Deutsche Postbank AG, Bonn
Annual Financial Statements 2007

Postbank

Deutsche Postbank AG, Bonn
Annual Financial Statements for the Period Ended December 31, 2007
and Management Report for Fiscal Year 2007

Deutsche Postbank AG
Management Report

Business and Environment

Significant events in the year under review

- We assumed responsibility for the payment transaction unit of HypoVereinsbank (HVB) on January 1, 2007.
- The Annual General Meeting of Deutsche Postbank AG was held in Cologne on May 10, 2007. The shareholders approved all items on the agenda with a majority of over 97 % in each case. A dividend of €1.25 per share for fiscal year 2006 was paid out on the following day.
- After more than eight years of successfully heading Deutsche Postbank AG, Wulf von Schimmelmann stepped down as Chairman of the Management Board at his own request on June 30, 2007. He was succeeded in this office by Wolfgang Klein on July 1, 2007.
- The Supervisory Board appointed two new Management Board members as of July 1, 2007, as well: Michael Meyer is in charge of Product Marketing, while Guido Lohmann is responsible for the Bank's Mobile Sales. Previously, Wolfgang Klein headed both units.
- Postbank has realigned its insurance business. In a first step, we signed a contract on July 18 to sell BHW Lebensversicherung AG, PB Versicherung AG, and PB Lebensversicherung AG to the Talanx Group. The transaction closed on September 30. At the same time, we entered into a long-term cooperation contract with Talanx to sell life and accident insurance to Postbank customers.
- On August 27, we entered into a partnership for the sale of financial services with Tchibo, one of Germany's largest international consumer goods and retail companies, in order to increase the reach of Postbank products even further.
- As part of the strategic reorganization of its insurance business, Postbank also entered into a marketing partnership with HUK-COBURG on September 21. Since October 2007, Postbank has been marketing HUK-COBURG's motor vehicle, third-party liability, and non-life insurances exclusively via all its sales channels. Conversely, HUK-COBURG exclusively offers Postbank products, such as the Postbank checking account, via its distribution channels.
- At Postbank's first Capital Markets Day on December 6, 2007, Postbank's Management Board presented the strategic "Next Step" program. This includes an even stronger focus on customers and an even sharper competency profile. Postbank's goal is to continue its profitable growth as the "number one for liquidity and financial management" in a challenging market environment.
- On December 19, Postbank was issued a *Pfandbrief* (mortgage bond) license by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin). This allows Postbank to issue *Pfandbriefe* as part of its new debt issuance program. This puts our refinancing structure, which to date was based mainly on our strong customer deposit base, on an even broader foundation. Our cover pool for issuing mortgage bonds *(Hypothekenpfandbriefe)* received an indicative rating of "AAA" from the Fitch Ratings, Moody's, and Standard & Poor's rating agencies, the best possible category. Our initial, extremely successful *Pfandbrief* issue, which had a volume of €1.5 billion, followed at the start of 2008.

Global economic upturn despite the initial impact of the financial market crisis

The global economy continued its stable growth in 2007, although global economic risks increased in the second half of the year due to the financial market crisis in the USA and the massive rise in oil prices. However, these factors did not slow the pace of growth noticeably. With growth of just under 5 %, global economic output almost matched the previous year's figure.

The US economy suffered a sharp drop in residential construction spending in full-year 2007. However, the pronounced downturn in the housing market initially had only a limited effect on other sectors of the economy. Consumer spending continued to grow at a robust rate. Companies expanded their investments, with commercial construction recording a particularly strong increase. US exports also benefited from the robust global economy and the weak US dollar. Thus, exports made a significant contribution to economic growth in 2007 after negatively impacting it in previous years. By contrast, gross domestic product (GDP) grew by only 2.2 % in 2007 – significantly less than in the previous year and slightly down on our forecasts – due to anemic residential construction activity.

The economic upturn in Asia continued at an almost uninterrupted pace. At almost 10 %, the emerging markets in Asia again reported the highest economic growth in the world. In contrast, economic growth in Japan slowed. At 1.9 %, GDP for the country was weaker than in the previous year. While exports continued to record strong momentum, domestic demand grew more moderately, primarily due to the slight decline in gross capital expenditure.

In 2007, economic development in the euro zone was more favorable than we had expected at the beginning of the year. Although economic growth slowed somewhat over the course of the year, GDP growth was only slightly lower than last year's figure at 2.7 %. The euro zone economy profited again from a rising trade surplus, despite the marked appreciation of the euro. Internal demand was the main growth driver, however. Gross capital expenditure continued to be especially positive, while growth in consumer spending failed to match the previous year's figure.

Strong growth in Germany

Although the pace of economic growth also slowed in Germany over the course of 2007, GDP growth again exceeded expectations, at 2.5 %. Exports provided enormous momentum in the year under review. With growth of a good 8 %, exports increased substantially more than imports, accounting for about half of macroeconomic growth recorded. With regard to the domestic economy, gross capital expenditure again proved to be the key growth driver, increasing by approximately 5 % in the year under review. Investment in machinery and equipment in particular continued to increase very dynamically, with growth of 8.4 %. In contrast, growth in construction investment was noticeably more constrained than the previous year, at 2 %. However, the performance of the various construction categories varied widely. While commercial construction grew by around 3 % as part of overall buoyant levels of corporate investment, residential construction rose only by 0.3 %, with even this moderate increase only being due to a strong first quarter. Over the rest of 2007, residential construction dropped below the trend for the previous year. The pull-forward effects in 2006, when residential construction benefited temporarily from the abolition of the homeowners' allowance and the increase in value added tax, had a negative impact here.

The sharp rise in corporate investment continued to have a positive impact on the labor market in 2007. By the end of the year, seasonally adjusted unemployment had declined to 3.51 million, a decrease of around 590,000 compared with the figure for the previous year. In the same period, the unemployment rate dropped from 9.8 % to 8.4 %. Nonetheless, consumer spending proved a weak point in the German economy in the year under review. The key reason for this was the sharp rise in value added tax from 16 % to 19 % at the beginning of the year, which clearly dented consumers' inclination to spend. Although consumer spending recovered again in the course of the year, it did not match prior-year levels. Our expectations of moderate growth in consumer spending were therefore frustrated. However, GDP growth in Germany in the year under review was much higher than we had expected.

Market developments

Events on the 2007 financial markets can be divided into two phases. The influence of positive global economic growth dominated the first half of the year. Share prices and interest rates rose to their highest levels in many years. Then, starting in the second half of July, deep uncertainty took hold of the markets. The trigger was the subprime mortgage crisis in the US, which led to mutual distrust among financial market players and ultimately to turmoil in many market segments.

Stock market prices increased sharply until the second half of the year. In this phase, the strong economy and sustained corporate earnings growth offset the dampening impact of rising capital market rates. Then, starting in the summer, the stock markets came under pressure and ultimately gave up some of their previous price gains following extremely severe volatility in some cases. Financial stocks were hit particularly hard. Many banks were forced to charge massive writedowns on their assets due to the subprime crisis, even running into financial difficulties in some cases. As a result, the prices of financial stocks fell across the board. This dragged down most of the leading share indices in industrialized countries, even though stock prices in non-financial segments continued to rise due to sustained corporate earnings growth.

Key share indices ended the year under review in positive territory despite the turbulence. The DAX 30 in particular again performed extremely well due to its high proportion of cyclical stocks and Germany's strong economic development. It rose a good 22 % in the course of the year, significantly outperforming the EURO STOXX 50, which was up just under 7 %. The S&P 500 rose by slightly less than 5 %. Overall, Postbank's shares remained at year-end 2006 levels in the first half of 2007. Starting in the summer, they then declined along with the rest of the banking sector, but largely recovered the ground they had lost by the end of the year. For further details, please refer to the chapter entitled "Shareholders and Stock."

In the course of 2007, the euro again appreciated substantially on the foreign exchange markets, contrary to our expectations. After a moderate increase in the first half of the year, it shot up in the second half to close the year at US$1.46, an increase of 10.6 % year-on-year. The driving forces behind the slide in the dollar were the subprime crisis and the resulting turbulence in the financial markets. This fueled fears of a recession in the United States, causing the Federal Reserve to slash its key interest rate starting in September from 5.25 % to 4.25 % at the end of 2007. In contrast, we had been expecting key rates in the United States to remain more or less unchanged in 2007. In January 2008, the Federal Reserve again slashed its key rate to 3 %.

Due to the strong economic development and increasing inflation risks in the euro zone, the European Central Bank (ECB) increased key interest rates twice in the first half of the year by a total of 0.5 percentage points to 4 % – the target figure we mentioned in last year's Annual Report. However, the ECB did not go on tightening monetary policy over the rest of the year in view of the turbulence on the financial markets, increasing economic risks, and the rising external value of the euro. Nonetheless, money market rates rocketed in the second half of the year. The mutual mistrust among financial institutions spilled over onto the money market, leading banks to demand substantial spreads for interbank loans. Three-month EURIBOR climbed to a peak of 4.95 % before ending the year at almost 4.7 %, an unusually large amount in excess of the ECB's key rate.

The sustained economic upturn and the ECB's key rate rises led to a significant increase in capital market returns in the first half of 2007. Around the middle of the year, both the yield on 10-year US government bonds and the yield on 10-year German bunds rose to their highest levels in several years. However, the cuts in key US interest rates and the ECB's decision to hold off on additional rate rises provided some relief. In addition, government bonds benefited from their function as a "safe haven" during the market turbulence. At the end of 2007, the yield on 10-year US treasury bonds was around 0.6 percentage points lower than at the end of 2006. In contrast, the yield on 10-year German bunds rose by a good 0.3 percentage points in the same period, to 4.3 %. Thus the yield curve remained relatively flat.

The flat yield curve limits the opportunities for Postbank, like all other banks, to increase earnings by refinancing long-term loans, which in normal interest environments bear relatively high rates of interest, using short-term loans at lower interest rates. However, due to its strong customer business, Postbank is less dependent in its refinancing operations on volatile capital markets than many other institutions. Since deposits generally exhibit a lower level of interest rate elasticity, the flattening of the yield curve has not impacted Postbank's refinancing costs directly to the full extent.

Sector situation

The majority of German banks reported an encouraging trend in their operating results in 2007. However, the market turmoil following the subprime crisis in the United States had a tangible impact on earnings in some cases in the second half of the year. Individual financial institutions that were extremely active on the market for structured products experienced serious difficulties. Nevertheless, compared with many international financial institutions the effects of the US subprime market have been limited overall.

Seven banks are listed in Deutsche Börse's Prime Standard segment. We have not taken IKB into account in the following analysis due among other things to the fact that they have only published results for the period up until June 30, 2007. In the first nine months of the year under review, the other six banks reported an average return on equity after taxes of 19.5 %, an improvement of 5.8 percentage points year-on-year. During the same period, their cost/income ratio declined from an average of 57.2 % to 53.3 %. This improvement in key profitability ratios was due to an increase in net interest income, a reduction in the allowance for losses on loans and advances, an increase in net fee and commission income, and only a slight rise in administrative expenses for the most part. In contrast, net income from proprietary trading fell in the majority of cases. The fourth-quarter trend for German banks is for continuing positive development at the operational level, although additional financial effects resulting from the market turmoil are to be expected.

Germany saw a moderate increase in loans granted in the year under review, although the performance of the various market segments differed widely. As we had expected, the demand for loans from corporates picked up tangibly due to the continuing strong rise in capital expenditure. The lending volume in this segment rose by 6.3 % or €50.8 billion in the period up to the end of the third quarter, to total €858.4 billion. In contrast, the market volume of residential construction loans, where we had expected to see a moderate increase, declined by 0.3 % or €2.4 billion to €792.6 billion. This area was impacted by low investment in residential construction and, within this, by a low level of new builds in particular, after 2006 had seen pull-forward effects due to the abolition of the homeowners' allowance and the pending increase in value added tax. The consumer loans segment was almost flat, as expected. For the market as a whole, the volume of installment loans rose by a mere 0.2 % or €0.3 billion, to €130.9 billion.

German banks' credit portfolios continued to be of a comparatively high quality in 2007. According to information provided by Deutsche Bundesbank, the increase in loans requiring specific valuation allowances is expected to be only moderate following the fall in the ratio of loans in default to the total volume of customer loans to its lowest level since the end of the 1990s. German companies and private households continue to be in solid financial shape thanks to ongoing positive economic developments. Assuming results of operations remain stable, gearing of German companies outside of the financial sector should only have risen slightly at most in 2007. Private households are expected to have further reduced their debt as well. The corporate insolvency trend also continued to decline in view of the positive economic development in 2007. However, the rate of decrease slowed, in line with expectations. The number of corporate insolvencies declined by about 4 % to a good 29,000. The last time this figure was lower was in 2000. By contrast, the number of consumer insolvencies rose by approximately 16 % to around 107,000; this means that the pace of growth declined by roughly one half in comparison to the previous year. However, it should be noted in this regard that private individuals have only had the opportunity to file for bankruptcy in Germany since 1999, and that, as a result, this figure is still impacted by a backlog of unprocessed cases from the past.

The German banking landscape continues to feature a three-pillar structure consisting of private banks, savings banks, and cooperative banks, as well as a large number of credit institutions compared with other European countries (September 30, 2007: 2,022 institutions compared with 2,048 institutions as of the end of 2006). In 2007, takeovers and mergers took place only within the individual pillars. Hypo Real Estate's takeover of Depfa and Landesbank Baden-Württemberg's takeover of Sachsen LB are worth mentioning in this context.

Postbank's investment focuses in 2007

In 2007, Postbank's investments focused on the continued integration at the operational level of the acquisition made in the previous year. In particular, the emphasis was on expanding the IT systems for advisory and sales support, including the CRM (Customer Relationship Management) system, so as to leverage synergies. At the same time, Postbank's state-of-the-art multichannel architecture was expanded with the aim of further strengthening sales. Other areas of investment were attributable to the continuing implementation of the regulatory requirements for Basel II and the ongoing establishment of the credit factory at BHW Bausparkasse. The expansion of a Corporate Banking strategy for loans is designed to facilitate Postbank's development into the core bank for SMEs. In connection with the motto "Filiale im Wandel" ("Changing Branches") the goal was, and remains, to enhance the appeal of Postbank's branches so as to attract more new customers, improve the cross-selling ratio for existing customers and prevent existing customers from leaving. In 2007, optimization measures were tested in pilot programs at eight locations. Other significant investments related to the continued implementation of the "Payment Solution" multiclient-enabled payments platform and the processing of all domestic payments for the clients concerned.

Organization and management

Disclosures in accordance with section 289(4) of the HGB and explanatory report

Deutsche Postbank AG ("Postbank") offers financial services to private and corporate customers, with Germany as its primary focus.

Share capital, voting rights, and transfer of shares

Postbank's share capital amounted to €410,000,000 as of December 31, 2007 and is composed of 164,000,000 no-par value registered shares. Each share conveys the same statutory rights and obligations and grants the holder one vote at the Annual General Meeting. No shareholder or group of shareholders is entitled to special rights, and in particular those conveying powers of control.

The exercise of voting rights and the transfer of shares are based on the general statutory provisions and the Company's Articles of Association, which do not limit either of the two. Article 17 determines the requirements that must be met by shareholders to attend the Annual General Meeting and exercise their voting rights. The Company only regards as shareholders the persons entered as such in the share register. The Management Board is not aware of any agreements between shareholders that restrict voting rights or the transfer of shares.

Equity interests in excess of 10 %

The German Federal Government holds an 80 % equity interest in KfW Bankengruppe, which in turn holds around a 30.5 % interest in Deutsche Post AG, which itself has an interest in Postbank of 50 % plus one share.

The free float traded on the stock exchanges therefore amounts to 50 % less one share of Postbank's share capital. According to the disclosures received by us in accordance with section 21(1a) of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), the Company is not aware of any other shareholders that directly or indirectly hold more than 10 % of the share capital.

Powers of the Management Board to issue or repurchase shares

The Management Board is authorized, with the approval of the Supervisory Board, to increase the Bank's share capital by up to €41,000,000 up to March 24, 2009 by issuing new, no-par value non-voting registered shares (preference shares) against non-cash contributions (authorized capital). Shareholders' pre-emptive subscription rights are disapplied. Authorized capital is commonly used as an acquisition currency by German companies. The utilization of authorized capital enables the Company to make acquisitions flexibly and without using the capital markets. Authorized capital amounts to 10 % of the share capital.

The Management Board is also authorized, with the approval of the Supervisory Board, to issue new no-par value registered shares from authorized capital II against cash contributions up to May 10, 2011, in order to increase the share capital by up to a total of €137,000,000. Shareholders will be granted pre-emptive subscription rights.

The creation of authorized capital II is designed to enable the Company to procure new equity rapidly and flexibly. Authorized capital II amounts to less than 33.5 % of the share capital.

The specific provisions governing authorized capital are contained in our Articles of Association, which are available on our website.

The Annual General Meeting of Postbank on May 10, 2007 renewed the Management Board's global authorization to purchase own shares. Accordingly, the Management Board is authorized to purchase own shares up to a total of 10 % of the share capital.

The Company is thus authorized firstly to purchase and sell own shares for the purpose of securities trading in accordance with section 71(1) no. 7 of the *Aktiengesetz* (AktG – German Stock Corporation Act) up to November 9, 2008. The value of the shares to be purchased for this purpose may not exceed 5 % of the Company's share capital at the end of any given day. In addition, shares purchased on the basis of this authorization together with other shares of the Company that the Company has already purchased and still holds may not account for more than 10 % of the share capital at any time.

Secondly, the Company is authorized in accordance with section 71(1) no. 8 of the AktG to purchase own shares amounting to up to a total of 10 % of the share capital existing at the date the resolution is adopted, up to November 9, 2008. This figure includes shares that the Company has already purchased and still holds. The Management Board may only utilize shares purchased on the basis of the authorization for purposes other than sale via the stock exchange or via an offer to all shareholders if the purposes concerned are specified in the authorization. The approval of the Supervisory Board is required in each case.

The details are provided in the proposed resolutions resolved by the Annual General Meeting on agenda items 6 and 7 of the Annual General Meeting on May 10, 2007, which are also available on the Company's website.

It is common practice among listed German stock corporations for the Annual General Meeting to reissue the authorization to purchase own shares. The Management Board and the Supervisory Board will propose to the Annual General Meeting on May 8, 2008 that this authorization be renewed.

Appointment and dismissal of Management Board members

The members of the Company's Management Board are appointed by the Supervisory Board for a maximum term of five years in accordance with section 84 of the AktG and section 31 of the *Mitbestimmungsgesetz* (MitbestG – German Codetermination Act). Members may be reappointed or their term extended, in each case for a maximum of five years, insofar as this is permitted by the relevant statutory provisions. Under Article 5 of the Company's Articles of Association, the Management Board consists of at least two members. Otherwise, the Supervisory Board determines the number of members of the Management Board and can also appoint a Chairman of the Management Board and a Deputy Chairman of the Management Board, as well as alternate members.

Under section 24(1) no. 1 and section 33(2) of the *Kreditwesengesetz* (KWG – German Banking Act), the Bank must prove to the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and Deutsche Bundesbank before the intended appointment of members of the Management Board that the proposed members have sufficient theoretical and practical knowledge of the Bank's business as well as managerial experience.

Amendments to the Articles of Association

Postbank's Articles of Association may be amended in accordance with the provisions of section 119(1) no. 5 and 179 of the AktG. Under these provisions, amendments to the Articles of Association require a resolution by the Annual General Meeting. Under Article 19(3) of the Articles of Association, the Supervisory Board is also permitted to make amendments to the Articles of Association that relate exclusively to their wording. Under Article 19(2) of the Articles of Association, the resolutions by the Annual General Meeting are passed by a simple majority of the votes cast, in the absence of binding legal requirements to the contrary. Where the law prescribes a capital majority in addition to a voting majority, votes are passed by a simple majority of the share capital represented during the vote.

Material agreements of the Company that take effect in the event of a change of control following a takeover bid

Deutsche Postbank AG has entered into a cooperation agreement with Deutsche Post AG in the area of financial services in the Deutsche Post AG sales network. This agreement may be terminated by either party giving three years' notice to the end of the year, but at the earliest as of December 31, 2012. If Deutsche Post AG intends to relinquish its majority shareholding in Deutsche Postbank AG via a sale or as a result of a corporate action, it may demand that the agreement be amended. If a corresponding amendment does not come about within a reasonable time, Deutsche Post AG may terminate the cooperation agreement giving two years' notice to the end of the calendar month. Should Deutsche Post AG terminate the cooperation agreement, this could impact Deutsche Postbank AG's branch network sales, which are of fundamental importance to the Company's business activities.

Furthermore, Deutsche Postbank AG has entered into sales agreements with Talanx Aktiengesellschaft and its subsidiaries BHW Lebensversicherung AG, PB Versicherung Aktiengesellschaft, and PB Lebensversicherung Aktiengesellschaft. These agreements cover the brokerage and sale of insurance products from Talanx and its above-mentioned subsidiaries by Postbank via its call center, as well as via Postbank's Internet platform. BHW Lebensversicherung AG, PB Versicherung Aktiengesellschaft, and PB Lebensversicherung Aktiengesellschaft are entitled to terminate these sales agreements giving six months' notice if a third party that is not an affiliated company of one of the parties to the agreement gains control of Deutsche Postbank AG (change of control), whereby such control may be acquired either directly by way of the direct acquisition of control of Deutsche Postbank AG, or indirectly by way of the acquisition of control of an entity that controls Deutsche Postbank AG either directly or indirectly. Should BHW Lebensversicherung AG, PB Versicherung Aktiengesellschaft, and PB Lebensversicherung Aktiengesellschaft terminate the sales agreements, this could endanger or impact the brokerage and/or sale of the sales partners' insurance products by Deutsche Postbank AG and the remuneration generated by this, which is of material importance for the Company's business operations.

Public offers to acquire shares of the Company are governed exclusively by the law and the Articles of Association, including the provisions of the German *Wertpapiererwerbs- und Übernahmegesetz* (Securities Acquisition and Takeover Act). The Annual General Meeting has not authorized the Management Board to take any measures falling within its sphere of responsibility to prevent any takeover offers from being successful.

Compensation agreement in the case of a takeover bid

Loukas Rizos has a claim to pension rights in the case of a majority takeover of the Company by a third company.

Remuneration of the Management Board and the Supervisory Board

Remuneration of the Management Board

The overall structure of the remuneration of the Management Board is stipulated by the Executive Committee of the Supervisory Board of Deutsche Postbank AG.

The Executive Committee of the Supervisory Board discusses the appropriateness of the remuneration of the members of the Management Board of Deutsche Postbank AG, taking into account the Company's performance, the sector, and the prospects for the future. Remuneration is reviewed on a regular basis.

The level of remuneration for members of the Management Board is determined on the basis of the size and activity of the Company, its economic and financial situation, and the tasks of the Board member in question. Remuneration is calculated so that it is competitive in the national and international job market and therefore offers an incentive for dedicated and successful work. It therefore complies with the requirements of section 87 of the *Aktiengesetz* (AktG – German Stock Corporation Act).

The level of remuneration is performance-linked; overall remuneration consists of a fixed and a performance-related component.

The fixed component (basic salary), other compensation, and pension commitments are not performance-linked. The fixed component is paid as a monthly salary in 12 equal installments.

The performance-related (variable) component consists of the annual bonus. The size of the bonus is capped on the basis of individual agreements.

To date, no long-term incentive plan or similar form of remuneration has been established for members of the Management Board. Deutsche Postbank AG has neither launched a stock option program, nor does it currently intend to do so.

The Executive Committee has the right to award members of the Management Board an appropriate special bonus for exceptional performance.

Remuneration of the Supervisory Board

Article 15 of the Articles of Association of Deutsche Postbank AG establishes the remuneration system. In accordance with this article, the annual remuneration of members of the Supervisory Board consists of fixed and performance-related components, plus a performance-related component with a long-term incentive effect. This reflects the responsibilities and scope of activity of the Supervisory Board's work and the economic performance of Deutsche Postbank AG. The positions of chair and deputy chair, as well as memberships of committee, are reflected in the remuneration.

The fixed component amounts to €15,000, while the variable component amounts to €300 for each €0.03 by which the consolidated net profit per share for the respective fiscal year exceeds the amount of €2.00.

Members of the Supervisory Board will be entitled to performance-related remuneration with a long-term incentive effect for fiscal year 2007 amounting to €300 for each 1 % by which the consolidated net profit per share for fiscal year 2009 exceeds the consolidated net profit per share for fiscal year 2006. This remuneration is payable following the end of the 2010 Annual General Meeting.

For further information on and explanations of the remuneration of the Management Board and Supervisory Board, please see the Notes in the Annual Report.

Net Assets, Financial Position, and Results of Operations

Income statement

In fiscal 2007, the level of income generated by Deutsche Postbank AG rose by €524 million, or 22.0 %, to reach €2,902 million.

The operating profit after risk provisions declined by €25 million, to €262 million (previous year: €287 million).

Net interest income

Net interest income developed extremely well in the year under review, rising by €479 million to €2,281 million (previous year: €1,802 million). This result is essentially due to the contribution from special funds, which distributed dividends amounting to €680 million to Postbank. With respect to loans and advances to customers, interest income from residential building loans in particular developed positively, rising by €215 million to €1,772 million (previous year: €1,557 million); this clearly offset the €115 million decline in interest income from municipal loans. Moreover, interest income from fixed-income and book-entry securities increased significantly due to interest rate changes and a higher liquidity reserve portfolio. Interest expense for customer deposits rose to €2,028 million (previous year: €1,530 million) as a result of higher interest paid on average.

Due to a positive business trend in 2007, Postbank Filialvertrieb AG achieved a very good net profit for the period and transferred €179 million (previous year: €173 million) to Postbank under a profit transfer agreement.

Net fee and commission income

Net fee and commission income rose to €528 million (previous year: €510 million). The positive development of net fee and commission income essentially resulted from an increase in handling fees due to the expansion of loans to corporate customers as well as from higher sales of certificates and investment fund units in retail brokerage. Furthermore, income from credit card operations developed positively, as more cards were issued and sales increased.

Net income from financial operations

Net income from financial operations amounted to €93 million, €27 million up on the prior-year figure. Net income from financial instruments includes unrealized measurement gains on interest rate derivatives amounting to €134 million (previous year: €163 million) that were recognized as part of portfolio measurement (mark-to-market model)

Net measurement gains and losses

Net measurement gains and losses declined by €439 million year-on-year; this item mainly comprises measurement gains and losses on securities, which declined by €480 million. The negative overall figure for measurement gains and losses on securities is attributable to write-downs of fixed-income securities to the lower of cost or market due to the rise in interest rates as well as spreads widening as a result of the crisis in the financial markets. Given the good economic situation and, hence, an improved risk structure, loan loss allowances, at €190 million, were significantly lower than in the previous year (€210 million).

Administrative expenses

The relatively low rise in administrative expenses (by 4.5 %, to €2,187 million) is attributable to the strict cost management performed by Postbank. Effective January 1, 2007, the 3 % salary increase for employees under collective agreements as well as moderate adjustments in the pay of civil servant employees were partially compensated by reducing the total number of employees by just over 60 on average; as a result, personnel expenses only rose by 2.5 % year-on-year to €701 million.

Other administrative expenses, including depreciation of property and equipment, rose by €77 million, or 5.5 %, to €1,486 million. Particularly in the IT area, the implementation of new products, mainly multichannel banking, caused the level of IT expenses to rise by €47 million. In addition, the extensive distribution activities engaged in by Postbank led to a rise in marketing expenses by €13 million.

Other income and expenses

Total net other operating income and expenses decreased by €16 million to €363 million (previous year: €379 million). As in the previous year, other operating income includes an amount paid by Postbank Filialvertrieb AG as compensation for the secondment of civil servants, to the extent of €243 million (previous year: €230 million), as well as refunds for non-personnel operating expenses in the amount of €20 million (previous year: €22 million). In addition, rental income of €44 million (previous year: €41 million) is recognized.

Income from write-ups of equity investments, investments in affiliated companies and securities accounted for as fixed assets

Effective September 30, 2007, Postbank sold its 50 % equity interests in PB Lebensversicherung AG, Hilden, and PB Versicherung AG, Hilden. The sale resulted in non-recurring income of €129 million.

Profit before tax

Profit before tax amounted to €262 million, lower than the previous year's €308 million.

Net profit for the period

After deduction of taxes of €25 million (previous year: €46 million), net profit for the period amounted to €237 million (previous year: €262 million).

Appropriation of net profit for the period

The unappropriated surplus amounted to €237 million. According to the proposal by the Management Board for the appropriation of the unappropriated surplus, €205 million are to be distributed to shareholders and €32 million transferred to retained earnings.

Total assets and changes in the balance sheet structure
As of December 31, 2007, Deutsche Postbank AG's total assets amounted to €161.3 billion, up €26.1 billion on year-end 2006. The increase in assets is primarily due to the expansion of loans and advances to other banks, the increased customer lending business and higher investments. On the liabilities side, money market and capital market liabilities rose for technical closing date reasons.

Loans and advances to customers
At €61.4 billion, loans and advances to customers were up €8.2 billion on the previous year. As was already the case in 2006, low-margin public-sector loans and receivables were again reduced, by €1.9 billion, to €3.5 billion. By contrast, clear increases were generated in residential building loans and commercial finance. Residential building loans rose by €2.7 billion to €35.3 billion as a result of newly extended loans and portfolio acquisitions. Moreover, special promotions in support of SMEs led to the expansion of commercial finance by €2.1 billion, to €10.2 billion. Refinancing is predominantly performed using funds sourced from KfW.

Money and capital market investments
At €77.9 billion, money market and capital market investments – loans and advances to other banks and bonds – were approximately €17.4 billion higher than the figure for the previous year. In the loans and advances to other banks item, securities repurchase agreements in which Postbank acts as the lender rose by €10 billion to €12 billion, while pro-rata interest from swap transactions increased by €2.1 billion, to reach €6.0 billion. The bond portfolio likewise increased as compared to the previous year, growing by €9.1 billion to €52.1 billion. It is primarily attributable to the acquisition of money market instruments in the amount of €4.5 billion from BHW Bausparkasse AG. In addition, money market instruments amounting to €1.1 billion were acquired from other banks. Term deposits, by contrast, decreased by €4.1 billion, to €3.1 billion.

Due to customers
Amounts due to customers rose by €10.4 billion compared with the previous year, to €86.1 billion. Due to the favorable developments in interest rates for long-term debt, promissory note loans and registered securities were increased by €4.5 billion to €14.7 billion for refinancing purposes. Boosted by interest rate hikes for the *Kapital Plus* product, the book increased by €1.7 billion, to €6.0 billion. For technical closing date reasons, term deposits also increased, rising by €3.2 billion to €5.6 billion. Savings deposits remained almost unchanged compared with the previous year.

Money market and capital market liabilities
Capital market transactions led to a rise in long-term deposits from other banks of €16.7 billion to €55.7 billion. The additions mainly concern term deposits of €8.6 billion and open market operations amounting to €4.8 billion. Scheduled redemptions reduced securitized liabilities by €2.0 billion to €7.4 billion.

Equity
Due to the allocation to retained earnings, the equity reported by Deutsche Postbank AG rose by €32 million to €2.5 billion in 2007. The unappropriated surplus amounted to €237 million in the year under review.

Relationships with Affiliated Companies

The Management Board issued a dependent company report that concluded with the following declaration: "…that, based on the circumstances at the time the transactions in question were entered into, Deutsche Postbank AG received appropriate consideration for the services provided, as defined in this report, in all cases. No measures were either taken or omitted on the instructions of or in the interests of Deutsche Post AG or its affiliated companies."

Report on Post-Balance Sheet Date Events

In its January 15, 2008 decision in the clearance proceedings (*Freigabeverfahren*), the Berlin Higher Regional Court ruled that the pending actions to nullify the resolution of the annual general meeting of BHW Holding AG held on July 20-21, 2006 on the transfer of the shares of minority shareholders to Deutsche Postbank AG do not prevent entry in the commercial register of the resolution to transfer the shares. Upon this decision, the register court entered the resolution to transfer shares in the commercial register of BHW Holding AG on February 12, 2008. The resolution to transfer the shares of minority shareholders took effect upon entry in the commercial register and all shares of minority shareholders were transferred to Deutsche Postbank AG.

Risk Report

Organization of risk management

Taking risks in order to generate earnings is a core function of the business activities of Deutsche Postbank AG (hereinafter referred to as "Postbank"). One of Postbank's core competencies is to take on normal banking risks within a strictly defined framework, while at the same time maximizing the potential return arising from them.

Deutsche Postbank AG, the parent institution of the Postbank Group, is responsible for setting the parameters of risk management strategies, methods and processes within the Postbank Group. To this end, the Postbank Group has established a risk management organization as the basis for risk- and earnings-oriented overall bank management.

The Group Management Board is responsible for risk strategy, the risk-bearing capacity concept, the appropriate organization of risk management, monitoring the risk content of all transactions, 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 following graphic illustrates the composition of the Committees and their areas of responsibility:

The nature and extent of the risks taken, as well as the strategy for managing such risks, depends on the individual business divisions, whose actions are prescribed by the business strategy. Postbank's areas of activity comprise the Retail Banking, Corporate Banking, Transaction Banking, and Financial Markets divisions.

Thanks to our broadly diversified customer portfolio, the concentration risk in the portfolio of the Postbank Group tends to be low. As part of credit risk monitoring, we have established processes, reporting paths, and escalation mechanisms that enable monitoring of counterparty and issuer risk and categorization of exposure by the various sectors, customer groups, and single borrowers.

Operational responsibility for risk management is spread across several units at Postbank, primarily the Financial Markets division, Domestic/Foreign Credit Management, the London branch, and the credit functions within Retail Banking.

Risk Controlling, part of the Finance division, is the independent, Group-wide risk monitoring unit. Risk Controlling is responsible for determining the methods and models to be applied in risk identification, measurement, and limitation. The department is in charge of risk control on an operational level, as well as Group-level reporting.

Composition and tasks of the Risk Committees

	Credit Risk Committee	Market Risk Committee	Operational Risk Committee
Members of the Management Board/Executive Managers	Lending Financial Markets Product Marketing Services	Financial Markets Lending Product Marketing Finance	IT/Operations Resources Services Branch Sales
Tasks	Allocate credit risk limits Define limit system Resolve amendments to risk classification procedures Defined standard risk costs	Allocate market price and liquidity risk limits Manage strategic focus of the banking book Monitor earnings Manage MRC portfolio	Define operational risk strategy Define minimum requirements for Group units Define operational risk parameters

In accordance with the requirements of the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), the risk strategy is consistent with the business strategy and takes into account all significant business divisions and types of risk. In addition to an overarching risk strategy, Postbank's Management Board has resolved specific sub-risk strategies for market, credit, liquidity, and operational risks.

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

In 2007, the Postbank Group expanded its internal risk reporting system. The monthly report to the Market Risk Committee on market price risk links key earnings information and risk indicators at Group level within a uniform reporting structure. The risk reports prepared by the Risk Controlling department for the Group Management Board and the position managers have been expanded to include aspects relating to interest rate risk in the banking book, spread risk, and liquidity risk monitoring at Group level.

Key information on risk exposure is discussed regularly with the Supervisory Board on the basis of a standardized reporting form.

Risk types

Postbank distinguishes between the following risk types:

- Market price risk
  Potential losses from financial transactions that may be triggered by changes in interest rates, spreads, volatility, foreign exchange rates, and equity prices.

- Credit risk
  Potential losses that may be caused by changes in the creditworthiness of, or default by, a counterparty (e.g., as a result of insolvency).

- Liquidity risk
  Illiquidity risk – the risk of being unable to meet current or future payment obligations in the full amount due or as they fall due.

  Liquidity maturity transformation risk describes the risk of a loss occurring due to a change in our own refinancing curve (spread risk) resulting from an imbalance in the liquidity maturity structure within a given period for a certain confidence level.

- Operational risk
  The risk of loss resulting from inadequate or failed internal processes and systems, people, or external events. This also includes legal risk.

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

- Real estate risk
  Real estate risk relates to Postbank's real estate holdings and comprises the risk of loss of rental income, writedowns to the going concern value, and losses on sales.

- Business risk
  The risk of a decline in earnings due to unexpected changes in business volumes and/or margins and corresponding costs. This concept also includes model risk, which arises from modeling customer products with unknown capital and interest rate sensitivity (primarily savings and checking account products), as well as strategic and reputational risk.

Risk capital and risk limiting

The Postbank Group's risk-bearing capacity is assessed from the perspective of investor protection and serves as the foundation for the system used to limit material risks. The total funds available to the Bank to cover its risks are known as the risk cover amount. Postbank's risk-bearing capacity concept fulfills all regulatory requirements and provides input parameters for management.

The Postbank Group considers itself as having adequate risk-bearing capacity, assuming that the probability of it servicing its prior-ranking liabilities is in line with its target rating. The concept for determining the risk cover amount is based on the consolidated balance sheet under IFRSs. The risk cover amount available for covering all risks consists of recognized capital less goodwill, subordinated debt, the revaluation reserve, the other fair value of financial instruments, and expected gains in the planning period.

In order to ensure Postbank's long-term risk-bearing capacity, the Postbank Group's Management Board only allocates a portion of the risk cover amount for risk taking. This amount is known as risk capital and represents a limit for the Postbank Group's overall risk. Risk capital is determined and allocated to the risk categories on at least a quarterly basis by the Group Management Board. The Risk Committees then allocate the funds further.

The Postbank Group possesses sufficient liquidity reserves to cover the risk of illiquidity. In addition, the Postbank Group maintains a collateral portfolio consisting of ECB-eligible securities for potential stress situations. At present, the liquidity maturity transformation risk is implicitly limited via the risk capital made available to meet business risks. Separate limitation of liquidity maturity transformation risk is planned for the medium term.

Since simply adding up the risk capital requirements for the individual types of risk would lead to the overall risk being overestimated, correlations between types of risk are taken into account as part of risk aggregation. In general, we assume high correlations between market price and credit risk. Business risk along with real estate and investment risk also generally exhibit medium to high correlations with the other risk factors. Only in the case of operational risk do we assume a low correlation to all other risk types.

For the percentage allocation of the Postbank Group's risk cover amount by risk type for fiscal year 2007 (calculated as of December 31, 2007), and the risk capital utilization for market price and credit risk as of December 31, 2007, please see the Risk Report included in the Group Management Report.

The unexpected loss is quantified in order to calculate the utilization of the risk capital. The Postbank Group uses uniform parameters to measure individual risks that have been classified as significant. These are oriented on the value at risk (VaR) approach, i.e., on the loss (less the expected gain/loss) that will not be exceeded for a 99.93 % level of probability within the given period (holding period: usually one year). This confidence level is derived from the target A-grade rating.

Operational limits are established for the market price and credit risk backed by risk capital that is directly manageable in the day-to-day business. Market price risk for both the core business and for own-account transactions is managed by allocating limits for the relevant portfolios. For loans to banks, companies, and sovereigns (central and regional governments and local authorities), credit risk is managed by investing in a target portfolio that has been optimized to reflect risk and earnings aspects, in addition to risk limitation at portfolio level. Operational limits are not used to manage the remaining risk types, but rather the risk capital attributed to the risk types is deducted from the risk cover amount. Here too the adequacy of the deductible amount is calculated on an ongoing basis.

As long as the assigned limits are not exceeded and the aggregated limits and deductible amounts are lower than the risk cover amount, risk-bearing capacity is assured. The regulatory capital requirements (in accordance with the *Kreditwesengesetz* (KWG – German Banking Act), the *Solvabilitätsverordnung* (SolvV – Solvency Regulation), and the *Groß- und Millionenkreditverordnung* (GroMiKV – German Large Exposures Regulation) are additional conditions that must be strictly observed when managing economic risk capital.

Risks are only assumed within limits that are in line with the Bank's risk-bearing capacity in order to generate yields, taking risk/return aspects into account. This aims to ensure that risks that could jeopardize the Bank's existence are avoided.

The uncertainty unleashed on the financial markets by the US subprime mortgage crisis and the related widening of spreads led to reductions in the fair values of individual portfolios in the second half of the year. In light of this development, the risk capital allocated to market price risk was increased slightly in the third quarter. However, at no time was the risk-bearing capacity of the Postbank Group negatively impacted by the effects of the US subprime mortgage crisis.

In addition, during the fourth quarter spread risk was fully integrated into the ongoing calculation of market price risk, as planned. In this context, individual limits on market price risk were reallocated at the subportfolio level.

The risk factors for new products and product modifications are systematically identified in line with the MaRisk using the New Products/New Markets (NPNM) process and documented in a product database. The resulting risks are included in the Postbank Group's risk measurement and monitoring system..

Risk reporting

Postbank's risk reporting system provides an in-depth view of risk-bearing capacity and risk utilization. The risk-bearing capacity report provides information on the Group's overall risk-bearing capacity on a quarterly basis. Risk utilization for the individual risk types is presented in a large number of regular and specialized reports. The reports are prepared on a daily, weekly, monthly, or quarterly basis, depending on the importance of the respective risk type. Group-wide reports are usually addressed to the Group Management Board, the responsible members of the Risk Committees, and the operating units. In addition, the Supervisory Board receives excerpts of these reports. Recipients are thus kept informed of changes in relevant parameters in a timely and comprehensive manner. The Risk Controlling department is responsible for the methodology and content of Group-level risk reports.

In addition to regular management reports, rules have been established for an ad-hoc early warning reporting system that differentiates between different types of risk.

Regulatory requirements: Solvency Regulation and MaRisk

Solvency Regulation

With the implementation of Basel II into national law, the regulatory capital requirements for credit operations now focus more heavily on economic risk. Accordingly, loans must now be backed by equity on a risk-weighted basis, i.e., generally depending on the borrower's credit rating. Also, for the first time, the New Capital Accord requires operational risks to be given equity backing.

The final version of the legislation implementing Basel II into German law came into force on January 1, 2007. The amended *Kreditwesengesetz* (KWG – German Banking Act) and the *Solvabilitätsverordnung* (SolvV – Solvency Regulation) form the legal basis for the differentiated capital requirements. On December 21, 2006, Postbank received approval from the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) to adopt the internal ratings-based approach for calculating the minimum capital requirements for credit and counterparty risk with respect to its retail business. Therefore, since January 1, 2007 Deutsche Postbank AG has used internal ratings systems based on internal estimates of probabilities of default as well as internal estimates of expected loss rates and conversion factors for its retail business to calculate regulatory capital requirements for the following portfolios:

- in the retail business: mortgage lending, installment credits, overdraft facilities for self-employed individuals and business customers as well as purchased loans and advances not including BHW;
- in the non-retail business: central governments, banks, domestic undertakings and specialized lending for commercial clients.

With respect to the other portfolios of Deutsche Postbank AG as well as the risk positions of the other companies included in the regulatory basis of consolidation, in 2007 the Postbank Group applied the transition regulation set out in section 339 (10) of the SolvV and calculated the risk of counterparty default on the basis of the provisions of Principle I. This related in particular to the portfolios of the subsidiaries as well as to a large proportion of the OTC derivative instruments, and the overdraft facilities in the retail banking business.

Reporting of the minimum capital requirements, as stipulated by regulatory law, is made at Group level. In accordance with section 2a of the KWG, no individual report for Deutsche Postbank AG is prepared.

Postbank applies the standardized approaches as defined in the Basel II Accord to calculate the capital requirements for market price risk. In the medium term, Postbank plans to introduce an internal market risk model for measuring and managing market price risk, which will then also be used for calculating regulatory capital requirements.

Postbank also applies the standardized approach to calculate the minimum capital requirements for operational risk. This forms the basis for the planned medium-term implementation of the advanced measurement approach. To this end, Postbank developed its own quantification model in 2007 that is now being internally validated and successively enhanced.

With respect to the disclosure requirements pursuant to sections 319 to 337 of the SolvV in conjunction with section 26a of the KWG, Postbank has published a separate disclosure report in accordance with the SolvV on its website.

Minimum Requirements for Risk Management (MaRisk)

The *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), which took effect as of January 1, 2007, replace the previous *Mindestanforderungen an das Kreditgeschäft* (MaK – Minimum Requirements for Credit Transactions), the *Mindestanforderungen an das Betreiben von Handelsgeschäften* (MaH – Minimum Requirements for the Trading Activities of Credit Institutions), and the *Mindestanforderungen an die Ausgestaltung der Internen Revision* (MaIR – Minimum Standards for Auditing Departments of Credit Institutions). The MaRisk extends these regulations to include in particular the issues of interest rate risk in the banking book, as well as liquidity and operational risk. The primary purpose of MaRisk in terms of its content is to establish adequate management and control processes based on a bank's overall risk profile.

The Postbank Group fulfills the requirements for managing bank-specific risks and ensuring risk-bearing capacity on an operational level as codified in the MaRisk.

Monitoring and managing market price risk

Definition of risk

Market price risk denotes the potential risk that may lead to losses in financial transactions due to changes in interest rates, spreads, volatilities, exchange rates, and equity prices. Changes in value are derived from daily marking to market, independently of their measurement for financial accounting purposes.

Postbank does not enter into transactions entailing commodity risk. These risks are therefore not discussed separately in the following.

Organization and risk strategy

The responsibility for performing centralized risk management tasks at the Postbank Group lies with the Management Board. The Management Board has delegated market price risk management to the Market Risk Committee (MRC), which is monitored by the Supervisory Board.

The Postbank Group has established clear rules with regard to responsibility for market price risk management. In general, Postbank's Financial Markets division manages this centrally.

Risk Controlling functions as a Group-wide, independent monitoring unit. Risk Controlling is responsible for operational limit monitoring and reporting, in addition to the methods and models used for risk identification, measurement, and limitation.

The Postbank Group has laid down the basis for dealing with market price risk, among other things, in its overarching risk strategy. The risk capital made available for taking market risk limits the extent of the market price risk to be taken to an acceptable and desired scale for Postbank, creating an optimized risk mix from a risk/return perspective.

Market price risk is hedged where its active assumption is not desired. When market price risk is intentionally taken, this is done with the goal of generating income. Postbank thus enters into equity, interest, currency, spread, and volatility risk in its banking and trading books as an additional source of income.

Risk management and control

Postbank makes use of a combination of risk, earnings, and other parameters to manage its market price risk. Changes in the value of market price risk are derived consistently from daily marking to market, independently of their measurement for financial accounting purposes. The management of market price risk positions from an earnings perspective focuses both on specific periods and on the present value. All market price risk is measured on a value at risk basis. Sensitivity indicators and gap structures are included as further management parameters. In addition, market price risk positions are subjected to regular scenario analyses and stress tests, which analyze the impact of unusual market movements on both present values and the income statement and balance sheet items.

In this context, the changes in fair value caused by possible changes in spreads are also analyzed regularly for the relevant portfolios. The lessons learned from market developments in 2007 were directly factored into the spread scenarios analyzed and the analysis of the risk-bearing capacity derived from this. Risks arising from possible changes in spreads (spread VaR) were fully incorporated into ongoing risk monitoring over the course of 2007.

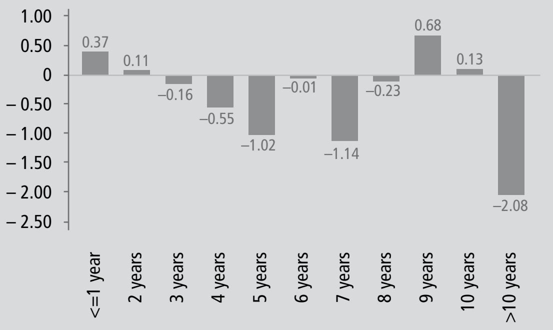
To do justice to the relative significance of market price risk to Postbank and the volatility of market movements, Postbank has defined escalation mechanisms for critical management parameters and for exogenous events. These mechanisms make it possible to react promptly to situations in which limits are approached or exceeded, as well as to extreme market movements impacting Postbank.

Management of interest rate risk

Interest rate risk – a significant component of market price risk – is the term used to denote the changes in the fair value of interest-sensitive financial instruments resulting from a change in market rates of interest. Interest rate risks arise where there are differences in the amounts and interest rates of the interest-sensitive assets and liabilities for individual maturity buckets. In addition to standardized approaches for quantifying interest rate risk, Postbank also employs internally developed statistical models. Deposit transactions bearing variable rates of interest and the home savings collective are of particular significance to Postbank in this context. Special modeling rules and deposit base definitions are used as the basis for a modern risk management concept.

The following chart presents Postbank's open interest rate positions as of December 31, 2007 in the form of a basis point value (bpv) graph. Positions with a negative value represent an asset-side interest rate risk, which means that there is a surplus of assets. In the same way, positive values indicate a surplus of liabilities.

Postbank's interest rate positions (bpv) as of December 31, 2007
bpv in €m



The chart shows that the surplus of assets as of December 31, 2007 is primarily concentrated in the medium and long maturity range (10 years).

Monitoring market price risk using value at risk

Postbank uses the value at risk concept to quantify and monitor the market price risk it assumes. Value at risk (VaR) is generally calculated using the variance-covariance method. Risk capital allocation is based on a historical observation period of 250 trading days, a holding period of 90 trading days, and a confidence level of 99.93 %. Operational management, however, is based on a holding period of 10 days and a confidence level of 99 %. The risk factors taken into account in the VaR include equity prices, foreign exchange rates, yield curves, and volatilities, along with risks arising from changes in spreads. Correlation effects between the risk factors are derived from historical data.

The VaR of a portfolio thus describes the potential decline in fair value that will not be exceeded in that portfolio in a period of ten trading days with a probability of 99 %. The variance-covariance method is applied consistently to all portfolios in the trading and banking book regardless of their presentation in the balance sheet, and transforms heterogeneous types of market price risk into a single measure of risk, the VaR. The risk limits derived when the risk-bearing capacity is calculated are scaled accordingly.

Limiting risk

In the Postbank Group, market price risk is monitored using a system of risk limits based on the value at risk methodology. The aggregate limits are set 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, at a maximum, to the originally defined level. Risk measurement and monitoring are performed at end-of-day for the whole bank; additional intra-day monitoring is carried out for the trading portfolios.

Backtesting

The methods used to compute VaR are regularly tested for reliability. The predictive accuracy of the calculated VaR is tested by comparing it with the gains and losses arising from actual changes in fair value, but for the same portfolio (clean backtesting). Evaluation uses the "traffic light" color code model published by the Bank for International Settlements (BIS). The Management Board is informed of the backtesting results in the monthly reports. Particularly in the second half of the year, an increase in the volatility of the market risk factors led in individual subportfolios to an increase in cases in which the actual fair value fluctuation was greater than the computed VaR. However, the backtesting performed in 2007 reveals results for the superordinate levels that are within the statistically expected ranges, thus confirming the fundamental appropriateness of the VaR methodology applied.

Stress testing

In addition to the VaR calculations, scenario analyses are performed at regular intervals to permit the separate analysis of extreme market movements. These analyses quantify the effects of extraordinary events and extreme market conditions (worst case scenarios) on the Postbank Group's asset positions. The analyses also examine the effects on fair value and hence the effects on the balance sheet and income statement items. The effects of the scenarios are compared with the limits allocated for each risk. The Management Board is kept regularly informed of the results of the scenario analyses. The scenario analyses performed in the year under review indicated that the Postbank Group's risk-bearing capacity was assured even in extreme market situations.

Appropriate market terms

In addition to monitoring market price risk, Postbank also checks all trades when they are entered into to ensure that market prices have been applied (market conformity verification). This is supervised by internal units that are independent of the trading functions.

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Risk indicators

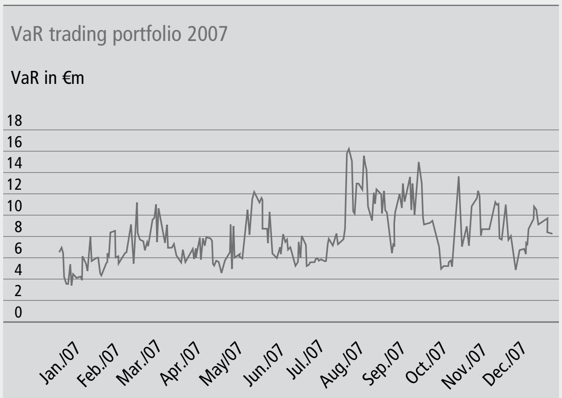
The following value at risk figures were calculated for Postbank for the period from January 1 to December 31, 2007 and January 1 to December 31, 2006:

Value at risk trading portfolio	2007 €m	2006 €m
VaR at year-end	6.8	4.0
Minimum VaR	2.5	1.9
Maximum VaR	15.1	9.6
Annual average VaR	6.5	4.3

The VaR (99 %, 10 days) for the banking book was €116 million as of December 31, 2007 (December 31, 2006: €110 million). The calculation incorporates all risk-bearing positions in the banking book.

In line with Postbank's business strategy, the level of market price risk is largely determined by the interest rate risk (including spread risk). In addition, equity price risk and volatility risk is assumed in order to diversify risk in the banking book and generate short-term price gains in the trading portfolio. Currency risk is of lesser significance.

The following chart illustrates the development of value at risk for our trading portfolio over the course of 2007:



In the second half of 2007, Postbank made flexible use of the pronounced market fluctuations to take short-term positions on the stock market in particular. VaR, which saw substantial fluctuations, was slightly higher in the last two quarters than in the first two quarters of 2007 due to the considerable increase in risk parameters in some cases, resulting from the sharp rise in market volatility.

The VaR trading limit defined for market price risk was not exceeded during the reporting period.

Risk reporting

The Postbank Group uses a variety of regular reporting instruments for market price risk:

- The daily report serves to inform the Group Management Board and the position managers about the positions entered into, limit utilization, and the economic profit/loss of the positions before the start of trading each day.

- The weekly report is addressed to the position managers and summarizes the significant changes in the market and in the positions. The daily and weekly reports are regularly discussed with the position managers and provide the basis for operational management.

- The monthly report provides a comprehensive overview of the change in market price risk within the reporting period and is addressed to the Group Management Board. In addition to current results and risk indicators, this report also contains the results of stress testing and backtesting, which are carried out on a regular basis. Information is also provided on the interest rate risk in the bank ing book in the event of a specified interest rate shock along with additional interest rate scenarios; the figures are broken down by portfolio and currency.

- The monthly MRC report presents risk indicators in aggregated form (VaR, interest rate sensitivities, stress test results), and present value or periodical results by management unit and indicates their impact on the income statement.

- The quarterly risk report to the Supervisory Board summarizes the key risk indicators. Since 2007, it has also presented the results of the sensitivity and stress test analyses.

Monitoring and managing credit risk

Definition of risk

Postbank defines credit risk (or counterparty risk) as risks arising from potential loss that may be caused by changes in the creditworthiness of, or a default by, a counterparty (e.g. as a result of insolvency).

There are four types of credit risk:

- Credit or default risk
  The risk of possible losses arising from the inability of a counterparty to discharge its payment obligations, or from a deterioration in its credit rating.

- Settlement risk
  The risk of possible losses during the settlement or netting of transactions. Settlement risk always exists where cash, securities, or other traded assets are not exchanged at the same time.

- Counterparty risk
  The risk of possible losses arising from default by a counterparty and hence the risk to unrealized gains on executory contracts. The risk involved is replacement risk.

- Country risk
  The risk of possible losses arising from political or social upheaval, nationalization and expropriation, a government's non-recognition of foreign debts, currency controls, and devaluation or depreciation of a national currency (transfer risk).

Organization and risk strategy

The responsibility for performing centralized risk management tasks at the Postbank Group lies with the Management Board. The Management Board has delegated the management of credit risk to the Credit Risk Committee (CRC), which is monitored by the Loan and Equity Investments Committee of the Supervisory Board.

The Postbank Group manages its counterparty risk on the basis of the credit risk strategy approved annually by the Management Board. The credit risk strategy contains targets for the risk profiles as well as target returns for individual credit products.

As another strategic risk management measure, Postbank bases the aggregate composition of its loan portfolio for corporate customers, banks, and sovereigns (central and regional governments and local authorities) on a target portfolio constructed to reflect a balanced risk/return profile. The current portfolio of receivables is compared quarterly with the target portfolio. Due to its extremely high degree of risk diversification, the retail business is not part of the target portfolio, but is managed instead using the expected net margin less the expected risk.

The management and monitoring of counterparty risk and hence the implementation of the credit risk strategy are performed on the basis of individual risks on the one hand, and the entire portfolio on the other.

Risk management and control

Managing individual risks

Credit approval procedures

Postbank's credit guidelines contain detailed targets for all lending transactions. Credit approvals are subject to an established system of competencies, which act as a framework within which decision-making individuals or bodies are authorized to enter into lending transactions. Responsibility for the approval of loans is dependent on the loan size and, for corporate customers and transactions in the Financial Markets division, additionally on the credit rating of the specific borrower or debtor. An important feature of the credit approval procedure in the Corporate Banking and Financial Markets divisions is the separation between market (sales/trading), back office divisions and risk management in accordance with the regulatory parameters (MaRisk). A permissible exception according to banking regulatory law from the strict separation of functions is the standardized credit approval process in business not relevant for risk purposes, which Postbank defines as private residential construction finance up to €1 million, other retail credit products as well as loans for up to €750,000 in the Corporate Banking division, to which simplified and standardized processes are applied.

Scoring und Rating

Postbank makes use of internal rating systems that adhere to the minimum requirements for use of the IRB approach under Basel II. In addition to meeting the methodological and procedural/organizational requirements, these rating systems have proven their suitability in relation to the classification of existing portfolios and new business. Regardless of the size and type of the loan, individual rating or scoring is performed regularly during the credit approval process.

In Retail Banking, loans are approved, decisions to extend them are made, and terms are defined using the results of statistical scoring models and approval guidelines. The scoring models utilized at Postbank make use of internal and external information about the borrower and employ statistical methods to individually estimate the probability of loan or borrower default. At the same time, the recovery rates in the case of default are estimated either individually (for mortgage loans) or globally (in the case of the small-scale uncollateralized retail business). For retail checking products, Postbank uses an internal behavior scoring system that individually assesses default risk on the basis of historical account management data and additional external information.

Rating models, which generally comprise a statistical core (statistical balance sheet rating or Monte Carlo simulations of expected cash flows) and which incorporate qualitative and shorter-term information in the internal rating via a heuristic model, are used to make loan decisions and define terms for customers and guarantors in the areas of corporate customers, banks and sovereigns.

All internal ratings and scorings are presented using a uniform master scale, which assigns each rating or scoring result to a rating class on the master scale, as well as the default probability determined for that class. Postbank uses the terminology of the Standard & Poor's rating agency here. The rating and scoring methods are validated as part of Postbank's annual model validation process and during ongoing monitoring. The model validation assesses the stability of the model formulas/the estimated parameters and the distributions, as well as the accuracy of the rating model, and the predictive power of the models.

As part of the preparatory work to qualify its rating and scoring systems under the IRB approach, Postbank has adapted the processes for designing, implementing, and monitoring the rating systems to adhere to the requirements for the use of internal ratings systems. These include, in particular, regular reviews of the system's performance and the correct use of the rating systems, calibration and validation of the rating systems, and incorporation of the results of the monitoring activities into the reporting system. All rating systems must be authorized by Postbank's Management Board. The Management Board receives regular management reports on the effectiveness of the rating systems as well as their results.

In addition to supporting the loan decision process, among other things, these ratings and scores serve as a basis for calculating the "expected loss," i.e., the loss that can be expected over a one-year period. They are factored indirectly into margin calculations as standard risk costs, along with other variables.

Risk/return key performance indicators

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

Collateral management

The risks assumed by banks in day-to-day operations can be mitigated using hedging instruments or netting processes.

Collateral management is an important and integral component of the credit management process at Postbank. Strict standards have been established regarding the quality (e.g., the legal validity and enforceability) of the collateral accepted. As in the case of the underlying transactions with counterparties, the value of the collateral is continuously monitored on the basis of uniform Group standards, not only when the loan is granted but also during its term. Guarantees and credit derivatives must be irrevocable and unconditional in order to qualify as credit risk mitigation instruments when calculating the minimum capital requirements for credit and counterparty risk. With regard to credit derivatives, guarantors and protection sellers are subject to the same risk classification, risk limitation, and risk monitoring procedures as borrowers.

The decision as to whether to approve and apply a hedging instrument for credit risk mitigation is made by Postbank on the basis of its business strategy and credit risk strategy. The hedging instruments principally used by Postbank consist of physical collateral such as mortgage liens to secure real estate financing, guarantees and credit derivatives, and financial collateral and other physical collateral.

Real estate liens are taken into account when calculating the possible loss arising from default on a loan. Real estate collateral is appraised conservatively, with adequate consideration given to the potential risk of a loss in value. Depending on the underlying risk, collateral is monitored at varying intervals and with varying intensity. The weighting differs in accordance with use of the property (commercial or residential), and, for residential real estate, depending on whether the property is owner-occupied or leased to a third party. In 2007, Postbank developed a market fluctuation concept for monitoring residential real estate. The concept involves statistical analyses of market indices and ad-hoc analyses in the event of unusual changes in value.

Credit monitoring and problem loan procedures

For non-retail loans, individual credit risks are regularly monitored by means of credit assessments carried out at least once annually as well whenever events occur that could affect the creditworthiness of a borrower. The risk level and concentration of risk are capped by limiting a borrower's individual loan or total exposure. State-of-the-art computer systems are used to capture and control risks. The controls are carried out by the operational lending units in the back office in accordance with banking regulatory requirements and, in the case of trading transactions, by Risk Controlling in addition.

In the area of individual lending to corporate or business customers and mortgage lending in excess of €500,000 per borrower or borrowing entity, Postbank has implemented a credit monitoring process in accordance with banking regulatory requirements. The process enables higher-risk loans to be identified using hard and soft risk indicators (e.g. sector information, management accounting data, customer and account data, and rating changes), which are defined for the individual product. The use of risk indicators to enable the early identification of an increasing risk of default enables Postbank to develop and implement loan restructuring plans with the borrower if necessary, or to arrange for settlement.

At 14-day intervals Postbank uses research information to perform assessments of major loan commitments relating to listed borrowers in order to identify negative trends in their creditworthiness at a very early stage and to develop alternative strategies. These reviews are supported by a software application that estimates default probabilities on the basis of a large variety of market data.

When a corporate loan is identified as having a higher risk, the borrower in question is placed on a watch list. In the case of hard risk indicators, the individual loan is mandatorily transferred to the watch list; if there are only soft risk indicators, the decision is made at the discretion of the credit specialist. The watch list also serves to capture and analyze changes in the quality of these loans. It is constantly updated by the various lending departments and submitted quarterly to the member of the Management Board responsible for lending. The largest individual exposures and loans that were approved by the Group Management Board are reported to the Group Management Board, the Credit Risk Committee, and the Loan and Equity Investments Committee of the Supervisory Board as part of the credit risk report.

Managing credit risk at portfolio level

Portfolio management

In addition to monitoring individual risks, the Postbank Group calculates the credit value at risk (CVaR) for all exposures subject to credit risk. The credit value at risk is the potential negative change in the present value of the total loan portfolio resulting from actual or potential losses based on credit risk that will not be exceeded within an interval of time of one year with a 99.93 % probability. Under Postbank's Group-wide risk-bearing capacity concept, CVaR, as a measure of the unexpected loss from counterparty risk, must be backed by risk capital.

In contrast, the expected loss of a loan portfolio is the average default amount expected within a one-year period; this is calculated as the product of the default probability, the size of exposure, and the loss rate. The expected loss does not contribute to the Bank's overall risk, but is factored into margin calculations via the standard risk costs.

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

External input parameters for the calculation of CVaR include constantly updated rating agency data, migration tables derived from this data, sector/product default probabilities and correlations, credit spreads (risk premiums for various rating categories/grades), as well as the volatility of these parameters in a Monte Carlo simulation. Homogeneous, granular receivables are aggregated when calculating the CVaR and are not computed at individual transaction level. These relate in particular to retail products.

The updated portfolio and market data are used to compute the CVaR of the Group loan portfolio every quarter. For products/business divisions with special risk structures, the CVaR is calculated daily. The CVaR in the Group loan portfolio is lower than the sum of the individual CVaRs for the business divisions because of diversification effects. The utilization of the CVaR limits made available to individual profit centers by the Credit Risk Committee and that of the aggregate credit risk limit is monitored on an ongoing basis.

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

Portfolio structure

The key indicators for the credit risks of the various profit centers as of December 31, 2007 (calculated on November 30, 2007) as compared to the end of 2006 are shown in the following table. Since the CVaR including portfolio effects is not calculated at Deutsche Post AG level, the table shows the portfolio structure at Group level. The expected loss reported in the following table is based on internal estimates of the parameters and deviates from the regulatory values.

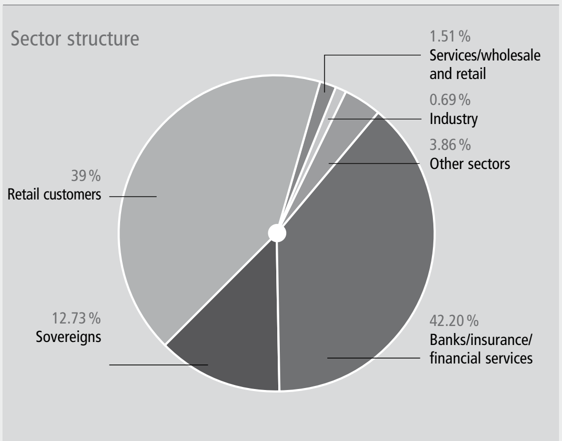
Credit risk	Volume		Expected loss		Credit VaR *	
	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m
Corporate Banking	18,670	16,975	55	48	181	167
Retail Banking	42,380	35,638	173	134	133	111
Financial Markets	112,494	94,662	109	98	606	496
Other (banks/local authorities)	7,828	13,226	4	7	121	244
BHW	41,965	46,590	73	87	57	117
Total (incl. portfolio effect)	223,337	207,091	414	374	661	544

* confidence level 99.93 %

The increase in the overall loan portfolio from €207,091 billion to €223,337 billion was accompanied by a 10.6 % increase in the expected loss and a 21.6 % increase in the unexpected loss. The sharp increase in CVaR in the Financial Markets profit center reflects current developments on the financial markets. In comparison with the previous year's figures, a decrease in Group loans to banks and local authorities and an increase in loans to private and corporate customers as well as in the Financial Markets profit center can be observed. In view of the planned growth in loan volumes, the expected loss and CVaR are expected to increase correspondingly in the coming year as well.

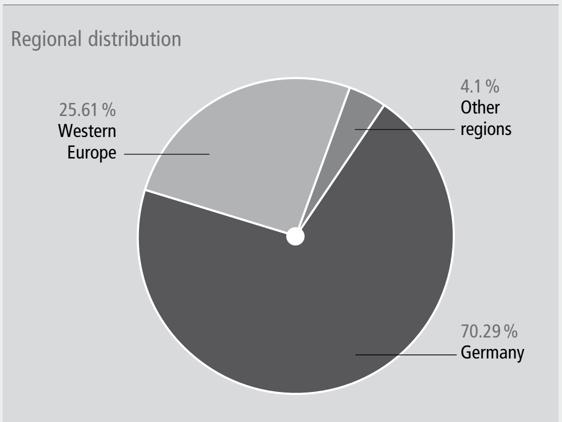
Sector structure of the loan portfolio

The sector distribution of the loan portfolio has a balanced structure and continues to present a stable picture. The emphasis of the portfolio is on lending to retail customers with a focus on private mortgage lending as well as lending to banks, which consists mainly of money market transactions and partially covered capital market transactions, such as *Pfandbriefe* (mortgage bonds). The banks in question are almost all rated A or higher, as in the case of sovereign borrowers. A target portfolio that has been optimized in terms of diversification serves as a guide in achieving this aim. In fiscal 2007, the Retail Banking business and the loan book of the Financial Markets profit center were further expanded. The following chart illustrates the concentration of risk by sector and borrower group:



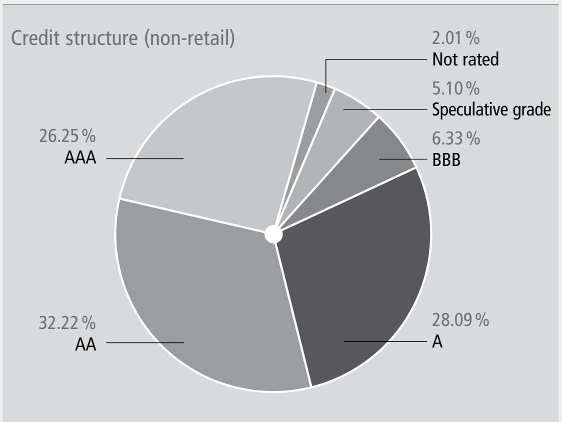
Regional distribution of the loan portfolio

Postbank has established country-specific limits for credit allocation in order to manage country risk. The levels of country limits are substantially determined by internal and external ratings, and by the economic strength of the particular country measured by gross domestic product. A central database keeps track of the limits established for each country and their current utilization, as well as the economic data used in allocating countries to risk categories. The regional distribution of the lending volume indicates a concentration on the domestic German market.



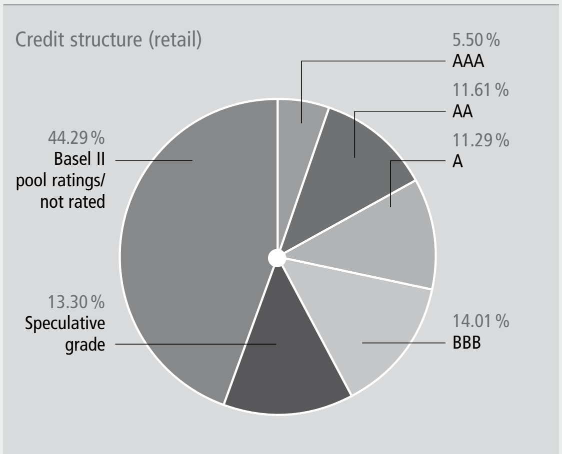
Credit structure of the loan portfolio

The breakdown of rating categories in the loan portfolio demonstrates Postbank's conservative orientation. The following chart shows the rating structure of the loan portfolio for Postbank's non-retail business. The higher rating categories classified as investment grade dominate.



Since the 2006 financial statements, no significant changes have arisen in the rating structure of the loan portfolio.

Postbank's retail business shows a very favorable credit structure as shown in the following chart.



Legacy retail business portfolios (mainly mortgage loans extended before August 2004) and purchased loans and advances are reported using pool ratings. In other words, homogeneous pool ratings are established by segment and are measured individually according to the relevant Basel II parameters. The relative and absolute proportion of the portfolios addressed by pool ratings will gradually decline, since each new transaction is rated on an individual basis. Basel II-compliant pool estimate procedures for default probability and the expected loss rate were developed for homogeneous subportfolios of the legacy portfolios in 2006 and 2007.

Securitization

Securitizing financial assets (asset securitization) makes it possible to transfer the underlying credit risk to third parties. Usually, entire exposure pools consisting of two or more sub-classes of risk (tranches) entailing varying degrees of risk are transferred.

Postbank acts as both investor and originator in asset securitization transactions.

Investor:

In the course of credit substitute transactions, Postbank has invested in structured credit products, among other things. These include the following product categories: asset-backed securities (ABSs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), residential mortgage-backed securities (RMBSs), and commercial mortgage backed securities (CMBSs).

We have been closely monitoring the turmoil on the capital markets arising from the developments on the US real estate market with regard to potential defaults in our structured credit portfolio. We have systematically analyzed our holdings and, based on our findings, risks having been provided for by a sufficient allowance for losses on loans and advances.

Originator:
In addition to acting as an originator in credit substitute transactions, Postbank is also on the market as an originator. A total volume of €2.4 billion was securitized in a synthetic securitization transaction involving residential construction loans (PB Domicile 2006-1). This transaction not only reduced regulatory capital requirements but also diversified risk.

Risk reporting
The Postbank Group uses a variety of reporting instruments for presenting credit risk:

- The credit risk report, which is submitted quarterly to the Group Management Board and the Loan and Equity Investments Committee of the Supervisory Board, provides information on the development of the Group's current loan portfolio and on the default history at the level of individual transactions. In addition to presenting loan portfolio and credit risk indicators, the report includes details of the largest exposures aggregated by individual borrowers and the largest non-performing loans, as well as the utilization of risk limits.

- The credit monitoring report is prepared quarterly at the same time as the credit risk report and contains additional detailed information at business division and product level regarding the management of credit risk by the operating units. The credit monitoring report is approved by the Credit Risk Committee.

- The credit matrix provides detailed information on credit risk at portfolio level (CVaR, rating distributions, sector distributions, concentration risks, limit utilization, target/actual portfolios), some of which is also included in the credit risk report and the credit monitoring report in aggregated form. The Credit Risk Committee also approves the credit matrix on a quarterly basis.

- To monitor the performance of the risk classification procedures at the level of individual loans (rating and scoring models), model monitoring reports are prepared by business division on a monthly to quarterly basis. The aim of these reports is to analyze and document the performance of the rating and scoring models using a brief validation process. Compliance with the model, i.e., its proper application, is also examined.

- At the level of individual loans, the watch lists are another instrument for reporting larger exposures.

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

Postbank understands that identifying and quantifying environmental risk must form part of its standard risk assessment and management procedures in its domestic and foreign business. With regard to our customers, we believe that fulfilling current environmental standards and acting responsibly towards the environment are key factors for assessing corporate governance.

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

Monitoring and managing liquidity risk

Definition of risk
The Postbank Group distinguishes between two types of risk in liquidity risk management: illiquidity risk and liquidity maturity transformation risk. Illiquidity risk is defined as the risk of being unable to meet its current or future payment obligations, either in the full amount due, or as they fall due. Liquidity maturity transformation risk describes the risk of a loss occurring due to a change in our own refinancing curve (spread risk) resulting from an imbalance in the liquidity maturity structure within a given period for a certain confidence level.

Organization and risk strategy
At the start of 2007, the liquidity risk strategy and contingency planning were approved by the Management Board – which is responsible for managing liquidity risk at the Postbank Group – and subsequently implemented throughout the Group. The target structures and processes for liquidity risk management were completely redesigned in a separate project against the background of Group structures that have grown considerably and the imposition of more stringent supervisory requirements. In the course of implementing the new strategy, Postbank's management and monitoring processes were enhanced, the separation of duties called for by MaRisk was implemented throughout, the data necessary for management was modeled in a more detailed fashion, appropriate system support was established, and detailed liquidity risk reports that also include stress scenarios were developed for the Group.

By the end of 2007, the Postbank Group had already initiated a follow-up project that involves linking key aspects in order to achieve integrated management across the bank as well as to successively enhance liquidity risk management based on the Bank for International Settlement's "Sound Practices for Managing Liquidity in Banking Organizations."

In general, Postbank's Financial Markets division manages liquidity centrally. The goal of liquidity management is to ensure that Postbank is solvent at all times – not only under normal conditions, but also in stress situations. Due to its strategic focus as a retail bank, Postbank enjoys a strong refinancing base in its customer business and is therefore relatively independent of the money and capital markets. Liquidity risks are only taken within approved limits. To guard against unexpected cash outflows, an extensive portfolio consisting of unencumbered ECB-eligible securities is held that can be used to obtain liquidity rapidly. To broaden Postbank's funding base, a debt issuance program was established in the year under review. Among other things, this will provide for regular issues of *Pfandbriefe* (mortgage bonds) – both jumbo *Pfandbriefe* and private placements – starting in Q1/2008. The program also allows for other issue types. All products can be offered in the usual currencies and structures. Postbank was also licensed to issue public *Pfandbriefe* and mortgage *Pfandbriefe (Hypothekenpfandbriefe)* in the year under review.

As part of its responsibilities as an independent, Group-wide monitoring unit, the Risk Controlling department defines the methods and models used for risk identification, measurement, and limitation and assumes responsibility for operational monitoring and reporting.

In the event of a liquidity shock, the Liquidity Crisis Committee has clear responsibility and authority over all Postbank units responsible for portfolios as well as all portfolio units at the subsidiaries and foreign branches.

Pursuant to section 12 of the *Liquiditätsverordnung* (LiqV – German Liquidity Regulation) (transitional provisions), Postbank continued to apply the liquidity principle (Principle II) in 2007 pursuant to section 11 of the KWG as the regulatory assessment criterion (coverage ratio of available cash to callable payment obligations). The requirements were complied with at all times.

Risk management and control

The liquidity status of the Postbank Group is assessed each business day on the basis of funding matrices and cash flow forecasts and risk management performed on this basis. This focuses above all on ensuring solvency at all times, even in stress situations. To ensure this, the Bank's liquidity positions are subject to stress tests at least once a month. These simulated calculations reflect external changes in a variety of market factors, plus structural changes in funding resources.

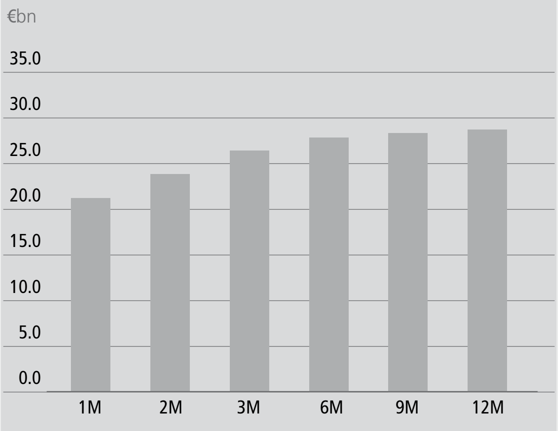
Although market conditions have become more difficult due to the subprime crisis, Postbank's liquidity position is still solid – thanks in particular to its deposit business – and no shortages have been identified for the coming year.

The following chart illustrates Postbank's liquidity status as of December 31, 2007. It presents the expected cash inflows/outflows and the available liquidity sources on a cumulative basis in accordance with the principles of internal liquidity management within a one-year horizon.

The expected values for cash outflows from liabilities with no fixed capital commitment, such as savings and checking accounts, the probability of utilization of irrevocable loan commitments, and the quality of the available fungible assets for ensuring liquidity are based in part on observed historical data and in part on assumptions that are subjected to regular validation.

These data and assumptions show that Postbank has significant liquidity surpluses across all maturity bands, which underscores its good cash position.

Liquidity status of the Postbank Group



Risk reporting

In 2007, the Postbank Group expanded its internal liquidity risk management reporting system as planned. The Postbank Group uses a variety of instruments on a regular basis for reporting liquidity risk:

- The members of the Market Risk Committee and the relevant liquidity management units are informed daily on liquidity status at Group level.
- The Group Management Board receives monthly liquidity status overviews, including the established stress tests at Group level.
- Monthly information on liquidity ratios in accordance with the LiqV is sent to the Group Management Board as part of the Management Board information system.

Monitoring and managing operational risk

Definition of risk

Postbank defines operational risk in conformity with the SolvV as the risk of loss resulting from inadequate or failed internal processes and systems, people, or external events. The definition also covers legal risk.

Since the new capital adequacy requirements took effect in 2007, Postbank has used the standardized approach for calculating the minimum capital requirements for operational risk. A review by the Internal Audit unit confirmed that the requirements for utilizing the standardized approach laid down in the SolvV had been fulfilled, and the results of the review were reported to the supervisory authorities. At the same time that the requirements for the standardized approach were implemented, the foundations were laid for a subsequent switch to an advanced measurement approach (AMA). This will also involve the use of external data collected by the DakOR data consortium.

Organization and risk strategy

The Management Board of the Postbank Group is responsible for operational risk management. The Operational Risk Committee (ORC) commissioned by the Management Board is in charge of establishing Group-wide principles. Day-to-day management of operational risk is the responsibility of the individual units within the Group.

A strategy was developed to deal with operational risk at the Postbank Group in 2005, and a number of risk management principles for the area were established. These principles comprise Group-wide standards that were defined by the ORC and must be observed by all organizational units, as well as principles that are the responsibility of the individual business divisions.

Operational risk is integrated into the risk-bearing capacity concept of the Postbank Group. The weighting computed for operational risk is incorporated into the risk limitation process by deducting it from the available risk cover amount. At present, risk capital is not sub-allocated to the individual profit centers.

All operational risk management and monitoring activities are coordinated by the Market/Operational Risk department at Postbank headquarters to ensure a uniform approach throughout the Group. This applies to the methods used to collect losses, the definition of indicators as an early warning instrument, as well as self-assessment to identify and measure the current risk situation. Postbank headquarters is also responsible for the regular training of local risk managers and upgrading the software solutions deployed. The "Manual for Operational Risk Control in the Postbank Group" describes both the methods used and the primary responsibilities of those involved in the risk control process.

Risk management and control

Day-to-day management of operational risk remains a key task of the individual operating units.

For each division or subsidiary, a two-tiered organizational structure with decentralized OpRisk managers has been established to supplement the central risk control process and support the respective managers in risk prevention. The risk control process covers all major business units of the Postbank Group.

Postbank uses the standardized approach as defined in the Basel II Accord to calculate capital adequacy requirements for operational risk. The weightings for operational risk are calculated for internal purposes – in contrast to the regulatory provisions – each quarter and the result is compared with the amount reserved for operational risk in the capital allocation process. The weightings as of December 31, 2007 for each business segment as defined in the SolvV are shown in the following table:

Basel business segment	Weighting for operational risk €m
Corporate finance	–
Trading and sales	22
Retail banking	243
Corporate banking	32
Payment transactions and processing	1
Agency services	1
Asset management	0
Retail brokerage	10
Total for Deutsche Postbank AG	308

In addition, a model for quantifying operational risk was developed for internal validation purposes during the year under review. This model makes it possible for the first time to calculate operational value at risk (OpVaR) at Group level. The model is now being successively enhanced with a view to the planned medium-term implementation of an advanced measurement approach.

Risk reporting

The Postbank Group reports regularly on operational risk and loss at management level.

- The members of the ORC are informed on a monthly basis of losses incurred and of selected indicators that have exceeded the defined tolerance threshold.
- The Group Management Board receives a current summary of the losses recorded each month.
- Additionally, the ORC is informed on a semi-annual basis of the results of the self assessment.
- At a local level, individual managers at the various levels receive reports tailored to meet their informational needs.

ORC members receive ad hoc reports without delay in the case of material losses that exceed a predefined level.

Monitoring and managing investment and real estate risk

Definition of risk

Investment risk comprises potential losses due to fluctuations in the fair value of strategic equity investments.

Investments are defined as all equity interests recognized in Postbank's single-entity financial statements under "equity investments" and "investments in affiliated companies."

Real estate risk relates to Postbank's real estate holdings and comprises the risk of loss of rental income, writedowns to the going concern value, and losses on sales.

Organization and risk strategy

The Bank's Group Management Board is responsible for managing the real estate and equity investment portfolio.

The ongoing monitoring and control of risks from equity investments within the Bank is performed by various central Group units. Investment management coordinates the supervision of the business activities of subsidiaries and other investees in keeping with the investment strategy, in particular by providing support for the executive bodies. Postbank exercises influence on the business and risk policies of its equity investments in particular through shareholder and supervisory bodies, where it is usually represented by members of the Management Board.

As of the reporting date of December 31, 2007, Deutsche Postbank AG held a total of 59 direct and a large number of indirect equity investments. In fiscal 2007, the number of investments in affiliated companies/equity investments increased moderately over the previous year.

Postbank sees these holdings as strategic investments that reflect the Postbank Group's product and service areas, and as a source of internal services for the Postbank Group. A number of these equity investments are managed as Postbank units. Central functions such as financial control, accounting, legal affairs, personnel, and auditing are performed directly by the responsible organizational units at Postbank in such instances.

Postbank currently has no further shareholdings in other companies in the sense of a private equity or an investment strategy.

The Postbank Group has established a procedure to ensure the adequate management and monitoring of key investment risks at the Group level. Risk Controlling regularly monitors the limits of materiality defined for risks within the equity investment portfolio and keeps the Management Board and the Risk Committees informed of this.

The properties in the Treasury portfolio are primarily those used by business units of the Postbank Group.

Risk management and control

Material risks (particularly market price, credit, and liquidity risk) associated with strategic equity investments and subsidiaries are integrated in the operational and strategic Group-wide risk management and risk monitoring systems. The operational risk and business risk associated with the majority interests are included in Postbank's corresponding management and monitoring system. The residual investment risk is deducted from the available risk capital.

Ongoing liaison between the companies and the appropriate specialist areas of the Bank also contributes to the timely identification of business and risk developments. To this end, equity investments are allocated to the relevant board departments. Equity investments are subject to an impairment test at quarterly intervals. In accordance with the principles for valuing equity investments and shares in companies laid down by the Institut der Wirtschaftsprüfer, this review is based on the application of the E*rtragswertverfahren* (income capitalization approach).

The large number of existing management and monitoring systems, which are continually being enhanced, guarantees that Postbank is in a position to monitor and manage shareholding risks, including strategic investment risks, at all times.

The real estate portfolio is monitored on the basis of the regular property valuations, which take risk aspects into account, as well as the analysis of changes in the real estate portfolio.

Risk reporting

In the context of the management and monitoring systems, regular reports are also prepared on the risk relating to the strategic equity investments and subsidiaries included in these systems. In addition, the Postbank Group uses a variety of regular reporting instruments for investment risk:

- The key earnings figures of all subsidiaries included in the consolidated financial statements are reported to Postbank's Management Board on a quarterly basis.

- As a shareholder, Deutsche Postbank AG is also continuously informed about the development of the risk situation at the respective subsidiaries at the meetings of their executive bodies (Supervisory Board, Administrative Board, Shareholders' Meetings, etc.).

Monitoring and managing business risk

Definition of risk

Business risk refers to unexpected declines in earnings that arise when expenses cannot be reduced in line with a decline in income (excess fixed costs) or when expenses increase unexpectedly. Such declines in earnings can be caused by both internal and external factors, such as unfavorable economic changes or political decisions leading to a change in customer behavior. The following types of risk are covered by business risk:

- Model risk
  The risk from unexpected declines in volume or falling margins, triggered by modeling customer products with unknown capital commitments and variable interest rates.

- Residual business risk
  Other unexpected volume or margin declines not covered by model risk.

- Strategic risk
  The risk that earnings targets will not be achieved because of the insufficient focus of the Group 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 inadequate implementation of the chosen strategy. In the area of strategic risk, Postbank further distinguishes between internal risk, which arises from inadequate strategic procedures, and external risk, which is caused by unexpected market developments.

- Reputational risk
  The risk that the Bank will lose its good reputation in the eyes of its business partners and customers due to inappropriate actions on the part of individuals or groups.

Organization and risk strategy

The Group Management Board is responsible for managing business risk as a component of the Group risk strategy. In the event of strategic risk, it has a duty to take appropriate measures to counteract undesirable developments as they occur. The approval of the Supervisory Board may also be required, depending on the scope of the strategic decision.

Risk Controlling calculates business risk on a quarterly basis at the least; the results are taken into account in the risk-bearing capacity report as a deductible item from risk capital. The risk capital requirements for model risk are measured monthly due to their potential volatility and are reported to the Group Management Board.

Risk management and control

Business risk is estimated by way of an earnings at risk model (EaR) with a confidence level established in the risk-bearing capacity concept and a one-year horizon. Business risk calculation is based on historical variance analyses of the periods. In contrast to VaR, which measures fluctuations in present value, the EaR model is based on fluctuations in income from one period to another. In order to measure the effects caused by a fluctuation in income and expenses beyond the period in question, business risk is scaled using a sustainability factor.

While model risk exists primarily for savings and checking account products in Retail Banking, it also occurs in Corporate Banking. Risks from modeling customer transactions with undetermined cash flows result in particular from the definition of theoretical scenarios for customer products with unknown interest rate and capital commitments (primarily savings and checking accounts, overdrafts) in order to manage interest rate and liquidity risk. The cash flows for customer products bearing variable rates of interest are modeled in the theoretical scenario in line with the commonly used standard moving averages method. Assuming that a stable volume of customer deposits is available in the long term, the mix of moving averages aims to model portfolios of money and capital market transactions that appropriately reflect the repricing and capital commitment behavior of these customer products. Over time, volume and margin fluctuations can occur as a result of changes in the interest rate adjustment policy – or as a result of a lack of opportunities for such adjustments – which could endanger the ability to generate stable net interest income in the long term and impair the liquidity situation.

The remaining business risks are not separately quantified in the risk-bearing capacity concept, but rather backed by risk capital in the aggregate. Market and competition analyses are continually prepared in order to identify potential risks and to develop appropriate countermeasures as part of an early warning system.

Risk reporting

The Postbank Group uses a variety of regular reporting instruments for business risks:

- The Management Board is informed of the size of the business risk in the risk-bearing capacity report on a quarterly basis.

- The Management Board is informed of the development of model risk in the monthly risk report.

- The monthly Market Risk Committee report informs the MRC of specific business risks arising from model risk.

- The change in volume of the customer products with unknown interest rate and capital commitments is monitored via daily reports.

- At Postbank, there are several forms of strategic risk reporting. For example, the Management Board receives regular reports on the results of the market and competition analyses, quarterly reviews of business performance, and the monthly and quarterly Management Board information system reports. Additionally, strategic risk and developments are presented and discussed in depth during the planning process.

Internal Audit

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

As part of the Bank's business monitoring system, Internal Audit audits all areas of Postbank as a matter of principle at least once every three years in accordance with the MaRisk. Areas that are exposed to a particular risk are audited annually. Internal Audit's responsibilities also extend, in a scaled-down form, to the subsidiaries of the Postbank Group and the retail outlets acquired from Deutsche Post AG. Its activities in the subsidiaries range from control and advisory functions to full-scale Internal Audit procedures.

Internal Audit also reviews the appropriateness of the internal rating systems, including adherence to the minimum requirements for use of the rating systems.

Audit planning and the determination of audit cycles employ appropriate tools based on a procedure that was established a number of years ago and that has been proven effective. A value at risk is calculated for each audit area, and this is used to determine the audit cycle. Risk assessments are performed on the basis of audits carried out and current developments in the relevant business division. This process produces a multi-year audit plan and the annual program for the following fiscal year, which Internal Audit is commissioned to implement by the Management Board.

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. For instance, new products, changes in the internal control system, or organizational changes in the way audits are performed are all taken into account, as are any changes in the legal framework (e.g. MiFID in 2007).

Presentation of risk position

Efficient risk control remains crucially important against the background of continuing capital market volatility due to the financial market crisis, the flat yield curve and ongoing intense competition in the markets for deposits and loans, with its resulting pressure on interest margins. An additional factor is the insolvency trend in the economy as a whole. In fiscal year 2007, the Postbank Group continued to fine-tune the structures, instruments, and processes for risk management and control for the relevant risk categories, and has at its disposal a modern set of instruments for managing the Bank as a whole. As a result, the Postbank Group is in a position to meet the challenges it faces in the market, and to manage and limit all categories of risk across all business divisions in a way that minimizes risk while maximizing earnings. The methods and procedures employed meet the current statutory and regulatory requirements.

The risks ensuing from Postbank's structured credit portfolio undergo systematic, in-depth analysis and are monitored in a timely manner as part of an independent project structure. Where the impairment tests performed have indicated a likelihood of permanent impairment, corresponding impairment losses have been recognized.

With respect to other credit risk not related to structured credit products, we maintained the relatively low risk profile of our credit business with comparatively low risk costs during 2007. Among other things, the increasing credit risk in the retail segment in Germany was countered by a restrictive scoring-based lending policy as well as by more efficient and faster workout processes for non-performing loans. The additions to the allowance for losses on loans and advances resulted primarily from the planned expansion of the retail banking business in 2007. However, due to the favorable economic climate it was possible to reverse allowances for losses on loans and advances recognized in previous periods, which made a significant contribution to limiting net additions. The Postbank Group will continue to pursue its risk-sensitive business policy in the future.

With regard to the allocation of risk capital, the Postbank Group was and is in a position to allow the business divisions sufficient scope to achieve business growth in line with our strategy. However, in light of the financial market turbulence triggered by the US real estate market and the possibility of this spilling over into the real economy, additional financial burdens cannot be ruled out. No risks that could impair the Postbank Group's development or even jeopardize its continued existence have been identified among the above-mentioned risk types.

Proceedings of the European Commission

An allegation made by the Monopoly Commission is the subject of a request for information submitted to the German federal government by the European Commission in response to a complaint from a third party. The allegation is 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 retail outlets in return for compensation that is not calculated on an arm's length basis. Deutsche Post AG and Deutsche Postbank AG are of the opinion that this allegation is unfounded, and that the fee paid by Deutsche Postbank AG complies with the requirements of EU law on competition and state aid.

The European Commission also asked the Federal Republic of Germany to comment on the sale of its entire interest in Deutsche Postbank AG to Deutsche Post AG as of January 1, 1999. However, the Commission has already investigated the acquisition of Postbank as part of the state aid legal proceedings concluded by the decision of June 19, 2002. At the time, it expressly concluded that the acquisition of Postbank was achieved "without any state aid whatsoever."

The federal government has informed the European Commission that it believes the allegations are unfounded. Nevertheless, for both of the allegations connected with the requests for information, the possibility cannot be entirely excluded that the European Commission will come to the conclusion that state aid was provided.

On September 12, 2007, the European Commission opened a formal investigation against Germany concerning possible subsidies to Deutsche Post. The investigation is focusing on whether Germany, using state resources, overcompensated Deutsche Post AG or its legal predecessor Deutsche Bundespost POSTDIENST for the cost of providing universal services between 1989 and 2007 and whether the company was thereby granted state aid incompatible with EU law. According to the decision opening the investigation, the Commission intends to examine all public transfers, public guarantees, statutorily granted exclusive rights, the price regulation of letter mail services, and the public funding of pensions for civil servants during the period in question. Also to be investigated is the cost allocation within Deutsche Post AG and its predecessor between the regulated letter mail service, the universal service, and competitive services. This also relates to the cooperation agreements between Deutsche Post AG and Deutsche Postbank AG as well as between Deutsche Post AG and the business parcel service marketed by DHL Vertriebs GmbH.

Deutsche Postbank AG and Deutsche Post AG hold that the new investigation lacks any factual basis. All public transfers associated with the privatization of Deutsche Bundespost, the public guarantees, and the public funding of pension obligations formed part of the subject matter of the state aid procedure closed by the decision of June 19, 2002. That decision did not identify the measures concerned as incompatible state aid. Deutsche Postbank AG and Deutsche Post AG are further of the opinion that the statutorily granted exclusive rights and the regulated letter prices do not fulfill the legal criteria to be considered a form of state aid in the first place. Deutsche Postbank AG also shares the opinion of Deutsche Post AG that the internal allocation of costs with its subsidiaries is consistent with EU state aid rules and the case law of the European Court of Justice. Nonetheless, it cannot be ruled out that the Commission proceedings will result in a verdict of incompatible state aid.

Report on Expected Developments

Global economy

Uncertainty regarding the outlook for the global economy is exceptionally high at the start of 2008. In conjunction with the weakness of the dollar and the high price of oil, there is a danger that continuing financial market tensions will have a tangible impact on the global upturn. At the same time, however, the global economy has been in robust health to date. This applies in particular to the emerging markets in Asia, Eastern Europe, and Latin America, which are continuing to experience a strong structural upturn. Since we also expect that the financial market tensions will start to subside in the course of the year, the negative impact on the global markets should remain limited. Overall global economic output in 2008 is expected to grow by 4.1 %, a slightly weaker pace than in the previous year, according to the forecast by the International Monetary Fund (IMF).

The US economy will continue to be hit by the slump in residential construction spending in 2008. We expect the sharp downturn to continue for the first half of the year, before gradually bottoming out at a low level from mid-year onwards. We expect growth in consumer spending for the first half of the year to be extremely restrained due to the impact of the high price of oil and falling house prices. However, the negative effects are likely to decline over the rest of the year, allowing growth in consumer spending to pick up again. The strong upward trend in corporate capital expenditure is expected to continue. In addition, exports are expected to fuel continued positive momentum given the robust global environment and the low external value of the dollar. Moreover, support for the US economy is being provided by the massive cut in key interest rates and the US government's economic stimulus package. As a result, the pace of growth is likely to pick up again overall in the course of 2008. However, due to the weak start to the year GDP growth will probably be flat year-on-year, at an anticipated 2.2 %.

The upturn in the euro zone should continue at a more muted pace in 2008, driven primarily by domestic demand. Although capital expenditure is likely to be lower than in 2007, growth in consumer spending should accelerate, buoyed up by the sustained decline in the unemployment rate. In addition, consumer spending in Germany should catch up with the trend in other euro zone countries, now that the effects of the VAT increase have been absorbed. By contrast, exports will probably serve as a slight brake on the upturn due to easing global economic growth and the strength of the euro. As a result, GDP growth in the euro zone will probably amount to 2.0 %, down on the strong level recorded in 2007.

Macroeconomic environment in Germany

The German economy is expected to continue to grow in 2008, albeit at a slower pace. Foreign demand is expected to act as less of a driver than before: While growth should continue, the strength of the euro will act as a brake. Capital expenditure is likely to increase more slowly than in the previous year. Investments in machinery and equipment will continue to rise, but the pace of the upturn will slow due to the business tax reform, which came into effect as of the beginning of 2008. A large number of companies probably pulled forward capital expenditure in 2007 so as to take advantage of the declining-balance method of depreciation before it was abolished. In contrast, we expect investments in commercial construction to gather additional momentum, whereas residential construction spending will probably see only extremely muted growth.

We expect consumer spending to pick up noticeably, fuelled by the clear improvement in the labor market and the resulting increase in national income. In addition, the effects of the increase in VAT, which acted as a significant dampener on consumer spending in 2007, have now been digested. As a result, consumer spending should become a key pillar of the economy in 2008. While this will not be sufficient to maintain the pace of growth recorded in the previous year, the upturn in Germany should continue in 2008, with GDP growth of 2.1 %. The Council of Experts and a number of German economic research institutes come to similar or slightly more skeptical estimates.

Markets

In January 2008, the Federal Reserve cut its key interest rate in two moves to 3 % on the back of growing economic worries and continuing tensions in the US financial system. Since uncertainty as to economic developments in the United States is set to continue in the immediate future, we expect the Fed to cut rates again to 2.5 % in the first half of the year. Given existing inflation risks, we do not see any room for further cuts, as expected by the markets. Rather, the Fed could even signal a change in policy in favor of interest rate rises towards the end of 2008 if the US economy starts to pick up again. This should support the US dollar against the euro and lead to a slight appreciation in the exchange rate.

The ECB is likely to keep exchange rates unchanged for the time being at its current level of 4 % as it navigates a course between the risk of inflation on the one hand and the uncertain economic environment on the other. We do not expect to see any changes in key euro zone rates in the period up to the end of 2008. Capital market rates are likely to pick up slightly from their current low levels as soon as economic worries start to recede in the course of the year in line with our expectations. We do not anticipate any significant change in money market rates in 2008. This means that the yield curve in the euro zone will probably remain relatively flat in 2008.

Sector situation

For the financial sector, 2008 is likely to see an ongoing flat yield curve and volatile capital markets.

We are forecasting ongoing moderate growth in the lending business in Germany in 2008, although individual market segments will probably continue to perform differently. We are anticipating further strong growth in corporate lending. While investments in machinery and equipment are unlikely to match the strong growth recorded in the year under review, the need for debt finance will continue to rise as the investment cycle progresses. Once again, consumer lending is expected to record only a slight increase at best. Although consumer spending should increase significantly in 2008, additional consumption is likely to be financed primarily from increased income. A slight upturn in residential construction loans can be expected. Although growth in residential construction spending will again be extremely weak in 2008, the number of building permits has now stabilized at a slightly higher level following the slump recorded at the beginning of 2007. This means there will probably be a slight increase in financing requirements.

The quality of German banks' loan portfolios should stabilize at a high level in 2008, although only a slight decline in the number of corporate insolvencies is expected. A clear slowing of the downward trend in this area was already recorded in the course of 2007. In addition, the potential for further decreases will decline substantially given the low level now reached and the slowdown in economic growth. Consumer insolvencies are set to increase further because of the continuing large backlog of cases. However, this increase is again expected to be substantially lower in 2008 than in the previous year. Moreover, it should be noted that revised consumer insolvency legislation may possibly come into force in the course of 2008 that could affect the number of insolvencies.

In our view, further impairment losses at German banks – as at other European and US banks – in connection with the financial market crisis cannot be ruled out in 2008. Structured products in particular may see additional ratings downgrades. As a result, the prices of these products may fall further, which may in turn have a financial impact on banks across the world. Moreover, problems occurred at the beginning of 2008 with US insurance companies specializing in guaranteeing securities issues. Default rates for US subprime mortgages will probably continue to rise. In addition, selling pressure on the US real estate market remains strong, which means that real estate prices are likely to continue falling in 2008. Furthermore, there is still a risk that these trends will spill over to other markets and to general economic developments in the United States.

Investment focuses for 2008

Postbank's investments in 2008 will focus on the one hand on the implementation of statutory requirements such as the flat tax, Basel II, and the liquidity management project. The goal of this project is to implement optimized liquidity risk management oriented on "sound practice" under Basel II. This supplements the implementation of national regulatory requirements with international components.

On the other hand, additional branches will be optimized as part of the "Filiale im Wandel" ("Changing Branches") project with the aim of sustainably improving the cross-selling ratio and acquiring additional new customers. Moreover, preparations will be made for the merger of the AXA portfolio and implementation of the "Fit für Wachstum" ("Fit for Growth") project will be continued. A number of further investments will also be made in IT systems, such as the expansion of the Payment Solution platform and the decommissioning and provision of IT infrastructure components.

Postbank goals

Postbank expects its positive business development to continue in the years to come.

In the Retail Banking business division, Postbank intends to continue growing and gain market share by building on its strength in cost management and a sales platform that is unique on the market. It aims to provide its approximately 14.5 million clients with a compelling proposition in the form of a higher service level and to be the innovation leader for products and processes. To achieve this, it will focus its sales capacities in its private customer business primarily on its 4.6 million core customers. These customers use Postbank as their primary channel for conducting their banking business. Postbank aims to increase its core customer base to a total of 5.2 million customers in the period up to 2010, and at the same time to better leverage the potential they offer through more intensive cross selling. It will also continue to offer its just under ten million other customers with potential a constant high level of service.

In Corporate Banking, Postbank will concentrate on being one of the top five banks for up to 3,000 of its total of 30,000 clients. We will position ourselves on the market as liquidity and financial management specialists and offer an enhanced value proposition for our corporate customers as well. Against this backdrop, lending to SMEs is to increase to €5 billion by 2010, among other things. At the same time, we are selectively expanding our profitable commercial real estate finance business with a focus on Europe, while adopting a risk-conscious approach. Overall, income from the Corporate Banking business is expected to rise significantly by 2010.

To leverage additional growth potential, Postbank is planning to expand its operations in the Transaction Banking business division to the European market. In view of the investments required to achieve this goal, the Bank is planning to adopt a partner strategy in this area. Completion of its multiclient-enabled, SEPA-compliant platform is scheduled for the first half of 2008. In addition, Postbank plans to expand its expertise in loan processing so as to be able to market a competitive offering to third parties.

Based on the above-mentioned measures, we expect a further improvement of our operating profit for 2008 and 2009. We will be able to achieve this through continued growth in income and strict ongoing cost management.

We expect the allowance for losses on loans and advances to rise by comparison with the year under review in line with the planned increase in the lending volume.

If the situation on the capital markets continues to deteriorate tangibly as against 2007, or if developments in this area spill over to the real economy and have a corresponding effect on the macroeconomic outlook, Postbank, too, is unable to rule out an additional financial impact.

With its business model, Postbank is excellently positioned for the long term. We will continue to concentrate on private customer business in our German home market in the future. An even stronger focus on our core customers and continuous optimization of our service and consultancy offerings will contribute significantly to our success.

Responsibility statement

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

Bonn, February 12, 2008
Deutsche Postbank Aktiengesellschaft

The Management Board

Wolfgang Klein

Dirk Berensmann | Mario Daberkow

Stefan Jütte | Guido Lohmann

Michael Meyer | Loukas Rizos

Hans-Peter Schmid | Ralf Stemmer

Balance Sheet as of December 31, 2007 – Deutsche Postbank AG, Bonn

Assets

		€	Previous year €m	€	€	€	Previous year €m
1.	**Cash reserve**						
	a) Cash balance				1,031,879,810.22		805
	b) Balances with central banks				2,172,426,909.64		107
	of which: with the Deutsche Bundesbank	2,170,371,354.99	105				
	c) Balances with postal giro and savings banks				-.--	3,204,306,719.86	
2.	**Loans and advances to other banks**						
	a) Payable on demand				1,673,363,243.15		977
	b) Other loans and advances				24,182,164,114.45	25,855,527,357.60	16,538
3.	**Loans and advances to customers**					61,386,531,234.58	53,169
	of which: secured by						
	mortgage charges	25,730,021,215.31	23,031				
	public-sector loans	3,543,357,518.90	5,434				
4.	**Bonds and other fixed-income securities**						
	a) Money market securities			-.--			
	aa) Public-sector issuers			-.--			0
	of which: eligible as collateral with the Deutsche Bundesbank	-.--	0				
	ab) Other issuers			5,730,069,163.03	5,730,069,163.03		171
	of which: eligible as collateral with the Deutsche Bundesbank	1,291,909,913.03	151				
	b) Bonds			13,410,719,929.90			14,118
	ba) Public-sector issuers						
	of which: eligible as collateral with the Deutsche Bundesbank	13,126,806,093.01	13,723				
	bb) Other issuers			32,878,478,144.24	46,289,198,074.14		28,649
	of which: eligible as collateral with the Deutsche Bundesbank	26,507,140,373.45	23,059				
	c) Own bonds				71,264,722.95	52,090,531,960.12	86
	Principal amount	72,706,219.13	85				
5.	**Equities and other non-fixed-income securities**					10,259,828,388.47	12,814
6.	**Equity investments**					16,501,557.65	33
	of which:						
	in other banks	1,158,617.98	1				
	in financial services providers	-.--	31				
7.	**Investments in affiliated companies**					4,287,959,661.53	3,975
	of which:						
	in other banks	712,432,765.28	563				
	in financial services providers	5,000,000.00	5				
8.	**Trust assets**					1,174,402,557.99	1,287
	of which: trustee loans	1,103,244,527.15	1,203				
9.	**Intangible assets**					17,237,898.71	19
10.	**Property and equipment**					638,885,533.04	658
11.	**Other assets**					1,364,843,138.57	1,007
12.	**Prepaid expenses**					965,354,788.83	802
Total assets						161,261,910,796.95	135,215

Equity and Liabilities

	€	€	€	€	Previous year €m
1. Deposits from other banks					
a) Payable on demand			4,201,947,619.94		2,230
b) With an agreed maturity or withdrawal notice			51,497,538,704.89	55,699,486,324.83	36,787
2. Due to customers					
a) Savings deposits					
aa) With an agreed withdrawal notice of three months		34,418,546,007.85			35,403
ab) With an agreed withdrawal notice of more than three months		228,494,486.61	34,647,040,494.46		259
b) Other amounts due					
ba) Payable on demand		24,717,750,486.76			22,905
bb) With an agreed maturity or withdrawal notice		26,745,803,540.98	51,463,554,027.74	86,110,594,522.20	17,178
3. Securitized liabilities					
a) Bonds issued			6,643,439,266.06	7,406,774,989.13	9,403
b) Other securitized liabilities			763,335,723.07		
of which: money market securities	763,335,723.07	prev. yr. €578 million			
4. Trust liabilities				1,174,402,557.99	1,287
of which: trustee loans	1,103,244,527.15	prev. yr. €1.203 million			
5. Other liabilities				804,953,296.41	478
6. Deferred income				599,943,562.71	538
7. Provisions					
a) Provisions for pensions and other employee benefits			562,435,687.91		564
b) Provisions for taxes			34,266,562.06		29
c) Other provisions			270,966,425.36	867,668,675.33	241
8. Subordinated debt				3,711,887,101.27	3,194
9. Profit participation certificates outstanding				1,215,584,020.60	1,081
of which: due within two years	-.--	prev. yr. €4 million			
10. Fund for general banking risks				1,165,000,000.00	1,165
11. Equity					
a) Share capital			410,000,000.00		410
b) Capital contributions by typical silent partners			51,225,837.62		51
c) Share premium			1,158,937,687.86		1,159
d) Other retained earnings			648,178,287.62		591
e) Unappropriated surplus			237,273,933.38		262
				2,505,615,746.48	
Total equity and liabilities				161,261,910,796.95	135,215

	€	€	Previous year €m
1. Contingent liabilities			
a) Contingent liabilities on endorsed bills settled with customers	-.--		
b) Liabilities from guarantees and indemnity agreements *	3,462,070,974.79		7,281
c) Liability from the provision of collateral for third-party liabilities	-.--	3,462,070,974.79	
2. Other commitments			
a) Repurchase obligations from securities repurchase agreements	-.--		-
b) Placement and underwriting obligations	-.--		-
c) Irrevocable loan commitments	20,283,317,205.57	20,283,317,205.57	16,603

* Commitments under letters of comfort are disclosed under point C.I. in the notes.

Income Statement – Deutsche Postbank AG, Bonn, for the Period from January 1, 2007 to December 31, 2007

Comparative figures from January 1, 2006 to December 31, 2006

Expenses

		€	€	€	Previous year €m
1.	**Interest expense**			4,575,051,841.66	3,657
2.	**Fee and commission expense**			238,573,802.45	219
3.	**General administrative expenses**				
	a) Personnel expenses				
	aa) Wages and salaries	499,909,995.03			476
	ab) Social security contributions, pensions and other employee benefits	201,549,675.20	701,459,670.23		208
	of which: for pensions €153,511,120.59, prev. yr. €162 million				
	b) Other administrative expenses		1,455,589,798.34	2,157,049,468.57	1,355
4.	**Depreciation, amortization and write-downs of intangible assets and property and equipment**			29,791,006.42	54
5.	**Other operating expenses**			52,709,684.65	24
6.	**Write-downs and adjustments to loans and advances and certain securities, and additions to provisions for credit risks**			901,528,683.47	405
7.	**Write-downs and adjustments of equity investments and investments in affiliated companies, and securities treated as fixed assets**			12,999,694.81	35
8.	**Expenses from loss absorption**			31,101,563.41	62
9.	**Taxes on income**			25,274,644.64	46
10.	**Other taxes not reported under item 5**			8,005,444.40	5
11.	**Profit transferred due to profit pooling, a profit and loss transfer agreement or a partial profit and loss transfer agreement**			3,707,647.39	4
12.	**Net profit for the period**			237,273,933.38	262
Total expenses				8,273,067,415.25	6,812

Income

		€	€	Previous year €m
1.	**Interest income from**			
	a) Lending and money market transactions	4,090,795,665.29		3,305
	b) Fixed-income and book-entry securities	1,777,131,989.37	5,867,927,654.66	1,421
2.	**Current income from**			
	a) Equities and other non-fixed-income securities	737,639,715.12		488
	b) Equity investments	266,763.37		0
	c) Investments in affiliated companies	10,732,321.23	748,638,799.72	18
3.	**Income from profit pooling, profit and loss transfer agreements or partial profit and loss transfer agreements**		242,989,811.01	230
4.	**Fee and commission income**		766,692,705.20	730
5.	**Net income from financial operations**		92,934,061.36	66
6.	**Income from reversals of write-downs of loans and advances and certain securities and from reversals of provisions for credit risks**		-.--	0
7.	**Income from reversals of write-downs of equity investments, investments in affiliated companies and securities treated as fixed assets**		129,604,465.18	126
8.	**Other operating income**		424,279,918.12	407
9.	**Income from the winding-up of DSL-Holding AG i.A.**		-.--	21
	Total income		8,273,067,415.25	6,812

		€	Previous year €m
1.	**Net profit for the period**	237,273,933.38	262
2.	**Withdrawal from the share premium**	-.--	–
		237,273,933.38	262
3.	**Withdrawal from retained earnings**		
	a) from legal reserves	-.--	–
	b) from reserves for treasury shares	-.--	–
	c) from reserves provided for under the Articles of Association	-.--	–
	d) from other retained earnings	-.--	–
		237,273,933.38	262
4.	**Addition to retained earnings**		
	a) to legal reserves	-.--	–
	b) to reserves for treasury shares	-.--	–
	c) to reserves provided for under the Articles of Association	-.--	–
	d) to other retained earnings	-.--	–
5.	**Unappropriated surplus**	237,273,933.38	262

Notes to the Annual Financial Statements of Deutsche Postbank AG for Fiscal Year 2007

A. General information on the structure of the annual financial statements and accounting policies

I. General information

The annual financial statements of Deutsche Postbank AG (Postbank) have been prepared in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code) and the *Aktiengesetz* (AktG – German Stock Corporation Act), as well as the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Statutory Order on Accounting by Banks); they cover the period from January 1 to December 31, 2007.

II. Accounting policies

Current assets
The cash reserve, loans and advances to other banks and customers, other loans and advances and other assets were carried at their principal amounts. Premiums/discounts were amortized ratably. Purchased loans and advances are recognized at cost. The registered securities and promissory note loans included in loans and advances to other banks and customers are measured at their principal amounts plus deferred interest in accordance with section 340e(2) sentence 1 of the HGB. The differences between the principal amounts and cost were included in prepaid expenses and deferred income and reversed to profit or loss.

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

Bonds and other fixed-income securities as well as equities and other non-fixed-income securities classified as current assets are recognized at historical cost, taking into account the strict principle of lower of cost or market value and the requirement to reverse write-downs (section 340e(1) sentence 2 in conjunction with section 253(3) sentence 1 of the HGB and section 280 of the HGB). Micro hedges were recognized where securities are hedged by forward or option contracts with matching amounts, currencies, or maturities. Measurement gains and losses were not recognized.

Where entered into for trading purposes, derivative products are measured at current market prices. Provisions were recognized for measurement losses. Measurement gains were not recognized.

Postbank's department for money markets and foreign exchange and treasury asset swaps measures the portfolio in its money market trading books. The interest rate futures, options on interest rate futures and money market products within the money market cash, money market derivatives and money market portfolio trading portfolios and the asset swap (ASW) derivatives trading portfolio are measured at market prices. The resulting measurement losses are eliminated against measurement gains in the portfolio. Any fractional amounts are recognized in income.

As in the previous year, the risk-adjusted mark-to-market procedure was used for the money market portfolios and the swap trading portfolio. The mark-to-market gain or loss calculated for each of these portfolios is reduced by the value at risk (VaR) determined in accordance with regulatory requirements (ten-day holding period, 99 % confidence level, one-year historical observation period). This ensures that anticipated gains from portfolios entailing risks are not reported in net income from financial operations. This risk-adjusted marking-to-market recognized in income is reflected by an adjustment item in the balance sheet that is reported under other assets.

Fixed assets
In accordance with section 340e(1) in conjunction with section 253(2) sentence 3 of the HGB, securities measured as fixed assets are measured using the less strict principle of lower of cost or market value. The differences between cost and settlement amount (premiums/discounts) were amortized ratably. The assets are carried in separate accounts to securities classified as current assets.

In the year under review, newly acquired asset-backed securities were allocated to fixed assets in parts. The synthetic CDOs contained in these constitute structured products in accordance with IDW ERS HFA 22 and are listed separately in the balance sheet.

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

Equity investments including investments in affiliated companies denominated in foreign currency were translated into euros using the respective historical exchange rate.

Intangible assets
Purchased intangible assets are carried at cost and reduced by straight-line amortization in accordance with the amounts permitted by tax law.

Intangible assets mainly comprise the goodwill of the London branch, which is amortized over 15 years.

Property and equipment
Property and equipment is carried at cost and reduced by depreciation over the standard useful life of the asset in line with the fiscal depreciation tables.

Low-value assets were written off in full in the year of acquisition in accordance with section 6(2) of the *Einkommensteuergesetz* (EStG – German Income Tax Act).

Prepaid expenses and deferred income
Close-out payments made and received on micro swaps whose underlying contracts are still in the portfolio are fundamentally accrued and amortized ratably over the term of the underlying. The close-out payment was reversed for the first time in 2007 in order to compensate the impairment loss on the underlying contract.

Liabilities
Liabilities were carried at their settlement amount. Premiums/discounts were amortized ratably. Zero bonds issued are recognized at their issue amount plus proportionate interest up to the balance sheet date. The proportionate interest on zero bonds is amortized in accordance with the effective interest method.

Provisions
Provisions for pensions were calculated in accordance with actuarial principles, taking into account the "2005 G mortality tables," and are measured at the net present value, calculated using the German entry-age normal method, and permitted under tax law for the obligations under current pension payments and future pension benefits.

Adequate tax provisions and other provisions have been recognized to cover all identifiable risks and uncertain liabilities.

Subordinated debt
Subordinated debt mainly comprises four issues of subordinated bonds that were acquired for €1,600 million by subsidiaries set up for this purpose. Subordinated debt is not repayable before a minimum term of five years.

Contingent liabilities
Liabilities from guarantees and indemnity agreements are carried under contingent liabilities at the amounts to be stated at the balance sheet date.

Currency translation
In accordance with section 340h(1) sentence 2 of the HGB, assets and liabilities denominated in foreign currency were translated into euros at the middle spot rate applicable at the balance sheet date. Forward contracts still open at the balance sheet date were measured at the forward rate applicable at the balance sheet date.

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

In accordance with section 340h(2) sentence 2 of the HGB, the balance sheet items and executory contracts denominated in foreign currency are classified as covered separately and measured in every currency. Accordingly, all income and expenses from currency translation were recognized in the income statement in accordance with section 340h(2) sentence 1 and 2 of the HGB. 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.

III. Information on investors and investees

Postbank was included in the consolidated financial statements of Deutsche Post AG (DPAG) as of December 31, 2007. The consolidated financial statements of DPAG are contained in the Electronic Federal Gazette.

IV. Principles under the KWG

In the year under review, Postbank's equity and liquidity remained in accordance with the principles laid down by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (German Federal Financial Supervisory Authority) at all times (sections 10, 10a and 11 of the *Kreditwesengesetz* – KWG – German Banking Act).

B. Balance sheet and income statement disclosures

I. Assets side of the balance sheet

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Affiliated companies		
The following items include loans and advances to affiliated companies:		
Loans and advances to other banks	3,325	6,930
Loans and advances to customers	4,503	1,308
Bonds and other fixed-income securities	4,466	0
Other assets	1,004	680
Other long-term investees and investors		
The following items include loans and advances to other long-term investees and investors:		
Loans and advances to other banks	0	0
Loans and advances to customers	71	77
Bonds and other fixed-income securities	0	0
Other assets	0	23
Subordinated loans and advances		
Subordinated loans and advances are reported in the following items:		
Loans and advances to other banks	21	21
Loans and advances to customers	0	0
Bonds and other fixed-income securities	0	0
Equities and other non-fixed-income securities	0	0

The increase in bonds and other fixed-income securities results primarily from money market securities acquired from BHW Bausparkasse AG (zero bonds).

Loans and advances to other banks	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Used as cover, with an agreed maturity or withdrawal notice	105	267
of which: at least three months, but less than four years	0	0
of which: four years or more	105	267

Securities repurchase agreements

Reverse repos totaling €11,980 million were carried as loans and advances to other banks.

Securities purchased under agreements to resell are not reported in the balance sheet; interest of €172 million arising from such transactions was recognized as interest income.

Repos totaling €8,710 million were recognized as deposits from other banks. Interest of €274 million arising from such transactions was recognized as interest expense.

Loans and advances to customers	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Used as cover, with an agreed maturity or withdrawal notice	17,207	17,937
of which: less than four years	49	15
of which: four years or more	17,158	17,922
Secured by mortgage charges	25,730	23,031
of which: used as cover	13,231	12,608
Public sector loans	3,543	5,434
of which: used as cover	3,542	5,329

The key change in loans and advances to customers in the year under review relates to the issue of new residential construction loans in the amount of €3.8 billion. In addition, receivables amounting to €2.6 billion were acquired from BHW Bausparkasse AG. Furthermore, receivables increased due to a rise in global commercial financing measures amounting to €1 billion and syndicated loans amounting to €0.5 billion.

Bonds and other fixed-income securities	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item includes negotiable securities totaling:	52,091	43,024
Money market securities Public sector issuers		
listed money market securities	0	0
unlisted money market securities	0	0
Other issuers		
listed money market securities	5,730	171
unlisted money market securities	0	0
Bonds Public sector issuers		
listed bonds	13,307	14,114
unlisted bonds	104	4
Other issuers		
listed bonds	31,913	28,131
unlisted bonds	966	518
Securities not measured at the lower of cost or market	7,138	9,962
Own bonds		
listed own bonds	70	85
unlisted own bonds	1	1

Fixed assets include 62 securities with a carrying amount of €7,138 million (previous year: €9,962 million), for which write-downs amounting to €413 million (previous year: €275 million) would have been charged if they had been measured at their quoted prices at the balance sheet date. 24 securities (carrying amount: €2,223 million; fair value: €2,145 million) relate to German banks. Three securities (carrying amount: €82 million; fair value: €81 million) relate to foreign banks. Eight securities (carrying amount: €3,489 million; fair value: €3,237 million) relate to foreign government bonds issued in the European Union. In addition, the changes in the value of seven German government and federal state bonds (carrying amount €859 million; fair value €816 million) as well as the municipal bond issued by the city of Weimar (carrying amount: €20 million) that is due to mature next year and 20 asset-backed securities (carrying amount: €486 million; fair value: €446 million) were not recognized in income. The changes in the value of the interest-bearing securities are due to interest rates and credit spreads and are not expected to be permanent. A provision for anticipated losses amounting to €32 million was established for the credit default swaps separated from the synthetic collateralized debt obligations in accordance with IDW ERS HFA 22.

Equities and other non-fixed-income securities	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item includes negotiable securities totaling:	712	2,550
of which: listed securities	689	2,257
of which: unlisted securities	23	293
Securities not measured at the lower of cost or market	0	0

Equity investments	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item includes negotiable investments totaling:	6	33
of which: listed	6	0
of which: unlisted	0	33
Investments in affiliated companies		
This item includes negotiable investments totaling:	4,147	3,975
of which: listed	1,753	1,753
of which: unlisted	2,394	2,222

Statement of changes in fixed assets

	Historical cost Jan. 1, 2007	Additions	Disposals	Changes in exchange rates/ deferred interest	Cumulative depreciation, amortization and write-downs	Residual value Dec. 31, 2007	Depreciation, amortization and write-downs in fiscal year 2007
	€m	€m	€m	€m	€m	€m	€m
Bonds and other fixed-income securities	11,311	626	4,435	–101	13	7,590	13
Equity investments	33	6	22	0	0	17	0
Investments in affiliated companies	3,975	313	0	0	0	4.288	0
Property and equipment	1,002	10	0	0	373	639	28
Total	16,321	955	4,457	–101	386	12,534	41

The additions to equity investments relate to the acquisition of shares of Hypoport AG (€6,000 thousand). The disposals result from the sale of the 50 % interests in PB Lebensversicherung AG (€14,339 thousand) and PB Versicherung AG (€7,632 thousand) with effect from September 30, 2007.

The additions to investments in affiliated companies relate primarily to the capital increases of PB (USA) Holdings Inc. (€144,305 thousand) and the acquisition of BHW Bank AG (€160,100 thousand) as of October 1, 2007.

Further additions relate to the allocation of a share premium to Postbank Vertriebsakademie GmbH (previously PB Dritte Beteiligungen GmbH) (€1,900 thousand), the capital increases of PB Factoring GmbH (€6,546 thousand) and the capital invested in the newly founded companies Deutsche Postbank Funding Trust IV (€50 thousand) and Deutsche Postbank Funding LLC IV (€25 thousand).

In addition, Deutsche Postbank Vermögens-Management S.A. was sold by Deutsche Postbank AG to Deutsche Postbank International S.A. (PBI) with effect from January 1, 2007.

The share (100 %) in einsnull IT-Support GmbH, Cologne, taken over from Deutsche Post AG on January 1, 2007 was sold by Postbank to PB Beteiligungen GmbH on August 13, 2007.

Property and equipment includes land and buildings amounting to €540 million used in Postbank’s own operations, and operating and office equipment amounting to €15 million.

Other assets	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item primarily includes the following:		
Receivables arising from non-bank business	1,004	702
Adjustment item from measurement of proprietary trading portfolios	297	163
Claims to tax reimbursements	33	49
Claims to reimbursement against PB Lebensversicherung AG	17	0
Collection documents	7	77
Claims to reimbursement against the German government	0	9

Postbank's other assets mainly include receivables from the special funds (Spezialfonds/SF) relating to distributions amounting to €680 million, receivables from Postbank Filialvertrieb AG amounting to €214 million and PB Firmenkunden AG amounting to €32 million and an unrealized measurement gain on proprietary trading portfolios (marked-to-market) amounting to €297 million.

Prepaid expenses	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item includes:		
Close-out payments on micro swaps	510	257
Prepaid premiums on loans and advances	214	302
Prepaid issue costs/discounts	71	60

Remaining maturities	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Other loans and advances to other banks	24,182	16,538
less than 3 months	17,860	10,244
3 months to 1 year	1,996	3,381
1 to 5 years	3,585	2,565
more than 5 years	741	348
without fixed maturity	0	0
Loans and advances to customers	60,875	52,466
less than 3 months	8,723	4,483
3 months to 1 year	6,598	5,286
1 to 5 years	18,727	18,571
more than 5 years	24,640	22,652
without fixed maturity	2,187	1,474

Bonds and other fixed-income securities	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Amounts due in following year	10,883	5,935

Foreign currency assets	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Total amount of assets denominated in foreign currency	17,608	14,739

Trust assets	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item includes:	1,174	1,287
Loans and advances to customers	1,123	1,240
Loans and advances to other banks	51	47

The traditional focus is on financing measures aimed at enhancing infrastructure in rural areas, and specifically on promoting full-time and part-time agricultural enterprises. In eastern Germany, Postbank provides finance within the framework of government subsidy programs for the re-establishment and restructuring of agricultural enterprises by granting loans and subsidies as well as subsidized interest rates and guarantees.

II. Liabilities side of the balance sheet

Affiliated companies	Dec. 31, 2007 €m	Dec. 31, 2006 €m
The following items include amounts due to affiliated companies in unsecuritized form:		
Deposits from other banks	1,320	1,783
Due to customers	158	104
Other liabilities	139	51
Other long-term investees and investors		
Deposits from other banks	0	0
Due to customers	0	0
Other liabilities	0	0

Other liabilities	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item is primarily composed of:		
Adjustment item from currency translation	340	207
Tax liabilities	145	86
Liabilities arising from non-bank business	139	51

Deferred income	Dec. 31, 2007 €m	Dec. 31, 2006 €m
This item includes:		
Close-out payments on micro swaps	449	348
Discount accruals arising on loans and advances	58	49
Issue costs/premium accruals on bonds issued	22	14
Par structure bonds acquired at par	15	55
Installment loans interest and charges	0	0

Provisions	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Other provisions include:		
Employee-related provisions	93	88
Provisions for anticipated losses on derivatives	63	9
Provisions for restructuring measures	35	71

Subordinated debt

On June 29, 2007, a subordinated bond with a total principal amount of €500 million was issued. This bond will mature in full on June 29, 2037. Early repayment will be possible after June 29, 2017, until when the bond will bear 5.983 % interest. Thereafter, the interest rate will be variable.

The creditor of the €500 million bond is a subsidiary founded in the USA, Deutsche Postbank Funding Trust LLC IV. The sole purpose of this company is to issue securities to the newly founded Deutsche Postbank Funding Trust IV (Trust IV), a wholly owned subsidiary of Postbank. The €500 million bond was issued directly by Postbank and is freely floating.

Trust IV issues trust preferred securities to external investors. The trust preferred securities are admitted to trading on the official market of the Luxembourg stock exchange.

Information on all borrowings that exceed 10 % of total subordinated debt:

ISIN	Currency	Amount	Interest rate	Due
DE0001397081	€	500,000,000	variable	Nov. 4, 2015
XF0002431707	€	500,027,000	6.005 %	Dec. 23, 2034
XF0002432002	€	500,076,000	5.983 %	June 29, 2037

The terms and conditions of the subordinated debt do not comply in full with the requirements of section 10 (5a) of the KWG due to the short maturities; an extraordinary right of termination has not been granted to the creditor.

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Expenses (including proportionate interest and premiums) incurred by subordinated debt amounted to:	186	163

Remaining maturities	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Deposits from other banks with an agreed maturity or withdrawal notice	51,497	36,787
less than 3 months	34,285	27,313
3 months to 1 year	10,463	3,008
1 to 5 years	3,197	3,840
more than 5 years	3,552	2,626

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Savings deposits with an agreed maturity	228	259
less than 3 months	5	4
3 months to 1 year	59	66
1 to 5 years	164	189
more than 5 years	0	0
Other amounts due to customers with an agreed maturity or withdrawal notice	26,746	17,178
less than 3 months	6,136	4,015
3 months to 1 year	5,305	2,122
1 to 5 years	3,728	4,015
more than 5 years	11,577	7,026
Securitized liabilities		
Bonds issued		
Amounts due in following year	1,252	2,327

No assets have been transferred as collateral for the liabilities.

Foreign currency liabilities	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Total amount of liabilities denominated in foreign currency	17,741	14,716

Open market transactions	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Securities with repurchase agreements were pledged as collateral to the Land Central Bank collateral pool as part of open market transactions	14,661	9,825

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Trust liabilities	1,174	1,287
This item includes:		
Trust funds (transmitted loans)	551	594
Special-purpose funds	415	427
Deposits from other banks	152	211
Special fund of the state of Mecklenburg-West Pomerania	45	44
Retired farmers' pension fund	11	11

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Profit participation certificates outstanding	1,216	1,081
This item includes:		
Bearer profit participation certificates outstanding	560	560
Registered profit participation certificates outstanding	656	521

Equity

Postbank's share capital amounts to €410 million and is composed of 164,000,000 no-par value registered shares.

In accordance with the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the Bank's share capital by up to a total of €41 million up to March 24, 2009 by issuing new, non-voting no-par value registered shares (preference shares) against non-cash contributions (authorized capital). Shareholders' pre-emptive subscription rights are disapplied.

Under a resolution adopted by the Annual General Meeting, the Management Board is authorized, with the consent of the Supervisory Board, to issue new, no-par value registered shares from authorized capital II up to a total of €137 million up to May 10, 2011. Shareholders must be granted pre-emptive subscription rights. The specific provisions governing the authorized capital are contained in our Articles of Association, which can be accessed via our website.

The Annual General Meeting of Postbank on May 10, 2007 renewed the Management Board's global authorizations to purchase own shares. Accordingly, the Management Board is authorized to purchase own shares up to a total of 10 % of the share capital.

Changes in equity in 2007	Issued capital	Contributions by typical silent partners	Share premium	Retained earnings	Unappropriated surplus	Equity
	€m	€m	€m	€m	€m	€m
Balance at Jan. 1, 2007	410	51	1,159	591	262	2,473
Dividend payment					–205	–205
Appropriation to retained earnings				57	–57	0
Unappropriated surplus					237	237
Balance at Dec. 31, 2007	410	51	1,159	648	237	2,505

The unappropriated surplus amounts to €237 million. According to the proposal by the Management Board for the appropriation of the unappropriated surplus, €205 million are to be distributed to shareholders and €32 million transferred to retained earnings. In accordance with section 10(4a) sentence 1 in conjunction with (4c) of the KWG, unrealized reserves totaling €470 million were allocated to equity following the adoption of the annual financial statements.

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Contributions by typical silent partners	51	51

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

III. Income statement

Other operating expenses include expenses for special projects amounting to €23 million, court and litigation costs amounting to €7 million and remuneration paid to the Bundesanstalt für Post und Telekommunikation (Federal Posts and Telecommunications Agency) amounting to €6 million.

Taxes on income amount to €25 million.

Other operating income includes income from the reimbursement of personnel and non-personnel expenses amounting to €335 million. This item also includes income from rental and lease agreements amounting to €44 million and income from the reversal of provisions amounting to €12 million.

IV. Contingent liabilities

Postbank reported a guarantee of €106 million issued to PB Capital Corp. (PB Capital) under contingent liabilities. This consists primarily of rental guarantees for office space, guarantees for commercial paper (CP) programs and guarantees for swaps and derivatives. This item also includes a guarantee of €945 million issued to PBI. This mainly covers exposures in the form of risk subparticipation agreements that exceed PBI's large exposure limits after the transfer of the Luxembourg branch, among other things.

C. Other disclosures

I. Other financial obligations

In accordance with Article 4 section 16 of the *Gesetz zur Neuordnung des Postwesens und der Telekommunikation* (PTNeuOG – German Posts and Telecommunications Reorganization Act), Postbank has paid 33 % 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 set up for this purpose, starting in 2000. Other obligations for pension fund payments above and beyond this are not borne by Postbank but by the federal government.

The present value of lease obligations amounts to €90 million.

Letters of comfort

Postbank ensures that, with the exception of political risk, its subsidiaries PBI and PB Capital are able to discharge their obligations.

Postbank has issued subordinated letters of comfort in relation to the issue of subordinated bonds by Deutsche Postbank Funding LLC I, II, III and IV, all four of which are domiciled in Delaware, USA.

Additional funding obligation

In accordance with the provisions of that company's articles of association, the investment in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, results in a pro rata additional funding obligation of up to €5 million. Deutsche Postbank AG is also liable pro rata for the fulfillment of the additional funding obligations of other shareholders belonging to the Bundesverband deutscher Banken e. V. (Association of German Banks).

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

II. Employees (average full-time equivalents)

	Total 2007	Total 2006
Employees		
Full-time	2,936	2,789
Part-time	281	277
Civil servants		
Full-time	2,268	2,255
Part-time	637	689
Subtotal	6,122	6,010
Trainees		
Vocational trainees	244	262
Management trainees	0	0
AIS students	15	16
	259	278
Total employees	6,381	6,288

III. 2007 Remuneration of the Management Board

The overall structure of the remuneration of the Management Board is stipulated by the Supervisory Board of Deutsche Postbank AG.

The Executive Committee of the Supervisory Board discusses the appropriateness of the remuneration of the members of the Management Board of Deutsche Postbank AG, taking into account the Company's performance, the sector and the prospects for the future. Remuneration is reviewed on a regular basis.

The level of remuneration for members of the Management Board is determined on the basis of the size and activity of the Company, its economic and financial situation and the tasks of the board member in question. Remuneration is calculated so that it is competitive in the national and international job market and thereby offers an incentive for dedicated and successful work. It therefore complies with the requirements of section 87 of the *Aktiengesetz* (AktG – German Stock Corporation Act).

The level of remuneration is linked to performance; overall remuneration consists of a fixed and a performance-related component.

The fixed component (base pay), other compensation and pension commitments are not linked to performance. The fixed component is paid as a monthly salary in 12 equal installments.

The performance-related (variable) component consists of the annual bonus.

The annual bonus awarded to the Chairman of the Management Board is determined by the Executive Committee of the Supervisory Board on the basis of the Company's business development after due assessment of the circumstances.

The annual bonuses awarded to the other members of the Management Board are paid according to the achievement of quantitative and/or qualitative targets. These targets form part of a target agreement established at the start of each fiscal year. Half of them are corporate targets for Deutsche Postbank AG, and half are personal targets. The bonus amount is determined in accordance with the degree to which the agreed targets are achieved or exceeded.

The size of the bonus is capped on the basis of individual agreements. The maximum annual bonus is granted, where the upper target value specified for the fiscal year is reached. In the case of the Chairman of the Management Board, the bonus may not exceed the amount of the fixed annual remuneration. Otherwise, in order to create an incentive, the ratio of potential variable remuneration to fixed remuneration is calculated so that variable remuneration can exceed fixed remuneration.

The Executive Committee of the Supervisory Board has the right to award members of the Management Board an appropriate special bonus for exceptional performance.

Deutsche Postbank AG has neither launched a stock option program, nor does it currently intend to do so. Members of Deutsche Postbank AG's Management Board received stock options from Deutsche Post AG until the end of 2004.

The total remuneration of the active members of the Management Board in fiscal year 2007 amounted to €10,529.0 thousand. Of this total amount, €4,469.8 thousand comprised the fixed component (previous year: €4,489.2 thousand) and €6,059.2 thousand comprised bonuses (previous year: €6,082.2 thousand).

The fixed component contains "other compensation" totaling €189.8 thousand. This additional remuneration relates primarily to the use of management cars, the reimbursement of travel costs and contributions to insurance schemes. In principle, this compensation is available to all members of the Management Board equally; the amount varies depending on different personal circumstances.

The following table illustrates the remuneration details on an individual basis:

	Fixed remuneration component	Other compensation	Performance-related component	Total
	€ thousand	€ thousand	€ thousand	€ thousand
Wolfgang Klein (Chairman since July 1, 2007) [1]	687.5	45.7	797.7	1,530.9
Wulf von Schimmelmann (Chairman until June 30, 2007)	555.0	14.6	825.0	1,394.6
Dirk Berensmann	500.0	23.9	742.3	1,266.2
Mario Daberkow	250.0	14.5	339.4	603.9
Henning R. Engmann (until March 31, 2007)	125.0	7.8	200.0	332.8
Stefan Jütte	512.5	14.2	761.1	1,287.8
Guido Lohmann (since July 1, 2007)	125.0	9.8	161.5	296.3
Michael Meyer (since July 1, 2007)	175.0	6.9	219.9	401.8
Loukas Rizos	550.0	19.5	1,067.3	1,636.8
Hans-Peter Schmid	400.0	16.5	464.0	880.5
Ralf Stemmer	400.0	16.4	481.0	897.4
Total	4,280.0	189.8	6,059.2	10,529.0

[1] The amount disclosed covers Wolfgang Klein's activities as a member of the Management Board for the entire year.

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

IV. Pension commitments

The members of the Management Board benefit from individually agreed direct pension commitments. Because each board member has a different career history, the precise arrangements differ.

A pension shall be paid if the member of the Management Board leaves our service as a result of disability, death or old age. As a rule, old-age pensions are paid from the age of 62.

Under the standard pension commitments valid until February 28, 2007, pension rights generally accrue after at least five years of service. In the case of disability, this minimum waiting period may be waived in part.

Furthermore, Loukas Rizos is entitled to receive a pension if another company acquires a majority holding in the Company or if there is a change in his agreed duties without an important reason for which Loukas Rizos is responsible.

The size of the pension depends on the length of service and the amount of pensionable remuneration. Only the fixed component of remuneration (base pay) is pensionable. The basic rule is that pension benefits of 50 % relating to the percentage of final salary accrue to members of the Management Board after five years of service. Benefits accrue at a constant rate of 2 % for each eligible year of service. The maximum level of pension benefits (60 %) relating to the percentage of final salary is generally reached after ten years of service. The arrangements in the case of Management Board members Stefan Jütte and Loukas Rizos are different, however. The maximum level of pension benefits for Loukas Rizos is 75 %. The pension benefits for Stefan Jütte amount to a maximum of 50 % of pensionable income. The Chairman of the Management Board has already reached the maximum of 60 % of his pension benefits.

The standard pension commitments valid until February 28, 2007 further include rules for the payment of a transitional allowance for board members who leave the Company upon reaching the age limit or for reasons of disability. The benefit period is two years. If Dirk Berensmann, Mario Daberkow, Hans-Peter Schmid, or Ralf Stemmer leave the Management Board before the end of their contractual term due to termination of contract by Postbank, the pension benefits shall be calculated as if they had fulfilled their contract as planned, unless Postbank terminates the employment relationship for good cause.

According to the standard pension commitments valid until February 28, 2007, future pension payments will be adjusted in line with the percentage growth in the highest pay group of the collective agreement for the Verband öffentlicher Banken (Association of German Public Sector Banks). Otherwise, payments are adjusted in line with Germany's consumer price index.

On May 10, 2007, the Executive Committee of Deutsche Postbank AG's Supervisory Board resolved to restructure the pension arrangements for members of the Management Board appointed after March 31, 2007 from the previous final salary-based pension system to a defined contribution plan. The pension commitments of the members of the Management Board appointed after that date, Guido Lohmann and Michael Meyer, are therefore based on the following basic system: A benefit contribution is granted for each eligible year of service. This benefit contribution is credited to a virtual pension account and bears interest at the interest rate used in the assessment for tax purposes of direct pension commitments from the time of the grant until the insured event. The current interest rate is 6 %. When the insured event occurs, the amount of the pension is determined by distributing the pension assets accumulated in the pension account across the expected benefit period of the pension in accordance with actuarial principles. There is no waiting period and entitlements from pension commitments are vested immediately. Pensions are adjusted by 1 % p.a.

Members of the Management Board Loukas Rizos and Michael Meyer have the right to choose between regular pension payments and a lump-sum capital payment.

Pension commitments for individual members of the Management Board

	Pension commitments		
	Percentage of final salary as of Dec. 31, 2007	Maximum percentage of final salary	Service cost for pension obligations
	%	%	€
Wolfgang Klein (Chairman since July 1, 2007)	60	60	184,414
Wulf von Schimmelmann (Chairman until June 30, 2007 – retirement)	–	75	1,623,938
Dirk Berensmann	56	60	206,979
Mario Daberkow	0	60	95,858
Henning R. Engmann (until March 31, 2007)	–	60	146,386
Stefan Jütte	28.4	50	232,740
Loukas Rizos	66	75	343,715
Hans-Peter Schmid	0	60	303,715
Ralf Stemmer	0	60	79,976

Hans-Peter Schmid, Ralf Stemmer, and Mario Daberkow have not yet completed their respective waiting periods. As of the end of fiscal year 2007, they therefore have no entitlement to an old-age pension under these arrangements. Ralf Stemmer's previous pension arrangements will take effect before the expiry of the waiting period.

	Contribution amount for 2007	Pension account balance as of Dec. 31, 2007	Service cost for pension obligations
	€	€	€
Guido Lohmann (since July 1, 2007)	192,109	197,872	55,806
Michael Meyer (since July 1, 2007)	229,214	236,090	not assessed by Postbank

The remuneration paid to former members of the Management Board and their dependants amounted to €4.95 million.

The defined benefit obligation (DBO) for current pensions, calculated in line with international accounting principles, totals €42.77 million.

Other

In the year under review, the members of the Management Board have received no benefits from third parties that were either promised or granted in view of their position as a member of the Management Board.

Apart from the benefits specified above, no member of the Management Board has been promised any further benefits upon termination of employment.

V. Remuneration of the Supervisory Board

Deutsche Postbank AG's Annual General Meeting last changed the remuneration of the Supervisory Board in 2004, adjusting it in line with the Corporate Governance Code. Article 15 of the Articles of Association of Deutsche Postbank AG establishes the remuneration system. In accordance with this article, the annual remuneration of members of the Supervisory Board consists of fixed and performance-related components, plus a performance-related component with a long-term incentive effect. This reflects the responsibilities and scope of activity of the Supervisory Board's work and the economic performance of Deutsche Postbank AG. The positions of chair and deputy chair as well as membership of a committee are reflected in the remuneration.

The fixed component amounts to €15,000, while the variable component amounts to €300 for each €0.03 by which the consolidated net profit per share for the respective fiscal year exceeds the amount of €2.00.

Members of the Supervisory Board will be entitled to performance-related remuneration with a long-term incentive effect for fiscal year 2007 amounting to €300 for each 1 % by which the consolidated net profit per share for fiscal year 2009 exceeds the consolidated net profit per share for fiscal year 2006. This remuneration is payable following the end of the 2010 Annual General Meeting.

The Chairman of the Supervisory Board receives double the remuneration specified above, while the Deputy Chariman receives one and a half times the remuneration specified above. The chairmanship of a Superviory Board committee is remunerated by an additional amount the same as that specified above, while members of the Supervisory Board committees additionally receive half this amount for each such position held. This does not apply to membership of the Mediation Committee and the Nomination Committee.

The members of the Supervisory Board are entitled to claim out-of-pocket expenses incurred in the exercise of their office. Any value-added tax on the Supervisory Board remuneration and on any out-of-pocket expenses is reimbursed. In addition, each member of the Supervisory Board attending a meeting receives an attendance allowance of €250 for each meeting of the full Supervisory Board or of one of the committees.

The remuneration of the Supervisory Board is capped in that neither of the two variable components may exceed the value of the fixed annual remuneration. Furthermore, the short-term variable component may not exceed in total 0.5 % of the Company's net retained profit less four percent of contributions made on the lowest issue price of the shares. In addition, remuneration of committee members may not exceed twice the remuneration of the Supervisory Board member.

Persons who are members of the Supervisory Board for only part of a fiscal year receive the corresponding remuneration ratably.

The total remuneration paid to members of the Supervisory Board for fiscal year 2007 amounted to €996 thousand (2006: €963 thousand). The increase in the variable remuneration for the Supervisory Board is largely due to the distinctly improved and sustainably positive net profit of the Deutsche Postbank Group.

The total remuneration paid to the individual members of the Supervisory Board was as follows:

	Fixed remuneration	Variable remuneration*	Total	Entitlement to remuneration with long-term incentive effect**
	€ thousand	€ thousand	€ thousand	€ thousand
Klaus Zumwinkel	52.5	55.3	107.8	52.5
Michael Sommer	45.0	47.5	92.5	45.0
Wilfried Anhäuser	12.8	14.3	27.1	12.8
Jörg Asmussen	15.0	15.5	30.5	15.0
Marietta Auer	22.5	25.3	47.8	22.5
Rolf Bauermeister	9.7	10.7	20.4	9.7
Rosemarie Bolte	5.3	5.6	10.9	5.3
Wilfried Boysen	15.0	16.0	31.0	15.0
Edgar Ernst	30.0	33.5	63.5	30.0
Annette Harms	15.0	16.3	31.3	15.0
Peter Hoch	37.5	41.0	78.5	37.5
Ralf Höhmann	5.3	5.6	10.9	5.3
Elmar Kallfelz	32.7	36.5	69.2	32.7
Ralf Krüger	37.5	41.5	79.0	37.5
Harald Kuhlow	6.3	6.8	13.1	6.3
Hans-Dieter Petram	15.0	15.8	30.8	15.0
Bernd Pfaffenbach	15.0	15.8	30.8	15.0
Klaus Schlede	22.5	23.8	46.3	22.5
Elmo von Schorlemer	15.0	16.3	31.3	15.0
Torsten Schulte	12.8	14.1	26.9	12.8
Sabine Schwarz	5.3	5.6	10.9	5.3
Eric Stadler	9.7	10.7	20.4	9.7
Gerd Tausendfreund	22,5	24.5	47.0	22.5
Renate Treis	12.8	14.8	27.6	12.8
Christine Weiler	5.3	5.6	10.9	5.3
Total	478.0	518.4	996.4	478.0

* incl. attendance allowances

** The basis for the measurement of the entitlement to remuneration with long-term incentive effect is the provision which must be recognized.

For his work on the Supervisory Board of the BHW Group, Peter Hoch received remuneration of €14.5 thousand.

No further payments or benefits were granted to members of the Supervisory Board in return for services provided individually in addition to members' Supervisory Board activities, especially consulting and arrangement services. This does not apply to the remuneration of employee representatives as set out in their respective employment contracts.

In fiscal year 2007, the aggregate shareholdings of all members of the Management Board and Supervisory Board amounted to less than 1 % of the shares issued by the Company.

At the balance sheet date, loans of €931 thousand (previous year: €924.7 thousand) had been granted to members of the Management Board and members of the Supervisory Board; no loans were granted to Management Board members who retired in 2007. No other contingent liabilities had been entered into.

VI. Forward contracts

The volume of unsettled derivatives subject to settlement risk, and currency, interest rate and/or other market price risk from open and, in the case of counterparty risk, from closed positions amounted to €528 billion as of December 31, 2007 (previous year: €447 billion).

The following table lists the current derivatives contracts broken down by their risk structure. In line with normal international practice the notional amounts are reported. This figure is a reference amount used to calculate mutually agreed cash settlement payments, and does not represent recognizable receivables or liabilities.

The tables on the following page break down this information further in line with various criteria. In addition to providing information on maturity classes by risk category, they offer a breakdown by counterparty. Derivatives held for trading are shown separately.

The notional amounts represent the gross volume of all calls and puts. The fair value of the individual contracts is determined using recognized measurement models; netting agreements are not applied.

Derivatives – broken down by volume	Notional amounts		Positive fair values		Negative fair values	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Interest rate risk						
OTC products						
Interest rate swaps	483,655	412,170	5,259	3,299	–5,257	3,558
FRAs	5,895	964	0	0	–2	0
Interest rate options						
Long calls	50	0	0	0	0	0
Short puts	10	10	0	0	0	0
Caps, floors	778	405	2	1	–2	1
Other interest rate forwards	0	0		0		0
Exchange-traded products						
Interest rate futures (Bund, Bobl, Schatz)*	9,868	4,066	0	0	0	0
Interest rate options (Bund, Bobl, Schatz)*	490	7,996	0	1	0	0
Subtotal	500,746	425,611	5,261	3,301	–5,261	3,559
Currency risk						
OTC products						
Currency forwards/swaps	22,763	17,573	216	170	–300	140
Cross-currency swaps	1,439	1,815	14	4	–244	208
Currency options						
Long calls	286	490	4	3	–	–
Short puts	181	217	0	0	–4	2
Other currency forwards		0		0		0
Exchange-traded products						
Currency futures	0	0	0	0	0	0
Currency options	0	0	0	0	0	0
Subtotal	24,669	20,095	234	177	–548	350
Equity and other price risk						
OTC products						
Equity forwards		0		0		0
Equity/index options						
Long calls	85	52	8	13	0	0
Short puts	82	59	0	0	–9	13
Other equity/index contracts		–	–	–		–
Exchange-traded products						
Equity/index futures	117	5	0	0	0	0
Equity/index options	259	68	2	1	–1	0
Subtotal	543	184	10	14	–10	13
Credit derivatives						
Calls	515	519	2	0	0	3
Puts	1,442	353	4	1	–36	0
Subtotal	1,957	872	6	1	–36	3
Total	527,915	446,762	5,511	3,493	–5,855	3,925

*German government bonds, German government medium-term notes, German treasury notes

Notional amounts in €m	Derivatives – broken down by residual maturities							
	Interest rate risk		Currency risk		Equity and other price risk		Credit derivatives	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Remaining maturities								
less than 3 months	64,223	88,037	17,896	13,775	328	60	7	0
3 months to 1 year	51,556	59,702	5,478	4,439	51	53	73	73
1 to 5 years	114,877	96,924	970	1,692	164	71	1,058	780
more than 5 years	270,090	180,948	325	189	0	0	819	19
Total	500,746	425,611	24,669	20,095	543	184	1,957	872

Notional amounts in €m	Derivatives – broken down by counterparties					
	Notional amounts		Positive fair values		Negative fair values	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Counterparties						
Banks in OECD countries	525,862	444,528	5,485	3,472	–5,804	3,889
Banks in non-OECD countries	0	0	0	0	0	0
Other counterparties	2,053	2,234	26	21	–51	36
Total	527,915	446,762	5,511	3,493	–5,855	3,925

Notional amounts in €m	Derivatives – held for trading					
	Notional amounts		Positive fair values		Negative fair values	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Interest rate contracts	457,520	374,485	4,928	2,733	–4,622	2,681
Currency contracts	16,055	16,115	174	161	–239	129
Equity contracts	370	80	2	1	–1	0
Credit derivate contracts	0	0	0	0	0	0
Total	473,945	390,680	5,104	2,895	–4,862	2,810

VII. Equity investments and investments in affiliated companies

	Equity interest %	Dec. 31, 2007 Equity € thousand	Dec. 31, 2007 Net profit/loss € thousand
Investments in affiliated companies			
Betriebs-Center für Banken Processing GmbH, Frankfurt am Main	100.0	–1,216	5,129[2]
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	8,644	–5,609[2]
Betriebs-Center für Banken Verwaltungs GmbH, Frankfurt am Main	100.0	26	-3[2]
BHW Holding AG, Berlin/Hamelin	98.4	939,677	–150,203[2]
BHW Bank AG, Hamelin	100.0	121,900	228[2]
CREDA Objektanlage- und -verwaltungsgesellschaft mbH, Bonn	100.0	1,000	0[1]
Deutsche Postbank Financial Services GmbH, Frankfurt am Main	100.0	5,000	0[1]
Deutsche Postbank Funding LLC I, Wilmington, Delaware, USA	100.0	–7	–38[4]
Deutsche Postbank Funding LLC II, Wilmington, Delaware, USA	100.0	–18	–37[4]
Deutsche Postbank Funding LLC III, Wilmington, Delaware, USA	100.0	14	–2[4]
Deutsche Postbank Funding LLC IV, Wilmington, Delaware, USA	100.0	25	0[4]
Deutsche Postbank Funding Trust I, Wilmington, Delaware, USA	100.0	1	0[4]
Deutsche Postbank Funding Trust II, Wilmington, Delaware, USA	100.0	1	0[4]
Deutsche Postbank Funding Trust III, Wilmington, Delaware, USA	100.0	1	0[4]
Deutsche Postbank Funding Trust IV, Wilmington, Delaware, USA	100.0	51	1[4]
Deutsche Postbank International S.A., Luxemburg	100.0	737,347	65,961[2]
Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn	100.0	14,800	0[1]
DSF Deutsche System Finanzplan Gesellschaft für Finanzdienstvermittlung mbH, Hamelin	100.0	36	6[3]
DSL Holding AG i.A., Bonn	100.0	55,071	–677[2]
DVD Gesellschaft für DV-gestützte Dienstleistungen mbH & Co. KG, Cologne	51.0	2,570	2,175[3]
easyhyp GmbH, Hamelin	100.0	25	0[3]
easytrade services GmbH, Leipzig	100.0	25	0[1]
PB (USA) Holdings Inc., Wilmington, Delaware	100.0	391,174	37,814[4]
PB Factoring GmbH, Bonn	100.0	11,546	0[1]
PB Firmenkunden AG, Bonn	100.0	1,100	0[1]
Postbank Beteiligungen GmbH, Bonn	100.0	25	0[1]
Postbank Filialvertrieb AG, Bonn	100.0	55	0[1]
Postbank Finanzberatung AG, Hamelin	23.3	15,677	677[2]
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	18,874	0[1]
Postbank Leasing GmbH, Bonn	100.0	500	0[1]
Postbank P.O.S. Transact GmbH, Eschborn	100.0	8,049	5,568[2]
Postbank Systems AG, Bonn	100.0	51,573	0[1]
Postbank Vertriebsakademie GmbH, Hamelin	100.0	25	0[3]
RALOS Verwaltungs GmbH & Co. Vermietungs KG, Munich	94.0	–1,872	264[3]
VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn	75.0	10,347	1,791[2]
Equity investments			
giropay GmbH, Frankfurt am Main	33.3	–658	–233[2]

[1] Profit and loss transfer agreement
[2] Provisional 2007 annual financial statements
[3] Annual financial statements as of December 31, 2006
[4] Provisional 2007 IFRS financial statements

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VIII. Cover for bonds outstanding

	2007 €m	2006 €m
Cover for mortgage bonds		
Mortgage bonds requiring cover	1,423	1,890
Cover assets	2,583	3,023
Excess cover	1,160	1,133
Cover for municipal bonds		
Municipal bonds requiring cover	3,943	4,953
Cover assets	4,544	5,640
Excess cover	601	687
Cover for Type C registered securities		
Registered securities requiring cover	13,307	9,191
Cover assets	14,408	11,390
Excess cover	1,101	2,200
Cover for interest expenses on mortgage bonds		
Interest expenses on mortgage bonds	72	101
Interest income from cover assets	106	160
Excess cover	34	59
Cover for interest expenses on municipal bonds		
Interest expenses on municipal bonds	154	248
Interest income from cover assets	199	271
Excess cover	45	24
Cover for interest expenses on Type C registered securities		
Interest expenses on Type C registered securities	583	395
Interest income from cover assets	656	555
Excess cover	73	160

IX. Supplemental disclosures

In accordance with section 2(4) *Postumwandlungsgesetz* (PostUmwG – Postal Service Transformation Act), the federal government guarantees settlement of all liabilities existing at the time of Deutsche Postbank AG's entry in the commercial register.

The guarantee for savings deposits expired five years after the entry in the commercial register.

Deutsche Postbank AG belongs to the deposit protection fund of the Bundesverband deutscher Banken e. V. (BdB – Association of German Banks) and the Entschädigungseinrichtung deutscher Banken GmbH (mandatory compensation scheme for all deposit-taking institutions in Germany).

Auditors' fees in accordance with section 285(1) no. 17 of the HGB:

The auditors' fees in the amount of €7.7 million recognized for the year under review comprise the services provided in connection with the auditing of the annual financial statements in the amount of €2.6 million, other assurance or valuation services in the amount of €2.3 million and other services in the amount of €2.8 million.

X. Declaration of compliance

The Management Board and the Supervisory Board together published the declaration of compliance with the German Corporate Governance Code for fiscal year 2007 required by section 161 of the *Aktiengesetz* (German Stock Corporation Act) on November 30, 2007. The declaration of compliance can be accessed on the Internet on our homepage at www.postbank.de.

D. Members of Executive Bodies

Management Board

The members of the Management Board are:	
Wolfgang Klein, Bonn (Chairman since July 1, 2007)	
Wulf von Schimmelmann, Brussels (Chairman until June 30, 2007)	
Dirk Berensmann, Unkel	
Mario Daberkow, Bonn	
Henning R. Engmann, Ostelsheim	until March 31, 2007
Stefan Jütte, Bonn	
Guido Lohmann, Dülmen	since July 1, 2007
Michael Meyer, Bonn	since July 1, 2007
Loukas Rizos, Bonn	
Hans-Peter Schmid, Baldham	
Ralf Stemmer, Königswinter	

Offices held by members of the Management Board of Postbank as of December 31, 2007 on supervisory boards or other supervisory bodies:

Wolfgang Klein	Chairman since July 1, 2007

Function	Company
Chairman of the Supervisory Board (since June 28, 2007) Member of the Supervisory Board (until June 27, 2007)	BHW Holding AG, Berlin/Hamelin
Chairman of the Supervisory Board (since June 28, 2007) Member of the Supervisory Board (until June 27, 2007)	BHW Bausparkasse AG, Hamelin
Member and Chairman of the Supervisory Board (since July 1, 2007)	Postbank Filialvertrieb AG, Bonn
Member and Chairman of the Supervisory Board (since July 1, 2007)	Postbank Finanzberatung AG, Hamelin
Chairman of the Supervisory Board	Comma Soft AG, Bonn
Chairman of the Board of Directors (since July 1, 2007)	PB (USA) Holdings, Inc., Wilmington (Delaware, USA)
Chairman of the Board of Directors (since July 1, 2007)	PB Capital Corp., Wilmington (Delaware, USA)
Deputy Chairman of the Supervisory Board (since July 1, 2007) Member of the Supervisory Board (until June 30, 2007)	Deutsche Postbank Financial Services GmbH, Frankfurt/Main
Chairman of the Management Board (since July 1, 2007)	Bundesverband deutscher Banken e.V., Berlin
Member of the Advisory Board (since January 1, 2007)	Verband der Sparda-Banken e.V., Frankfurt/Main

Offices relinquished during the year	
Chairman of the Supervisory Board (until September 30, 2007)	PB Lebensversicherung AG, Hilden
Chairman of the Supervisory Board (until September 30, 2007)	PB Versicherung AG, Hilden
Chairman of the Advisory Board (until June 30, 2007)	VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn
Deputy Chairman of the Board of Directors (until June 30, 2007)	Deutsche Postbank International S.A., Luxembourg
Deputy Chairman of the Board of Directors (until June 30, 2007)	Deutsche Postbank Vermögens-Management S.A., Luxembourg
Deputy Chairman of the Board of Directors (until June 30, 2007)	VISA Deutschland e. V., Frankfurt/Main
Member of the Supervisory Board (until September 21, 2007)	Postbank Vertriebsakademie GmbH, Hamelin
Member of the Advisory Board (until June 30, 2007)	V PAY Deutschland, Frankfurt/Main

Wulf von Schimmelmann	Chairman until June 30, 2007

Function	Company
Member of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	maxingvest ag, Hamburg*
Member of the Board of Directors	accenture Corp., Irving (Texas, USA)
Member of the Board of Directors	Altadis S.A., Madrid (Spain)

Offices relinquished from January 1, 2007 to June 30, 2007	
Chairman of the Supervisory Board (until June 26, 2007)	BHW Holding AG, Berlin/Hamelin
Chairman of the Supervisory Board (until June 26, 2007)	BHW Bausparkasse AG, Hamelin
Chairman of the Supervisory Board (until June 30, 2007)	Postbank Filialvertrieb AG, Bonn
Chairman of the Supervisory Board (until June 30, 2007)	Postbank Finanzberatung AG, Hamelin
Chairman of the Supervisory Board (until June 30, 2007)	PB Lebensversicherung AG, Hilden
Chairman of the Supervisory Board (until June 30, 2007)	PB Versicherung AG, Hilden
Chairman of the Board of Directors (until June 30, 2007)	PB (USA) Holdings Inc., Wilmington (Delaware, USA)
Chairman of the Board of Directors (until June 30, 2007)	PB Capital Corp., Wilmington (Delaware, USA)
Deputy Chairman of the Supervisory Board (until June 30, 2007)	Deutsche Postbank Financial Services GmbH, Frankfurt/Main
Member of the Management Board (until June 30, 2007)	Bundesverband deutscher Banken e. V., Berlin

* previously TCHIBO Holding AG, Hamburg

Dirk Berensmann	

Function	Company
Chairman of the Supervisory Board	Postbank Systems AG, Bonn
Chairman of the Advisory Board	einsnull IT-Support GmbH, Cologne
Chairman of the Board of Directors	Eurogiro Holding A/S, Taastrup (Denmark)*
Member of the Supervisory Board	BHW Holding AG, Berlin/Hamelin
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	Postbank Finanzberatung AG, Hamelin
Member of the Management Board	e-Finance Lab Frankfurt am Main, Frankfurt University

* previously Eurogiro Network A/S

Mario Daberkow	

Function	Company
Chairman of the Supervisory Board (since January 1, 2007)	Betriebs-Center für Banken Payments & Services GmbH, Munich
Chairman of the Supervisory Board (since June 29, 2007)	Betriebs-Center für Banken AG, Frankfurt/Main
Chairman of the Advisory Board	CREDA Objektanlage- und verwaltungsgesellschaft mbH, Bonn
Deputy Chairman of the Advisory Board (since December 17, 2007) Member of the Advisory Board (from December 1, 2007 until December 16, 2007)	VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn
Member of the Supervisory Board	BHW Holding AG, Berlin/Hamelin
Member of the Supervisory Board	BHW Bausparkasse AG, Hamelin

Offices relinquished during the year

Chairman of the Supervisory Board (until October 11, 2007)	Betriebs-Center für Banken Payments AG, Frankfurt/Main
Member of the Supervisory Board (until October 11, 2007)	Betriebs-Center für Banken Zahlungsverkehrsservice GmbH, Frankfurt/Main
Deputy Chairman of the Supervisory Board (until November 20, 2007)	PB Pensionsfonds AG, Hilden

Henning R. Engmann	Member of the Management Board until March 31, 2007

Function	Company
Member of the Supervisory Board	EUWAX AG, Stuttgart
Member of the Supervisory Board (from March 17, 2007 to April 16, 2007) Chairman of the Supervisory Board (until March 16, 2007)	BHW Bank AG, Hamelin
Member of the Supervisory Board (from March 17, 2007 to April 16, 2007) Chairman of the Supervisory Board (until March 16, 2007)	BHW Lebensversicherung AG, Hamelin
Member of the Supervisory Board (from March 17, 2007 to April 16, 2007) Chairman of the Supervisory Board (until March 16, 2007)	BHW Pensionskasse AG, Hamelin

Offices relinquished from January 1, 2007 to March 31, 2007

Deputy Chairman of the Supervisory Board (until March 16, 2007)	Frankfurter Service Kapitalanlage-Gesellschaft mbH, Frankfurt/Main
Member of the Board of Directors (until March 16, 2007)	BHW Home Finance Limited, New Delhi (India)

Stefan Jütte	

Function	Company
Chairman of the Supervisory Board	Postbank Leasing GmbH, Bonn
Chairman of the Supervisory Board	PB Factoring GmbH, Bonn
Chairman of the Supervisory Board	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
Member of the Supervisory Board	IVG Institutional Funds GmbH, Wiesbaden*
Member of the Advisory Board	CorpusSireo Immobiliengruppe, Düsseldorf**

* previously Oppenheim Immobilien-Kapitalanlagegesellschaft mbH, Wiesbaden
** previously SIREO REAL Estate Asset Management GmbH, Heusenstamm

Guido Lohmann	Member of the Management Board since July 1, 2007

Function	Company
Chairman of the Supervisory Board (since January 30, 2008) Member of the Supervisory Board (from December 19, 2007 to January 29, 2008)	BHW Immobilien GmbH, Hamelin
Member of the Supervisory Board (since August 7, 2007)	Postbank Vertriebsakademie GmbH, Hamelin

Michael Meyer	Member of the Management Board since July 1, 2007

Function	Company
Deputy Chairman of the Supervisory Board	BHW Bank AG, Hamelin
Deputy Chairman of the Supervisory Board (since December 4, 2007) Member of the Supervisory Board (from September 24, 2007 to December 3, 2007)	Postbank Vertriebsakademie GmbH, Hamelin
Chairman of the Board of Directors (until December 31, 2007)	BHW Financial S.r.l., Verona (Italy)
Deputy Chairman of the Board of Directors (since July 4, 2007) Member of the Board of Directors (from July 1, 2007 to July 3, 2007)	Deutsche Postbank International S.A., Luxembourg
Deputy Chairman of the Board of Directors (since July 4, 2007) Member of the Board of Directors (from July 1, 2007 to July 3, 2007)	Deutsche Postbank Vermögens-Management S.A., Luxembourg
Member and Chairman of the Advisory Board (since July 1, 2007)	VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn
Member of the Supervisory Board (since July 1, 2007)	PB Lebensversicherung AG, Hilden
Member of the Supervisory Board (since July 1, 2007)	PB Versicherung AG, Hilden
Member of the Board of Directors (since July 1, 2007)	VISA Deutschland e.V., Frankfurt/Main

New offices from 2008

Member of the Supervisory Board (since January 1, 2008)	BHW Bausparkasse AG, Hamelin

Loukas Rizos	

Function	Company
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	Deutsche Postbank International S.A., Luxembourg
Chairman of the Board of Directors	Deutsche Postbank Vermögens-Management S.A., Luxembourg
Deputy Chairman of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board	Postbank Finanzberatung AG, Hamelin

Hans-Peter Schmid	
Function	Company
Member of the Supervisory Board	Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn
Member of the Supervisory Board	Postbank Finanzberatung AG, Hamelin
Member of the Supervisory Board (since May 7, 2007)	Bayerische Börse AG, Munich
Member of the Supervisory Board (since September 24, 2007)	Postbank Vertriebsakademie GmbH, Hamelin

Offices relinquished during the year	
Member of the Supervisory Board (until September 30, 2007)	PB Lebensversicherung AG, Hilden
Member of the Supervisory Board (until September 30, 2007)	PB Versicherung AG, Hilden

Ralf Stemmer	
Function	Company
Chairman of the Supervisory Board	Postbank Immobilien und Baumanagement GmbH, Bonn
Chairman of the Supervisory Board (since December 4, 2007) Member of the Supervisory Board (from April 24, 2007 to December 3, 2007)	Postbank Vertriebsakademie GmbH, Hamelin
Deputy Chairman of the Supervisory Board	Postbank Systems AG, Bonn
Deputy Chairman of the Supervisory Board	Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn
Deputy Chairman of the Supervisory Board (since June 29, 2007)	Betriebs-Center für Banken AG, Frankfurt/Main
Deputy Chairman of the Advisory Board	einsnull IT-Support GmbH, Cologne
Member of the Supervisory Board	BHW Holding AG, Berlin/Hamelin
Member of the Supervisory Board	BHW Bausparkasse AG, Hamelin
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board	PB Pensionsfonds AG, Hilden
Member of the Supervisory Board	Danzas Deutschland Holding GmbH, Düsseldorf
Member of the Supervisory Board	DHL Freight GmbH, Düsseldorf
Member of the Administrative Board	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

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, Cologne (Chairman)
Jörg Asmussen, Head of Department, Federal Ministry of Finance, Berlin
Wilfried Boysen, Hamburg
Edgar Ernst, management consultant, Bonn
Peter Hoch, Munich
Ralf Krüger, management consultant, Kronberg
Hans-Dieter Petram, Bonn
Bernd Pfaffenbach, State Secretary, Federal Ministry of Economics and Technology, Wachtberg-Pech
Klaus Schlede, Carabietta/Lugano
Elmo von Schorlemer, lawyer, Aachen

2. Employee representatives	
Michael Sommer, Chairman of the German Trade Union Federation, Berlin (Deputy Chairman)	
Wilfried Anhäuser, Chairman of Postbank Filialvertrieb AG's General Works Council, Kerpen	since May 10, 2007
Marietta Auer, Head of Department, Deutsche Postbank AG, Head Office, Unterhaching	
Rolf Bauermeister, Head of National Postal Services Group, at ver.di Trade Union (national admistration), Berlin	since May 10, 2007
Rosemarie Bolte, Regional Head of Department, Financial Services, at ver.di Trade Union, Stuttgart	until May 10, 2007
Annette Harms, Deputy Chair of Deutsche Postbank AG's Works Council, Hamburg Branch, Hamburg	
Ralf Höhmann, Chairman of Deutsche Postbank AG's Works Council, Stuttgart Branch, Korntal-Münchingen	until May 10, 2007
Elmar Kallfelz, member of Deutsche Post AG's European Works Council and General Works Council, Wachtberg	
Harald Kuhlow, member of Deutsche Postbank AG's Works Council, Weingarten	until May 10, 2007
Torsten Schulte, Chairman of Deutsche Postbank AG's Group Works Council, Hessisch Oldendorf	since May 10, 2007
Sabine Schwarz, Chair of Deutsche Postbank AG's Works Council, Berlin Branch, Berlin	until May 10, 2007
Eric Stadler, Chairman of Deutsche Postbank AG's Works Council, Markt Schwaben	since May 10, 2007
Gerd Tausendfreund, trade union secretary of the ver.di Trade Union, Nidderau	
Renate Treis, Deputy Chair of Deutsche Postbank AG's General Works Council, Brühl	since May 10, 2007
Christine Weiler, employee of Deutsche Postbank AG, Munich Branch, Krailing	until May 10, 2007

Offices held by members of the Supervisory Board of Deutsche Postbank AG as of December 31, 2007 on supervisory boards or other supervisory bodies:

Shareholder representatives

Klaus Zumwinkel

Function	Company
Chairman of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	Deutsche Lufthansa AG, Cologne
Member of the Supervisory Board	Arcandor, Essen
Member of the Board of Directors	Morgan Stanley, Delaware, USA

Jörg Asmussen

Function	Company
Deputy Chairman of the Administrative Board	Bundesanstalt für Finanzdienstleistungsaufsicht, Bonn
Member of the Supervisory Board	IKB Deutsche Industriebank AG, Düsseldorf
Member of the Supervisory Board	Euler Hermes Kreditversicherungs-AG, Hamburg

Edgar Ernst

Function	Company
Member of the Supervisory Board	Allianz Versicherungs-AG, Munich

Peter Hoch

Function	Company
Member of the Supervisory Board	BHW Holding AG, Berlin/Hamelin
Member of the Supervisory Board	BHW Bausparkasse AG, Hamelin
Member of the Supervisory Board (until May 2007)	Giesecke & Devrient GmbH, Munich

Ralf Krüger

Function	Company
Chairman of the Supervisory Board	KMS AG, Frankfurt/Main
Chairman of the Supervisory Board	KMS Asset Management AG, Frankfurt/Main
Chairman of the Supervisory Board	DIAMOS AG, Sulzbach
Member of the Supervisory Board	Deutsche Post AG, Bonn
Member of the Advisory Board	SIREO REAL Estate Asset Management GmbH, Heusenstamm

Hans-Dieter Petram

Function	Company
Member of the Supervisory Board	Talanx AG, Hanover
Chairman of the Board of Directors (until June 30, 2007)	Williams Lea Group Limited, London
Chairman of the Board of Directors (until June 30, 2007)	Williams Lea Holdings PLC, London

Bernd Pfaffenbach

Function	Company
Member of the Supervisory Board	Lufthansa Cargo AG, Frankfurt/Main
Member of the Supervisory Board	Deutsche Bahn AG, Berlin
Member of the Supervisory Board (since December 11, 2007)	KfW-IPEX-Bank, Frankfurt/Main

Klaus Schlede

Function	Company
Member of the Supervisory Board	Deutsche Lufthansa AG, Cologne
Member of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Board of Directors	Swiss International Airlines AG, Basel, Switzerland

Elmo von Schorlemer

Function	Company
Chairman of the Supervisory Board	Caruno AG, Cologne
Chairman of the Supervisory Board	Consuno AG, Cologne
Chairman of the Supervisory Board	Schneider Golling Die Assekuranzmakler AG, Düsseldorf
Deputy Chairman of the Supervisory Board	Finum AG, Essen*
Member of the Supervisory Board	VHV Allgemeine Versicherung AG, Hanover

* previously Securess AG Die Versicherungsmakler

Employee representatives

Michael Sommer

Function	Company
Deputy Chairman of the Supervisory Board	DGB Rechtsschutz GmbH, Düsseldorf
Member of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	Salzgitter AG, Salzgitter
Member of Supervisory Directors	Kreditanstalt für Wiederaufbau, Frankfurt/Main

Wilfried Anhäuser — Member of the Supervisory Board since May 10, 2007

Function	Company
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Annette Harms

Function	Company
Member of the Supervisory Board	Deutsche Post AG, Bonn

Elmar Kallfelz	

Function	Company
Member of the Administrative Board	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Torsten Schulte	Member of the Supervisory Board since May 10, 2007

Function	Company
Deputy Chairman of the Supervisory Board	BHW Holding AG, Hamelin/Berlin

Gerd Tausendfreund	

Function	Company
Member of the Supervisory Board (since March 14, 2007)	BHW Bausparkasse AG, Hamelin

Rosemarie Bolte	Member of the Supervisory Board until May 10, 2007

Function	Company
Member of the Supervisory Board (until September 2007)	Karlsruher Lebensversicherung AG, Karlsruhe

Ralf Höhmann	Member of the Supervisory Board until May 10, 2007

Function	Company
Chairman of the Administrative Board	Deutsche BKK, Wolfsburg
Member of the Management Board	Head of Department, Financial Services, for Baden-Württemberg, ver.di Trade Union, Stuttgart
Member of the Management Board	UKPT, Tübingen
Member of the Administrative Board	BKK Bundesverband (BKK federal association)
Member of the Administrative Board	BKK Landesverband Niedersachsen-Bremen (BKK regional association for Lower Saxony and Bremen)

Responsibility Statement

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

Bonn, February 12, 2008
Deutsche Postbank Aktiengesellschaft

The Management Board

Wolfgang Klein

Dirk Berensmann — Mario Daberkow

Stefan Jütte — Guido Lohmann

Michael Meyer — Loukas Rizos

Hans-Peter Schmid — Ralf Stemmer

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Deutsche Postbank AG, Bonn, for the fiscal year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law (and supplementary provisions of the Articles of Association) are the responsibility of Deutsche Postbank AG's management. 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 (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of Deutsche Postbank AG and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of Deutsche Postbank AG in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides an accurate view of Deutsche Postbank AG's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 13, 2008

PricewaterhouseCoopers
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

(Burkhard Eckes) Wirtschaftsprüfer	(Susanne Beurschgens) Wirtschaftsprüferin
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This Report contains forward-looking statements that relate to macroeconomic developments (in particular the development of money and capital market rates), the business and the net assets, financial position and results of operations of Deutsche Postbank AG. Forward-looking statements by definition do not depict the past and are in some instances indicated by words such as "believe", "anticipate", "predict", "plan", "estimate", "aim", "expect", "assume" and similar expressions. Forward-looking statements are based on the Company's current plans, estimates, projections and forecasts and are therefore subject to risks and uncertainties that could cause actual development or the actual results or performance to differ materially from the development, results or performance expressly or implicitly assumed in these forward-looking statements.

Readers of this Report are expressly cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Report. Deutsche Postbank AG does not intend and does not undertake any obligation to revise these forward-looking statements.

The English version of the Report constitutes a translation of the original German version. Only the German version is legally binding.

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