trading assets .....	(20)	12,588	11,295	5,407
Hedging derivatives .....	(21)	832	1,121	1,723
Investment securities .....	(22)	38,859	44,252	48,058
Property and equipment.....	(23)	960	977	1,022
Other assets .....	(24)	973	1,023	1,174
thereof deferred tax assets .....	(25)	564	584	824
<b>Total assets</b> .....		132,619	141,090	139,816
<b>Shareholder's Equity and Liabilities</b>				
Deposits from other banks .....	(27)	20,271	28,300	26,819
Due to customers .....	(28)	73,941	66,665	62,318
Securitized liabilities .....	(29)	26,267	34,797	39,468
Trading liabilities.....	(30)	1,647	1,001	560
Hedging derivatives .....	(31)	1,814	2,645	2,413
Provisions .....	(32)	1,704	1,655	1,641
a) Provisions for pensions and other employee benefits .....	(33)	572	563	552
b) Provisions for taxes .....	(34)	873	738	737
thereof deferred tax liabilities .....		836	706	692
c) Other provisions .....	(35)	259	354	352
Other liabilities .....	(36)	371	413	516
Subordinated debt .....	(37)	1,724	1,204	1,174
Minority interest.....		14	14	60
Shareholders' equity.....	(38)	4,866	4,396	4,847
a) Share capital .....		410	410	410
b) Share Premium .....		1,159	1,159	1,159
c) Retained Earnings .....		2,708	2,728	3,141
d) Unappropriated surplus .....		589	99	137
<b>Total liabilities and shareholders' equity</b> .....		132,619	141,090	139,816



**Consolidated Cash Flow Statement of Deutsche Postbank AG  
for the Fiscal Year 2003, 2002 and 2001**

	For the fiscal year ending December 31		
	2003	2002	2001
	€ million		
<b>Consolidated cash flow statement</b>			
<b>Income for the period (after taxes)</b> .....	352	132	190
<b>Non-cash items in net income for the period and reconciliation of net income to net cash used in operating activities</b>			
Depreciation and write-downs of property and equipment, write- downs of investment securities, loans and advances, and reversals of impairment losses on these items .....	246	241	-33
Change in provisions .....	49	14	-639
Change in other non-cash items .....	101	93	11
Gains on disposal of property and equipment and investment securities .....	-22	-200	-48
Other adjustments (net) .....	-1,705	-1,640	-1,504
<b>Subtotal</b> .....	<b>-979</b>	<b>-1,360</b>	<b>-2,023</b>
<b>Changes in working capital after adjustments for non-cash components</b>			
Loans and advances to other banks .....	3,769	131	1,575
Loans and advances to customers .....	380	879	-5,263
Trading assets .....	-1,650	-5,980	-2,220
Hedging derivatives with positive fair values .....	-78	-140 <sup>(1)</sup>	—
Other operating assets .....	42	899	3,479
Deposits from other banks .....	-7,996	475	11,275
Due to customers .....	7,280	4,264	-949
Securitized liabilities .....	-8,071	-4,138	-8,133
Trading liabilities .....	642	441	104
Hedging derivatives with negative fair value .....	-856	-48 <sup>(2)</sup>	—
Other operating liabilities .....	-42	-134	-682
Interest received .....	5,918	6,420	6,770
Interest paid .....	-3,974	-4,605	-4,880
Other income .....	12	29	6
Dividends received .....	31	17	33
Other operating expenses .....	-19	—	-2,713
Income taxes paid .....	-24	-6	—
<b>Net cash used in operating activities</b> .....	<b>-5,615</b>	<b>-2,856</b>	<b>-3,621</b>
<b>Proceeds from the disposal of</b>			
Investment securities .....	8,601	15,956	23,266
Investments in subsidiaries .....	40	—	—
Property and equipment .....	2	58	97
Intangible assets .....	—	1	1
<b>Payments to acquire</b>			
Investment securities .....	-2,893	-12,864	-20,068
Investments in subsidiaries .....	-1	—	-12
Property and equipment .....	-67	-179	-99
Intangible assets .....	-63	-72	-51
<b>Net cash from investing activities</b> .....	<b>5,619</b>	<b>2,900</b>	<b>3,134</b>
Dividends paid .....	-99	-137	—
Net change in cash and cash equivalents from other financing activities .....	399	27	464
<b>Net cash used in/from financing activities</b> .....	<b>300</b>	<b>-110</b>	<b>464</b>
<b>Cash and cash equivalents at beginning of period (net)</b> .....	<b>1,307</b>	<b>1,373</b>	<b>1,396</b>
Net cash used in operating activities .....	-5,615	-2,856	-3,621
Net cash from investing activities .....	5,619	2,900	3,134
Net cash used in/from financing activities .....	300	-110	464
Effect of exchange differences .....	12	—	—
<b>Cash and cash equivalents at end of period</b> .....	<b>1,623</b>	<b>1,307</b>	<b>1,373</b>

(1) In 2001 included in line item other operating assets

(2) In 2001 included in line item other operating expenses

Cash and cash equivalents include cash and balances with central banks, public sector debt instruments and bills eligible for rediscounting with the central banks.

The allocation of cash flows to operating activities is based on the definition of income from ordinary activities. The change in other non-cash items relates in particular to changes in the positive and negative fair values of derivatives.

**Statement of Changes in Equity of Deutsche Postbank AG for the Fiscal Years 2001, 2002 and 2003**

	Share Capital	Share Premium	Retained Earnings	Currency translation reserve	Revaluation reserve	Unappropriated surplus	Total
	€ million						
<b>Balance at January 1, 2001 (after initial application of IAS 39).....</b>	409	1,160	3,064	—	259	81	4,973
Capital increase out of retained earnings .....	1	–1		—			—
Contribution to the retained earnings out of preceding year's profits .....			81			–81	—
Currency translation differences .....				6			6
Changes in unrecognized gains and losses, net of deferred taxes .....					–330		–330
Other adjustments .....			8				8
Net income .....			53			137	190
<b>Balance at December 31, 2001.....</b>	410	1,159	3,206	6	–71	137	4,847
Dividend Payment .....						–137	–137
Currency translation differences .....				–44			–44
Changes in unrecognized gains and losses, net of deferred taxes .....					–402		–402
Net income .....			33			99	132
<b>Balance at December 31, 2002.....</b>	410	1,159	3,239	–38	–473	99	4,396
Dividend Payment .....						–99	–99
Currency translation differences .....				–56			–56
Changes in unrecognized gains and losses, net of deferred taxes .....					273		273
Net income .....			–237			589	352
<b>Balance at December 31, 2003.....</b>	410	1,159	3,002	–94	–200	589	4,886

Changes in unrecognized gains on losses, net of deferred taxes, include measurement and disposal gains and losses on available-for-sale financial instruments.

A more detailed disclosure of changes in the revaluation reserve can be found in note 38.

A dividend payment of € 36.81 per share is planned for 2004; the € 589 million is composed of net profit of € 352 million and a withdrawal from retained earnings of € 237 million.

## Notes to the Consolidated Financial Statements of Deutsche Postbank AG for the Fiscal Year 2003

### ***Basis of Preparation***

#### **(1) Basis of accounting**

Postbank prepares its consolidated financial statements in accordance with International Financial Accounting Standards (IFRS) and thus in accordance with internationally accepted accounting principles. The accompanying consolidated financial statements satisfy the criteria set out in Section 292a (2) of the German Commercial Code (*Handelsgesetzbuch: HGB*) for exemption from the obligation to prepare consolidated financial statements in accordance with the provisions of the HGB. The IFRS consolidated financial statements also comply with EC Directives 83/349/EEC (Consolidated Accounts Directive) and 86/635/EEC (Bank Accounts Directive) and GAS 1 (German Accounting Standard No. 1: Exempting Consolidated Financial Statements in accordance with Section 292a of the German Commercial Code), and thus satisfy the disclosure requirements of the European Union (Section 292a (2) 2b) of the German Commercial Code).

The consolidated financial statements for fiscal year 2003 were prepared in compliance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and in compliance with the interpretations of these standards by the International Financial Reporting Committee (IFRIC) insofar as they were applicable in 2003. Annex A1 to these consolidated financial statements provides an overview of the IFRS applied (as of December 31, 2003); Annex A2 lists the IFRIC interpretations applied (as of December 31, 2003).

Accounting and measurement are based on the going concern principle. Income and expenses are accrued. They are recognized and recorded in the period to which they relate.

The consolidated financial statements comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the notes.

Unless otherwise indicated, all amounts are shown in euros millions (€ million).

The IFRS do not require a specific format for the presentation of the income statement and the balance sheet. In accordance with customary international practice, the income statement and the balance sheet are presented in a summary format complying with IAS 1 and 30, and supplemented by additional disclosures in the notes. All disclosures required by the EC 4th and 7th Directives and by Directive 86/635/EEC (Bank Accounts Directive) that are not already presented on the balance sheet or the income statement are contained in the notes.

#### **(2) Significant differences between the accounting standards applied and the accounting principles of the German Commercial Code**

In accordance with Section 292a (2) 4 b) of the German Commercial Code, among others, exemption from the obligation to prepare consolidated financial statements in accordance with the German Commercial Code requires an explanation of accounting, measurement and consolidation policies that differ from those under German law.

##### **(a) Creation of hidden reserves for general banking risks in accordance with section 340-341f of the German Commercial Code, disclosed reserves and presentation of allowances and provisions for losses on loans and advances**

IAS 30.44 prohibits the creation of hidden reserves for general banking risks in analogy to Section 340f of the German Commercial Code.

IAS 30.44 and IAS 30.50 permit the creation of reserves for general banking risks (as outlined in Section 340g of the German Commercial Code) only as appropriations of retained earnings.

The allowance for losses on loans and advances is recognized under assets in the balance sheet.

## **(b) Loans and Advances**

The German Commercial Code requires disclosure of loans and advances to other banks and to customers. Under the IFRS, loans held for trading are carried under trading assets; these relate in particular to trading derivatives with positive fair values.

In addition, IAS 39 classifies financial assets into originated loans and purchased loans, irrespective of whether or not they are securitized.

Under the German Commercial Code, all loans and advances are carried at their principal amounts. Deferred interest is allocated directly to loans and advances and carried under the relevant balance sheet item. Discounts and premiums are carried under prepaid expenses and deferred income.

Under the IFRS, both deferred interest and discounts/premiums are recognized directly under the corresponding balance sheet items in which the loans are carried.

In accordance with IAS 39, originated loans are carried at amortized cost unless they are held for trading purposes. By contrast, originated loans held for trading are measured at their fair values.

Money market lendings are carried at amortized cost.

In accordance with IAS 39, purchased loans are measured at amortized cost if there is a positive ability and intent to hold them to maturity and they can thus be classified as held-to-maturity financial assets. By contrast, if they are held for trading or are available for sale, IAS 39.69 requires them to be measured at their fair values.

Gains or losses on the remeasurement of loans held for trading are recognized directly in net profit or loss for the period. For the recognition of measurement gains or losses on purchased available-for-sale loans, IAS 39 allows a one-time option to choose between recognition in the income statement and recognition directly in the revaluation reserve in equity. Postbank has opted to recognize such gains and losses directly in equity. Gains or losses on the remeasurement of purchased available-for-sale loans are therefore reported in the revaluation reserve in equity and are not recognized in the income statement until they are sold, collected, or otherwise disposed of, or until they are determined to be impaired (change in fair value due to change in credit risk).

## **(c) Leases**

The German Commercial Code generally requires leased assets held under both finance and operating leases to be carried under tangible assets (property and equipment). Depreciation charges are recognized as administrative expenses.

Under the IFRS, the asset is allocated to and recognized at the lessor or the lessee on the basis of the risks and rewards incident to ownership.

In contrast to the German Commercial Code, this means that the lessee must recognize assets held under finance leases including an obligation for future lease payments, while the lessor must recognize a corresponding receivable.

As with the German Commercial Code, the IFRS stipulate that lessors must carry assets leased under operating leases as property and equipment, while the lessee does not recognize an asset or an obligation.

## **(d) Securities**

Under the German Commercial Code, securities are assigned to the liquidity reserve or the trading portfolio, or are classified as long-term investments.

Under the German Commercial Code, securities assigned to the liquidity reserve or the trading portfolio are measured using the strict principle of lower of cost or market. They must therefore be carried at the quoted or market price or the fair value, if this is lower than historical cost at the balance sheet date (Section 253 (3) sent. 1 and 2 of the German

Commercial Code). By contrast, long-term investments must be carried using the less strict principle of lower of cost or market as set out in Section 253 (2) sent. 3 of the German Commercial Code. This means that these investments are only written down to the lower of cost or their quoted/market price or fair value in the event of expected lasting impairment. In the case of temporary impairment, the investments can be carried at either the lower value at the balance sheet date or at the existing higher value. In accordance with Section 280 (1) of the German Commercial Code, the requirement to reverse write-downs applies up to the original historical cost, even if the quoted/market price is higher.

In accordance with IAS 39.10, securities are classified into four categories: held-to-maturity financial instruments, financial instruments purchased directly from the issuer, available-for-sale financial instruments and financial instruments held for trading.

In accordance with IAS 39.69 in conjunction with IAS 39.73, held-to-maturity financial instruments and financial instruments purchased directly from the issuer are carried at amortized cost. Financial instruments held for trading and available-for-sale financial instruments are generally measured at their fair values.

Remeasurement gains or losses on financial instruments held for trading are recognized in income. For the recognition of measurement gains or losses on available-for-sale financial instruments, IAS 39 allows a one-time option to choose between recognition in the income statement and recognition directly in the revaluation reserve in equity. Postbank has opted to recognize such gains and losses directly in equity. Gains or losses on the remeasurement of purchased available-for-sale financial instruments are therefore reported in the revaluation reserve in equity and are not recognized in the income statement until they are sold, collected, or otherwise disposed of, or until they are determined to be impaired.

If the reasons for a write-down no longer apply, any gain from reversal should be recognized in income (IAS 39.114). In the case of financial instruments held to maturity and financial instruments purchased directly from the issuer, the amount of any reversal may not result in the carrying amount exceeding what amortized cost would have been if no impairment had been recognized.

#### **(e) Securities Lending Transactions**

Under the German Commercial Code, the lender derecognizes lending transactions (securities loans) at their carrying amount and instead recognizes a (loan) receivable (asset swap). The borrower capitalizes the securities and expenses a corresponding obligation to return the securities.

In contrast to the German Commercial Code, the IFRS state that an obligation to return the securities must only be recognized by the borrower if the securities are passed on to another party. The lender continues to recognize the securities.

#### **(f) Derivatives and Hedges**

There are no specific rules in the German Commercial Code at present governing the measurement of derivatives, and the general valuation principles of Sections 252 *et seq.* of the German Commercial Code are used. If a derivative has been purchased for trading purposes, measurement losses are recognized in income by setting up a provision (provision for anticipated losses) or by charging a write-down, while unrealized gains are not recognized.

By contrast, the German Commercial Code does not generally allow gains or losses to be recognized on the measurement of hedging derivatives. Under German accounting principles, the hedged item and the hedging instrument are accounted for as a micro- or portfolio hedge. The hedged item is carried at amortized cost on the balance sheet. The hedging instrument is generally not recognized on the balance sheet.

Under the German Commercial Code, banking book interest rate derivatives are also generally not recognized.



Under IAS 39, all derivatives must be recognized at their fair values, with gains and losses on remeasurement to fair value recognized in income. Derivatives held for trading are carried under trading assets (positive fair values) or trading liabilities (negative fair values).

As a rule, a derivative held for hedging purposes can be allocated to a single hedged item or to several similar hedged items. Such hedges are generally termed micro-hedges.

IAS 39 restricts the use of hedge accounting. Under IFRS, only hedges that meet the conditions set out in IAS 39.142 *et. seq.* qualify for hedge accounting. This results in a distinction being made between ineffective and effective hedges.

Derivatives entered into for the purposes of balance sheet structure management and derivatives from ineffective hedging relationships do not meet the conditions set out in IAS 39.142 *et. seq.*, and thus are always recognized in income and disclosed at their fair value as "Banking book derivatives" under trading assets/liabilities.

The criteria set out in IAS 39.142 *et. seq.* must be satisfied at each balance sheet date and for each hedging relationship.

If the following conditions for hedge accounting in accordance with IAS 39.142 are met, the accounting treatment makes a distinction between fair value hedges and cash flow hedges:

- At the inception of the hedge, there is formal documentation of the hedging relationship that identifies the hedged item and the hedging instrument, the nature of the risk being hedged, the way in which the company measures the effectiveness of the hedge, and that specifies the risk management objective.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flow attributable to the risk, consistent with the originally documented risk management strategy for the hedging relationship concerned. A hedge is regarded as highly effective if, throughout the life of the hedge, it can be assumed that changes in the fair value or cash flow of the hedged item will be almost fully offset by changes in the fair value or cash flow of the hedging instrument. This is verified by effectiveness testing.
- For hedges of future cash flows, it must be highly probable that the planned underlying transaction which is to be hedged will occur, and the transaction must be exposed to risks relating to cash flow fluctuations which could affect the reported net profit or loss.
- The effectiveness of the hedge can be reliably measured.
- The effectiveness of the hedge is assessed on an ongoing basis and determined to be effective.

A fair value hedge is a hedge of the exposure to changes in the fair value of assets and liabilities where these changes are based on price risks. In accordance with IAS 39.153, the gain or loss on the hedged item attributable to the hedged risk should adjust the carrying amount of the hedged item and be recognized immediately in net profit or loss. This applies both to financial instruments carried at amortized cost (originated loans and securities purchased directly from the issuer) and to hedged items measured at fair value where gains and losses on remeasurement are generally recognized directly in the revaluation reserve (available-for-sale financial instruments). Changes in the fair value of the hedged item not attributable to the hedged risk are accounted for using the rules applicable to the relevant financial asset category.

The gains and losses from the remeasurement of the hedging instrument offset the gains and losses from the hedged items attributable to the hedged risk. They are recognized directly in net profit or loss for the period.

For cash flow hedges, the designation of a hedging instrument – in contrast to fair value hedges – serves to hedge risks arising from future cash flows. If the latter arise from a recognized transaction, however, the carrying amount of this transaction is not measured at

fair value; this is because the subject of the hedge is not the fair value, but future cash flows. The hedging instrument is recognized in the balance sheet at its fair value. The resulting changes in the fair value of the effective portion are taken directly to the revaluation reserve in equity. The ineffective portion of the hedge is reported in the income statement.

A hedging relationship ends when the hedged item or the hedging instrument expires, is sold or exercised, or if the hedge no longer meets the criteria for qualification for hedge accounting.

As foreign currency derivatives are recognized at fair value, the establishment of a foreign currency translation adjustment item as prescribed by the HGB is not necessary.

#### **(g) Pension Obligations**

Pension obligations arise from a direct commitment by a company to grant its employees future pension benefits. These obligations are liabilities of uncertain timing and amount. Section 249 of the German Commercial Code thus generally requires provisions to be set up for obligations from direct pension commitments.

The IFRS require provisions to be recognized for both direct and indirect pension obligations. IAS 19 requires future economic and demographic trends (e.g. salary increases and career trends, selection of a comparable market rate of interest for discounting provisions) to be factored into the measurement of pension obligations. The IFRS require the discount rate to be based on the capital market rates of high quality corporate bonds with matching maturities. This reflects the economic and demographic trends impacting the amount of obligations entered into by the company more accurately than is the case with German Commercial Code financial statements. IFRS pension obligations are calculated using the projected unit credit method. By contrast, calculation of pension obligations for German accounting and reporting purposes uses the net present value method in accordance with section 6a of the German Income Tax Act (*Einkommensteuer-gesetz: EStG*).

IAS 19 makes a distinction between defined contribution and defined benefit pension plans. A provision is recognized only for defined benefit plans (IAS 19.49), as defined contribution plans are recognized as a liability and an expense in the period (IAS 19.44) or carried as other liabilities (accrued expenses).

#### **(h) Other Provisions**

IAS 37 prohibits the recognition of certain provisions for future internal expenses required to be recognized by Section 249 (1) sent. 2 of the German Commercial Code. In addition, the recognition options set out in Section 249 (1) sent. 3 and Section 249 (2) of the German Commercial Code do not apply under the IFRS.

#### **(i) Recognition of Amounts Due to Tax Rules**

Write-downs, appropriations to the special tax-allowable reserve and accelerated depreciation charges taken for tax reasons in accordance with the German Commercial Code are prohibited in IFRS financial statements.

#### **(j) Deferred Taxes**

In accordance with sections 274 and 306 of the HGB, deferred taxes are recognized only for timing differences between accounting profit and taxable profit that will reverse in future years (deferral method).

Section 306 of the German Commercial Code requires deferred tax assets to be recognized, while Section 274 (2) of the German Commercial Code sets out a recognition option. Deferred tax assets may not be recognized for tax loss carryforwards. The German Commercial Code allows deferred tax assets and liabilities to be offset.

By contrast, IAS 12 (revised 2000) uses the balance sheet liability method, under which all temporary differences between the carrying amounts in the tax base and the carrying amounts in the IFRS financial statements resulting in future benefits or expenses are recognized in the computation of deferred tax assets and liabilities.

Under the IFRS, deferred tax assets and liabilities must be recognized, irrespective of whether the differing carrying amounts in the IFRS financial statements and the tax base have affected net profit or loss. The calculation of deferred tax assets and liabilities using the balance sheet liability method uses the future enacted local tax rates.

The IFRS only permit deferred tax assets and deferred tax liabilities to be offset where the company has a legally enforceable right to set off current tax assets against current tax liabilities (IAS 12.74). The following criterion must be satisfied:

- The deferred tax assets and liabilities relate to income taxes levied by the same taxation authority, which requires or at least accepts settlement of the taxes on a net basis.

In addition, IAS 12 requires deferred tax assets to be recognized for tax loss carryforwards where their utilization is probable in future periods. Under the IFRS, exceptions to the recognition of deferred taxes relate to permanent differences, undistributed profits of individual group companies, goodwill from capital consolidation and differences from the initial recognition of assets and liabilities.

#### **(k) Trust Activities**

In accordance with IAS 30.55, trust transactions are not recognized on the balance sheet (as is the case with the German Commercial Code), but are disclosed in the notes.

#### **(l) Minority Interest**

Under the German Commercial Code, minority interest in equity are reported under equity; under the IFRS, they are reported in a separate line item between liabilities and shareholders' equity.

#### **(3) Basis of consolidation**

In addition to the parent company Deutsche Postbank AG, Bonn, 22 (previous year: 24) subsidiaries and two (previous year: two) joint ventures, all of which are presented in the list of shareholdings (note 57), are included in the consolidated financial statements as of December 31, 2003.

Under a share purchase and transfer agreement dated November 27, 2002, Deutsche Postbank AG acquired Credit Suisse (Deutschland) Asset Advisory AG, domiciled in Frankfurt am Main and CS Direkt GmbH, domiciled in Bonn, from Credit Suisse (Deutschland) AG with economic effect from January 1, 2003.

Both these new companies were renamed and added in the basis of consolidation in the year under review under the following names:

- Postbank Vermögensberatung AG, Bonn
- Postbank Vermögensberatung Service GmbH, Cologne

In fiscal year 2003, a total of four subsidiaries were deconsolidated.

One subsidiary was deconsolidated due to its merger with another consolidated company. This relates to:

- Postbank EasyTrade.AG, Cologne

Two further subsidiaries were deconsolidated due to a sale. These were:

- einsnull IT-Support GmbH, Bonn
- interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH, Bonn

One subsidiary was deconsolidated in 2003 due to its liquidation. This relates to:

- Deutsche Postbank Fonds-Management S.A., Luxembourg

In accordance with Interpretation SIC-12 issued by the Financial Reporting Interpretations Committee (IFRIC), which requires the consolidation of special purpose entities under certain

conditions, 25 (previous year: 24) special funds were consolidated as special purpose entities in fiscal year 2003.

#### **(4) Consolidation methods**

In accordance with IAS 27.21, the consolidated financial statements of Deutsche Postbank AG have been prepared in line with uniform Group accounting and measurement policies.

Capital consolidation of subsidiaries uses the purchase method in accordance with IAS 22.32. The date of formation or acquisition was used as the date of first-time consolidation for newly consolidated companies.

Joint ventures are proportionately consolidated in accordance with IAS 31.25.

Intercompany receivables and liabilities, as well as income and expense from intercompany transactions, were eliminated in accordance with IAS 27.17-18. Intercompany profits within the group were eliminated in accordance with IAS 27.17-18.

In accordance with Interpretation SIC-12 issued by the International Financial Reporting Interpretations Committee (IFRIC), special purpose entities must be consolidated under certain circumstances. At Postbank, this applies in particular to special funds.

#### **(5) Accounting policies**

##### **(a) Cash Reserve**

With the exception of bills, which are carried at their fair values, all cash reserves are carried at their face value.

##### **(b) Loans and Advances**

Originated loans and advances to other banks and customers are carried at amortized cost. Purchased loans in the available-for-sale portfolio are measured at their fair values, with gains and losses from remeasurement credited/charged directly to the revaluation reserve in equity. Loans and advances are recognized at the settlement date.

Impairments of loans and advances due to changes in credit risk are recognized separately in the allowance for losses on loans and advances, and deducted from assets.

The carrying amount of collateralized loans that qualify for hedge accounting is adjusted for the gains and losses from changes in fair value attributable to the hedged risk.

Premiums, discounts and transaction costs are recognized in net interest income. Deferred interest on loans and advances, as well as premiums and discounts, are carried together under the relevant items of loans and advances.

If loans have market values as defined by IAS 32.5, these are generally used as the fair value; if this is not the case, the fair value is determined using recognized valuation models.

##### **(c) Leases**

Where Postbank is the lessor of a finance lease, it discloses the receivable at its net investment value under loans and advances to other banks or loans and advances to customers. The lease installments due are recognized as interest income (interest component; recognized in income) and deducted from the receivables reported (principal redemption component; recognized in equity).

Where Postbank is the lessor of an operating lease, it carries the leased asset at amortized cost under property and equipment. The lease installments received during the respective period are reported in other operating income; write-downs on the leased asset are carried under administrative expenses.

Where Postbank is the lessee of an operating lease, it reports the lease installments paid in full as rental expense under other expenses.

**(d) Allowances and provisions for losses on loans and advances, write-downs and impairment**

Identifiable credit risks are covered by recognizing specific valuation allowances. General valuation allowances, whose amount is calculated on the basis of historical default rates, are also recognized for potential risks.

The allowance for losses on loans and advances is deducted from assets as a separate balance sheet item. It relates to allowances for losses on loans and advances to other banks and customers.

A financial asset is impaired if its estimated recoverable amount is lower than its carrying amount, *i.e.* if a loan is presumably (partly) uncollectable. If this is the case, the loss on both assets carried at amortized cost (IAS 39.111) and assets carried at fair value (IAS 39.117) must either be recognized through an indirect write-down (loan loss allowance) or by writing down the asset directly and recognizing the loss in net profit or loss (IAS 39.111).

In accordance with IAS 39.111 *et seq.*, the estimated recoverable amount is determined using the following methods:

- The discounted present value of estimated future cash flows (interest and principal payments) from the financial asset;
- The market price, where there is an observable market price for the financial instrument, because marking-to-market reflects the greater counterparty risk (IAS 39.113).

Uncollectable loans and advances are written off directly against income in the appropriate amount; recoveries on loans previously written off are recognized in income.

Credit risk provisions are recognized for liabilities under sureties/and other guarantees involving a default risk.

**(e) Trading Assets**

Securities and derivatives with positive fair values acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins are carried under this balance sheet item. It also contains the positive fair values of banking book derivatives. These transactions are recognized at the trade date.

Trading assets are measured at their fair values. Remeasurement gains and losses as well as gains or losses on the sale or disposal of trading assets are recognized in net trading income.

**(f) Securities Lending and Repurchase Agreements**

Postbank enters into both securities lending and bona fide securities repurchase agreements. Securities sold under repo and sell-and-buy-back transactions (cash sales) are carried as securities in the consolidated balance sheet. Cash inflows from such transactions are carried in the balance sheet as deposits from other banks or amounts due to customers, depending on the respective counterparty. As is the case under the German Commercial Code, these cash inflows are disclosed in the amount of the purchase price received (net); it is not necessary to recognize prepaid expenses for the repo rate to be paid. Interest payments are carried under interest expense.

Reverse repo and buy-and-sell-back transactions (cash purchases of securities) are carried as loans and advances to other banks or loans and advances to customers. The securities purchased are not carried in the balance sheet; interest arising from such transactions is carried under interest income.

**(g) Hedging Derivatives**

Hedging derivatives relate to those hedging instruments that meet the requirements for hedge accounting set out in IAS 39.142 *et seq.* (note 2f). Derivatives entered into for the purposes of balance sheet structure management and derivatives from ineffective hedging relationships do

not satisfy these requirements, and are thus disclosed as “banking book derivatives” under trading assets/liabilities.

Hedging derivatives are measured and carried at their fair values. Hedging derivatives are recognized at the trade date. A hedging relationship is discontinued when the hedged item or the hedging instrument expires, is sold or exercised, or if the hedge no longer qualifies for hedge accounting.

Hedges qualifying for hedge accounting relate primarily to hedges of interest rate and share price risks.

Postbank enters almost exclusively into fair value hedges for hedge accounting purposes. Only low volumes of cash flow hedges are entered into.

#### **(h) Investment Securities**

Investment securities are composed of bonds and other fixed-income securities, equities and other non-fixed-income securities, investments in unconsolidated subsidiaries and other equity investments.

Investment securities are measured at cost at the time of initial recognition. Available-for-sale investment securities are subsequently measured at their fair values. Securities purchased directly from the issuer, investments in unconsolidated subsidiaries and certain investments in associates are generally carried at amortized cost. Changes in the fair values of available-for-sale investment securities are recognized directly in the revaluation reserve in equity and are not recognized in income until the gain or loss is realized. Write-downs are charged in the event of permanent impairment. Investment securities are recognized at the settlement date.

Held-to-maturity bonds and securities purchased directly from the issuer are carried at amortized cost. Premiums and discounts are allocated directly to the financial instruments and spread over the remaining maturity. Write-downs are charged in the event of permanent impairment.

#### **(i) Property and Equipment**

Property and equipment is carried at cost and reduced by depreciation over the standard useful life of the asset. Determination of the useful life of an asset reflects physical wear and tear, technical obsolescence and legal and contractual restraints. Write-downs are charged in the event of additional impairment.

The carrying amount of property and equipment is reduced by straight-line depreciation over the following periods:

	<u>Useful life (years)</u>
<b>Buildings</b> .....	60
<b>IT systems</b> .....	4-7
<b>Other operating and office equipment</b> .....	3-20

Maintenance and repair costs for property and equipment are expensed as incurred.

IAS 40 (Investment Property) defines investment property as property held to earn rentals and/or for capital appreciation, rather than for supply of services or for administrative purposes or for sale in the ordinary course of business.

The following procedure was adopted to distinguish between investment property and owner-occupied property in the case of mixed-use property. An assessment is made as to whether the leased portion could be sold separately from the portion used for operating purposes. If this is the case, the two portions are accounted for separately: one portion as an item of property and equipment (owner-occupied property) and the other portion as investment property. A leased portion of less than 20% of the total area and less than 20% of total rental income is treated as insignificant.



IAS 40 allows an option to measure investment property at fair value or at cost. Postbank has opted to measure it at cost, and the necessary disclosures are contained in note (23).

#### **(j) Other Assets**

In addition to intangible assets, prepaid expenses and all assets not allocated to other items of assets are carried under other assets.

Intangible assets are carried at amortized cost, and relate primarily to software and purchased goodwill.

The accounting treatment of intangible assets distinguishes between internally generated and purchased intangible assets. At present, Postbank only holds purchased intangible assets.

The carrying amounts of intangible assets are reduced by straight-line amortization over a useful life of three years. Purchased goodwill is amortized over a standard useful life of 20 years. Write-downs are charged in the event of impairment or where no further economic benefits are expected to flow to the enterprise in the future.

Existing goodwill was translated in accordance with IAS 21.45 at the exchange rates applicable at the transaction date.

#### **(k) Liabilities**

Liabilities are carried at amortized cost (IAS 39.93).

The carrying amount of securitized liabilities that qualify for hedge accounting is adjusted for the gains and losses from changes in fair value attributable to the hedged risk.

Premiums, discounts and issue costs are recognized ratably in net interest income.

#### **(l) Trading Liabilities**

Derivatives with negative fair values that were acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins are carried under this balance sheet item. It also contains the negative fair values of banking book derivatives. Remeasurement gains and losses as well as gains or losses realized on the settlement of trading liabilities are recognized in net trading income. Trading liabilities are recognized at the trade date.

#### **(m) Provisions**

To the extent permissible under the IFRS, adequate provisions have been recognized for uncertain liabilities and anticipated losses from onerous contracts at the balance sheet date.

Occupational pensions are governed by defined benefit plans that are fully funded by provisions for pensions and other employee benefits. These correspond to the present value of pension entitlements earned at the valuation date. They reflect expected compensation increases and forecasted pension growth and are calculated on the basis of actuarial reports in accordance with IAS 19 (revised 2002). Pension obligations and pension expenses are calculated using the projected unit credit method.

The agreements that underlie the pension obligations provide for a range of benefits, depending on the beneficiaries concerned, such as:

- Old-age pensions starting at age 62 or 63, or 60 for the severely disabled.
- Invalidity pensions for total or occupational disability;
- Surviving dependents' pensions.

Postbank has assumed a direct occupational pension commitment for pensioners and employees admitted to the Bank's occupational pension plan who were previously insured with the Postal Service Institution for Supplementary Retirement Pensions (*Versorgungsanstalt Post: VAP*).

Pension provisions are calculated using the following actuarial assumptions:

<b>Discount rate</b> .....	<b>5.75 % p.a.</b>
<b>Salary growth</b> .....	<b>2.5 %</b>
<b>Pension growth</b> .....	<b>2.0 %</b>
<b>Fluctuation</b> .....	<b>4.0 % p.a.</b>
<b>Pensionable age</b> .....	<b>60-63 years</b>
<b>Disability</b> .....	<b>1998 Heubeck tables</b>

In accordance with IAS 19.92, actuarial gains and losses are not recognized as income or expense until the net cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceed 10% of the present value of the defined benefit obligation at this time.

#### **(n) Currency Translation**

In accordance with IAS 21.11, all foreign currency monetary items and equities denominated in foreign currencies that are classified as non-monetary items in accordance with IAS 21.7 are translated into euros at the middle spot rate at the balance sheet date. There were no material non-monetary items at the balance sheet date measured at (amortized) cost (in particular property and equipment, prepaid expenses and deferred income) and translated at the historical rate in accordance with IAS 21.7. Foreign currency income and expenses are generally translated at the exchange rate at the end of the month.

Exchange differences were recognized in income in accordance with the benchmark method (IAS 21.15-18).

The subgroup consolidated financial statements of the PB (USA) Holdings group prepared in US dollars were translated using the modified closing rate method (IAS 21.30). The resulting exchange difference was taken directly to equity.

#### **(o) Income Tax Expense**

Income taxes are recognized and measured in accordance with IAS 12 (revised 2000). Deferred taxes are generally recognized for all temporary differences between the carrying amounts in the IFRS financial statements and the carrying amounts in the tax accounts (tax base). Deferred tax assets are recognized for tax loss carryforwards only in the amount of probable future utilization.

Postbank became liable to corporate income tax for the first time effective January 1, 1996. Assets and liabilities were measured at their fair values for the preparation of the opening tax accounts. When calculating deferred taxes in accordance with IAS 12, initial differences between the carrying amounts in the financial accounts and in the tax accounts as of January 1, 1996 were eliminated. As this remeasurement is not comparable with taxable government grants, no deferred taxes can be recognized in accordance with IAS 12. The differences arising as of January 1, 1996 are adjusted in subsequent periods and recognized when calculating deferred taxes.

Deferred tax assets are carried under other assets; deferred tax liabilities are carried under provisions for taxes.

Deferred taxes are calculated using the expected tax rates. A tax rate of 41.2% was applied for fiscal year 2003. The increase in the tax rate is due to the German Flood Victims Act (*Flutopfersolidaritätsgesetz*) which is applicable to the 2003 assessment year.

Income and expenses from deferred taxes are recognized under income tax expense in net profit or loss for the period separately from current tax income and expenses. Recognition depends on the accounting treatment of the underlying item. For example, deferred taxes are recognized in net profit or loss if the balance sheet item is itself recognized in net profit or loss. Deferred taxes are credited or charged to the revaluation reserve in equity if the balance sheet item is itself credited or charged directly to equity (IAS 12.61), e.g. in the case of remeasurement of available-for-sale financial instruments.

**(p) Reclassifications**

We have reclassified certain items for reasons of clarity and transparency.

- In the year under review, interest income and expense on swaps that do not meet the conditions for hedge accounting set out in IAS 39 were reclassified in the income statement from interest income and expense to net trading income. The prior-period amounts were not adjusted and the respective amounts are disclosed in the corresponding notes.
- Under net other income/expenses in the income statement, individual items from the miscellaneous item were reclassified as separate items to reduce the miscellaneous item. Where these transactions had occurred in 2002, the prior-period amounts were also reclassified to facilitate comparison. In addition, lease income was reported as a net gain under other income for the first time in the year under review; the prior-period amounts were not adjusted.
- Due to the merger of a subsidiary, the net fee and commission income reported in the income statement includes a reclassification in the prior-period amounts from net fee and commission income from the money transmission and clearing business to net fee and commission income from the securities business to enable comparability. The respective amounts are disclosed in the corresponding notes.

***Income Statement Disclosures***

**(6) Net interest income**

	2003	2002
	€ million	
<b>Interest and current income</b>		
<b>Interest income from</b>		
Lending and money market transactions.....	3,194	3,555
Fixed-income and book-entry securities.....	2,115	2,557
Trading operations .....	261	308
<b>Net gains on hedges.....</b>	<b>4</b>	<b>9</b>
	<b>5,574</b>	<b>6,429</b>
<b>Current income from</b>		
Equities and other non-fixed-income securities .....	35	28
Investments in associates .....	1	1
	<b>36</b>	<b>29</b>
	<b>5,610</b>	<b>6,458</b>
<b>Interest expense on</b>		
Deposits .....	2,057	2,293
Securitized liabilities.....	1,348	1,769
Subordinated debt.....	85	75
Swaps (hedge accounting in accordance with IAS 39).....	285	239
Trading operations .....	182	230
	<b>3,957</b>	<b>4,606</b>
<b>Total .....</b>	<b>1,653</b>	<b>1,852</b>

Interest income and expense on swaps is reported as a net expense. The underlying transactions are hedging transactions that meet the criteria for qualification for hedge accounting in accordance with IAS 39. In the previous year, this income included close-out payments in the amount of € 156 million and interest income and expense of € 12 million on trading swaps and banking book derivatives. These items are recognized in net trading income in the year under review. The interest expense on the trading portfolio includes imputed interest expenses of € 181 million (previous year: € 228 million). Gains or losses from the remeasurement of fair value hedges are carried under net gains on hedges.

Net gains on hedges are composed of the following items:

	2003	2002
	€ million	
<b>Gains on the fair value remeasurement of hedged items</b> .....	62	572
<b>Losses on the fair value measurement of hedging transactions</b> .....	-58	-563
<b>Total</b> .....	4	9

**(7) Provisions for losses on loans and advances**

	2003	2002
	€ million	
<b>Additions:</b>		
Specific valuation allowances .....	221	187
	<b>221</b>	<b>187</b>
<b>Additions to allowances for credit risks</b>	3	2
<b>Direct loan write-offs</b> .....	33	29
	<b>257</b>	<b>218</b>
<b>Income from reversals:</b>		
Specific valuation allowances .....	86	72
Non-specific valuation allowances .....	7	8
	<b>93</b>	<b>80</b>
<b>Income from the reversal of provisions for credit risks</b> .....	3	—
<b>Recoveries on loans previously written off</b> .....	7	1
	<b>103</b>	<b>81</b>
<b>Total</b> .....	<b>154</b>	<b>137</b>

The change in the allowance for losses on loans and advances for country risks (reversal € 4 million; previous year: € 2 million; additions in the previous year: € 2 million) is reported together with specific valuation allowances in the year under review, as it can be allocated to particular loans. The prior-period amounts were reclassified accordingly.

**(8) Net fee and commission income**

	2003	2002
	€ million	
Money transmission and clearing business .....	343	329
Securities business .....	81	66
Lending and guarantee business .....	26	35
Other fee and commission business .....	17	25
<b>Total</b> .....	<b>467</b>	<b>455</b>

Due to the merger of Postbank EasyTrade.AG, Cologne with Postbank, Bonn in the year under review, € 8 million from net fee and commission income from the securities business was reclassified to net fee and commission income from the money transmission and clearing business in the prior-period amounts to ensure comparability.\*

\* This Note has been altered compared to the Note included in the 2003 annual report.

### (9) Net trading income

Quoted prices are generally used to establish the fair values of trading assets and trading liabilities. The fair values of unlisted products are established using the discounted present value method or suitable option pricing models. In addition to trading income and expenses, net trading income also includes net remeasurement gains on trading assets.

	2003	2002
	€ million	
<b>Net income from sale of securities</b> .....	275	3
<b>Net gain on remeasurement of trading assets and liabilities</b>		
Bonds and other fixed-income securities .....	142	45
Equities .....	2	-7
	<b>144</b>	<b>38</b>
<b>Net gain on derivatives carried in the trading portfolio and the banking book</b>		
Gain on derivatives .....	1,079	824
Loss on derivatives .....	-1,291	-755
	<b>-212</b>	<b>69</b>
<b>Foreign exchange loss</b> .....	-24	-30
<b>Total</b> .....	<b>183</b>	<b>80</b>

The net gain on derivatives carried in the trading portfolio and the banking book includes an interest expense on swaps of € 436 million (previous year: € 12 million gain). The underlying swap holdings are not part of a hedging relationship as defined by IAS 39. In the previous year, this interest expense was reported under net interest income.

### (10) Net income from investment securities

Net income from investment securities contains net gains from the sale and remeasurement of investment securities, investments in unconsolidated subsidiaries and investments in associates.

	2003	2002
	€ million	
<b>Net income from securities purchased directly from issuers</b> .....	<b>-16</b>	<b>194</b>
<b>thereof net income from sale</b> .....	<b>-11</b>	<b>203</b>
Gains on sale.....	60	223
Losses on sale .....	71	20
<b>thereof net impairment loss</b> .....	<b>-5</b>	<b>-9</b>
<b>Net income from available-for-sale investment securities</b> .....	<b>33</b>	<b>-233</b>
<b>thereof net income from sale</b> .....	<b>35</b>	<b>-4</b>
Gains on sale.....	160	163
Losses on sale .....	125	167
<b>thereof net impairment loss</b> .....	<b>-2</b>	<b>-229</b>
<b>Net income from loans to other banks</b> .....	<b>19</b>	<b>18</b>
thereof net income from sale of originated loans.....	19	16
thereof net income from sale of available-for-sale loans .....	—	2
<b>Net income from loans to customers</b> .....	<b>39</b>	<b>53</b>
thereof net income from sale of originated loans.....	31	31
thereof net income from sale of available-for-sale loans .....	8	22
<b>Other net income from investment securities</b> .....	<b>—</b>	<b>4</b>
<b>Total</b> .....	<b>75</b>	<b>36</b>

## (11) Administrative expenses

Administrative expenses are composed of personnel expenses, non-staff operating expenses and depreciation and write-downs of property and operating and office equipment. These expenses are composed of the following items:

	2003	2002
	€ million	
<b>Personnel expenses</b>		
Wages and salaries.....	434	455
Social security contributions .....	35	36
Expenses for pensions and other benefits.....	139	150
	<b>608</b>	<b>641</b>
<b>Other administrative expenses.....</b>	<b>1,121</b>	<b>1,160</b>
<b>Depreciation and write-downs of property and equipment.....</b>	<b>80</b>	<b>82</b>
<b>Total .....</b>	<b>1,809</b>	<b>1,883</b>

Write-downs of property and equipment in the amount of € 2 million were charged in the year under review. € 1 million of the depreciation of property and equipment relates to investment property (previous year: € 1 million).

Other administrative expenses relate primarily to expenses for intragroup services paid to Deutsche Post AG in the amount of € 454 million (previous year: € 465 million); IT costs of € 270 million (previous year: € 297 million); market communication costs of € 77 million (previous year: € 75 million); operating building and premises expenses of € 44 million (previous year: € 68 million); and legal, consulting and audit costs of € 28 million (previous year: € 53 million). € 1 million of the other administrative expenses relates to investment property (previous year: € 1 million).

Other administrative expenses include minimum lease expenses of € 68 million (previous year: € 51 million), composed of expenses for leased intangible assets, land and buildings, and operating and office equipment under the operating leases.

€ 10 million of administrative expenses (previous year: € 11 million) relates to proportionately consolidated joint ventures.

## (12) Other income

	2003	2002
	€ million	
Income from the reversal of provisions .....	92	8
Income from property and equipment .....	20	34
Net income from insurance business.....	11	5
Income from retail outlet final settlement .....	11	—
Income from the reversal of accruals.....	6	5
Income from the refund of the civil servants' special pension fund.....	6	—
Income from uncollectable transactions .....	4	4
Other operating income.....	68	65
<b>Total.....</b>	<b>218</b>	<b>121</b>

Income from property and equipment largely relates to rental income; € 9 million of this relates to investment property (previous year: € 10 million).

Income from the reversal of provisions relates primarily to the reversal of a provision of € 64 million that is no longer required due to the transfer of interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH to a subsidiary of the Deutsche Post Group.

€ 11 million of the total other income in the amount of € 218 million is attributable to proportionately consolidated joint ventures (previous year: € 5 million) and corresponds in full to the net income from insurance business.



### (13) Other expenses

	2003	2002
	€ million	
Amortization and write-downs of intangible assets.....	34	31
Expenses for special projects.....	30	30
Expenses for risk compensation amounts of the Postbeamtenkrankenkasse (Postal Civil Service Health Insurance Fund) .....	9	5
Expenses for other taxes .....	8	8
Expenses from property and equipment .....	7	11
Expenses for the Deutsche Bundespost Federal Posts and Telecommunications Agency ( <i>Bundesanstalt für Post und Telekommunikation</i> ) .....	7	6
Expenses from loss absorption agreements.....	1	—
Miscellaneous .....	40	34
<b>Total.....</b>	<b>136</b>	<b>125</b>

Expenses for other taxes relate primarily to land taxes amounting to € 3 million (previous year: € 4 million).

No write-downs of intangible assets were charged in fiscal year 2003.

The miscellaneous item relates to write-downs of trade receivables of € 9 million, restructuring expenses of € 4 million and interest expense on tax assets of € 3 million. In the previous year, this related to lease expenses of € 19 million that were due to minimum lease payments. Starting in 2003, these are netted with lease income under other income.

### (14) Income tax expense

Income taxes in the group were composed of the following items:

	2003	2002
	€ million	
<b>Current income tax expense</b>		
Corporate income tax and solidarity surcharge.....	18	8
Trade income tax .....	4	12
	22	20
<b>Income/expense from prior-period income tax .....</b>	<b>13</b>	<b>–2</b>
<b>Effective income tax expense .....</b>	<b>35</b>	<b>18</b>
<b>Expense from deferred taxes</b>		
from temporary differences .....	80	25
from loss carryforwards .....	29	216
	109	241
<b>Total.....</b>	<b>144</b>	<b>259</b>

The tax expense changed as follows:

	2003	2002
	€ million	
<b>Income from ordinary activities after tax</b> .....	353	140
<b>Income tax expense</b> .....	144	259
<b>Income before tax</b> .....	<b>497</b>	<b>399</b>
<b>Applicable tax rate</b> .....	41.20%	39.90%
<b>Expected income taxes</b> .....	<b>205</b>	<b>159</b>
<b>Tax effects</b>		
Effect of tax rate change (German Flood Victims Act) .....	6	8
Effect of difference between applicable tax rates in Germany and abroad .....	-3	-7
Effect of tax-free foreign income .....	-12	-11
Effect of tax-free domestic income and non-deductible expenses .....	-14	—
Effect of previously unrecognized tax losses .....	-59	—
Effect of prior-period taxes .....	13	—
Effect of special funds (equity losses not recognized for tax purposes) resulting from Section 8b of the German Corporate Income Tax Act ( <i>Körperschaftsteuergesetz: KStG</i> ) .....	11	150
Effect of equities and investments resulting from Section 8b KStG .....	-4	-66
Additional reduction in tax loss carryforwards resulting from Section 8b KStG .....	—	24
Other .....	2	2
	<b>-61</b>	<b>100</b>
<b>Income tax expense</b> .....	<b>144</b>	<b>259</b>

### Notes to the Balance Sheet

#### (15) Cash reserve

The cash reserve is composed of the following items:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Cash</b> .....	791	961
<b>Balances with central banks</b> .....	831	345
<b>Public sector debt instruments and bills eligible for rediscounting with central banks</b> .....	1	1
<b>Total</b> .....	<b>1,623</b>	<b>1,307</b>

€ 745 million (previous year: € 315 million) of the balances with central banks relates to balances with the Deutsche Bundesbank.

The minimum reserve requirement at end-December 2003 was € 1,214 million (previous year: € 1,097 million).

#### (16) Loans and advances to other banks

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Domestic banks</b>		
payable on demand .....	4,076	1,220
other loans and advances .....	12,109	21,333
	<b>16,185</b>	<b>22,553</b>
<b>Foreign banks</b>		
payable on demand .....	3,631	134
other loans and advances .....	14,255	15,087
	<b>17,886</b>	<b>15,221</b>
<b>Total</b> .....	<b>34,071</b>	<b>37,774</b>

As of December 31, 2003, there were bona fide transactions under repurchase agreements amounting to € 1,336 million (previous year: € 3,126 million). Postbank is the lender in such

transactions. Securities purchased under agreements to resell exclusively relate to listed bonds of public sector issuers or German banks.

In total, € 39 million of loans and advances to other banks (previous year: € 17 million) relates to proportionately consolidated joint ventures.

Loans and advances to other banks are classified as follows in accordance with the categories of financial instruments as defined in IAS 39:

	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	€ million	
<b>Originated loans to other banks</b> .....	27,390	27,041
thereof fair value hedges .....	2,246	2,836
<b>Purchased loans to other banks (available-for-sale)</b> .....	1,190	1,730
thereof fair value hedges .....	389	558
<b>Money market lendings</b> .....	5,491	9,003
<b>Total</b> .....	<b>34,071</b>	<b>37,774</b>

€ 2 million was withdrawn from (previous year: € 11 million taken to) the revaluation reserve for losses on the measurement of unhedged purchased available-for-sale loans to other banks. € 0.3 million (previous year: € 2 million) carried in the revaluation reserve was reversed to income in the period under review from the disposal of available-for-sale loans to other banks.

In the year under review, no valuation allowances were necessary for originated loans to other banks (previous year: € 2 million).

#### (17) Loans and advances to customers

	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	€ million	
<b>Real estate finance</b> .....	17,209	15,221
<b>Public sector</b> .....	14,951	17,794
<b>Installment loans</b> .....	1,011	937
<b>Other loans and advances</b> .....	10,139	9,977
<b>Total</b> .....	<b>43,310</b>	<b>43,929</b>
thereof:		
Secured by mortgage charges.....	11,200	10,668
Public sector loans.....	14,951	17,794
	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	€ million	
Domestic customers .....	37,276	37,679
Foreign customers .....	6,034	6,250
<b>Total</b> .....	<b>43,310</b>	<b>43,929</b>

Loans and advances to customers without a fixed maturity amounted to 1.1 % of total assets (previous year: 1.1 %).

Loans and advances to customers relates to amounts due under finance leases in the amount of € 8 million (previous year: € 47 million). The respective gross investment value of these leases amounts to € 27 million (previous year: € 60 million). The total amount of future lease payments is € 24 million (previous year: € 55 million) and has the following maturity structure:

	<u>Dec. 31, 2003</u>
	€ million
less than 1 year .....	4
1-5 years.....	11
more than 5 years .....	9
<b>Total</b> .....	<b>24</b>

Loans and advances to customers are classified as follows in accordance with the categories of financial instruments as defined in IAS 39:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Originated loans to customers</b> .....	38,311	38,738
thereof fair value hedges .....	4,450	5,294
<b>Purchased loans to customers (held to maturity)</b> .....	710	779
<b>Purchased loans to customers (available-for-sale)</b> .....	4,289	4,412
thereof fair value hedges .....	1,627	2,411
<b>Total</b> .....	<b>43,310</b>	<b>43,929</b>

€ 8 million was withdrawn from (previous year: € 22 million taken to) the revaluation reserve for losses on the measurement of unhedged purchased available-for sale loans to customers. € 8 million (previous year: € 23 million) carried in the revaluation reserve was reversed to income in the period under review from the disposal of available-for-sale loans to customers.

Valuation allowances of € 221 million were recognized in the year under review for originated loans to customers (previous year: € 185 million).

#### (18) Total credit extended

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Loans and advances to other banks</b> .....	34,071	37,774
<b>Loans and advances to customers</b> .....	43,310	43,929
<b>Guarantees</b> .....	1,254	1,304
<b>Total</b> .....	<b>78,635</b>	<b>83,007</b>

#### (19) Allowance for losses on loans and advances

The allowance for losses on loans and advances covers all identifiable credit and country risks. Non-specific valuation allowances were recognized for the potential credit risk on the basis of historical amounts.

Risks have been provided for by an allowance for losses on loans and advances carried under assets, and by the recognition of provisions for credit risks.

The allowance for losses on loans and advances is composed of the following items:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Allowance for losses on loans and advances to other banks</b> .....	<b>3</b>	<b>9</b>
<b>Allowance for losses on loans and advances to customers</b> .....	<b>594</b>	<b>579</b>
<b>Total allowance for losses on loans and advances</b> .....	<b>597</b>	<b>588</b>
<b>Allowance for credit risks</b> .....	<b>5</b>	<b>7</b>
<b>Total</b> .....	<b>602</b>	<b>595</b>

The allowance for losses on loans and advances carried under assets changed as follows in the year under review:

	Specific risks		Non-specific risks		Total	
	2003	2002	2003	2002	2003	2002
	€ million					
<b>Balance at Jan. 1</b> .....	<b>545</b>	<b>570</b>	<b>43</b>	<b>51</b>	<b>588</b>	<b>621</b>
<b>Additions</b>						
Allowance charged to the income statement .....	221	187	—	—	221	187
<b>Disposals</b>						
Utilization .....	97	133	—	—	97	133
Allowance reversed to the income statement .....	86	72	7	8	93	80
Currency translation differences .....	22	7	—	—	22	7
<b>Balance at Dec. 31</b> .....	<b>561</b>	<b>545</b>	<b>36</b>	<b>43</b>	<b>597</b>	<b>588</b>

The remaining write-down for country risks in the amount of € 2 million in the year under review (previous year: € 7 million) was allocated to specific loans and is therefore reported as specific risks in 2003. The prior-period amounts were reclassified accordingly.

The total amount of loans at the balance sheet date for which no interest payments are received was € 424 million (previous year: € 475 million). Write-downs were charged on loans with a total volume of € 939 million (previous year: € 1,265 million). The outstanding interest receivables accounted for by these loans amounted to € 66 million at December 31, 2003 (previous year: € 48 million).

Starting in fiscal year 2003, no default interest on loans and advances to customers is capitalized. Default interest on loans and advances to customers of € 23 million capitalized in the previous year included an allowance for losses on loans and advances in the amount of € 19 million as of December 31, 2002. In the year under review, this was recorded as utilization of the allowance for losses on loans and advances, and the additional existing amount of capitalized default interest was written off directly and recorded in net income.

€ 33 million of loans and advances was written off directly in the year under review (previous year: € 29 million). Recoveries on loans written off amounted to € 7 million (previous year: € 1 million).

## (20) Trading assets

Group trading activities consist of trading in bonds and other fixed-income securities, equities and other non-fixed-income securities, promissory note loans and foreign currencies, as well as derivatives. All trading assets are carried at their fair values.

	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	€ million	
<b>Bonds and other fixed-income securities issued by</b>		
Public sector issuers.....	1,143	1,499
Other issuers	10,523	8,934
thereof money market instruments.....	483	1,705
	<b>11,666</b>	<b>10,433</b>
<b>Equities and other non-fixed-income securities .....</b>	21	19
<b>Positive fair values of derivatives carried as trading assets.....</b>	508	442
<b>Positive fair values of banking book derivatives .....</b>	393	401
<b>Total .....</b>	<b>12,588</b>	<b>11,295</b>

The following amounts of bonds and other fixed-income securities, and equities and other non-fixed-income securities carried as trading assets, are negotiable and listed:

	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	€ million	
<b>Bonds and other fixed-income securities .....</b>	11,345	10,083
<b>Equities and other non-fixed-income securities .....</b>	21	19

## (21) Hedging derivatives

Hedges with positive fair values that qualify for hedge accounting in accordance with IAS 39 are composed of the following items:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Assets</b>		
<b>Hedging derivatives on loans to other banks</b>		
Originated loans .....	5	6
	<b>5</b>	<b>6</b>
<b>Hedging derivatives on loans to customers</b>		
Originated loans .....	9	7
	<b>9</b>	<b>7</b>
<b>Hedging derivatives on investment securities</b>		
Bonds and other fixed-income securities .....	7	8
Equities and other non-fixed-income securities .....	1	4
	<b>8</b>	<b>12</b>
<b>Liabilities</b>		
<b>Deposits from other banks</b> .....	63	64
<b>Due to customers</b> .....	63	54
<b>Securitized liabilities</b> .....	672	969
<b>Subordinated liabilities</b> .....	12	9
	<b>810</b>	<b>1,096</b>
<b>Total</b> .....	<b>832</b>	<b>1,121</b>

## (22) Investment securities

Investment securities include bonds and other fixed-income securities, equities and other non-fixed-income securities, investments in associates and investments in unconsolidated subsidiaries.

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Bonds and other fixed-income securities issued by</b>		
Public sector issuers.....	14,530	15,327
thereof equalization claims against the government.....	25	37
Other issuers .....	22,853	27,962
	<b>37,383</b>	<b>43,289</b>
<b>Equities and other non-fixed-income securities</b>		
Equities .....	1,286	707
Investment fund shares.....	160	204
	<b>1,446</b>	<b>911</b>
<b>Investments in associates</b> .....	17	39
<b>Investments in unconsolidated subsidiaries</b> .....	13	13
<b>Total</b> .....	<b>38,859</b>	<b>44,252</b>

Bonds and other fixed-income securities contain collection documents amounting to € 44 million (previous year: € 444 million).

€ 17 million of investment securities relates to proportionately consolidated joint ventures (previous year: € 16 million).



Investment securities are classified as follows in accordance with the categories of financial instruments as defined in IAS 39:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Bonds and other fixed-income securities</b>		
Purchased directly from the issuer .....	12,284	14,056
thereof fair value hedges.....	1,445	1,071
Held to maturity.....	2,633	3,102
Available for sale .....	22,441	26,094
thereof fair value hedges.....	12,441	15,931
(Originated) equalization claims against the government.....	25	37
	<b>37,383</b>	<b>43,289</b>
<b>Equities and other non-fixed-income securities</b>		
Available for sale .....	1,446	911
thereof fair value hedges.....	70	49
	<b>1,446</b>	<b>911</b>
<b>Investments in associates (available-for-sale).....</b>	<b>17</b>	<b>39</b>
<b>Investments in unconsolidated subsidiaries (available-for-sale).....</b>	<b>13</b>	<b>13</b>
<b>Total .....</b>	<b>38,859</b>	<b>44,252</b>

The following amounts of investment securities are negotiable and listed:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Bonds and other fixed-income securities .....</b>	<b>36,111</b>	<b>41,785</b>
<b>Equities and other non-fixed-income securities .....</b>	<b>1,284</b>	<b>741</b>
<b>Investments in associates .....</b>	<b>—</b>	<b>13</b>

Losses on the measurement of unhedged available-for-sale securities were charged directly to the revaluation reserve in the amount of € 328 million (previous year: withdrawal of € 537 million). The disposal of investment securities and the recognition of impairment losses resulted in a reversal to the revaluation reserve of € 33 million which was recognized in expenses in the period under review (previous year: € 201 million taken to net income) and reported in net income for the period.

To enable it to enter into open market transactions, Postbank has pledged securities with an eligible value of € 2 billion (previous year: € 13.3 billion) as collateral to the European Central Bank. There were open market transactions amounting to € 2 billion at the balance sheet date (previous year: € 8.9 billion). The securities lodged as collateral are reported as investment securities.

Impairment losses totaling € 7 million were recognized in fiscal year 2003 (previous year: € 238 million).

Changes in investment securities in fiscal year 2003 are presented in the following table:

			Bonds and other fixed-income securities	
	Investments in unconsolidated subsidiaries	Investments in associates	Held to maturity	other long-term investment securities
	€ million			
<b>Historical cost</b>				
<b>Balance at Jan. 1, 2003</b> .....	<b>13</b>	<b>13</b>	<b>3,102</b>	<b>11,181</b>
Exchange differences .....	—	—	—8	—
Additions .....	—	13	24	3,925
Disposals .....	—	9	485	5,388
<b>Balance at Dec. 31, 2003</b> .....	<b>13</b>	<b>17</b>	<b>2,633</b>	<b>9,718</b>
<b>Write-downs/reversals of write-downs</b>				
<b>Balance at Jan. 1, 2003</b> .....	—	—26	—	—46
Current write-downs/changes .....	—	26	—	18
Reversals of write-downs .....	—	—	—	45
<b>Balance at Dec. 31, 2003</b> .....	—	—	—	—73
<b>Carrying amounts</b>				
<b>Balance at Jan. 1, 2003</b> .....	<b>13</b>	<b>39</b>	<b>3,102</b>	<b>11,227</b>
<b>Balance at Dec. 31, 2003</b> .....	<b>13</b>	<b>17</b>	<b>2,633</b>	<b>9,791</b>

With regard to bonds, equities and other securities, the statement includes only those securities which can be allocated to the IAS category "held to maturity" or, for other IAS categories, to the category "fixed assets" (other long-term investment securities) under the German Commercial Code.

Disposals of bonds and other fixed-income securities in the IAS category "held to maturity" only occur as a result of the maturity of the relevant transactions. No securities were sold prior to maturity.

## (23) Property and equipment

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
Land and buildings .....	807	822
Technical equipment and machinery .....	—	—
Operating and office equipment.....	131	150
Advance payments and assets under development .....	22	5
<b>Total</b> .....	<b>960</b>	<b>977</b>

A comparison of historical cost and cumulative depreciation with the prior-period amounts is presented below:

	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under development	Total
	€ million				
<b>Historical cost</b>					
<b>Opening balance at Jan. 1, 2002</b> ...	<b>1,062</b>	<b>3</b>	<b>375</b>	<b>5</b>	<b>1,445</b>
Additions .....	24	—	151	4	179
Reclassifications.....	3	-3	3	-3	—
Disposals .....	46	—	62	1	109
Exchange differences .....	—	—	-1	—	-1
<b>Closing balance at Dec. 31, 2002</b> ..	<b>1,043</b>	<b>—</b>	<b>466</b>	<b>5</b>	<b>1,514</b>
Changes in basis of consolidation	—	—	-1	—	-1
Additions .....	1	—	43	23	67
Reclassifications.....	—	—	4	-4	—
Disposals .....	2	—	59	2	63
Exchange differences .....	-1	—	—	—	-1
<b>Closing balance at Dec. 31, 2003</b> ..	<b>1,041</b>	<b>—</b>	<b>453</b>	<b>22</b>	<b>1,516</b>

	Land and buildings	Technical equipment and machinery	Operating and office equipment € million	Advance payments and assets under development	Total
<b>Depreciation</b>					
<b>Opening balance at Jan. 1, 2002</b>	<b>195</b>	<b>2</b>	<b>226</b>	<b>—</b>	<b>423</b>
Changes in basis of consolidation and other adjustments .....	15	—	66	—	81
Current depreciation .....	15	—	67	—	82
Reclassifications .....	—	-2	2	—	—
Disposals .....	4	—	44	—	48
Exchange differences .....	—	—	-1	—	-1
<b>Closing balance at Dec. 31, 2002</b>	<b>221</b>	<b>—</b>	<b>316</b>	<b>—</b>	<b>537</b>
Changes in basis of consolidation and other adjustments .....	—	—	-1	—	-1
Current depreciation .....	15	—	65	—	80
Disposals .....	2	—	57	—	59
Exchange differences .....	—	—	-1	—	-1
<b>Closing balance at Dec. 31, 2003</b>	<b>234</b>	<b>—</b>	<b>322</b>	<b>—</b>	<b>556</b>
<b>Carrying amount at Dec. 31, 2002</b> .....	<b>822</b>	<b>—</b>	<b>150</b>	<b>5</b>	<b>977</b>
<b>Carrying amount at Dec. 31, 2003</b> .....	<b>807</b>	<b>—</b>	<b>131</b>	<b>22</b>	<b>960</b>

The carrying amounts of property and equipment changed as follows in the year under review:

	Carrying amount at Jan. 1, 2003	Exchange differences	Additions	Disposals	Reclassifications	Depreciation	Carrying amount at Dec. 31, 2003
	€ million						
Land and buildings .....	822	-1	1	—	—	15	807
Operating and office equipment.....	150	1	43	2	4	65	131
Advance payments and assets under development.....	5	—	23	2	-4	—	22
<b>Total</b> .....	<b>977</b>	<b>—</b>	<b>67</b>	<b>4</b>	<b>—</b>	<b>80</b>	<b>960</b>

At the balance sheet date of December 31, 2003, assets under development include € 18 million for costs that have already been incurred although the assets were still under development at the balance sheet date.

In 2003, items of property and equipment for which Postbank acts as the lessor under an operating lease consist of land and buildings; their maturity structure is as follows:

	Land and buildings € million
Historical cost .....	71
Cumulative depreciation .....	32
<b>Carrying amount at Dec. 31, 2003</b> .....	<b>39</b>
Minimum lease payments due	
less than 1 year .....	13
1-5 years .....	46
more than 5 years .....	49
<b>Total</b> .....	<b>108</b>

The disclosures relating to investment property for fiscal year 2003 are as follows:

	<u>Third-party Use</u>	<u>Rental income</u>	<u>Direct operating expenses</u>	<u>Restraints on disposal</u>	<u>Disposal proceeds received</u>	<u>Contractual obligations</u>
	<u>%</u>	<u>€ million</u>	<u>€ million</u>			
<b>Investment property.....</b>	<b>86</b>	<b>9</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>

The corresponding figures for fiscal year 2002 are as follows:

	<u>Third-party Use</u>	<u>Rental income</u>	<u>Direct operating expenses</u>	<u>Restraints on disposal</u>	<u>Disposal proceeds received</u>	<u>Contractual obligations</u>
	<u>%</u>	<u>€ million</u>	<u>€ million</u>			
<b>Investment property.....</b>	<b>88</b>	<b>10</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>

A comparison of historical cost and cumulative depreciation with the prior-period amounts is presented below:

	<u>Historical cost</u>		<u>Cumulative depreciation</u>	
	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	<u>€ million</u>			
<b>Investment property.....</b>	<b>198</b>	<b>198</b>	<b>58</b>	<b>57</b>

The carrying amounts of investment property changed as follows in the year under review:

	<u>Carrying amount at Jan. 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassifications</u>	<u>Depreciation</u>	<u>Carrying amount at Dec. 31, 2003</u>
	<u>€ million</u>					
<b>Investment property ...</b>	<b>141</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>140</b>

The fair value of investment property amounts to € 140 million (previous year: € 141 million).

#### (24) Other assets

	<u>Notes</u>	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
		<u>€ million</u>	
<b>Deferred tax assets.....</b>	(25)	564	584
<b>Intangible assets.....</b>	(26)	168	139
<b>Prepaid expenses.....</b>		140	162
<b>Receivables from tax authorities.....</b>		24	35
<b>Miscellaneous.....</b>		77	103
<b>Total .....</b>		<b>973</b>	<b>1,023</b>

€ 91 million (previous year: € 108 million) of the prepaid expenses relates to prepaid rent or lease expenses.

Miscellaneous receivables primarily include receivables from the insurance business amounting to € 19 million (previous year: € 7 million), trade receivables amounting to € 15 million and advances amounting to € 4 million (previous year: € 3 million). Receivables from the insurance business are fully attributable to proportionately consolidated joint ventures.

#### (25) Deferred tax assets

	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	<u>€ million</u>	
<b>Deferred tax assets</b>		
from temporary differences.....	289	276
from tax loss carryforwards, thereof.....	275	308
domestic.....	261	288
foreign .....	14	20
<b>Total .....</b>	<b>564</b>	<b>584</b>

Deferred tax assets were recognized in connection with temporary differences relating to the following balance sheet items, and in connection with unused tax losses:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Assets</b>		
Loans and advances .....	1	4
Allowance for losses on loans and advances .....	11	—
Trading assets .....	—	166
Hedging derivatives .....	—	69
Investment securities .....	2	—
Property and equipment .....	—	1
Other assets .....	35	122
<b>Liabilities</b>		
Amounts due to other banks and customers .....	77	171
Trading liabilities .....	397	356
Hedging derivatives .....	545	—
Provisions for pensions and other employee benefits .....	27	21
Other provisions .....	18	113
Other liabilities .....	5	15
	<b>1,118</b>	<b>1,038</b>
<b>Tax loss carryforwards</b> .....	275	308
<b>Netted against deferred tax liabilities</b> .....	830	762
<b>Total</b> .....	<b>564</b>	<b>584</b>

At December 31, 2003, there were no deductible temporary differences and tax loss carryforwards for which no deferred tax assets were recognized in the balance sheet.

## (26) Intangible assets

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Software</b> .....	120	40
<b>Purchased goodwill</b> .....	21	19
<b>Advance payments on intangible assets</b> .....	27	80
<b>Total</b> .....	<b>168</b>	<b>139</b>

A comparison of historical cost and cumulative amortization with the prior-period amounts is presented below:

	Software	Purchased goodwill	Advance payments on intangible assets	Total
	€ million			
<b>Historical cost</b>				
<b>Opening balance at Jan. 1, 2002</b> .....	<b>198</b>	<b>16</b>	<b>36</b>	<b>250</b>
Changes in basis of consolidation .....	—	—	—	—
Additions .....	19	6	47	72
Reclassifications .....	2	—	—2	—
Disposals .....	4	—	1	5
<b>Closing balance at Dec. 31, 2002</b> .....	<b>215</b>	<b>22</b>	<b>80</b>	<b>317</b>
Additions .....	27	3	33	63
Reclassifications .....	86	—	—86	—
Disposals .....	42	—	—	42
<b>Closing balance at Dec. 31, 2003</b> .....	<b>286</b>	<b>25</b>	<b>27</b>	<b>338</b>

	Software	Purchased goodwill	Advance payments on intangible assets	Total
	€ million			
<b>Amortization</b>				
<b>Opening balance at Jan. 1, 2002</b> .....	<b>155</b>	<b>2</b>	<b>—</b>	<b>157</b>
Changes in basis of consolidation and other adjustments .....	-6	—	—	-6
Current amortization .....	30	1	—	31
Reclassifications .....	—	—	—	—
Disposals .....	4	—	—	4
Exchange differences .....	—	—	—	—
<b>Closing balance at Dec. 31, 2002</b> .....	<b>175</b>	<b>3</b>	<b>—</b>	<b>178</b>
Current amortization .....	33	1	—	34
Reclassifications .....	—	—	—	—
Disposals .....	42	—	—	42
<b>Closing balance at Dec. 31, 2003</b> .....	<b>166</b>	<b>4</b>	<b>—</b>	<b>170</b>
<b>Carrying amount at Dec. 31, 2002</b> .....	<b>40</b>	<b>19</b>	<b>80</b>	<b>139</b>
<b>Carrying amount at Dec. 31, 2003</b> .....	<b>120</b>	<b>21</b>	<b>27</b>	<b>168</b>

The carrying amounts of intangible assets changed as follows in the year under review:

	Carrying amount at Jan. 1, 2003	Additions	Disposals	Reclassifications	Amortization	Carrying amount at Dec. 31, 2003
	€ million					
Software .....	40	27	—	86	33	120
Purchased goodwill ..	19	3	—	—	1	21
Advance payments on intangible assets..	80	33	—	-86	—	27
<b>Total .....</b>	<b>139</b>	<b>63</b>	<b>—</b>	<b>—</b>	<b>34</b>	<b>168</b>

## (27) Deposits from other banks

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Domestic banks</b>		
Payable on demand.....	1,112	333
With an agreed maturity or withdrawal notice.....	11,317	20,876
	<b>12,429</b>	<b>21,209</b>
<b>Foreign banks</b>		
Payable on demand.....	115	806
With an agreed maturity or withdrawal notice.....	7,727	6,285
	7,842	7,091
<b>Total .....</b>	<b>20,271</b>	<b>28,300</b>

€ 894 million of the deposits from other banks is covered by fair value hedges (previous year: € 935 million).

As of December 31, 2003, there were bona fide securities repurchase agreements amounting to € 7,068 million (previous year: € 2,400 million). Postbank is the borrower in such transactions.



## (28) Due to customers

Amounts due to customers are primarily composed of savings deposits, amounts payable on demand and term deposits.

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Savings deposits</b>		
With an agreed withdrawal notice of three months.....	33,363	28,611
With an agreed withdrawal notice of more than three months.....	376	442
	<b>33,739</b>	<b>29,053</b>
<b>Other amounts due</b>		
Payable on demand.....	20,227	16,614
With an agreed maturity or withdrawal notice.....	19,975	20,979
	<b>40,202</b>	<b>37,593</b>
<b>Money market liabilities</b> .....	—	19
<b>Total</b> .....	<b>73,941</b>	<b>66,665</b>
<b>Domestic customers</b> .....	72,768	59,497
<b>Foreign customers</b> .....	1,173	7,168
<b>Total</b> .....	<b>73,941</b>	<b>66,665</b>

€ 1,233 million of the amounts due to customers is covered by fair value hedges (previous year: € 683 million).

## (29) Securitized liabilities

Amounts reported as securitized liabilities relate to bonds, including mortgage bonds and public-sector mortgage bonds (*Pfandbriefe*), and money market instruments (e.g. Certificates of Deposit, Euro-Notes, Commercial Paper).

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Mortgage bonds</b> .....	878	1,234
<b>Public sector mortgage bonds (<i>Pfandbriefe</i>)</b> .....	3,570	5,508
<b>Other debt instruments</b> .....	21,819	28,055
<b>Total</b> .....	<b>26,267</b>	<b>34,797</b>

€ 10,556 million of the securitized liabilities is covered by fair value hedges (previous year: € 10,753 million).

Repurchased own bonds amounting to € 337 million (previous year: € 371 million) were deducted directly from securitized liabilities.

## (30) Trading liabilities

Trading liabilities consist of the negative fair values of derivatives carried in the trading portfolio and in the banking book as well as delivery obligations under securities sold short.

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Negative fair values of trading derivatives</b> .....	506	515
<b>Negative fair values of banking book hedging derivatives</b> .....	1,139	486
<b>Other trading assets</b> .....	2	—
<b>Total</b> .....	<b>1,647</b>	<b>1,001</b>

### (31) Hedging derivatives

Hedges with negative fair values that qualify for hedge accounting in accordance with IAS 39 are composed of the following items:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Assets</b>		
<b>Hedging derivatives on loans to other banks</b>		
Originated loans .....	142	200
Purchased available-for-sale loans.....	34	39
	<b>176</b>	<b>239</b>
<b>Hedging derivatives on loans to customers</b>		
Originated loans .....	346	448
Purchased available-for-sale loans.....	109	177
	<b>455</b>	<b>625</b>
<b>Hedging derivatives on investment securities</b>		
Bonds and other fixed-income securities .....	1,062	1,641
Equities and other non-fixed-income securities .....	9	—
	<b>1,071</b>	<b>1,641</b>
<b>Liabilities</b>		
Deposits from other banks .....	2	—
Due to customers .....	2	3
Securitized liabilities.....	107	137
Subordinated liabilities .....	1	—
	<b>112</b>	<b>140</b>
<b>Total .....</b>	<b>1,814</b>	<b>2,645</b>

### (32) Provisions

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Provisions for pensions and other employee benefits.....</b>	<b>572</b>	<b>563</b>
<b>Provisions for taxes</b>		
for current tax liabilities .....	37	32
for deferred tax liabilities .....	836	706
	<b>873</b>	<b>738</b>
<b>Other provisions.....</b>	<b>259</b>	<b>354</b>
<b>Total .....</b>	<b>1,704</b>	<b>1,655</b>

€ 72 million of provisions is attributable to proportionately consolidated joint ventures (previous year: € 47 million), of which € 68 million (previous year: € 44 million) relates to technical reserves (insurance) included in Other provisions and € 4 million (previous year: € 3 million) to provisions for deferred tax liabilities.

### (33) Provisions for pensions and other employee benefits

The provisions for pensions and other employee benefits relate primarily to provisions for the obligations to pay occupational pensions on the basis of direct pension commitments. The nature and amount of the pension payments of those employees entitled to pension benefits are governed by the applicable pension rules (including pension guidelines and pension fund rules), which depend largely on the date of commencement of employment.

The provisions for pension obligations changed as follows:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Balance at January 1</b> .....	<b>563</b>	<b>555</b>
<b>Additions</b>		
Current service cost.....	10	7
Interest cost.....	35	34
Asset transfer .....	4	—
Effects of plan curtailments and settlements.....	2	5
	<b>51</b>	<b>46</b>
<b>Utilization</b>		
Pension benefits paid .....	42	38
<b>Balance at December 31</b> .....	<b>572</b>	<b>563</b>

Additions from asset transfers arose from the conversion of management bonus benefits to provisions for pension benefits. The expense was included in net income for the period in fiscal year 2002. In fiscal year 2003, € 47 million was transferred from personnel expenses to provisions for pensions and recognized in the income statement.

The provisions for pensions and other employee benefits are derived from the present value of the pension obligations:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Present value of pension obligations</b> .....	<b>614</b>	<b>623</b>
<b>Unrecognized actuarial losses</b> .....	<b>-42</b>	<b>-60</b>
<b>Provisions for pensions and other employee benefits</b> .....	<b>572</b>	<b>563</b>

The amount of net unrecognized actuarial losses is less than 10 % of the present value of the defined benefit obligation of € 614 million (previous year: € 623 million), so this amount has not yet been recognized in the income statement.

### (34) Provisions for taxes

	Balance at Jan. 1, 2003	Utilization	Reversal	Additions	Balance at Dec. 31, 2003
	€ million				
<b>Current taxes</b> .....	<b>32</b>	<b>17</b>	<b>—</b>	<b>22</b>	<b>37</b>
<b>Deferred taxes</b> .....	<b>706</b>	<b>—</b>	<b>4</b>	<b>134</b>	<b>836</b>
<b>Total</b> .....	<b>738</b>	<b>17</b>	<b>4</b>	<b>156</b>	<b>873</b>

Provisions for current taxes relate to current payment obligations to the tax authorities.

Deferred tax liabilities relate to the following balance sheet items:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Assets</b>		
Loans and advances .....	262	342
Trading assets .....	234	10
Hedging derivatives .....	178	—
Investment securities .....	858	843
Property and equipment .....	27	26
Other assets .....	9	2
<b>Liabilities</b>		
Amounts due to other banks and customers .....	—	146
Trading liabilities .....	—	—
Hedging derivatives .....	—	6
Other provisions .....	—	1
Other liabilities .....	98	92
	<b>1,666</b>	<b>1,468</b>
<b>Netted against deferred tax assets .....</b>	<b>830</b>	<b>762</b>
<b>Total .....</b>	<b>836</b>	<b>706</b>

### (35) Other provisions

The other provisions changed as follows in the year under review:

	Balance at Jan. 1, 2003	Currency translation	Utilization	Reversal	Additions	Balance at Dec. 31, 2003
	€ million					
<b>Restructuring .....</b>	198	—	38	82	—	78
<b>Risk compensation amounts of the Postal Civil Service Health Insurance Fund (Postbeamtenkrankenkasse).</b>	80	—	1	—	9	88
<b>Miscellaneous .....</b>	76	-1	16	10	44	93
<b>Total .....</b>	<b>354</b>	<b>-1</b>	<b>55</b>	<b>92</b>	<b>53</b>	<b>259</b>

The provisions for restructuring were set up as part of a far-reaching reform of the operating and organizational structure. The aim is to create an organizational structure that is competitive in the long term and that meets the industry-standard development criteria. A large part of this provision, which was no longer required due to the transfer of interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH to a company of the Deutsche Post group, was reversed or utilized in the year under review.

Miscellaneous other provisions include technical reserves (insurance) amounting to € 68 million (previous year: € 44 million), provisions for litigation costs amounting to € 2 million (previous year: € 5 million), provisions for year-end closing costs amounting to € 3 million (previous year: € 3 million) and provisions for jubilee benefits amounting to € 1 million (previous year: € 2 million).

### (36) Other liabilities

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Trade payables .....</b>	<b>55</b>	<b>53</b>
Liabilities from other taxes .....	75	69
Liabilities from income taxes .....	1	—
Miscellaneous liabilities .....	234	193
Deferred income .....	6	98
<b>Total .....</b>	<b>371</b>	<b>413</b>

Miscellaneous liabilities include liabilities from early termination fees of € 12 million (previous year: € 11 million), expenses for outstanding invoices amounting to € 38 million (previous year: € 33 million), expenses for services performed by Deutsche Post AG amounting to € 63 million, expenses for the insurance business amounting to € 10 million, expenses for management bonuses amounting to € 11 million (previous year: € 10 million), deferred employee bonuses amounting to € 11 million and expenses for outstanding vacation entitlements and other compensated absences amounting to € 20 million (previous year: € 20 million).

In total, € 13 million of other liabilities relates to proportionately consolidated joint ventures (previous year: € 13 million).

### (37) Subordinated debt

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Subordinated liabilities<sup>(1)</sup></b> .....	1,315	897
<b>Profit participation certificates outstanding<sup>(2)</sup></b> .....	354	253
<b>Contributions by typical silent partners</b> .....	55	54
<b>Total</b> .....	<b>1,724</b>	<b>1,204</b>

(1) The subordinated liabilities are own funds within the meaning of Section 10 (5a) of the German Banking Act (*Kreditwesengesetz: KWVG*). Creditors' claims for repayment of these liabilities rank behind the claims of other creditors. No early repayment obligations may arise. In the event of insolvency or liquidation, they may only be repaid after all prior-ranking creditors have been satisfied.

(2) Profit participation certificates outstanding serve to strengthen liable capital in accordance with the provisions of the German Banking Act. They participate fully in losses. Interest is paid only if an unappropriated surplus is recorded. The claims of profit participation certificate holders for repayment of their capital rank behind the claims of other creditors.

Due to the current maturity structure, only € 1,438 million of the items reported as subordinated debt correspond to liable capital in accordance with Section 10 (4), (5) and (5a) of the German Banking Act.

€ 25 million (previous year: € 25 million) of the subordinated debt is attributable to Deutsche Postbank International S.A., Luxembourg.

€ 620 million of the subordinated debt (previous year: € 434 million) is hedged against changes in fair value.

The interest expense on subordinated debt amounts to € 61 million (previous year: € 54 million). Deferred interest not yet due amounting to € 23 million (previous year: € 13 million) is carried as subordinated debt and allocated to subordinated debt.

Holders of profit participation certificates receive an annual profit-related distribution ranking prior to shareholders' profit rights; the distribution right is reduced if and to the extent that no distributable profit is available.

Interest for 2003 on profit participation certificates outstanding amounting to € 20 million (previous year: € 18 million) is also allocated directly to this item.

Due to their contractual arrangements and economic substance, contributions by typical silent partners represent debt and are reported under subordinated debt in accordance with IAS 32.

The interest expense on contributions of assets by silent partners amounts to € 4 million (previous year: € 3 million).

(38) Shareholders' equity

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
Share capital.....	410	410
Share premium.....	1,159	1,159
Retained earnings .....	3,002	3,239
Currency translation reserve.....	-94	-38
Revaluation reserve .....	-200	-473
Unappropriated surplus.....	589	99
Total .....	4,866	4,396

Postbank's share capital is composed of 16 million no-par value registered shares.

The Management Board is authorized to increase the share capital on one or more occasions by issuing new shares against cash or non-cash contributions. Aggregate authorized capital is limited to half of the share capital; the authorized capital expires on December 5, 2005.

In addition to appropriations from the net income of Deutsche Postbank AG, retained earnings contain group interests in the net retained profits or accumulated losses of consolidated subsidiaries where these have been recorded since the subsidiaries joined the group. Retained earnings also include the cumulative effects of consolidation procedures.

The gains or losses on the measurement of available-for-sale financial instruments reported in the revaluation reserve in equity changed as follows:

	Available-for-sale financial instruments	
	2003	2002
	€ million	
Balance at January 1 .....	-473	-71
<b>Addition (+)/disposal (-) .....</b>	<b>350</b>	<b>-600</b>
Available for sale, hedged (due to changes in credit risk).....	32	-96
Available for sale, unhedged .....	318	-504
<b>Reclassified to the income statement (addition (+)/disposal (-).....</b>	<b>-43</b>	<b>209</b>
Available for sale due to impairment.....	1	229
thereof hedged financial instruments.....	—	22
thereof unhedged financial instruments .....	1	207
Available for sale due to disposal/hedge termination .....	-44	-20
thereof hedged financial instruments.....	-3	11
thereof unhedged financial instruments .....	-41	-31
<b>Deferred taxes recognized directly in equity .....</b>	<b>-34</b>	<b>-11</b>
<b>Balance at December 31 .....</b>	<b>-200</b>	<b>-473</b>

An amount of € 43 million was charged directly to the revaluation reserve (previous year: € 209 million credited) and recognized in the income statement from disposals of and valuation allowances on available-for-sale financial instruments in the year under review. In addition, the revaluation reserve rose by € 350 million (previous year: reduced by € 600 million after deferred taxes) due to the remeasurement of available-for-sale financial instruments. Deferred taxes recognized directly in equity increased by € 34 million (previous year: € 11 million) in the fiscal year under review to a closing balance of € 92 million (previous year: € 58 million); the revaluation reserve fell accordingly.



## Other Disclosures

### (39) Segment reporting

#### Segment Reporting by Business Division

Postbank group manages its activities on the basis of a management information system whose core component is management accounting by business division. The business divisions correspond to the group's organizational structure.

	Retail Banking		Corporate Customers		Financial Markets		Other		Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	€ million									
Net interest income .....	1,539	1,390	206	191	72	85	-164	186	1,653	1,852
Net fee and commission income .....	262	254	90	88	46	53	69	60	467	455
Net trading income .....	—	—	4	3	50	50	129	27	183	80
Net income from investment securities .....	—	—	5	—	2	3	68	33	75	36
<b>Income .....</b>	<b>1,801</b>	<b>1,644</b>	<b>305</b>	<b>282</b>	<b>170</b>	<b>191</b>	<b>102</b>	<b>306</b>	<b>2,378</b>	<b>2,423</b>
Administrative expenses ..	-1,343	-1,367	-145	-143	-79	-74	-242	-299	-1,809	-1,883
Provision for losses on loans and advances .....	-92	-78	-40	-45	4	-2	-26	-12	-154	-137
Other income/expense .....	15	4	-2	-1	1	2	68	-9	82	-4
<b>Income before taxes .....</b>	<b>381</b>	<b>203</b>	<b>118</b>	<b>93</b>	<b>96</b>	<b>117</b>	<b>-98</b>	<b>-14</b>	<b>497</b>	<b>399</b>
<b>Segment assets .....</b>	<b>19,704</b>	<b>17,372</b>	<b>24,154</b>	<b>23,267</b>	<b>17,461</b>	<b>18,585</b>	<b>67,509</b>	<b>78,026</b>	<b>128,828</b>	<b>137,250</b>
<b>Segment liabilities .....</b>	<b>54,693</b>	<b>50,355</b>	<b>5,742</b>	<b>5,147</b>	<b>10,552</b>	<b>8,699</b>	<b>51,139</b>	<b>66,562</b>	<b>122,126</b>	<b>130,763</b>
<b>Cost/income ratio (CIR) ....</b>	<b>74.6</b>	<b>83.2</b>	<b>47.8</b>	<b>50.8</b>	<b>46.6</b>	<b>38.5</b>	<b>238.4</b>	<b>97.9</b>	<b>76.1</b>	<b>77.7</b>
<b>Return on equity before taxes (RoE) .....</b>	<b>20.7</b>	<b>12.5</b>	<b>28.8</b>	<b>19.2</b>	<b>10.5</b>	<b>13.0</b>	<b>-6.6</b>	<b>-0.9</b>	<b>10.7</b>	<b>8.6</b>

Calculation of profit in the management accounting system is based on state-of-the-art standards for modern performance reporting. Income comprises net interest income, net fee and commission income, net trading income, and net income from investment securities. The "Others" item contains consolidation adjustments, items not attributable to the business divisions, unallocated overhead costs and Postbank's proprietary trading result.

The prior-period amounts were adjusted to reflect the organizational structures prevailing in 2003 as well as modified allocation criteria.

#### Segment Reporting by Geographical Region

The allocation of segments by the domicile of the branch or group company produces the following distribution:

	Assets		Liabilities		Income		Income before taxes	
	2003	2002	2003	2002	2003	2002	2003	2002
	€ million							
<b>Germany .....</b>	<b>103,110</b>	<b>113,272</b>	<b>97,299</b>	<b>107,824</b>	<b>2,242</b>	<b>2,253</b>	<b>424</b>	<b>319</b>
<b>Others .....</b>	<b>25,718</b>	<b>23,978</b>	<b>24,827</b>	<b>22,939</b>	<b>136</b>	<b>170</b>	<b>73</b>	<b>80</b>
Europe .....	22,941	20,688	22,370	20,035	61	92	47	61
USA .....	2,777	3,290	2,457	2,904	75	78	26	19
<b>Total .....</b>	<b>128,828</b>	<b>137,250</b>	<b>122,126</b>	<b>130,763</b>	<b>2,378</b>	<b>2,423</b>	<b>497</b>	<b>399</b>

#### (40) Contingencies and other obligations

Contingent liabilities arise from past events that will lead to possible future obligations. These obligations arise from the occurrence of uncertain future events whose settlement amount cannot be estimated with sufficient reliability.

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Contingent liabilities</b> .....		
on guarantees and warranties.....	1,254	1,304
<b>Other obligations</b> .....		
Irrevocable loan commitments.....	12,890	11,321
<b>Total</b> .....	<b>14,144</b>	<b>12,625</b>

#### (41) Bonds outstanding

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Bonds outstanding</b>		
Bonds issued	16,636	18,291
Registered mortgage bonds issued as collateral.....	85	92
Public sector mortgage bonds ( <i>Pfandbriefe</i> )/municipal bonds .....	69	69
<b>Cover requirement for bonds outstanding</b> .....	<b>16,790</b>	<b>18,452</b>

#### (42) Cover for bonds outstanding

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Cover for registered securities</b>		
Loans to other banks and customers .....	6,670	3,494
Total registered securities requiring cover.....	2,124	803
<b>Excess cover</b> .....	<b>4,546</b>	<b>2,691</b>
<b>Mortgage bond cover</b>		
Loans to other banks and customers (mortgage loans) .....	4,914	5,517
Total mortgage bonds requiring cover.....	4,008	4,809
<b>Excess cover</b> .....	<b>906</b>	<b>708</b>
<b>Municipal bond cover</b>		
Loans to other banks and customers and substitute cover in securities .....	12,788	17,662
Total municipal bonds requiring cover .....	10,504	12,840
<b>Excess cover</b> .....	<b>2,284</b>	<b>4,822</b>
<b>Cover for interest expenses on registered securities</b>		
Interest expenses on registered securities .....	97	40
Interest income from cover assets.....	344	186
<b>Excess cover</b> .....	<b>247</b>	<b>146</b>
<b>Cover for interest expenses on mortgage bonds</b>		
Interest expenses on mortgage bonds .....	223	267
Interest income from cover assets.....	292	338
<b>Excess cover</b> .....	<b>69</b>	<b>71</b>
<b>Cover for interest expenses on municipal bonds</b>		
Interest expenses on municipal bonds.....	497	622
Interest income from cover assets.....	669	995
<b>Excess cover</b> .....	<b>172</b>	<b>373</b>

**(43) Foreclosures and compulsory administration**

	Dec. 31, 2003	Dec. 31, 2002
	Number	Number
<b>Foreclosures pending</b> .....	961	838
<b>Compulsory administration proceedings</b> .....	536	305
<b>Foreclosures completed</b> .....	212	154

**(44) Fair value of financial instruments carried at amortized cost or hedged fair value**

In accordance with IAS 39.166 in conjunction with IAS 32, both the carrying amounts and the full fair values must be disclosed for financial instruments carried at amortized cost or at the hedged fair value. As defined by IAS 39, full fair value is the amount at the balance sheet date for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

If there is an active market for a financial instrument (e.g. a stock exchange), the full fair value is expressed by the market or quoted exchange price at the reporting date. Because there is not an active market for all assets, the full fair value of such instruments must be calculated by using investment techniques. The parameters factored into the calculation of full fair value are based on market conditions at the balance sheet date.

The full fair values are compared with the carrying amounts (amortized cost or hedged fair value) of the financial instruments, classified by balance sheet item:

	Dec. 31, 2003		Dec. 31, 2002	
	Carrying amount	Full fair value	Carrying amount	Full fair value
	€ million			
<b>Assets</b>				
Cash reserve .....	1,623	1,623	1,307	1,307
Loans and advances to other banks .....	32,881	33,068	36,044	36,891
Loans and advances to customers .....	39,021	39,237	39,517	39,895
Allowance for losses on loans and advances .....	-597	-597	-588	-588
Investment securities .....	14,942	14,704	17,195	17,837
	<b>87,870</b>	<b>88,035</b>	<b>93,475</b>	<b>95,342</b>
<b>Liabilities</b>				
Deposits from other banks .....	20,271	20,791	28,300	29,011
Due to customers .....	73,941	73,448	66,665	66,619
Securitized and subordinated liabilities and profit participation certificates .....	27,935	28,096	35,947	36,714
	<b>122,147</b>	<b>122,335</b>	<b>130,912</b>	<b>132,344</b>

**(45) Foreign currency volumes**

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Foreign currency assets</b> .....	9,730	15,565
<b>Foreign currency liabilities</b> .....	9,916	15,449

#### (46) Disclosures on significant concentration of business

The group's lending and borrowing business is largely determined by the business activities of the parent company, Deutsche Postbank AG.

The percentage classification of loans by sector is as follows:

	2003	2002
	%	%
<b>Dependent employees and other private individuals</b> .....	22.5	19.0
<b>Not-for-profit organizations</b> .....	0.1	0.1
<b>Public sector</b> .....	18.4	21.5
<b>Enterprises and self-employed private individuals</b>		
Credit institutions .....	44.0	46.9
Other enterprises and self-employed private individuals .....	15.0	12.5
	<b>100.0</b>	<b>100.0</b>

The percentage classification by German and foreign residents is as follows:

	2003	2002
	%	%
<b>German residents</b> .....	68.3	73.7
<b>Foreign residents</b> .....	31.7	26.3
	<b>100.0</b>	<b>100.0</b>

#### (47) Financial instruments in accordance with IAS 39 – Measurement categories

	Fair value hedges		Unhedged		Total	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	€ million					
<b>Assets</b> .....	<b>23,498</b>	<b>29,271</b>	<b>106,161</b>	<b>109,100</b>	<b>129,659</b>	<b>138,371</b>
Originated loans.....	6,694	8,130	64,523	66,689	71,216	74,819
Loans to other banks.....	2,246	2,836	30,635	33,208	32,881	36,044
Loans to customers.....	4,448	5,294	33,863	33,444	38,311	38,738
Investment securities.....	—	—	25	37	25	37
Securities purchased directly from the issuer .....	1,445	1,071	10,839	12,985	12,284	14,056
Investment securities.....	1,445	1,071	10,839	12,985	12,284	14,056
Available-for-sale assets.....	14,527	18,949	14,869	14,250	29,396	33,199
Loans to other banks.....	389	558	801	1,172	1,190	1,730
Loans to customers.....	1,627	2,411	2,662	2,001	4,289	4,412
Investment securities.....	12,511	15,980	11,406	11,077	23,917	27,057
Held-to-maturity investments.....	—	—	3,343	3,881	3,343	3,881
Loans to customers.....	—	—	710	779	710	779
Investment securities.....	—	—	2,633	3,102	2,633	3,102
Held for trading .....	—	—	12,588	11,295	12,588	11,295
Trading assets.....	—	—	12,588	11,295	12,588	11,295
Hedging derivatives .....	832	1,121	—	—	832	1,121
<b>Liabilities</b> .....	<b>15,117</b>	<b>15,450</b>	<b>110,137</b>	<b>118,855</b>	<b>125,255</b>	<b>134,305</b>
Liabilities.....	13,304	12,805	108,490	117,854	121,794	130,659
Deposits from other banks .....	894	935	19,377	27,365	20,271	28,300
Due to customers .....	1,233	683	72,708	65,982	73,941	66,665
Securitized liabilities.....	10,556	10,753	15,711	24,044	26,267	34,797
Subordinated liabilities .....	620	434	695	463	1,315	897
Held for trading.....	—	—	1,647	1,001	1,647	1,001
Trading liabilities .....	—	—	1,647	1,001	1,647	1,001
Hedging derivatives .....	1,814	2,645	—	—	1,814	2,645

#### (48) Derivatives

The Postbank group uses derivatives primarily to hedge positions as part of its asset/liability management policy. They are also entered into for trading purposes.

Derivatives on foreign currencies are mostly entered into in the form of currency forwards, currency swaps, cross-currency swaps and currency options. Interest rate derivatives relate primarily to interest rate swaps, forward rate agreements and interest rate futures and options; forward transactions in fixed-income securities are occasionally entered into. Equity derivatives are entered into in the form of equity options and equity/index futures in particular. Credit derivatives (credit default swaps) were also entered into to a limited extent.

The presentation of derivatives follows the recommendation of the *Bundesverband Öffentlicher Banken Deutschlands e.V.* (Association of German Public Sector Banks). The nominal amounts represent the gross volume of all sales and purchases. The nominal amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

The fair values result from the gross replacement costs of the individual contracts and do not reflect any netting agreements.

Holdings of derivatives are composed of the following items:

	Nominal amounts		Positive fair values		Negative fair values	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	€ million					
<b>Trading derivatives</b> .....	169,185	171,032	901	843	1,645	1,001
<b>Hedging derivatives</b> .....	34,059	39,225	832	1,121	1,814	2,645
<b>Total</b> .....	<b>203,244</b>	<b>210,257</b>	<b>1,733</b>	<b>1,964</b>	<b>3,459</b>	<b>3,646</b>

The following table presents the open interest-rate and foreign currency, conditional and unconditional forward and option contracts of the Postbank group at the balance sheet date.

	Nominal amounts		Fair value			
	Dec. 31, 2003	Dec. 31, 2002	Positive fair values		Negative fair values	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	€ million					
<b>Trading derivatives</b>						
<b>Foreign currency derivatives</b>						
OTC currency instruments						
Currency forwards .....	548	194	34	1	23	17
Currency swaps .....	7,633	7,262	297	188	267	267
<b>Total holdings of OTC currency instruments</b> .....	<b>8,181</b>	<b>7,456</b>	<b>331</b>	<b>189</b>	<b>290</b>	<b>284</b>
<b>Total holdings of foreign currency derivatives</b> .....	<b>8,181</b>	<b>7,456</b>	<b>331</b>	<b>189</b>	<b>290</b>	<b>284</b>
<b>Interest rate derivatives</b>						
OTC derivatives						
Interest rate swaps .....	137,917	135,747	559	519	1,317	680
Cross-currency swaps .....	191	828	—	44	11	10
FRAs .....	920	3,510	1	13	1	13
OTC interest rate options .....	5,452	136	—	—	13	—
Other interest rate contracts .....	25	15	—	—	8	—
<b>Total holdings of OTC derivatives</b> .....	<b>144,505</b>	<b>140,236</b>	<b>560</b>	<b>576</b>	<b>1,350</b>	<b>703</b>
Exchange-traded interest rate futures ...	10,602	20,772	—	—	—	—
Exchange-traded interest rate options ..	5,240	445	5	—	1	—
<b>Total holdings of interest rate derivatives</b> .....	<b>160,347</b>	<b>161,453</b>	<b>565</b>	<b>576</b>	<b>1,351</b>	<b>703</b>

	Nominal amounts		Fair value			
			Positive fair values		Negative fair values	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	€ million					
<b>Equity/index derivatives</b>						
Equity options (long/short) .....	11	2,085	1	73	—	6
<b>Total holdings of OTC derivatives .....</b>	<b>11</b>	<b>2,085</b>	<b>1</b>	<b>73</b>	<b>—</b>	<b>6</b>
Exchange-traded equity/index futures...	12	-110	—	—	—	3
Exchange-traded equity/index options..	570	44	3	1	1	1
<b>Total holdings of equity/index derivatives .....</b>	<b>593</b>	<b>2,019</b>	<b>4</b>	<b>74</b>	<b>1</b>	<b>10</b>
<b>Credit derivatives</b>						
Credit default swaps .....	64	104	1	4	3	4
<b>Total holdings of credit derivatives .....</b>	<b>64</b>	<b>104</b>	<b>1</b>	<b>4</b>	<b>3</b>	<b>4</b>
<b>Total holdings of derivative assets/ (liabilities) held for trading .....</b>	<b>169,185</b>	<b>171,032</b>	<b>901</b>	<b>843</b>	<b>1,645</b>	<b>1,001</b>
of which banking book derivatives ....	62,375	43,108	393	401	1,139	486
<b>Hedging derivatives</b>						
<b>Fair value hedges</b>						
Interest rate swaps .....	30,361	34,543	740	803	1,605	2,400
Cross-currency swaps .....	3,311	4,521	87	314	184	245
Equity options .....	386	148	1	4	9	—
Other interest rate contracts .....	—	12	4	—	16	—
<b>Total holdings of derivative assets/ (liabilities) from fair value hedges .....</b>	<b>34,058</b>	<b>39,224</b>	<b>832</b>	<b>1,121</b>	<b>1,814</b>	<b>2,645</b>
<b>Cash flow hedges</b>						
Credit default swaps .....	1	1	—	—	—	—
<b>Total holdings of derivative assets/ (liabilities) from fair value hedges .....</b>	<b>1</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total holdings of derivative assets/ (liabilities) held for hedging purposes ..</b>	<b>34,059</b>	<b>39,225</b>	<b>832</b>	<b>1,121</b>	<b>1,814</b>	<b>2,645</b>
<b>Total holdings of derivative assets/ (liabilities) .....</b>	<b>203,244</b>	<b>210,257</b>	<b>1,733</b>	<b>1,964</b>	<b>3,459</b>	<b>3,646</b>

Total holdings of recognized derivative assets and liabilities:

	Hedging derivatives			
	Positive fair values	Negative fair values	Positive fair values	Negative fair values
	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2002
	€ million			
<b>Remaining maturity</b>				
less than 3 months .....	383	376	35	47
3 months to 1 year .....	19	76	69	52
1 to 5 years .....	304	788	729	1,726
more than 5 years .....	126	574	288	820
	<b>832</b>	<b>1,814</b>	<b>1,121</b>	<b>2,645</b>



Trading and banking book derivatives				
	Positive fair values Dec. 31, 2003	Negative fair values Dec. 31, 2003	Positive fair values Dec. 31, 2002	Negative fair values Dec. 31, 2002
	€ million			
<b>Remaining maturity</b>				
less than 3 months .....	386	607	261	260
3 months to 1 year.....	259	302	110	261
1 to 5 years.....	130	420	310	259
more than 5 years.....	126	316	162	221
	<b>901</b>	<b>1,645</b>	<b>843</b>	<b>1,001</b>

The remaining maturity is the period between the balance sheet date and the contractual maturity of the asset or liability.

The following table presents the positive and negative fair values of derivatives by counterparty.

	Positive fair values		Negative fair values	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	€ million			
<b>Counterparties</b>				
Banks in OECD countries.....	1,710	1,890	3,429	3,426
Public institutions in OECD countries .....	—	73	—	197
Other counterparties in OECD countries.....	23	1	30	23
	<b>1,733</b>	<b>1,964</b>	<b>3,459</b>	<b>3,646</b>

#### (49) Risk assets and capital ratio

Postbank ensures the correct determination of liable capital and own funds at group level. Regulatory own funds were as follows at December 31, 2003:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Risk-weighted assets</b> .....	42,200	40,338
<b>Market risk positions</b> .....	3,750	4,200
<b>Positions for which capital charges are required</b> .....	45,950	44,538
<b>Core capital</b> .....	2,760	2,782
<b>Supplementary capital</b> .....	1,780	1,482
<b>Regulatory banking capital</b> .....	4,540	4,264
<b>Eligible own funds</b> .....	4,540	4,264
<b>Core capital ratio %</b> .....	6.6	6.9
<b>Solvency ratio %</b> .....	10.8	10.6
<b>Overall capital ratio %</b> .....	9.9	9.6

With a capital ratio of 10.8 % and an overall capital ratio of 9.9 %, the Postbank group more than satisfies the minimum requirement of 8 %.

**(50) Maturity structure**

As of December 31, 2003:

	Payable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
€ million						
<b>Loans and advances to other banks.....</b>	<b>7,707</b>	<b>10,947</b>	<b>3,658</b>	<b>5,985</b>	<b>5,774</b>	<b>34,071</b>
<b>Loans and advances to customers.....</b>	<b>1,578</b>	<b>1,542</b>	<b>3,471</b>	<b>18,232</b>	<b>18,487</b>	<b>43,310</b>
<b>Trading assets.....</b>	<b>—</b>	<b>1,204</b>	<b>2,288</b>	<b>6,726</b>	<b>2,370</b>	<b>12,588</b>
<b>Hedging derivatives.....</b>	<b>—</b>	<b>383</b>	<b>19</b>	<b>304</b>	<b>126</b>	<b>832</b>
<b>Investment securities .....</b>	<b>1,115</b>	<b>1,244</b>	<b>1,941</b>	<b>19,642</b>	<b>14,917</b>	<b>38,859</b>
<b>Other assets .....</b>	<b>194</b>	<b>27</b>	<b>56</b>	<b>636</b>	<b>60</b>	<b>973</b>
<b>Total .....</b>	<b>10,594</b>	<b>15,347</b>	<b>11,433</b>	<b>51,525</b>	<b>41,734</b>	<b>130,633</b>
<b>Deposits from other banks .....</b>	<b>1,227</b>	<b>11,007</b>	<b>887</b>	<b>3,482</b>	<b>3,668</b>	<b>20,271</b>
<b>Due to customers .....</b>	<b>20,227</b>	<b>41,430</b>	<b>3,318</b>	<b>5,105</b>	<b>3,861</b>	<b>73,941</b>
<b>Securitized liabilities .....</b>	<b>239</b>	<b>7,191</b>	<b>4,412</b>	<b>9,626</b>	<b>4,799</b>	<b>26,267</b>
<b>Trading liabilities .....</b>	<b>—</b>	<b>607</b>	<b>302</b>	<b>420</b>	<b>318</b>	<b>1,647</b>
<b>Hedging derivatives.....</b>	<b>—</b>	<b>376</b>	<b>76</b>	<b>788</b>	<b>574</b>	<b>1,814</b>
<b>Provisions .....</b>	<b>28</b>	<b>20</b>	<b>74</b>	<b>1,066</b>	<b>516</b>	<b>1,704</b>
Provisions for pensions .....	1	15	43	159	354	572
Provisions for taxes .....	19	—	14	840	—	873
Other provisions.....	8	5	17	67	162	259
<b>Other liabilities.....</b>	<b>166</b>	<b>131</b>	<b>51</b>	<b>15</b>	<b>8</b>	<b>371</b>
<b>Subordinated debt.....</b>	<b>—</b>	<b>—</b>	<b>214</b>	<b>261</b>	<b>1,249</b>	<b>1,724</b>
<b>Total .....</b>	<b>21,887</b>	<b>60,762</b>	<b>9,334</b>	<b>20,763</b>	<b>14,993</b>	<b>127,739</b>

The remaining maturities of derivatives are presented separately in a table in note (48).

Please see the 2003 Risk Report on managing the risks associated with interest rate changes.

As of December 31, 2002:

	Payable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
€ million						
<b>Loans and advances to other banks.....</b>	<b>1,354</b>	<b>13,777</b>	<b>5,732</b>	<b>7,883</b>	<b>9,028</b>	<b>37,774</b>
<b>Loans and advances to customers.....</b>	<b>1,551</b>	<b>1,611</b>	<b>2,789</b>	<b>17,125</b>	<b>20,853</b>	<b>43,929</b>
<b>Trading assets.....</b>	<b>1</b>	<b>2,322</b>	<b>3,188</b>	<b>5,231</b>	<b>553</b>	<b>11,295</b>
<b>Hedging derivatives.....</b>	<b>—</b>	<b>35</b>	<b>69</b>	<b>729</b>	<b>288</b>	<b>1,121</b>
<b>Investment securities .....</b>	<b>529</b>	<b>2,469</b>	<b>4,514</b>	<b>24,241</b>	<b>12,499</b>	<b>44,252</b>
<b>Other assets .....</b>	<b>167</b>	<b>89</b>	<b>63</b>	<b>696</b>	<b>8</b>	<b>1,023</b>
<b>Total .....</b>	<b>3,602</b>	<b>20,303</b>	<b>16,355</b>	<b>55,905</b>	<b>43,229</b>	<b>139,394</b>
<b>Deposits from other banks .....</b>	<b>1,139</b>	<b>19,847</b>	<b>446</b>	<b>2,991</b>	<b>3,877</b>	<b>28,300</b>
<b>Due to customers .....</b>	<b>16,917</b>	<b>31,884</b>	<b>4,343</b>	<b>8,724</b>	<b>4,797</b>	<b>66,665</b>
<b>Securitized liabilities .....</b>	<b>—</b>	<b>5,100</b>	<b>6,422</b>	<b>17,032</b>	<b>6,243</b>	<b>34,797</b>
<b>Trading liabilities .....</b>	<b>1</b>	<b>259</b>	<b>261</b>	<b>259</b>	<b>221</b>	<b>1,001</b>
<b>Hedging derivatives.....</b>	<b>—</b>	<b>47</b>	<b>52</b>	<b>1,726</b>	<b>820</b>	<b>2,645</b>
<b>Provisions .....</b>	<b>70</b>	<b>25</b>	<b>71</b>	<b>850</b>	<b>639</b>	<b>1,655</b>
Provisions for pensions .....	—	8	19	57	479	563
Provisions for taxes .....	13	—	29	677	19	738
Other provisions .....	57	17	23	116	141	354
<b>Other liabilities.....</b>	<b>277</b>	<b>36</b>	<b>43</b>	<b>22</b>	<b>35</b>	<b>413</b>
<b>Subordinated debt.....</b>	<b>—</b>	<b>—</b>	<b>97</b>	<b>132</b>	<b>975</b>	<b>1,204</b>
<b>Total .....</b>	<b>18,404</b>	<b>57,198</b>	<b>11,735</b>	<b>31,736</b>	<b>17,607</b>	<b>136,680</b>

**(51) Receivables from affiliated and associated companies**

Receivables from unconsolidated affiliates and associated companies are presented below:

	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	€ million	
<b>Loans and advances to customers</b>		
Affiliates.....	79	62
Associated companies.....	45	—
	124	62
<b>Other assets</b> .....		
Affiliates.....	7	—
Associated companies.....	3	2
	10	2
<b>Total</b> .....	<b>134</b>	<b>64</b>

The items relate primarily to receivables from Deutsche Post AG.

**(52) Payables to affiliated and associated companies**

Payables to unconsolidated affiliates and associated companies are presented below:

	<u>Dec. 31, 2003</u>	<u>Dec. 31, 2002</u>
	€ million	
<b>Amounts due to customers</b>		
Affiliates.....	607	557
Associated companies.....	—	—
	<b>607</b>	<b>557</b>
<b>Other liabilities</b>		
Affiliates.....	76	89
Associated companies.....	—	—
	76	89
<b>Total</b> .....	<b>683</b>	<b>646</b>

The items relate primarily to payables to Deutsche Post AG.

**(53) Income and expense from subsidiaries and associates**

	<u>2003</u>	<u>2002</u>
	€ million	
<b>Net interest income</b>		
Affiliates.....	1	—
	<b>1</b>	<b>—</b>
<b>Net fee and commission income</b>		
Affiliates.....	16	16
Associated companies.....	2	2
	<b>18</b>	<b>18</b>
<b>Administrative expenses</b>		
Affiliates.....	627	655
Associated companies.....	3	3
	<b>630</b>	<b>658</b>
<b>Other income</b>		
Affiliates.....	42	9
Associated companies.....	—	1
	<b>42</b>	<b>10</b>
<b>Other expenses</b>		
Affiliates.....	24	2
Associated companies.....	—	—
	<b>24</b>	<b>2</b>

For the sale of interServ Gesellschaft für Personal- und Beratungsdienstleistungen mbH to a subsidiary of Deutsche Post please refer to Note 12.

#### (54) Subordinated assets

Assets are subordinated if their recovery as receivables ranks behind other creditors in the event of liquidation or bankruptcy of the issuer.

Balance sheet assets contain the following subordinated assets.

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
Loans and advances to customers.....	81	81
Loans and advances to other banks .....	16	47
Investment securities.....	5	5
<b>Total .....</b>	<b>102</b>	<b>133</b>

#### (55) Other financial obligations

Commencing in 2000, Postbank pays 33 percent of the gross compensation of its active civil servants and the notional gross compensation of its civil servants on leave of absence to a pension fund established for this purpose. Postbank has no further obligations for benefits paid by the pension fund, which are the responsibility of the German government.

Postbank has issued a comfort letter for its subsidiary Deutsche Postbank International S.A., Luxembourg, in which it undertakes to ensure that, with the exception of political risk, Deutsche Postbank International S.A., Luxembourg will be able to meet its obligations.

Postbank AG has issued a comfort letter for its subsidiary PB Capital Corp., Delaware, USA, in which it undertakes to ensure that, with the exception of political risk, PB Capital Corp. will be able to meet its obligations.

Postbank has additional funding obligations from the voluntary deposit protection fund of the Association of German Public Sector Banks (*Bundesverband Öffentlicher Banken Deutschlands e.V.*) in the amount laid down in the bylaws, and the deposit protection amount stipulated by law.

In addition, Deutsche Postbank International S.A., Luxembourg, is a member of the *Association pour la Garantie des Dépôts Luxembourg* (AGDL), the Luxembourg deposit guaranty and investor indemnity fund.

Financial obligations from operating leases are broken down into the categories of assets shown below and have the following maturity structures:

	Intangible assets	Land and buildings	Operating and office equipment	Total
	€ million			
less than 1 year.....	32	15	12	59
1-5 years .....	87	41	50	178
more than 5 years.....	—	27	—	27
<b>Total .....</b>	<b>119</b>	<b>83</b>	<b>62</b>	<b>264</b>

#### (56) Trust activities

Trust activities are composed of the following items:

	Dec. 31, 2003	Dec. 31, 2002
	€ million	
<b>Trust assets</b>		
Loans and advances to other banks .....	41	71
Loans and advances to customers.....	1,602	1,668
	<b>1,643</b>	<b>1,739</b>
<b>Trust liabilities</b>		
Trust funds for transmitted loans .....	749	803
Special fund of the State of Mecklenburg-Western Pomerania .....	45	56
Retired farmers' pension fund.....	11	11
Special-purpose funds.....	838	869
	<b>1,643</b>	<b>1,739</b>

**(57) Related party disclosures**

Name and domicile	Equity interest (%)	Equity interest (%)
	direct	indirect
<b>1) Fully consolidated companies:</b>		
Deutsche Postbank International S.A., Luxembourg .....	100.0	
Deutsche Postbank Asset Management S.A., Luxembourg .....	100.0	
Deutsche Postbank Capital Management S.A., Luxembourg .....	100.0	
Deutsche Postbank Vermögens – Management S.A., Luxembourg .....	100.0	
Deutsche Postbank Privat Investment Kapitalanlage- Gesellschaft mbH, Bonn.....	100.0	
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn .....		90.0
Postbank Systems AG, Bonn.....	100.0	
Ralos Verwaltungen GmbH & Co. Vermietungs KG, Munich.....	94.0	
DSL Finance N.V., Amsterdam .....	100.0	
DSL Holding AG i.A., Bonn.....	97.46	
Deutsche Postbank Financial Services GmbH, Frankfurt/ Main .....	100.0	
Deutsche Postbank Finance Center Object GmbH, Luxembourg .....		90.0
DPBI Immobilien KGaA, Luxembourg .....	10.0	0.06
Postbank Leasing GmbH, Bonn.....	100.0	
PB (USA) Holdings Inc., Delaware, USA .....	100.0	
PB Capital Corp., Delaware, USA .....		100.0
PB Realty Corp., New York, USA .....		94.65
PB Finance (Delaware), Inc., Delaware, USA .....		100.0
PB Factoring GmbH, Bonn.....	100.0	
Postbank Vermögensberatung AG, Bonn.....	100.0	
Postbank Vermögensberatung Service GmbH, Cologne ...	100.0	
<b>2) Proportionately consolidated companies:</b>		
PB Lebensversicherung Aktiengesellschaft, Hilden .....	50.0	
PB Versicherung Aktiengesellschaft, Hilden.....	50.0	

**(58) Employees**

The average number of employees in the group in the period under review was as follows:

	Total 2003	Total 2002
<b>Full-time</b>		
Civil servants .....	3,001	3,405
Salaried employees .....	5,222	5,293
Wage earners .....	88	120
	<b>8,311</b>	<b>8,818</b>
<b>Part-time</b>		
Civil servants .....	790	933
Salaried employees .....	640	618
Wage earners .....	6	10
	<b>1,436</b>	<b>1,561</b>
	<b>9,747</b>	<b>10,379</b>

#### **(59) Remuneration of the management and supervisory boards**

The total remuneration of the members of the management board in the period under review was € 4.28 million (previous year: € 4.27 million).

€ 1.28 million (previous year: € 1.29 million) was paid to former management board members. Provisions for pensions covering all obligations to these individuals were set up in the amount of € 20.41 million (previous year: € 19.87 million).

At the balance sheet date, loans of € 0.53 million (previous year: € 0.89 million) had been granted to members of the management and supervisory boards and of € 0.22 million to members of the management board who retired in 2003. No other contingent liabilities had been entered into.

The remuneration paid to the members of the supervisory board amounted to € 0.49 million (previous year: € 0.43 million).

#### **(60) Supplemental disclosures**

All shares in Deutsche Postbank AG are held directly or indirectly by Deutsche Post AG. Postbank's consolidated financial statements are included in the consolidated financial statements of Deutsche Post AG.

In accordance with Section 2 (4) of the Postal Service Transformation Act (*Postumwandlungsgesetz: PostUmWG*), the German 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 registration in the commercial register.

Deutsche Postbank AG is a member of the (deposit protection fund of the Association of German Public Sector Banks) (*Einlagensicherungsfonds des Bundesverbandes Öffentlicher Banken Deutschlands e.V.*) and the *Entschädigungseinrichtung des Bundesverbandes Öffentlicher Banken Deutschlands GmbH* (investor compensation scheme of the Association of German Public Sector Banks).

Deutsche Postbank AG has issued guarantee bonds for its subsidiary PB Capital Corp., Delaware, USA, in the amount of \$3,095.8 million. These include a guarantee bond for swaps (\$68.3 million), a rental guarantee for business premises in New York (\$22.1 million) and a guarantee bond for the Commercial Paper program (\$3,005.4 million).

Deutsche Postbank AG guarantees all issues by DSL Finance N.V.

#### **(61) Members of executive bodies**

##### **Management Board**

The members of the Management Board are:

Prof. Dr. Wulf von Schimmelfmann, Bonn (Chairman)  
Dirk Berensmann, Unkel  
Stefan Jütte, Bonn  
Volker Mai, Bad Honnef  
Dr. Wolfgang Klein, Bonn  
Loukas Rizos, Bonn  
Lothar Rogg, Bonn

until June 30, 2003



**Offices held by members of the Management Board of Deutsche Postbank AG as of December 31, 2003 on supervisory boards or other supervisory bodies:**

<b>Function</b>	<b>Company</b>
<b>Prof. Dr. Wulf von Schimmelmann, Bonn</b>	
Chairman of the Supervisory Board	PB Lebensversicherung AG, Hilden
Chairman of the Supervisory Board	PB Versicherung AG, Hilden
Chairman of the Board of Directors	PB (USA) Holdings, Inc., Wilmington (Delaware, USA)
Chairman of the Board of Directors	PB Capital Corp., Wilmington (Delaware, USA)
Member of the Supervisory Board (since September 26, 2003) Chairman of the Supervisory Board (since October 1, 2003)	PB Firmenkunden AG*, Bonn
Deputy Chairman of the Supervisory Board	Deutsche Postbank Financial Services GmbH, Frankfurt/Main
Member of the Supervisory Board (since August 18, 2003)	TCHIBO Holding AG, Hamburg
Member of the Board of Directors	Accenture Corp., Irving (Texas, USA)
Member of the Management Board	Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB), Berlin
<b>Offices relinquished during the year</b>	
Chairman of the Supervisory Board (until August 28, 2003)	DSL Holding AG i.A., Bonn
<b>Dirk Berensmann, Unkel</b>	
Chairman of the Supervisory Board	Postbank Systems AG, Bonn
Member of the Advisory Board (since July 28, 2003)	einsnull IT-Support GmbH, Bonn
Deputy Chairman of the Advisory Board (since October 15, 2003)	
Member of the Board of Directors	Eurogiro Network A/S, Taastrup (Denmark)
Member of the Management Board (since March 18, 2003)	e-Finance Lab Frankfurt am Main, Frankfurt University
<b>Stefan Jütte, Bonn</b>	
Chairman of the Supervisory Board	Postbank Leasing GmbH, Bonn
Chairman of the Supervisory Board	PB Factoring GmbH, Bonn
Member of the Supervisory Board (since September 26, 2003) Deputy Chairman of the Supervisory Board (since October 1, 2003)	PB Firmenkunden AG*, Bonn
Member of the Board of Directors	Deutsche Postbank International S.A., Luxembourg
Member of the Board of Directors	PB (USA) Holdings, Inc., Wilmington (Delaware, USA)
Member of the Board of Directors	PB Capital Corp., Wilmington (Delaware, USA)
Member of the Supervisory Board	BVVG Bodenverwertungs – und Verwaltungsgesellschaft mbH, Berlin
<b>Offices relinquished during the year</b>	
Deputy Chairman of the Supervisory Board (until August 28, 2003)	DSL Holding AG i.A., Bonn

\* Operated under the name of PB Erste Beteiligungen AG until February 2, 2004

Function	Company
<b>Dr. Wolfgang Klein, Bonn</b>	
Chairman of the Supervisory Board (since January 10, 2003)	Postbank Vermögensberatung AG, Bonn
Chairman of the Advisory Board	VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn
Chairman of the Management Committee	Postbank P.O.S. Transact GmbH, Schwalbach am Taunus
Member of the Board of Directors (since July 1, 2003)	Deutsche Postbank International S.A., Luxembourg
Deputy Chairman of the Board of Directors (since September 23, 2003)	
Member of the Board of Directors (since July 1, 2003)	Deutsche Postbank Capital Management S.A., Luxembourg
Deputy Chairman of the Board of Directors (since September 23, 2003)	
Member of the Board of Directors (since July 1, 2003)	Deutsche Postbank Asset Management S.A., Luxembourg
Deputy Chairman of the Board of Directors (since September 23, 2003)	
Member of the Board of Directors (since July 1, 2003)	Deutsche Postbank Vermögens-Management S.A., Luxembourg
Deputy Chairman of the Board of Directors (since September 23, 2003)	
Member of the Supervisory Board	PB Lebensversicherung AG, Hilden
Member of the Supervisory Board	PB Versicherung AG, Hilden
Member of the Supervisory Board	Comma Soft AG, Bonn
Member of the Administrative Board	VISA Deutschland e.V., Frankfurt
<b>Offices relinquished during the year</b>	
Chairman of the Supervisory Board (until April 15, 2003)	Postbank EasyTrade.AG, Cologne
<b>Volker Mai, Bad Honnef</b>	
Chairman of the Supervisory Board (until May 19, 2003)	einsnull IT-Support GmbH, Bonn
Chairman of the Supervisory Board (until May 19, 2003)	Postbank Immobilien und Baumanagement GmbH, Bonn
Chairman of the Supervisory Board (until May 19, 2003)	interServ Gesellschaft für Personal – und Beraterdienstleistungen mbH, Bonn
Chairman of the Advisory Board (until May 19, 2003)	CREDA Objektanlage – und – verwaltungsgesellschaft mbH, Bonn
Chairman of the Advisory Board (until May 19, 2003)	KORDOBA Gesellschaft für Bankensoftware mbH & Co. KG, Munich
Deputy Chairman of the Supervisory Board (until May 19, 2003)	Postbank Systems AG, Bonn
Deputy Chairman of the Supervisory Board (until April 14, 2003)	Deutsche Postbank Privat
Deputy Chairman of the Board of Directors (until June 30, 2003)	InvestmentKapitalanlagegesellschaft mbH, Bonn
Deputy Chairman of the Board of Directors (until June 30, 2003)	Deutsche Postbank International S.A., Luxembourg
Deputy Chairman of the Board of Directors (until June 30, 2003)	Deutsche Postbank Capital Management S.A., Luxembourg
Deputy Chairman of the Board of Directors (until June 30, 2003)	Deutsche Postbank Asset Management S.A., Luxembourg
Deputy Chairman of the Board of Directors (until June 30, 2003)	Deutsche Postbank Vermögens-Management S.A., Luxembourg

Function	Company
Deputy Chairman of the Board of Directors (until June 30, 2003) Member of the Supervisory Board (until May 19, 2003) Member of the Administrative Board (until May 19, 2003)	Deutsche Postbank Fonds-Management S.A. Luxembourg Niedersächsische Landesgesellschaft mbH, Hanover Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn Einlagensicherungsfonds des Bundesverbands Öffentlicher Banken Deutschlands e.V., Berlin Einlagensicherungsfonds des Bundesverbands Öffentlicher Banken Deutschlands e.V., Berlin
Chairman of the Advisory Board (until May 19, 2003)	
Chairman of the Investment Committee (until May 19, 2003)	
Volker Mai retired from the Management Board as of June 30, 2003.	
<b>Loukas Rizos, Bonn</b>	
Chairman of the Supervisory Board	Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn
Chairman of the Supervisory Board	Deutsche Postbank Financial Services GmbH, Frankfurt/ Main
Chairman of the Board of Directors Chairman of the Board of Directors	Deutsche Postbank International S.A., Luxembourg Deutsche Postbank Capital Management S.A., Luxembourg
Chairman of the Board of Directors	Deutsche Postbank Asset Management S.A., Luxembourg
Chairman of the Board of Directors	Deutsche Postbank Vermögens-Management S.A., Luxembourg
Member of the Supervisory Board (since January 10, 2003) Member of the Supervisory Board (since September 26, 2003)	Postbank Vermögensberatung AG, Bonn PB Firmenkunden AG*, Bonn
<b>Offices relinquished during the year</b>	
Deputy Chairman of the Supervisory Board (until April 15, 2003) Chairman of the Board of Directors (until December 5, 2003)	Postbank EasyTrade.AG, Cologne Deutsche Postbank Fonds-Management S.A., Luxembourg
<b>Lothar Rogg, Bonn</b>	
Deputy Chairman of the Supervisory Board (since January 10, 2003) Member of the Supervisory Board	Postbank Vermögensberatung AG, Bonn
Member of the Supervisory Board Member of the Supervisory Board Chairman of the Supervisory Board	Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn PB Lebensversicherung AG, Hilden PB Versicherung AG, Hilden McPaper AG, Berlin
<b>Offices relinquished during the year</b>	
Member of the Supervisory Board (until April 15, 2003) Chairman of the Advisory Board (until March 13, 2003)	Postbank EasyTrade.AG, Cologne of a total of eleven Deutsche Post distribution companies, each of them a GmbH (private limited company) located in Germany
Chairman of the Advisory Board (until March 13, 2003)	of a total of eleven Deutsche Post retail companies, each of them a GmbH (private limited company) located in Germany

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\* Operated under the name of PB Erste Beteiligungen AG until February 2, 2004

The members of the Supervisory Board of Deutsche Postbank AG are:

**1. Shareholder representatives**

Dr. Klaus Zumwinkel, Chairman of the Board of Management of Deutsche Post AG, Bonn (Chairman)

Prof. Dr. Hans-E. Büschgen, Professor emeritus, Director of Forschungsinstitut für Leasing, Cologne

Dr. Edgar Ernst, Member of the Board of Management of Deutsche Post AG, Bonn

Dietrich Jahn, Deputy Head of Department, Federal Ministry of Finance, Berlin

since March 20, 2003

Prof. Dr. Ralf Krüger, management consultant, Professor at the Fachhochschule Wiesbaden

Dr. Axel Nawrath, Head of Department, Federal Ministry of Finance, Berlin

until February 28, 2003

Dr. Hans-Dieter Petram, Member of the Board of Management of Deutsche Post AG, Bonn

Dr. Klaus Schlede, previously Deputy Chairman of the Management Board of Deutsche Lufthansa AG, Cologne

Dr. Manfred Schüler, State Secretary (retd.), Wachtberg

Dr.-Ing. Dieter Soltmann, previously General Partner of Spaten – Franziskaner – Bräu KGaA, Munich

Dr. Alfred Tacke, State Secretary, Federal Ministry of Economics and Labor, Berlin

**2. Employee representatives**

Michael Sommer, Chairman of the German Trade Union Federation, Berlin (Deputy Chairman)

Marietta Auer, Head of Department, Deutsche Postbank AG, Head Office, Bonn

Rosemarie Bolte, Head of specialist department of the ver.di trade union, Stuttgart

Annette Harms, Member of Deutsche Postbank AG's Works Council, Hamburg Branch, Hamburg

since March 1, 2003

Ralf Höhm, Member of Deutsche Postbank AG's Works Council, Stuttgart Branch, Stuttgart

Elmar Kallfelz, Member of Deutsche Post AG's Group Works Council, Bonn

Harald Kuhl, Chairman of Deutsche Postbank AG's Works Council, Karlsruhe Branch, Karlsruhe

Sabine Schwarz, Chair of Deutsche Postbank AG's Works Council, Berlin Branch, Berlin

Horst-Peter Voegler, Member of Deutsche Postbank AG's Works Council, Hanover Branch, Langenhagen

until February 28, 2003

Christine Weiler, Chair of Deutsche Postbank AG's Works Council, Munich Branch, Munich

Christel Zobeley, trade union official, Vereinte Dienstleistungsgewerkschaft (ver.di), Berlin

Bonn, February 27, 2004

Deutsche Postbank Aktiengesellschaft

Management Board

Prof. Dr. Wulf von Schimmelmann

Dirk Berensmann

Stefan Jütte

Dr. Wolfgang Klein

Loukas Rizos

Lothar Rogg

*The group management report was prepared together with the consolidated financial statements for the fiscal year of 2003 and, naturally, only reflects circumstances known at such time. The group management report should therefore only be read together with the Sections "Postbank Group" and "Recent Developments and Outlook", which reflect the current information as of the date of this Offering Circular.*

## **Group Management Report of Deutsche Postbank AG for the Fiscal Year of 2003**

### ***Macroeconomic environment***

The global economy experienced a weak start in 2003. The Iraq war saw investors and consumers extremely reluctant to spend, which in turn stifled economic activity. However, the global economy picked up again once the war was over and gathered momentum over the course of the year.

The USA once again acted as the motor driving the global economy. Despite a subdued first half year, US gross domestic product (GDP) rose by 3.1 percent in 2003. Economic development in Japan was surprisingly favorable in 2003; economic growth reached 2.7 percent on the back of a sharp rise in exports. This growth was also driven by Japan's close links with the emerging economies of Southeast Asia, again the world's highest growth region.

The euro zone was the straggler in the global upturn. The weak global economy depressed growth in the first six months, but because domestic demand was also very flat, economic stagnation prevailed in the euro zone. The second half of the year, however, saw a positive impetus from a revival in exports fuelled by the global recovery. Despite this, overall economic growth in 2003 was very low at a mere 0.4 percent.

Growth was even weaker in Germany, where the economy shrank by 0.1 percent in 2003. Following a decline in the first half of the year, German exports also started to benefit from the pick-up in international demand for German products after the mid-year point. Despite this, exports grew overall by a mere 1.1 percent: the lowest growth in ten years. In such an environment, capital spending declined still further, although first signs of improvement were evident towards the end of the year. Consumer sentiment was particularly disappointing. The long, drawn-out negotiations on tax cuts and reforms of the social security system that unsettled many people played a major role here.

### ***Significant events in the year under review***

Postbank Vermögensberatung AG, which was acquired in 2002, started operating in 2003. It advises affluent private customers and thus ideally complements our retail outlet network.

The second module of our standard software for banks, developed jointly with SAP, went live during the year under review. It is used for account management and payment transactions.

In 2003, Postbank collateralized credit risks for the first time by issuing a synthetic securitization instrument (residential mortgage backed security) using the Provide platform offered by KfW.

We sold our subsidiary interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH to Deutsche Post Beteiligungen Holding GmbH on November 1, 2003.

### ***Income statement***

The Postbank group's pre-tax income improved again in 2003, rising by 24.5 percent year-on-year to € 497 million.

The slight drop in overall income and the higher allowance for losses on loans and advances were more than offset by a decline in administrative expenses, in particular personnel expenses, as well as higher net other income and expenses.

### *Total income*

Total income, meaning income related to recognized assets (net interest income, net trading income and net income from investment securities) plus net fee and commission income fell slightly by 1.9 percent, from € 2,423 million to € 2,377 million. Although income related to recognized assets was down by only 2.9 percent year-on-year despite the low level of interest rates, its structure has changed appreciably. Net interest income fell by 10.7 percent to € 1,653 million, while at € 258 million, net trading income and net income from investment securities rose appreciably over the previous year's figure of € 116 million. One of the factors driving the 2.6 percent rise in net fee and commission income to € 467 million was the positive development of the fund business.

### *Provision for losses on loans and advances*

The provision for losses on loans and advances rose by 13.1 percent to € 154 million (previous year: € 137 million). This reflected the fall in debtor creditworthiness due to the economic slowdown. The group made adequate provision for all identifiable risks.

### *Administrative expenses*

Total administrative expenses were cut by 4.0 percent (€ 75 million) to € 1,809 million. Due in particular to the reduction in the headcount, personnel expenses fell from € 641 million to € 608 million, and non-staff operating expenses fell by € 40 million (3.4 percent) to € 1,121 million. Depreciation of property and equipment was also lower year-on-year.

### *Other income and expenses*

Net other income and expenses improved by € 87 million to € 83 million due, among other things, to the reversal of a provision following the transfer of interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH.

### *Income before taxes*

The Retail Banking business division contributed € 381 million (previous year: € 203 million) to the income before taxes of € 497 million (previous year: € 399 million), Corporate Banking contributed € 118 million (previous year: € 93 million) and Financial Markets contributed € 96 million (previous year: € 117 million).

### *Net income*

Net income for the period after income taxes and minority interests thus amounted to € 352 million (previous year: € 132 million).

### *Total assets and changes in the balance sheet structure*

Total assets fell by € 8.5 billion year-on-year to € 132.6 billion.

This development was again driven by the appreciable growth in customer deposits on the one hand, and the reduction in money and capital market funding on the other, leading ultimately to a 6.0 percent reduction. On the asset side, money and capital market investments also fell correspondingly.

### *Loans and advances to customers*

At a total of € 43.3 billion, loans and advances to customers fell by € 0.6 billion year-on-year. Direct customer loans rose by € 2.8 billion, while there was a reduction in public sector receivables in particular.

### *Money and capital market investments*

Loans and advances to other banks fell by € 3.7 billion year-on-year to € 34.1 billion, while investment securities fell over the same period by € 5.4 billion to € 38.9 billion. This was partially offset by a € 1.3 billion rise in trading assets to € 12.6 billion.



### *Amounts due to customers*

Amounts due to customers rose by € 7.3 billion year-on-year to € 73.9 billion. The volume of savings recognized in the balance sheet rose by € 3.4 billion.

### *Money and capital market liabilities*

Deposits from other banks fell by € 8.0 billion to € 20.3 billion. Securitized liabilities fell by € 8.5 billion to € 26.3 billion in fiscal year 2003 due to expiring issues.

### *Equity*

The group's reported equity rose by € 0.5 billion year-on-year to € 4.9 billion.

The overall capital ratio in accordance with Principle I of the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – Federal Financial Supervisory Authority) amounted to 9.9 percent, and the Tier 1 ratio was 6.6 percent.

## **Risk report 2003**

### *Risk management strategy and objectives in the group*

The Postbank group defines risk management as a feedback system that enables a systematic, permanent process covering all areas of the Postbank group, based on defined objectives. This process consists of strategy, analysis and evaluation, management and control of overall bank risks.

Risk management thus forms part of the risk- and earnings-based overall management of the group. The Postbank group aims to ensure that risks are assumed on a controlled basis in terms of the group strategy and the available risk capital. An effective risk management system provides the necessary input for strategic and daily business decisions, and facilitates the responsible, earnings-driven management of risk. The Postbank group measures this for its departments and business divisions using the ratio of capital employed to earnings, expressed as RoE (return on equity).

### *Organization of risk management*

The Postbank group has created the basis for risk- and earnings-based overall group management by organizing its risk management activities.

The Group Management Board is responsible for risk strategy, the appropriate organization of risk management, monitoring the risk content of all transactions entailing risk, and risk control.

In conjunction with the Risk Committees, the Management Board has defined the underlying strategies for activities on the financial markets and the other business sectors of the group. The Management Board takes decisions on risk capital, the limiting procedures and limit levels for all risks associated with the banking and non-bank business, and it defines the products and markets in which the Postbank group will be active.

The Market Risk Committee (MRC) is responsible for the strategic management of the group's market price risks and thus also for the allocation of the market price risk capital made available by the Management Board. It performs this management function by assessing the current market situation, economic expectations and the group's liquidity position.

The individual Management Board members represented on the Market Risk Committee work together with the Treasury and Accounting/Controlling departments.

In addition to the market price risks of the trading departments, strategic management by the Market Risk Committee encompasses in particular the market price risks in the investment book and the strategic positions.

In the Credit Risk Committee (CRC), the Management Board members responsible define the framework for the group's credit policy and the allocation of the credit risk capital made available by the Management Board. The Credit Risk Committee also develops optimization strategies for the group's credit portfolio; starting in 2004, it will also assume responsibility for

supervising credit portfolio management activities as part of the implementation of the MAK (*Mindestanforderungen an das Kreditgeschäft* (minimum requirements for credit transactions)). The Management Board members represented on the Credit Risk Committee are supported by the Credit Management and Accounting/Controlling departments.

The Operational Risk Committee (ORC) that will be established in 2004 will define the strategies and outline conditions for the management of operational risks in the group. Its functions were still performed by the Market Risk Committee in 2003.

Operational responsibility for risk management is spread across several units in the group, primarily the Treasury and Credit Management departments, and at decentralized level, the Postbank International S.A., Luxembourg, and Postbank Capital Corp., New York, subsidiaries.

The risk control units, which operate independently of operating risk management, measure and assess the group-wide risks and ensure that limits are monitored and complied with.

Internal Audit regularly inspects the effectiveness of risk management activities in the Postbank group, and reports the findings of its audits and recommendations directly to the Group Management Board.

#### *Organization of risk management*

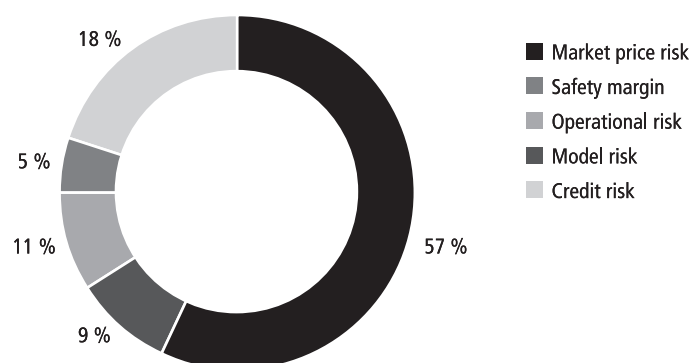


#### *Risk capital and risk limiting*

Risk capital allocation ensures that any losses that arise can be absorbed by the Postbank group; for this reason, the aggregate risk potential must at all times be lower than the available risk capital.

A critical factor here is that Postbank must be able to absorb not only probable risk scenarios, but also to survive crash scenarios. For this reason, the available risk capital is not fully allocated as a limit, but is also allocated as a safety margin.

The following chart shows the percentage allocation of the Postbank group's risk capital by risk category:



Risk capital is allocated to the risk categories in the Postbank group without factoring in any correlation effects that might mitigate risk. In the same way, no correlation effects between different portfolios are reflected in market price risk and counterparty risk for reasons of prudence. Correlation effects are only offset against risks within individual portfolios.

Allocation takes the form of annual limits. We have opted to allocate annual limits to create a uniform basis across all risk categories to reflect the overall bank control that is built on risk capital allocation.

The annual limit for market price risks is made available to the operating units on the basis of dynamic 10-day limits; the outcome of this is that only 20 percent of the global annual limit is allocated to the operating units, and that 80 percent of the annual limit contained in the model is held back for (highly unlikely) crash scenarios and sustained periods of loss. The MRC decides on any potential employment of risk capital not made directly available as a limit.

At Postbank, the safety margin comprises the openly reported safety margin, the retained 80 percent of the annual limit for market price risk, plus correlation effects that are ignored.

#### *Definition of risk categories and risk types*

##### ● **Market price risk**

Market price risk denotes the potential risk that may lead to losses in financial transactions from changes in interest rates, volatilities, exchange rates and equity prices. Changes in value are based on daily market-to-market value, independently of their measurement for financial accounting purposes.

##### ● **Counterparty risk**

Counterparty risk, defined more closely below, is the general term applied to the risk of loss resulting from changes in the creditworthiness of, or default by, a counterparty. Counterparty (default) risk consists of credit (issuer) risk, country risk and counterparty risk in the narrower sense (settlement and replacement risk):

- We define credit risk (issuer risk) as the potential loss that may arise due to the inability of a debtor to discharge its payment obligations or due to a deterioration in its creditworthiness.
- Country risk denotes the transfer risk inherent in cross-border payments due to the unwillingness (political risk) or inability (economic risk) of a country to discharge its payment obligations.
- Counterparty risk in the narrower sense refers to the risk that losses will be incurred due to default by a counterparty in the settlement of payment obligations (replacement risk) or to untimely performance of payment obligations (settlement risk).

- **Liquidity risk**

Liquidity risk is the risk that Postbank will be unable to meet its current and future payment obligations in full or at the due date. Funding risk (a special form of liquidity risk) arises when the necessary liquidity cannot be obtained at the expected terms when required.

- **Model risk**

Model risk is a collective term for the risk that arises when information can only be presented to decision-makers for management purposes on the basis of simplified modeling.

- **Strategic risk**

Postbank classifies strategic risk as the risk that earnings targets will not be achieved because of the inadequate focus of the enterprise on the relevant business environment (which may have changed abruptly). Strategic risk may therefore result from an inadequate strategic decision-making process, from unforeseeable discontinuities on the market, or from the inappropriate implementation of the chosen strategy.

- **Operational risk**

Operational risk is defined by Basle II as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. Legal risks are also included here in accordance with the Basle II definition.

*Monitoring and managing market price risk*

*Operating risk management*

Several organizational units are integrated into the Postbank group’s overall banking risk process: Postbank AG, with its Financial Markets division – Money Markets, Foreign Exchange and Capital Markets – and central risk control, plus the subsidiaries in New York and Luxembourg. The foreign subsidiaries manage their own risk independently on the basis of separately assigned risk limits.

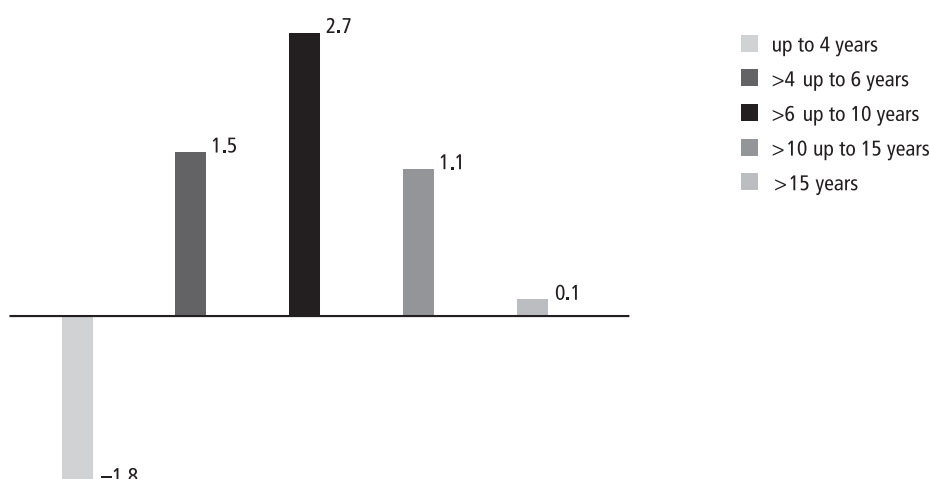
Treasury manages market risk for Postbank’s banking book. To safeguard against market price risk from customer transactions, there is a particular focus on the control of interest rate risks.

Interest rate risk is the term used to denote the changes in the fair value of interest-bearing financial instruments resulting from a change in market rates of interest; these changes are a result of gaps arising from maturity mismatches between the asset-side and the liability-side. In addition to standard models, Postbank also uses proprietary statistical models to quantify interest rate risk. Particular attention is given in this context to the measurement of customer transactions bearing variable rates of interest. Special modeling rules and deposit base definitions form the basis for the risk management concept at Postbank which, as a retail bank, primarily conducts to interest-bearing transactions.

The following chart presents Postbank’s open interest rate positions at December 31, 2003. The effects of Postbank AG’s hedging transactions (e.g. interest rate swaps) are contained in the exposures to interest rate changes shown below. The structure of the gaps between the asset-side and liability-side is the result of moderate overall risk assumption.

## Interest rate sensitivity analysis

Figures at reporting date: Dec. 31, 2003  
Gap in €bn



The gaps between the asset-side and liability-side are controlled using balance sheet and off-balance-sheet transactions, with the choice of instruments depending on the liquidity position and current market prices.

### Monitoring market price risk using value at risk

The Postbank group uses suitable statistical models and value at risk methods to monitor market price risk. Value at risk (VaR) is generally established using the variance-covariance method on the basis of a historical observation period of 250 trading days, a holding period of 10 trading days and a confidence level of 99 percent. The VaR of a portfolio thus describes the potential future loss that will not be exceeded in a period of 10 trading days with a probability of 99 percent. The variance-covariance method is applied consistently to all portfolios, and transforms heterogeneous risks into a single measure of risk, the VaR. To adequately reflect the growing importance of asymmetric distributions or convexity risk at Postbank, we are currently in the process of developing an additional method for measuring VaR using Monte Carlo simulation.

#### ● **Backtesting**

The methods used to compute VaR are regularly tested for reliability. The predictive accuracy of the estimated VaR is tested by comparison with the gains and losses arising from actual market changes, based on the same portfolio (clean backtesting). Evaluation uses the “traffic light” color code model published by the Bank for International Settlements (BIS). Backtesting provides a significant stimulus for further developing and validating the VaR methodologies used. The backtesting conducted in 2003 did not prompt us to change the VaR methodology we use.

#### ● **Stress testing**

Because VaR does not adequately capture extreme market movements, scenario analyses (worst case scenarios) are performed at regular intervals. These analyses quantify the effects of extraordinary events and extreme market conditions on the Postbank group’s asset positions. The effects of the worst case scenarios must be covered by the annual limits allocated for each risk. The scenario analysis methodology was fundamentally revised and refined during the year under review. Postbank also participated in the stress tests conducted as part of the International Monetary Fund’s Financial Sector Assessment Program (FSAP), and supported in Germany by the Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) and the Bundesbank. The scenario analyses performed in the year under review indicated that Postbank’s risk-bearing ability is assured even in extreme market situations.

### Limiting and reporting

At Postbank, market price risk is monitored using the system of risk limits based on the value at risk methodology described above. The aggregate limits are resolved by the Group Management Board and allocated by the Market Risk Committee to the individual operating units as sub-limits. These are dynamic outcome-based limits; any losses incurred reduce the limit, while gains replenish it. Risk measurement and monitoring are end-of-day, plus intraday for the trading portfolios.

Together with the position managers, the Management Board member responsible for Financial Markets, who is in charge of risk supervision, is notified daily about the positions entered into, limit utilization and the profit/loss of the positions. The Group Management Board receives a comprehensive monthly report containing this information.

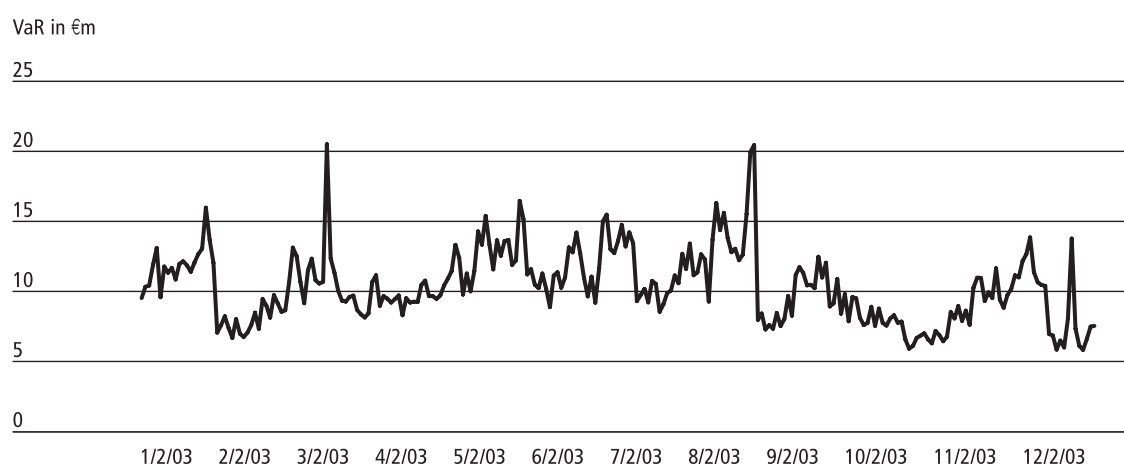
The following values at risk were calculated for Postbank's banking book and trading portfolios as of December 31, 2003:

Values at risk for the period January 1, 2003 to December 31, 2003 (€ million)

	<u>Total Bank</u>	<u>Banking book</u>	<u>Trading book</u>
		€ Million	
VaR at Dec. 31, 2003 .....	188.06	181.11	6.95
Min. VaR.....	89.01	82.92	5.32
Max. VaR.....	247.37	235.28	19.95
<b>Annual average VaR .....</b>	<b>174.58</b>	<b>164.80</b>	<b>9.78</b>

The following chart illustrates the development of value at risk for our trading portfolios over the course of 2003.

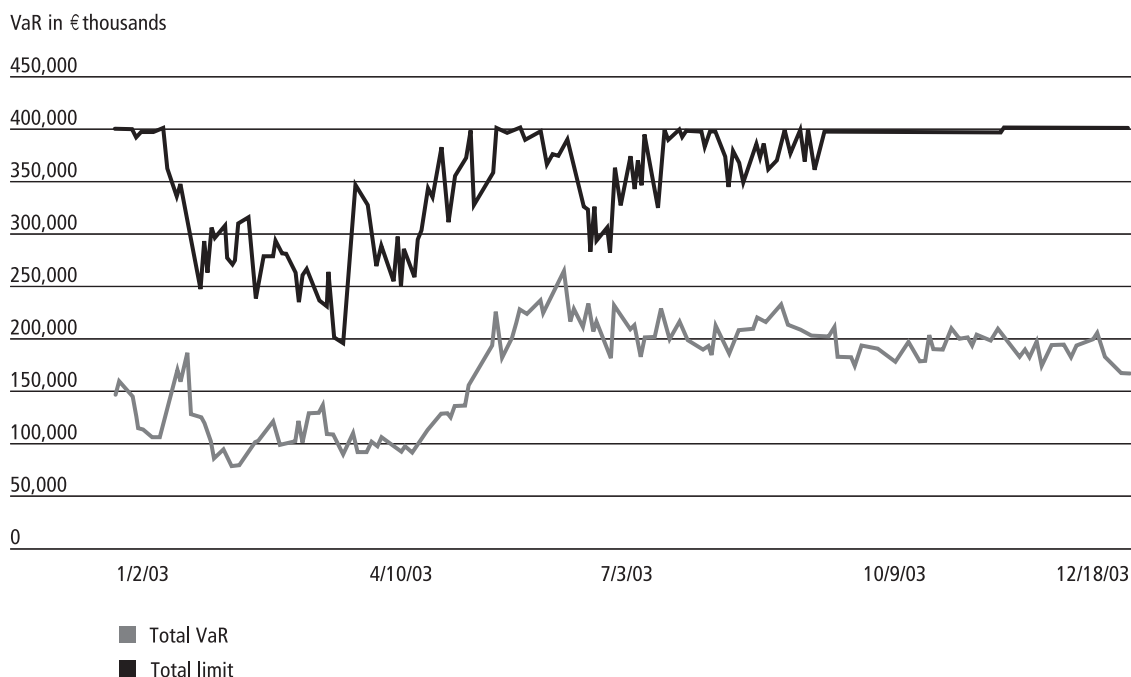
VaR trading portfolio January 1 to December 31, 2003





The following chart illustrates the development of value at risk for the Postbank group over the course of the year under review.

#### VaR and VaR limit for the period January 2 to December 31, 2003



#### Identification for new product launches

The Bank has comprehensively identified the risk factors for the traded products and documented them in a product database. If new products are introduced, the risk factors are also identified and documented. The product introduction process examines whether the identified risks can be fully reproduced.

#### Appropriate market terms

In addition to monitoring market price risk, Postbank also checks all trades at the trade date to ensure that market prices have been applied (market pricing verification). This is supervised by internal units that are independent of the trading functions.

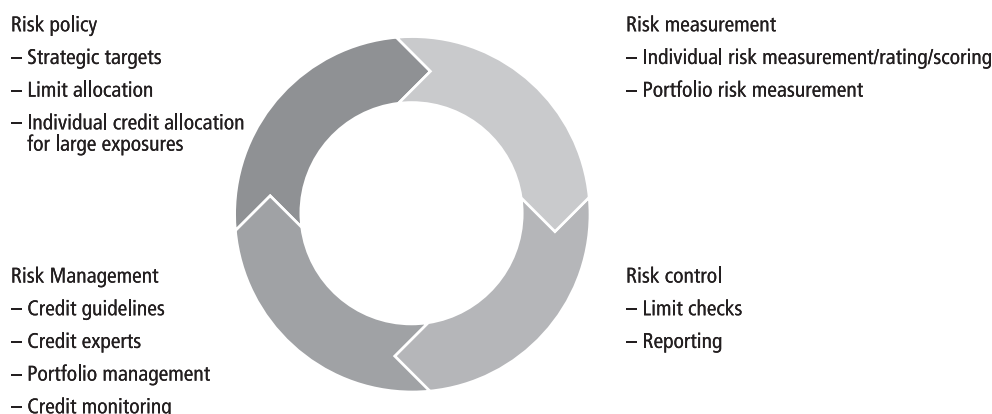
#### *Monitoring and managing counterparty risk*

##### Risk strategy

The responsible Management Board members in the Credit Risk Committee (CRC) define the framework for the group's credit policy and the allocation of the credit risk capital made available by the Group Management Board for credit, country and counterparty risks to the operating units. The risk strategy is subsequently expressed by the definition of issuer, country and counterparty limits. As another strategic risk management measure, and in preparation for implementation of the *Mindestanforderungen an das Kreditgeschäft (MaK)* – minimum requirements for credit transactions), the Postbank group bases the aggregate composition of its credit portfolio on a target portfolio. This was constructed to reflect a balanced risk/return. The actual portfolio is compared quarterly with the target portfolio.

In addition to defining the risk policy, risk measurement, risk management and risk control are the core elements of Postbank's feedback system for managing its credit risk position.

## Control elements of credit position



## Managing individual risks

At an individual transaction level, all credit risk positions are entered into on the basis of credit decision processes and systems that are appropriate for the risk involved. The credit competencies and processes are clearly defined in the form of guidelines, and are documented centrally. A core element of credit management is the rating system. Appropriate rating and scoring models are employed, depending on the business division.

### ● **Rating, scoring and monitoring**

A number of statistical scorecards are available in our retail business, which includes private real estate finance and standardized lending products for corporate customers. Both internal and external ratings support credit risk management in our tailored lending business for corporate customers and financial services providers, especially credit institutions. In this segment, the parameters included in the rating are not only quantitative, but also qualitative, i.e. soft criteria and forward-looking parameters. The internal ratings are empirically validated; mapping to actual defaults or external ratings allows us to calculate the expected default probabilities.

To screen the largest publicly listed corporate exposures, Postbank also uses KMV Credit Edge, a model for near-real-time market-based calculation of expected default probabilities. This captures short-term indications of any potential deterioration in credit quality. The process of screening the largest corporate exposures has been institutionalized by a task force that meets regularly. The aim is to identify trends in the credit quality of the borrowers under observation as early as possible, and to discuss potential measures to be taken.

An objectified credit monitoring process has been implemented for tailored corporate customer lending and real estate finance, based on defined risk indicators. The function of this process is to identify exposures involving increased risk, quantify the provisioning requirement continuously, and guarantee efficient loan restructuring and, where necessary, settlement.

### ● **Risk/return key performance indicators**

If loan losses are expected in the Postbank group, the average default costs are factored into the advance calculation on an individual loan basis. This system allows all lending transactions to be valued during the advance calculation.

The standard loan loss costs are priced in as a premium for the expected loss and are included in the profitability calculation that is determined in the form of return on equity (RoE) and return on risk adjusted capital (RORAC) ratios.

### Monitoring of credit limits per borrower unit

The credit risk per borrower unit is restricted by a limit system applying to all credit types. A global limit system, into which the group-wide trading and banking book transactions are fed, monitors the approved credit, country and counterparty (settlement and replacement) limits, as well as the large exposure limits.

### Managing country risk

The Postbank group has established country risk limits to manage country risks. These limits are oriented on Moody's and Postbank's internal country credit ratings and the economic strength of the countries concerned, measured by their GDP. The countries are allocated to various internal risk categories and awarded country ratings in a country risk database, containing all relevant key economic data of the individual countries in addition to the country risk limits and their utilization.

### Portfolio management

In addition to capturing individual risks, Postbank determines a credit value at risk (CVaR) for the group credit portfolio. The credit value at risk (CVaR) is the negative change in the value of the group credit portfolio that will not be exceeded within a one-year horizon with a 99 percent probability.

Postbank's credit risks in 2003 and their structure are illustrated in the following table for the various profit centers:

### Credit risks 2003 (€ million)

	Volume	Expected loss	Credit VaR
		€ million	
Corporate Banking.....	25,346	50	82
Retail Customers .....	18,962	81	54
Financial Markets.....	96,979	42	119
<b>Total (incl. portfolio effect) .....</b>	<b>141,288</b>	<b>173</b>	<b>173</b>

Credit value at risk is measured using a credit risk model that allows the consistent capture of all credit risks. This rating-based model takes migration behavior and commonalities within the portfolio into account, thus enabling risks arising from an adverse concentration of counterparties in terms of their sector, size category, creditworthiness and country to be suitably reflected. The input parameters of the credit risk model are continuously updated.

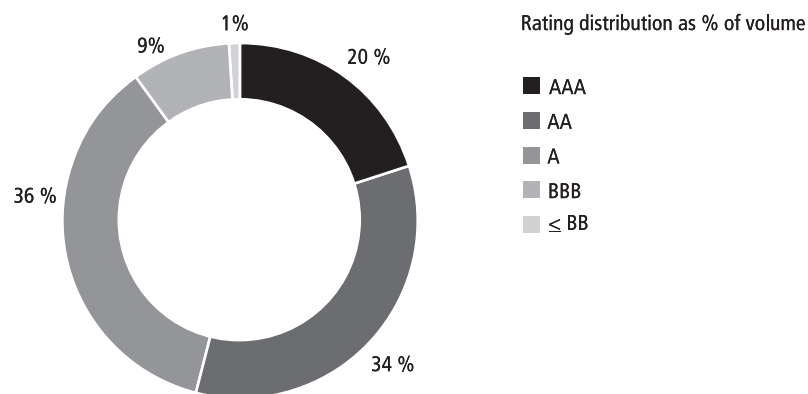
All holdings exposed to credit risk are recorded in the amount of their future cash flows and discounted to the observation date; in addition to changes in fair value, this allows not only the principal risk, but also the present value of all future loan losses to be measured.

The input factors include migration tables derived from rating agency data; credit spreads (risk premiums for various rating/creditworthiness categories); and estimated recovery rates that can be entered both as fixed values and ranges in a Monte Carlo simulation.

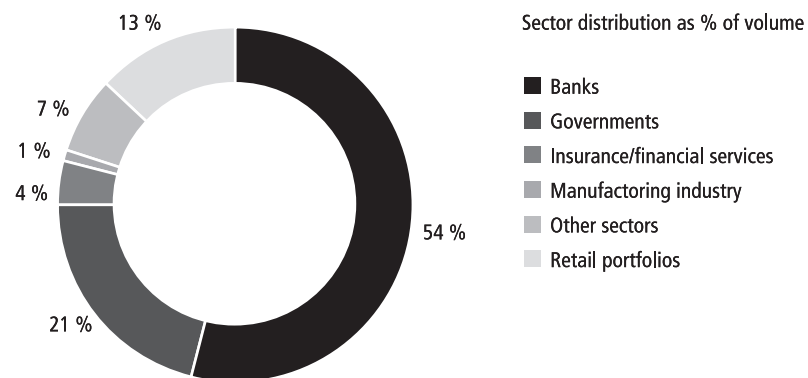
Homogeneous, granular products or business sectors are consolidated and are not computed at individual transaction level. These relate in particular to private customer products.

The updated portfolio and market data are used to compute the credit value at risk of the group credit portfolio every quarter, as well as the standalone credit value at risk for individual products/business divisions. The CVaR in the group credit portfolio is lower than the sum of the individual standalone CVaRs of the business divisions because of diversification effects. The expected loss disclosed relates to the weighted mean portfolio loss.

The distribution of rating categories in the group credit portfolio illustrates the conservative approach adopted by the Postbank group. Good rating categories predominate. Unrated retail business is not included in the following chart, but this is subject to scoring.



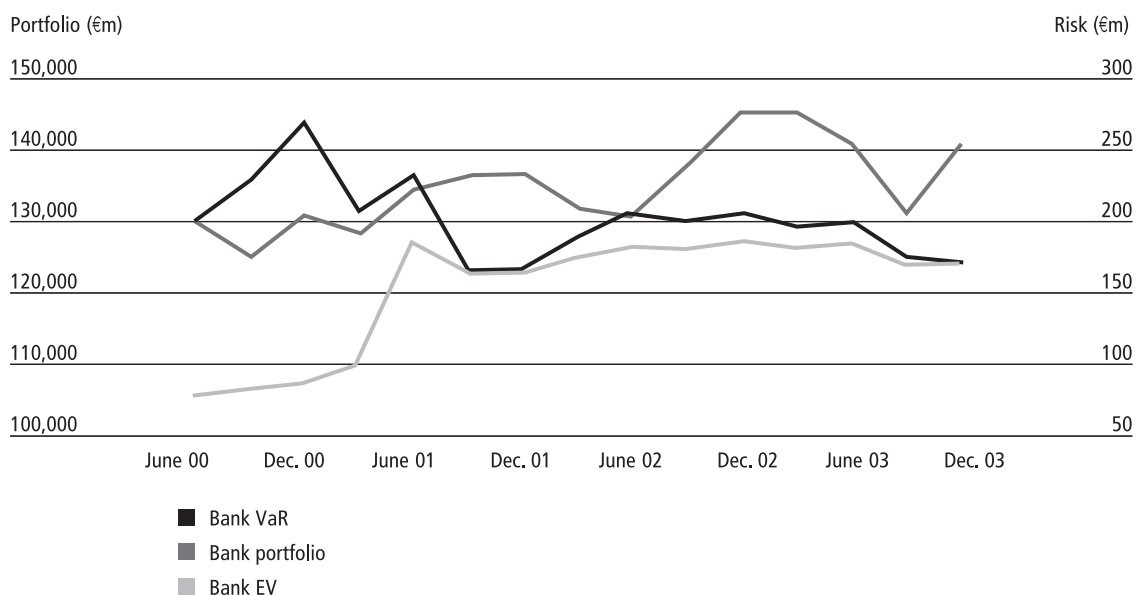
The sector distribution by volume in the credit portfolio remained largely constant. The exposure in the banking sector is primarily attributable to money and capital market exposures whose counterparties are almost exclusively rated A and higher.



In addition to actively managing existing concentrations, Postbank’s goal is also to reduce them. The target portfolio described above serves as a basis. Postbank uses state-of-the-art tools for active credit portfolio management for this purpose at both portfolio and individual transaction levels.

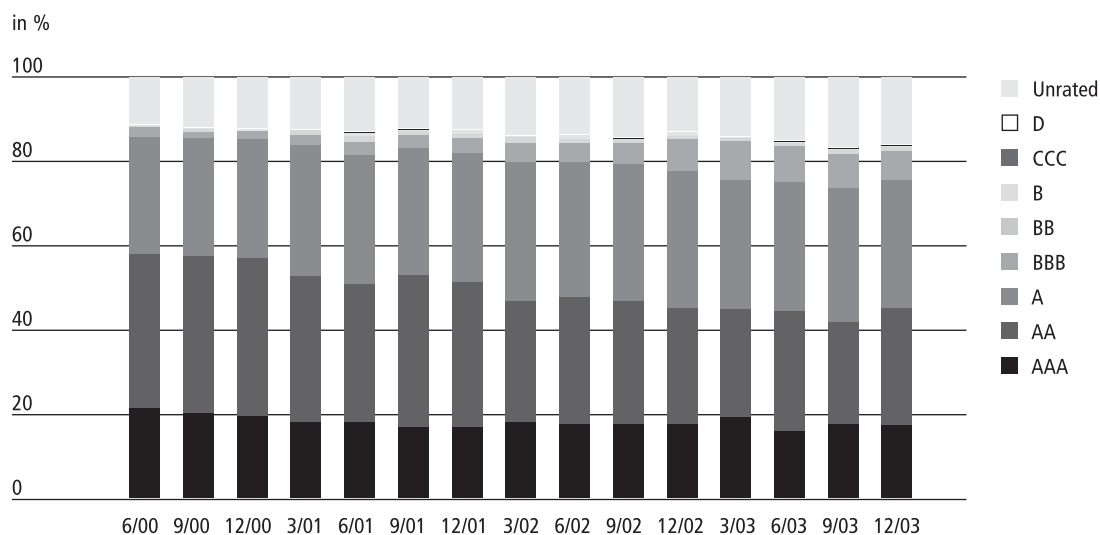
The historical development of risk indicators presented in the following chart confirms the conservative approach applied to Postbank's Group credit portfolio over time.

#### Overall bank portfolio and risk development over time



The same applies to the shift in the structure of rating distribution. A reduction in non-investment grade rating categories over time is evident here; this is attributable to the more conservative risk policy at PB Capital following its integration into the Postbank group.

#### Change in rating structure



#### Reporting

The regular reporting instruments for counterparty risk in the Postbank group are the credit monitoring report for individual risks and the credit matrix for portfolio risks.

The credit monitoring report contains information about default trends at an individual business division level. The credit monitoring report consists primarily of a risk barometer for default and transaction trends at the individual business divisions, and a watch list that presents all individual exposures that are being intensively monitored, restructured or wound up.

The credit matrix provides transparent information on the composition and development of the group's current credit risk portfolio. It therefore focuses on presenting credit portfolio, credit risk and credit outcome data, thereby laying the basis for active credit portfolio management.

### *Monitoring and managing liquidity risk*

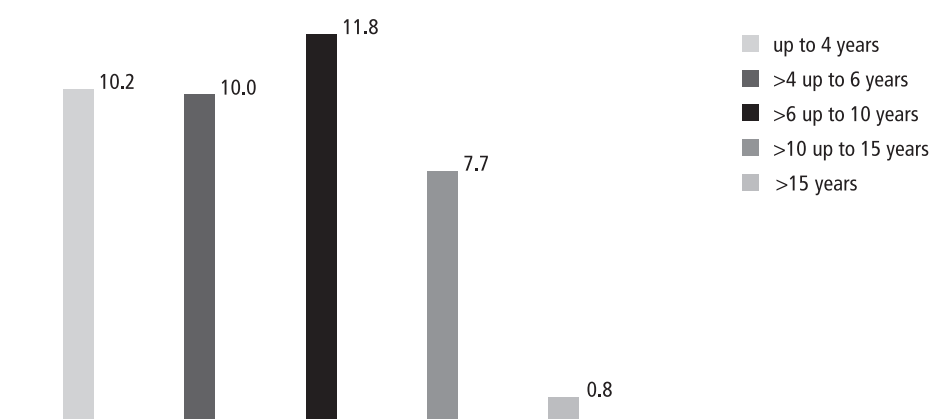
Postbank AG's liquidity management options are tied to the capital commitment maturity pattern. Short-term management is handled as part of our money market activities, while Treasury is responsible for ensuring medium- and long-term liquidity. Postbank's balance sheet structure shows a surplus of deposits from the retail customer business. These funds are invested by Treasury, largely in liquid money and capital market securities. These assets (or repos as an additional alternative) are available as funding sources, supplemented by debt issuances or commercial paper programs.

To avoid liquidity squeezes, the liquidity positions are regularly subjected to stress tests. These simulations reflect external changes in a variety of market factors, plus structural shifts within Postbank's funding resources.

The cash flow sensitivity analysis of Postbank AG shown below presents all cash flows on a net basis and underscores Postbank's strong cash position.

### Cash flow sensitivity analysis

Figures at reporting date: Dec. 31, 2003  
Positive gap or cash surplus, Gap (€bn)



The ECB's marginal lending facilities were used in isolated instances, and open market transactions were conducted regularly. Principle II under section 11 of the KWG (German Banking Act), which is the regulatory measure for assessing solvency, was complied with at all times. No extraordinary call risks arose from the early withdrawal of large deposits.

### *Monitoring and managing operational risk*

Operational risk denotes the "risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". This definition by the Basle Committee on Banking Supervision has been accepted by Postbank as the basis for introducing a corresponding control process. Postbank's aim is to meet the requirements for the standardized approach when the new capital adequacy standards take effect. At the same time, however, the groundwork is being prepared for more risk-sensitive advanced approaches.

Postbank's central risk control department is responsible for implementing regulatory requirements in the Postbank group. An operational risk control manual describes the roles,

functions and responsibilities of all parties involved in the control process. Managing operational risk is and remains the primary task of the individual units within the Bank.

Postbank uses qualitative self-assessment to identify and measure operational risk. The organizational units use questionnaires to assess their own risk position. The results enable each unit to prepare a detailed risk profile, together with corresponding recommended actions for managing risk.

Risk indicators are defined in many organizational units to develop an early-warning system. These enable the ongoing assessment of the risk position for each division and indicate the need for action if division-specific defined limits are exceeded.

Losses attributable to operational risk are captured and evaluated in a loss database. Because Postbank aims to employ a risk-sensitive approach in the future, this data will form the basis for determining capital requirements, among other things.

The results of the control process are reported both centrally to the Management Board and decentrally in the units. A periodic reporting system that presents the results of the three methods in use has been launched for this purpose. There are plans to establish a risk committee for operational risk in 2004.

The data is captured decentrally in an internet-based client/server architecture. Both central and decentralized reports are available at all levels. A multistage professional education concept was developed together with the Qualification and Training Department to ensure that those employees involved in the operational risk control process are suitably qualified.

By continuing the projects launched in recent years, Postbank believes that it is well on the way to implementing the new regulatory requirements.

#### *Monitoring and managing model risk*

To enable variable interest rate customer products (deposits and overdrafts) to be correctly reproduced, the Postbank group uses an assumptions-based replication model. The model risk of this model is analytically established and in risk capital allocation separately covered by risk capital. The model assumes firstly a product valuation portfolio that ensures a more or less constant net interest margin, and secondly that the volumes examined are approximately constant (deposit base). To determine the model risk, potential changes in the repricing behavior and possible volume outflows are examined so that both model risk components can be quantified. The aggregate model risk is the sum of the values of the two components. Because the model is conservative, any risk-mitigating compensation effects are not factored in.

#### *Monitoring and managing strategic risk*

Postbank classifies strategic risk as the risk that earnings targets will not be achieved because of the inadequate focus of the enterprise on the relevant business environment (which may have changed abruptly). Strategic risk may therefore result from an inadequate strategic decision-making process, from unforeseeable discontinuities on the market, or from the inappropriate implementation of the chosen strategy.

Contrary to counterparty or market risk, for example, it is extremely difficult to arrive at any quantitative measurement of strategic risk. It is equally impossible to compress this type of risk into a single risk indicator using statistical methods.

Postbank tries to identify strategic risks at an early stage by continuously analyzing the market and competitive environments, as well as during the course of its rolling multiyear planning, and by then initiating appropriate strategic countermeasures. Fast, effective adjustments are also assured by a central project control department that tracks the progress and goals delivery of Postbank's key projects.

The Group Management Board is responsible for strategic decisions, with particularly far-reaching strategic decisions additionally requiring approval by the Supervisory Board.



### *Presentation of risk position*

The Postbank group uses sophisticated instruments and processes to manage and control the various types of risk. These allow the aggregated control and limitation of the Bank's overall risk across all risk types and business divisions. The methods and procedures comply with all current legal and regulatory requirements and are continuously adapted and improved to reflect changes in the market and the development of the group.

Despite the difficult macroeconomic environment in 2003, this allowed us to ensure that the Bank's risk profile remained low and that we could benefit from relatively low risk costs. During the year under review, a significant securitization of residential building loans was successfully placed for the first time as part of our credit portfolio management activities. Going forward, we intend to use the capital markets for securitization measures more intensively so that we can further improve our risk diversification.

The new requirements stipulated by the *MAK* were implemented as planned in our organizational structure and workflow organization during the year under review. They will be implemented in our IT systems in good time as part of the Basle II project.

Risk capital allocation gave the business divisions in the Postbank group sufficient scope to consistently implement our growth-driven business strategy. We have not identified any risks that could impair our development or jeopardize our continued existence.

The Monopoly Commission alleges that Deutsche Post AG is in violation of the prohibition on state aid contained in the EU Treaty because it allows Postbank to use the retail outlets in return for compensation that is not calculated on an arm's length basis. Deutsche Post AG and Postbank believe that this allegation is unfounded. The fee paid by Postbank complies with the requirements of EU law on competition and state aid.

On January 21, 2004, the European Commission issued a state aid ruling on the assumption by the Belgian government of pension entitlements of employees of the Belgian telecommunications company Belgacom.

According to press reports, the European Commission is examining whether the state aid principles of this ruling could be applied to the assumption of the pension obligations for civil servants employed at Deutsche Post AG. However, the European Commission has not confirmed these reports.

It is currently unclear whether the state aid principles underpinning the European Commission's ruling can also be applied to Postbank as one of the successor companies to Deutsche Bundespost, and if so, what financial burden this could entail. The European Commission's ruling has not yet been published; as a result, it is not known whether the case is in any way comparable with the statutory arrangements applicable to the pension obligations of Deutsche Post AG or Postbank.

### *Internal Audit*

Internal Audit is a key element of the Postbank group's business monitoring system. In accordance with the Minimum Standards for Auditing Departments of Credit Institutions, it audits all areas of the group at least once every three years. Areas that are exposed to greater risk are audited annually. Audits are planned and their frequency determined in a risk-oriented manner on the basis of the results of the last audit, taking recent changes into account. This results in a multiyear audit plan and the annual program for the next fiscal year, and Internal Audit is commissioned by the Management Board with its implementation.

Regularity audits and system examinations are conducted regularly as part of the annual program. Internal Audit also carries out special examinations under particular circumstances, and performs audit and consulting activities for the introduction and implementation of important projects. Audit concepts are continuously adapted to reflect current changes in the group and in the legal situation.

Internal Audit reports its audit results independently to the Group Management Board. In terms of our organizational structure, it reports directly to the Chairman of the Management Board.

### *Basle II*

The Basle Committee on Banking Supervision wants to focus the regulatory capital requirements for credit operations more heavily on economic risks. To do this, in the future it plans to make equity backing for loans rating-dependent. Also, for the first time, the New Capital Accord requires operational risks to be given equity backing.

The final version of Basle II is expected to be published in the first half of 2004. The Postbank group addressed this issue at an early stage and introduced a comprehensive Basle II project in order to gather the necessary data histories and ensure that rating systems, processes and IT systems are adapted in good time.

The "ratings and credit-specific processes" subproject aims to fulfill the requirements of Basle II that relate to the internal rating based approach as early as possible and across all business divisions. This also includes the integration of rating systems into credit-specific processes. Apart from satisfying the regulatory requirements, the further development and adaptation of the rating models offer considerable business benefits: credit decisions can be optimized by using ratings that comply with Basle II, thereby reducing default costs and ensuring that the "right" loans are accepted, and that loan pricing reflects the risk.

IT implementation also includes the development of the necessary comprehensive data histories. The IT infrastructure of Postbank's lending operations is being further improved in a separate "group-wide credit management system" project.

The core content of the "risk mitigation" subproject is the adaptation of existing collateral systems, together with the definition and implementation of processes for the recording and administration of collateral.

The operational risk sub-project described above is aimed at implementing an in-depth operational risk control process on a bank-wide basis, with a particular focus on the systematic and comprehensive collection and cataloging of operational risks. This includes carrying out regular self-assessment, establishing a loss database, and defining and monitoring risk indicators.

The Postbank group is thus implementing Basle II at an early stage, thereby creating the conditions under which it can exploit the opportunities presented by Basle II.

### *Outlook*

Following interest rate movements in 2003 that were driven by disappointing economic growth in the euro zone and the weakening of the US dollar against the euro, on balance we are expecting a slight rise in interest rates in the euro zone, coupled with modest economic growth in Germany.

The basis for further cost-cutting in 2004 was established in 2003. The workforce reductions already instituted and in preparation are having a positive effect on personnel expenses, irrespective of natural fluctuation.

Over the past three years, Postbank has invested heavily in further improvements in its IT. The most important project – the introduction of a new, SAP-based system for processing checking account transactions – was successfully completed in 2003. This too generated cost savings in the year under review.

In the retail business, we intend to continue growing faster than the market and to further extend our already high new customer acquisition rate on the back of our "easy, low-cost banking" performance promises. There will be additional product innovations to accompany the very successful "DAX Sparbuch".

We will also reinforce and emphasize our status as a full bank to further increase our cross-selling ratio with existing customers.

We will further extend our top position in online banking. The same applies to our leading position as Germany's largest card issuer. We will also focus on installment loans, private real estate finance and the securities business.

In corporate banking, we will continue to extend our core competencies, in particular payment transaction services, and will invest in new product fields, such as e-banking and web-based payments.

We have achieved technology leadership in the field of core systems for banking operations, and have also laid the groundwork for achieving a similar position in the area of support systems. In addition to processing our own transactions, we will also act as a service provider by making our platform available to other banks. We have already signed corresponding letters of intent with major banks for such services. We will expand our product offering for checking and savings accounts, as well as cards.

We expect 2004 earnings to record a further year-on-year increase. Overall, we are striving to further reduce our cost/income ratio and to improve our return on equity.

### **Audit Opinions for the Fiscal Years 2001, 2002 and 2003**

*The following auditor's reports (Bestätigungsvermerke) have been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of Deutsche Postbank as of and for the fiscal years ended December 31, 2001, 2002 and 2003, as a whole, each consisting of consolidated balance sheet (Konzernbilanz), consolidated income statement (Konzerngewinn- und Verlustrechnung), statement of changes in equity (Eigenkapitalveränderungsrechnung), consolidated cash flow statement (Konzernkapitalflussrechnung) and notes (Konzernanhang), and the group management report (Konzernlagebericht). The group management reports for the fiscal years 2001 and 2002 are not included in this Offering Circular.*

## Audit Opinion for the Fiscal Year 2001

We have audited the consolidated financial statements of Deutsche Postbank AG, Bonn, for the fiscal year January 1 to December 31, 2001, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes. The preparation and content of the consolidated financial statements are the responsibility of the Company's management board. Our responsibility is to express an opinion on whether the consolidated financial statements comply with the International Accounting Standards (IAS), based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and German generally accepted standards for the audit of the financial statements promulgated by the *Institut der Wirtschaftsprüfer (IDW)*, as well as in accordance with the International Standards on Auditing (ISAs). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, defining the basis of consolidation, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the group for the fiscal year in accordance with IAS.

Our audit, which also extends to the group management report prepared by the company's management board for the fiscal year January 1 to December 31, 2001, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of group's position and suitably presents the risks of future development. We also confirm that the consolidated financial statements and the group management report for the fiscal year January 1 to December 31, 2001 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and a group management report in accordance with German law. We conducted our audit on the compliance of the consolidated financial statements with the EC 7th Directive and the EC Bank Accounts Directive required for the exemption from the requirement to prepare consolidated financial statements in accordance with German commercial law on the basis of the interpretation of the Directive contained in GAS 1 issued by the German Accounting Standards Committee.

Dusseldorf, March 4, 2002

PwC Deutsche Revision  
Aktiengesellschaft/Wirtschaftsprüfungsgesellschaft

(Kütter)

(Güldenber

Wirtschaftsprüfer

Wirtschaftsprüfer

(German Certified Public Accountant)

(German Certified Public Accountant)

## Audit Opinion for the Fiscal Year 2002

We have audited the consolidated financial statements, comprising the balance sheet, income statement, statement and the statements of changes in equity and cash flow and the notes to the consolidated financial statements of Deutsche Postbank AG, Bonn, for the fiscal year January 1 to December 31, 2002. The preparation and content of the consolidated financial statements are the responsibility of the Company's management board. Our responsibility is to express an opinion on whether the consolidated financial statements comply with the International Accounting Standards (IAS), based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and generally accepted standards for the audit of the financial statements promulgated by the *Institut der Wirtschaftsprüfer (IDW)*, as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, defining the basis of consolidation, and assessing the accounting principles used and significant estimates by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the group for the fiscal year in accordance with IAS.

Our audit, which also extends to the group management report prepared by the company's management board for the fiscal year January 1 to December 31, 2002, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of group's position and suitably presents the risks of future development. We also confirm that the consolidated financial statements and the group management report for the fiscal year January 1 to December 31, 2002 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and a group management report in accordance with German law. We conducted our audit of the required consistency of the group accounting with the EC 7th Directive and the EU Bank Accounts Directive for the exemption from the requirement for consolidated accounting pursuant to German commercial law on the basis of the interpretation of the Directive contained in GAS 1 issued by the German Accounting Standards Committee.

We wish to draw attention to the fact that this English version of the consolidated financial statements is a voluntary translation. Only the German version that refers to the audited financial statements is binding.

Dusseldorf, February 21, 2003

PwC Deutsche Revision  
Aktiengesellschaft/Wirtschaftsprüfungsgesellschaft

(Kütter)

(Güldenbergh)

Wirtschaftsprüfer

Wirtschaftsprüfer

(German Certified Public Accountant)

(German Certified Public Accountant)

### Audit Opinion for the Fiscal Year 2003

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in equity and cash-flows and the notes to the financial statements of Deutsche Postbank AG, Bonn, for the fiscal year January 1 to December 31, 2003. The preparation and content of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the IASB are the responsibility of the Company's management board. Our responsibility is to express an opinion as to whether the consolidated financial statements comply with the IFRS, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfung (IDW)*, as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatement are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management board as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the group for the fiscal year in accordance with IAS/IFRS.

Our audit which, in accordance with German auditing requirements, also extends to the group management report prepared by the Company's management board for the fiscal year January 1 to December 31, 2003, has not led to any reservations. In our opinion, on the whole the group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of group's position and suitably presents the risks of future development. We also confirm that the consolidated financial statements and the group management report for the fiscal year January 1 to December 31, 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and a group management report in accordance with German law.

We wish to draw attention to the fact that this English version of the consolidated financial statements is a voluntary translation. Only the German version that refers to the audited financial statements is binding.

Dusseldorf, February 27, 2004

PwC Deutsche Revision  
Aktiengesellschaft/Wirtschaftsprüfungsgesellschaft

(Kütter)

(Güldenber

Wirtschaftsprüfer

Wirtschaftsprüfer

(German Certified Public Accountant)

(German Certified Public Accountant)



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**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
OF DEUTSCHE POSTBANK AG (IFRS)**

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**Unaudited Interim Consolidated Income Statement of Deutsche Postbank AG for the Period Beginning January 1, 2004 and Ending September 30, 2004**

		Jan. 1 – Sept. 30	
	Note	2004	2003
		€ million	
Interest income .....	(5)	3,941	4,313
Interest expense .....	(5)	–2,793	–3,050
Net interest income .....	(5)	1,148	1,263
Allowance for losses on loans and advances .....	(6)	–126	–107
Net interest income after allowance for losses on loans and advances ..		1,022	1,156
Fee and commission income.....	(7)	493	393
Fee and commission expense .....	(7)	–60	–48
Net fee and commission income .....	(7)	433	345
Net trading income.....	(8)	186	154
Net income from investment securities.....	(9)	177	52
Administrative expenses .....	(10)	–1,379	–1,390
Other income.....	(11)	73	55
Other expenses .....	(12)	–63	–48
Profit before tax .....		449	324
Income tax expense.....		–157	–129
Profit from ordinary activities after tax.....		292	195
Minority interest.....		–1	–1
Consolidated net profit.....		291	194

**Earnings per share**

The Annual General Meeting on March 25, 2004 resolved a share split in the ratio of 1:10.25. As a result, the number of shares increased from 16,000,000 to 164,000,000. In accordance with IAS 33.43, earnings per share for 2003 were recalculated using the number of shares currently outstanding.

	Jan. 1 – Sept. 30	
	2004	2003
Basic earnings per share (€) .....	1.77	1.18
Diluted earnings per share (€) .....	1.77	1.18

**Consolidated income statement:  
quarterly overview**

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Jan. – Sept.	Jan. – Sept.
	2004			2003				2004	2003
	€ million								
Interest income .....	1,335	1,299	1,307	1,297	1,336	1,468	1,509	3,941	4,313
Interest expense.....	-931	-919	-943	-907	-948	-1,026	-1,076	-2,793	-3,050
Net interest income .....	404	380	364	390	388	442	433	1,148	1,263
Allowance for losses on loans and advances .....	-44	-41	-41	-47	-37	-35	-35	-126	-107
Net interest income after allowance for losses on loans and advances.....	360	339	323	343	351	407	398	1,022	1,156
Fee and commission income....	189	157	147	146	132	131	130	493	393
Fee and commission expense ..	-20	-19	-21	-24	-16	-16	-16	-60	-48
Net fee and commission income .....	169	138	126	122	116	115	114	433	345
Net trading income.....	59	86	41	29	74	44	36	186	154
Net income from investment securities .....	53	36	88	23	8	8	36	177	52
Administrative expenses.....	-488	-454	-437	-419	-447	-468	-475	-1,379	-1,390
Other income .....	28	23	22	163	30	15	10	73	55
Other expenses .....	-21	-22	-20	-88	-12	-18	-18	-63	-48
Profit before tax .....	160	146	143	173	120	103	101	449	324
Income tax expense.....	-56	-51	-50	-15	-47	-42	-40	-157	-129
Profit from ordinary activities after tax .....	104	95	93	158	73	61	61	292	195
Minority interest .....	0	0	-1	0	0	0	-1	-1	-1
Consolidated net profit.....	104	95	92	158	73	61	60	291	194

**Unaudited Interim Consolidated Balance Sheet of Deutsche Postbank AG  
as of September 30, 2004**

	Note	Sept. 30, 2004	Dec. 31, 2003
		€ million	
<b>Assets</b>			
Cash reserve .....		707	1,623
Loans and advances to other banks.....	(13)	24,802	34,071
Loans and advances to customers .....	(14)	47,486	43,310
Allowance for losses on loans and advances .....	(16)	-647	-597
Trading assets .....	(17)	9,338	12,588
Hedging derivatives .....		642	832
Investment securities .....	(18)	48,674	38,859
Property and equipment.....	(19)	934	960
Other assets.....	(20)	1,145	973
<b>Total assets</b> .....		133,081	132,619
<b>Shareholders' equity and liabilities</b>			
Deposits from other banks .....	(21)	24,396	20,271
Due to customers .....	(22)	78,489	73,941
Securitized liabilities .....	(23)	18,104	26,267
Trading liabilities.....	(24)	1,593	1,647
Hedging derivatives .....		1,785	1,814
Provisions .....	(25)	1,999	1,704
Other liabilities .....	(26)	250	371
Subordinated debt .....	(27)	1,958	1,724
Minority interest.....		14	14
Shareholders' equity.....		4,493	4,866
a) Share capital .....		410	410
b) Share premium .....		1,157	1,159
c) Retained earnings.....		2,635	2,708
d) Consolidated net profit.....		291	589
<b>Total liabilities and shareholders' equity</b> .....		133,081	132,619

**Unaudited Interim Statement of Changes in Equity of Deutsche Postbank AG  
as of September 30, 2004**

	Share capital	Share premium	Retained earnings	Currency translation reserve	Revaluation reserve	Consoli- dated net profit	Total
				€ million			
<b>Balance at January 1, 2003 .....</b>	410	1,159	3,239	-38	-473	99	4,396
Dividend payment.....						-99	-99
Currency translation differences.....				-36			-36
Changes in unrecognized gains and losses, net of deferred taxes .....					196		196
Consolidated net profit Jan. 1 – Sept. 30, 2003.....						193	193
<b>Balance at September 30, 2003 .....</b>	410	1,159	3,239	-74	-277	193	4,650
Currency translation differences.....				-20			-20
Changes in unrecognized gains and losses, net of deferred taxes .....					77		77
Consolidated net profit Oct. 1 - Dec. 31, 2003 .....			-237			396	159
<b>Balance at December 31, 2003.....</b>	410	1,159	3,002	-94	-200	589	4,866
Dividend payment.....						-589	-589
Treasury shares* .....		-2					-2
Currency translation differences.....				1			1
Changes in unrecognized gains and losses, net of deferred taxes .....					-74		-74
Consolidated net profit Jan. 1 – Sept. 30, 2004.....						291	291
<b>Balance at September 30, 2004 .....</b>	410	1,157	3,002	-93	-274	291	4,493

\* On September 30, 2004 Postbank held 80,054 treasury shares for trading purposes



**Unaudited Interim Consolidated Cash Flow Statement of Deutsche Postbank AG  
for the Period Beginning January 1, 2004 and Ending September 30, 2004**

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
<b>Cash and cash equivalents at beginning of period</b> .....	<b>1,623</b>	<b>1,307</b>
Net cash from/used in operating activities .....	9,282	–1,904
Net cash from investing activities .....	–9,809	1,681
Net cash used in/from financing activities.....	–389	198
Effect of exchange differences.....	0	9
<b>Cash and cash equivalents at September 30</b> .....	<b>707</b>	<b>1,291</b>

Cash and cash equivalents include cash, balances with central banks, public-sector debt instruments and bills eligible for rediscounting with the central bank.

# Notes to the Unaudited Interim Consolidated Financial Statements of Deutsche Postbank AG as of September 30, 2004

## (1) Segment reporting

### Segment reporting by business segment

	Retail Banking		Corporate Banking		Transaction Banking		Financial Markets		Others		Group	
	Jan. 1 – Sept. 30		Jan. 1 – Sept. 30		Jan. 1 – Sept. 30		Jan. 1 – Sept. 30		Jan. 1 – Sept. 30		Jan. 1 – Sept. 30	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	€ million											
Net interest income .....	1,230	1,133	167	149	2	—	47	58	–298	–77	1,148	1,263
Net trading income.....	—	—	2	3	—	—	56	37	128	114	186	154
Net income from investment securities.....	—	—	9	3	—	—	2	1	166	48	177	52
<b>Balance sheet-related income .....</b>	<b>1,230</b>	<b>1,133</b>	<b>178</b>	<b>155</b>	<b>2</b>	<b>0</b>	<b>105</b>	<b>96</b>	<b>–4</b>	<b>85</b>	<b>1,511</b>	<b>1,469</b>
Net fee and commission income..	236	189	65	67	124	—	40	37	–32	52	433	345
<b>Total income .....</b>	<b>1,466</b>	<b>1,322</b>	<b>243</b>	<b>222</b>	<b>126</b>	<b>0</b>	<b>145</b>	<b>133</b>	<b>–36</b>	<b>137</b>	<b>1,944</b>	<b>1,814</b>
Administrative expenses.....	–1,042	–1,003	–112	–108	–121	—	–64	–59	–40	–220	–1,379	–1,390
Provision for losses on loans and advances.....	–85	–69	–28	–27	—	—	1	3	–14	–14	–126	–107
Other income/expense.....	4	9	3	1	–2	—	—	1	5	–4	10	7
<b>Profit before tax.....</b>	<b>343</b>	<b>259</b>	<b>106</b>	<b>88</b>	<b>3</b>	<b>—</b>	<b>82</b>	<b>78</b>	<b>–85</b>	<b>–101</b>	<b>449</b>	<b>324</b>
<b>Cost/income ratio (CIR).....</b>	<b>71.1%</b>	<b>75.9%</b>	<b>46.1%</b>	<b>48.6%</b>	<b>96.0%</b>	<b>—</b>	<b>44.1%</b>	<b>44.4%</b>	<b>—</b>	<b>—</b>	<b>70.9%</b>	<b>76.6%</b>
<b>Return on equity before taxes (RoE).....</b>	<b>23.1%</b>	<b>20.5%</b>	<b>30.9%</b>	<b>29.8%</b>	<b>—</b>	<b>—</b>	<b>16.2%</b>	<b>11.8%</b>	<b>–8.1%</b>	<b>–9.0%</b>	<b>13.2%</b>	<b>9.7%</b>
	Sept. 30	Dec. 31	Sept. 30	Dec. 31	Sept. 30	Dec. 31	Sept. 30	Dec. 31	Sept. 30	Dec. 31	Sept. 30	Dec. 31
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	€ million											
<b>Segment assets.....</b>	<b>23,614</b>	<b>19,704</b>	<b>26,647</b>	<b>24,154</b>	<b>148</b>	<b>0</b>	<b>17,358</b>	<b>17,461</b>	<b>62,533</b>	<b>67,509</b>	<b>130,300</b>	<b>128,828</b>
<b>Segment liabilities .....</b>	<b>55,951</b>	<b>54,693</b>	<b>6,039</b>	<b>5,742</b>	<b>7</b>	<b>0</b>	<b>9,935</b>	<b>10,552</b>	<b>50,650</b>	<b>51,139</b>	<b>122,582</b>	<b>122,126</b>

Since the settlement of payment transactions is not banking business in the traditional sense, we do not report return on equity in our Transaction Banking business segment.

### Segment reporting by geographical region

	Assets		Liabilities		Income		Profit before tax	
	Sept. 30	Dec. 31	Sept. 30	Dec. 31	Jan. 1 – Sept. 30	Jan. 1 – Sept. 30	Jan. 1 – Sept. 30	Jan. 1 – Sept. 30
	2004	2003	2004	2003	2004	2003	2004	2003
	€ million							
Germany .....	98,914	103,110	92,077	97,299	1,818	1,700	361	248
Others .....	31,386	25,718	30,505	24,827	126	115	88	76
Europe .....	28,559	22,941	28,008	22,370	68	58	56	49
USA .....	2,827	2,777	2,497	2,457	58	57	32	27
<b>Total .....</b>	<b>130,300</b>	<b>128,828</b>	<b>122,582</b>	<b>122,126</b>	<b>1,944</b>	<b>1,815</b>	<b>449</b>	<b>324</b>

Segments are allocated by the domicile of the branch or Group company.

### *Basis of preparation*

#### (2) Basis of accounting

The interim financial statements were prepared in accordance with EC Directives 83/349/EEC (Consolidated Accounts Directive) and 86/635/EEC (Bank Accounts Directive) on the basis of the International Financial Reporting Standards (IFRS) approved and issued by the International Accounting Standards Board (IASB), insofar as these were applicable at the balance sheet date. In particular, the interim financial statements also comply with the IAS 34 requirements for interim financial reports. The same accounting policies used in preparing the 2003 consolidated financial statements were applied.

To achieve a more transparent presentation and enable a comparison with the figures from the period under review, we have reclassified the previous year's figures in the item "Net fee and commission income".

Unless otherwise indicated, all amounts are shown in millions of euros (€m).

### **(3) Basis of consolidation**

In addition to the parent company Deutsche Postbank AG, Bonn, 29 (December 31, 2003: 22) subsidiaries and 2 (December 31, 2003: 2) joint ventures, all of which are presented in the list of shareholdings (note 32), are included in the consolidated interim financial statements as of September 30, 2004.

The Annual General Meeting on September 26, 2003 resolved to change the name of PB Erste Beteiligungen AG to PB Firmenkunden AG. The change in name took effect upon registration in the commercial register on February 3, 2004. Postbank's Corporate Banking business segment sales activities were outsourced to this company.

By way of a shareholder resolution on October 16, 2003, easytrade services Köln GmbH was renamed Betriebs-Center für Banken Frankfurt am Main GmbH. By way of a shareholder resolution on the same date, PB Zweite Beteiligungen GmbH was renamed Betriebs-Center für Banken Berlin GmbH. Both name changes took effect upon registration in the commercial register on November 12 and November 24, 2003 respectively.

Betriebs-Center für Banken Verwaltungs GmbH and Betriebs-Center für Banken Deutschland GmbH & Co. KG were established on December 19, 2003. On conclusion of the sale and transfer agreement on December 19, 2003, Betriebs-Center für Banken Berlin GmbH and Betriebs-Center für Banken Frankfurt am Main GmbH were transferred by the sole shareholder Deutsche Postbank AG to Betriebs-Center für Banken Deutschland GmbH & Co. KG effective January 1, 2004.

Effective May 1, 2004, Betriebs-Center für Banken Deutschland GmbH & Co. KG acquired all shares of Dresdner Zahlungsverkehrsservice GmbH from Dresdner Bank AG.

Effective July 1, 2004, Betriebs-Center für Banken Deutschland GmbH & Co. KG acquired all shares of DB Payments Projektgesellschaft AG from DB New Ventures AG (Deutsche Bank Group). DB Payments Projektgesellschaft AG was renamed Betriebs-Center für Banken Payments AG in August 2004.

The following companies were newly included in the basis of consolidation by September 30, 2004:

- PB Firmenkunden AG, Bonn
- Betriebs-Center für Banken Deutschland GmbH & Co. KG, Frankfurt/Main
- Betriebs-Center für Banken Verwaltungs GmbH, Frankfurt/Main
- Betriebs-Center für Banken Frankfurt am Main GmbH, Frankfurt/Main
- Betriebs-Center für Banken Berlin GmbH, Frankfurt/Main
- Dresdner Zahlungsverkehrsservice GmbH, Frankfurt/Main
- Betriebs-Center für Banken Payments AG, Frankfurt/Main

We have described the material effects of the first-time consolidation of Dresdner Zahlungsverkehrsservice GmbH and Betriebs-Center für Banken Payments AG on Deutsche Postbank AG's consolidated financial statements in note 25; no material effects resulted from the first-time consolidation of other companies.

In accordance with Interpretation SIC-12 issued by the International Financial Reporting Interpretations Committee (IFRIC), which requires the consolidation of special purpose entities under certain conditions, a total of 25 (December 31, 2003: 25) special funds were included as special purpose entities in the consolidated financial statements.

### **(4) Significant events after the balance sheet date**

The resolution adopted by the General Meeting of DSL Holding AG i.A. to transfer the shares held by the minority shareholders to the main shareholder, Deutsche Postbank AG, was entered in the commercial register of DSL Holding AG i.A. on October 4, 2004. The entry of this resolution means that all the shares held by the minority shareholders have been transferred to Deutsche Postbank AG, which therefore holds 100% of the shares of DSL Holding AG i.A.

## Income Statement Disclosures

### (5) Net interest income

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
<b>Interest and current income</b>		
<b>Interest income from</b>		
Lending and money market transactions .....	2,207	2,412
Fixed-income and book-entry securities .....	1,502	1,657
Trading operations.....	172	214
<b>Net gains on hedges .....</b>	<b>0</b>	<b>3</b>
	<b>3,881</b>	<b>4,286</b>
<b>Current income from</b>		
Equities and other non-fixed-income securities* .....	59	26
Investments in associates .....	1	1
	<b>60</b>	<b>27</b>
	<b>3,941</b>	<b>4,313</b>
<b>Interest expense on</b>		
Deposits .....	1,643	1,575
Securitized liabilities .....	735	1,049
Subordinated debt .....	70	57
Swaps (hedge accounting in accordance with IAS 39) .....	291	225
Trading operations.....	54	144
	<b>2,793</b>	<b>3,050</b>
<b>Total</b>	<b>1,148</b>	<b>1,263</b>

\* including newly acquired unconsolidated fixed-income funds (Rentenfonds) in the 2004 reporting period

### (6) Allowance for losses on loans and advances

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
Cost of additions to allowance for losses on loans and advances.....	167	142
Direct loan write-offs.....	8	10
Income from reversals .....	48	42
Recoveries on loans previously written off.....	1	3
<b>Total.....</b>	<b>126</b>	<b>107</b>

### (7) Net fee and commission income

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
Money transmission and clearing business.....	242	235
Securities business.....	61	45
Lending and guarantee business .....	24	27
Other fee and commission income.....	106	38
<b>Total.....</b>	<b>433</b>	<b>345</b>

**(8) Net trading income**

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
Net income from interest rate products .....	61	251
Net gain on derivatives carried in the trading portfolio and the banking book ....	108	–86
Net income from equities .....	1	5
Foreign exchange income/loss .....	16	–16
<b>Total</b> .....	<b>186</b>	<b>154</b>

**(9) Net income from investment securities**

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
Net income from bonds .....	112	60
Net income from promissory note loans .....	48	18
Net income from equities and other non-fixed-income securities .....	17	–23
Net income from investments in associates .....	0	–3
<b>Total</b> .....	<b>177</b>	<b>52</b>

**(10) Administrative expenses**

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
Staff costs .....	465	480
Other administrative expenses .....	858	852
Depreciation and write-downs of property and equipment .....	56	58
<b>Total</b> .....	<b>1,379</b>	<b>1,390</b>

**(11) Other income**

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
Income from property and equipment .....	17	12
Other operating income .....	56	43
<b>Total</b> .....	<b>73</b>	<b>55</b>

**(12) Other expenses**

	Jan. 1 – Sept. 30	
	2004	2003
	€ million	
Amortization and write-downs of intangible assets .....	33	23
Miscellaneous .....	30	25
<b>Total</b> .....	<b>63</b>	<b>48</b>

**Balance sheet disclosures****(13) Loans and advances to other banks**

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Payable on demand .....	3,790	7,707
Other loans and advances .....	21,012	26,364
<b>Total</b> .....	<b>24,802</b>	<b>34,071</b>

**(14) Loans and advances to customers**

	<u>Sept. 30, 2004</u>	<u>Dec. 31, 2003</u>
	€ million	
Private mortgage lending.....	21,171	17,209
Public sector .....	12,494	14,951
Installment credits.....	1,172	1,011
Other loans and advances.....	12,649	10,139
<b>Total .....</b>	<b>47,486</b>	<b>43,310</b>

**(15) Total credit extended**

	<u>Sept. 30, 2004</u>	<u>Dec. 31, 2003</u>
	€ million	
Loans and advances to other banks.....	24,802	34,071
Loans and advances to customers.....	47,486	43,310
Guarantees .....	1,843	1,254
<b>Total .....</b>	<b>74,131</b>	<b>78,635</b>

The allowance for losses on loans and advances is composed of the following items:

**(16) Allowance for losses on loans and advances**

	<u>Sept. 30, 2004</u>	<u>Dec. 31, 2003</u>
	€ million	
Specific valuation allowances.....	606	561
Global valuation allowances.....	41	36
Allowance for losses on loans and advances .....	647	597
Provisions for credit risks.....	4	5
<b>Total .....</b>	<b>651</b>	<b>602</b>

The allowance for losses on loans and advances carried under assets changed as follows:

	<u>2004</u>	<u>2003</u>
	€ million	
<b>Balance at January 1.....</b>	<b>597</b>	<b>588</b>
<b>Additions.....</b>	<b>167</b>	<b>142</b>
<b>Disposals</b>		
Utilization.....	70	56
Allowance for losses on loans and advances reversed to the income statement...	48	42
Currency translation differences.....	-1	13
<b>Balance at September 30.....</b>	<b>647</b>	<b>619</b>

**(17) Trading assets**

	<u>Sept. 30, 2004</u>	<u>Dec. 31, 2003</u>
	€ million	
Bonds and other fixed-income securities .....	7,683	11,666
Equities and other non-fixed-income securities.....	61	21
Positive fair values of derivatives carried as trading assets .....	1,167	508
Positive fair values of banking book derivatives.....	427	393
<b>Total .....</b>	<b>9,338</b>	<b>12,588</b>

**(18) Investment securities**

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Bonds and other fixed-income securities .....	46,436	37,383
Equities and other non-fixed-income securities* .....	2,207	1,446
Investments in associates .....	18	17
Investments in unconsolidated subsidiaries .....	13	13
<b>Total</b> .....	<b>48,674</b>	<b>38,859</b>

\* including newly acquired unconsolidated fixed-income funds (Rentenfonds) in the 2004 reporting period

**(19) Property and equipment**

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Land and buildings .....	819	807
Operating and office equipment.....	112	131
Advance payments and assets under development.....	3	22
<b>Total</b> .....	<b>934</b>	<b>960</b>

**(20) Other assets**

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Deferred tax assets .....	563	564
Intangible assets .....	161	168
Prepaid expenses .....	139	140
Receivables from tax authorities .....	20	24
Miscellaneous.....	262	77
<b>Total</b> .....	<b>1,145</b>	<b>973</b>

**(21) Deposits from other banks**

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Payable on demand .....	621	1,227
Other deposits.....	23,775	19,044
<b>Total</b> .....	<b>24,396</b>	<b>20,271</b>

**(22) Due to customers**

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Savings deposits.....	35,764	33,739
Other amounts due		
Payable on demand .....	20,361	20,227
With an agreed maturity or withdrawal notice.....	22,364	19,975
	<b>42,725</b>	<b>40,202</b>
<b>Total</b> .....	<b>78,489</b>	<b>73,941</b>

**(23) Securitized liabilities**

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Mortgage bonds.....	314	878
Public-sector mortgage bonds ( <i>Pfandbriefe</i> ).....	1,714	3,570
Other debt instruments .....	16,076	21,819
<b>Total</b> .....	<b>18,104</b>	<b>26,267</b>



## (24) Trading liabilities

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Negative fair values of trading derivatives.....	1,105	506
Negative fair values of banking book hedging derivatives.....	487	1,139
Other trading assets (short sales of securities).....	1	2
<b>Total</b> .....	<b>1,593</b>	<b>1,647</b>

## (25) Provisions

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Provisions for pensions and other employee benefits.....	623	572
Provisions for taxes .....	971	873
Other provisions .....	405	259
<b>Total</b> .....	<b>1,999</b>	<b>1,704</b>

Other provisions include provisions for restructuring in the amount of €162 million (previous year: €78 million). As a result of the consolidation of Dresdner Zahlungsverkehrsservice GmbH as well as Betriebs-Center für Banken Payments AG, additions taken directly to equity of €55 million and €68 million respectively were recognized in the other provisions. This consists of provisions for restructuring (€97 million), provisions for jubilee benefits (€9 million) and other provisions (€17 million). In addition, this change in the basis of consolidation resulted in the addition of €75 million to the provisions for pensions and other employee benefits.

## (26) Other liabilities

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Trade payables .....	45	55
Liabilities from other taxes .....	6	75
Liabilities from income taxes.....	0	1
Miscellaneous liabilities .....	193	234
Deferred income.....	6	6
<b>Total</b> .....	<b>250</b>	<b>371</b>

## (27) Subordinated debt

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Subordinated liabilities <sup>(1)</sup> .....	1,456	1,315
Profit participation certificates outstanding <sup>(2)</sup> .....	451	354
Contributions by typical silent partners.....	51	55
<b>Total</b> .....	<b>1,958</b>	<b>1,724</b>

(1) The subordinated liabilities are own funds within the meaning of section 10 (5a) of the KWG (German Banking Act). Creditors' claims for repayment of these liabilities are subordinated to the claims of other creditors. No early repayment obligations may arise. In the event of insolvency or liquidation, they may only be repaid after all prior-ranking creditors have been satisfied.

(2) Profit participation certificates serve to strengthen liable capital in accordance with the provisions of the German Banking Act. They participate fully in losses. Interest is paid only if an unappropriated surplus is recorded. The claims of profit participation certificate holders for repayment of their capital rank behind the claims of other creditors.

### *Other disclosures*

## (28) Contingencies and obligations

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
<b>Contingent liabilities</b>		
on guarantees and warranties .....	1,843	1,254
<b>Other obligations</b>		
Irrevocable loan commitments .....	13,512	12,890
<b>Total</b> .....	<b>15,355</b>	<b>14,144</b>

## (29) Derivatives

The presentation of derivatives follows the recommendation of the *Bundesverband Öffentlicher Banken Deutschlands e.V.* (Association of German Public Sector Banks). The notional amounts represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

The fair values result from the gross replacement costs of the individual contracts and do not reflect any netting agreements.

Holdings of derivatives are composed of the following items:

	Notional amounts		Positive fair values		Negative fair values	
	Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2004	Dec. 31, 2003
	€ million					
Trading derivatives .....	261,600	169,185	1,594	901	1,592	1,645
Hedging derivatives .....	37,148	34,059	642	832	1,785	1,814
<b>Total .....</b>	<b>298,748</b>	<b>203,244</b>	<b>2,236</b>	<b>1,733</b>	<b>3,377</b>	<b>3,459</b>

The following table presents the open interest-rate and foreign currency, conditional and unconditional forward and option contracts of the Postbank Group at the balance sheet date.

	Notional amounts		Fair Value			
	Sept. 30, 2004	Dec. 31, 2003	Positive fair values		Negative fair values	
			Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2004	Dec. 31, 2003
	€ million					
<b>Trading derivatives</b>						
Foreign currency derivatives .....	19,915	8,181	252	331	247	290
Interest rate derivatives .....	239,857	160,347	1,317	565	1,312	1,351
Equity/index derivatives.....	1,141	593	13	4	20	1
Credit derivatives.....	687	64	12	1	13	3
<b>Total holdings of derivative assets/ liabilities held for trading .....</b>	<b>261,600</b>	<b>169,185</b>	<b>1,594</b>	<b>901</b>	<b>1,592</b>	<b>1,645</b>
<b>Hedging derivatives</b>						
Fair value hedges .....	37,147	34,058	642	832	1,785	1,814
Cash flow hedges .....	1	1	0	0	0	0
<b>Total holdings of derivative assets/ liabilities held for hedging purposes</b>	<b>37,148</b>	<b>34,059</b>	<b>642</b>	<b>832</b>	<b>1,785</b>	<b>1,814</b>
<b>Total holdings of derivative assets/ liabilities .....</b>	<b>298,748</b>	<b>203,244</b>	<b>2,236</b>	<b>1,733</b>	<b>3,377</b>	<b>3,459</b>

**(30) Market price risk from trading activities**

	Trading book	
	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Value at risk.....	13.87	6.95
Minimum value at risk.....	4.43	5.32
Maximum value at risk.....	15.23	19.95
Average value at risk.....	7.98	9.78

The Postbank Group's values at risk assume a confidence level of 99% and a holding period of ten trading days.

**(31) Risk assets and capital ratio**

Postbank ensures the correct determination of liable capital and own funds at Group level. In accordance with the provisions of the German Banking Act (KWG), regulatory own funds were as follows:

	Sept. 30, 2004	Dec. 31, 2003
	€ million	
Risk-weighted assets .....	46,810	42,200
Market risk positions .....	7,238	3,750
Positions for which capital charges are required.....	54,048	45,950
Tier 1 capital.....	2,786	2,760
Tier 2 capital.....	2,083	1,780
Liable capital .....	4,869	4,540
Eligible own funds .....	4,880	4,540
Tier 1 ratio (%).....	6.0	6.6
Capital ratio (%).....	10.4	10.8
Overall capital ratio (%).....	9.0	9.9

**(32) Significant Group companies**

Name and domicile	Equity interest (%)	Equity interest (%)
	direct	indirect
<b>1) Fully consolidated companies:</b>		
Deutsche Postbank International S.A., Luxembourg .....	100.0	
Deutsche Postbank Asset Management S.A., Luxembourg .....	100.0	
Deutsche Postbank Capital Management S.A., Luxembourg .....	100.0	
Deutsche Postbank Vermögens-Management S.A., Luxembourg .....	100.0	
Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn .....	100.0	
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn .....		90.0
Postbank Systems AG, Bonn .....	100.0	
Ralos Verwaltungs GmbH & Co. Vermietungs KG, Munich .....	94.0	
DSL Finance N.V., Amsterdam .....	100.0	
DSL Holding AG i.A., Bonn .....	97.5	
Deutsche Postbank Financial Services GmbH, Frankfurt/ Main .....	100.0	
Deutsche Postbank Finance Center Object GmbH, Luxembourg .....		90.0
DPBI Immobilien KGaA, Luxembourg .....	10.0	0.1
Postbank Leasing GmbH, Bonn .....	100.0	
PB (USA) Holdings Inc., Delaware, USA .....	100.0	
PB Capital Corp., Delaware, USA .....		100.0
PB Realty Corp., New York, USA .....		94.7
PB Finance (Delaware), Inc., Delaware, USA .....		100.0
PB Factoring GmbH, Bonn .....	100.0	
Postbank Vermögensberatung AG, Bonn .....	100.0	
Postbank Vermögensberatung Service GmbH, Cologne ...	100.0	
PB Firmenkunden AG, Bonn .....	100.0	
Betriebs-Center für Banken Deutschland GmbH & Co. KG, Frankfurt/Main .....	100.0	
Betriebs-Center für Banken Verwaltungs GmbH, Frankfurt/Main .....	100.0	
Betriebs-Center für Banken Frankfurt am Main GmbH, Frankfurt/Main .....		100.0
Betriebs-Center für Banken Berlin GmbH, Frankfurt/Main.		100.0
Dresdner Zahlungsverkehrsservice GmbH, Frankfurt/ Main .....		100.0
Betriebs-Center für Banken Payments AG, Frankfurt/Main		100.0
<b>2) Proportionately consolidated companies:</b>		
PB Lebensversicherung Aktiengesellschaft, Hilden .....	50.0	
PB Versicherung Aktiengesellschaft, Hilden .....	50.0	

**(33) Members of executive bodies****The members of the Management Board are:**

Wulf von Schimmelmann, Bonn (Chairman)	
Andreas Bezold, Bonn	from April 1, 2004 until July 31, 2004
Dirk Berensmann, Unkel	
Stefan Jütte, Bonn	
Wolfgang Klein, Bonn	
Loukas Rizos, Bonn	
Lothar Rogg, Bonn	
Ralf Stemmer, Königswinter	since July 1, 2004

The members of the Supervisory Board of Deutsche Postbank AG are:

## 1. Shareholder representatives

Klaus Zumwinkel, Chairman of the Board of Management of Deutsche Post AG, Bonn (Chairman)	
Hans-E. Büschgen, Professor emeritus, Director of Forschungsinstitut für Leasing, Cologne	until April 30, 2004
Wilfried Boysen, Hamburg	since May 12, 2004
Edgar Ernst, Member of the Board of Management of Deutsche Post AG, Bonn	
Peter Hoch, Munich	since July 1, 2004
Dietrich Jahn, Deputy Head of Department, Federal Ministry of Finance, Berlin	until April 30, 2004
Ralf Krüger, management consultant, Professor at the Fachhochschule Wiesbaden	
Hans-Dieter Petram, Member of the Board of Management of Deutsche Post AG, Bonn	
Klaus Schlede, previously Deputy Chairman of the Management Board of Deutsche Lufthansa AG, Cologne	
Elmo von Schorlemer, lawyer, Aachen	since May 12, 2004
Manfred Schüler, State Secretary (retd), Wachtberg	
Dieter Soltmann, previously General Partner of Spaten-Franziskaner-Bräu KGaA, Munich	until April 30, 2004
Alfred Tacke, State Secretary, Federal Ministry of Economics and Labor, Berlin	

## 2. Employee representatives

Michael Sommer, Chairman of the German Trade Union Federation, Berlin (Deputy Chairman)	
Marietta Auer, Head of Department, Deutsche Postbank AG, Head Office, Bonn	
Rosemarie Bolte, Head of Specialist Department of the ver.di Trade Union, Stuttgart	
Annette Harms, Member of Deutsche Postbank AG's Works Council, Hamburg Branch, Hamburg	
Ralf Höhmann, Member of Deutsche Postbank AG's Works Council, Stuttgart Branch, Stuttgart	
Elmar Kallfelz, Member of Deutsche Post AG's Group Works Council, Bonn	
Harald Kuhlows, appointed expert to the General Works Council of Deutsche Postbank AG, Bonn	
Sabine Schwarz, Chair of Deutsche Postbank AG's Works Council, Berlin Branch, Berlin	
Christine Weiler, Chair of Deutsche Postbank AG's Works Council, Munich Branch, Munich	
Christel Zobeley, trade union official, Vereinte Dienstleistungsgewerkschaft (ver.di), Berlin	

Bonn, November 2, 2004  
Deutsche Postbank Aktiengesellschaft

Management Board

Wulf von Schimmelmann

Dirk Berensmann

Stefan Jütte

Wolfgang Klein

Loukas Rizos

Lothar Rogg

Ralf Stemmer

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**FINANCIAL STATEMENTS OF DEUTSCHE POSTBANK AG  
(GERMAN COMMERCIAL CODE)**

# Balance Sheet of Deutsche Postbank AG as of December 31, 2003, 2002 and 2001

## Assets

					€	€	€	2002 prev. yr	2001 prev. yr
								€ million	€ million
<b>1. Cash reserve</b>									
a) Cash balance						790,534,126.14		961	1,093
b) Balances with central banks of these, with the Deutsche Bundesbank	€	744,773,118.16	in prev. yr	313m		777,342,389.32		315	256
c) Balances with postal giro and savings banks						—	1,567,876,515.46		
<b>2. Public sector debt instruments and bills eligible for rediscounting with central banks</b>									
a) Treasury bills, non-interest-bearing Treasury papers and other similar public-sector notes						—			
b) Bills of exchange of these, eligible for discounting with the Bundesbank	€	—				—	—	—	12
<b>3. Loans and advances to other banks</b>									
a) payable on demand						7,621,164,998.66		2,375	1,402
b) other loans and advances						27,595,661,757.24	35,216,826,755.90	35,803	37,533
<b>4. Loans and advances to customers</b>							40,756,075,131.73	40,520	40,734
of these, secured by mortgage charges	€	11,192,890,341.92	in prev. yr	9,700m					
public-sector loans	€	14,075,619,652.28	in prev. yr	16,732m					
<b>5. Bonds and other fixed-income securities</b>									
a) Money market instruments									
aa) Public-sector issuers of these, eligible as collateral with the Bundesbank	€	—	in prev. yr	—m		—		—	258
ab) Other issuers of these, eligible as collateral with the Bundesbank	€				483,293,231.71	483,293,231.71		1,352	77
b) Bonds									
ba) Public-sector issuers of these, eligible as collateral with the Bundesbank	€	177,435,456.84	in prev. yr	354m		14,464,333,029.09		15,369	11,658
bb) Other issuers of these, eligible as collateral with the Bundesbank	€	13,702,666,605.58	in prev. yr	13,953m		20,423,364,158.22	34,887,697,187.31	23,443	25,188
c) Own bonds						286,802,607.54	35,657,793,026.56	359	462
Par value	€	239,045,242.20	in prev. yr	346m					
<b>6. Equities and other non-fixed-income securities</b>							8,626,776,944.81	7,821	7,784
<b>7. Equity investments</b>							30,149,386.15	40	38
of these, in other banks	€	98,617.98	in prev. yr	—m					
in financial services providers	€	—	in prev. yr	—m					
<b>8. Investments in associates</b>							1,021,272,133.48	1,048	897
of these, in other banks	€	194,431,058.55	in prev. yr	225m					
in financial services providers	€	5,000,000.00	in prev. yr	5m					
<b>9. Trust assets</b>							1,642,506,607.32	1,739	1,844
of these, trustee loans	€	1,547,505,846.30	in prev. yr	1,669m					
<b>10. Equalization claims against the government including bonds received in exchange</b>							24,475,123.28	37	49
<b>11. Property and equipment</b>							723,077,422.91	743	802
<b>12. Other assets</b>							140,421,933.22	674	1,030
<b>13. Prepaid expenses</b>							246,502,794.10	339	428
					Total assets		125,653,753,774.92	132,938	131,545

# Balance Sheet of Deutsche Postbank AG as of December 31, 2003, 2002 and 2001—(Continued)

## Shareholders' equity and liabilities

	€	€	€	2002 prev. yr	2001 prev. yr
				€ million	€ million
<b>1. Deposits from other banks</b>					
a) Payable on demand		1,244,132,207.44		1,198	771
b) With an agreed maturity or withdrawal notice		19,279,778,799.48	20,523,911,006.92	26,598	23,645
<b>2. Due to customers</b>					
a) Savings deposits					
aa) With an agreed withdrawal notice of three months	33,362,501,257.78			28,611	23,579
ab) With an agreed withdrawal notice of more than three months	375,730,331.26	33,738,231,589.04		442	712
b) Other amounts due					
ba) Payable on demand	19,873,605,343.01			19,131	16,992
bb) With an agreed maturity or withdrawal notice	24,229,250,628.85	44,102,855,971.86	77,841,087,560.90	23,158	25,858
<b>3. Securitized liabilities</b>					
Bonds issued			18,555,008,673.92	25,194	31,587
<b>4. Trust liabilities</b>					
			1,642,506,607.32	1,739	1,844
of these, trustee loans	€1,547,505,846.30 in prev. yr 1,669m				
<b>5. Other liabilities</b>			343,593,433.03	919	302
<b>6. Deferred income</b>			647,557,051.76	764	968
<b>7. Provisions</b>					
a) Provisions for pensions and other employee benefits		499,801,525.60		506	504
b) Provisions for taxes		16,913,155.25		18	17
c) Other provisions		309,480,180.90	826,194,861.75	384	456
<b>8. Subordinated debt</b>			1,266,293,651.01	858	813
<b>9. Profit participation certificates outstanding</b>			332,908,552.89	233	233
of these, due within two years	€166,768,072.89				
<b>10. Fund for general banking risks</b>			1,165,000,000.00	1,165	865
<b>11. Shareholders' equity</b>					
a) Share capital		410,000,000.00		410	410
b) Capital contributions by a typical silent partners		35,790,431.68		36	78
c) Capital contributions by typical silent partners		51,225,837.62		51	51
d) Share premium		1,158,937,687.86		1,159	1,316
e) Other retained earnings		264,740,481.86		265	406
f) Unappropriated surplus		588,997,936.40		99	137
g) Remaining claim on pro-rata share in annual profits of DSL-Holding AG i. A.					1
			2,509,692,375.42		
<b>Total shareholders' equity and liabilities</b>			125,653,753,774.92	132,938	131,545
	€	€		2002 prev. yr	2001 prev. yr
				€ million	€ million
<b>1. Contingent liabilities</b>					
a) Contingent liabilities from discounted forwarded bills		—			
b) Liabilities from guarantees and indemnity agreements*		3,652,224,722.32		3,989	1,941
c) Liability from the pledging of collateral for third-party liabilities		—	3,652,224,722.32		
<b>2. Other commitments</b>					
a) Repurchase obligations from securities repurchase agreements		—		—	
b) Placement and underwriting obligations		—		—	
c) Irrevocable loan commitments		12,068,358,137.51	12,068,358,137.51	10,274	11,065

\* Commitments arising from letters of comfort are reported under C.I in the Notes

## Income Statement of Deutsche Postbank AG for the Fiscal Year 2003, 2002 and 2001

### Expenses

	€	€	€	2002 prev. yr € million	2001 prev. yr € million
1. Interest expense			4,040,068,126.57	4,524	4,962
2. Fee and commission expense			70,008,156.20	51	63
3. Net expenses from financial operations			—	25	22
4. General administrative expenses					
a) personnel expenses					
aa) Wages and salaries	319,121,849.25			332	348
ab) Social security contributions, pensions and other employee benefits					
Of these, for pensions					
€ 110,615,509.08	149,324,268.04	468,446,117.29		165	161
b) Other administrative expenses		1,282,193,692.67	1,750,639,809.96	1,263	1,183
5. Depreciation/amortization of, and write-downs on, intangible fixed assets and property and equipment			29,138,118.58	30	31
6. Other operating expenses			73,757,518.81	80	182
7. Depreciation/amortization of, and write-downs on, loans and advances and certain securities, additions to provisions for credit risks			—	—	—
8. Charge to fund for general banking risks			—	300	200
9. Expenses from loss absorption			16,618,718.95	67	99
10. Taxes on income			14,856,975.08	17	4
11. Other taxes not reported under item 6			4,744,405.41	5	12
12. Profit transferred due to profit pooling and/or (partial) profit and loss absorption agreements			3,707,647.39	3	4
13. Claim on pro-rata share in annual profits of DSL-Holding AG i.A.			—	26	15
14. Indemnification DSL-Holding AG i.A.			12,271,957.33	152	—
15. Net profit for the period			588,997,936.40	99	137
Total expenses			6,604,809,370.68	7,139	7,423

# Income Statement of Deutsche Postbank AG for the Fiscal Year 2003, 2002 and 2001—(Continued)

## Income

	€	€	2002 prev. yr € million	2001 prev. yr € million
1. Interest income from				
a) Lending and money market transactions.....	3,491,347,369.43		4,047	4,065
b) Fixed-income and book-entry securities.....	1,626,551,459.73	5,117,898,829.16	1,943	2,066
2. Current income from				
a) Equities and non-fixed-income securities .....	361,670,546.28		363	434
b) Equity investments.....	203,999.30		—	—
c) Investments in associates.....	49,788,893.74	411,663,439.32	42	62
3. Income from profit pools, profit and loss transfer agreements and partial profit and loss transfer agreements.....		12,502,558.52	4	6
4. Fee and commission income.....		491,688,779.41	446	415
5. Net income from financial operations .....		68,876,527.00	—	—
6. Income from reversals of write-downs on loans and advances and certain securities and from reversals of provisions for credit risks.....		284,670,316.06	181	35
7. Income from reversals of write-downs on equity investments, investments in associates and securities classified as long-term investments .....		8,179,585.56	16	—
8. Other operating income .....		209,329,335.65	97	340
Total income.....		6,604,809,370.68	7,139	7,423
	€	€	2002 prev. yr € million	2001 prev. yr € million
1. Net income for the period.....		588,997,936.40	99	137
2. Withdrawal from share premium.....		—	—	—
		588,997,936.40	99	137
3. Withdrawal from retained earnings				
a) from legal reserves .....		—	—	—
b) from reserves for treasury shares.....		—	—	—
c) from statutory reserves.....		—	—	—
d) from other earnings reserves.....		—	—	—
		588,997,936.40	99	137
4. Addition to retained earnings.....				
a) to legal reserves .....		—	—	—
b) to reserves for treasury shares .....		—	—	—
c) to statutory reserves .....		—	—	—
d) to other earnings reserves.....		—	—	—
5. Unappropriated surplus .....		588,997,936.40	99	137

## Notes to the Financial Statements of Deutsche Postbank AG for the Fiscal Year 2003

### A. General information on the structure of the annual financial statements and accounting policies

#### I. General information

Deutsche Postbank AG prepares its annual financial statements drawn up in accordance with the provisions set out in the German Commercial Code (*Handelsgesetzbuch: HGB*), the German Stock Corporation Act (*Aktiengesetz: AktG*), and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute: RechKredV*). They cover the period from January 1 to December 31, 2003.

#### **Merger**

Postbank EasyTrade.AG (the transferor entity), in which Deutsche Postbank AG was the sole shareholder, was merged with Deutsche Postbank AG (the absorbing entity) with retroactive effect from September 30, 2002 (merger date).

The following totals were transferred after set-off of items relating to Deutsche Postbank AG:

- Balances with central banks totaling € 2.1 million,
- Loans and advances to other banks totaling € 126.2 million,
- Loans and advances to customers totaling € 6.1 million,
- Other assets totaling € 1.7 million,
- Deposits from other banks totaling € 0.4 million,
- Amounts owed to customers totaling € 101.6 million,
- Other liabilities totaling € 11.7 million,
- Provisions totaling € 1.3 million.

Since the assets and liabilities transferred are of an insignificant amount overall, Deutsche Postbank AG has decided not to adjust the prior-period figures.

#### **Securitization of residential building loans**

In December 2003, Deutsche Postbank AG conducted a synthetic securitization transaction together with KfW (Kreditanstalt für Wiederaufbau). This transaction involved hedging the counterparty risk inherent in an underlying credit portfolio by means of credit default swaps issued by KfW. The credit portfolio encompassed a total of around 21,000 borrowers with a lending volume of around € 2.0 billion at the balance sheet date.

#### II. Accounting policies

##### **Current assets**

The cash reserve, loans and advances to other banks and customers, other loans and advances, and other assets are stated at their face value. Premiums and discounts are recognized ratably. Purchased loans and advances are stated at historical cost. In accordance with Section 340e (2) sent. 1 of the German Commercial Code, the registered securities and promissory note loans included in loans and advances to other banks and customers are stated at their face value plus deferred interest. The differences between face value and historical cost are included in prepaid expenses and deferred income, and reversed as scheduled.

All identifiable credit risks and country risks are covered by recognizing adequate write-downs and provisions. Non-specific valuation allowances are also recognized for potential credit risks to the amount permissible under tax law. A fund for general banking risks has also been created in accordance with Section 340g of the German Commercial Code.

Current bonds, fixed-income securities and equities and other non-fixed-income securities (investment certificates) are carried at their historical cost taking into account the strict principle of lower of cost or market and the requirement to reverse write-downs (Section 340e (1) sent. 2 of the German Commercial Code in conjunction with Section 253 (3) sent. 1 of the German Commercial Code and Section 280 of the German Commercial Code). Valuation units have been formed where securities are hedged by forward or option contracts with matching amounts, currencies and maturities; revaluation gains and losses are not recognized.

Where concluded for trading purposes, derivative contracts are valued at their current market prices/fair value. Provisions have been created to cover losses on revaluation. Revaluation gains are not realized.

Deutsche Postbank AG's money markets and foreign exchange department measures the portfolio in the trading book. Interest rate futures, options on interest rate futures and money market products within the money market-cash, money market-derivatives and money-market portfolios are measured at fair value. The resulting measurement losses are offset against measurement gains in the portfolio. The principle of unequal treatment of gains and losses is applied to any fractional amounts remaining.

No provision for anticipated losses resulted from the revaluation of the portfolio in 2003. A provision of €8.6 million resulted from the revaluation of the portfolio in the previous year.

The equalization claims arising from the conversion of East German Marks into German marks in 1990 have been recognized in accordance with the Act on Opening Balance Sheets in German marks (*DM-Bilanzgesetz: DMBilG*).

### ***Fixed assets***

In accordance with Section 340e (1) in conjunction with Section 253 (2) sent. 3 of the German Commercial Code, long-term investments are carried using the less strict principle of lower of cost or market. The differences between historical cost and the amount repayable (premiums/discounts) are accrued ratably. The portfolios are carried in separate accounts to current investments.

In accordance with Section 340e (1) sent. 1 of the German Commercial Code, investments in associates, including investments in subsidiaries, and operating and office equipment are valued in accordance with the provisions applicable to fixed assets.

Investments in associates denominated in foreign currency, including investments in subsidiaries, are translated into euros using the respective historical exchange rate.

Property and equipment is carried at cost, reduced by depreciation over the standard useful life of the asset in line with the official depreciation tables.

Write-downs are charged in the event of impairment that is likely to be permanent.

In accordance with Section 6 (2) of the German Income Tax Act (*Einkommensteuergesetz: EstG*), minor fixed assets are expensed in full in the year of addition.

### ***Liabilities***

Liabilities are stated at the amounts repayable. Premiums and discounts are accrued ratably. Zero bonds issued are carried at face value plus proportionate interest at the balance sheet date. The proportionate interest on zero bonds is amortized in accordance with the effective interest method.

### ***Provisions***

Provisions for pensions have been calculated in accordance with actuarial principles, taking into account the 1998 standard tables, and are stated at the net present value permitted under tax regulations for the obligations regarding current pension payments and vested pension rights.



Adequate tax provisions and other provisions have been recognized to cover all identifiable risks and uncertain liabilities. In connection with recognized early terminated fees, provisions have been recognized due to lower interest income in future years. Provisions include deferred tax liabilities of € 3.0 million recognized on account of the non-specific valuation allowance stated only in the tax balance sheet of the Luxembourg branch.

#### ***Securities repurchase agreements***

Reverse repos totaling € 1,336.3 million are carried as loans and advances to other banks.

The securities purchased under agreements to resell are not carried in the balance sheet; interest of € 54.9 million arising from such transactions is carried under interest income.

Repos totaling € 7,068.0 million are carried as deposits from other banks. Interest of € 79.7 million arising from such transactions is carried under interest expense.

#### ***Contingent liabilities***

Liabilities arising from guarantees and warranties are carried under contingent liabilities at the amounts to be stated at the balance sheet date.

#### ***Currency translation***

In accordance with Section 340h (1) sent. 2 of the German Commercial Code, assets and liabilities denominated in foreign currencies are translated into euros at the middle spot rate applicable at the balance sheet date. Forward contracts still open at the balance sheet date are translated at the forward rate applicable at the balance sheet date.

Gains and losses arising from the translation of hedged balance sheet items and corresponding transactions in progress are neutralized by creating adjustment items.

In accordance with Section 340h (2) sent. 2 of the German Commercial Code, the balance sheet items and transactions in progress denominated in foreign currencies are classified as covered separately and valued in every currency. Accordingly, all expenses and income arising from currency translation have been recognized in the income statement in accordance with Section 340h (2) sent. 1 and 2 of the German Commercial Code. There was no income to be treated separately as the items existing at the balance sheet date were established promptly due to the high turnover rate.

#### ***Reclassifications***

In the year under review, interest income and expense on swaps held in the trading portfolio were reclassified in the income statement from interest income and expense to net trading income. The prior-period amounts were not adjusted.

### **III. Information on related parties**

Deutsche Postbank AG was included in the consolidated financial statements of Deutsche Post AG, Bonn, as of December 31, 2003. The consolidated financial statements of Deutsche Post AG are filed in the Bonn commercial register.

### **IV. Principles under the German Banking Act (*Kreditwesengesetz: KWG*)**

In the year under review, Deutsche Postbank AG's equity capital and liquidity remained within the limits stated in the principles stipulated by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht: BaFin*) at all times (Sections 10, 10a, and 11 of the German Banking Act).

## B. Notes to the balance sheet and income statement

### I. Assets

	2003	2002
	€ million	
<b>Subsidiaries</b>		
The following items contain loans and advances to subsidiaries:		
Loans and advances to other banks .....	3,735	3,018
Loans and advances to customers .....	302	308
Bonds and other fixed-income securities.....	39	149
Other assets .....	37	36
<b>Associated companies</b>		
The following items contain loans and advances to associated companies:		
Loans and advances to other banks .....	—	—
Loans and advances to customers .....	129	77
Bonds and other fixed-income securities.....	—	—
Other assets .....	6	6
<b>Subordinated loans and advances</b>		
The following items contain subordinated loans and advances:		
Loans and advances to other banks .....	16	47
Loans and advances to customers .....	81	81
Bonds and other fixed-income securities.....	—	—
Equities and other non-fixed-income securities .....	5	5
<b>Loans and advances to other banks</b>		
Used as cover, with an agreed maturity or withdrawal notice of .....	377	685
– at least three months, but less than four years.....	—	—
– four years or more .....	377	685
<b>Loans and advances to customers</b>		
Used as cover, with an agreed maturity or withdrawal notice of .....	22,074	23,737
– less than four years.....	62	227
– four years or more .....	22,012	23,510
Secured by mortgage charges .....	11,193	9,700
– thereof used as cover.....	8,474	7,735
Public sector loans .....	13,825	16,731
– thereof used as cover.....	13,600	16,002

	2003	2002
	€ million	
<b>Notes to securities positions</b>		
<b>Bonds and other fixed-income securities</b>		
This item includes negotiable securities totaling:.....	35,658	40,523
Money market instruments		
Public sector issuers		
listed money market instruments.....	—	—
unlisted money market instruments.....	—	—
Other issuers		
listed money market instruments.....	177	1,352
unlisted money market instruments.....	306	—
Bonds		
Public sector issuers		
listed bonds .....	14,397	15,369
unlisted bonds .....	68	—
Other issuers		
listed bonds .....	19,502	22,207
unlisted bonds .....	922	1,236
Securities not carried at the lower of cost or market .....	71	301
Own bonds		
listed own bonds .....	262	326
unlisted own bonds.....	25	33
<b>Equities and other non-fixed-income securities</b>		
This item includes negotiable securities totaling:.....	193	211
thereof listed securities .....	190	208
thereof unlisted securities.....	3	3
Securities not carried at the lower of cost or market .....	5	—
<b>Other assets</b>		
This item contains primarily:		
– Collection documents.....	45	445
– Receivables arising from non-bank business.....	43	42
– Claims to tax reimbursements .....	16	25
– Claims to reimbursement against the German government.....	12	—

### Analysis of fixed assets

	Historical cost			
	Balance at Jan. 1, 2003	Additions 2003	Disposals 2003	Balance at Dec. 31, 2003
	€ million			
Bonds and other fixed-income securities .....	5,219	—	–1,097	4,122
Equities.....	5	—	—	5
Investments in associates.....	40	—	–10	30
Investments in subsidiaries.....	1,048	4	–31	1,021
Property and equipment.....	1,005	9	–7	1,007
	<u>7,317</u>	<u>13</u>	<u>–1,146</u>	<u>6,184</u>

	Depreciation and Carrying amortization			amount	
	Balance at Jan. 1, 2003	Disposals 2003	Depreciation/ amortization 2003 € million	Balance at Dec. 31, 2003	Dec. 31, 2003
Bonds and other fixed-income securities.....	—	—	—	—	4,122
Equities .....	—	—	—	—	5
Investments in associates .....	—	—	—	—	30
Investments in subsidiaries.....	—	—	—	—	1,021
Property and equipment*) .....	-262	7	-29	-284	723
	<u>-262</u>	<u>7</u>	<u>-29</u>	<u>-284</u>	<u>5,901</u>

\*) including

Land and buildings used in operations.....	540
Operating and office equipment.....	27

	2003 € million	2002 € million
<b>Prepaid expenses</b>		
This item includes:		
– Investment subsidies .....	90	106
– Prepaid issue costs/discounts .....	73	123
– Prepaid premiums on loans and advances .....	30	50
<b>Remaining maturities</b>		
<b>Other loans and advances to other banks .....</b>	<b>27,599</b>	<b>35,803</b>
less than 3 months .....	9,275	13,570
3 months to 1 year .....	4,345	5,594
1 to 5 years.....	7,085	7,816
more than 5 years .....	6,894	8,823
without fixed maturity.....	—	—
<b>Loans and advances to customers.....</b>	<b>40,756</b>	<b>40,520</b>
less than 3 months .....	1,421	2,187
3 months to 1 year .....	2,436	2,754
1 to 5 years.....	16,257	15,548
more than 5 years .....	19,077	18,563
without fixed maturity.....	1,565	1,468
<b>Bonds and other fixed-income securities</b>		
Amounts due in following year.....	4,299	9,535
<b>Foreign currency assets</b>		
Total amount of assets denominated in foreign currency.....	5,086	7,898
	<u>2003</u> <u>€ million</u>	<u>2002</u> <u>€ million</u>
<b>Trust assets</b>		
This item contains:.....	1,643	1,739
Loans and advances to customers .....	1,602	1,669
Loans and advances to other banks.....	41	70

The traditional focus is on financing measures aimed at enhancing infrastructure in rural areas, and specifically on promoting full-time and part-time agriculture enterprises. In eastern Germany, Deutsche Postbank AG provides finance within the framework of government subsidy programs for the re-establishment and restructuring of agricultural enterprises by granting loans and subsidies together with subsidized interest rates and guarantees.

## II. Shareholders' equity and liabilities

	2003 € million	2002 € million
<b>Subsidiaries</b>		
The following items include amounts due to subsidiaries in unsecuritized form:		
Deposits from other banks .....	1,014	697
Due to customers .....	6,624	7,743
Other liabilities .....	14	564
<b>Associated companies</b> .....		
Deposits from other banks .....	—	—
Due to customers .....	36	28
Other liabilities .....	5	8
<b>Other liabilities</b>		
This item includes primarily:		
– Adjustment item from currency translation .....	156	202
– Tax liabilities .....	72	64
– Liabilities arising from non-bank business .....	19	572
<b>Deferred income</b>		
This item includes:		
– Par structure bonds acquired at par .....	198	403
– Installment loans interest and charges .....	154	143
– Discount accruals arising from loans and advances .....	80	88
– Issue costs/premium accruals on bonds issued .....	66	104
<b>Provisions</b>		
Other provisions include:		
– Employee-related provisions .....	119	109
– Provisions for restructuring measures .....	78	199
– Provisions for anticipated losses on derivatives .....	67	26
<b>Subordinated liabilities</b>		
Information on every borrowing exceeding 10% of the total amount of subordinated liabilities		
German securities identification number 3606293011 .....		139663 (loan number)
Currency .....	€	€
Amount .....	250.000.000	150.000.000
Interest rate .....	5,8325%	5,95%
Due .....	Dec. 29, 2008	Dec. 28, 2011

The terms of subordinated liabilities comply with the conditions set out in Section 10 (5a) of the German Banking Act; a right to premature termination has not been granted.

	2003 € million	2002 € million
Expenses (including proportionate interest and premiums) accrued for the subordinated liabilities totaling:.....	59	52
<b>Remaining maturity</b>		
<b>Deposits from other banks with an agreed maturity or withdrawal notice...</b>	19,280	26,598
less than 3 months .....	11,313	15,962
3 months to 1 year .....	832	3,405
more than 5 years .....	3,467	2,766
more than 5 years .....	3,668	4,465
<b>Savings deposits with an agreed maturity of more than three months with .....</b>	375	442
less than 3 months .....	28	32
3 months to 1 year .....	95	113
1 to 5 years.....	252	297
more than 5 years .....	—	—
<b>Other liabilities payable to customers with an agreed maturity or withdrawal notice .....</b>	24,229	23,158
less than 3 months .....	7,483	3,894
3 months to 1 year .....	4,188	4,171
1 to 5 years.....	7,323	9,753
more than 5 years .....	5,235	5,340
<b>Securitized liabilities</b>		
Bonds issued		
Amounts due in following year .....	7,756	7,233
No assets have been transferred as collateral for the liabilities.		
<b>Foreign currency liabilities</b>		
Total amount of liabilities denominated in foreign currency .....	8,158	12,538
	2003 € million	2002 € million
<b>Open market transactions</b>		
Securities with repurchase agreements were pledged as collateral to the ECB's collateral pool as part of open market transactions.....	1,610	8,958
<b>Fiduciary liabilities .....</b>	1,643	1,739
This item includes:		
Fiduciary funds (transmitted loans).....	749	803
Special fund of the State of Mecklenburg-Western Pomerania.....	45	56
Retired farmers' pension fund .....	11	11
Special-purpose funds .....	563	594
Deposits from other banks .....	275	275
<b>Profit participation certificates outstanding .....</b>	333	233
This item includes:		
– Bearer profit participation certificates outstanding.....	167	167
– Registered profit participation certificates outstanding.....	166	66

Of the registered profit participation certificates outstanding totaling € 166 million, € 99.5 were issued in 2003.

### ***Shareholders' equity***

Deutsche Postbank AG's fully paid-in share capital of € 410,000,000.00 is divided into 16,000,000 no-par value registered shares.

In accordance with the amendment to the Articles of Association dated August 25, 2000, the management board is authorized to increase the share capital for a period of up to five years after filing of the amendment to the Articles of Association (December 5, 2000) by issuing new

shares against cash or non-cash contributions on one or more occasions. Aggregate authorized capital is limited to half of the share capital at the time of the amendment to the Articles of Association.

The management board will decide on the exclusion of subscription rights with the approval of the supervisory board.

#### **Share premium**

December 31, 2002 € 1,158,937,687.86

December 31, 2003 € 1,158,937,687.86

#### **Other retained earnings**

December 31, 2002 € 264,740,481.86

December 31, 2003 **€ 264,740,481.86**

The unappropriated surplus of Deutsche Postbank AG amounts to € 589.0 million.

Upon approval of the annual financial statements, unrealized reserves on securities and investments in associates totaling € 354.5 million are allocated to equity capital in accordance with Section 10 (4a) sent. 1 of the German Banking Act.

	2003 € million	2002 € million
<b>Contributions by atypical silent partners</b> .....	36	36
<b>Contributions by typical silent partners</b> .....	51	51

Based on the face value of their contributions, the typical silent partners receive a share in profits for every fiscal year to the amount of the percentage which Deutsche Postbank AG uses to calculate the dividend payment on its share capital, including disclosed reserves.

The percentage is limited in each case by minimum and maximum levels.

### **III. Income statement**

“Other operating income” includes income from the reversal of provisions totaling € 119 million, income from rental and lease agreements totaling € 27 million, claims for reimbursement against the Federal Republic of Germany arising from the sale of DSL-Bank totaling € 12 million, income from the final settlement with Deutsche Post AG regarding intragroup services in 2002 totaling € 11 million, and compensation for contributions paid to the Federal Pension Service (*Bundespensionsservice*) totaling € 6 million.

“Other operating expenses” include expenses for special projects totaling € 30 million, expenses arising from additions to provisions for the Postal Civil Service Health Insurance Fund (*Postbeamtenkrankenkasse*) based on a new report totaling € 9 million, and from backlog write-downs from prior years for loan accounts totaling € 9 million.

“Net trading income” includes the interest expense of € 86.7 million from swaps held for trading. In the prior year the equivalent interest income of € 28.5 million was carried under net interest income.

### **C. Other information**

#### **I. Other financial obligations**

In accordance with Article 4, Section 16 of the Posts and Telecommunications Reorganization Act (*Postneuordnungsgesetz: PTNeuOG*), commencing in 2000 Deutsche Postbank AG pays 33 percent of the gross compensation of its active civil servants and the notional gross compensation of its civil servants on leave of absence to a pension fund (*Unterstützungskasse*) established for this purpose. Deutsche Postbank AG has no further obligations for benefits paid by the pension fund, which are the responsibility of the German government.

The net present value of leasing liabilities totals € 45 million.



### ***Keep-well Undertaking (Patronatserklärungen)***

Deutsche Postbank AG undertakes to ensure that, with the exception of political risk, both Deutsche Postbank AG International S.A. and PB Capital Corp. are able to meet their obligations.

### ***Additional funding obligations***

Additional funding obligations arise from the voluntary deposit protection fund of the Association of German Public Sector Banks (*Bundesverband Öffentlicher Banken Deutschlands e.V.*) in the amount laid down in the bylaws, and the deposit protection amount stipulated by law.

## **II. Employees (average Full-Time Equivalents)**

		<b>2003</b>	<b>2002</b>
Wage earners	Full-time .....	88	120
	Part-time.....	7	10
Salaried employees	Full-time .....	3,213	3,341
	Part-time.....	373	417
Civil servants	Full-time .....	3,001	3,405
	Part-time.....	791	933
Subtotal.....		7,473	8,226
Juniors			
Apprentices .....		461	497
Trainees.....		6	4
AIS students.....		16	19
Total employees .....		7,956	8,746

## **III. Remuneration of the management and supervisory boards**

	<b>2003 TEUR</b>	<b>2002 TEUR</b>
Remuneration paid to members of the Management Board .....	4,281	4,275
Remuneration paid to members of the Supervisory Board .....	488	426
Remuneration paid to former members of the Management Board and their surviving dependants .....	1,283	1,286
Provisions for pensions payable to former members of the Management Board and their surviving dependants .....	20,410	19,870
Loans granted to members of the Management Board and Supervisory Board of Deutsche Postbank AG .....	750	892

## **IV. Forward contracts**

The volume of open forward contracts exposed to settlement risk as well as currency, interest rate and/or other market price risks arising from open and, in the case of counterparty default, closed positions totaled € 285 billion (previous year: € 255 billion) as of December 31, 2003.

Table 1 below shows the existing derivative contracts broken down by risk structure. In line with normal international practice, the notional volumes are shown, but these do not correspond to the default risk amount.

The notional amounts represent the gross volume of all sales and purchases. In order to provide more meaningful information, the credit risk equivalents and the replacement costs have also been listed to facilitate risk assessment.

The credit risk equivalents are calculated using the mark-to-market method, taking into account the counterparty weighting. Netting agreements were not applied in this context. Replacement costs relate to all contracts with positive fair values.

Such contracts have not been offset against contracts with negative fair values.

Tables 2, 3, and 4 below show the information broken down in line with various criteria. In addition to the information on maturities broken down by risk category there is also a breakdown by counterparty. The breakdown of derivatives held for trading is shown separately. In terms of the breakdown by maturity, the remaining maturities of the derivatives are determined by the contract maturity. However, where there is an underlying instrument / asset with determinable maturity, the remaining maturity of the underlying asset is used.

Table 1:

**Derivatives – broken down by volume**

Nominal amounts — € million —	Nominal amounts		Credit risk equivalents as per 6th amendment to the German Banking Act		Replacement costs	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
<b>Interest rate risk</b>						
<b>OTC products</b>						
Interest rate swaps .....	156,388	160,860	1,795	1,747	1,144	1,380
FRAs .....	—	—	—	—	—	—
Interest rate options						
purchased (long) .....	—	—	—	—	—	—
written (short) .....	5,350	205	—	—	34	—
Caps, floors .....	40	27	1	—	—	—
Other interest rate forwards .....	1,378	—	4	—	—	—
<b>Exchange-traded products</b>						
Interest rate futures (Bund, Bobl, Schatz)* .....	97,628	79,506	104	356	48	324
Interest rate options (Bund, Bobl, Schatz)* .....	11,921	2,421	19	2	8	2
<b>Subtotal</b> .....	<u>272,705</u>	<u>243,019</u>	<u>1,957</u>	<u>2,105</u>	<u>1,200</u>	<u>1,706</u>
<b>Currency risk</b>						
<b>OTC products</b>						
Currency forwards/swaps .....	7,797	7,358	611	371	532	295
Currency swaps .....	1,660	1,084	75	65	1	1
Cross-currency swaps .....	1,595	2,035	133	276	83	175
Currency options						
purchased (long) .....	6	—	—	—	—	—
written (short) .....	—	—	—	—	—	—
Other currency forwards .....	—	—	—	—	—	—
<b>Exchange-traded products</b>						
Currency futures .....	—	—	—	—	—	—
Currency options .....	—	—	—	—	—	—
<b>Subtotal</b> .....	<u>11,058</u>	<u>10,477</u>	<u>819</u>	<u>712</u>	<u>616</u>	<u>471</u>
<b>Equity and other price risk</b>						
<b>OTC products</b>						
Equity forwards .....	—	—	—	—	—	—
Equity/index options						
purchased (long) .....	377	510	34	113	11	83
written (short) .....	268	331	16	20	—	—
Other equity/index contracts .....	2	—	—	—	—	—
<b>Exchange-traded products</b>						
Equity/index futures .....	13	5	1	—	—	—
Equity/index options .....	618	68	38	4	1	—
<b>Subtotal</b> .....	<u>1,278</u>	<u>914</u>	<u>89</u>	<u>137</u>	<u>12</u>	<u>83</u>
<b>Credit derivatives</b>						
purchased .....	31	31	—	—	—	—
written .....	34	74	—	—	1	—
<b>Subtotal</b> .....	<u>65</u>	<u>105</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>
<b>Total</b> .....	<u>285,106</u>	<u>254,515</u>	<u>2,865</u>	<u>2,954</u>	<u>1,829</u>	<u>2,260</u>

\* German government bonds, German government medium-term notes, German treasury notes

Table 2:

**Derivatives—broken down by remaining maturity**

Nominal amounts – € million –	Interest rate risk		Currency risk		Equity and other price risk		Credit derivatives	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Remaining maturities								
less than 3 months .....	146,330	119,340	2,880	5,367	1,240	810	—	—
3 months to 1 year .....	35,288	71,802	6,181	2,043	39	104	—	—
1 to 5 years .....	61,089	36,910	1,462	2,520	—	—	64	104
more than 5 years .....	29,998	14,966	535	547	—	—	1	1
<b>Total</b> .....	<u>272,705</u>	<u>243,019</u>	<u>11,058</u>	<u>10,477</u>	<u>1,279</u>	<u>914</u>	<u>65</u>	<u>105</u>

Table 3:

**Derivatives—broken down by counterparty**

Nominal amounts – € million –	Nominal amounts		Credit risk equivalents as per 6th amendment to the German Banking Act		Replacement costs	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Banks in OECD countries .....	270,588	242,631	2,599	2,712	1,712	2,077
Banks outside OECD countries .....	—	25	—	4	—	4
Public institutions in OECD countries .....	—	—	—	—	—	—
Other counterparties .....	14,518	11,859	266	238	117	179
<b>Total</b> .....	<u>285,106</u>	<u>254,515</u>	<u>2,865</u>	<u>2,954</u>	<u>1,829</u>	<u>2,260</u>

Table 4:

**Derivatives—held for trading**

Nominal amounts – € million –	Nominal amounts		Credit risk equivalents as per 6th amendment to the German Banking Act		Replacement costs	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
– Interest rate contracts .....	162,405	159,122	281	416	140	357
– Currency contracts .....	7,757	7,317	611	370	532	294
– Equity contracts .....	262	37	18	2	2	—
– Credit derivative contracts .....	—	—	—	—	—	—
<b>Total</b> .....	<u>170,424</u>	<u>166,476</u>	<u>910</u>	<u>788</u>	<u>674</u>	<u>651</u>

## V. Investments in subsidiaries and associates

	Equity interest	Dec. 31, 2003 Equity capital	Dec. 31, 2003 Net income
	%	TEUR	TEUR
<b>Investments in subsidiaries</b>			
Betriebs-Center für Banken Berlin GmbH, Bonn .....	100.00	25	0
Betriebs-Center für Banken Deutschland GmbH & Co. KG, Frankfurt/Main.....	100.00	100	0
Betriebs-Center für Banken Frankfurt Main GmbH, Bonn .....	100.00	25	0
Betriebs-Center für Banken Verwaltungs GmbH, Frankfurt/ Main.....	100.00	25	0
CREDA Objektanlage- and -verwaltungsgesellschaft mbH, Bonn .....	100.00	250	0 <sup>(2)</sup>
Deutsche Postbank Asset Management S.A., Luxembourg ...	100.00	8,824	8,119
Deutsche Postbank Capital Management S.A., Luxembourg.	100.00	6,192	5,930
Deutsche Postbank Financial Services GmbH, Frankfurt/ Main.....	100.00	5,000	0 <sup>(2)</sup>
Deutsche Postbank International S.A., Luxembourg.....	100.00	207,800	15,846
Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn .....	100.00	14,878	0 <sup>(2)</sup>
Deutsche Postbank Vermögens-Management S.A., Luxembourg.....	100.00	2,185	1,545
DPBI Immobilien KGaA, Luxembourg .....	10.01	333	130
DSL Finance N.V., Amsterdam .....	100.00	10,967	1,455
DSL Holding AG i.A., Bonn.....	97.46	515,362	3,418
DVB Processing GmbH, Eschborn .....	51.00	-6,332	-6,457 <sup>(3)</sup>
DVD Gesellschaft für DV-gestützte Dienstleistungen mbH & Co. KG, Cologne .....	51.00	752	355 <sup>(3)</sup>
easytrade services GmbH, Leipzig .....	100.00	25	0 <sup>(2)</sup>
PB (USA) Holdings Inc., Delaware, USA .....	100.00	288,277	15,793
PB Factoring GmbH, Bonn.....	100.00	5,000	0 <sup>(2)</sup>
PB Firmenkunden AG <sup>(1)</sup> , Bonn .....	100.00	50	0 <sup>(2)</sup>
Postbank Immobilien and Baumanagement GmbH, Bonn.....	100.00	18,874	0 <sup>(2)</sup>
Postbank Leasing GmbH, Bonn .....	100.00	500	0 <sup>(2)</sup>
Postbank Systems AG, Bonn.....	100.00	51,573	0 <sup>(2)</sup>
Postbank Vermögensberatung AG, Bonn .....	100.00	1,000	0 <sup>(2)</sup>
Postbank Vermögensberatung Service GmbH, Cologne .....	100.00	50	0 <sup>(2)</sup>
Ralos Verwaltungs GmbH & Co. Vermietungs KG, Munich...	94.00	26	123
VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn .....	75.00	5,165	1,555 <sup>(3)</sup>
<b>Investments in associates</b>			
PB Lebensversicherung AG, Hilden .....	50.00	28,129	0 <sup>(2,3)</sup>
PB Versicherung AG, Hilden.....	50.00	17,519	0 <sup>(2,3)</sup>
Postbank P.O.S. Transact GmbH, Schwalbach am Taunus....	50.00	2,621	-3,062 <sup>(3)</sup>
Società di Commercializzazione e Distribuzione Ricambi S.p.A., Turin .....	29.10	250	150 <sup>(4)</sup>

(1) Operated under the name of PB Erste Beteiligungen AG until February 2, 2004

(2) Loss absorption agreement

(3) as of December 31, 2002

(4) as of September 30, 2002

Investments in subsidiaries and associates include negotiable investments totaling €951 million and €16 million (previous year: €814 million and €16 million), respectively. Thereof listed €348 million (previous year: €289 million) and unlisted €603 million (previous year: €525 million).

## VI. Cover for bonds outstanding

	2003 € million	2002 € million
Cover for mortgage bonds		
– Mortgage bonds requiring cover.....	4,008	4,809
– Cover assets.....	4,914	5,517
Excess cover .....	906	708
Cover for municipal bonds		
– Municipal bonds requiring cover.....	10,504	12,840
– Cover assets.....	12,788	17,662
Excess cover .....	2,284	4,822
Cover for Type C registered securities		
– Registered securities requiring cover.....	2,124	803
– Cover assets.....	6,670	3,494
Excess cover .....	4,546	2,691
Cover for interest expenses on mortgage bonds		
– Interest expenses on mortgage bonds.....	223	267
– Interest income from cover assets .....	292	338
Excess cover .....	69	71
Cover for interest expenses on municipal bonds		
– Interest expenses on municipal bonds .....	497	622
– Interest income from cover assets .....	669	995
Excess cover .....	172	373
Cover for interest expenses on Type C registered securities		
– Interest expenses on Type C registered securities.....	97	40
– Interest income from cover assets .....	344	186
Excess cover .....	247	146

## VII. Supplemental disclosures

In accordance with Section 2 (4) of the Postal Service Transformation Act (*Postumwandlungsgesetz: PostUmwG*), the German 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 registration in the commercial register.

Deutsche Postbank AG has been a member of the deposit protection fund of the Association of German Public Sector Banks (*Einlagensicherungsfonds des Verbands Öffentlicher Banken*) since 1995.

As of December 31, 2003, Deutsche Postbank AG holds 97.64 percent of the voting rights in DSL Holding AG i. A., Bonn.

### D. Members of corporates bodies

#### Management Board

The members of the Management Board are:

Prof. Dr. Wulf von Schimmelmänn, Bonn (Chairman)	
Dirk Berensmann, Unkel	
Stefan Jütte, Bonn	
Volker Mai, Bad Honnef	until June 30, 2003
Dr. Wolfgang Klein, Bonn	
Loukas Rizos, Bonn	
Lothar Rogg, Bonn	

Offices held by members of the Management Board of Deutsche Postbank AG as of December 31, 2003 on Supervisory Boards and other supervisory bodies:

**Prof. Dr. Wulf von Schimmelfmann, Bonn**

**Function**

Chairman of the Supervisory Board  
 Chairman of the Supervisory Board  
 Chairman of the Board of Directors  
  
 Chairman of the Board of Directors  
 Member of the Supervisory Board  
 (since September 26, 2003)  
 Chairman of the Supervisory Board  
 (since October 1, 2003)  
 Deputy Chairman of the Supervisory Board  
  
 Member of the Supervisory Board  
 (since August 18, 2003)  
 Member of the Board of Directors  
 Member of the Management Board

**Company**

PB Lebensversicherung AG, Hilden  
 PB Versicherung AG, Hilden  
 PB (USA) Holdings, Inc., Wilmington  
 (Delaware, USA)  
 PB Capital Corp., Wilmington (Delaware, USA)  
 PB Firmenkunden AG<sup>(1)</sup>, Bonn  
  
 Deutsche Postbank Financial Services GmbH,  
 Frankfurt/Main  
 TCHIBO Holding AG, Hamburg  
  
 accenture Corp., Irving (Texas, USA)  
 Bundesverband Öffentlicher Banken  
 Deutschlands e.V. (VÖB), Berlin

**Office relinquished during the year**

Chairman of the Supervisory Board  
 (until August 28, 2003)

DSL Holding AG i.A., Bonn

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(1) Operated under the name of PB Erste Beteiligungen AG until February 2, 2004

**Dirk Berensmann, Unkel**

**Function**

Chairman of the Supervisory Board  
 Member of the Advisory Board  
 (since July 28, 2003)  
 Deputy Chairman of the Advisory Board  
 (since October 15, 2003)  
 Member of the Board of Directors  
 Member of the Management Board  
 (since March 18, 2003)

**Company**

Postbank Systems AG, Bonn  
 einsnull IT-Support GmbH, Bonn  
  
 Eurogiro Network A/S, Taastrup (Denmark)  
 e-Finance Lab Frankfurt am Main,  
 Frankfurt University



**Stefan Jütte, Bonn****Function**

Chairman of the Supervisory Board  
Chairman of the Supervisory Board  
Member of the Supervisory Board  
(since September 26, 2003)  
Deputy Chairman of the Supervisory Board  
(since October 1, 2003)  
Member of the Board of Directors  
  
Member of the Board of Directors  
  
Member of the Board of Directors  
Member of the Supervisory Board

**Company**

Postbank Leasing GmbH, Bonn  
PB Factoring GmbH, Bonn  
PB Firmenkunden AG<sup>(1)</sup>, Bonn  
  
Deutsche Postbank International S.A.,  
Luxembourg  
PB (USA) Holdings, Inc., Wilmington  
(Delaware, USA)  
PB Capital Corp., Wilmington (Delaware, USA)  
BVVG Bodenverwertungs – und –  
verwaltungsgesellschaft mbH, Berlin  
  
DSL Holding AG i.A., Bonn

**Office relinquished during the year**

Deputy Chairman of the Supervisory Board  
(until August 28, 2003)

(1) Operated under the name of PB Erste Beteiligungen AG until February 2, 2004

**Dr. Wolfgang Klein, Bonn****Function**

Chairman of the Supervisory Board  
(since January 10, 2003)  
Chairman of the Advisory Board  
  
Chairman of the Management Committee  
  
Member of the Board of Directors  
(since July 1, 2003)  
Deputy Chairman of the Board of Directors  
(since September 23, 2003)  
Member of the Board of Directors  
(since July 1, 2003)  
Deputy Chairman of the Board of Directors  
(since September 23, 2003)  
Member of the Board of Directors  
(since July 1, 2003)  
Deputy Chairman of the Board of Directors  
(since September 23, 2003)  
Member of the Board of Directors  
(since July 1, 2003)  
Deputy Chairman of the Board of Directors  
(since September 23, 2003)  
Member of the Supervisory Board  
Member of the Supervisory Board  
Member of the Supervisory Board  
Member of the Administrative Board

**Company**

Postbank Vermögensberatung AG, Bonn  
  
VÖB-ZVD Bank für Zahlungsverkehrsdienst-  
dienstleistungen GmbH, Bonn  
Postbank P.O.S. Transact GmbH,  
Schwalbach am Taunus  
Deutsche Postbank International S.A.,  
Luxembourg  
  
Deutsche Postbank Capital Management S.A.,  
Luxembourg  
  
Deutsche Postbank Asset Management S.A.,  
Luxembourg  
  
Deutsche Postbank Vermögens-  
Management S.A., Luxembourg  
  
PB Lebensversicherung AG, Hilden  
PB Versicherung AG, Hilden  
Comma Soft AG, Bonn  
VISA Deutschland e.V., Frankfurt

**Office relinquished during the year**

Chairman of the Supervisory Board  
(until April 15, 2003)

Postbank EasyTrade.AG, Cologne

**Volker Mai, Bad Honnef****Function**

Chairman of the Supervisory Board  
(until May 19, 2003)

Chairman of the Supervisory Board  
(until May 19, 2003)

Chairman of the Supervisory Board  
(until May 19, 2003)

Chairman of the Advisory Board  
(until May 19, 2003)

Chairman of the Advisory Board  
(until May 19, 2003)

Deputy Chairman of the Supervisory Board  
(until May 19, 2003)

Deputy Chairman of the Supervisory Board  
(until April 14, 2003)

Deputy Chairman of the Board of Directors  
(until June 30, 2003)

Deputy Chairman of the Board of Directors  
(until June 30, 2003)

Deputy Chairman of the Board of Directors  
(until June 30, 2003)

Deputy Chairman of the Board of Directors  
(until June 30, 2003)

Deputy Chairman of the Board of Directors  
(until June 30, 2003)

Member of the Supervisory Board  
(until May 19, 2003)

Member of the Administrative Board  
(until May 19, 2003)

Chairman of the Advisory Board  
(until May 19, 2003)

Chairman of the Investment Committee  
(until May 19, 2003)

**Company**

einsnull IT-Support GmbH, Bonn

Postbank Immobilien und Baumanagement  
GmbH, Bonn

interServ Gesellschaft für Personal- und  
Beraterdienstleistungen mbH, Bonn

CREDA Objektanlage- und  
-verwaltungsgesellschaft mbH, Bonn

Kordoba Gesellschaft für Bankensoftware  
mbH & Co. KG, Munich

Postbank Systems AG, Bonn

Deutsche Postbank Privat Investment  
Kapitalanlagegesellschaft mbH, Bonn

Deutsche Postbank International S.A.,  
Luxembourg

Deutsche Postbank Capital Management S.A.,  
Luxembourg

Deutsche Postbank Asset Management S.A.,  
Luxembourg

Deutsche Postbank Vermögens-  
Management S.A., Luxembourg

Deutsche Postbank Fonds-Management S.A,  
Luxembourg

Niedersächsische Landgesellschaft mbH,  
Hanover

Bundesanstalt für Post und  
Telekommunikation Deutsche  
Bundespost, Bonn

Einlagensicherungsfonds des Bundesverbands  
Öffentlicher Banken Deutschlands e.V., Berlin

Einlagensicherungsfonds des Bundesverbands  
Öffentlicher Banken Deutschlands e.V., Berlin

Volker May retired from the management board as of June 30, 2003.

**Loukas Rizos, Bonn****Function**

Chairman of the Supervisory Board

Chairman of the Supervisory Board

Chairman of the Board of Directors

Chairman of the Board of Directors

Chairman of the Board of Directors

Chairman of the Board of Directors

Member of the Supervisory Board  
(since January 10, 2003)

Member of the Supervisory Board  
(since September 26, 2003)

**Offices relinquished during the year**

Deputy Chairman of the Supervisory Board  
(until April 15, 2003)

Chairman of the Board of Directors  
(until December 5, 2003)

**Company**

Deutsche Postbank Privat Investment  
Kapitalanlagegesellschaft mbH, Bonn

Deutsche Postbank Financial Services  
GmbH, Frankfurt/Main

Deutsche Postbank International S.A.,  
Luxembourg

Deutsche Postbank Capital Management  
S.A., Luxembourg

Deutsche Postbank Asset Management  
S.A., Luxembourg

Deutsche Postbank Vermögens-  
Management S.A., Luxembourg

Postbank Vermögensberatung AG, Bonn

PB Firmenkunden AG<sup>(3)</sup>, Bonn

Postbank EasyTrade.AG, Cologne

Deutsche Postbank Fonds-Management  
S.A, Luxembourg

(3) Operated under the name of PB Erste Beteiligungen AG until February 2, 2004

**Lothar Rogg, Bonn****Function**

Deputy Chairman of the Supervisory Board  
(since January 10, 2003)

Member of the Supervisory Board

Member of the Supervisory Board

Member of the Supervisory Board

Chairman of the Supervisory Board

**Offices relinquished during the year**

Member of the Supervisory Board  
(until April 15, 2003)

Chairman of the Advisory Board  
(until March 13, 2003)

Chairman of the Advisory Board  
(until March 13, 2003)

**Company**

Postbank Vermögensberatung AG, Bonn

Deutsche Postbank Privat Investment  
Kapitalanlagegesellschaft mbH, Bonn

PB Lebensversicherung AG, Hilden

PB Versicherung AG, Hilden

McPaper AG, Berlin

Postbank EasyTrade.AG, Cologne

of a total of eleven Deutsche Post  
distribution companies, each of them a  
GmbH (limited liability company) located in  
Germany

of a total of eleven Deutsche Post retail  
companies, each of them a GmbH (limited  
liability company) located in Germany

The members of the Supervisory Board of Deutsche Postbank AG are:

### **1. Shareholder representatives**

Dr. Klaus Zumwinkel, Chairman of the Board of Management of Deutsche Post AG, Bonn (Chairman)	
Prof. Dr. Hans-E. Büschgen, Professor emeritus, Director of Forschungsinstitut für Leasing, Cologne	
Dr. Edgar Ernst, Member of the Board of Management of Deutsche Post AG, Bonn	
Dietrich Jahn, Deputy Head of Department, Federal Ministry of Finance, Berlin	since March 20, 2003
Prof. Dr. Ralf Krüger, management consultant, Professor at the Fachhochschule Wiesbaden	
Dr. Axel Nawrath, Head of Department, Federal Ministry of Finance, Berlin	until February 28, 2003
Dr. Hans-Dieter Petram, Member of the Board of Management of Deutsche Post AG, Bonn	
Dr. Klaus Schlede, previously Deputy Chairman of the Management Board of Deutsche Lufthansa AG, Cologne	
Dr. Manfred Schüler, State Secretary (retd.), Wachtberg	
Dr.-Ing. Dieter Soltmann, previously General Partner of Spaten-Franziskaner-Bräu KGaA, Munich	
Dr. Alfred Tacke, State Secretary, Federal Ministry of Economics and Labor, Berlin	

### **2. Employee representatives**

Michael Sommer, Chairman of the German Trade Union Federation, Berlin (Deputy Chairman)	
Marietta Auer, Head of Department, Deutsche Postbank AG, Head Office, Bonn	
Rosemarie Bolte, Head of Unit I Specialist Department of the ver.di trade union, Stuttgart	
Annette Harms, Member of Deutsche Postbank AG's Works Council, Hamburg Branch, Hamburg	since March 1, 2003
Ralf Höhmänn, Member of Deutsche Postbank AG's Works Council, Stuttgart Branch, Stuttgart	
Elmar Kallfelz, Member of Deutsche Post AG's Group Works Council, Bonn	
Harald Kuhlowl, Chairman of Deutsche Postbank AG's Works Council, Karlsruhe Branch, Karlsruhe	
Sabine Schwarz, Chair of Deutsche Postbank AG's Works Council, Berlin Branch, Berlin	
Horst-Peter Voegler, Member of Deutsche Postbank AG's Works Council, Hanover Branch, Langenhagen	until February 28, 2003
Christine Weiler, Chair of Deutsche Postbank AG's Works Council, Munich Branch, Munich	
Christel Zobeley, trade union official, Vereinte Dienstleistungsgewerkschaft (ver.di), Berlin	

Bonn, February 27, 2004  
Deutsche Postbank Aktiengesellschaft

Management board

Prof. Dr. Wulf von Schimmelmann

Dirk Berensmann

Stefan Jütte

Dr. Wolfgang Klein

Loukas Rizos

Lothar Rogg

*The management report was prepared together with the annual financial statements for the fiscal year of 2003 and, naturally, only reflects circumstances known at such time. The management report should therefore only be read together with the Sections "Postbank Group" and "Recent Development and Outlook", which reflect the current information as of the date of this Offering Circular.*

## **Management Report of Deutsche Postbank AG for the Fiscal Year 2003**

### ***Macroeconomic environment***

The global economy experienced a weak start to 2003. The Iraq war saw investors and consumers extremely reluctant to spend, which in turn stifled economic activity. However, the global economy picked up again once the war was over and gathered momentum over the course of the year.

The USA again acted as the motor driving the global economy. Despite a subdued first half, US gross domestic product (GDP) rose by 3.1 percent in 2003. Economic development in Japan was surprisingly favorable in 2003; economic growth reached 2.7 percent on the back of a sharp rise in exports. This growth was also driven by Japan's close links with the emerging economies of Southeast Asia, again the world's highest growth region.

The euro zone was the straggler in the global upturn. The weak global economy depressed growth in the first six months, but because domestic demand was also very flat, economic stagnation prevailed in the euro zone. The second half of the year, however, saw a positive impetus from a revival in exports fuelled by the global recovery. Despite this, overall economic growth in 2003 was very low at a mere 0.4 percent.

Growth was even weaker in Germany, where the economy shrank by 0.1 percent in 2003. Following a decline in the first half of the year, German exports also started to benefit from the pick-up in international demand for German products after the mid-year point. Despite this, exports grew overall by a mere 1.1 percent: the lowest growth in ten years. In such an environment, capital spending declined still further, although first signs of improvement were evident towards the end of the year. Consumer sentiment was particularly disappointing. The long, drawn-out negotiations on tax cuts and reforms of the social security system that unsettled many people played a major role here.

### ***Significant events in the year under review***

The second module of Postbank's standard software for banks, developed jointly with SAP, went live during the year under review. It is used for account management and payment transactions.

In 2003, Postbank collateralized credit risks for the first time by issuing a synthetic securitization instrument (residential mortgage backed security) on the Provide platform operated by KfW (*Kreditanstalt für Wiederaufbau*).

We sold our interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH subsidiary to Deutsche Post Beteiligungen Holding GmbH on November 1, 2003.

### ***Income statement***

Deutsche Postbank AG's operating income rose by € 323 million year-on-year to € 616 million in the year under review.

Although administrative expenses remained more or less on a par with the previous year, the drop in income was more than offset by higher net other income/expenses and improved risk provisioning.

### ***Net interest income***

On the back of lower interest rates, Deutsche Postbank AG recorded net interest income of € 1,498 million in the year under review, a drop of 19.9 percent or € 373 million on the previous year.

#### *Net fee and commission income*

One of the factors driving the € 27 million rise in net fee and commission income to € 422 million was the positive development of the fund business.

#### *Net income from financial operations*

Net income from financial operations amounts to € 69 million (previous year: net loss of € 25 million).

#### *Administrative expenses*

Total administrative expenses fell to € 1,780 million (-0.5 percent). Personnel expenses fell from € 496 million to € 468 million, and non-staff operating expenses rose by € 20 million to € 1,311 million. Depreciation of property and equipment was lower year-on-year.

#### *Other income and expenses*

Net other income and expenses improved by € 120 million to € 132 million. This was due, among other things, to the reversal of a provision following the transfer of interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH.

#### *Risk provisions*

Risk provisions amounted to € +275 million in 2002 (previous year: € -170 million). This includes an increased loan loss allowance, which was offset by an improvement in net income from securities. It also includes the release of reserves under Section 340f of the German Commercial Code (*Handelsgesetzbuch: HGB*) in the amount of € 265 million (previous year: € 170 million), for which there was no offsetting appropriation to reserves under Section 340g of the German Commercial Code in the year under review (previous year: € 300 million).

#### *Net income for the period*

After taxes on income amounting to € 15 million (previous year: € 17 million) and the remaining exceptional expense "Indemnification DSL Holding AG i. A." amounting to € 12 million (previous year: € 152 million) resulting from cancellation of the investment agreement, net income for the period amounted to € 589 million (previous year: € 99 million).

#### *Utilization of net income*

The unappropriated surplus amounts to € 589 million. Its utilization is resolved by the General Meeting.

#### *Total assets and changes in the balance sheet structure*

Total assets fell by € 7.3 billion year-on-year to € 125.7 billion.

As in the previous years, this development was again driven by the appreciable growth in customer deposits on the one hand, and the reduction in money market and capital market funding on the other, leading ultimately to a 5.5 percent reduction. On the asset side, money market and capital market investments also fell correspondingly.

#### *Loans and advances to customers*

At a total of € 40.8 billion, loans and advances to customers fell by € 0.2 billion year-on-year. Direct customer loans rose, while there was a reduction in public sector receivables in particular.

#### *Money market and capital market investments*

Loans and advances to other banks fell by € 3.0 billion year-on-year to € 35.2 billion, while bonds and other fixed-income securities fell over the same period by € 4.9 billion to € 35.7 billion.

#### *Amounts due to customers*

Amounts due to customers rose by € 6.5 billion year-on-year to € 77.8 billion. The volume of savings recognized in the balance sheet rose by € 3.4 billion.



### *Money market and capital market liabilities*

Deposits from other banks fell by € 7.3 billion to € 20.5 billion. Securitized liabilities fell by € 6.6 billion to € 18.6 billion in fiscal year 2003 as issues expired.

### *Shareholders' equity*

Deutsche Postbank's reported shareholders' equity rose by € 0.5 billion year-on-year to € 2.5 billion.

### *Related party disclosures*

The Management Board has issued a dependence report (*Abhängigkeitsbericht*). Summing up its report, it stated that: ". . . in every case, Deutsche Postbank AG received an appropriate consideration for every service within the meaning of this report, taking into account the circumstances prevailing at the time of the transaction. No measures were taken or omitted at the instructions or in the interests of Deutsche Post AG or of its affiliated companies."

## **Risk report**

### *Risk management strategy and objectives in the group*

The Postbank group defines risk management as a feedback system that enables a systematic, permanent process across all areas of the Postbank group, based on defined objectives. This process consists of strategy, analysis and evaluation, management and control of overall bank risks.

Risk management thus forms part of the risk- and earnings-based overall management of the group. The Postbank group aims to ensure that risks are entered into in a controlled manner in terms of the group strategy and the available risk capital. An effective risk management system provides the necessary stimulus for strategic and daily business decisions, and enables the responsible, earnings-driven management of risk. The Postbank group measures this for its board departments and business divisions using the ratio of capital employed to earnings, expressed as ROE (return on equity).

### *Organization of risk management*

The Postbank group has created the basis for risk- and earnings-based overall group management by organizing its risk management activities.

The Group Management Board is responsible for risk strategy, the appropriate organization of risk management, monitoring the risk content of all transactions entailing risk, and risk control.

In conjunction with the Risk Committees, the Group Management Board has defined the underlying strategies for activities on the financial markets and the other business sectors of the group. The Group Management Board takes decisions on risk capital, the limiting procedures and limit levels for all risks associated with the banking and non-bank business; it defines the products and markets in which the Postbank group will be active.

The Market Risk Committee (MRC) is responsible for the strategic management of the group's market price risks and thus also for the allocation of the market price risk capital made available by the Management Board. It performs this management function by assessing the current market situation, economic expectations and the group's liquidity position.

The individual Management Board members represented on the Market Risk Committee work together with the Treasury and Accounting/Controlling departments.

In addition to the market price risks of the trading departments, strategic management by the Market Risk Committee encompasses in particular the market price risks in the investment book and the strategic positions.

In the Credit Risk Committee (CRC), the Management Board members responsible define the framework for the group's credit policy and the allocation of the credit risk capital made available by the Management Board. The Credit Risk Committee also develops optimization

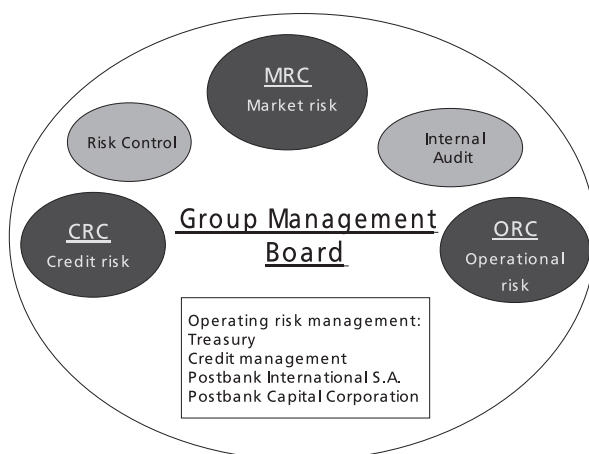
strategies for the group's credit portfolio; starting in 2004, it will also assume responsibility for supervising credit portfolio management activities as part of the implementation of the MAK (*Mindestanforderungen an das Kreditgeschäft* (minimum requirements for credit transactions)). The Management Board members represented on the Credit Risk Committee are supported by the Credit Management and Accounting/Controlling departments.

The Operational Risk Committee (ORC) that will be established in 2004 will define the strategies and outline conditions for the management of operational risks in the group. Its functions were still performed by the Market Risk Committee in 2003.

Operational responsibility for risk management is spread across several units in the Group, primarily the Treasury and Credit Management departments, and at a decentralized level, the Postbank International S.A., Luxembourg, and Postbank Capital Corp., New York, subsidiaries.

The risk control units, which operate independently of operating risk management, measure and assess the group-wide risks and ensure that limits are monitored and complied with.

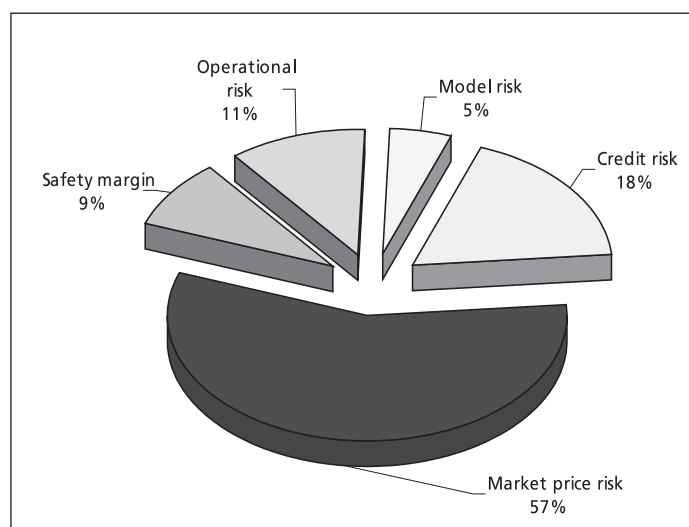
Internal Audit regularly inspects the effectiveness of risk management activities in the Postbank group, and reports the findings of its audits and recommendations directly to the Group Management Board.



### *Risk capital and risk limiting*

Risk capital allocation ensures that any losses arising can be absorbed by the Postbank group; for this reason, the aggregate risk potential must at all times be lower than the available risk capital. A critical factor here is that Postbank must be able to absorb not only probable risk scenarios, but also to survive crash scenarios. For this reason, the available risk capital is not fully allocated as a limit, but is also allocated as a safety margin.

The following chart shows the percentage allocation of the Postbank group's risk capital by risk category:



Risk capital is allocated to the risk categories in the Postbank group without factoring in any correlation effects that might mitigate risk. In the same way, no correlation effects between different portfolios are reflected in market price risk and counterparty risk for reasons of prudence. Correlation effects are only offset against risks within individual portfolios.

Allocation takes the form of annual limits. We have opted to allocate annual limits to create a uniform basis across all risk categories to reflect the overall bank control that is built on risk capital allocation.

The annual limit for market price risks is made available to the operating units on the basis of dynamic 10-day limits; the outcome of this is that only 20 percent of the global annual limit is allocated to the operating units, and that 80 percent of the annual limit contained in the model is held back for (highly unlikely) crash scenarios and sustained periods of loss. The MRC decides on any potential employment of risk capital not made directly available as a limit.

At Postbank, the safety margin comprises the openly reported safety margin, the retained 80 percent of the annual limit for market price risk, plus correlation effects that are ignored.

#### ***Definition of risk categories and risk types***

Market price risk denotes the potential risk that may lead to losses in financial transactions from changes in interest rates, volatilities, exchange rates and equity prices. Changes in value are derived from daily marking to market, independently of their measurement for financial accounting purposes.

Counterparty risk, defined more closely below, is the general term applied to the risk of loss resulting from changes in the creditworthiness of, or default by, a counterparty. Counterparty (default) risk consists of credit (issuer) risk, country risk and counterparty risk in the narrower sense (settlement and replacement risk):

We define credit risk (issuer risk) as the potential loss that may arise due to the inability of a debtor to discharge its payment obligations or due to a deterioration in its credit rating.

Country risk denotes the transfer risk inherent in cross-border payments due to the unwillingness (political risk) or inability (economic risk) of a country to discharge its payment obligations.

Counterparty risk in the narrower sense refers to the risk that losses will be incurred due to default by a counterparty in the settlement of payment obligations (replacement risk) or to untimely performance of payment obligations (settlement risk).

**Liquidity risk** is the risk that Postbank will be unable to meet its current and future payment obligations in full or at the due date. Funding risk (a special form of liquidity risk) arises when the necessary liquidity cannot be obtained at the expected terms when required.

**Model risk** is a collective term for the risk that arises when information can only be presented to decision-makers for their management decisions on the basis of simplified modeling.

Postbank classifies **strategic risk** as the risk that earnings targets will not be achieved because of the inadequate focus of the enterprise on the relevant business environment (which may have changed abruptly). Strategic risk may therefore result from an inadequate strategic decision-making process, from unforeseeable discontinuities on the market, or from the inappropriate implementation of the chosen strategy.

**Operational risk** is defined by Basle II as “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events”. Legal risks are also included here in accordance with the Basle II definition.

### ***Monitoring and managing market price risk***

#### ***Operating risk management***

Several organizational units are integrated into the Postbank group’s overall banking risk process: Postbank AG, with its Financial Markets board department – the Treasury und Proprietary Trading business divisions – and central risk control, plus the subsidiaries in New York and Luxembourg. The foreign subsidiaries manage their own risk independently on the basis of separately assigned risk limits.

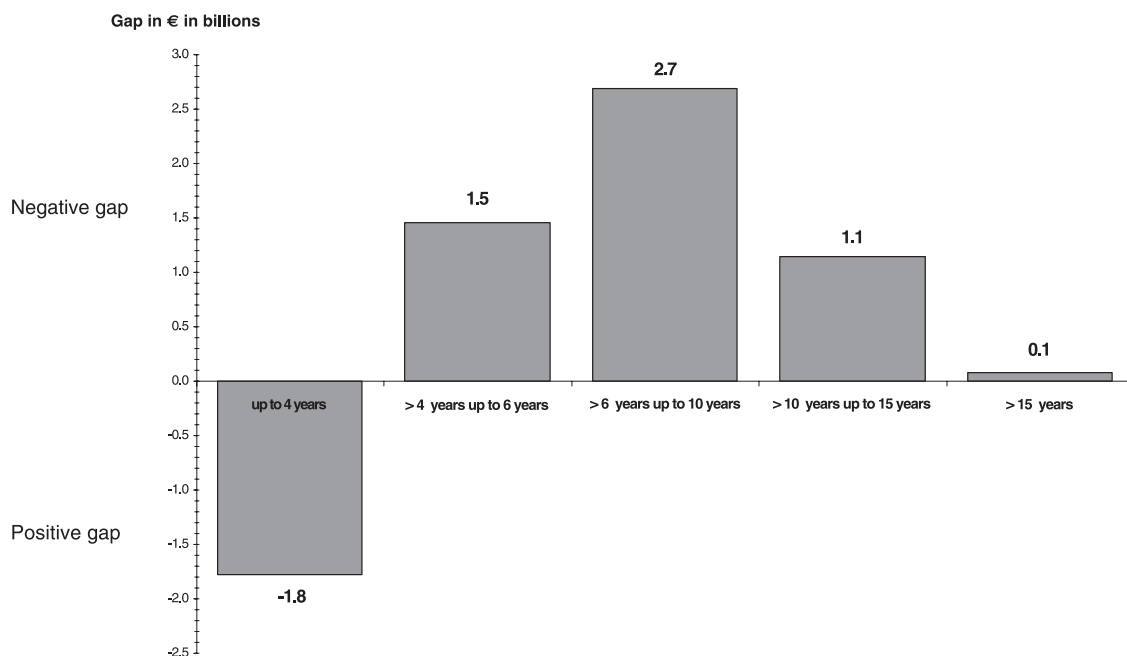
Treasury manages market risk for Deutsche Postbank AG’s banking book. To safeguard against market price risk from customer transactions, there is a particular focus on the control of interest rate risks.

Interest rate risk is the term used to denote the changes in the fair value of interest-bearing financial instruments resulting from a change in market rates of interest; these changes are a result of positive or negative gaps arising from maturity mismatches. In addition to standard models, Postbank also uses proprietary statistical models to quantify interest rate risk. Particular attention is given in this context to the measurement of customer transactions bearing variable rates of interest. Special modeling rules and deposit base definitions form the basis for the risk management concept at Postbank which, as a retail bank, is primarily exposed to interest-bearing transactions.

The following chart presents Deutsche Postbank AG's open interest rate positions at December 31, 2003. The effects of Postbank AG's hedging transactions (e.g. interest rate swaps) are contained in the exposures to interest rate changes shown below. The structure of the positive and negative gaps is the result of moderate overall risk assumption.

#### Interest Rate Sensitivity Analysis

Figures at reporting date: Dec. 31, 2003



The positive and negative gaps are controlled using recognized and off-balance-sheet transactions, with the choice of instruments depending on the liquidity position and current market prices.

#### *Monitoring market price risk using value at risk*

The Postbank group uses suitable statistical models and value at risk methods to monitor market price risk. Value at risk (VaR) is generally established using the variance-covariance method on the basis of a historical observation period of 250 trading days, a holding period of ten days and a confidence level of 99%. The VaR of a portfolio thus describes the potential future loss that will not be exceeded in a period of 10 trading days with a probability of 99 percent. The variance-covariance method is applied consistently to all portfolios, and transforms heterogeneous risks into a single measure of risk, the VaR. To adequately reflect the growing importance of asymmetric distributions or convexity risk at Postbank, we are currently in the process of developing an additional method for measuring VaR using Monte Carlo simulation.

#### *Backtesting*

The methods used to compute VaR are regularly tested for reliability. The predictive accuracy of the estimated VaR is tested by comparison with the gains and losses arising from actual market changes, but for the same portfolio (clean backtesting). Evaluation uses the "traffic light" color code model published by the Bank for International Settlements (BIS). Backtesting provides a significant stimulus for further developing and validating the VaR methodologies used. The backtesting conducted in 2003 did not prompt us to change the VaR methodology we use.

### *Stress testing*

Because VaR does not adequately capture extreme market movements, scenario analyses (worst case scenarios) are performed at regular intervals. These analyses quantify the effects of extraordinary events and extreme market conditions on the Postbank group's asset positions. The effects of the worst case scenarios must be covered by the annual limits allocated for each risk. The scenario analysis methodology was fundamentally revised and refined during the year under review. Postbank also participated in the stress tests conducted as part of the International Monetary Fund's Financial Sector Assessment Program (FSAP), and supported in Germany by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) and the German Bundesbank. The scenario analyses performed in the year under review indicated that Postbank's risk-bearing ability is assured even in extreme market situations.

### *Limiting and reporting*

At Postbank, market price risk is monitored using the system of risk limits based on the value at risk methodology described above. The aggregate limits are resolved by the Group Management Board and allocated by the Market Risk Committee to the individual operating units as sublimits. These are dynamic outcome-based limits; any losses incurred reduce the limit, while gains replenish it. Risk measurement and monitoring are end-of-day, plus intraday for the trading portfolios.

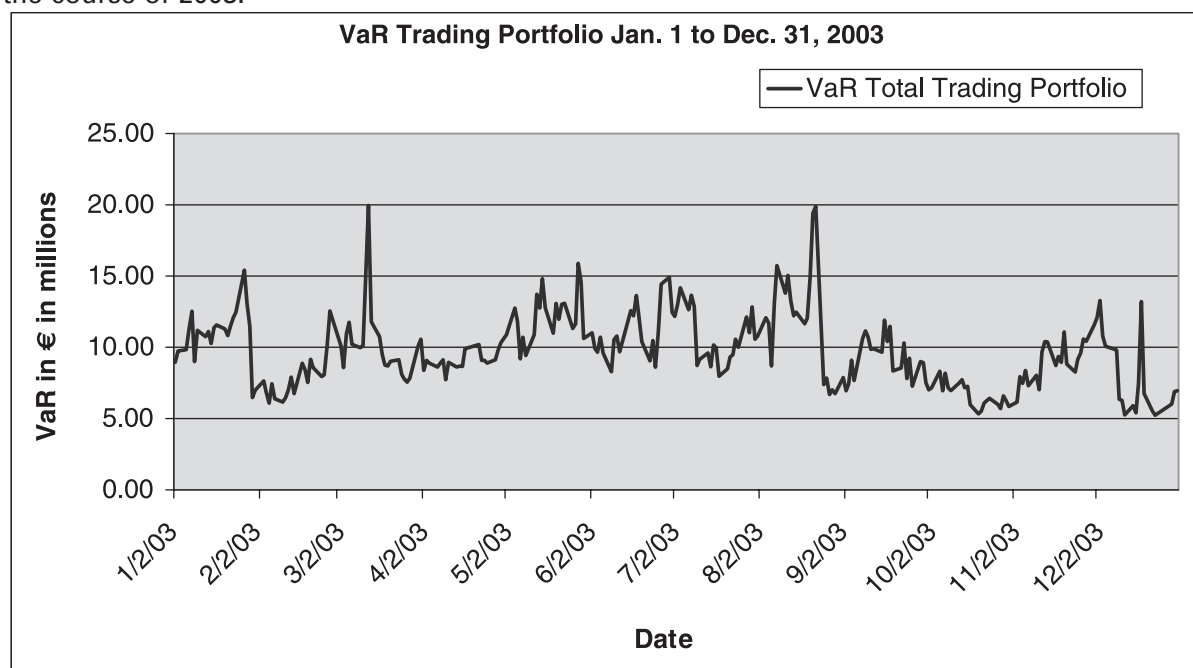
Together with the position managers, the Management Board member responsible for Financial Markets, who is in charge of risk supervision, is notified daily about the positions entered into, limit utilization and the profit/loss of the positions. The Group Management Board receives a comprehensive monthly report containing this information.

The following values at risk were calculated for Postbank's banking book and trading portfolios as of December 31, 2003:

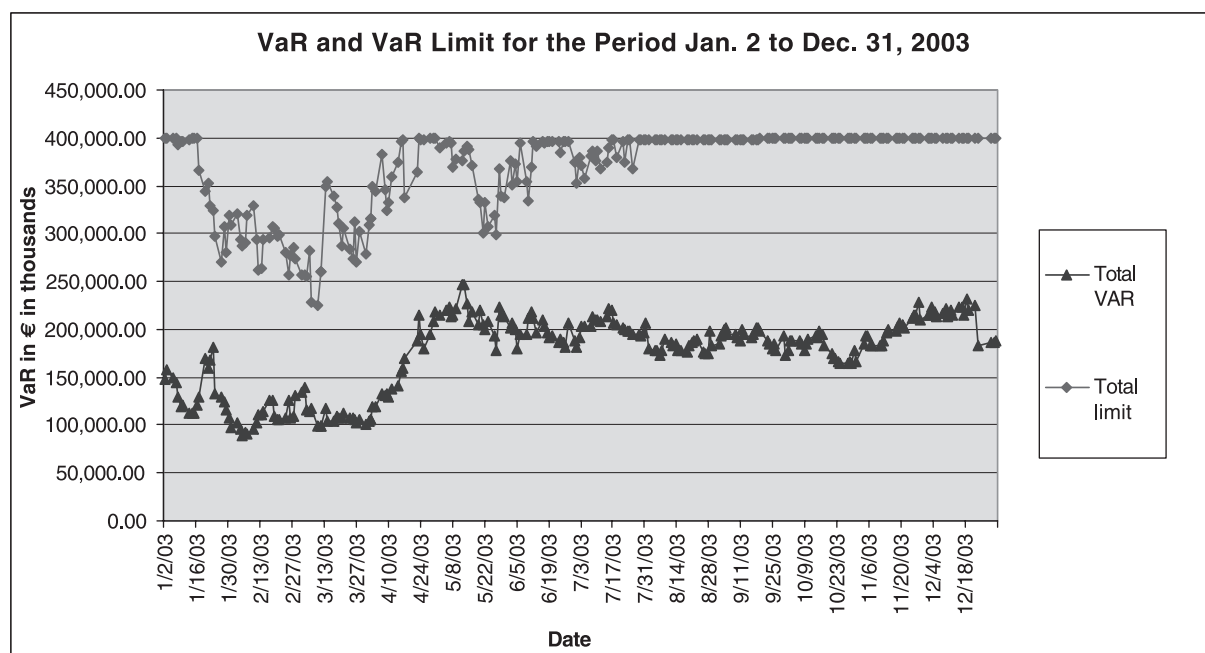
#### **Values at Risk for the Period Jan. 1, 2003 to Dec. 31, 2003** **€ million**

	<b>Total Bank</b>	<b>Banking book</b>	<b>Trading book</b>
VaR at Dec. 31, 2003 .....	188.06	181.11	6.95
Min. VaR.....	89.01	82.92	5.32
Max. VaR.....	247.37	235.28	19.95
Annual average VaR.....	174.58	164.80	9.78

The following chart illustrates the development of value at risk for our trading portfolios over the course of 2003.



The following chart illustrates the development of value at risk for the Postbank group over the course of the year under review.



#### *Identification for new product launches*

The Bank has comprehensively identified the risk factors for the traded products and documented them in a product database. If new products are introduced, the risk factors are also identified and documented. The product introduction process examines whether the identified risks can be fully reproduced.

#### *Appropriate market terms*

In addition to monitoring market price risk, Postbank also checks all trades at the trade date to ensure that market prices have been applied (market pricing verification). This is supervised by internal units that are independent of the trading functions.

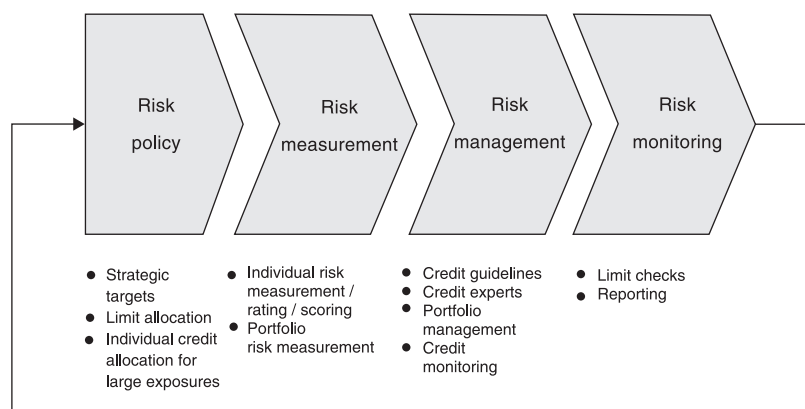
#### **Monitoring and managing counterparty risk**

##### *Risk strategy*

The responsible Management Board members in the Credit Risk Committee (CRC) define the framework for the group's credit policy and the allocation of the credit risk capital made available by the Group Management Board for credit, country and counterparty risks to the operating units. The risk strategy is subsequently expressed by the definition of issuer, country and counterparty limits. As another strategic risk management measure, and in preparation for implementation of the *Mindestanforderungen an das Kreditgeschäft (MaK* – minimum requirements for credit transactions), the Postbank group bases the aggregate composition of its credit portfolio on a target portfolio. This was constructed to reflect a balanced risk/return. The actual portfolio is compared quarterly with the target portfolio.



In addition to defining the risk policy, risk measurement, risk management and risk control are the core elements of Postbank's feedback system for managing its credit risk position.



### *Managing individual risks*

At an individual transaction level, all credit risk positions are entered into on the basis of credit decision processes and systems that are appropriate for the risk involved. The credit competencies and processes are clearly defined in the form of guidelines, and are documented centrally. A core element of credit management is the rating system. Appropriate rating and scoring models are employed, depending on the business division.

### *Rating, scoring and monitoring*

A number of statistical scorecards are available in our retail business, which includes private real estate finance and standardized lending products for corporate customers. Both internal and external ratings support credit risk management in our tailored lending business for corporate customers and financial services providers, especially credit institutions. In this segment, the parameters included in the rating are not only quantitative, but also qualitative, i.e. soft criteria and forward-looking parameters. The internal ratings are empirically validated; mapping to actual defaults or external ratings allows the calculation of the expected default probabilities.

To screen the largest publicly listed corporate exposures, Postbank also uses KMV Credit Edge, a model for near-real-time market-based calculation of expected default probabilities. This captures short-term indications of any potential deterioration in credit quality. The process of screening the largest corporate exposures has been institutionalized by a task force that meets regularly. The aim is to identify trends in the credit quality of the borrowers under observation as early as possible, and to discuss potential measures to be taken.

An objectified credit monitoring process has been implemented for tailored corporate customer lending and real estate finance, based on defined risk indicators. The function of this process is to identify exposures involving increased risk, quantify the provisioning requirement continuously, and guarantee efficient loan restructuring and, where necessary, settlement.

### *Risk/return key performance indicators*

If loan losses are expected in the Postbank group, the average default costs are factored into the advance calculation on an individual loan basis. This system allows all lending transactions to be valued during the advance calculation.

The standard loan loss costs are priced in as a premium for the expected loss and are included in the profitability calculation that is determined in the form of return on equity (ROE) and return on risk adjusted capital (RORAC) ratios.

### *Monitoring of credit limits per borrower unit*

The credit risk per borrower unit is restricted by a limit system applying to all credit types. A global limit system, into which the group-wide trading and banking book transactions are fed, monitors the approved credit, country and counterparty (settlement and replacement) limits, as well as the large exposure limits.

### *Managing country risk*

The Postbank group has established country risk limits to manage country risks. These limits are oriented on Moody's and Postbank's internal country credit ratings and the economic strength of the countries concerned, measured by their GDP. The countries are allocated to various internal risk categories and awarded country ratings in a country risk database, containing all relevant key economic data of the individual countries in addition to the country risk limits and their utilization.

### *Portfolio management*

In addition to capturing individual risks, Postbank determines a credit value at risk (CVaR) for the group credit portfolio. The credit value at risk (CVaR) is the negative change in the value of the group credit portfolio that will not be exceeded within a one-year horizon with a 99 percent probability.

Postbank's credit risks in 2003 and their structure are illustrated in the following table for the various profit centers:

Credit risks 2003 (€ million)	Volume (€ million)	Expected loss (€ million)	Credit VaR (€ million)
Corporate Banking .....	25,346	50	82
Retail Customers .....	18,962	81	54
Financial Markets .....	96,979	42	119
<b>Total (incl. portfolio effect) .....</b>	<b>141,288</b>	<b>173</b>	<b>173</b>

Credit value at risk is measured using a credit risk model that allows the consistent capture of all credit risks. This rating-based model takes migration behavior and commonalities within the portfolio into account, thus enabling risks arising from an adverse concentration of counterparties in terms of their sector, size category, creditworthiness and country to be suitably reflected. The input parameters of the credit risk model are continuously updated.

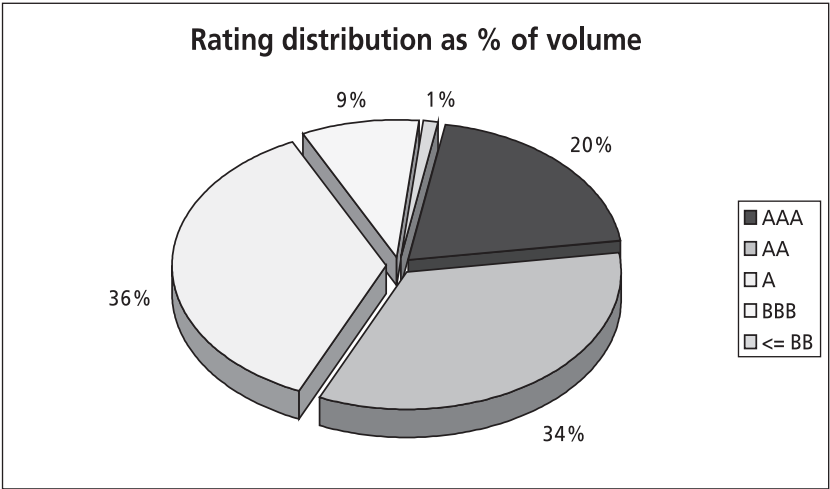
All holdings exposed to credit risk are recorded in the amount of their future cash flows and discounted to the observation date; in addition to changes in fair value, this allows not only the principal risk, but also the present value of all future loan losses to be measured.

The input factors include migration tables derived from rating agency data; credit spreads (risk premiums for various rating/creditworthiness categories); and estimated recovery rates that can be entered both as fixed values and ranges in a Monte Carlo simulation.

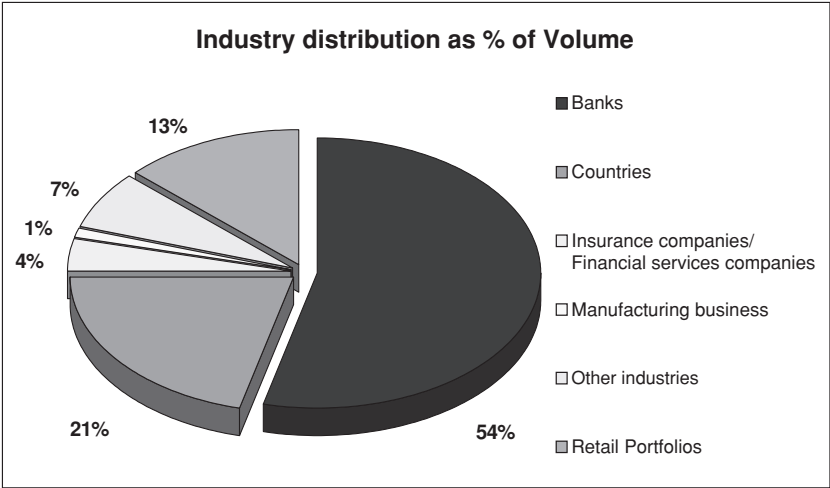
Homogeneous, granular products or business sectors are consolidated and are not computed at individual transaction level. These relate in particular to retail customer products.

The updated portfolio and market data are used to compute the credit value at risk of the group credit portfolio every quarter, as well as the stand-alone credit value at risk for individual products/business divisions. The CVaR in the group credit portfolio is lower than the sum of the individual stand-alone CVaRs of the business divisions because of diversification effects. The expected loss disclosed relates to the weighted mean portfolio loss.

The distribution of rating categories in the group credit portfolio illustrates the conservative approach adopted by the Postbank group. Good rating categories predominate. Unrated retail business is not included in the following chart, but this is subject to scoring.

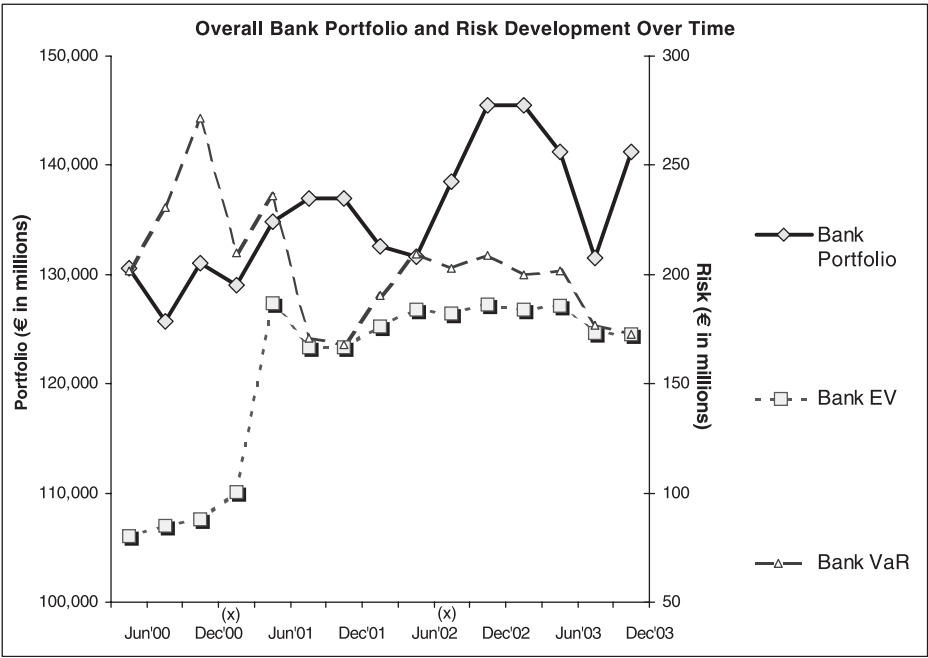


The sector distribution by volume in the credit portfolio remained largely constant. The exposure in the banking sector is primarily attributable to money market and capital market exposures whose counterparties are almost exclusively rated A and higher.

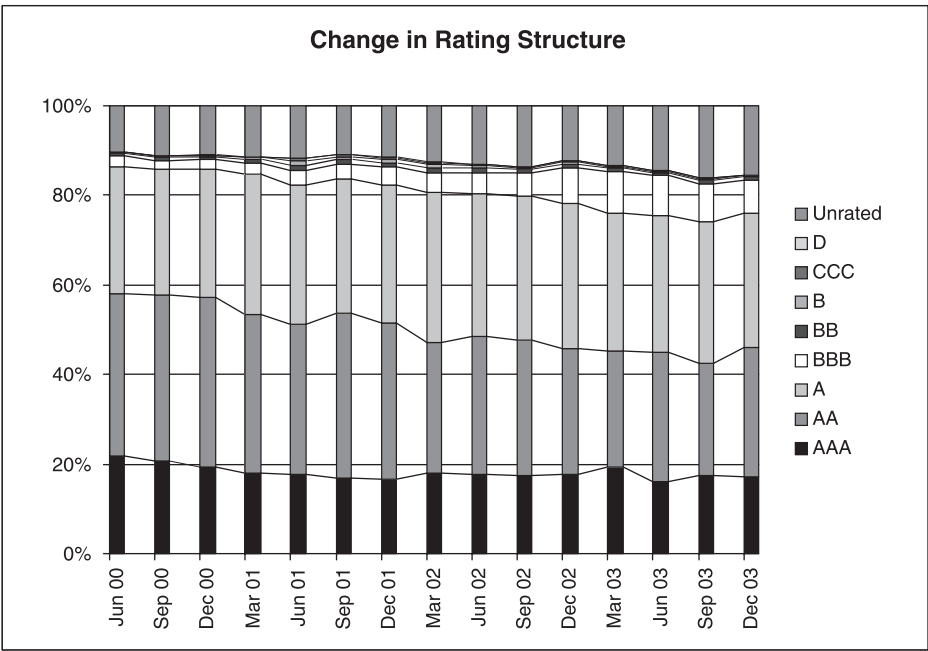


In addition to actively managing existing concentrations, Postbank’s goal is also to reduce them. The target portfolio described above serves as a basis. Postbank uses state-of-the-art tools for active credit portfolio management for this purpose at both portfolio and individual transaction levels.

The historical development of risk indicators presented in the following chart confirms the conservative approach applied to Postbank’s Group credit portfolio over time.



The same applies to the shift in the structure of rating distribution. A reduction in non-investment grade rating categories over time is evident here; this is attributable to the more conservative risk policy at PB Capital following its integration into the Postbank group.



### Reporting

The regular reporting instruments for counterparty risk in the Postbank group are the credit monitoring report for individual risks and the credit matrix for portfolio risks.

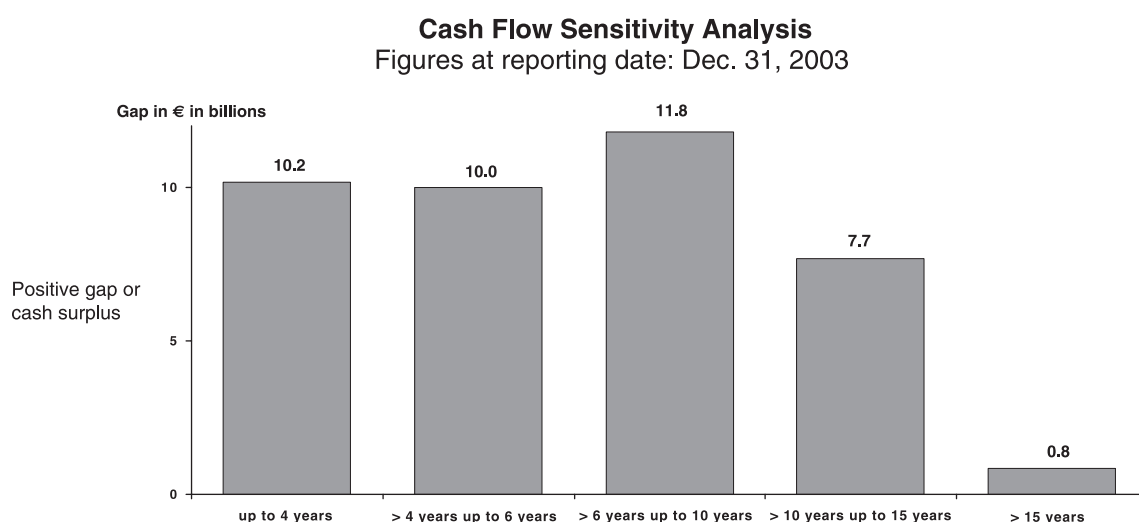
The credit monitoring report contains information about default trends at an individual business division level. The credit monitoring report consists primarily of a risk barometer for default and transaction trends at the individual business divisions, and a watch list that presents all individual exposures that are being intensively monitored, restructured or wound up.

The credit matrix provides transparent information on the composition and development of the group's current credit risk portfolio. It therefore focuses on presenting credit portfolio, credit risk and credit outcome data, thereby laying the basis for active credit portfolio management.

### ***Monitoring and managing liquidity risk***

Postbank AG's liquidity management options are tied to the capital commitment maturity pattern. Short-term management is handled as part of money market activities, while Treasury is responsible for ensuring medium- and long-term liquidity. Postbank's balance sheet structure shows a surplus of deposits from the retail customer business. These funds are invested by Treasury, largely in liquid money and capital market securities. These assets (or repos as an additional alternative) are available as funding sources, supplemented by debt issuances or commercial paper programs. To avoid liquidity squeezes, the liquidity positions are regularly subjected to stress tests. These simulations reflect external changes in a variety of market factors, plus structural shifts within Postbank's funding resources.

The cash flow sensitivity analysis of Postbank AG shown below presents all cash flows on a net basis and underscores Postbank's strong cash position.



The ECB's marginal lending facilities were used in isolated instances, and open market transactions were conducted regularly. Principle II under Section 11 of the German Banking Act (*Kreditwesengesetz: KWG*), which is the regulatory measure for assessing solvency, was complied with at all times. No extraordinary call risks arose from the early withdrawal of large deposits.

### ***Monitoring and managing operational risk***

Operational risk denotes the "risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events". Postbank has taken over unchanged this definition by the Basle Committee on Banking Supervision as the basis for introducing a corresponding control process. Postbank's aim is to meet the requirements for the standardized approach when the new capital adequacy standards take effect. At the same time, however, the groundwork is being prepared for more risk-sensitive advanced approaches.

Postbank's central risk control department is responsible for implementing regulatory requirements in the Postbank group. An operational risk control manual describes the roles, functions and responsibilities of all parties involved in the control process. Managing operational risk is and remains the primary task of the individual units within the Bank.

Postbank uses qualitative self-assessment to identify and measure operational risk. The organizational units use questionnaires to assess their own risk position. The results enable

each unit to prepare a detailed risk profile, together with corresponding recommended actions for managing risk.

Risk indicators are defined in many organizational units to develop an early-warning system. These enable the ongoing assessment of the risk position for each division and indicate the need for action if division-specific defined limits are exceeded.

Losses attributable to operational risk are captured and evaluated in a loss database. Because Postbank aims to employ a risk-sensitive approach in the future, this data will form the basis for determining capital requirements, among other things.

The results of the control process are reported both centrally to the Management Board and decentrally in the units. A periodic reporting system that presents the results of the three methods in use has been launched for this purpose. There are plans to establish a risk committee for operational risk in 2004.

The data is captured decentrally in an internet-based client/server architecture. Both central and decentralized reports are available at all levels. A multistage professional education concept was developed together with the Continuing Professional Development and Training Department to ensure that those employees involved in the operational risk control process are suitably qualified.

By continuing the projects launched in recent years, Postbank believes that it is well on the way to implementing the new regulatory requirements.

#### ***Monitoring and managing model risk***

To enable variable interest rate customer products (deposits and overdrafts) to be correctly reproduced, the Postbank group uses an assumptions-based replication model. The model risk of this model is analytically established and separately backed by risk capital in risk capital allocation. The model assumes firstly a product valuation portfolio that ensures a more or less constant net interest margin, and secondly that the volumes examined are approximately constant (deposit base). To determine the model risk, potential changes in the repricing behavior and possible volume outflows are examined so that both model risk components can be quantified. The aggregate model risk is the sum of the values of the two components. Because the model is conservative, any risk-mitigating compensation effects are not factored in.

#### ***Monitoring and managing strategic risk***

Postbank classifies strategic risk as the risk that earnings targets will not be achieved because of the inadequate focus of the enterprise on the relevant business environment (which may have changed abruptly). Strategic risk may therefore result from an inadequate strategic decision-making process, from unforeseeable discontinuities on the market, or from the inappropriate implementation of the chosen strategy.

Contrary to counterparty or market risk, for example, it is extremely difficult to arrive at any quantitative measurement of strategic risk. It is equally impossible to compress this type of risk into a single risk indicator using statistical methods.

Postbank tries to identify strategic risks at an early stage by continuously analyzing the market and competitive environments, as well as during the course of its multiyear planning, and by then initiating appropriate strategic countermeasures. Fast, effective adjustments are also assured by a central project control department that tracks the progress and goals delivery of Postbank's key projects.

The Group Management Board is responsible for strategic decisions, with particularly far-reaching strategic decisions additionally requiring approval by the Supervisory Board.

#### ***Presentation of risk position***

The Postbank group uses sophisticated instruments and processes to manage and control the various types of risk. These allow the aggregated control and limitation of the Bank's overall

risk across all risk types and business divisions. The methods and procedures comply with all current legal and regulatory requirements and are continuously adapted and improved to reflect changes in the market and the development of the group.

Despite the difficult macroeconomic environment in 2003, this allowed us to ensure that Postbank's risk profile remained low and that it could benefit from relatively low risk costs. During the year under review, a significant securitization of residential building loans was successfully placed for the first time as part of our credit portfolio management activities. Going forward, we intend using the capital markets for securitization measures more intensively so that we can further improve our risk diversification.

The new requirements stipulated by the *MAK* were implemented as planned in our organizational structure and workflow organization during the year under review. They will be implemented in our IT systems in good time as part of the Basle II project.

Risk capital allocation gave the business divisions in the Postbank group sufficient scope to consistently implement our growth-driven business strategy. We have not identified any risks that could impair our development or jeopardize our continued existence.

The German Monopolies Commission alleges that Deutsche Post AG is in violation of the prohibition on state aid contained in the EU Treaty because it allows Deutsche Postbank AG to use the retail outlets in return for compensation that is not calculated on an arm's length basis. Deutsche Post AG and Deutsche Postbank AG believe that this allegation is unfounded. The fee paid by Deutsche Postbank AG complies with the requirements of EU law on competition and state aid.

On January 21, 2004, the European Commission issued a state aid ruling on the assumption by the Belgian government of pension entitlements of employees of the Belgian telecommunications company Belgacom.

According to press reports, the European Commission is examining whether the state aid principles of this ruling could be applied to the assumption of the pension obligations for civil servants employed at Deutsche Post AG. However, the European Commission has not confirmed these reports.

It is currently unclear whether the state aid principles underpinning the European Commission's ruling can also be applied to Deutsche Postbank AG as one of the successor companies to Deutsche Bundespost, and if so, what financial burden this could entail. The European Commission's ruling has not yet been published; as a result, it is not known whether the case is in any way comparable with the statutory arrangements applicable to the pension obligations of Deutsche Post AG or Deutsche Postbank AG.

### ***Internal Audit***

Internal Audit is a key element of the Postbank group's business monitoring system. In accordance with the Minimum Standards for Auditing Departments of Credit Institutions, it audits all areas of the group at least once every three years. Areas that are exposed to greater risk are audited annually. Audits are planned and their frequency determined in a risk-oriented manner on the basis of the results of the last audit, taking recent changes into account. This results in a multiyear audit plan and the annual program for the next fiscal year, and Internal Audit is commissioned by the Management Board with its implementation.

Regularity audits and system examinations are conducted regularly as part of the annual program. Internal Audit also carries out special examinations under particular circumstances, and performs audit and consulting activities for the introduction and implementation of important projects. Audit concepts are continuously adapted to reflect current changes in the group and in the legal situation. Internal Audit reports its audit results independently to the Group Management Board. In terms of our organizational structure, it reports directly to the Chairman of the Management Board.



## ***Basle II***

The Basle Committee on Banking Supervision wants to focus the regulatory capital requirements for credit operations more heavily on economic risks. To do this, in the future it plans to make equity backing for loans rating-dependent. Also, for the first time, the New Capital Accord requires operational risks to be given equity backing.

The final version of Basle II is expected to be published on October 31, 2003. The Postbank group addressed this issue at an early stage and introduced a comprehensive Basle II project in order to build up the necessary data histories and ensure that rating systems, processes and IT systems are adapted in good time.

The "ratings and credit-specific processes" subproject aims to fulfill the requirements of Basle II that relate to the internal rating basis approach as early as possible and across all business divisions. This also includes the integration of rating systems into credit-specific processes. As well as satisfying the regulatory requirements, the further development and adaptation of the rating models offer considerable business benefits: credit decisions can be optimized by using ratings that comply with Basle II, thereby reducing default costs and ensuring that the "right" loans are accepted, and that loan pricing reflects the risk.

IT implementation also includes the development of the necessary comprehensive data histories. The IT infrastructure of Postbank's lending operations is being further improved in a separate "group-wide credit management system" project.

The core content of the "risk mitigation" subproject is the adaptation of existing collateral systems, together with the definition and implementation of processes for the recording and administration of collateral.

The operational risk sub-project described above is aimed at implementing an in-depth operational risk control process on a bank-wide basis, with a particular focus on the systematic and comprehensive collection and cataloging of operational risks. This includes carrying out regular self-assessment, establishing a loss database, and defining and monitoring risk indicators.

The Postbank group is thus implementing Basle II at an early stage, thereby creating the conditions under which it can exploit the opportunities presented by Basle II.

## ***Outlook***

Following interest rate movements in 2003 that were driven by disappointing economic growth in the euro zone and the weakening of the US dollar against the euro, on balance we are expecting a slight rise in interest rates in the euro zone, coupled with modest economic growth in Germany.

The basis for further cost-cutting in 2004 was established in 2003. The workforce reductions already instituted and in preparation are having a positive effect on personnel expenses, irrespective of natural fluctuation.

Over the past three years, Postbank has invested heavily in further improvements in its IT. The most important project – the introduction of a new, SAP-based system for processing checking account transactions – was successfully completed in 2003. This too generated cost savings in the year under review.

In the retail business, we intend to continue growing faster than the market and to further extend our already high new customer acquisition rate on the back of our "easy, low-cost banking" performance promises. There will be additional product innovations to accompany the very successful "DAX Sparbuch".

We will also reinforce and emphasize our status as a full bank to further increase our cross-selling ratio with existing customers.

We will further extend our leadership in online banking. The same applies to our leading position as Germany's largest card issuer. We will also focus on installment loans, private real estate finance and the securities business.

In the corporate customers business, we will continue to extend our core competencies, in particular payment transaction services, and will invest in new product fields, such as e-banking and web-based payments.

We have achieved technology leadership in the field of core systems for banking operations, and have also laid the groundwork for achieving a similar position in the area of support systems. In addition to processing our own transactions, we will also act as a service provider by making our platform available to other banks. We have already signed corresponding letters of intent with major banks for such services. We will expand our product offering for checking and savings accounts, as well as cards.

Due to the special circumstances prevailing in 2003, we expect 2004 earnings to be lower year-on-year.

### **Audit Opinions for the Fiscal Years 2001, 2002 and 2003**

*The following auditor's reports (Bestätigungsvermerke) have been issued in each case in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the parent company unconsolidated financial statements of Deutsche Postbank AG as of and for the fiscal year ended December 31, 2001, 2002 and 2003, as a whole, consisting of unconsolidated balance sheet (Bilanz), unconsolidated statement of income (Gewinn- und Verlustrechnung), notes (Anhang), and the management report (Konzernlagebericht). The management reports for the years 2001 and 2002 are not included in this Offering Circular.*

### **Audit Opinion for the Fiscal Year 2001**

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Deutsche Postbank AG for the business year from January 1 to December 31, 2001. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's management boards. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial condition and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Deutsche Postbank AG and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a random basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's management board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial condition and results of operations of the Deutsche Postbank AG in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of Deutsche Postbank AG's position and suitably presents the risks of future development.

Dusseldorf, March 4, 2002

PwC Deutsche Revision  
Aktiengesellschaft/Wirtschaftsprüfungsgesellschaft

(Kütter)  
Wirtschaftsprüfer  
(German Certified Public Accountant)

(Güldenberger)  
Wirtschaftsprüfer  
(German Certified Public Accountant)

## **Audit Opinion for the Fiscal Year 2002**

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Deutsche Postbank AG for the business year from January 1 to December 31, 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's management board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial condition and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Deutsche Postbank AG and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a random basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's management board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial condition and results of operations of the Deutsche Postbank AG in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of Deutsche Postbank AG's position and suitably presents the risks of future development.

Dusseldorf, February 21, 2003

PwC Deutsche Revision  
Aktiengesellschaft/Wirtschaftsprüfungsgesellschaft

(Kütter)  
Wirtschaftsprüfer  
(German Certified Public Accountant)

(Güldenberger)  
Wirtschaftsprüfer  
(German Certified Public Accountant)

### **Audit Opinion for the Fiscal Year 2003**

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Deutsche Postbank AG for the business year from January 1 to December 31, 2003. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's management board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial condition and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of Deutsche Postbank AG and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a random basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's management board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial condition and results of operations of the Deutsche Postbank AG in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of Deutsche Postbank AG's position and suitably presents the risks of future development.

Dusseldorf, February 27, 2004

PwC Deutsche Revision  
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