Deutsche Postbank
2007 Group Annual Report

Postbank. Simply better.

Postbank

Postbank Group in figures 2007

		Jan. 1 – Dec. 31, 2007	Jan. 1 – Dec. 31, 2006
Consolidated income statement			
Balance sheet-related revenues	€m	2,824	2,710
Total income	€m	4,253	4,117
Administrative expenses	€m	–2,856	–2,812
Profit before tax	€m	1,004	941
Consolidated net profit	€m	870	695
Total cost/income ratio	%	67.2	68.3
Cost/income ratio in traditional banking business	%	64.8	66.7
Return on equity			
before tax	%	19.3	18.9
after tax	%	16.7	14.0
Earnings per share	€	5.30	4.24

		Dec. 31, 2007	Dec. 31, 2006
Consolidated balance sheet			
Total assets	€m	202,991	184,887
Customer deposits	€m	89,703	87,663
Customer loans	€m	89,622	79,388
Allowance for losses on loans and advances	€m	1,154	1,155
Equity	€m	5,311	5,207
Tier 1 ratio in accordance with Basel II (excluding CAP)	%	6.9	6.6[1]
Headcount (FTEs)	thousand	21.47	21.70[2]
Long-term ratings			
Moody's		Aa2	A 1
	Outlook	stable	stable
Standard & Poor's		A–	A
	Outlook	stable	negative
Fitch		A	A
	Outlook	stable	stable
Information on Postbank shares		Dec. 31, 2007	Dec. 31, 2006
Share price at the balance sheet date	€	60.75	63.97
Share price (Jan. 1 – Dec. 31)	high €	74.72	65.45
	low €	43.41	48.21
Market capitalization on December 31	€m	9,963	10,491
Number of shares	million	164.0	164.0

[1] Internal calculation; [2] Prior-period figures restated

Retail Banking information

New business		2007	2006
New customers	thousand	1,000	962
New checking accounts	thousand	587	469
New mortgage lending business incl. portfolio acquisitions	€bn	12.4	14.0
New private lending business	€bn	1.40	1.35
Total home savings – written	€bn	11.2	11.6
New securities business	€bn	3.1	2.6

Book		2007	2006
Customers	million	14.5	14.6
Checking accounts	million	4.9	4.7
Savings deposits	€bn	43.9	42.1
Home savings deposits	€bn	16.6	16.7
Private mortgage lending book incl. portfolio acquisitions	€bn	68.0	62.3
Private loan book	€bn	2.9	2.4
Volume of securities accounts	€bn	11.5	10.5

Milestones 2007

January 1, 2007	Payment transaction unit of HypoVereinsbank, Munich, acquired.
April 1, 2007	Appointment of Marc Heß as CFO and Executive Manager; at the same time, Henning R. Engmann steps down as CFO.
May 10, 2007	Annual General Meeting, Deutsche Postbank AG, with greater than 97 % adoption of agenda items; dividend unchanged at €1.25.
June 30, 2007	Wulf von Schimmelmann steps down at his own request after more than eight years successfully heading Deutsche Postbank AG as Chairman of the Management Board.
July 1, 2007	Wolfgang Klein becomes new Chairman of the Management Board of Deutsche Postbank AG.
July 1, 2007	Appointment of new Management Board members: Michael Meyer (Product Marketing) and Guido Lohmann (Mobile Sales).
July 18, 2007	New set-up for insurance business: BHW Leben and PB Versicherungen are sold to the Talanx-Group. At the same time, conclusion of a long-term cooperation agreement with Talanx to sell life and accident insurance.
September 21, 2007	Postbank and HUK-COBURG establish partnership.
December 6, 2007	Presentation of “Next Step” strategic program on the occasion of Postbank’s first Capital Markets Day.
December 19, 2007	BaFin (German Federal Financial Supervisory Authority) grants license to issue mortgage bonds (Pfandbriefe).

Financial Calendar 2008

March 5, 2008	Publication of 2007 Annual Report
May 8, 2008	Annual General Meeting, Cologne
May 13, 2008	Interim Report for the first quarter, analyst conference call
July 30, 2008	Interim Report for the first half-year, analyst conference call
November 10, 2008	Interim Report for the third quarter, analyst conference call

No responsibility is taken for the correctness of this information – the right is reserved to make changes at short notice.

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Postbank Group is one of the largest financial service providers in Germany with 14.5 million customers and approximately 21,500 employees. In addition to our core business with private customers, we also serve corporate customers and are active in the fields of transaction banking and financial markets.

The successful development seen in the past few years was attributable in particular to our outstanding cost-performance ratio and the structure of our sales organization, which is entirely unique on the German banking market. Building on these strengths, we will continue to enhance our innovative power and service quality. Our goal is to continue to stay a step ahead of the market – simply better – with innovative new products and processes as well as excellent services.

In large part, however, our success is attributable to the clients who place their trust in us. Trust is established through dialog. As such, advising and service play a key role for us. This Annual Report therefore focuses on the many diverse aspects of this role and how we meet the challenges associated with them.

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Fiscal Year 2007

Ladies and Gentlemen,

2007 was an eventful and challenging year for the financial services industry – but for Postbank it was a thoroughly successful year that has set the stage for future developments. In my first letter as Postbank's Chairman of the Management Board, I can report that our customer business was very encouraging and our earnings performance was positive. What is more, we achieved this in an environment dominated by substantial turbulence in the international financial markets from the middle of the year onwards.

Postbank completed the integration of BHW on schedule. Our sales organization is excellently positioned with approximately 850 branches and more than 4,000 mobile advisers. We have realigned all our Group structures in an efficient manner to create sustainable value. Furthermore, our Management Board team developed the "Next Step" strategy program. We want to use this to lead Postbank into the future and to make it even more successful against the competition.

In our Retail Banking business, we further expanded our position as the leading retail bank in Germany. We gained – in some cases significant – market share in almost all our core products and set new standards in the market with attractive products and conditions. We achieved our goal of attracting one million new customers in 2007 despite tough competition.

As part of the strategic reorganization of our insurance business, we sold our proprietary insurance activities and entered into a cooperation contract with the Talanx Group to sell life and accident insurance to Postbank customers. Our marketing partnership in the area of non-life insurance with HUK-COBURG selectively expands our range of insurance products. The partnership with Tchibo further increased the reach of our products and financial services.

In Corporate Banking, we are well-established as a core bank for German SMEs and have further increased our profitability. In Transaction Banking, we successfully integrated our new customer HypoVereinsbank, thus increasing our market share as a driving force in the consolidation of this business segment in Germany from 16 % to 20 %.

The positive development of our operating business is visible in the encouraging increase in our earnings performance. Postbank could not completely avoid the turbulence on the financial markets which was triggered by the subprime crisis. However, thanks to our conservative investment approach and our sound risk management, we were able to keep the impact to date of market developments on our earnings situation within moderate limits.

At €1,004 million profit before tax, we exceeded the €1 billion mark for the first time in Postbank's history, thereby recording an increase in earnings of almost 7 % over last year's strong performance. We consider this a great achievement, especially in this difficult market environment. Our strict cost management again played a key part in this, while the allowance for losses on loans and advances remained stable despite the significant increase in customer loans. Administrative expenses grew by only 1.6 %, while our income in an overall challenging market environment increased by a good 3 %. This led to a further improvement of the cost/income ratio in our traditional banking business to 64.8 %.

This positive financial performance is due to the extremely dedicated efforts of our employees, whom I would like to thank on behalf of the entire Management Board. With their keen drive to succeed and high willingness to master the tasks that lie before us with determination, our employees are the key to our future success.

A look at our share price performance in the past year reveals a mixed picture: Increasingly unfavorable developments on the capital markets, centering around financial stocks, also affected our share price, which fell by 5.0 % overall. Nonetheless, Postbank's shares in fact did rather well from a comparative perspective. We outperformed our peer group of nine leading European retail banks by over 14 percentage points and beat the average of German banks listed in the DAX by 10 percentage points, thus turning in the best performance of all German banks in the DAX.

We presented our new strategic program – "Next Step" – to the public in December. Postbank aims to selectively enhance its proven business model and strengthen its value creation for the long term. Postbank's goal is to continue its profitable growth as the number one for liquidity and financial management in the challenging market environment by focusing even more systematically on our customers and honing our competency profile.

Against this background, we have set ourselves upbeat targets: Postbank plans to significantly increase its profit before tax to between €1,400 million and €1,450 million and its profit after tax to between €980 million and €1,015 million by 2010. As a result, the cost/income ratio in our traditional banking business should improve to under 58 % by 2010. This will allow Postbank to position itself among the most profitable German banks in the long term.

Ladies and gentlemen, even though 2008 will not be an easy year in the banking sector because of the ongoing uncertainty in the capital markets, Postbank has every reason to look to the future with confidence. I hope I was able to convey some of my personal optimism to you. Postbank will become even more attractive to its customers and will continue on its successful course. As shareholders, you should also have a part in this. I would like to thank you for your confidence in us and hope you will continue to support Postbank in the future.

Bonn, March 5, 2008

Yours sincerely,

Wolfgang Klein
Chairman of the Management Board

Management Board of Deutsche Postbank AG

From left: Michael Meyer, Mario Daberkow, Dirk Berensmann, Hans-Peter Schmid, Guido Lohmann, Marc Heß (CFO and Executive Manager), Ralf Stemmer, Wolfgang Klein (Chairman), Loukas Rizos, Stefan Jütte.

Shareholders and Stock:
Postbank stock holds its own in a volatile market

The stock exchange year of 2007 was a turbulent one for financial stocks. Postbank clearly outperformed other German bank shares as well as those of our European peer group. Temporary falls in share price could be offset to a high degree by the end of the year. The Management Board is proposing a stable dividend for our shareholders, compared with last year. Postbank's new medium-term targets were well received by the capital market.

Financial stocks under pressure

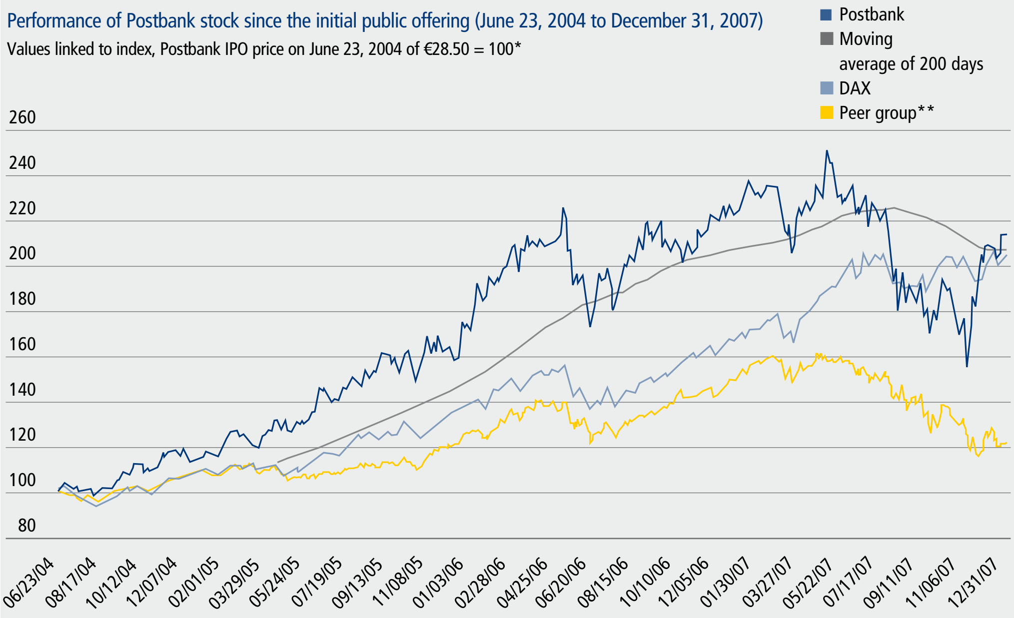
During 2007, Postbank stock initially continued its positive trend of the previous year. On April 27, 2007, the price reached a new high: €74.72. At the end of July, however, stock markets worldwide underwent a correction, triggered by the worsening US mortgage crisis. The crisis spilled over to the European financial sector, with write-downs on assets, some of them massive, as well as financial difficulties at individual national and international banks. As a result, confidence in banking stocks plummeted. Financial stock prices slumped across the board.

Postbank's shares were no exception to this trend, although it managed to offset its temporary losses for the most part by the end of the year, closing 2007 at a price of €60.75. With a decline for the overall year of 5 % (3.1 % including the dividend), Postbank's shares, however, performed better than other German and European bank stocks: bank stocks listed on the DAX lost 15 % of their value on average, while the shares of our European peer group even dropped by around 19 %. The DAX index, on the other hand, outperformed bank stocks by a wide margin overall with annual growth of around 22 %.

The positive development of our operating business in the third quarter and emerging M&A speculation also contributed to Postbank's shares outperforming others in the sector. The transparency we have achieved, the comparatively solid structure and the limited overall financial impact of our structured credit portfolio all served to reinforce confidence in Postbank, while helping our share price to recover.

Performance of Postbank stock since the initial public offering (June 23, 2004 to December 31, 2007)

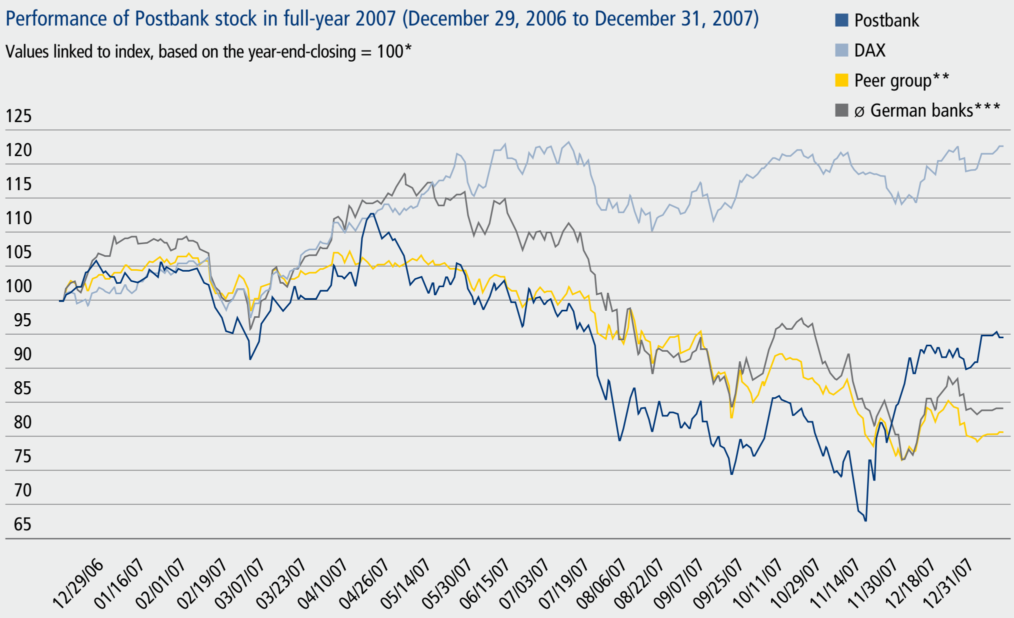
Values linked to index, Postbank IPO price on June 23, 2004 of €28.50 = 100*



Source: Bloomberg

Performance of Postbank stock in full-year 2007 (December 29, 2006 to December 31, 2007)

Values linked to index, based on the year-end-closing = 100*



Source: Bloomberg

* Performance of Postbank stock and peer group excluding dividend

** Banco Popular, Banco Popolare di Verona e Novara, Swedbank, Svenska Handelsbanken, Alliance & Leicester, Banco Espirito Santo, Erste Bank, Unicredito, Royal Bank of Scotland

*** Commerzbank, Deutsche Bank, Hypo Real Estate

Analysts raise recommendations for Postbank

During the fourth quarter, a substantial number of analysts raised their recommendations for Postbank. At the end of 2007, a majority of analysts once again gave Postbank stock a favorable rating, with 15 buy or hold recommendations, compared to only 3 sell recommendations. You will find an overview of the current recommendations on our Investor Relations pages on the Internet at www.postbank.com/IR by choosing the Analyst Recommendations menu item under the Postbank Share & Bonds heading. Analysts from more than 30 banks and securities houses are currently providing ongoing coverage of Postbank Group's business development and prospects.

2010 targets show sustained growth for the Postbank Group

Our first Capital Markets Day, held on December 6, 2007, was a success for Postbank: Our financial goals for 2010, which were published for the first time, together with our clear strategic direction, detailed information and key performance indicators are proof of Postbank's unique business model and thus its clear investment profile.

On the basis of a projected profit before tax of €1.4 billion to €1.45 billion in 2010, Postbank expects its earnings to continue growing at a brisk pace. We are also continuously working to improve our efficiency. Thus the cost/income ratio is expected to fall below 58 % in our traditional banking business (not including Transaction Banking) by 2010. Postbank's declared objective is to position itself for the long term as one of the most profitable German banks.

In the interest of improving transparency on our finances, we will report regularly on the structural advances in creating value in our customer business using clear key performance indicators, or KPIs. Our reporting will thus focus to a greater extent on the development of these KPIs, along with our quarterly results. Emphasis will be laid on continuing to improve our customer service orientation, productivity and quality and on leveraging the sales potential offered by our attractive customer base.

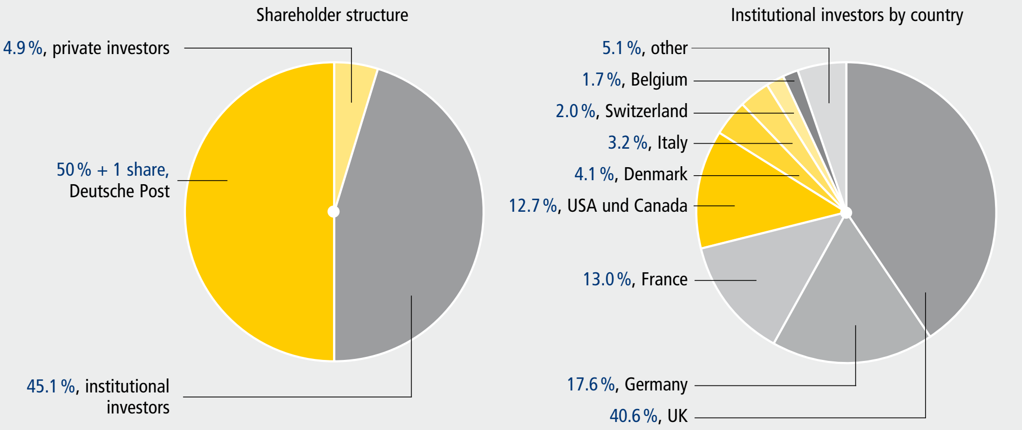
Our stock data		2004	2005*	2006	2007	+/– in 2007
Year-end closing price	€	32.50	49.00	63.97	60.75	–5.0 %
High**	€	34.18	50.84	65.45	74.72	14.2 %
Low**	€	27.73	32.16	48.21	43.41	–10.0 %
Earnings per share	€	2.65	3.00	4.24	5.30	25.0 %
Price/earnings ratio***		12.3	16.3	15.1	11.5	–24.0 %
Number of shares	million	164.0	164.0	164.0	164.0	unchanged
Market capitalization***	€m	5,330	8,036	10,491	9,963	–5.0 %
Beta factor (relative to the DAX)		0.60	0.73	0.95	1.03	
Cost of equity****	%			8.5	8.5	
Equity	€m	4,766	5,061	5,207	5,311	2.0 %
Return on equity before taxes	%	14.0	15.0	18.9	19.3	
Total dividend (2007: proposal)	€m		205	205	205	unchanged
Dividend per share (2007: proposal)	€		1.25	1.25	1.25	unchanged
Dividend yield***	%		2.6	2.0	2.1	
Annual performance** excluding dividend	%	14.0	50.8	30.6	–5.0	
Annual performance** including dividend	%	14.0	54.6	33.1	–3.1	

* pro forma
** 2004: June 23 to December 31
*** based on the year-end closing price
**** Calculation: Risk-free interest rate of 4 % + beta factor (since the IPO) x risk premium for the equity market of 5 %

Shareholder structure

After being listed for more than three years on the capital market and thanks to constant in-depth communication between the Management Board and the Investor Relations team on the one hand and analysts and investors on the other, Postbank's unique business model has gained international cachet. The half-yearly analyses of the shareholder structure show that the business model has been well received by institutional investors as well: The proportion of institutional investors is seeing a continuous rise; they currently account for 45 % of the share capital. Moreover, it should be emphasized that British investors are showing particularly strong interest, corresponding to the importance of this market. As of the end of 2007, Deutsche Post held the majority interest in Postbank, with 50 % plus one share. On the other hand, the number of private investors dropped to less than 5 %, in line with the general trend in Germany.

Shareholder structure of Deutsche Postbank AG as of December 31, 2007



Transparency inspires confidence

In order to secure the confidence of analysts and investors over the long term, we cultivate open communication. In addition to publishing quarterly and annual reports, we regularly conduct roadshows in Germany and abroad and attend conferences held by top investment banks. To counteract the insecurity over bank shares that has dominated the market since the summer of 2007, we intensified our communication with the capital markets during the second half of the year. At investment conferences, additional roadshows and events sponsored by shareholder protection associations, the Management Board and Investor Relations team provided information about Postbank Group's continuing strong financial position and results of operations as well as the limited effects of capital market turbulence. In over 350 one-on-one meetings and in-depth phone contact with analysts and investors, we explained our stable business model and supported Postbank's positive capital markets standing.

The most recent survey by Börse Online confirms that our communication is credible and comprehensible: In a reader vote on Germany's best investor relations (BIRD), Postbank took fifth place among companies listed on the DAX. Among all DAX, TecDAX, MDAX and SDAX companies, Postbank placed ninth – demonstrating the best communications of any listed bank.

We attended a greater number of shareholders' forums in the interest of maintaining a direct exchange with private investors. At five events held by German shareholder protection associations during the year under review, we engaged in a dialog with interested investors based on presentations and question-and-answer sessions. We also offer extensive options for obtaining information or ordering financial reports on our redesigned Web pages at www.postbank.com/IR. The Investor Relations team is also happy to answer questions from private and institutional investors directly on our shareholder hotline, listed below.

Confirmation by Annual General Meeting

On May 10, 2007 in Cologne, the third public Annual General Meeting also signaled their confidence in us. The shareholders in attendance approved all items on the agenda by a large majority; 99.99 % of the shareholders voted in favor of the dividend proposal. This encourages us to maintain the business policy that we have pursued for years and to continue improving it as part of a planned process of evolution, aided by the new strategic measures explained in this Report.

We invite you to continue following Postbank actively and to attend our next Annual General Meeting as a shareholder on May 8, 2008 in the Kölnarena in Cologne. For the 2007 fiscal year the Management Board proposes paying out a dividend at the current level of €1.25 per share.

We have compiled a list of further Postbank dates in 2008 for you in the Financial Calendar at the beginning of the Annual Report. To obtain information, ask questions, and place orders, we recommend visiting our Investor Relations page at www.postbank.com/IR, or calling us on the shareholder hotline at +49 228 920 - 18003.

*He accomplishes so much.
And now he's buying a
motorbike, too.*

Savings *It used to be a moped, now it is a motorbike that brings with it the sound of freedom. Life just shifted into higher gear. School, vocational training or university studies have been completed, the first apartment and first job loom ahead. It is a time to turn dreams into reality, and we are there to help. A custom-tailored savings plan and financing that creates freedom instead of imposing limits – our experienced advisers soon find the best solution for the needs at hand. After all, they have the same goal we do – helping young people get off to a good start in life.*

Strategy:
Next Step – taking the lead

Interview with
Wolfgang Klein

Dr. Klein, you have now been Chairman of the Management Board for several months. What are your impressions to date?

They are extremely positive. I have received a great deal of support from the Management Board team and the Bank's staff, who are all pulling in the same direction. Postbank has continued to make progress in its customer business and we have turned in an extremely strong performance for the year. We have mastered the effects of the financial market crisis well. Our Bank already occupies a leading position on the German market and is in an excellent position to be even more successful going forward. As a result, I am extremely optimistic about the future.

After you took over you launched a new strategic program, "Next Step". What changes do you want to see in the future?

First of all, it is important to emphasize that Postbank is in a strong situation. We have created a platform that is unique in Germany and in Europe and that puts us in an excellent competitive position. This means that we did not look at Postbank's value creation structures with the intention of fundamentally changing the Bank's strategic orientation. Postbank's successful development over the past few years confirms our proven business model. However, we do want to become even more attractive for our customers by offering them an optimized competency profile. To put it in a nutshell: We are focusing on ensuring Postbank's value-driven development, in order to continue generating profitable growth in all areas.

Postbank is focused on the German market, which is one of the most difficult banking markets in Europe. Aren't the opportunities for growth here limited?

Admittedly, the competitive pressure is enormous and private banks still do not enjoy a level playing field. However, we have already shown in recent years what can be achieved on the German market with a clear strategic focus, and have made substantial progress with regard to profitability. I am convinced that, despite the structural disadvantages, the German market offers opportunities for those banks that can win customers with compelling service promises and can build up long-term business relationships with them. These are particularly attractive prospects for Postbank. Our strategic action program, "Next Step", is designed to better leverage the potential offered by our strong customer base in the future.

How precisely do you intend to achieve this? And what will change at Postbank?

We aim to supplement our proven strengths in the area of efficiency – which can be seen from our market-leading price-performance ratio – and the selling power offered by our multichannel platform to offer improved service and quality levels and product and process innovations. Postbank aims to consolidate its position as the number 1 in liquidity and financial management by implementing our new customer promise, "simply better".

To achieve this goal, we will systematically focus our entire organization on improving the value proposition offered in our customer business even further. Put in simple terms: Postbank will develop from a product-centric bank into a bank with a clear focus on customer orientation.

What can retail banking customers look forward to from Postbank?

As part of the move to orient our sales capacities on adding value, we will focus in particular on our 4.6 million core customers in future. These are the clients who already use Postbank as their preferred financial partner and with whom we currently generate approximately 75 % of our value added. In a new development, we will offer these customers a permanent contact person within our branch network or mobile sales organization. We plan to increase the proportion of core customers who use three or more Postbank products from the current 40 % to 47 % by 2010 and to increase their number to 5.2 million over the same period. Incidentally, this does not mean that we will be neglecting our nearly ten million customers with potential, who can continue to expect a high level of service from us.

That’s an ambitious goal. Won’t you have to make changes to your sales channels to achieve it?

That’s exactly what we are already doing. Let me give you a few examples: One really important element is a broad-based training campaign which aims to further improve our customer advisers’ already good consulting and product skills. Also, in the area of branch sales, we launched our “Filiale im Wandel” (“Changing Branches”) project, which underpins our expanded value proposition at a visual and qualitative level and is improving our earnings capacity. Our goal is to improve the productivity of branch sales staff – compared to 2006 – by 50 % in the period up to 2010. We are also expecting a similar increase in productivity in our mobile sales channel, compared with figures from the end of 2006. We will expand the number of mobile advisers from the current figure of over 4,260 to 5,000 over this period, and increase the proportion of finance managers, who can sell a broader range of products, to more than 60 %.

What customer business goals are you pursuing with this new approach?

We want to achieve strong new business growth in all our core products, to gain additional market share, and to increase the contributions to earnings in each case. This applies both to mortgage and consumer finance, and to fee and commission income. We see above-average growth opportunities in the areas of life insurance, investment products, and retirement provision in particular. Another special focus area is the savings business. We intend to offer our customers sustainably attractive conditions and, as a result, are planning a substantial increase in volume. This should have a clear positive impact on earnings development in the medium term.

Postbank is about more than just its Retail Banking business, though. Is the "Next Step" program also relevant to Corporate Banking?

Indeed it is. Postbank also offers its approximately 30,000 corporate customers a broad range of services with a particular focus on payment transactions. We will now concentrate on being one of the top five banks for up to 3,000 customers. In other words, our claim of being the liquidity and financial management specialist applies to this customer group, too. To achieve our goal, we aim to expand our SME loan portfolio significantly over the next three years, to total €5 billion. At the same time, we will selectively expand our profitable commercial real estate finance operations in a risk-conscious manner. Overall, this should lead to an increase in revenues from the Corporate Banking business to €500 million in the period up to 2010. In addition, we intend to strengthen our position selectively in other areas as well.

…You mean Transaction Banking?

Yes, among other things. To leverage additional growth potential, we are aiming to build on our extensive consolidation expertise within Germany and expand our Transaction Banking operations to the European market. In view of the investments required to achieve this goal, we are planning to adopt a partner strategy in this area. Incidentally, we will complete the implementation of our multiclient-enabled, SEPA-compliant platform in 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. And please don't forget the Financial Markets division: Postbank is a highly professional service provider when it comes to the management of interest rate risk, currency risk, and equity risk. Financial Markets will serve as a type of innovation driver and will focus on developing products for our private and corporate customers.

You have laid down medium-term financial targets for 2010. Aren't you giving yourself too much time, and are these targets really ambitious enough?

In view of the fact that we intend to increase our profit before tax (compared to 2007) by a good 40 % in the period up to 2010, I think our planning is relatively challenging. Please remember that we operate in a fiercely competitive market and that the interest rate environment that we can expect in the coming years will definitely not provide us with ideal conditions. Incidentally, the time frame for these targets is aligned with the period assigned to the implementation in full of our "Next Step" program. In addition, new key performance indicators (KPI) will offer external observers even more detailed insights into Postbank, thus further increasing the transparency of our reporting.

That sounds complicated…

But it's not really. I have already mentioned most of our KPIs, which focus primarily on sales channel productivity, on our customer figures, and on cross-selling. They apply both to Retail Banking and to our Corporate Banking business. These KPIs act as a link, so to speak, between our employees' relatively short- to medium-term sales targets and our long-term capital market goals. In other words, they help to focus the Bank as a whole on our financial targets. These core parameters for measuring added value will provide you with an even better understanding of Postbank's structural progress in its customer business. For example, they will allow outsiders to assess the extent to which we actually put our optimized strategic focus into practice in terms of concrete measures and successes.

Postbank's KPIs*		2006	2007	2010 target
Customers				
Number of core customers	million	4.4	4.6	5.2
Core customers using ≥ 3 products	%	39	40	47
Branch Sales				
Branch sales force productivity index 2006 = 100	%	100	121	150
Mobile Sales				
Percentage of finance managers selling 3 - 5 product categories	%	40	54	> 60
Number of mobile advisers		4,200	4,260	5,000
Finance managers productivity index 2006 = 100	%	100	110	140
Corporate Banking				
Domestic sales force productivity index, 2005 = 100	%	105	107	135
Total income in Corporate Banking division, 2005 = 355	€m	372	382	500
Lending to SMEs	€bn	2.8	3.5	5.0

* Future development of KPIs may be subject to quarterly volatility

What is your vision for Postbank in 2010?

Postbank will record clear qualitative growth and will further expand its existing strong market position. It will be the undisputed number one in retail banking in Germany thanks to a compelling customer offering comprising attractive products, an exceptional level of service, and a consistently strong price-performance ratio. It will convert this growth into tangible, stable earnings increases, thus further improving efficiency while maintaining its strict cost management. At the same time, it will focus on continuing to strengthen its capital base. Ultimately, Postbank's overarching goal is to consistently generate a high level of added value with a sustainably profitable business model. This is what I and my team on the Management Board stand for.

Insurance *Couples who have known each other for a long time often say: "Nothing will really change when we get married." Then they are surprised when changes do occur. Their bond becomes even closer, their feeling of responsibility for one another grows even stronger. They think more about the future, take a greater interest in security, especially security against financial risks. We are glad to help provide that security. Comprehensive consultation, optimum protection, the best terms available – together with our powerful insurance partners, we do everything possible to ensure that our customers have time to think about the truly important things in life. Like their wedding.*

How typical of Alex: I just promised to marry him and he's already thinking about insurance.

Retail Banking:
"Simply better": Focusing on customers and core products

Postbank's Retail Banking made encouraging progress in 2007, advancing another major step toward first place in liquidity and financial management. We succeeded in increasing market shares for all of our key products. With the integration of the branches and BHW behind us, Postbank now has a one-of-a-kind position as a true multi-channel bank on the German retail banking market. We have more than 855 branches, 4,260 mobile advisers and high-performance direct channels to serve our 14.5 million customers. Our product portfolio encompasses all essential bank products related to payment transactions, investments, residential property financing and private retirement provision.

As part of the "Next Step" strategic plan, we will continue to refine our retail banking business and orient it more on value. In particular we are now focusing our sales channels more intensively on our 4.6 million core customers. We intend to more optimally leverage the value potential of this customer group with comprehensive product and service packages. Of course, our almost 10 million other customers with potential can also expect from us a continued high level of service.

Branch sales further optimized

Whereas in 2006 we laid the foundation for active and customer-oriented branch sales, 2007 saw the long-term implementation of these concepts. It focused on putting end-to-end management processes into place and systematically leveraging the high customer frequency in Postbank branches, as well as on comprehensive sales qualification measures. As a result, Branch Sales made a considerable contribution to our acquisition of one million new customers in 2007.

Our "Filiale im Wandel" ("Changing Branches") project aims at improving the image and service quality of the branches and increasing awareness of the banking services we offer. We received a very favorable response on the part of customers after opening the first pilot branches in 2007.

We introduced branch TV, for example, and are already the largest provider of this format. The introduction of special service counters for bank customers, event ticket sales and customer cafés also serve primarily to increase customer satisfaction. To measure success here, we introduced our branch barometer in 2007, which uses interviews to systematically establish customer satisfaction and customer loyalty at each branch as well as to measure change at regular intervals.

Even though branch image will be aligned much more significantly with Postbank banking products, the variety of postal products and services and new services – telecommunications, electricity, stationery products – offers a potential for earnings that we will continue to exploit and expand. Moreover, these offerings also ensure a constantly high stream of potential new customers that we can win over with our bank products and services.

Mobile sales - Postbank Finanzberatung increases productivity

Postbank Finanzberatung AG, in which the mobile sales force of Deutsche Postbank AG is integrated, saw successful developments in fiscal year 2007. We successfully integrated Postbank Vermögensberatung and BHW sales into the company and developed the new mortgage loan advisory sales channel. Targeted steps toward consolidation, quality-focused recruiting measures and individual offers for further training significantly enhanced the quality of our advisory services. At the end of 2007, we had 4,260 mobile advisers under contract.

Mobile advisers saw a lasting increase in productivity compared to last year. Our over 500 investment advisers, following the "Best-Select" approach, increased gross fee and commission income by more than 30 % over last year.

Specialized training in the ranks of the financial managers, almost 3,600, substantially raised the number of multi-category advisers – thus increasing the proportion of advisers who achieved the highest level of qualification in multi-category sales, from 40 % at the end of 2006 to 54 %. The almost 160 mortgage loan advisers surpassed the previous year's result by more than 70 %.

With its three sales channels, Postbank Finanzberatung makes an important contribution to the multi-channel strategy of Postbank. Expert advice at home or in one of our 987 Advisory Centers allows Postbank to optimally exploit its full customer potential.

Retail Banking[1]

Segment result	2007 €m	2006 €m
Balance sheet-related revenues	2,456	2,396
Net fee and commission income	988	1.061
Administrative expenses	–2,210	–2,178
Profit before tax	944	924
Cost/income ratio	64.2 %	63.0 %
Return on equity before taxes	32.7 %	32.7 %

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[1] see Note 41

Third-party sales targets exceeded

The brokerage and cooperation business, which we operate under the DSL Bank brand, continued to see positive development. We were able to consolidate our strong position as a leading mortgage lender despite a fiercely competitive market. Sales of private loans, also offered under DSL, noticeably exceeded our targets. The positive performance of both areas is due primarily to our innovative product range and pricing, and to our optimized customer service and advice. For further details, please see the relevant product sections.

Internet and call center popularity continues to grow

Direct channels have gained further significance for Postbank. With more than 3.3 million visitors per month, Postbank's website (www.postbank.com) continued to be the most successful online offering of all single institutions in Germany in 2007. A total of 3.8 million accounts, 19 % more than in the previous year, were used for online banking. Among these were 2.8 million online checking accounts, 590,000 online securities accounts, and 390,000 SparCard direkt accounts. The number of checking accounts registered for telephone banking rose from 3.4 million in the previous year to 3.7 million.

Our direct sales channels focused not only on promoting business on the strength of both targeted marketing campaigns but also on a new website offering further optimized transparency, comprehensibility, and appearance (www.postbank.com). Our voice portal also benefited from a technical overhaul and now allows us to respond even better to the wishes and needs of our customers.

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Customer acquisition targets met thanks in particular to checking accounts' ongoing success

We gained somewhat more than one million new customers in 2007, which was 4% more than the previous year. Thus, we slightly exceeded our goal of one million new customers. With 14.5 million customers, Postbank remains the largest single institution in German retail banking.

The most important product for acquiring new customers was again our checking account. Despite intense competition and diverse product imitation by competitors, we were able to increase our new business by a good 25 %, opening roughly 587,000 new private checking accounts. By the end of 2007, we were managing 4.9 million private checking accounts (previous year: 4.7 million). Our market share thus rose again, to almost 7 %.

At the same time we boosted our existing credit card business – which is often connected with checking accounts – by a robust 6.3 % at the end of the year, to 1,099,000 cards. The consistent intensification of our sales efforts, interest rates on balances introduced in 2007 as well as a provision for purchasing insurance at no cost significantly contributed to this success.

Well positioned in tough race for savings deposits

Savings volumes have performed well at Postbank. Despite a declining market and strong competition in the savings arena, Postbank raised its overall savings volume by 2.9 % to €60.5 billion. Not including home savings deposits, which remained unchanged at €16.6 billion, the increase reached a gratifying 4.3 %. Contributing significantly to this result was Postbank's "Quartal-Sparen" product, launched in April 2006, with a volume of €10.0 billion at the end of 2007 compared with €3.9 billion at the end of the previous year. Moreover, we came close to tripling the deposit volume generated by the call money deposit account from €0.8 billion in 2006 to €2.3 billion in the year under review.

We will continue to be very active on the market, offering attractive products and terms, and intend to continue to significantly increase our savings volumes and our market share.

Leading position in mortgage lending business maintained

New business in private mortgage lending fell in the overall market from €188.2 billion in the previous year to €181.8 billion, due primarily to the 27.8 % decline in the number of building permits for residential construction in the first eleven months compared to last year. In contrast, the purchase of existing housing again gained in significance, leading to a slight boost in transaction volumes over last year. This is a trend that is expected to continue for some time, since larger governmental interventions in support of new construction are unlikely. The promotion of energy-related improvements to existing homes now has priority in a political environment focused on climate protection. The market volume of loans for residential construction thus declined slightly overall.

Against this background, sales in the brokered new mortgage lending business dropped from €10.8 billion in 2006 to €9.8 billion in 2007. €5.0 billion of this relates to the BHW brand (previous year: €5.4 billion). The mortgage lending volumes generated by the DSL Bank brand through third party sales declined from €5.4 billion on December 31, 2006, to €4.8 billion on December 31, 2007. The high level of 2006 is still having an impact here and is a result of the expiration of the homeowners' allowance at the close of 2005 leading to a significant overhang in 2006. In addition, portfolio acquisitions of €2.6 billion (previous year: €3.2 billion) were made in the year under review.

The picture is much friendlier if extensions of existing mortgage loans are included: In this case, new business amounted to €12.1 billion in 2007 (previous year: €12.5 billion). The decrease of just 3.1 % was better than the overall market, which fell 3.4 % in the same segment in 2007.

Postbank's residential construction loan book increased from a total of €62.3 billion at the end of 2006 to €68.0 billion (+9.1 %) at the end of the year under review. Excluding portfolio acquisitions, it rose by 8.8 % to €58.2 billion, thus almost attaining our goal of 10% growth despite difficult market conditions. However, we were able to increase our market share from 7.8 % at the end of 2006 to 8.6% at the end of 2007 and thus impressively widen the Postbank Group's lead in the private mortgage loan business despite a hard-fought market environment.

I Market share in home savings successfully defended

The German home savings market shrank by 6.6 % in 2007, with 3.6 million new applications for home loan and savings contracts. Principals of home loan and savings contracts applied for declined to €98.3 billion (–3.6 %). Negative developments in mortgage lending and increased revenue in the previous year – due to adjustments to home savings tariffs – led to this result.

With 401,000 contracts, BHW's new business was down from the previous year's figure of 453,000, with principals of home loan and savings contracts applied for totaling €11.2 billion (almost on par with BHW's level of €11.6 billion last year). The market share (11.4 %) in terms of principals of home loan and savings contracts applied for was successfully defended.

The German federal government is currently planning changes to housing bonuses as well as an improved integration of owner-occupied residential property in government-supported pension products. For the home savings business, this means that payments into home loan and savings accounts as well as repayments for acquiring owner-occupied residen-tial property are to be additionally supported through Riester pension products.

I Postbank's personal loans still selling strong

In 2007, we focused our sales efforts on our three brands in the personal lending business: Postbank, BHW, and DSL. The Postbank Privatkredit (personal loan) is sold via the Postbank Finance Centers, on the Internet, and through our call centers. The quality of advice in Postbank's branches was certified as "good" by the Stiftung Warentest consumer organization (FINANZtest magazine, issue 2/2007).

Postbank managed to hold its own despite a stagnant overall market. The volume of new business amounted to €1.398 billion, up 3.2 % over the previous year. The book grew by 20.8 % to €2.9 billion, and the market share increased from 1.7 % to 1.9 %.

The business we have conducted since 2004 under the DSL Bank brand picked up further, increasing by 50 % year-on-year to approximately €200 million. Our newly-introduced DSL Autokredit (car loan), among other things, contributed to this, allowing us to move successfully into the automotive lending business. We have enhanced the quality of Postbank brand's range of services with the Postbank Minutenkredit (quick loan), covering the €1,500 to €2,999 segment, and with the introduction of risk-adjusted conditions.

Strong growth for pension provision account in securities business

The Postbank retirement provision account, based on the "dual certificate" concept, positioned itself successfully on the market with more than 60,000 new accounts opened and gross cash inflows of €160 million. Total volume was €235 million. In the securities business as a whole, new business including funds and certificates grew by 19% over the previous year, reaching €3.1 billion. Of particular note here is the new "Postbank Strategie Sieger" certificate, which was placed in two tranches with a total volume of €286 million.

The number of securities accounts totaled 965,000, representing a 5.1% increase over the previous year. At the same time, our customers' securities accounts holdings grew by 9.5% to €11.5 billion, and thus were clearly within our goal of 10% growth.

Strong insurance business thanks to Riester pension products

Last year, we laid new foundations for the future of the Postbank Group's insurance business. We sold our interests in the Group's insurance companies to our joint venture partner Talanx, simultaneously extended our life and accident insurance cooperation with the Talanx Group for the long term, and also expanded it to include mobile sales. This means that the sales processes developed over the long and successful collaboration with Talanx can continue to be used and fine-tuned. For example, Talanx will expand its customer support capacities for Postbank and further intensify sales support. Moreover, we will harmonize the product range across all sales channels. We will combine the product flexibility of BHW Leben life insurance with Postbank Versicherung's easy-to-use products and closure-driven sales processes, and offer life and accident insurance exclusively under the Postbank brand – with the exception of the Postbank investment advisers.

To complete our product range, we have entered into a long-term sales cooperation in non-life insurance business with HUK-COBURG Versicherungsgruppe (automotive, home contents, landlords' and home-owners' liability, and legal expenses insurance). In turn, HUK-COBURG uses its own sales force of more than 5,000 advisers and agents to sell easy-to-use Postbank products such as checking accounts. Its attractive price-performance positioning and volume-oriented sales platform make HUK-COBURG an ideal partner for Postbank.

Overall, the aggregate insurance amount fell from €1.8 billion to 1.6 billion at the end of 2007 in the previous year. Riester products contributed €0.8 billion to this (previous year: €0.9 billion).

Outlook

With our "Next Step" strategic program, we have set ourselves ambitious goals; continual quantitative and qualitative expansion of our sales channels, among other things, will help us achieve those goals.

After the successful completion of our pilot project "Filiale im Wandel" ("Changing Branches") in our branch business, we will be redesigning a large number of our branches. We also want to increase the productivity of our financial services sales staff by 50% above the 2006 level in the period up to 2010, and we made significant progress toward this goal in 2007.

At Postbank Finanzberatung, we are reaffirming our goal of being the leading mobile financial sales organization in Germany and intend to expand the sales team to 5,000 advisers by 2010. To do this, we will rely both on organic growth and externally recruiting new team members. More than 60% of advisers should then be in the position to sell a minimum of three product categories, as against almost 54% at the end of 2007. Postbank's strong customer base of 14.5 million, the Best-Select strategy of the investment advisers, and the three needs-driven sales channels – financial management, investment advice, and mortgage lending advice – create good conditions for reaching this goal.

We intend to increase the number of core customers from 4.6 million to 5.2 million by 2010. In the process, we aim to increase the number of customers who use three or more of our products from the current 40 % to 47 % of core customers.

Despite strong competition in the savings business, we will strive to expand our deposit volume substantially. Attractive long-term interest rates, particularly for the "Postbank Quartal-Sparen" and "SparCard direkt" products, and additional measures to promote sales will contribute to achieving this objective. With these effects we want to noticeably increase the value proposition of our savings products.

We expect the increasing importance of energy-saving building projects and the high demand for modernization and renovation in German housing stocks to lend positive momentum to the mortgage lending business. The German federal government's climate program will also have a positive effect on this. The plan to include building loans for the purchase of a owner-occupied residential property in the eligible Riester products may revive the market.

In insurance, the attractions of the basic (Rürup) pension are a source of further sales potential: the tax deduction for its premiums increases every year. Overall, government-supported retirement pensions will become increasingly important. The final level of the Riester pension was reached at the beginning of 2008. This event may additionally increase sales of these products.

In the securities business, the introduction of the flat tax on investments will shift the focus of customers towards savings vehicles that are exempted from the tax, i. e. to unit-linked life and pension insurance policies. We are looking forward to new business picking up in this area.

As part of our forward-looking strategy, we will concentrate on producing those banking services that can yield economies of scale and thus provide us advantages in pricing. In product areas where we are not active ourselves, our cooperation with strong partners will still allow us to make market-leading offerings to our customers and thus generate corresponding income from fees and commissions. The marketing partnerships entered into with Talanx and HUK-COBURG in the insurance area have laid the foundation for this move.

We intend to make structural progress in the development of our retail banking business even more transparent for capital markets. Our key performance indicators will make the success of our sales channels even more measurable.

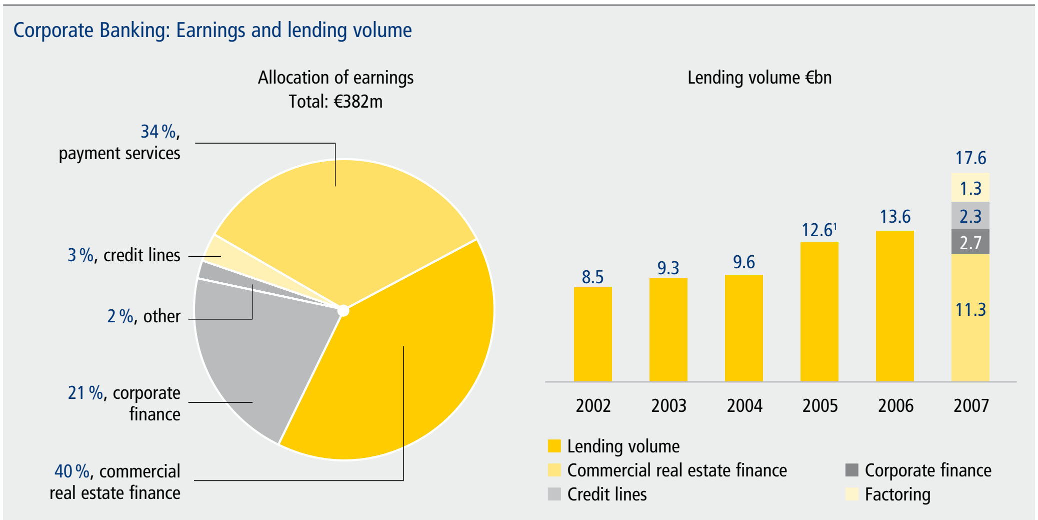
Overall, Postbank is optimally placed in the retail banking business to continue to expand its good market position and win new market shares in this still hard-fought area. We intend to position Postbank in the long term as the clear leader in German retail banking and further enhance the value proposition of our private customer business.

Home building *Lots of things are uncertain when the first baby arrives, but one fact never changes – the little one needs lots of room to grow. For many people, the arrival of their first child is the impetus to build their own home. We are naturally glad to help make this dream come true for them – or for anyone else who wants to own a home. These clients benefit from the competence and experience of Germany's largest private mortgage financer: What may be new ground to our clients is familiar territory to our BHW mortgage bank. Our customers can take the time to make big plans – we take care of the rest for them.*

Everything's worked out fine so far, all that's missing now is a home to call our own.

Corporate Banking:
Continued growth with an eye to risk

We are also seeing positive development in business with our approximately 30,000 corporate customers. We refined our innovative payment solutions and made risk-conscious expansions to our loan portfolio. In this way, Postbank has strengthened its position as a high-performance, reliable partner in handling payment transactions, investment financing specially intended for SMEs, domestic and international commercial real estate finance, as well as leasing and factoring. In addition, it offers attractive investment opportunities and customer-driven advisory services to assist in optimizing balance sheet structures.



[1]Including London branch for the first time

Further development of our payment solutions

In fiscal year 2007 we again improved our payment product offering for our customers, which include some 90 % of DAX-listed companies and approximately 70 % of MDAX companies. The main focus was on payment solutions to optimize both customers' and internal bank processes, on creating added value and on the alignment of our product range and individual solutions to meet customer requirements in the European arena. Equally important for us was the successful conclusion of preparations for the start of SEPA in January 2008.

Initial successes for new SME market offensive

With Corporate Banking in Germany now numbering some 30,000 customers, Postbank's positioning as a core bank for the small and medium-sized sector is paying increasing dividends. The volume of new loans to corporate customers rose to approximately €1 billion, a figure more than three times that of the previous year. Particularly encouraging here is the increase in capital investment loans and overdraft facilities. The development loan programs introduced in the course of the year to round off our range of credit products has also been doing well. The growth in lending, in line with the corporate strategy, continues to be compatible with Postbank's tried and tested risk-conscious lending policy.

Short-term promotional activities to reinforce customer relationships and relieving our corporate customer advisers from administrative responsibilities have had positive effects on sales. The systematic drive to develop the sales organization in terms of both quality and quantity is evident in the greater intensity of customer care and the associated increase in customer retention.

As part of our holistic approach to advisory service we also offer our customers a complete range of high-performance investment and risk management products. Our product solutions – including derivative hedging instruments for interest rate and currency management as well as conventional financial instruments – ensure optimum financial management for our clients.

Clear growth in commercial real estate finance

Commercial real estate finance constitutes a second key pillar of Corporate Banking, both nationally and internationally. This market segment accounts for 65 % of the total credit volume and 40 % of earnings.

Business relationships stretching back many years and Postbank's expertise, acknowledged by customers and consortium partners alike, create a sound basis for further growth in this segment at home and abroad. Building on this foundation, in the last few years we have expanded our customer base to include first-rate names in the real estate business and a series of national and international consortium partners.

The overall volume of the Group's commercial real estate finance was €11.3 billion, breaking the €10 billion threshold for the first time after achieving €8.5 billion in 2006.

PB Capital posts record profits in a difficult market environment

Our US subsidiary, PB Capital, held its own in a difficult market environment and was able to make an increased contribution to earnings in the Group that was very encouraging. This success is largely due to the company's mix of three well balanced business segments (financial markets, credit investments, and real estate) and its conservative risk policy.

Due to the economic uncertainties in the United States, PB Capital took a cautious attitude in the important segment of commercial real estate finance, increasingly focusing on the opportunities offered by properties on long-term leases that were previously largely financed by securitizations.

Overall, PB Capital's borrowings increased from $2.3 billion in 2006 to the current $3.3 billion.

Postbank London Branch highly successful again

In 2007 as in past years, the focus of the business was on real estate finance. The London Branch further consolidated its position as an established provider of structured commercial real estate finance in the UK. In 2007, Postbank London Branch substantially expanded its customer base of major real estate developers and investors, some of which are listed, real estate funds and high net worth private investors, creating the basis for further controlled growth.

Thanks to its satisfactory market position, PB London Branch was able to make binding commitments on new real estate loans worth €1.6 billion in fiscal 2007. Once again an overriding concern was to guarantee the high quality of the loans and a good risk profile. London's treasury activities, which focus on refinancing and currency and interest rate hedging for real estate customers, also made an encouraging contribution to earnings.

Postbank London Branch increased its earnings year-on-year by more than a third. Total loans and advances to customers and investment receivables amounted to €2.5 billion as of the end of 2007.

Despite the anticipated moderate cooling of the property market in the UK after several years of marked price growth, we remain confident about our segment of the market. Financing of high-quality properties in good locations with financially sound, experienced partners is less prone to corrections than the market as a whole. Furthermore, following the marked decline in securitization activities by our competitors, we anticipate new business opportunities for earnings- and risk-conscious lenders such as Postbank London Branch and PB Capital.

PB Factoring continues double-digit growth

In a highly successful year for the German factoring sector, PB Factoring further increased its market share and consolidated its position as one of the leading factoring companies among German providers. In the year under review, the company again posted double-digit growth in revenue and earnings. Revenue from purchased receivables grew by another 21 % to €6.8 billion. As well as expanding the business the focus was on optimizing internal processes and cementing and consolidating customer relationships. Among other activities the company developed a customer portal simplifying communications with customers and also providing extensive reports. Another priority was developing a Customer Relationship Management (CRM) system. All the relevant information from bid preparation to contract management is available in a single individualized database. These measures laid vital foundations for the expansion of the company.

Postbank Leasing records encouraging new business

Postbank Leasing is an integral element of Corporate Banking. A customer-driven organization with solutions-oriented offerings for financing goods in transit and high-quality production systems are strategic success factors for the company, which in 2007 recorded new business worth some €100 million.

Outlook

Our goal is to achieve further growth in Corporate Banking as a core bank for the German middle market and to position ourselves as an efficient and reliable partner for our customers. In the process, we can rely on our strengths – our strong customer base, broad product range, and skilled workforce. By 2010 we hope to increase our portfolio of loans to SMEs to €5 billion, up from €3.5 billion at the end of 2007.

To achieve this target we will continue to boost our visibility in the market with specific event-driven promotions and to drive forward business with our core customers by introducing product innovations, especially in payment transactions and financial management, and by further expanding our regional sales operations.

Corporate Banking[1]

Segment result	2007 €m	2006 €m
Balance sheet-related revenues	278	267
Net fee and commission income	104	105
Administrative expenses	–163	–171
Profit before tax	191	165
Cost/income ratio	42.7 %	46.0 %
Return on equity before taxes	50.5 %	46.7 %

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[1]see Note 41

On the payment transactions side we have set ourselves the target of further improving our process and cost structures. We are also aiming in 2008/09 to expand our access channels for the receipt and delivery of payment transaction orders and information.

We want to further expand our profitable business in commercial real estate finance in a selective and prudent manner with the focus on Europe; despite the trend to lower transaction volumes in the commercial property market, we look forward to continued encouraging business activity in 2008.

The turbulence on the securitization markets, which in our opinion will continue to affect market events at least in the early months of 2008, will probably lead to a situation where high-volume finance will again increasingly be the preserve of traditional banking syndicates. Our goal is to be a clear winner in this rediscovery of the banks that are willing and able to accept loans onto their own balance sheets. We intend to achieve this, however, while strictly adhering to our very cautious risk policy.

Overall we aim to boost earnings from the Corporate Banking segment to €500 million by 2010 (€382 million as of the end of 2007).

Transaction Banking:
Leading consolidator in the market

Postbank is the technology leader in transaction banking in Germany, and following the acquisition of HypoVereinsbank's payment transaction business at the beginning of 2007, now has a 20 % market share in processing payment transactions. This share makes Postbank the driver of consolidation in Germany, and the Bank's outstanding expertise has already made it a major player in European payment transactions. With the exception of securities, Postbank's transaction banking portfolio covers the market's full range of services involving accounts and loans.

Successful integration of new customer

Within the area of payment transaction processing, we have positioned ourselves as a full-service provider. We use Betriebs-Center für Banken AG (BCB), a Postbank subsidiary, as a platform for processing customer transactions, a service we have provided since 2004. We negotiate individual contracts providing our customers with operational domestic and international payment transaction services that are highly professional, as well as offering tracing and internal account services. In addition to our current clients – Deutsche Bank and Dresdner Bank – we were able to acquire another client on January 1, 2007: HypoVereinsbank. Its acquired subsidiary, HVB Payments & Services GmbH, was successfully integrated. In addition, three out of seven locations were closed in line with the agreed consolidation plan, leading to an increase in efficiency as planned.

Transactions and market share up significantly

Including BCB, Postbank processed around 7.4 billion payments in 2007, compared with approximately 6.2 billion in 2006. This increase is largely attributable to our new customer, HVB. As expected, the volume of paper-based payment transactions is continuing to fall. Approximately 174 million such transactions were processed in the year under review – only 2.3 % of the total transaction volume.

The takeover of HVB's transaction processing operations meant that we were able to increase our market share in 2007 from 16 % to over 20 %, thus achieving further economies of scale.

Organizational structures aligned for growth

As part of the strategic orientation of our Transaction Banking activities, we further optimized the organizational structure of our payment transactions operations. This included among other things the transformation of the former Betriebs-Center für Banken Deutschland GmbH & Co. KG into a German stock corporation on July 1, 2007. In addition, Postbank and BCB have continued to drive forward the industrialization of Transaction Banking. We are concentrating on a small number of locations at which large volume payment transactions are processed using standardized procedures. Production throughout Germany is monitored and managed from a central control station. In this way, we are able to manage and allocate the daily volumes of payment transactions to the individual locations to ensure optimum, efficient processing.

Using modern risk management, we have hedged our operational risk by drawing up comprehensive emergency planning. Moreover, our rate of loss, at only one in 66 million transactions, is also evidence of our high quality services. The standardization and documentation of our processes as well as quality management is transparent for all our clients, thanks to the company's certification in accordance with DIN EN ISO 9001 ff.

IT activities within Transaction Banking in fiscal year 2007 were dominated by preparations for the introduction of the Single Euro Payments Area (SEPA). Based on clients' requirements and our own concepts, we have made preparations for the market-oriented introduction of SEPA products for the settlement of standard European transfers (Standardized Credit Transfers – SCTs) and direct debits (Standardized Direct Debits – SDDs). The first step will be to process SEPA credit transfers as of January 2008.

Thanks to the high level of industrialization of bank services that we offer and our process management instruments, we are convinced that we will be able to assume an outstanding position, offering optimal conditions for further growth, in Germany and in the European banking market.

Transaction Banking[1]

Segment result	2007 €m	2006 €m
Balance sheet-related revenues	4	4
Net fee and commission income	350	263
Administrative expenses	–331	–245
Profit before tax	36	27
Cost/income ratio	93.5 %	91.8 %
Return on equity before taxes	–	–

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[1] see Note 41

Credit Services – further improvement in process efficiency

Credit Services is the Postbank competence center for credit processing. This full-service offering is available to the Group as well as to external clients. As part of the BHW integration, BHW's and Postbank's loan processing activities were harmonized. In addition, we are continually working to further optimize the industrialized, standardized and highly efficient processing of mortgage loans.

Due to the introduction in 2006 of our SAP platform for processing mortgage finance as well as additional process optimization, we have managed to increase our processing speed significantly. As a result, over 90 % of all credit applications submitted were finally settled within 48 hours. To cut the throughput time of credit decisions even further, we introduced a new digital submission platform in 2007 that is currently being used to process 40 % of all submitted credit applications and that is due to be expanded further.

Outlook

Against the backdrop of the creation of a standardized Single Euro Payments Area (SEPA), we are striving to exploit new growth potential on the European market. Our current market share, including Germany, is already 5 %. The economic conditions for further growth are very good. The payment transaction market in Germany is viewed as the most efficient in Europe, making it an ideal springboard for international growth.

The introduction of SEPA in 2008 will create the statutory basis for a common European payments area. Based on standardized legal foundations, common European standards will be introduced in the period up to 2010 for credit transfers, direct debits, and card payments and formats, settlement processes, and throughput times adapted. Given this, we are planning to establish a joint European offering with one or more partners in the form of partnerships, equity interests, or joint ventures.

Until now, no market in Germany has been established to take over credit processing services for third parties. However, we believe that demand will grow in the coming years, in particular due to the further increase in competitive pressure on the German financial markets. The resulting pressure on costs and margins will make more cost-effective solutions for proprietary loan processing essential. Our highly industrialized, multiclient-enabled loan processing operations mean we are excellently positioned to attract new customers.

Financial Markets:
Difficult market environment mastered

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The Financial Markets division is responsible for Postbank's money market and capital market activities. It safeguards the net interest margin contribution from customer business and thus minimizes the market price risk from such business (see the Risk Report for details). It also manages the Bank's liquidity. Moreover, Financial Markets optimizes the risk/return ratio and generates income from the conscious, controlled assumption of market price risk within narrow, predefined limits.

The division's efficient risk management paid off in 2007. The turmoil unleashed on the markets by the US subprime crisis affected Postbank only within moderate limits. The division continued to optimize its liquidity management and expand its issues and syndicate business.

Treasury – successful management of market risk in a difficult environment

In addition to safeguarding the net interest margin contributions as mentioned above, the Treasury department is primarily responsible for managing the Bank's interest rate risk using generally recognized market techniques. In addition to traditional securities such as bunds and Pfandbriefe (mortgage bonds), derivative financial instruments are also used as an integral component of modern overall bank management. Liquidity management became increasingly important in 2007 and was optimized against the backdrop of a further decrease in the surplus of liabilities.

Treasury assumes market price and spread risk based on internal market assessments and in accordance with limits defined by the Management Board. In spite of a difficult market environment in 2007 chiefly caused by the subprime crisis in the United States, the Treasury department again made an important contribution to increasing Postbank's balance sheet-related revenues.

Money, Forex and Capital Markets – market positioning expanded

The Money, Forex and Capital Markets (MFC) department performs transactions on the financial markets for all of the Bank's departments charged with managing positions. It mainly acts as a service provider for the Group and develops products especially for the retail area like those successfully launched in 2007: the „Postbank Strategie Sieger Zertifikat I und II" (Postbank Strategy Winner Certificates I and II) and the „Postbank Index Garant Rente" (Postbank Index Guarantee Pension). In addition, it conducts limited proprietary trading in this area while adhering to strict risk limits to generate additional income. MFC is also responsible for the Bank's short-term liquidity management.

In the 2007 fiscal year, we again expanded our market position in interest rate and forex products at both national and international levels. Equities trading benefited encouragingly from the volatility on the markets.

Issues and Syndicate Business – successful funding

As part of the management of its capital base, Postbank issued a subordinated bond of around €500 million and registered profit-sharing rights of €135 million in 2007 under the lead management of the Issues and Syndicate Business department. This department also focuses on expanding Postbank's broad funding basis, which is becoming more and more pivotal as Postbank's customer business continues to grow on the asset side, particularly in the area of mortgage lending.

In December 2007, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) issued Postbank the Pfandbrief license for which it had applied. The Bank launched a debt issuance program to diversify its refinancing and as part of this, very successfully issued its first Pfandbrief in early January of 2008.

Asset Management – growth in existing business and new acquisitions

The Asset Management unit again positioned itself strongly in 2007 with both special funds for institutional customers and retail funds for private customers.

In the special funds business, the assets under management rose from €11.7 billion at the end of 2006 to €11.8 billion on December 31, 2007, in spite of a somewhat challenging stock market environment. Gross cash inflows in our own retail funds amounted to approximately €460 million in the year under review (€710 million in 2006), bringing the final volume to €1.8 billion as compared to €1.9 billion in the previous year. In particular "Postbank Protekt Plus", launched as a guarantee fund, recorded continued high cash inflows.

In the fourth quarter of the year, the umbrella fund "Postbank Vermögensmanagement Plus" with the three special funds "Ertrag", "Wachstum" and "Chance" (Return, Growth, and Opportunity) was launched. This gives customers the opportunity to invest in keeping with their individual risk and return expectations.

Financial Markets[1]

Segment result	2007 €m	2006 €m
Balance sheet-related revenues	187	144
Net fee and commission income	83	63
Administrative expenses	–83	–78
Profit before tax	190	132
Cost/income ratio	30.7 %	37.7 %
Return on equity before taxes	37.2 %	23.8 %

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[1]see Note 41

Luxembourg – new structures bear fruit

Deutsche Postbank Int. S.A. (PBI) offers its private customers investment opportunities in the money market, in equities funds, bond funds and guarantee funds as well as other securities. In 2007, encouraging growth was recorded in the corporate advisory area, especially in the fields of interest rate and currency management. In co-operation with PB Firmenkunden AG, it developed and is developing new products and successfully introducing them, as well as continually working to improve the service portfolio for corporate customers.

This gave a sustainable boost to the location in terms of both diversification and revenue, and contributed to an increased profit before tax, up from €66.2 million in 2006 to €83.2 million in 2007. For more information please see PBI's own annual report, which can be ordered at deutsche.postbank@postbank.lu.

Outlook

Going forward, the key task of the Financial Markets division will continue to be ensuring effective risk management for the entire Postbank Group. Since it is only a question of time as to when the meanwhile minimal surplus of liabilities will become a surplus of lendings, key activities in 2008 will include not just the further expansion of effective liquidity management but also an active issuance program.

Given that the situation on the capital markets is likely to remain strained in 2008, the focus will be on further optimizing asset allocation as a key part of risk management and on actively managing market price and spread risk. Moreover, Financial Markets will continue to be the innovation driver for product development in the various customer segments.

For our Shareholders
Our Business Divisions
Our Responsibility
Group Management Report
Consolidated Financial Statements
Other Information

Financing *What do you dream of? Everyone has goals and dreams. Big and little hopes, personal and business objectives. Some of them can wait, others can't. We are there for our customers when good opportunities come around sooner than the necessary funding, when a significant investment would open up entirely new perspectives. No matter if private or business loan, we always work on the same principle: well-founded consultation and simple, fast service at an economical price. We are happy to meet people who want to make things happen – and give them our full support.*

I already know who's going to decorate my new studio.

Report of the Supervisory Board

On February 19, 2008, Klaus Zumwinkel resigned his position as Chairman of the Supervisory Board of Deutsche Postbank AG. He played a decisive part in making Postbank the leading retail bank in Germany. Under his aegis, Postbank had a successful initial public offering, followed by an equity price that performed extremely well. During his time in office as Chairman of the Supervisory Board, he and the Management Board of Postbank made decisive contributions to setting a course that will lead the Bank to further sustainable growth in the future. The Supervisory Board of Postbank would like to thank Klaus Zumwinkel for his extraordinary service and for his excellent leadership.

At the meeting on March 3, 2008, to discuss Postbank's balance sheet, the Supervisory Board renewed its comprisal and appointed from its midst Frank Appel to be the new Chairman.

In the past fiscal year 2007, the Supervisory Board performed the duties assigned to it by law and the Articles of Association. In addition to regularly advising and monitoring the Management Board, the Supervisory Board was involved in important company decisions. In fiscal year 2007, the Management Board regularly informed the Supervisory Board in a timely and comprehensive manner of all issues concerning the Company's planning, business development, risks, risk management, strategic measures, as well as important business transactions and projects. Deviations between the course of business and the plans and targets prepared were explained to the Supervisory Board and reasons given. All measures requiring the approval of the Supervisory Board were discussed at length, as was the Company's strategic focus. Where required by law, the Articles of Association and the Bylaws, the Supervisory Board passed resolutions after thorough examination and discussion. The Chairman of the Supervisory Board was also informed about important business transactions and forthcoming decisions between meetings of the Supervisory Board, and kept in constant contact with the Chairman of the Management Board.

Main subjects for discussion by the Supervisory Board

In fiscal year 2007, the Supervisory Board obtained information at five meetings and through the regular submission of documents concerning the Bank's current financial and strategic situation, business developments in the individual divisions, risk development and active risk management, as well as new products. Individual topics were intensively scrutinized and discussed. With the exception of Jörg Asmussen, who was able to take part in only two Supervisory Board meetings due to his commitment to the German Federal Ministry of Finance, all Supervisory Board members attended more than half of the meetings of the Supervisory Board during the fiscal year.

In its first meeting on March 16, 2007, the Supervisory Board, after extensive discussions, approved the annual and consolidated financial statements of Deutsche Postbank AG. This followed a prior consultation with the Audit Committee, which recommended approval. Other subjects that formed the basis for discussions and decisions by the Supervisory Board were issues of importance to the Management Board, the joint report on Corporate Governance, the agenda and proposed resolutions for the 2007 Annual General Meeting, the control and profit transfer agreement with Deutsche Postbank Beteiligungen GmbH and the HR and audit reports. The control and profit transfer agreement was approved by the 2007 Annual General Meeting.

The Supervisory Board reformed at its second meeting following the Annual General Meeting on May 10, 2007, and appointed Michael Meyer and Guido Lohmann to the Management Board. The reconstitution was made necessary by the election of new employee representatives to the Supervisory Board. In this meeting, Klaus Zumwinkel was elected Chairman of the Supervisory Board and Michael Sommer Deputy Chairman.

In the extraordinary meeting on July 18, 2007, the Supervisory Board approved the sale of all equity interests in PB Versicherung AG, PB Lebensversicherung AG, BHW Lebensversicherung AG and BHW Pensionskasse to Talanx AG and the associated sales cooperation. The definition of the core business and the new alignment of

Deutsche Postbank AG in the insurance business were discussed intensively in the process. The Supervisory Board weighed the benefits of the Company producing its own insurance products against focusing exclusively on their sale.

The Supervisory Board used the meeting on September 28, 2007, to discuss the impact of the subprime and liquidity crisis on Deutsche Postbank AG. It debated analyses and evaluation methods in depth and concluded that the risk control measures implemented are effective. Additional topics covered included preparation of the strategy discussion and the partial sale of BHW Bank AG.

In an extensive meeting on November 30, 2007, the Supervisory Board focused in particular on business and mid-term planning for Deutsche Postbank AG and its future strategic alignment. Additional topics discussed at the meeting included consultation regarding amendments to the Corporate Governance Code and the partial sale of BHW Bank AG. The Management Board explained the new strategy to the Supervisory Board, which engaged in detailed, comprehensive discussion on measures and future business policy tasks.

The Supervisory Board approved the exercise of shareholder rights in BHW Holding AG and Postbank Filialvertrieb AG in writing by means of a circulated document.

Work of the committees

The Supervisory Board established six committees to enable it to work in greater detail. Their task is to prepare the resolutions on subjects that are relevant for the Supervisory Board. In addition, for reasons of efficiency, individual specific decision-making powers were transferred – as far as possible – to committees. The committee chairs report regularly and at length to the full Supervisory Board about the work and the results of their committees.

Members of the Deutsche Postbank AG Supervisory Board and its committees as of December 31, 2007:

Supervisory Board

Klaus Zumwinkel (chair)	Rolf Bauermeister	Elmar Kallfelz	Elmo von Schorlemer
Michael Sommer (deputy chair)	Wilfried Boysen	Ralf Krüger	Torsten Schulte
Wilfried Anhäuser	Edgar Ernst	Hans-Dieter Petram	Eric Stadler
Jörg Asmussen	Annette Harms	Bernd Pfaffenbach	Gerd Tausendfreund
Marietta Auer	Peter Hoch	Klaus Schlede	Renate Treis

Executive Committee (section 10 of the Supervisory Board Bylaws)

Klaus Zumwinkel (chair)	Elmar Kallfelz
Michael Sommer (deputy chair)	Ralf Krüger

Human Resources Committee (section 13 of the Supervisory Board Bylaws)

Michael Sommer (chair)	Klaus Schlede
Klaus Zumwinkel (deputy chair)	Torsten Schulte

Loan and Equity Investments Committee (section 11 of the Supervisory Board Bylaws)

Ralf Krüger (chair)	Peter Hoch
Edgar Ernst (deputy chair)	Elmar Kallfelz
Marietta Auer	Renate Treis

Nomination Committee (section 14 of the Supervisory Board Bylaws)

Klaus Zumwinkel (chair)	Ralf Krüger

Audit Committee (section 12 of the Supervisory Board Bylaws)

Peter Hoch (chair)	Wilfried Anhäuser
Edgar Ernst (deputy chair)	Gerd Tausendfreund

Mediation Committee (section 15 of the Supervisory Board Bylaws)

Klaus Zumwinkel (chair)	Elmar Kallfelz
Michael Sommer (deputy chair)	Ralf Krüger

The duties of the Executive Committee include preparing the appointment and withdrawal of members of the Management Board, agreeing, amending and terminating contracts of employment for members of the Management Board, granting loans to company officers, addressing specific topics of overriding importance as well as fundamental questions about the Company's strategic direction. The committee met five times last year. The meetings focused in particular on discussing and preparing appointments to the Management Board, the renewal of loans extended to company officers and reviewing the efficiency of the Supervisory Board.

The Loan and Equity Investments Committee is responsible for credit decisions, fundamental questions about the granting of loans and certain investment decisions. It met a total of six times and, in line with its remits, discussed the approval of new loans, the extension of existing loans and increases in the lending limit for various individual loans and credit facilities. In addition, the Loan and Equity Investments Committee received reports on credit risk and regularly discussed the credit risk strategy. The focus of the Loan and Equity Investments Committee's work was on consultation as a result of the subprime crisis. In an extraordinary meeting on this topic, the Management Board informed the Loan and Equity Investments Committee of developments related to the subprime crisis and their impact on Deutsche Postbank AG in detail. These findings were regularly examined, updated and evaluated in the following Supervisory Board and committee meetings.

The Human Resources Committee addressed Deutsche Postbank AG's human resources structures and human resources development policies. In the Human Resources Committee meeting, the reports on human resources given by the Management Board focused on human resources development within the Group, the age structure of Deutsche Postbank AG as well as the planned educational and training concepts.

The Audit Committee is assigned the issues of accounting, risk management and auditing. The Audit Committee met three times. The meetings – at which the auditors were present – focused on providing extensive support to the examination of the annual financial statements, as well as discussions of accounting and risk monitoring. The Audit Committee furthermore examined Deutsche Postbank AG's risk control procedures in detail and reviewed reports on audit results prepared by the Auditing department.

The Mediation Committee and the Nomination Committee, the latter of which was first formed in November 2007 due to the addition of item 5.3.3. to the Corporate Governance Code, did not meet in the past fiscal year.

Audit of the annual and consolidated financial statements

The auditors elected by the previous year's Annual General Meeting, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the annual financial statements of Deutsche Postbank AG and the consolidated financial statements, including the respective management reports, for fiscal year 2007 and issued an unqualified audit opinion.

They also examined the Management Board's report on relations with affiliated companies (dependent company report) prepared in accordance with section 312 of the *Aktiengesetz* (German Stock Corporation Act). The auditors reported on the results of this audit and issued the following audit opinion:

"On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the compensation paid by the Company for the transactions listed in the report was not inappropriately high, or any disadvantages were compensated,
3. there were no circumstances that would indicate a materially different assessment of the measures listed in the report to that given by the Management Board."

Moreover, in accordance with section 317 para. 4 HGB (German Commercial Code), the auditors performed an audit of the risk early warning system to be set up in accordance with section 91 para. 2 and confirmed that the Management Board has taken measures to satisfy the requirements associated with the risk strategy, risk-bearing capacity, risk control and risk monitoring, including the establishment of a suitable risk early warning system.

Deutsche Postbank AG's annual financial statements, the consolidated financial statements, the management reports, the proposal for the appropriation of the net retained profit, the Management Board's dependent company report and the auditors' reports were made available to all Supervisory Board members and were examined by the Supervisory Board.

The Supervisory Board discussed these documents in the presence of the auditors, who reported on the key findings of their audit in the Supervisory Board meeting and answered questions. The Chairman of the Audit Committee reported on the results of the Audit Committee's examination of the annual and consolidated financial statements in the meeting of the Supervisory Board. The Supervisory Board took note of and concurred with the results of the audit of the annual financial statements and the dependent company report. The final results of the Supervisory Board's examination did not give rise to any objections to Deutsche Postbank AG's annual financial statements or the consolidated financial statements, which were both approved. Deutsche Postbank AG's annual financial statements are thus adopted. Upon consideration of the Company's financial provisions and the interests of shareholders, the Supervisory Board regards the Management Board's proposal for the appropriation of the net retained profit as appropriate and endorses it. Furthermore, the final results of the Supervisory Board's examination did not give rise to any objections to the declaration made by the Management Board at the close of the dependent company report.

Changes in the Management Board and Supervisory Board

The following changes took place in the Deutsche Postbank AG Management Board in fiscal year 2007. Wulf von Schimmelmann and Henning Engmann resigned their seats on the Management Board as of June 30, 2007, and March 31, 2007, respectively. Effective July 1, 2007, the Supervisory Board appointed Wolfgang Klein as Chairman of the Management Board, Michael Meyer as the Member of the Management Board responsible for Product Management and Guido Lohmann as the new Member of the Management Board responsible for Mobile Sales at Deutsche Postbank AG.

The composition of the Supervisory Board also changed in fiscal year 2007. Rosemarie Bolte, Sabine Schwarz, Christine Weiler, Ralf Höhnmann and Harald Kuhlow left the Supervisory Board. Renate Treis, Wilfried Anhäuser, Rolf Bauermeister, Torsten Schulte and Eric Stadler were appointed to the Deutsche Postbank AG Supervisory Board in their place by the delegate conference.

The current fiscal year has seen an additional change in the Supervisory Board. in February of 2008, Klaus Zumwinkel resigned his position as member. Frank Appel was appointed by court to succed him as Supervisory Board member. At the meeting on March 3, 2008 to discuss Postbank's balance sheet, the Supervisory Board appointed from its midst Frank Appel to be the new Chairman.

Corporate governance

The requirements of the German Corporate Governance Code were also important for the Supervisory Board. Back in 2003, the Management Board and Supervisory Board decided to follow all the recommendations of the Corporate Governance Code. We also intend to implement all the recommendations of the Corporate Governance Code in the version dated June 14, 2007. The Declaration of Compliance in accordance with section 161 of the *Aktiengesetz* was last issued by the Management Board and the Supervisory Board on November 30, 2007, and subsequently made permanently available to shareholders on the Company's website. Further details on the topic of corporate governance, including the wording of the declaration, are presented in the corporate governance report (see p. 44).

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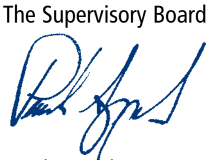
As a member of both the Supervisory Boards of Deutsche Postbank AG and Talanx AG, Hans-Dieter Petram did not take part in the decision-making process during the sale of the insurance companies and, as a precautionary measure, did not exercise his right to vote.

The Supervisory Board wishes to thank the Management Board, employee representatives and all Group employees for their successful work.

Bonn, March 3, 2008
The Supervisory Board



Frank Appel
Chairman

Corporate Governance

Central idea

For Deutsche Postbank good corporate governance means managing companies in a responsible manner based on defined values.

Corporate governance encompasses the entire management and supervisory system of a company, and in particular the efficient cooperation between the Management Board and the Supervisory Board, the transparency of corporate activity and the regard for shareholders' interests. With this in view corporate governance is discussed by the Management Board and Supervisory Board at least once a year. Good corporate governance promotes the trust of all parties involved or interested in a company, and of all its investors, customers, and employees.

It is not just about complying with or following standards - but living a corporate culture. This is why Deutsche Postbank AG complies with all the recommendations of the German Corporate Governance Code.

Management and control structure

Deutsche Postbank AG is structured in accordance with the dual board system, under which the Management Board is responsible for management tasks and the Supervisory Board for supervisory and advisory duties. The Management Board and Supervisory Board are in regular close communication as required by good corporate management and to achieve sustained growth in enterprise value. The chairmen of the Supervisory Board and the Management Board in particular are in regular contact.

Management Board

The Management Board has sole responsibility for the management of the Company. The Management Board members share joint responsibility for corporate management. The Chairman of the Management Board coordinates the work of the board members.

The Management Board of Deutsche Postbank AG currently consists of nine members, who have joint responsibility for managing the Company's business in line with uniform objectives, plans, and guidelines. Deutsche Postbank AG is divided into board departments, in which the members of the Management Board act on their own responsibility but always in the collective interest of the Company. The Management Board defines the Company's business goals, its basic strategic focus, corporate policy, and the Group's organizational structure.

Supervisory Board

The Supervisory Board appoints, monitors, and advises the Management Board and is directly involved in decisions of fundamental importance for the Company. The Chairman of the Supervisory Board coordinates its work. It consists of 20 members with relevant professional experience. Ten of them are elected by the Annual General Meeting in individual elections or appointed by the courts as replacements until the next election, in accordance with the provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act). Ten further members are elected by employees in accordance with the *Mitbestimmungsgesetz* (German Codetermination Act) of 1976. Seven of these Supervisory Board members must be employees of the Company, including one executive employee. The other three members must be representatives of unions represented at the Company. To support it in its duties, the Supervisory Board has established six committees which report to it on their work at regular intervals. These are the Executive, Audit, Human Resources, Loan and Equity Investments, and Mediation Committees as well as the Nomination Committee, which was newly established in 2007. The Report of the Supervisory Board contains further details on the composition, function, and meeting agendas of these committees (see page 40).

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The cooperation of the executive bodies is governed by the Company's Articles of Association, which are resolved by the Annual General Meeting, the Bylaws of the Supervisory Board and Management Board, and the resolutions of the executive bodies in line with the corresponding legal regulations. These lay down how the Supervisory Board should perform its supervisory and advisory duties. The Bylaws of the Supervisory Board contain a list of transactions requiring approval.

Annual General Meeting

The shareholders exercise their rights in the Annual General Meeting; as a rule, this is convened once a year by the Management Board, which also circulates the agenda and publishes the required reports and documents at the same time. The documents and the notice convening the Annual General Meeting are available for download on the Internet. The proceedings of the Annual General Meeting are likewise broadcast on the website except for the plenary discussions. Every no-par value share entitles its holder to one vote. Shareholders may exercise their voting rights themselves, via a proxy of their choice, or via a Company proxy acting on their instructions. The proxy voters may be contacted throughout the Annual General Meeting until the vote is taken. The resolutions by the Annual General Meeting are adopted 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 adopted by a simple majority of the share capital represented.

Transparency

Deutsche Postbank AG strives to provide its customers, owners, employees, and the public with comprehensive and up-to-date information. It does this on a regular basis using appropriate communication channels. To guarantee maximum transparency, and to justify and reinforce the public's trust, new information is disclosed to all interest groups simultaneously in the interests of fair disclosure. To this end, Deutsche Postbank AG publishes annual and quarterly reports and communicates through press releases, Investor Relations releases and conferences, ad hoc disclosures, disclosures required by section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), Company reports, or the Company's website (www.postbank.de). Both current and historical data in German and English can be downloaded there. The dates of the principal recurring publications are published sufficiently in advance in the Financial Calendar on our website.

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The members of the Management Board and Supervisory Board are obliged to act in the Company's interests and must disclose any conflicts of interest to the Supervisory Board without delay. If significant conflicts of interest arise, the period of office is terminated early. The Supervisory Board reports to the Annual General Meeting on any conflicts of interest that have arisen and how they were addressed. Outside activities pursued by the members of the Management Board have to be approved by the Supervisory Board.

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A list of the offices held by members of the Management and Supervisory Boards is contained on page 157, Note (59).

Accounting and auditing

The Postbank Group prepares its accounts in accordance with International Financial Reporting Standards (IFRSs). Deutsche Postbank AG's annual financial statements are prepared within 90 days in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code). Interim reports are published within 45 days.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft was elected as the auditors for fiscal year 2007 by last year's Annual General Meeting. The auditors' independence is reviewed and ensured, including for services already delivered or agreed. The Postbank auditors are subject to internal rotation. The auditors are required to inform the Company's executive bodies directly of any anomalies, and to document any errors in their audit. In particular, they must report immediately any grounds for impaired independence during the audit and any findings that affect the Supervisory Board or indicate inaccuracies in the compliance declaration. Details of the auditors' total remuneration can be found on page 161, Note (60).

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Risk management

The principles of responsible corporate management are also applied at Deutsche Postbank AG in dealing with risks. Deutsche Postbank AG has defined and established an extensive risk management system in line with the requirements of company and banking supervision law, in order to recognize, analyze, measure, control, and manage risks arising from its business activities in a timely manner. The system is also designed to generate the information relevant to Deutsche Postbank AG's risk situation at regular intervals. In order to increase its efficiency, risk management is implemented at three different levels: in the Management Board, in the Risk Committee, and in the respective operating units for risk management. In accordance with MaRisk (Minimum Requirements for Risk Management), reports and strategies on different risk types are also presented to and discussed by the Supervisory Board. Both specific and portfolio risks are managed. Postbank compares the risks with the expected return on the business activities to allow it to judge whether they are in proportion to each other given its strategic business goals. The risk management system is continuously reviewed on the basis of current developments and adapted if necessary. The effectiveness of the system is reviewed by Internal Audit.

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For further explanations and information on the risk management, please see the Risk Report on page 75.

Remuneration report for 2007

Deutsche Postbank AG hereby publishes the principles used to determine the remuneration of the Management Board and the Supervisory Board. In accordance with the statutory provisions and the recommendations of the Corporate Governance Code, the report further explains the level of remuneration and the structure of the remuneration systems.

Remuneration is presented for each individual in a way that is generally understandable. It is divided into fixed and performance-related components.

Also shown are monetary remuneration components received by members of the Management Board for outside activities, benefits in the event of termination of their membership of the Management Board, and pension commitments. Details of shareholdings, loans, disclosure requirements under the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), and D&O insurance policies are also included.

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 size of the bonuses is based on the degree to which predetermined target values are reached 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 active members of the Management Board received remuneration totaling €10,529.0 thousand in fiscal year 2007. Of this amount, €4,469.8 thousand related to fixed components (previous year: €4,489.2 thousand), and €6,059.2 thousand to bonuses (previous year: €6,082.2 thousand).

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

The following table provides an individual breakdown:

Management Board remuneration in 2007	Fixed remuneration component € thousand	Other compensation € thousand	Performance-related component € thousand	Total € thousand
Wolfgang Klein[1], Chairman as of July 1, 2007	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.

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 issued 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, Wolfgang Klein, 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 issued 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 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.

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 Chairman receives one and a half times the remuneration specified above. The chairmanship of a Supervisory 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 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 € thousand	Variable remuneration* € thousand	Total € thousand	Entitlement to remuneration with long-term incentive effect** € 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.

Shareholdings of members of the Management Board and Supervisory Board

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 (2006: €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.

D&O insurance

The members of the Management Board and of the Supervisory Board are covered by D&O insurance in line with international standards. In accordance with the requirements of the Corporate Governance Code, individual Management Board members are required to contribute own funds to costs if a claim is made. This contribution is between approximately 10 % and 40 % of the fixed annual salary.

Efficiency review

The efficiency review of the Supervisory Board is conducted on the basis of self-evaluation and, if necessary, additional consultations by Supervisory Board members commissioned to do this. In conjunction with the Supervisory Board office, specific suggestions for improvement are regularly elaborated in the systematic effort to further increase the efficiency of its work. For example, to improve the work of the Supervisory Board, the self-evaluation questionnaire has been revised, and, as part of an amendment to the Bylaws, the committee responsibilities have been restructured. The Supervisory Board thus again reviewed and confirmed the efficiency of its activities.

Changes to the Code

Deutsche Postbank AG's executive bodies revisited the issues and provisions of the German Corporate Governance Code on several occasions in the past fiscal year. Deutsche Postbank AG has responded to the latest recommendations of the German Corporate Governance Code in the version dated June 14, 2007, by explicitly including compliance reporting in the Supervisory Board's Bylaws. In addition, the Supervisory Board has established a Nomination Committee, which will propose suitable candidates as shareholder representatives on the Supervisory Board to the Annual General Meeting. A proposal will also be put to the Annual General Meeting to approve the online transmission of information to shareholders.

Declaration of Compliance

The Management Board and Supervisory Board issued the following Declaration of Compliance in accordance with section 161 of the AktG (German Stock Corporation Act) on November 30, 2007:

"The Management Board and the Supervisory Board of Deutsche Postbank AG state that since the last declaration of compliance dated November 30, 2006, all the recommendations of the 'Government Commission on the German Corporate Governance Code' in the version dated June 12, 2006 have been complied with, and that they intend to continue to comply with all the Code's recommendations in the version dated June 14, 2007."

The online transmission of information to shareholders requires the prior approval of the Annual General Meeting. A proposal to approve it will be put to the Annual General Meeting in 2008. On the basis of this resolution, the documents convening the 2009 Annual General Meeting may, at the shareholder's request, also be transmitted electronically.

What a rascal:
He buys the boat of my dreams and
I get to scrub the deck.

Investing *The best thing about time is that it can be put to work for us – provided that we give it the opportunity to and follow a well-thought-out plan. For instance when investing money and building wealth. These require a financial partner who can develop the ideal strategy for the current moment based on his or her expertise and broad experience – and then continually tailor this strategy to new phases of life. Our customers determine when to start and what the goal is, we help them reach it safely.*

IT/Operations:
Powerful IT systems meet tough challenges

Postbank has at its disposal a highly efficient IT platform, which was re-implemented from the ground up in 2003 and has since then been continuously refined. The largest investments are thus already behind us for the foreseeable future, and we are now concentrating on further increasing Postbank's strong capabilities in its customer business. In the past year, Postbank IT saw itself faced with a variety of challenges in this area. In addition to meeting numerous new statutory requirements, our agenda also included such items as optimizing our organizational structure, further developing multi-channel banking as well as developing and introducing new products for Postbank's corporate customers.

Organization

Having successfully completed the integration of BHW's and HypoVereinsbank (HVB)'s IT systems, we reached the next stage in the process-based optimization of Postbank Systems AG in the year under review. The purpose of the new organizational structure, effective as of January 1, 2008, is to further increase efficiency by even more rigorous alignment of IT processes with the core tasks of "plan-build-run" – managing IT (plan), implementing our IT plans (build), and operating existing IT solutions (run). In this context, the number of departments in the IT/Operations business division was reduced from four to three, i.e., Information Strategy (Plan), Projects (Build), and Operations (Run).

ISE, TARGET 2, and SEPA

On the payment transactions front, the main priority in 2007 was meeting the regulatory requirements for the ISE (Image-based Check Collection Procedure), TARGET 2 (Trans-European Automated Real-Time Gross Settlement Express Transfer System), and SEPA, the Single Euro Payments Area. BCB clients – Dresdner Bank, HVB, and Postbank – were singled out by the Bundesbank as being among the first ten TARGET 2 participants. With our help, Dresdner Bank became the only participant in the Euro Banking Association (EBA)'s first test window, making Dresdner Kleinwort the first European institution to be connected to the Euro Banking Association's new SEPA-compliant platform.

MiFID

By timely concluding the MiFID project in the year under review, Postbank met the comprehensive statutory requirements laid down in the EU Markets in Financial Instruments Directive (MiFID), designed to improve customer protection and transparency in the advisory and orders business for financial market instruments.

In Financial Markets, the conclusion of the "Migration BHW Backoffice" project meant that all Financial Markets portfolios belonging to BHW Bausparkasse were migrated from the Hamelin BSP back office system to the Postbank back office systems (BSP and Prime). In order to complete the migration, we had to enable all systems involved with a multi-user functionality. Process adjustments and the centralized management of the core and share class data have resulted in a marked reduction in operating costs.

Basel II

With the implementation of Basel II into national law, regulatory capital requirements for credit operations are now aligned more closely with economic risk. In this context, Deutsche Postbank AG has opted to apply the sophisticated Internal Rating Based Approach (IRBA). This approach is based on internally developed rating models that permit differentiated capital backing for risks.

The first stage of the Basel II IT program focused on the integration at the IT level of risk portfolios and on SAP application support for calculating capital adequacy requirements. After the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) approved Deutsche Postbank AG's use of the IRBA on December 22, 2006, the reports required under the *Solvabilitätsverordnung* (SolvV – Solvency Regulation) were prepared in accordance with Basel II as from April 1, 2007. Stage 2 ends on March 31, 2008 with the calculation of additional risk portfolios on the basis of internal rating models.

Multi-channel banking

In 2007, the multi-channel banking application was upgraded in three releases. The March release mainly included statutory amendments such as the EU's Insurance Mediation Directive. In addition, a new advisory process was introduced for the sale of funds. The main content of the July release was the implementation of new credit processes associated with the strategic Fit for Growth project. The November release concentrated on the implementation of the statutory requirements for the Markets in Financial Instruments Directive (MiFID) and the *Versicherungs-Vertrag-Gesetz* (VVG – German Insurance Contracts Act). Other new credit processes were also introduced, e.g., for the sale of car loans and quick loans.

In November of 2007, Postbank's Internet presence was totally revamped as part of the EasyOne initiative to make it even simpler and better for our customers.

The start of 2008 finally saw the integration of the new Talanx insurance products.

New products for corporate customers

We developed a large number of new financial products and process improvements as part of our Corporate Banking strategy. Thus, in 2007 the focus was on global loans, automatic deposit investment, automatic reference interest rate management, revolving credit lines, text automation, improved presentation of exposures with new products, standby fee, and the risk-adjusted current account.

In the "credit platform" project, we implemented the first Customer Relationship Management (CRM) system for corporate customers. The system supports corporate banking staff in capturing data relevant to terms and conditions.

Preparations were made to introduce structured syndicated financing and risk-adjusted controlling in 2008.

Outlook

After a year in which numerous regulatory amendments led to the highest level of project activity in Postbank IT history, regulatory requirements will again tie up a significant proportion of project capacities in 2008. Having successfully met MiFID requirements in 2007, the next regulatory challenge we have to meet within a relatively short time is the *Abgeltungssteuer* (flat tax), which is to be implemented at the beginning of 2009. The next steps required under Basel II are also pending, as is completion of our work relating to non-pecuniary benefits and implementation of the long-term solution for the *Grundsätze zum Datenzugriff und zur Prüfbarkeit digitaler Unterlagen* (GDPdU – Principles Of Data Access and Auditability of Digital Documents).

We will provide IT support in the direct customer business to topics with a strong sales emphasis: instant information, instant sales, and instant service. In addition to the enhancement of the systems for the Corporate Banking business, our activities for the current fiscal year will be rounded off by the completion of the payment solution program in the summer.

Employees:
Development and qualification as success factors

The Postbank employees are responsible for the lion's share of Postbank's success and play an indispensable role in helping the Bank reach its strategic goals. Effective, proactive HR management is therefore a decisive success factor. Ideally, we develop our employees' potential and effectively leverage it where needed while at the same time keeping staff costs under control. Postbank already has a marked performance culture with a high level of flexibility. Last year we took a decisive step towards ensuring consistently high training standards throughout the Group by founding PB Vertriebsakademie GmbH in which all Postbank education services are bundled. Furthermore, our civil servant employees were fully integrated into our system of performance-based remuneration in 2007.

HR challenges mastered

In late 2007, the Postbank Group employed 21,474 full-time equivalents, slightly over 200 less than as of December 31, 2006. In total, this number includes approximately 7,500 civil servants, equivalent to a 35 % share of civil servants among all employees as compared to 36 % in the previous year. Nearly 25 % of our employees have part-time employment contracts, a percentage we would like to increase.

In addition to the 4,260 self-employed, mobile sales advisers, sales functions accounted for some 12,800 full-time equivalents by the end of the year under review. The sales functions were strengthened while the overall number of employees remained relatively constant by increasing employee capacities in sales while simultaneously tapping synergies in back-office functions – approximately 1,900 full-time equivalents were economized here, 1,200 of which as a result of the integration of BHW and the former Deutsche Post retail outlets in 2006.

An education service provider for all Postbank employees

PB Vertriebsakademie GmbH, founded on January 1, 2007, from the former Vertriebsakademie department of BHW Bausparkasse and Postbank's operative HR development, which had been outsourced to Deutsche Post AG, has become a success story. It bundles all Postbank education services and makes them available to Postbank sales employees, self-employed salespersons working for Postbank as well as staff in the relevant back-office functions. PB Vertriebsakademie GmbH provides all the services that Postbank expects and requires from an education service provider, from operative clarification of contract through designing of HR development measures to conducting of market research all the way to event management and educational controlling. The bundling of these tasks ensures a standardized, constantly high level of training quality for all employees in the various Postbank sales channels.

The Postbank Group invested more than 46,000 advanced training days in employee development in the year under review. A significant share of this training was devoted to Postbank Filialvertrieb AG, which systematically expanded its employees' sales competence. In addition to and independent of the above-mentioned training days, significant investments were made in the form of on-the-job training and extensive coaching measures.

Standardization of Group training

In 2007, Postbank offered 334 new positions for trainees throughout Germany, bringing the number of junior staff in the Postbank Group to 713 as of December 31, 2007. The number of positions for trainees is to be increased to 358 in 2008. At the same time, the Postbank training concept was converted to cross-company training in the Group, thus optimally preparing trainees for the specialist and sales-related challenges facing the Group. The training occupation "salesperson for dialog marketing" was offered for the first time in 2007.

For years now, Postbank has had a successful relationship with the Frankfurt School of Finance and Management with programs that integrate training as well as focus on theoretical aspects of operational vocational training. This relationship was also successfully pursued in the year under review and was expanded to include BHW and Postbank Filialvertrieb AG.

Performance-oriented remuneration systems for a strong performance culture

Postbank is one of the first companies in Germany to pay variable, performance-oriented remuneration to all Group employees. As the final step, civil servants employed by Postbank and its subsidiaries were fully integrated into the corporate culture of "remuneration in keeping with performance" when the Postbank's regulations on remuneration for work performance laid down in collective agreements went into retroactive effect. The "performance bonus" is determined via target agreement or performance evaluation. It provides our executives with a tool for payment, management and development that is accepted by employees and managers alike.

Employees

	Dec. 31, 2007	Dec. 31, 2006
Number of employees (full-time equivalents)	21,474	21,696
Part-time employees	5,608	5,771
Percentage of female FTEs	58 %	59 %
Percentage of male FTEs	42 %	41 %
Percentage of civil servants	35 %	36 %

On an individual basis, the variable component of remuneration can compose nearly 50 % of annual remuneration for management, and even more in sales functions and special areas of business. Since 2005, top-level managers have also been able to benefit from an annual cash premium tied to the development of the Postbank stock within the framework of participation in a long-term incentive plan (LTI).

Due to the long-term wage and pay settlements for collectively agreed salaries reached in 2006, there were no collective wage negotiations in 2007, providing Postbank with planning security in the management of staff cost development in 2007. The second stage in the wage and pay settlements from 2006, with increases of 1.5 % or 2.5 %, depending on the Group company, either became effective on December 1, 2007, or will go into effect on April 1, 2008.

Idea management boosts savings potential

Our employees create long-term values through the Postbank idea management program by actively altering business processes with their suggestions for improvement: Some 1,200 suggestions with overall savings potential of more than €3.1 million were implemented at Deutsche Postbank AG in 2007 and rewards totaling over €350,000 paid out. Postbank ranks an excellent fourth place among the 20 banks included in the current annual statistics (2006) from the Deutsches Institut für Betriebswirtschaft (dib - German Institute for Business Management).

Outlook "Next Step"

The Resources division will make an active contribution within the scope of our strategy program called "Next Step". In 2008, our activities will once again center on further qualitative development of our employees while keeping costs under control. Focusing on Postbank's "quality leadership," we will continue to consistently develop our qualification concept in order to rapidly and systematically facilitate employee training in an increasingly competitive environment and to bring employee knowledge up to date with the latest standards. Founded in 2007, PB Vertriebsakademie provides the ideal platform for this purpose.

In addition, we will continue to develop more in-depth methods for managing the workforce and thus staff costs. Our analysis procedure, based on a mix of quantitative and qualitative criteria, will make it possible to accurately manage the overall staffing needs of the departments more flexibly, thus increasing employee availability. At the same time, this will aid in optimization of the staff cost structure in which we also precisely control the management of employee numbers and staff costs per full-time equivalent.

Sustainability:
Expansion of our commitment in core areas

As one of the largest stock-listed banks in Germany, Postbank is actively committed to the guiding principle of sustainable development. Responsible action toward our shareholders, employees, society and the environment is a central component of who we are and forms the basis for our long-term economic success.

Corporate sustainability creates long-term values

At Postbank, corporate sustainability is embedded in the Corporate Values, Code of Conduct and the environmental guidelines of our majority shareholder, Deutsche Post World Net.

In 2005, we joined the Association for Environmental Management by Banks and Insurance Companies (VfU), where we actively participate in working groups and roundtable talks with UNEP FI, the leading association of international banks in the field of sustainability, on topics such as "banks and climate change" and "social responsibility". Through the renewed signing of the Carbon Disclosure Project (CDP5) in 2007, we have once again publicly committed ourselves to greater emphasis on environmental protection aspects in the investment decisions made by banks.

Postbank's success confirms that this course of action is the right one – as reflected in the fact that we are now included in globally recognized sustainability indices and have achieved good results in sustainability ratings:

Sustainability indices		Listed since
FTSE4good indices Europe & Global	FTSE4Good	March 2006
Ethical Index €uro	ECPI E.Capital Partners Indices	January 2007
ASPI Eurozone (Advanced Sustainable Performance Index)	ASPI	December 2007

Sustainability ratings	Ranking result
SAM Research (2007)	Above industry average
SiRi (2006)	Above industry average
Scoris DAX 30-Rating (2007)	Rank 18 (best DAX security to be listed for the first time in 2006)
Vigeo (2007)	Above industry average

Living social responsibility

Social integration

In 2004, we entered into a social partnership with Aktion Mensch e. V., the largest private-sector community service organization in Germany. Through this partnership, we support integrative projects in the field of child and youth welfare, for example by creating the financial product "Postbank Gewinn-Sparen". Donations to Aktion Mensch from this product have totaled approximately €665,000 since 2004; €190,000 of that amount in the year under review alone.

In addition, ten soccer tournaments – called "Cool down, kick off: street soccer for tolerance" – were held throughout Germany in 2007 for the fourth year in a row, focusing on fairness, dialog skills and civil courage. The project has toured 40 cities since the inception of the partnership. Nearly 3,000 children and young people have participated in the tournaments so far.

In 2005, BHW launched the nationwide "Netzwerk Nachbarschaft" (Neighborhood Network) competition under the patronage of the German Federal Minister of Family Affairs to recognize Germany's most exemplary neighborhoods. In the year under review, several thousand active neighbors from 230 neighborhood initiatives took part in the contest.

Promotion of higher education

Postbank presented the fourth Postbank Finance Award in 2007. Endowed with € 70,000, it is the largest university award in the field of financial science in Germany. In total, 38 work groups from 32 universities in Germany and Austria took part in this year's contest. Guided by the motto "Understand the future – shape the future", the goal is to encourage development of innovative, well-grounded answers to current financial problems. In addition to the Postbank Finance Award, Postbank is actively involved in promotion of higher education through cooperations with various scientific institutes and universities.

Support for schools

Several cooperations with secondary schools have been established at our locations in Bonn and Hamelin. Key areas of focus include orientation in choice of careers, provisioning of business expertise and development of competency. Postbank also expanded its partnership with Schulen ans Netz e. V. established in 2004. Because of that, our strategic planning game was established as a fixed component of school lessons.

Contribution to environmental and climate protection

Postbank takes aspects of environmental and climate protection into consideration in diverse ways. We conducted environmental audits of several large Postbank sites in 2007; the results are providing us with starting points for optimization of our existing environmental management activities. In addition, we supported an online survey on banks and climate change, and the official motto of the BHW Forum 2007 was "From Living Convenience to Climate Protection". Our products also facilitate environmental and climate protection:

- With a volume of some €330 million, the "PB Dynamik Vision" investment fund is one of the largest sustainability funds in Germany. The fund invests in ecological and social best-in-industry companies listed on the prestigious Dow Jones Sustainability Index.

- In July of 2007, BHW introduced the "Öko-Konstant-Darlehen" (ecological home financing loan) which offers financial solutions for measures designed to reduce energy consumption in private housing and thereby enables our customers to actively contribute to climate protection.

- In our Postbank Finance Centers, we offer environmentally friendly paper products, an eco-electricity contract, a climate-neutral DHL parcel as well as energy-saving light bulbs during special promotion drives.

Outlook

The second sustainability report from Deutsche Post World Net, containing examples of corporate sustainability activities by Postbank, will be published in mid-2008. We will also update and expand our reports on Postbank's corporate sustainability activities at www.postbank.com/sustainability at the same time. In addition, we intend to optimize our environmental management and improve our climate footprint in 2008.

Retirement provisions *No more ringing of the alarm clock early in the morning, no more hurrying off to appointments – life takes a whole new direction after retirement. We want that direction to be a relaxed, happy and enjoyable one for our customers. How do we help make that happen? By providing them with comprehensive advice – the earlier the better – and finding the best solutions for their personal needs together with them. Taking advantage of state subsidies, saving on taxes through company retirement plans and selecting the most fitting private retirement funds. We think of it as securing the future intelligently. After all, once the work has been done, the fun can begin!*

She knows what she wants and how to get it. Just like I do.

Credit substitute transactions

Postbank invested the substantial surplus in deposits recorded in recent years inter alia in credit substitute transactions in the form of structured credit securitizations. With a view to optimizing its risk/return profile, Postbank invested in internationally diversified credit securitizations to achieve a wide diversification of the credit risk across various customer groups, rating classes and geographical regions. Against the backdrop of the concentration of its business activities on the German market, this reduces Postbank's dependence on the economic situation in Germany and simultaneously gives Postbank the opportunity to benefit from the positive trends unfolding in other markets. The investments in question were made according to restrictive parameters and were subjected to the intensive credit processes in place at Postbank; as a result, the turmoil in the capital markets in fiscal 2007 only affected us to a limited degree.

The financial impacts are described in the management report and the notes to this Annual Report. Since the effects indicated in the Annual Report and the notes under net trading income arising from the valuation of the derivatives embedded in these credit securitizations are not related to Postbank's original or underlying net trading income, we will continue to report these effects separately in future.

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Deutsche Postbank Group Management Report

I 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 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 the *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 January 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 write-downs 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"

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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 operation 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 then 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. 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 acquisitions 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. The goal of the "Filiale im Wandel" ("Changing Branches") project is to enhance the appeal of Postbank's branches so as to attract more new customers and improve the cross-selling ratio for existing customers. In 2007, optimization measures were tested in pilot programs at six locations and are currently being implemented at two other 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 315(4) of the HGB and explanatory report

The Deutsche Postbank AG Group ("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 sections 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 may terminate the cooperation agreement in writing giving two years' notice to the end of the calendar month. Should Deutsche Post 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.

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For further information on and explanations of the remuneration of the Management Board and Supervisory Board, please see the corporate governance report and Note (57) of the notes to the consolidated financial statements.

Net Assets, Financial Position, and Results of Operations

Income statement

2007 was characterized by a flat yield curve, overall moderate market growth in Germany coupled with sustained intense competition in the Retail Banking segment, and volatile capital markets in the second half of the year. In this challenging environment, Postbank was able to further extend its leading market position by systematically leveraging its strong customer base, through ongoing dynamic customer acquisition, and strong new business overall. Postbank increased its market share of important core products in the Retail Banking segment and also recorded encouraging growth in other business divisions.

Against this background, Postbank's financial development in fiscal year 2007 was equally encouraging. Postbank's revenues increased slightly overall compared to the previous year – while cost discipline remained strict and allowances for losses on loans and advances were stable. The market turbulence triggered by the subprime crisis had only a modest impact on Postbank's income statement.

Postbank's income statement for fiscal year 2007 was also influenced by two significant extraordinary factors. Firstly, we completed the sale of our insurance equity investments to the Talanx Group announced in July. This had a positive overall effect on the income statement in the third quarter of approximately €125 million before taxes after the deduction of transaction costs, provisioning in the investment portfolio, and impairment losses in connection with the subprime crisis. This was partially offset, for example, by the remaining integration expenses for BHW. Secondly, the remeasurement of deferred taxes, necessitated by the tax reform that has been resolved, had a positive effect and led to a substantially reduced tax rate that significantly boosted consolidated net profit in the year under review.

Profit before tax increased in fiscal year 2007 by 6.7 % to €1,004 million, while the return on equity before taxes rose slightly, climbing from 18.9 % as of December 31, 2006 to 19.3 % as of December 31, 2007. The increase in profit before tax was accompanied by a further increase in the equity base. The return on equity after taxes was 16.7 % following 14.0 % in 2006. The cost/income ratio for the Bank as a whole improved to 67.2 % following 68.3 % in fiscal year 2006, and reached 64.8 % (66.7 %) in the same period in the traditional banking business.

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In order to enhance comparability with the prior-year period, we have restated the 2006 figures for two items (see also Note 5):

- Remeasurement gains or losses from application of the fair value option have been allocated to net trading income rather than net interest income.
- In 2006, unwinding and discounting effects were reported gross for the first time for the previous quarters.

The comments relate to the adjusted figures.

The following is a closer look at the individual items:

Balance sheet-related revenues

Balance sheet-related revenue items - net interest income, net trading income, and net income from investment securities - increased in 2007 – after adjustment for disposal gains in both reference years – compared to 2006 (€2,710 million) by 4.2 %, to €2,824 million.

Net interest income

Against the background of the challenges of a flat – and since the summer at times inverted – yield curve, net interest income rose by an encouraging 4.0 % in 2007 to €2,240 million compared to 2006 (€2,154 million). This increase benefited from a significant rise in net interest income in the fourth quarter, which can be attributed to non-recurring gains, among other things. The strong performance of the business in the course of the year was reflected in greater income from lending and money market transactions. Income from fixed-interest securities also performed well. These were offset by lower current income, due among other things to the reduction in holdings of equities and other variable-interest securities.

Interest expenses rose at a slower rate. In the savings deposits area, we reacted to the ongoing increase in market interest rates and intense competition with special promotions and by steadily increasing the average interest earned, thus offering our customers even more attractive conditions. Thanks to Postbank's strong deposit base, the sharp increase in interest rates on the interbank market as a result of the financial market crisis and the general deterioration in capital market refunding rates only resulted in a moderate increase in interest expense.

Net trading income

Postbank's net trading income is determined by its asset/liability management and proprietary trading activities. It profited from an encouraging increase in net income from interest rate products, due among other things to the slight decrease in long-term interest rates in the second half of the year. Due to the widening of credit spreads in the course of the market turmoil, fair value measurement of embedded derivatives contained in structured credit products (see Note 4) 111 had a negative impact. As a result, net income from derivatives was unable to match the extremely strong figure recorded in the previous year. Overall, net trading income for fiscal year 2007 nevertheless amounted to €290 million, 9.8 % above the previous year's amount of €264 million.

Net income from investment securities

Net income from investment securities was dominated by the gains on the disposal of the insurance equity investments sold to Talanx. Net income from investment securities in 2007, at €294 million, was at the previous year's level (€292 million); fiscal year 2006 also included book gains on the sale of non-strategic investments in the amount of €84 million.

The sale of its insurance equity investments netted Postbank €550 million. After deducting the carrying amounts, the gross proceeds amounted to €391 million. As announced in the disclosure about the transaction in July 2007, we used these proceeds in the third quarter to make selective provisions in our investment portfolio. For example, we incurred disposal losses of €183 million from the sale of mostly low-interest securities holdings from our AfS portfolio. Reinvesting the funds freed up at current interest rates will enable us to strengthen our earnings power in future periods. After adjustment for the impairment losses in the third quarter, the creation of a provision for the investment portfolio under other expenses, and transaction costs that are not individually attributable under administrative expenses, this resulted in a positive extraordinary factor of approximately €125 million in the pre-tax profit. However, the amount recognized in net income from investment securities was €146 million, since parts of the above-mentioned charges were reported in other income items.

All in all, net income from investment securities in 2007 includes – based on a cautious measurement policy – impairment losses of €112 million on the portfolios impacted by the effects of the subprime crisis in the international financial markets.

Net fee and commission income

Net fee and commission income amounted to €1,429 million in fiscal year 2007, and thus exceeded the strong results recorded in the previous year (€1,407 million) by 1.6%. After we had focused on the sale of non-commission-generating products – especially in the savings area – in the first half-year, sales measures designed to increase net fee and commission income initiated at mid-year began to show results. Contributions from the securities business also developed positively. As expected, growth in the year under review was impacted by a decline in income from the sale of postal services and "new services" at our branches. Equally, revenue from the insurance business declined in 2007 after its relatively strong performance in 2006, which was due to a special factor relating to the "Riester pension".

Total income

Compared to the previous year's figure of €4,117 million, which also benefited from non-recurring gains, total income in 2007 increased by 3.3% to €4,253 million, including the disposal gains on the insurance equity investments and despite the impact of the subprime crisis.

Allowances for losses on loans and advances

At €338 million, allowances for losses on loans and advances were at the previous year's level (€337 million), although the portfolio of customer loans increased significantly by 12.8% in fiscal year 2007. On the one hand, this underscores Postbank's conservative risk profile. On the other hand, this development also expresses the overall improvement in the economic situation in Germany in 2007 with its correspondingly favorable effect on the financial situation of companies and private households alike.

Administrative expenses

Administrative expenses once again developed very satisfactorily. Total costs increased by only 1.6% compared to 2006 (€2,812 million), to €2,856 million. This development is all the more notable as this item also includes for the first time the costs from HypoVereinsbank's payment transaction activities, which were consolidated as of January 1, 2007, as well as non-recurring expenses such as transaction costs in connection with the sale of the insurance equity investments or the costs of integrating BHW, as well as the financial burden from the VAT increase. Adjusted for these effects, administrative expenses decreased. We regard this as proof of the high efficiency of Postbank's structures and processes and its ability to continuously increase volumes in its customer business while maintaining costs at very stable levels.

The cost/income ratio improved from 68.3% in 2006 to 67.2% in fiscal year 2007; in the traditional banking business – that is, excluding transaction banking – it improved from 66.7% to 64.8%.

Other income

Net other income and expenses amounted to €–55 million in fiscal year 2007, following €–27 million in the previous year. This is the result among other things of increased amortization of intangible assets, especially software.

Profit before tax

Profit before tax slightly exceeded €1 billion for the first time in the history of Postbank. In light of the challenging market environment, we consider the figure of €1,004 million that we generated – an increase of 6.7% compared to 2006 (€941 million) – to be a highly satisfactory result.

The return on equity before taxes was 19.3%; in 2006, it was 18.9%.

Consolidated net profit

In fiscal year 2007, Postbank's tax rate was only 13%, following 26% in the previous year. This development is primarily attributable to the tax reform resolved on July 6, 2007, and due to enter into force on January 1, 2008. It thus became necessary to remeasure the net deferred tax liabilities reported in the balance sheet at the future tax rate of around 30% as a non-recurring effect in fiscal year 2007.

Consolidated net profit in fiscal year 2007 of €870 million was thus 25.2% higher than in the previous year (€695 million). Earnings per share increased by a correspondingly significant amount, rising from €4.24 to €5.30.

The return on equity after taxes reached 16.7% after 14.0% in 2006.

Segment Reporting

In order to ensure comparability, we have adjusted the previous year's figures such that measurement gains and losses resulting from application of the fair value option were allocated to net trading income instead of net interest income. This effect relates exclusively to the Retail Banking segment.

Retail Banking

We increased profit before tax in Retail Banking in fiscal year 2007 by 2.2% to €944 million, despite intense competition in the German Retail Banking segment. Balance sheet-related revenues contributed to this growth with an increase of 2.5% to €2,456 million. Net interest income was the dominant earnings component in Retail Banking, accounting for more than 97% of balance sheet-related revenues. This figure rose by 2.3% to €2,392 million.

Net fee and commission income in the Retail Banking segment fell by 6.9% to €988 million. This was due to the decreases in non-bank services, and in particular postal services, in the branch business that were explained earlier. However, we were able to offset these declines by appropriate cost management in this area. The development of net fee and commission income from the banking business over the course of the year is encouraging, with the sales measures we implemented already having an effect. As a result, a clear increase in earnings has been achieved since the middle of the year.

Total income fell slightly by €13 million, or 0.4 %, to €3,444 million. We intensified our cost management efforts even further owing to weak growth momentum on the income side. Despite the impact of the one-time expenses already mentioned, such as the integration costs for BHW and the Deutsche Post retail outlets, administrative expenses only increased by around 1.5 % to €2,210 million. Due to their different nature, the expenses relating to the integration of BHW were recognized in the previous year in net other income and expenses; as a result, the figure reported was clearly negative, at €-78 million. In the year under review, the item was close to zero, at €2 million.

Allowances for losses on loans and advances increased by a mere 5.4 % to €292 million, well below the growth of the loan book in the Retail Banking segment: This grew by 9.6 % or €6.3 billion to €72.1 billion. At more than 94 % or €68.0 billion, low-risk mortgage loans account for the largest share of this figure.

The cost/income ratio increased slightly from 63.0 % to 64.2 %, whereas the return on equity before taxes remained constant at 32.7 %.

Corporate Banking

Our Corporate Banking business recorded a strong 15.8 % increase in profit before tax to €191 million. Net interest income, which rose by 12.3 % to €292 million, drove growth in this segment. Balance sheet-related revenues increased by a total of 4.1 % to €278 million. Net fee and commission income was nearly constant at €104 million following €105 million in the previous year. Total income improved by 2.7 % to €382 million.

We were able to reduce administrative expenses significantly by 4.7 % to €163 million as a result of good cost management in the Corporate Banking segment. The strong economic environment – in particular in Germany – meant that allowances for losses on loans and advances fell by 26 % to €28 million, despite the fact that the volume of loans in the Corporate Banking segment increased by €4.0 billion to €17.6 billion.

All in all, the cost/income ratio improved significantly from 46.0 % to 42.7 %. The return on equity before taxes rose from 46.7 % to a record 50.5 %.

Transaction Banking

The total amount contributed by the payment transaction activities taken over from HypoVereinsbank at the beginning of 2007 was reported in the Transaction Banking segment for the first time. In addition, internal pricing for Transaction Banking services was switched to market rates. Profit before tax at the end of 2007 was €36 million – one third higher than the figure for the previous year. At €350 million, net fee and commission income exceeded the prior-year figure by 33.1 %. Administrative expenses grew by 35.1 % to €331 million, among other things as a result of the inclusion of the HVB unit. Overall, the cost/income ratio for this business activity with its highly industrialized structures increased slightly from 91.8 % to 93.5 %.

Financial Markets

Profit before tax in the Financial Markets segment increased significantly by €58 million or 43.9 % to €190 million. Total income grew by 30.4 % to €270 million. Net interest income was the main growth driver for the segment, rising 23.9 % to €114 million. This was due primarily to the strong performance of our Luxembourg-based unit PBI. Earnings from our trading activities also contributed positively. We took advantage of market opportunities in 2007 to increase net trading income by 56.5 % to €72 million.

Net fee and commission income also contributed to the improvement in earnings in the Financial Markets segment, rising by €20 million to €83 million.

Administrative expenses rose by 6.4 % to €83 million. The cost/income ratio improved significantly from 37.7 % to 30.7 %, while the return on equity before taxes rose significantly from 23.8 % to 37.2 %.

Others

Profit before tax in the Others segment declined by €50 million to €–357 million. The negative figure for net interest income widened slightly by 3.7 % to €–562 million. In contrast, net trading income improved substantially by 17.7 % to €213 million, despite the negative impact of the remeasurement of embedded derivatives in structured products mentioned earlier. Net income from investment securities fell by 4.6 % to €248 million. This item contains the gains from the disposal of our insurance equity investments mentioned above. However, losses were also recognized as a result of impairments of financial investments affected by the subprime crisis. Overall, balance sheet-related revenues were unchanged at €–101 million.

Net fee and commission income, however, was down €11 million on the prior-year figure at €–96 million. This is primarily attributable to higher consolidation adjustments due to the change in the internal pricing methodology in Transaction Banking. Administrative expenses improved significantly by €71 million to just €–69 million due, among other things, to the reasons already mentioned, whereas net other income and expenses declined by approximately €107 million to €–69 million. This is due among other things to increased amortization of intangible assets and an allowance for losses on loans and advances on the investment portfolio.

Total Assets

Postbank's total assets increased by 9.8 % compared to December 31, 2006, to €203 billion. On the asset side, the lending business contributed substantially to this increase. In addition, on the liabilities side, we continued to expand the private customer business and increased deposits significantly. In conjunction with the scheduled reduction of relatively expensive securitized legacy liabilities, this resulted in additional structural improvements overall as well as to a reduction in the deposit surplus.

On account of the sale of BHW Lebensversicherung AG and its special funds, PB Lebensversicherung AG and PB Versicherung AG, assets amounting to approximately €2.5 billion – including investment securities of approximately €1.0 billion – and liabilities of €2.3 billion were deducted in fiscal year 2007. €2.2 billion of the liabilities relates to technical reserves (insurance).

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Part of the BHW Bank AG portfolio is classified as a disposal group according to IFRS 5 ("Non-current assets held for sale and discontinued operations"). Accordingly, the assets and liabilities allocated to this subportfolio are reported separately (see also Notes 28 and 39). For example, loans to customers amounting to around €0.6 billion, among other things, were allocated to this company on the asset side.

Loans and advances to customers

Loans and advances to customers grew by €4.9 billion to €92.1 billion. This growth was driven in particular by private mortgage loans. Our mortgage lending volume, including home savings loans, was up by 9.1 % to €68.0 billion. In addition, we continued to reduce our legacy portfolios of low-margin public-sector receivables in fiscal year 2007 as scheduled by €1.9 billion to €3.5 billion.

Money and capital market investments

At €103.1 billion, money and capital market investments – loans and advances to other banks, trading assets, and investment securities – increased year-on-year by €10.2 billion. Longer-term investment securities increased by €5.3 billion to €68.6 billion; by contrast, we reduced trading assets by €3.3 billion to €9.9 billion in the second half-year period. Loans and advances to other banks increased by €8.2 billion to €24.6 billion, among other things as a result of increased interbank transactions due to technical closing date reasons.

Amounts due to customers

We again increased amounts due to customers, by an encouraging €9.4 billion or 9.3 % to €110.7 billion. Traditional savings deposits decreased by €1.0 billion to €34.6 billion in line with market trends, whereas home savings deposits remained unchanged year-on-year at €16.9 billion. We were able to significantly increase demand deposits and deposits with an agreed maturity or withdrawal notice by €10.5 billion to €58.8 billion.

Money and capital market liabilities

Money and capital market liabilities – deposits from other banks, securitized liabilities, and trading liabilities – increased by €9.5 billion to €76.3 billion. Deposits from other banks increased by €13.8 billion to €61.1 billion, in line with the corresponding trend on the asset side.

Trading liabilities increased by €2.0 billion to €5.6 billion, whereas we reduced securitized legacy liabilities bearing comparatively higher interest rates by €6.3 billion to €9.6 billion.

Equity and subordinated debt

At the end of 2007, equity was up around €0.1 billion on the previous year at €5.3 billion. Retained earnings increased by €0.5 billion to €3.5 billion. The revaluation reserve was €–523 million, following a positive figure of €6 million as of December 31, 2006, and €–320 million as of September 30, 2007. This development can be attributed, among other things, to interest-bearing items in our investment portfolio. The market prices of these holdings decreased as a result of the increase in market interest rates. In addition, remeasurement losses on the available-for-sale portfolio of structured products resulting from the financial market crisis had a negative effect here.

In contrast, increases in the net present value of our deposit items, such as demand deposits and savings deposits, are not reflected in the revaluation reserve, owing to IFRS measurement rules. In the year under review, we issued hybrid Tier 1 capital of around €500 million and registered profit sharing rights worth €135 million. As a result, our total subordinated debt rose from €5.0 billion to €5.6 billion.

Postbank implemented the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) with effect from January 1, 2007, and calculates its capital requirements in accordance with its provisions. The core capital ratio calculated in this way amounted to 6.9 % as of the balance sheet date, not taking the initial restrictions in accordance with section 339 of the SolvV into account. The Basel II ratio as of December 31, 2006, based on internal calculations, was 6.6 %; the ratio calculated in accordance with the Basel Capital Accord (BIS) was 5.5 %. Thus, Postbank is profiting as was expected from the implementation of the SolvV which, due to its economic perspective, permits a lower weighting of the portfolio of private mortgage loans within our risk-weighted assets. After adjustment for the transitional provisions, the core capital ratio as of December 31, 2007 amounted to 6.5 %.

The introduction of the SolvV at the Postbank Group is progressing according to plan. Since, with effect from January 1, 2008, BHW among other companies is also reporting in accordance with the new standards, we are expecting a further improvement in the core capital ratio.

Dividend

The acquisition of BHW and the retail outlets in fiscal year 2006 did not entail a capital increase. Therefore, as previously announced during the course of the acquisitions, the Management Board intends to propose to the Annual General Meeting that an unchanged dividend of €1.25 per share be paid for fiscal year 2007 as well, in order to further strengthen Postbank's capital base. This represents a total distribution of €205 million based on a total of 164 million shares.

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 Postbank Group's business activities. One of the Postbank Group'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. 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:

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 in the Group, primarily the Financial Markets division, Domestic/Foreign Credit Management, the credit functions within Retail Banking and, at a decentralized level, the subsidiaries BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International S.A., PB Capital Corp. and PB Factoring GmbH, as well as Postbank's London branch.

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. In cooperation with the Risk Controlling units of Postbank Group subsidiaries BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International S.A., PB Capital Corp.

Composition and tasks of the Risk Committees

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

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.

and the London branch, the department is responsible for risk control on an operational level and reporting at Group level.

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

The Postbank Group 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 the real estate holdings of the Deutsche Postbank Group and comprises the risk of loss of rental income, writedowns to the going concern value, and losses on sales.
- Collective risk
  A specific business risk resulting from the home savings business of BHW Bausparkasse AG, comprising the negative impact of (non interest-related) deviations in the actual behavior of home savings customers from their forecast behavior.
- 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 Bank'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, credit, and collective 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.

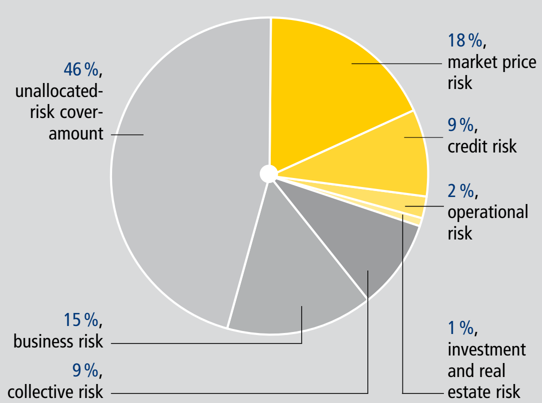
The following table shows the allocation of the Postbank Group's risk cover amount, broken down by risk types on the basis of the authorized risk capital, for fiscal years 2006 and 2007 before and after factoring in correlation effects and the unallocated risk cover amount (calculated as of December 31 for each year).

Risk capital by risk types

Capital and risk components	Allocated risk capital	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Market price risk	2,044	1,931
Credit risk	1,191	1,191
Operational risk	635	635
Investment and real estate risk	126	126
Collective risk	1,000	1,000
Business risk	1,893	1,893
Total before diversification	6,889	6,775
Diversification effects	1,276	1,268
Total after diversification	5,613	5,508
Unallocated risk cover amount	4,678	5,165
Total risk cover amount	10,291	10,673

The percentage allocation of the Postbank Group's risk cover amount by risk type after factoring in correlation effects is as follows for fiscal year 2007 (calculated as of December 31, 2007):

Breakdown of the Postbank Group's risk cover amount by risk types (authorized risk capital)



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. As of December 31, 2007, risk capital utilization was 43.5 % for market price risk and 61 % for credit risk.

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. The utilization of the risk cover amount by the risk capital allocated thus rose slightly by around 1 percentage point compared with December 31, 2007; the share of the total risk capital accounted for by market price risk also increased slightly as a result. However, at no time was the risk-bearing capacity of the Postbank Group negatively impacted by the effects of the U.S. 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.

Group-wide 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 include all relevant subsidiaries of Deutsche Postbank AG, and 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.

For 2007, the coverage ratio calculated pursuant to section 67 of the Solvency Regulation (SolvV) for the portfolio calculated on the basis of internal ratings amounted to 60.4 % of the exposure values and 51.1 % of the risk-weighted exposure values (calculated on June 30, 2007). The coverage ratio represents the ratio of the total IRBA exposure values or IRBA risk-weighted exposure values to all exposure values or risk-weighted exposure values to be taken into account under section 67 (4) of the SolvV. For the year 2007, the BHW portfolios were treated as counterparty risk positions eligible for exceptions in accordance with section 67 (4) No. 7 of the SolvV and therefore were not included in calculating the coverage ratio.

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.

Starting on January 1, 2008, Postbank additionally began reporting capital adequacy on the basis of internal ratings for OTC derivative instruments as well as for a large proportion of the portfolios of PB Factoring GmbH; BHW-Bausparkasse AG, Hamelin; Deutsche Postbank International S.A., Luxembourg; the London branch; PB Capital, Wilmington, Delaware, USA; and PB Realty, New York, New York, USA. Thus for 2008, the expected coverage ratio (including BHW portfolios) for the portfolio calculated on the basis of internal ratings is 92.3 % of the exposure values and 89.9 % of the risk-weighted exposure values (calculated on June 30, 2007). For the remainder of the portfolios not calculated in accordance with the IRB approach, the standardized approach to credit risk will be used starting in 2008.

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 M*indestanforderungen 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. The Postbank Group 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, Deutsche Postbank AG's Financial Markets division manages this centrally. Only BHW Bank AG, BHW Bausparkasse AG, the foreign subsidiaries in New York and Luxembourg, and the London branch manage their risks independently using separately defined risk limits.

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.

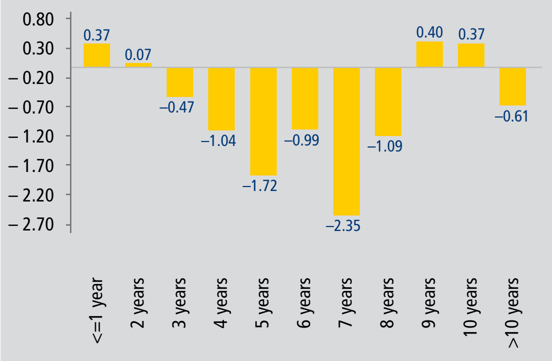
To do justice to the relative significance of market price risk to Postbank and the volatility of market movements, Postbank has defined escalation mechanisms for critical management parameters and for exogenous events. These mechanisms make it possible to react promptly to situations in which limits 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 the Postbank Group'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.

The Postbank Group'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 maturity range.

Monitoring market risk using value at risk
The Postbank Group 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 at the overall Group level. 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, the Postbank Group 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.

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

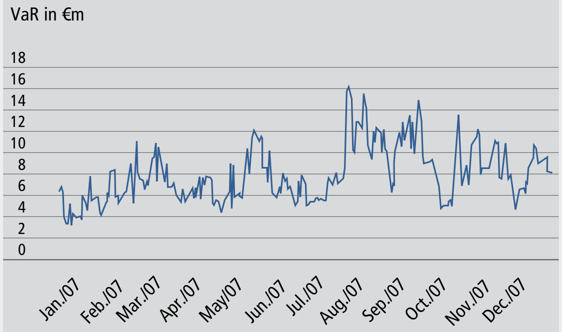
Value at risk trading portfolio	2007 €m	2006 €m
VaR at year-end	7.9	4.3
Minimum VaR	3.0	2.7
Maximum VaR	16.1	10.3
Annual average VaR	7.8	5.1

The VaR (99 %, 10 days) for the banking book was €208.5 million as of December 31, 2007 (December 31, 2006: €156.1 million). The calculation incorporates all risk-bearing positions in the banking book.

In line with the business strategy of the Postbank Group, 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, which is primarily incurred as a result of the business activities of Deutsche Postbank AG's foreign subsidiaries, is of lesser significance.

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

VaR trading portfolio 2007



In the second half of 2007, the Postbank Group 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 banking 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 an 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

The Postbank Group 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, the Postbank Group 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

The Postbank Group'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 and 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 the loan losses expected in the Postbank Group, 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 creditworthiness assessments in particular in the financial service providers, corporates and structured financing segments 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 Group 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. In contrast, the expected loss indicated in the Portfolio Structure table is the expected value of losses arising from credit risks of the Postbank portfolio over a one-year horizon. 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 occuring 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 Group 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

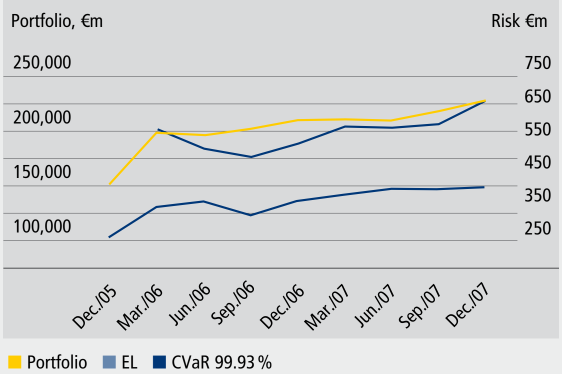
The key indicators for the credit risks of the various profit centers as of December 31, 2007 (calculated on November 30, 2007) as compared to the end of 2006 are shown in the following table. The volume for the Group loan portfolio reported in this table deviates from the "maximum counterparty risk" shown further below due to two factors: firstly, the date used for calculating CVaR is the last day of the preceding month and secondly, carrying amounts, fair values, or credit equivalent values are used to fully quantify the credit risk when calculating CVaR, depending on the item.

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.

Overall bank portfolio and risk development over time



As of December 31, 2007, the maximum exposure to credit risk was as follows (compared with December 31, 2006):

Maximum counterparty risk		
Risk-bearing financial instruments	Maximum counterparty risk exposure	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Trading assets	9,936	13,280
Held for trading	9,936	13,280
Hedging derivatives	421	485
Held for trading	421	485
Loans and advances to other banks	24,581	16,350
Loans and receivables	24,581	16,350
Available for sale	0	0
Loans and advances to customers	92,725	87,182
Loans and receivables	85,159	80,483
Designated at fair value	7,110	6,181
Held to maturity	456	518
Available for sale	0	0
Investment securities	68,606	63,299
Loans and receivables	26,600	19,031
Designated at fair value	0	0
Held to maturity	730	4,956
Available for sale	41,276	39,312
Subtotal	196,269	180,596
Contingent liabilities from guarantees	1,428	1,974
Other liabilities (irrevocable loan commitments)	23,480	21,369
Total	221,177	203,939

In contrast with the table above, the following table breaks down the maximum exposure to credit risk in accordance with IFRS 7.36 (a) into categories of risk-bearing financial instrument. This figure is reported as a gross amount, since risk-bearing financial instruments are recognized and measured without accounting for credit risk mitigation techniques, recognized transactions are recorded at their carrying amounts, and the maximum counterparty risk exposures resulting from the utilization of irrevocable loan commitments or other off-balance sheet items correspond to all externally approved lines. This representation contains no information on ratings or collateral as would be the case in economic risk quantification.

Sector structure of the loan portfolio

The sector distribution of the credit-risk bearing instruments, measured in terms of volume, has a balanced structure and continues to present a stable picture. The following table illustrates the concentration of risk by sector and borrower group, broken down into risk category:

Risk concentration by sectors and borrower groups

Risk-bearing financial instruments	Retail customers		Banks/ insurance/ financial services		Sovereigns		Services/wholesale and retail		Industry		Other sectors		Total	
	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	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Trading assets	209	208	9,267	12,787	14	109	148	80	165	15	133	81	9,936	13,280
Held for trading	209	208	9,267	12,787	14	109	148	80	165	15	133	81	9,936	13,280
Hedging derivates	0	0	385	429	26	0	5	18	0	14	5	24	421	485
Held for trading	0	0	385	429	26	0	5	18	0	14	5	24	421	485
Loans and advances to other banks	0	0	24,581	16,350	0	0	0	0	0	0	0	0	24,581	16,350
Loans and receivables	0	0	24,581	16,350	0	0	0	0	0	0	0	0	24,581	16,350
Available for sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances to customers	68,230	64,750	7,723	2,642	4,643	5,972	3,938	4,995	2,705	1,588	5,486	7,235	92,725	87,182
Loans and receivables	61,120	58,569	7,716	6,640	4,427	5,722	3,873	4,839	2,546	1,499	5,477	3,214	85,159	80,483
Designated at fair value	7,110	6,181	0	0	0	0	0	0	0	0	0	0	7,110	6,181
Held to maturity	0	0	7	2	216	250	65	156	159	89	9	21	456	518
Available for sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	0	0	46,402	39,839	15,085	16,206	740	973	4,050	3,658	2,329	2,623	68,606	63,299
Loans and receivables	0	0	22,276	16,056	2,014	1,344	119	196	1,258	735	933	700	26,600	19,031
Designated at fair value	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Held to maturity	0	0	709	1,016	21	3,940	0	0	0	0	0	0	730	4,956
Available for sale	0	0	23,417	22,767	13,050	10,922	621	777	2,792	2,923	1,396	1,923	41,276	39,312
Subtotal	68,439	64,958	88,358	72,047	19,768	22,287	4,831	6,066	6,920	5,275	7,953	9,963	196,269	180,596
Contingent liabilities from guarantees	252	436	891	1,290	22	25	172	65	16	30	75	128	1,428	1,974
Other liabilities	19,113	16,753	34	249	35	110	971	1,362	667	793	2,660	2,102	23,480	21,369
Total	87,804	82,147	89,283	73,586	19,825	22,422	5,974	7,493	7,603	6,098	10,688	12,193	221,177	203,939

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.

Regional distribution of the loan portfolio

The Postbank Group 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 Group-wide 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 volume of credit risk-bearing financial instruments indicates a concentration on the domestic German market in line with Postbank's strategy as well as selected exposures in Western Europe and North America, some of which were entered into by our foreign subsidiaries and branches.

Risk concentration by geographical region

Risk-bearing financial instruments	Germany		Western Europe		Other regions		Total	
	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
Trading assets	5,125	3,377	3,738	8,646	1,073	1,257	9,936	13,280
Held for trading	5,125	3,377	3,738	8,646	1,073	1,257	9,936	13,280
Hedging derivatives	67	205	275	216	79	64	421	485
Held for trading	67	205	275	216	79	64	421	485
Loans and advances to other banks	13,937	6,717	8,348	7,116	2,296	2,517	24,581	16,350
Loans and receivables	13,937	6,717	8,348	7,116	2,296	2,517	24,581	16,350
Available for sale	0	0	0	0	0	0	0	0
Loans and advances to customers	80,724	76,637	9,219	8,285	2,782	2,260	92,725	87,182
Loans and receivables	73,158	69,938	9,219	8,285	2,782	2,260	85,159	80,483
Designated at fair value	7,110	6,181	0	0	0	0	7,110	6,181
Held to maturity	456	518	0	0	0	0	456	518
Available for sale	0	0	0	0	0	0	0	0
Investment securities	23,878	28,055	36,438	29,116	8,290	6,128	68,606	63,299
Loans and receivables	14,971	12,743	8,618	4,340	3,011	1,948	26,600	19,031
Designated at fair value	0	0	0	0	0	0	0	0
Held to maturity	666	3,301	16	1,607	48	47	730	4,956
Available for sale	8,241	12,011	27,804	23,168	5,231	4,133	41,276	39,312
Subtotal	123,731	114,992	58,018	53,378	14,520	12,226	196,269	180,596
Contingent liabilities	1,130	1,807	235	104	63	63	1,428	1,974
Other liabilities	21,989	19,288	345	329	1,146	1,752	23,480	21,369
Total	146,850	136,087	58,598	53,811	15,729	14,041	221,177	203,939

Credit structure of the loan portfolio

The breakdown of rating categories in the Group loan portfolio demonstrates the conservative orientation of the Postbank Group. The following table shows the credit quality of the risk-bearing financial instruments for Postbank's non-retail business that were neither past due nor for which impairment losses had been recognized as of the December 31, 2007 reporting date (with the exception of "contingent liabilities" and "other amounts due"). The higher rating categories predominate: 94% of the rated portfolio is classified as investment grade.

Credit quality of financial instruments in the non-retail business that are neither past due nor impaired

Risk-bearing financial instruments	AAA		AA		A		BBB		< BBB		Not rated		Total	
	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	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Trading assets	2,446	213	5,038	8,233	1,622	3,524	180	69	206	53	235	980	9,727	13,072
Held for trading	2,446	213	5,038	8,233	1,622	3,524	180	69	206	53	235	980	9,727	13,072
Hedging derivatives	39	36	331	195	32	170	10	30	4	13	5	41	421	485
Held for trading	39	36	331	195	32	170	10	30	4	13	5	41	421	485
Loans and advances to other banks	936	336	7,985	4,225	13,753	10,487	387	197	38	122	1,482	983	24,581	16,350
Loans and receivables	936	336	7,985	4,225	13,753	10,487	387	197	38	122	1,482	983	24,581	16,350
Available for sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances to customers	820	795	3,042	1,814	3,648	4,013	7,868	6,768	5,904	5,948	83	47	21,365	19,385
Loans and receivables	730	704	2,927	1,718	3,563	3,885	7,787	6,677	5,819	5,836	83	47	20,909	18,867
Designated at fair value	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Held to maturity	90	91	115	96	85	128	81	91	85	112	0	0	456	518
Available for sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	25,358	23,678	20,879	15,723	15,640	15,335	1,743	2,161	1,485	1,701	2,682	2,690	67,787	61,288
Loans and receivables	11,850	7,366	7,040	4,703	5,342	4,307	628	802	645	961	955	892	26,460	19,031
Designated at fair value	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Held to maturity	590	3,082	92	63	48	1,581	0	0	0	0	0	230	730	4,956
Available for sale	12,918	13,230	13,747	10,957	10,250	9,447	1,115	1,359	840	740	1,727	1,568	40,597	37,301
Total	29,599	25,058	37,275	30,190	34,695	33,529	10,188	9,225	7,637	7,837	4,487	4,741	123,881	110,580

Since the 2006 financial statements, no significant changes have arisen in the rating structure of the loan portfolio. The current rating distribution for loans and advances to banks, companies, and sovereigns is slightly in excess of the target rating distribution in line with the credit risk strategy.

Similarly, the following table illustrates the credit quality of the risk-bearing financial instruments for Postbank's retail business that were neither past due nor for which impairment losses had been recognized as of the December 31, 2007 reporting date (with the exception of "contingent liabilities" and "other amounts due"). Postbank's retail business shows a very favorable credit structure. 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 vast majority of these unrated loans in 2006 and 2007.

Credit quality of financial instruments in the retail business that are neither past due nor impaired

Risk-bearing financial instruments	AAA		AA		A		BBB		< BBB		Basel II Pool rating/ not rated		Total	
	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	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Trading assets	0	0	4	0	20	0	69	0	110	0	6	208	209	208
of which: held for trading	0	0	4	0	20	0	69	0	110	0	6	208	209	208
Loans and advances to customers	2,189	2,155	4,853	4,502	5,660	4,309	9,871	5,169	12,597	4,822	33,060	43,793	68,230	64,750
of which: loans and receivables	2,187	2,155	4,812	4,502	5,423	4,309	8,869	5,169	10,818	4,822	29,011	37,612	61,120	58,569
of which: designated at fair value	2	0	41	0	237	0	1,002	0	1,779	0	4,049	6,181	7,110	6,181
Total	2,189	2,155	4,857	4,502	5,680	4,309	9,940	5,169	12,707	4,822	33,066	44,001	68,439	64,958

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). The portfolio has a total volume of €6.3 billion. In the CDO category, a detailed analysis by Postbank indicates a relevant volume of approximately €0.8 billion in US subprime exposures, which thus constitutes an indirect exposure to the US real estate market.

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 tested them for impairment on an ongoing basis.

Based on a conservative assessment of the portfolio, an impairment loss totaling €112 million was charged.

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.

Loans past due and impaired

The following table shows those risk-bearing financial instruments that were past due in an amount of at least €100 but not impaired as of December 31, 2007:

Allowances for losses on loans and advances

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

A specific valuation allowance is recognized if there is objective evidence that – taking into account any collateral – the estimated recoverable amount of the loans and advances is lower than their carrying amount, i.e., if a loan or advance is wholly or partly uncollectible and has therefore suffered permanent impairment. The amount of the specific valuation allowance is measured for the respective unsecured portions of the loans and advances as the difference between the carrying amount of the loans and advances and the fair value of estimated future cash flows, including cash flows from the realization of collateral. The fair value of the collateral held is calculated for each transaction on the basis of the estimated proceeds from the realization of the collateral, the time of realization, and the effective interest rate of the loan or advance. Loans in the corporate banking segment for which a specific valuation allowance has already been recognized, as well as all loans that have been placed on the watch list, are measured regularly, i.e., they are monitored continuously on the basis of defined risk indicators, which may lead to the recognition or reversal of a specific valuation allowance. They are also tested for impairment each quarter.

A collective valuation allowance is recognized for a portfolio of homogeneous loans with similar characteristics, to the extent that there is a need to recognize a valuation allowance within the portfolio. General ratios based on historical experience of loss rates are applied in measuring collective valuation allowances. The Postbank Group recognizes collective valuation allowances in the area of overdrafts and installment loans as well as credit card loans.

Time bands for financial instruments past due but not impaired

	Financial instruments past due but not impaired											
Risk-bearing financial instruments and collateral	Past due ≤ 3 months		Past due > 3 months, ≤ 6 months		Past due > 6 months, ≤ 1 year		Past due > 1 year		Total		Fair value of the collateral for financial instruments past due but not impaired	
	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	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Loans and advances to customer	940	835	174	221	89	90	50	37	1,253	1,183	1,290	1,221
of which: loans and receivables	940	835	174	221	89	90	50	37	1,253	1,183	1,290	1,221
Total	940	835	174	221	89	90	50	37	1,253	1,183	1,290	1,221

The following table shows all impaired financial assets as of the December 31, 2007 and December 31, 2006 reporting dates, broken down into loans and advances to customers for which specific valuation allowances have been recognized and investment securities for which impairment losses have been recognized. The carrying amount after recognition of impairment losses is shown in the table as the difference between the carrying amount before impairment losses and the amount of the impairment loss.

Impaired financial instruments

Impaired risk-bearing financial instruments and collateral	Carrying amount before impairment		Amount of impairment		Carrying amount after impairment		Fair value of collateral for impaired instruments	
	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
Loans and advances to customers	1,877	1,864	1,154	1,155	723	709	922	901
of which: loans and receivables	1,877	1,864	1,154	1,155	723	709	922	901
Investment securities	819	2,011	130	128	689	1,883	–	–
of which: loans and receivables	140	0	67	0	73	0	–	–
of which: available for sale	679	2,011	63	128	616	1,883	–	–
Total	2,696	3,875	1,284	1,283	1,412	2,592	922	901

The valuation allowances recognized on a portfolio basis account for all loan losses that have occurred but that Postbank has yet to identify; this may be because the respective customer is still currently meeting his or her payment obligations, for example. Postbank factors in expected default probabilities, loss rates, and the estimated time between when the default occurs and when this is identified, depending on the type of product and customer group.

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, management and monitoring processes were geared more strongly to the overall Group, 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, Deutsche Postbank AG's Financial Markets division manages liquidity centrally. However, BHW Bank AG, BHW Bausparkasse AG, the foreign subsidiaries in New York and Luxembourg, and the London branch manage their risks independently on the basis of uniform Group standards.

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 KGW 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, the liquidity position of the Postbank Group is still solid – thanks in particular to its deposit business – and no shortages have been identified for the coming year.

The following table shows the financial liabilities as of December 31, 2007, broken down into residual maturity bands: The undiscounted contractual cash flows from on- and off-balance sheet liabilities have been assigned to the respective categories. The information presented in this table fulfills the accounting requirements to be met by the Postbank Group in accordance with IFRS 7 with regard to reporting liquidity risk. In conformity with these requirements, the contractual cash flows of the financial liabilities are presented in accordance with the worst-case scenario, meaning that if the financial liabilities involve options or termination rights that could affect their maturity date, the most unfavorable case from a liquidity perspective is assumed.

Liabilities by remaining maturity

Liabilities	≤ 1 month		> 1 month and ≤ 3 months		> 3 months and ≤ 1 year		> 1 year and ≤ 5 years		> 5 years		Total	
	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	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Deposits from other banks	2,668	270	44,849	35,798	3,916	4,555	4,307	7,658	4,558	3,846	60,298	52,127
Due to customers	25,684	22,375	47,273	48,136	22,056	19,080	3,008	6,471	1,103	2,504	99,124	98,565
Securitized liabilities	0	0	2,042	6,733	1,445	2,183	8,374	10,987	3,931	3,877	15,792	23,780
Trading liabilities	0	0	487	348	953	–339	1,935	–351	2,446	25	5,822	–317
Hedging derivatives	0	0	81	70	106	608	619	663	1,417	542	2,222	1,882
Subordinated debt	0	0	27	27	89	31	689	1,305	14,887	16,878	15,692	18,241
Other liabilities	0	0	186	100	326	351	66	47	25	45	602	543
Irrevocable loan commitments	23,480	21,369	0	0	0	0	0	0	0	0	23,480	21,369
Total	51,832	44,014	94,945	91,212	28,891	26,469	18,998	26,779	28,367	27,716	223,033	216,190

In contrast to the presentation of the contractual cash flows of the financial liabilities, the following overview of the liquidity status of the Postbank Group as of December 31, 2007 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 the Postbank Group has significant liquidity surpluses across all maturity bands, which underscores its good cash position.

Liquidity status of the Postbank Group

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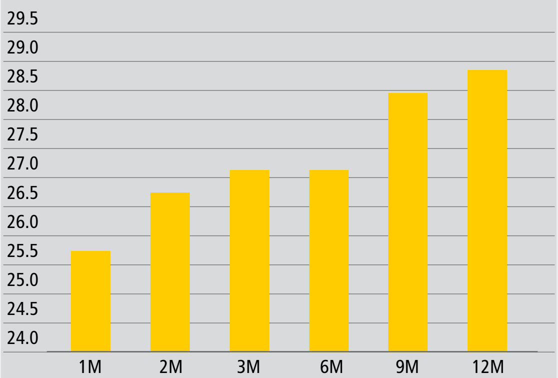

Risk reporting

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, the Postbank Group 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 units within the Group.

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.

In 2007, following the successful merger of the former PB Vermögensberatung AG and the BHW sales organization, the new Postbank Finanzberatung AG was integrated into OpRisk control. BCB PAS GmbH, in which the payment transaction activities taken over from HypoVereinsbank at the start of 2007 are consolidated, has also been successfully integrated into the risk control process. As a result, 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 Basel II are shown in the following table:

Basel business segment	Weighting for operational risk €m
Corporate finance	–
Trading and sales	32
Retail banking	385
Corporate banking	57
Payment transactions and processing	26
Agency services	1
Asset management	5
Retail brokerage	10
Total for Postbank Group	516

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 the single-entity financial statements of Deutsche Postbank AG under "equity investments" and "investments in associates."

Real estate risk relates to the real estate holdings of the Postbank Group 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 associates/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.

Deutsche Postbank AG 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 Deutsche Postbank AG, BHW Bausparkasse AG, and BHW Bank AG.

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 Ertragswertverfahren (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 collective risk

Definition of risk

BHW Bausparkasse AG's home savings business is subject to the specific business risk known as collective risk. This is defined by BHW Bausparkasse as the negative impact of (non interest-related) deviations in the actual behavior of home savings customers from their forecast behavior.

The general terms and conditions of home loan and savings contracts provide customers with diverse options for the savings and loan phase. The collective trend is based on estimates of future behavioral patterns of home savings customers, derived from years of experience and detailed structural analyses. Factors influencing customer behavior range from changes in the legal framework through general economic developments, to changes in the home savings customers' personal situations.

Organization and risk strategy

The Management Board is responsible for the strategic management of collective risk. The handling of collective risk is a component of the overarching Group risk strategy.

BHW Bausparkasse uses a collective simulation model to quantify risk. The model depicts new contracts and expected home savings customer behavior, such as savings habits, terminations, the financing of existing housing stock, home loan maturity dates, and principal repayments. The simulation model uses a broad range of behavioral parameters to calculate the statistically expected cash flow at the overall collective level; this calculation is updated on a quarterly basis.

Risk management and control

Collective risk is systematically managed using a collective management system at BHW Bausparkasse AG, whereas risk monitoring is the responsibility of BHW Bausparkasse's Risk Controlling unit.

The negative impacts of collective risk due to (non interest-related) deviations in home savings customers' behavior from the forecasts are quantified using a collective simulation model.

A portion of the behavioral assumptions for modeling – home loan maturity dates, loan waivers, and repayment practices – is considered in the simulation to be interest-linked. Collective simulations are therefore performed based on different interest rate scenarios. This results in interest rate-sensitive option risks for the Bausparkasse, which are allocated in principle to market price risk, but are currently still reported as part of the collective risk. Postbank plans to report these interest-linked option risks under market price risk in the future.

The validity of the model has been accepted by the BaFin. BHW Bausparkasse also performs an additional deviation analysis to verify the results of the simulation. The model's validity is regularly reviewed through backtesting and continually enhanced.

The principle of collective home savings requires continuous new inflows of funds on the basis of a home savings plan approved by the BaFin, in which the interest rate terms are largely fixed. Plan adjustments require approximately six months to one year of preparation; there is only limited market elasticity. Modeling a home savings collective using risk measurement concepts therefore not only requires the simulation of a collective portfolio, but also the inclusion of future new home savings business.

The Postbank Group considers the specific business risks arising from the home savings and loan business to be significant and has therefore reserved a sufficiently large lump-sum amount as part of its risk capital allocation.

Risk reporting

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

- The monthly Market Risk Committee report informs the MRC of specific business risks arising from the collective.
- Monthly or, in some cases, quarterly reports providing an overview of the development of the collective are prepared within BHW Bausparkasse on the basis of key indicators for submission to the Management Board of BHW Bausparkasse.
- The collective risk currently estimated as a lump-sum amount is reported to the Management Board in the quarterly risk-bearing capacity report.

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. BHW, which was acquired in 2006, has now also been fully integrated into the risk control process. 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.

Goals for the segments

In the Retail Banking business division, Postbank is expanding its value proposition 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.

This entails a further expansion in the quality of the sales team in the mobile sales area in particular. We intend to make rapid progress towards achieving this goal by increasing the number of advisers from 4,260 at the end of 2007 to 5,000 by 2010 ("5 in 10"). At that time, more than 60 % of the mobile advisers should be in a position to sell three to five product categories, up from the current proportion of approximately 54 %. At the same time, we are requiring our finance managers to increase their productivity by approximately 40 % as against 2006.

With respect to our branch sales, we are aiming to increase our productivity by 50 % by the year 2010, taking 2006 as the baseline. Following the successful conclusion of the pilot project in the fourth quarter of 2007, we will successively refit our branches as part of the "Filiale im Wandel" ("Changing Branches") project, starting with approximately 100 branches in 2008.

In its saving business, Postbank is planning a further clear increase in deposit volumes by offering attractive interest rates on products and implementing additional promotional measures. In the area of private mortgage lending, we expect energy-saving construction measures and the increasing need for modernization and renovation in Germany to stimulate demand in particular. However, margins are likely to remain at the low levels recorded in 2007. In the insurance area, the final level of the Riester pension, which came into force at the beginning of 2008, should lead to an increase in the number of products sold. Transactions by private customers in the run-up to the introduction of the flat tax in 2009 should have a positive impact on the securities business.

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. We want to increase lending to SMEs to €5 billion by 2010 (€2.8 billion as of the end of 2006). 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, revenues from the Corporate Banking business are expected to rise to €500 million by 2010 (€372 million as at year-end 2006).

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.

As a highly professional internal service provider for the management of interest rate risk, currency risk, and equity risk, the Financial Markets business division is to serve as an innovation driver, developing products for Postbank's private and corporate customers. In addition, we will probably issue a mortgage bond and possibly a public-sector mortgage bond (*Pfandbriefe*) in the further course of the year under the lead management of this business division, following our successful initial mortgage bond issue in January of the current fiscal year.

Postbank's goals for 2008

For 2008, Postbank is maintaining its goal of a return on equity before taxes in excess of 20 % and a cost-income ratio (in its traditional banking business) of less than 63 %. With respect to profit before tax, too, the Bank is planning as before to report an implicit target of €1,220 million. Due to the increasingly competitive German retail market, the ongoing flat yield curve, and other negative effects, the Bank is forecasting profit from operations (i. e. before extraordinary factors) before tax of €1,100 million – €1,200 million. In this context, we are assuming that – due among other things to the initial effects of the new savings strategy – earnings will only increase by a moderate amount to start with as against 2007, whereas administrative expenses should decline tangibly. 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 macro-economic outlook, Postbank, too, is unable to rule out an additional financial impact.

New medium-term financial goals

Postbank is planning to lift its profit before tax substantially in the period up to 2010 to €1,400 million – €1,450 million and its profit after tax to €980 million – €1,015 million. The projections are based on a steady rise in earnings and strict ongoing cost management. The cost/income ratio (in the Bank's traditional banking business) should improve to below 58 % by 2010. Profit after tax will benefit from the business tax reform that has been resolved. As a result, Postbank expects its tax rate to be five percentage points below its original planning with effect from 2008, at 30 %. Assuming that conditions otherwise remain the same, this will result in an increase in profit after tax, and hence in earnings per share, of approximately 8 %.

Responsibility Statement

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

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

Consolidated Financial Statements in accordance with International Financial Reporting Standards for the period ended December 31, 2007

I Consolidated Income Statement for the period January 1 to December 31, 2007

	Note	2007 €m	2006[1] €m
Interest income	(6)	8,384	7,650
Interest expense	(6)	–6,144	–5,496
Net interest income	(6)	2,240	2,154
Allowance for losses on loans and advances	(7)	–338	–337
Net interest income after allowance for losses on loans and advances		1,902	1,817
Fee and commission income	(8)	1,675	1,623
Fee and commission expense	(8)	–246	–216
Net fee and commission income	(8)	1,429	1,407
Net trading income	(9)	290	264
Net income from investment securities	(10)	294	292
Administrative expenses	(11)	–2,856	–2,812
Other income	(12)	160	205
Other expenses	(13)	–215	–232
Profit before tax		1,004	941
Income tax	(14)	–133	–245
Profit from ordinary activities after tax		871	696
Minority interest		–1	–1
Consolidated net profit		870	695

Earnings per share

Earnings per share are calculated by dividing the consolidated net profit by the weighted average number of shares outstanding during the fiscal year. The average number of shares outstanding in fiscal year 2007 was 164,000,000 (previous year: 164,000,000).

	2007	2006
Basic earnings per share (€)	5.30	4.24
Diluted earnings per share (€)	5.30	4.24

The diluted earnings per share are the same as the basic earnings per share because, as in the previous year, no conversion or option rights are outstanding, and hence there is no dilutive effect.

The Management Board will propose to the Annual General Meeting that a dividend of €1.25 per share be paid.

[1] Prior-period figures restated (see Note 5)

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Consolidated Balance Sheet as of December 31, 2007

Assets	Note	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Cash reserve	(15)	3,352	1,015
Loans and advances to other banks	(16)	24,581	16,350
Loans and advances to customers	(17)	92,130	87,182
Allowance for losses on loans and advances	(19)	–1,154	–1,155
Trading assets	(20)	9,936	13,280
Hedging derivatives	(21)	421	485
Investment securities	(22)	68,606	63,299
Intangible assets	(23)	2,425	2,505
Property and equipment	(24)	927	941
Investment property	(25)	73	74
Current tax assets	(26)	117	86
Deferred tax assets	(26)	483	244
Other assets	(27)	529	581
Assets held for sale	(28)	565	–
Total assets		202,991	184,887

Equity and Liabilities	Note	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Deposits from other banks	(29)	61,146	47,319
Due to customers	(30)	110,696	101,316
Securitized liabilities	(31)	9,558	15,886
Trading liabilities	(32)	5,594	3,618
Hedging derivatives	(33)	873	958
Provisions		2,107	3,691
a) Provisions for pensions and other employee benefits	(34)	1,143	1,115
b) Other provisions	(35)	964	2,576
Current tax liabilities	(36)	122	84
Deferred tax liabilities	(36)	1,102	974
Other liabilities	(37)	835	786
Subordinated debt	(38)	5,603	5,048
Liabilities directly related to assets held for sale	(39)	44	–
Equity	(40)	5,311	5,207
a) Issued capital		410	410
b) Share premium		1,160	1,160
c) Retained earnings		2,869	2,940
d) Consolidated net profit		870	695
Minority interest		2	2
Total equity and liabilities		202,991	184,887

Statement of Changes in Equity

	Issued capital €m	Share premium €m	Retained earnings €m	Currency translation reserve €m	Revaluation reserve €m	Consoli-dated net profit €m	Equity before minority interest €m	Minority interest €m	Total €m
Balance at Jan. 1, 2006	410	1,160	2,764	–77	311	492	5,060	1	5,061
Dividend payment						–205	–205		–205
Appropriation to retained earnings			287			–287	0		0
Currency translation differences				–40			–40		–40
Changes in unrealized gains and losses, net of deferred taxes					–305		–305		–305
Consolidated net profit Jan. 1 – Dec. 31, 2006						695	695	1	696
Treasury shares							0		0
Other changes							0		0
Balance at Dec. 31, 2006	410	1,160	3,051	–117	6	695	5,205	2	5,207
For info.: Total of items in 2006 that change equity in accordance with IAS 1.96c			0	–40	–305	695	350	1	351
Dividend payment						–205	–205		–205
Appropriation to retained earnings			490			–490	0		0
Currency translation differences				–32			–32		–32
Changes in unrealized gains and losses, net of deferred taxes					–529		–529		–529
Consolidated net profit Jan. 1 – Dec. 1, 2007						870	870	1	871
Treasury shares							0		0
Other changes							0	–1	–1
Balance at Dec. 31, 2007	410	1,160	3,541	–149	–523	870	5,309	2	5,311
For info.: Total of items in 2007 that change equity in accordance with IAS 1.96c				–32	–529	870	309	1	310

Changes in unrealized gains and losses, net of deferred taxes, include measurement and disposal gains and losses on available-for-sale financial instruments.

A more detailed disclosure of changes in the revaluation reserve may be found in Note 40.

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Postbank did not hold any treasury shares as of December 31, 2007.

Consolidated Cash Flow Statement

	Note	2007 €m	2006 €m
Consolidated net profit		870	695
Non-cash items in consolidated net profit and reconciliation to cash flow from operating activities			
Depreciation and write-downs of property and equipment, write-downs of investment securities, loans and advances, and reversals of impairment losses on these items		543	318
Changes in provisions	(34), (35), (36)	–1,418	254
Changes in other non-cash items		69	–89
Gains on disposal of property and equipment and investment securities	(10)	–399	–269
Other adjustments (net, primarily net interest income)		–2,222	–2,103
Subtotal		–2,557	–1,194
Changes in working capital after adjustment for non-cash components			
Loans and advances to other banks		–8,461	7,605
Loans and advances to customers		–5,751	–6,997
Trading assets		3,628	–2,354
Hedging derivatives with positive fair values		–69	618
Other assets		–218	1,734
Deposits from other banks		13,692	6,649
Due to customers		9,685	2,400
Securitized liabilities		–5,939	–3,834
Trading liabilities		1,966	–409
Hedging derivatives with negative fair values		–152	–857
Other liabilities		49	–5
Interest received		7,969	7,058
Interest paid		–5,902	–4,868
Dividends received		48	79
Income taxes paid		62	–85
Net cash from operating activities		8,050	5,540

	Note	2007 €m	2006 €m
Proceeds from the disposal of			
Investment securities		7,717	18,862
Investments in subsidiaries	(2)	561	131
Property and equipment		0	54
Intangible assets		51	3
Payments to acquire			
Investment securities		–14,218	–22,490
Investments in subsidiaries		–14	–1,753
Property and equipment		–69	–58
Intangible assets		–70	–101
Net cash used in investing activities		–6,042	–5,352
Dividends paid		–205	–205
Net change in cash and cash equivalents from other financing activities		534	–220
Net cash used in/from financing activities		329	–425
Cash and cash equivalents at start of period	(15)	1,015	968
Addition to basis of consolidation		–	217
Net cash from operating activities		8,050	5,540
Net cash used in investing activities		–6,042	–5,352
Net cash used in/from financing activities		329	–425
Effects of exchange rate differences		–	67
Cash and cash equivalents at end of period	(15)	3,352	1,015

Reported cash and cash equivalents correspond to the cash reserve.

The cash flow statement is prepared using the indirect method, under which net cash flow from operating activities is calculated on the basis of consolidated net profit plus non-cash expenses less non-cash income in the fiscal year.

In addition, all income and expenses that are cash transactions but are not attributable to operating activities are eliminated. These payments are recognized in cash flow from investing activities or financing activities.

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Basis of preparation

(1) Basis of accounting

As a listed company, Postbank AG has prepared its consolidated financial statements for the year ended December 31, 2007 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of German commercial law under section 315a (1) of the HGB (German Commercial Code). The consolidated financial statements constitute an annual financial report within the meaning of the *Transparenzrichtlinie-Umsetzungsgesetz* [TUG – Transparency Directive Implementing Act (section 37v of the WpHG – Securities Trading Act)] as of January 5, 2007.

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The Annex to these consolidated financial statements provides an overview of the financial reporting standards applied (as of December 31, 2007).

Accounting and measurement are based on the going concern principle. Income and expenses are accrued. They are recognized and recorded in the period to which they relate.

The consolidated financial statements comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the Notes.

Unless otherwise indicated, all amounts are shown in millions of euros (€m).

All assumptions, estimates and assessments required for recognition and measurement in accordance with the IFRSs are in conformity with the respective Standards, are regularly reassessed and based on past experience as well as other factors, including expectations as to future events that appear reasonable under the given circumstances. The assumptions and estimates refer primarily to the fair value measurement of certain financial instruments , the recognition and measurement of provisions, and the ability to realize future tax benefits. Where significant estimates were required, the assumptions made are explained in detail in the following Notes to the corresponding item. In individual cases, the actual values may differ from the assumptions and estimates made.

The management of interest rate, counterparty and liquidity risks is described in the Risk Report (subsections "Monitoring and managing market price risk" and "Monitoring and managing credit risk") as part of the Group Management Report.
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(2) Basis of consolidation

In addition to the parent company Deutsche Postbank AG, 43 (December 31, 2006: 40) subsidiaries that are presented in the following overview are included in the consolidated financial statements as of December 31, 2007. There are no joint ventures as of December 31, 2007.

Consolidated companies

Name and domicile	Equity (%) interest direct	Equity (%) interest indirect
BHW Holding AG, Berlin/Hamelin	98.4	
BHW Bausparkasse AG, Hamelin		98.4
BHW Bank AG, Hamelin	100.0	
BHW Gesellschaft für Wohnungswirtschaft mbH, Hamelin		98.4
BHW Gesellschaft für Wohnungswirtschaft mbH & Co. Immobilienverwaltungs KG, Hamelin		98.4
BHW Gesellschaft für Vorsorge mbH, Hamelin		98.4
BHW Immobilien GmbH, Hamelin		98.4
BHW Home Finance Limited, New Delhi, India		98.4
Postbank Finanzberatung AG, Hamelin	23.3	75.5
Postbank Versicherungsvermittlung GmbH, Bonn		98.8
Postbank Filialvertrieb AG, Bonn	100.0	
Deutsche Postbank International S.A., Munsbach, Luxembourg	100.0	
Deutsche Postbank Vermögens-Management S.A., Munsbach, Luxembourg		100.0
Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn	100.0	
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn		90.0
Postbank Systems AG, Bonn	100.0	
einsnull IT-Support GmbH, Cologne		100.0
Postbank Beteiligungen GmbH, Bonn	100.0	
VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn	75.0	
DSL Holding AG i.A., Bonn	100.0	
Deutsche Postbank Financial Services GmbH, Frankfurt/Main	100.0	
Deutsche Postbank Finance Center Objekt GmbH, Munsbach, Luxembourg		90.0
DPBI Immobilien KGaA, Munsbach, Luxembourg		10.01
Postbank Leasing GmbH, Bonn	100.0	
PB (USA) Holdings Inc., Wilmington, Delaware, USA	100.0	
PB Capital Corp., Wilmington, Delaware, USA		100.0
PB Realty Corp., New York, USA		94.7
PB Finance (Delaware) Inc., Wilmington, Delaware, USA		100.0
PBC Carnegie LLC, Wilmington, Delaware, USA		100.0
PB Factoring GmbH, Bonn	100.0	
PB Firmenkunden AG, Bonn	100.0	
Betriebs-Center für Banken AG, Frankfurt/Main	100.0	
Betriebs-Center für Banken Payments & Services GmbH, Munich		100.0
Betriebs-Center für Banken Verwaltungs GmbH, Frankfurt/Main	100.0	
Deutsche Postbank Funding LLC I, Wilmington, Delaware, USA	100.0	
Deutsche Postbank Funding LLC II, Wilmington, Delaware, USA	100.0	
Deutsche Postbank Funding LLC III, Wilmington, Delaware, USA	100.0	
Deutsche Postbank Funding LLC IV, Wilmington, Delaware, USA	100.0	
Deutsche Postbank Funding Trust I, Wilmington, Delaware, USA	100.0	
Deutsche Postbank Funding Trust II, Wilmington, Delaware, USA	100.0	
Deutsche Postbank Funding Trust III, Wilmington, Delaware, USA	100.0	
Deutsche Postbank Funding Trust IV, Wilmington, Delaware, USA	100.0	

A complete list of shareholdings in accordance with sections 313 and 287 of the HGB may be consulted in the electronic *Bundesanzeiger* (German Federal Gazette).

Betriebs-Center für Banken Deutschland GmbH & Co. KG acquired the shares of HVB Payments & Services GmbH held by HypoVereinsbank AG effective January 1, 2007. The company was renamed Betriebs-Center für Banken Payments & Services GmbH on entry in the commercial register on March 13, 2007. The allocation of the purchase price to the identifiable assets, liabilities, and contingent liabilities at fair value uses purchase price allocation in accordance with IFRS 3.

Effective January 1, 2007, Deutsche Postbank Vermögens-Management S.A. was sold by Deutsche Postbank AG to Deutsche Postbank International S.A. in an intragroup transaction.

Effective January 1, 2007, Deutsche Postbank AG acquired the 100% interest held by Deutsche Post Beteiligungen Holding GmbH in einsnull IT-Support GmbH; the company was included in Postbank's consolidated financial statements.

PB Vierte Beteiligungen GmbH was included in the consolidated financial statements for the first time as of January 1, 2007. The company was renamed Postbank Beteiligungen GmbH on entry in the commercial register on February 23, 2007.

Postbank Versicherungsvermittlung GmbH was formed on May 8, 2007 as a wholly-owned subsidiary of Postbank Finanzberatung AG and included in the consolidated financial statements for the first time.

In connection with an issue of trust preferred securities, two companies were formed on June 1, 2007 as wholly-owned subsidiaries of Postbank: Deutsche Postbank Funding LLC IV and Deutsche Postbank Funding Trust IV.

Betriebs-Center für Banken Deutschland GmbH & Co. KG was reorganized as Betriebs-Center für Banken AG on June 29, 2007.

The three special funds of BHW Bausparkasse AG were dissolved in August.

BHW Lebensversicherung AG, including its four special funds, and Postbank's 50 % interests in PB Versicherung AG and PB Lebensversicherung AG, were sold effective September 30, 2007. At the time of sale, the companies' profits after tax were €3.4 million. The deconsolidation led to the disposal of assets amounting to €2.5 billion and liabilities amounting to €2.3 billion. €2.2 billion of the liabilities relates to technical reserves (insurance). €1.1 billion of the assets relates to loans and advances to other banks and €1.0 billion relates to investment securities. The gain on the sale is reported as net income from investments in associates under net income from investment securities.

Effective October 1, 2007, BHW Bank AG was sold by BHW Holding AG to Deutsche Postbank AG in an intragroup transaction. Postbank plans to sell BHW Bank AG's credit card and sales financing business to Landesbank Berlin in the first quarter of 2008. In accordance with IFRS 5, the corresponding assets and liabilities are classified and reported separately as assets held for sale and liabilities directly related to assets held for sale.

Betriebs-Center für Banken Zahlungsverkehrsservice GmbH and Betriebs-Center für Banken Payments AG were merged into Betriebs-Center für Banken AG effective October 11, 2007.

There were no other changes in the basis of consolidation.

In accordance with Interpretation SIC-12 issued by the International Financial Reporting Interpretations Committee (IFRIC), which requires the consolidation of special purpose entities under certain conditions, a total of 23 (December 31, 2006: 30) special funds were included as special purpose entities in the consolidated financial statements.

There are no other special purpose entities.

(3) Consolidation methods

Complying with IAS 27.28, the consolidated financial statements of Deutsche Postbank AG have been prepared in accordance with uniform Group accounting and measurement policies.

Acquisition accounting uses the purchase method in accordance with IAS 27.22 in conjunction with IFRS 3. Recognition of the investments in subsidiaries at their carrying amount at the parent is replaced by the fair values of the assets and liabilities of the companies included.

Any goodwill arising from initial consolidation is no longer amortized over its useful life. Instead, it is tested for impairment once a year and written down if required.

Investments in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as "minority interest". The value of such minority interest is determined on the basis of the fair values of the assets and liabilities attributable to them.

Intercompany receivables and liabilities, as well as income and expenses from intercompany transactions, were eliminated in accordance with IAS 27.24. Intercompany profits within the Group were eliminated in accordance with IAS 27.25.

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date, with the exception of BHW Immobilien GmbH. BHW Immobilien GmbH's annual financial statements as of September 30, 2007 were used due to the company's different fiscal year; no interim financial statements were prepared for reasons of materiality.

The consolidation principles are unchanged as against the previous year.

(4) Accounting policies

Unless otherwise stated in the following, all accounting policies remained unchanged as against the previous year.

(a) Loans and advances

As a rule, loans and advances to other banks and customers are reported at amortized cost ("loans and receivables" category). These also include all money market lendings.

Postbank applies the fair value option exclusively to specific loan portfolios in the mortgage lending business that are hedged by interest rate derivatives. In accordance with this, financial assets may be designated at fair value through profit or loss, provided this leads – among other things – to the elimination or significant reduction of inconsistencies in measurement or recognition (accounting mismatches). Receivables are measured using the valuation technique. They are presented in the balance sheet under the "Loans and advances to customers" item. Changes in fair value are reported in net trading income. The interest on portfolios allocated to the fair value option and the related interest rate swaps are reported in net interest income.

75 There is a maximum credit risk of €7.1 billion (see Risk Report) on the loan portfolios allocated to the fair value option.

The maximum credit risk on the loan portfolios allocated to the fair value option is reduced by €2.6 billion by credit default swaps, because these loans are part of a reference pool of synthetic securitizations and this credit risk has been placed in the market in connection with the RMBS transactions. The credit default swaps that reduce the credit risk are exclusively financial guarantee contracts that are accounted for under IAS 37 or are measured only at the time of the recourse claim.

The fair values for the loan portfolios allocated to the fair value option are estimated based on a DCF process using the current swap yield curve and loan-specific risk premiums.

As part of the Basel II IRBA implementation, the preconditions for identifying credit risk in private mortgage lending via an internal ratings system were established in 2007, including for the loan portfolios allocated to the fair value option. Risk premiums based on the estimated default probability and loss rate are determined from the results of the internal rating. The change in the fair value arising from the change in creditworthiness resulted in a measurement effect of €-7.2 million in the year under review.

Impairments of loans and advances that are not designated at fair value through profit or loss are recognized separately in the allowance for losses on loans and advances, and deducted from assets.

The carrying amount of collateralized loans for which hedge accounting is used is adjusted for the gains and losses from changes in fair value attributable to the hedged risk.

Premiums and discounts including transaction costs are recognized in net interest income. Deferred interest on loans and advances, as well as premiums and discounts, are carried together under the relevant items of loans and advances. Premiums and discounts are deferred using the effective interest method.

(b) Leases

In accordance with IAS 17, leased assets are allocated to and recognized at the lessor or the lessee on the basis of the risks and rewards incidental to ownership.

Where Postbank is the lessor of a finance lease, it discloses the receivable at its net investment value under loans and advances to other banks or loans and advances to customers. The lease installments due are recognized as interest income (interest component; recognized in income) and deducted from the receivables reported (principal redemption component; recognized in equity).

Where Postbank is the lessor of an operating lease, it carries the leased asset at amortized cost under property and equipment. The lease installments received during the respective period are reported in other income; write-downs of the leased asset are carried under administrative expenses.

Where Postbank is the lessee of an operating lease of properties, it reports the lease installments paid in full as rental expense under administrative expenses.

Where Postbank is the lessee in a finance lease, it carries the leased asset at amortized cost under property and equipment. The lease payments due are reported in the balance sheet under other liabilities. Write-downs of the leased assets are recognized in administrative expenses.

IFRIC 4 contains guidance and illustrative examples for determining whether a company's arrangements should be classified and accounted for as lease agreements under IAS 17. Postbank has no additional lease agreements to be recognized in accordance with IFRIC 4.

(c) Allowances and provisions for losses on loans and advances, write-downs and impairment

Identifiable credit risks are covered by recognizing specific valuation allowances (or collective valuation allowances). For risks that have arisen but not yet been identified, portfolio-based valuation allowances are recognized for groups of financial assets with similar default risk profiles, the amounts of which are determined on the basis of Basel II parameters (expected loss experience and probability). The allowance for losses on loans and advances is deducted from assets as a separate balance sheet item. It relates to allowances for losses on loans and advances to other banks and customers.

A potential need to recognize impairment losses is assumed if certain indicators exist, such as default over a certain period, the initiation of enforcement measures, imminent insolvency or overindebtedness, applying for or opening insolvency proceedings, or the failure of restructuring measures.

A financial asset is impaired if its estimated recoverable amount is lower than its carrying amount, i.e. if a loan is presumed to be (partly) uncollectable. If this is the case, the loss on financial assets carried at amortized cost (IAS 39.63) must either be recognized through an indirect write-down (loan loss allowance) or by writing down the asset directly and recognizing the loss in net profit or loss (IAS 39.63).

In accordance with IAS 39.AG 84 ff., the recoverable amount is determined using the following methods:

- discounted present value of estimated future cash flows (interest and principal payments as well as incoming payment amounts from the liquidation of collaterals) from the financial asset;

- the market price, where there is an observable market price for the financial instrument, because marking-to-market reflects the greater counterparty risk.

Uncollectable loans and advances are written off directly against income in the appropriate amount; recoveries on loans previously written off are recognized in income.

Credit risk provisions are recognized for liabilities under sureties, other guarantees and irrevocable loan commitments involving a default risk.

(d) Trading assets
Securities and derivatives with positive fair values acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins are carried under this balance sheet item. It also contains the positive fair values of banking book derivatives and derivatives relating to hedged items accounted for under the fair value option. These transactions are recognized at the trade date.

Trading assets are measured at their fair values. Remeasurement gains and losses as well as gains or losses on the sale or disposal of trading assets are recognized in net trading income. If there are publicly quoted market prices on an active market as defined by IAS 39.AG 71 ff., these are generally used as the fair value; if this is not the case, fair value is determined using recognized valuation models.

Interest on spot transactions is recognized in net interest income and interest on swaps in net trading income.

Postbank has separated the embedded derivates in the synthetic credit debt obligations (CDOs) in accordance with IAS 39.AG.30h and thus measured them separately through profit or loss. The fair values of the embedded derivatives increased significantly at the end of 2007 compared with the previous year due to market tensions; the resulting effects were insignificant in previous years.

The separated derivatives in synthetic SCP portfolios (structured credit products) are reported as standalone derivatives in the "trading assets" balance sheet item (in the case of a positive fair value) or "trading liabilities" (in the case of a negative fair value). SCP portfolios held for trading are also carried under "trading assets". Detailed explanations on SCPs can be found in Note (4) (g) Investment securities.

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(e) Securities lending and repurchase agreements
Postbank enters into both securities lending and bona fide securities repurchase agreements. Securities sold under repo and sell-and-buy-back transactions (cash sales) are carried as securities in the consolidated balance sheet. Cash inflows from such transactions are carried in the balance sheet as deposits from other banks or amounts due to customers, depending on the respective counterparty. As is the case under the HGB, these cash inflows are disclosed in the amount of the purchase price received (net); prepaid expenses are recognized ratably for the repo rate to be paid. Interest payments are carried under interest expense.

Reverse repo and buy-and-sell-back transactions (cash purchases of securities) are carried as loans and advances to other banks or loans and advances to customers. The securities purchased are not carried in the balance sheet; interest arising from such transactions is carried under interest income.

IFRSs only require an obligation to return the securities to be recognized by the borrower if the securities are passed on to another party. The lender continues to recognize the securities.

(f) Hedging derivatives
The aim of asset/liability management at the Postbank Group is to manage the Bank's overall exposure in a way which minimizes risk while maximizing earnings, with a particular focus on present value risk and balance sheet-related revenues under the IFRSs (the total of net interest income, net trading income and net investment securities).

The hedging strategies employed in asset/liability management aim to manage these factors in a constantly changing market and portfolio environment; for this purpose fair value hedges are employed.

A fair value hedge is a hedge of the exposure to changes in the fair value of financial assets and liabilities where these changes are based on market price risks.

For interest-bearing securities and noncurrent receivables, the instruments used in fair value hedges are primarily interest rate swaps. For issues, cross-currency swaps and structured swaps are also employed to convert fixed-income or structured items into variable-rate exposures. Fair value hedges are used to hedge both individual items and homogeneous subportfolios. Shares are managed using derivatives with option features.

Hedging derivatives relate to those hedging instruments that meet the requirements for hedge accounting set out in IAS 39.

As a rule, a derivative held for hedging purposes may be allocated to a single hedged item or to several similar hedged items. Such hedges are generally termed micro-hedges.

IAS 39 restricts the use of hedge accounting. Under IFRSs, hedge accounting may only be used for hedging relationships that meet the requirements of IAS 39.88 ff. A hedging relationship ends when the hedged item or the hedging instrument expires, is sold or exercised, or if the hedge no longer meets the criteria for qualification for hedge accounting.

Derivatives entered into for the purposes of asset/liability management and derivatives from ineffective hedging relationships do not meet the conditions set out in IAS 39.88 ff., and thus are always recognized in income and disclosed at their fair value as banking book derivatives under trading assets/liabilities. These derivatives generally relate to interest rate swaps entered into to hedge net positions of receivables and liabilities. Under IFRSs, measurement gains and interest income from these items are recognized in net trading income.

The hedge accounting criteria must be satisfied at each balance sheet date and for each hedging relationship.

Effectiveness testing for all fair value hedges is performed prospectively by way of a sensitivity analysis of the hedged item and the hedging instrument, supplemented by homogeneity testing of the subportfolios. Actual changes in the fair values of the hedged item and the hedging instrument are regularly compared retrospectively for each hedging relationship.

(g) Investment securities

Investment securities are composed of bonds not held for trading and other fixed-income securities, equities and other non-fixed-income securities, investments in unconsolidated subsidiaries and other equity investments.

Investment securities are recognized at the settlement date. Investment securities are measured at cost at the time of initial recognition.

Loans and receivables (LaR) portfolios are recognized at amortized cost in the balance sheet. Available-for-sale investment securities are subsequently measured at their fair values if the fair values can be reliably determined. Changes in the fair values of available-for-sale investment securities are recog-nized directly in the revaluation reserve in equity and are not recognized in income until the gain or loss is realized or impairment is identified. If hedge accounting is used for these investment securities, gains and losses from changes in fair value attributable to the hedged risk are recognized directly in income.

Held-to-maturity bonds and securities not listed on an active market are carried at amortized cost.

Premiums and discounts are allocated directly to the financial instruments and accrued over the remaining maturity while applying the effective interest method.

Write-downs are charged in the event of significant or permanent impairment. The entity assesses at each balance sheet date whether there is objective evidence to impair assets.

If hedge accounting is used for these investment securities, their carrying amount is adjusted for the gains and losses from changes in fair value attributable to the hedged risk.

Investments in unconsolidated subsidiaries and other equity investments are generally carried at cost as their fair value cannot reliably be determined. Write-downs are charged in the event of permanent impairment.

Postbank has invested in structured credit products (SCPs) as part of its credit substitute business comprising e.g. the following product types: asset-backed securities (ABSs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), residential mortgage-backed securities (RMBSs), and commercial mortgage-backed securities (CMBSs).

The accounting treatment of SCP portfolios is determined by whether they can be classified as cash structures or synthetic structures. In the case of cash structures, the special purpose entity itself holds receivables and/or securities in its portfolio to secure the bonds that it has issued. By contrast, in the case of synthetic structures the credit risk associated with the portfolio of financial assets is usually synthetically transferred using a credit default swap (CDS). Combinations of cash and synthetic structures are accounted for in the same way as synthetic structures.

The Bank's trading portfolio contains a small volume of SCPs. Regardless of their structure, these transactions are classified as held for trading (HfT) in accordance with IAS 39. Banking book SCP portfolios with cash structures are classified as loans and receivables (LaR) in accordance with IAS 39, and those with synthetic structures are classified as available for sale (AfS) in accordance with IAS 39.

In accordance with IAS 39.11, CDOs not allocated to the trading portfolio must be assessed to determine whether a separable embedded derivative is present, as also clarified by the *Institut der Wirtschaftsprüfer* (IDW – Institute of Public Auditors in Germany) in its position paper of December 10, 2007. Cash structures (LaR) do not contain separable embedded derivatives and are accounted for as a financial asset. By contrast, synthetic structures (AfS) are separated into a host contract and an embedded derivative. A simulation model is used to separate and calculate the fair value of embedded derivatives.

In the case of SCP portfolios of the banking book, the entire structured product (cash structures) and the host contract are reported in the "investment securities" balance sheet item if the embedded derivatives (synthetic structures) are separated (see also (4) (d)).

The separated embedded derivatives and the SCPs in the trading portfolio are measured at full fair value. Changes in full fair value are reported in net trading income.

The full fair value of SCP products is generally measured using published transaction or market prices. If no transaction or market prices are available, as is the case for the (majority of) the products currently in the portfolio, arranger or dealer quotes (indications) are used for measurement. Market-based indications of fair value are often unavailable in particular for CDOs during market periods with limited liquidity, which is currently the case for these products. Measurement is thus based on spread curves for a defined CDO depending on the collateral pool. This valuation technique is based on observable current market transactions (primary market issues) with similar risk profiles.

The Bank has clearly defined criteria that are continuously reviewed for deciding when spread-based measurement should be preferred to measurement using indications.

As mentioned above, synthetic SCPs must be separated into a host contract and an embedded derivative. The embedded derivative is separated and its fair value calculated using a simulation model that is based on portfolio loss distribution, taking into account the respective CDO structure. Postbank uses an internal model for this (which is similar to the S&P CDO Evaluator, Moody's CDO Net and Fitch Vector).

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For the purpose of measurement, the cash flows resulting from the CDO are forecasted and discounted using a discount rate for an equivalent maturity and risk. For this purpose default events relating to the underlyings in the pool designated as collateral are identified using a simulation technique and included in the invested tranche via a waterfall or against the current buffer. The Merton model is used to detect default for each underlying. The default thresholds are defined using the cumulative probability of default (Moody's) of the rating classes or using the development of the expected loss over time (RMBS/retail).

The measurement parameters used for the model are adapted for the current market conditions on the reporting date. For example, in the case of indirect subprime exposure the rating is updated to the reporting date by reducing it in various stages depending on the underlying.

Impairment losses due to changes in credit risk are only charged in the event of permanent impairment. The existence of permanent impairment is determined by certain objective evidence. IAS 39.59 gives some examples of such objective evidence, such as significant financial difficulty of the issuer or obligor, or a breach of contract such as a default or delinquency in interest or principal repayments. Postbank has expanded the objective evidence to define the presence of indirect subprime investments as a factor, and an impairment test must therefore be performed for all indirect subprime investments.

Where such objective evidence of permanent impairment exists, the following procedure must be followed: In the case of LaR portfolios, the difference between the current carrying amount and the recoverable amount is recognized as an impairment loss in the income statement. In the case of Afs portfolios, the negative amount from the revaluation reserve must be reversed to the income statement. Impairment in SCP portfolios is determined by analyzing the expected cash flows using an internal measurement model that reflects the current estimates of counterparty risk for the underlyings in the pool designated as collateral. The default events of the underlyings were simulated over time and included in the invested tranche using a waterfall or against the current buffer.

Rating migrations and the identification of the underlyings with default events enable an analysis of certain triggers for cash CDOs. Additional case-by-case analyses ensure that complex triggers, such as reversal triggers, are taken into account. The current estimate of counterparty risk for the underlyings is based on a products/markets/vintage matrix, reflecting the original rating, the current rating, and recovery expectations.

Changes in the fair value of embedded derivatives are presented in net trading income. The remaining fair value changes (i.e. of the host contract) are recognized directly in the revaluation reserve if no impairment is present. Thus the value of the embedded derivative is subtracted from the full fair value, which was set by the arranger price or developed by the spread-based valuation. The value of the embedded derivative is determined by a market- and loss-based valuation technique that uses current input parameters adapted to the respective market situation.

The impairment losses are reported in "net income from investment securities."

(h) Intangible Assets

Intangible assets are carried at amortized cost, and relate primarily to internally generated and purchased intangible assets and purchased goodwill.

Software development costs in the Postbank Group are capitalized in accordance with IAS 38.21-23 if an economic benefit is expected to flow to the enterprise from the production of internally generated software and the cost can be reliably determined. If the criteria for capitalization are not met, the expenses are recognized immediately in the income statement for the period when they arose. Intangible assets with a finite useful life are generally amortized using the straight-line method over a period of five years, recognized customer relationships over a period of 25 years, and beneficial contracts over a period of 12 years. The established "BHW" brand is constantly promoted through continuous investments in advertising. Postbank intends to use this brand name over the long term. The brand has an indefinite useful life.

Purchased goodwill is not amortized. Instead, it is tested for impairment to determine whether an impairment loss must be recognized (IFRS 3.54).

Purchased goodwill and intangible assets with indefinite useful lives are tested for possible impairment at the balance sheet date (impairment test in accordance with IFRS 3.55 and IAS 36). This test is performed to ascertain whether the carrying amount exceeds the recoverable amount (value in use or fair value whichever is higher). Recoverable amounts are calculated based on the value in use of the Retail Banking segment (cash-generating unit), to which the purchased goodwill is allocated, and of the intangible assets. Value in use is calculated based on appropriate projections (management approach).

(i) Property and equipment

Property and equipment is carried at cost and reduced by depreciation over the standard useful life of the asset. Determination of the useful life of an asset reflects physical wear and tear, technical obsolescence and legal and contractual restraints. Write-downs are charged in the event of additional impairment.

Property and equipment is depreciated using the straight-line method over the following periods:

	Useful life (years)
Buildings	60
IT systems	4–7
Other operating and office equipment	3–20

For reasons of materiality, acquisitions of low-value assets are expensed immediately. Maintenance and repair costs for property and equipment are also expensed as incurred.

(j) Investment property

IAS 40 (Investment Property) defines investment property as property held to earn rentals and/or for capital appreciation, rather than for supply of services or for administrative purposes or for sale in the ordinary course of business.

For mixed-use properties where less than 20 % of the total space is rented to third parties, no distinction is made between space used by third parties, to which IAS 40 is to be applied, and space used for operating purposes, which are accounted for under IAS 16. In such instances, the entire property is treated as property. Rental income is reported under other income.

IAS 40 allows an option to measure investment property at fair value or at amortized cost. Postbank has opted to measure it at cost, and the necessary disclosures are contained in Note (25). The depreciation method and useful life correspond to those of land and buildings. The fair values are determined based on internal appraisals. 130

(k) Other assets

Prepaid expenses and all assets not allocated to other items of assets are carried under other assets.

(l) Liabilities

Liabilities and subordinated debt are carried at amortized cost (IAS 39.47).

The carrying amount of securitized liabilities that meet the requirements for hedge accounting is adjusted for the gains and losses from changes in fair value attributable to the hedged risk.

Premiums, discounts and issue costs are recognized in net interest income by applying the effective interest method.

(m) Trading liabilities

Derivatives with negative fair values that were acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins are carried under this balance sheet item. It also contains the negative fair values of banking book derivatives. Remeasurement gains and losses as well as gains or losses realized on the settlement of trading liabilities are recognized in net trading income. Derivatives carried under trading liabilities are recognized at the trade date. Interest rate derivatives relating to the hedged items accounted for under the fair value option are also reported here. In addition, short sales of securities are recognized at their negative fair value.

The separated derivatives in synthetic SCP portfolios are reported as standalone derivatives in the "trading assets" balance sheet item (in the case of a positive fair value) or "trading liabilities" (in the case of a negative fair value). Detailed explanations on SCPs can be found in Note (4) (g) Investment securities. 113

(n) Provisions

Provisions for pensions and other employee benefits

Occupational pensions are governed by defined benefit plans and defined contribution plans. Expenses for defined contribution plans mainly relate to payments made to Bundes-Pensions-Service für Post und Telekommunikation e. V. in the amount of €111 million (previous year: €111 million) and are recognized in administrative expenses. The defined benefit plans are funded by external plan assets and provisions for pensions and other employee benefits. The total defined benefit obligation for defined benefit plans corresponds to the present value of pension entitlements earned at the valuation date. It reflects expected compensation increases and forecasted pension growth and was calculated on the basis of actuarial reports in accordance with IAS 19. Pension obligations and pension expenses are calculated using the projected unit credit method.

The agreements that underlie the pension obligations provide for a range of benefits, depending on the different groups of beneficiaries concerned, such as:

- old-age pensions starting at age 62 or 63, or for the severely disabled at age 60 at the earliest,
- disability pensions for incapacity to work or reduction in earning capacity;
- surviving dependents' pensions.

Pension obligations primarily reflect direct pension commitments. The nature and amount of the pension payments of those employees entitled to pension benefits are governed by the applicable pension rules (including pension guidelines and pension fund rules), which depend largely on the duration of the employment.

Postbank has assumed a direct occupational pension commitment for pensioners and employees admitted to the Bank's occupational pension plan who were previously insured with Versorgungsanstalt der Deutschen Bundespost (VAP – Postal Service Institution for Supplementary Retirement Pensions).

Pension provisions are calculated using the following actuarial assumptions in Germany:

Discount rate	5.5 % p.a.
Salary growth	2.5 %
Pension growth	2.0 %
Fluctuation	4.0 % p.a.
Pensionable age	60 – 63 years
Mortality, disability, etc.	2005G Heubeck tables
Average expected return on plan assets	4.25 %

In the fiscal year, the discount rate was increased from 4.5 % to 5.5 % to reflect the development of capital market rates. All other assumptions remained unchanged as against the previous year. For the German Group companies, longevity was calculated using the mortality tables *Richttafeln 2005G* for the 2006 and 2007 results published by Prof. Klaus Heubeck.

The expected return on plan assets was determined by taking into account current long-term rates of return on bonds (government and corporate) and applying to these rates a suitable risk premium determined on the basis of historical market returns and current market expectations for a given plan's asset structure.

In accordance with IAS 19.92, actuarial gains and losses are not recognized as income or expense until the net cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceed the greater of 10 % of the present value of the defined benefit obligation or of the fair value of plan assets at this time. The excess amount is amortized over the remaining working lives of the active employees and recognized in income.

Other provisions

Other provisions comprise obligations that must be recognized in accordance with IAS 37 or IAS 19 (excluding pension obligations). In accordance with IAS 37.36, the amount recognized as the provisions is the best estimate of the expenditure required to settle the present obligation. Provisions resulting in cash outflows after 12 months are recognized at their present value where the time value of money is significant. This applies in particular to provisions in the home savings business. These are discounted at rates valid on the balance sheet date with maturities and yields that match those of *Bundeswertpapiere* (Federal government securities). Interest cost added back during the year under review is reported in net interest income.

The consolidated life insurance companies as of September 30, 2007, offered primarily endowment, term life, pension, and occupational disability insurance policies as well as term life insurance policies in connection with mortgage savings.

In the previous year, technical reserves (insurance) were recognized. The presentation of these provisions was discontinued after the sale of the insurance companies on September 30, 2007. Changes recognized in equity and recognized in the income statement are taken into account for the first three quarters of the year under review.

Provisions for uncertain obligations resulting from the reimbursement of arrangement fees and from interest premiums payable retroactively in case of non-availment of loans, or of changes in interest rates or tariffs, are recognized for the home savings business in line with the different tariffs and conditions. These provisions are calculated as a percentage of the total potential liability, based on the statistical data available relating to customer behavior and taking into account the general environment likely to affect the bsuiness in the future.

Additions to provisions for interest premiums and changes in interest rates are reported in net interest income, while the creation of provisions for the reimbursement of arrangement fees is charged to net fee and commission income.

(o) Currency translation

In accordance with IAS 21.23, all foreign currency monetary items and equities denominated in foreign currencies that are classified as non-monetary items in accordance with IAS 21.8 are translated into euros at the middle spot rate at the balance sheet date. There were no material non-monetary items at the balance sheet date measured at (amortized) cost (in particular property and equipment, prepaid expenses and deferred income) and translated at the historical rate in accordance with IAS 21.23(b). Foreign currency income and expenses are generally translated at the exchange rate at the end of the month.

Gains and losses resulting from the translation of monetary assets and liabilities are recognized in the income statement. Gains and losses on the translation of non-monetary items are either taken directly to the revaluation reserve or recognized in net trading income depending on the item's underlying measurement category.

The annual financial statements of Postbank's foreign subsidiaries prepared in foreign currencies are translated using the modified closing rate method (IAS 21.39). The resulting exchange differences are taken directly to equity.

(p) Income tax

Income taxes are recognized and measured in accordance with IAS 12. Deferred taxes are generally recognized for all temporary differences between the carrying amounts in the IFRS financial statements and the carrying amounts in the tax accounts (tax base). Deferred tax assets are recognized for tax loss carryforwards in the amount of probable future utilization.

Deferred tax assets are carried under tax assets; deferred tax liabilities are carried under tax liabilities.

The corresponding current and noncurrent deferred tax assets and liabilities are offset in accordance with IAS 12.74.

While the calculation of current taxes as of December 31, 2007 is based on a tax rate of 39.9 %, deferred taxes were already calculated according to the 2008 tax rate of 29.8 % (see Note 5).

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The notional tax rate of 29.8 % comprises statutory corporate income tax and the solidarity surcharge of 15.825 %, as well as a trade tax of 14.00 %, which is calculated according to an average trade tax multiplier of 400 %.

Income and expenses from deferred taxes are recognized under income tax separately from current tax income and expenses. Recognition depends on the accounting treatment of the underlying item. For example, deferred taxes are recognized in net profit or loss if the balance sheet item is itself recognized in net profit or loss. Deferred taxes are credited or charged to the revaluation reserve in equity if the balance sheet item is itself credited or charged directly to equity (IAS 12.61), e. g. in the case of remeasurement of available-for-sale financial instruments.

Deferred tax liabilities for temporary differences associated with investments in subsidiaries, branches, and associates do not have to be recognized under IAS 12.39 if the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Because both criteria are met in the case at hand, no deferred tax liabilities were recognized for the temporary differences in connection with investments in subsidiaries amounting to €22.4 million.

(5) New developments in international accounting under IFRSs and new statutory requirements

From January 1, 2007 Postbank adopted International Financial Reporting Standard 7 "Financial Instruments: Disclosures". Postbank implements the classification of financial instruments required under IFRS 7.6 as follows:

Measurement	Classes	
	Balance sheet item and IAS 39 category	
Measured at amortized cost[1]	Loans and advances to other banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Loans and advances to customers	Held to maturity
	Investment securities	Held to maturity
	Investment securities	Loans and receivables
	Deposits from other banks	Liabilities at amortized cost
	Due to customers	Liabilities at amortized cost
	Securitized liabilities	Liabilities at amortized cost
	Subordinated debt	Liabilities at amortized cost
Measured at fair value	Loans and advances to customers	Designated as at fair value
	Investment securities	Available for sale
	Trading assets	Held for trading
	Trading liabilities	Held for trading
	Hedging derivatives (assets)	
	Hedging derivates (liabilities)	
Off-balance sheet transactions (nominal amounts)	Contingent liabilities (guarantees and warranties)	
	Other obligations (irrevocable loan commitments)	

[1] Including fair value change in the hedged risk in the case of hedged items (hedge fair value)

The definition of the classes is derived from the classification of financial instruments in IAS 39 in conjunction with the relevant balance sheet items. The required disclosures are presented in the tables to the Notes or as narrative explanations.

The requirement to apply IFRS 7 from January 1, 2007 means that IAS 30 no longer applies; however, the revised IAS 32 continues to be applicable. There is no longer an industry standard containing guidance on disclosure obligations for financial instruments. Postbank continues to apply some of the former requirements of IAS 30 and IAS 32 to ensure the consistent presentation of its net assets, financial position,
75 and results of operations. Disclosures on the risks relating to financial instruments as required by IFRS 7 are presented in the Risk Report as part of the Group Management Report.

The amendment to IAS 1 addressing "Capital Disclosures" requires extended disclosures on an entity's capital. The disclosures on the
76 goals and principles of capital management are presented in the Risk Report (subsection "Risk capital and risk limiting").

The presentation of measurement gains and losses relating to the fair value option has been changed as against the previous year. Changes in fair value are reported in net trading income, rather than net interest income. The prior-period figures were restated. The interest on portfolios allocated to the fair value option and the related interest rate swaps continue to be reported in net interest income.

In accordance with IFRIC 10 "Interim Financial Reporting and Impairment," impairment losses on goodwill or equity instruments recognized in interim reporting periods are not reversed.

Due to the 2008 business tax reform resolved by Germany's *Bundesrat* (upper house) on July 6, 2007, Deutsche Postbank AG measures its deferred tax items at the new applicable tax rates. This will reduce the notional income tax rate from 39.9% to 29.8%. Since Deutsche Postbank AG has a surplus of deferred tax liabilities, the one-time remeasurement in fiscal year 2007 leads to a tax benefit of approximately €153 million that also includes the effect of the adjustment of the revaluation reserve.

Postbank has not adopted IFRS 8 "Operating Segments" (endorsed by EU Regulation 1358/2007 of November 21, 2007) prior to its effective date. IFRS 8 is required to be applied for all fiscal years beginning on or after January 1, 2009. The application of IFRS 8 from 2009 will not have any material effects.

At present, it does not appear that the standards IAS 1 (separate presentation of owner and non-owner changes in equity) and IFRIC 11 "Group and Treasury Share Transactions" applicable in the future will have any material impact on Postbank.

Income statement disclosures

(6) Net interest income

	2007 €m	2006[1] €m
Interest and current income		
Interest income from:		
Lending and money market transactions	5,437	5,083
Fixed-income and book-entry securities	2,491	2,068
Trading operations	347	249
Net gains/losses on hedges	–1	8
	8,274	7,408
Current income from:		
Equities and other non-fixed-income securities	103	231
Investments in associates	7	11
	110	242
	8,384	7,650
Interest expense on:		
Deposits	4,825	3,887
Securitized liabilities	587	853
Subordinated debt	280	264
Swaps	110	246
Trading operations	342	246
	6,144	5,496
Total	2,240	2,154

Interest income from lending and money market transactions includes €34 million (previous year: €29 million) of interest income accrued on impaired assets in accordance with IFRS 7.20 (d) (unwinding in accordance with IAS 39).

Interest expense on liabilities, securitized liabilities, and subordinated debt relates to financial instruments classified as liabilities at amortized cost.

Interest income and expenses on swaps used in a hedging relationship are reported as a net expense. The underlying transactions are hedging instruments that meet the qualification criteria for hedge accounting in accordance with IAS 39, amounting to €54 million (previous year: €159 million). In addition, this includes €56 million (previous year: €87 million) in derivatives that hedge loans and advances designated under the fair value option.

The interest expense on the trading portfolio refers to imputed interest expenses.

[1] Prior-period figures restated (see Note 5)

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Gains or losses from the remeasurement of fair value hedges are carried under net gains/losses on hedges which are composed of the following items:

	2007 €m	2006[1] €m
Gains/losses on the fair value remeasurement of hedged items	165	–375
Gains/losses on the fair value remeasurement of hedging instruments	–166	383
Total	–1	8

(7) Allowance for losses on loans and advances

	2007 €m	2006 €m
Cost of additions to allowance for losses on loans and advances		
Specific valuation allowances	415	384
Portfolio-based valuation allowances	19	19
Cost of additions to provisions for credit risks	18	21
Direct loan write-offs	31	27
Income from reversals of the allowance for losses on loans and advances		
Specific valuation allowances	130	100
Portfolio-based valuation allowances	1	–
Income from the reversal of provisions for credit risks	3	–
Recoveries on loans previously written off	11	14
Total	338	337

€323 million (previous year: €316 million) of the allowance for losses on loans and advances relates to receivables classified as loans and receivables, and €15 million (previous year: €21 million) to guarantees.

(8) Net fee and commission income

	2007 €m	2006 €m
Giro business	361	363
Securities business	136	118
Lending and guarantee business	111	105
Branch business	509	542
Other fee and commission income	312	279
Total	1,429	1,407

Other fee and commission income includes income from payment transaction services for third parties.

Net fee and commission income from trust activities amounted to €8 million (previous year: €9 million) and is reported in other fee and commission income.

(9) Net trading income

Quoted prices are generally used to establish the fair values of trading assets and trading liabilities. The fair values of unlisted products are established using the discounted present value method or suitable valuation models. In addition to trading income and expenses, net trading income also includes net remeasurement gains on trading assets.

	2007 €m	2006[1] €m
Net income from sale of securities and loans	105	24
Net gain/losses on remeasurement of securities and loans		
Bonds and other fixed-income securities	–5	1
Equities	4	1
Loans (held for trading)	–6	–3
	–7	–1
Net gain on derivatives carried in the trading portfolio and the banking book		
Gain on derivatives	3,639	4,581
Loss on derivatives	–3,445	–4,355
	194	226
Net gain from application of the fair value option		
of which loans and advances to customers	–174	–284
of which derivatives substantively linked to the fair value option	186	303
	12	19
Foreign exchange loss	–7	–2
Net fee and commission income carried in the trading portfolio	–7	–2
Total	290	264

The net gain on derivatives carried in the trading portfolio and the banking book includes an income from swaps of €4 million (previous year: €73 million). The underlying swap holdings are not part of a hedging relationship as defined by IAS 39. Gains and losses on derivatives also include losses on the measurement of embedded derivatives from structured credit products (€85 million), CPPI structures (€19 million) and other promissory note loans (€20 million).

	2007 €m	2006[1] €m
Net income from interest rate products	90	26
Net gain on derivatives carried in the trading portfolio and the banking book	194	226
Net gain from application of the fair value option	12	19
Net income from equities	8	–3
Foreign exchange loss	–7	–2
Net fee and commission income in the trading portfolio	–7	–2
Total	290	264

(10) Net income from investment securities

Net income from investment securities contains net gains/losses from the sale and remeasurement of investment securities, investments in unconsolidated subsidiaries and investments in associates.

	2007 €m	2006 €m
Net income from loans-and-receivables investment securities	–87	28
thereof net income from sale	–20	28
Gains on sale	10	85
Losses on sale	30	57
thereof net impairment loss	–67	–
Net income from available-for-sale investment securities	–36	167
thereof net income from sale	27	295
Gains on sale	381	493
Losses on sale	354	198
thereof net impairment loss	–63	–128
Net income from loans to other banks	1	15
thereof net income from sale of loans and receivables	1	15
Net income from loans to customers	24	9
thereof net income from sale of loans and receivables	24	9
Gain/loss from disposal of fair value hedges	3	–2
Net income from investments in associates	389	75
Total	294	292

[1] Prior-period figures restated (see Note 5)

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	2007 €m	2006 €m
Net income from bonds and promissory note loans	–163	40
Net income from equities and other non-fixed-income securities	198	305
Net income from investments in associates	389	75
Impairment	–130	–128
Total	294	292

€112 million of the net impairment loss on investment securities relates to structured credit products and €18 million to write-downs of retail funds.

(11) Administrative expenses

Administrative expenses are composed of staff costs, non-staff operating expenses and depreciation and write-downs of property and operating and office equipment. These expenses are composed of the following items:

	2007 €m	2006 €m
Staff costs		
Wages and salaries	1,053	1,030
Social security contributions	102	111
Expenses for pensions and other benefits	217	240
	1,372	1,381
Other administrative expenses	1,402	1,324
Depreciation and write-downs of property and equipment	82	107
Total	2,856	2,812

Expenses for pensions and other benefits primarily include expenses for defined contribution plans amounting to €120 million (previous year: €114 million) and pension expenses for defined benefit plans amounting to €81 million (previous year: €101 million).

Other administrative expenses relate primarily to IT costs of €328 million (previous year: €296 million); operating building and premises expenses of €159 million (previous year: €150 million); market communication costs of €151 million (previous year: €136 million); expenses for intragroup services received from Deutsche Post AG in the amount of €128 million (previous year: €146 million); and legal, consulting and audit costs of €102 million (previous year: €74 million). €1 million of the other administrative expenses relates to investment property (previous year: €2 million).

Other administrative expenses include lease expenses of €150 million (previous year: €138 million), composed of expenses for leased intangible assets, land and buildings, and operating and office equipment under operating leases.

€1 million of the depreciation of property and equipment relates to investment property (previous year: €1 million).

(12) Other income

	2007 €m	2006 €m
Income from reversal of other provisions	45	53
Income from property and equipment	20	28
Reimbursements from internal welfare institutions	19	20
Income from reversal of accruals	10	2
Income from branch final settlement	10	–
Income from uncollectable transactions	6	7
Miscellaneous	50	95
Total	160	205

Income from property and equipment relates to rental income (previous year: €23 million), of which €1 million (previous year: €1 million) relates to investment property.

The miscellaneous item includes a large number of individual items.

(13) Other expenses

	2007 €m	2006 €m
Amortization and write-downs of intangible assets	78	63
Expenses for special projects	23	–
Expenses for other taxes	13	12
Expenses from property and equipment	5	8
Expenses for the Federal Posts and Telecommunications Agency (BAnstPT and StiftPT)	4	5
Expenses from branch final settlement	–	1
Miscellaneous	92	143
Total	215	232

Expenses from property and equipment include losses on the disposal of property and equipment and intangible assets.

Expenses for other taxes relate primarily to land taxes amounting to €4 million (previous year: €3 million).

The miscellaneous item includes interest expense on payables to tax authorities in the amount of €1 million (previous year: €3 million).

The miscellaneous item includes a large number of individual items.

(14) Income tax

Income taxes in the Group were composed of the following items:

	2007 €m	2006 €m
Current income tax expense		
Corporate income tax and solidarity surcharge	22	54
Trade income tax	22	23
	44	77
Income/expense from prior-period income tax	20	16
Effective income tax expense	64	93
Expense from deferred taxes		
from temporary differences	18	133
from the reversal of loss carryforwards	51	19
	69	152
Total	133	245

The following reconciliation illustrates the relation between profit after tax and income tax expense:

	2007 €m	2006 €m
Profit from ordinary activities after tax	871	696
Income tax expense	133	245
Profit before tax	1,004	941
Applicable tax rate	39.90 %	39.90 %
Expected income taxes	401	375
Tax effects		
Effect of changes in tax rate	–206	–
Effect of difference between applicable tax rates in Germany and abroad	–17	–30
Effect of tax-free foreign income	–	–
Effect of tax-free domestic income and non-deductible expenses	7	–8
Effect of previously unrecognized tax losses	30	40
Effect of prior-period taxes	77	12
Effect of equities and investments resulting from section 8b KStG	–158	–140
Other	–1	–4
	–268	–130
Income tax expense	133	245

If a corporation receives dividends or other income from an investment or if it generates a capital gain on the disposal of this investment, 95 % of this investment income remains tax-free for the receiving corporation in accordance with section 8b of the *Körperschaftssteuergesetz* (KStG – German Corporation Tax Act). This rule is based on the principle that dividends and capital gains on the disposal of shares in corporations remain tax-free provided that they remain within corporations.

Such gains are therefore only taxed if they are distributed to ineligible recipients (natural persons or associations of persons) under the *Halbeinkünfteverfahren* (German half-income system). No distinction is made between domestic and foreign investments.

Balance sheet disclosures

(15) Cash reserve

The cash reserve is composed of the following items:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Cash	1,036	807
Balances with central banks	2,316	208
Total	3,352	1,015

€2,247 million (previous year: €140 million) of the balances with central banks relates to balances with the Deutsche Bundesbank.

The minimum reserve requirement at end-December 2007 was €1,687 million (previous year: €1,493 million).

(16) Loans and advances to other banks

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Domestic banks		
Payable on demand	581	1,179
Other loans and advances	10,149	6,028
	10,730	7,207
Foreign banks		
Payable on demand	1,020	727
Other loans and advances	12,831	8,416
	13,851	9,143
Total	24,581	16,350

Loans and advances to other banks only include financial instruments classified as loans and receivables.

€6,871 million (previous year: €7,241 million) of loans and advances to other banks is due after more than 12 months.

Collateral received that can be unconditionally liquidated or can be unconditionally sold:

	Fair value of collateral that can be unconditionally liquidated or can be unconditionally sold		Fair value of collateral that was sold or repledged and is subject to an obligation to return	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Financial collateral	11,413	1,251	1,298	486
Non-financial collateral	–	–	–	–
Total	11,413	1,251	1,298	486

Loans and advances to other banks exclusively comprise financial instruments classified as loans and receivables, with the exception of collateralized receivables (fair value hedges) of €1,516 million (previous year: €2,136 million).

As of December 31, 2007, there were receivables from bona fide transactions under repurchase agreements amounting to €12,384 million (previous year: €2,013 million). Postbank is the lender in such transactions. Securities purchased under agreements to resell relate to listed bonds of public-sector issuers, issuances by German and foreign banks, corporate bonds, and equities.

Loans and advances to other banks include fixed-interest loans in the amount of €18.2 billion (previous year: €10.4 billion) and variable-interest loans in the amount of €6.4 billion (previous year: €6.0 billion).

(17) Loans and advances to customers

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Private mortgage lending	64,781	59,148
Home savings loans	3,179	3,147
Commercial loans	17,553	13,603
Public sector	3,546	5,444
Installment credits	2,289	2,447
Other loans and advances	782	3,393
Total	92,130	87,182
thereof:		
Secured by mortgage charges	50,372	45,565
Public-sector loans	3,546	5,444

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Domestic customers	74,970	74,358
Foreign customers	17,160	12,824
Total	92,130	87,182

Loans and advances to customers without a fixed maturity amounted to 1.3 % of total assets (previous year: 0.8 %).

€69,769 million (previous year: €70,872 million) of loans and advances to customers is due after more than 12 months.

Loans and advances to customers include fixed-interest loans in the amount of €84.4 billion (previous year: €77.0 billion) and variable-interest loans in the amount of €7.7 billion (previous year: €10.2 billion).

Loans and advances to customers include amounts due under finance leases for €146 million (previous year: €95 million). The gross investment value of the leases amounts to €155 million (previous year: €108 million).

The total amount of future lease payments is €153 million (previous year: €107 million) and has the following maturity structure:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
in the first year after the balance sheet date	40	32
in the second year after the balance sheet date	41	26
in the third year after the balance sheet date	35	25
in the fourth year after the balance sheet date	21	15
in the fifth year after the balance sheet date	11	6
more than five years after the balance sheet date	5	3
Total	153	107

Loans and advances to customers are classified as follows in accordance with the categories of financial instruments as defined in IAS 39:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Loans and receivables	84,564	80,483
thereof fair value hedges	1,356	1,500
Held to maturity	456	518
Fair value option	7,110	6,181
Total	92,130	87,182

(18) Total credit extended

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Loans and advances to other banks	24,581	16,350
Loans and advances to customers	92,130	87,182
Guarantees	1,428	1,974
Total	118,139	105,506

(19) Allowance for losses on loans and advances

The allowance for losses on loans and advances covers all identifiable credit risks. Portfolio-based valuation allowances were recognized for the potential credit risk.

Risks have been provided for by an allowance for losses on loans and advances carried under assets, and by the recognition of provisions for credit risks.

The allowance for losses on loans and advances is composed of the following items:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Allowances for losses on loans and advances to other banks	–	–
Allowances for losses on loans and advances to customers	1,154	1,155
Total allowances for losses on loans and advances	1,154	1,155
Provisions for credit risks	39	34
Total	1,193	1,189

The allowance for losses on loans and advances carried under assets changed as follows in the year under review:

	Specific valuation allowances		Portfolio-based valuation allowances		Total	
	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m
Balance at Jan. 1	1,090	732	65	44	1,155	776
Changes in basis of consolidation	–	267	–	2	–	269
Reclassification in accordance with IFRS 5	–30	–	–	–	–30	–
Additions						
Allowance charged to the income statement	415	384	19	19	434	403
Disposals						
Utilization	236	161	–	–	236	161
Allowance reversed to the income statement	130	100	1	–	131	100
Unwinding	34	29	–	–	34	29
Currency translation differences	4	3	–	–	4	3
Balance at Dec. 31	1,071	1,090	83	65	1,154	1,155

Collective valuation allowances are also reported under the specific valuation allowances.

The total amount of loans at the balance sheet date for which no interest payments are received was €918 million (previous year: €926 million). Write-downs were charged on loans with a total volume of €1,877 million (previous year: €1,864 million). The outstanding interest receivables accounted for by these loans amounted to €124 million at December 31, 2007 (previous year: €128 million).

€31 million of loans and advances was written off directly in the year under review (previous year: €27 million). Recoveries on loans written off amounted to €11 million (previous year: €14 million).

(20) Trading assets

Group trading activities consist of trading in bonds and other fixed-income securities, equities and other non-fixed-income securities, promissory note loans and foreign currencies, as well as derivatives. All trading assets are carried at their fair values.

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Bonds and other fixed-income securities		
Public-sector issuers	31	180
Other issuers	4,108	9,575
thereof money market instruments	1,292	171
	4,139	9,755
Equities and other non-fixed-income securities	161	28
Building loans held for trading	209	208
Positive fair values of derivatives carried as trading assets	5,155	2,942
Positive fair values of banking book derivatives	131	276
Positive fair values from derivatives relating to hedged items accounted for under the fair value option	141	71
Total	9,936	13,280

€7,365 million (previous year: €11,810 million) of trading assets is due after more than 12 months.

€1.5 billion of the bonds and other fixed-income securities has a fixed rate of interest over the entire term (previous year: €0.8 billion), while €2.6 billion (previous year: €9.0 billion) has a variable rate of interest (floaters).

The following amounts of bonds and other fixed-income securities, and equities and other non-fixed income securities carried as trading assets, are negotiable and listed:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Bonds and other fixed-income securities	4,109	9,720
Equities and other non-fixed-income securities	161	28

(21) Hedging derivatives

Hedges with positive fair values that qualify for hedge accounting in accordance with IAS 39 are composed of the following items:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	11	8
	11	8
Hedging derivatives on loans to customers		
Loans and receivables	13	11
	13	11
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	241	281
	241	281
Liabilities		
Deposits from other banks	17	35
Due to customers	14	41
Securitized liabilities	98	101
Subordinated debt	27	8
	156	185
Total	421	485

Hedging derivatives amounting to €371 million (previous year: €407 million) are due after more than 12 months.

(22) Investment securities

Investment securities include bonds and other fixed-income securities, equities and other non-fixed income securities, investments in associates and investments in unconsolidated subsidiaries.

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Bonds and other fixed-income securities		
Public-sector issuers	15,124	17,252
Other issuers	50,961	40,114
	66,085	57,366
Equities and other non-fixed-income securities		
Equities	1,016	1,287
Investment fund shares	1,402	4,544
	2,418	5,831
Investments in associates	22	17
Investments in unconsolidated subsidiaries	81	85
Total	68,606	63,299

Bonds and other fixed-income securities contain collection documents amounting to €6 million (previous year: €75 million).

Investment securities amounting to €61,477 million (previous year: €55,591 million) are due after more than 12 months.

€41.6 billion of the bonds and other fixed-income securities has a fixed rate of interest over the entire term (previous year: €44.3 billion), while €24.5 billion (previous year: €13.1 billion) has a variable rate of interest (floaters).

Postbank's portfolio of structured credit products has a total volume of €6.3 billion. Detailed analysis by Postbank has shown that collateralized debt obligations (CDOs) contain a relevant volume of €0.8 billion in U.S. subprime exposures.

Investment securities are classified as follows in accordance with the categories of financial instruments as defined in IAS 39:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Bonds and other fixed-income securities		
Loans and receivables investment securities	26,600	19,031
thereof fair value hedges	5,447	5,369
Held to maturity	730	4,956
Available for sale	38,755	33,379
thereof fair value hedges	14,633	15,770
	66,085	57,366
Equities and other non-fixed-income securities		
Available for sale	2,418	5,831
	2,418	5,831
Investments in associates (available for sale)	22	17
Investments in unconsolidated subsidiaries (available for sale)	81	85
Total	68,606	63,299

The following amounts of investment securities are negotiable and listed:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Bonds and other fixed-income securities	64,066	56,624
Equities and other non-fixed-income securities	1,583	3,327
Investments in associates	9	–

Investment securities were furnished as collateral for the following liabilities:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Liabilities	24,518	22,984
Contingent liabilities	–	66
Total	24,518	23,050

To enable it to enter into open market transactions, Postbank has pledged securities with an eligible value of €23 billion (previous year: €15 billion) as collateral to the European Central Bank. There were open market transactions amounting to €15 billion at the balance sheet date (previous year: €10 billion). The securities lodged as collateral are reported as investment securities.

Changes in the fair value of unhedged available-for-sale securities in the amount of €–515 million were charged to the revaluation reserve (previous year: €–125 million). €24 million (previous year: €177 million) carried in the revaluation reserve was reversed to income in the period under review from the disposal of investment securities and the recognition of impairment losses.

Impairment losses totaling €130 million (previous year: €128 million) were recognized in fiscal year 2007 to reflect the economic performance of the financial instruments.

(23) Intangible assets

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Acquired goodwill	1,631	1,626
Acquired software, concessions, industrial rights	606	721
Internally generated intangible assets and software	66	55
Advance payments on intangible assets and in-process intangible assets	122	103
Total	2,425	2,505

"Acquired software, concessions, industrial rights" includes the BHW brand in the amount of €319 million. €90 million (previous year: €166 million) was recognized for customer relationships from continuing operations and €66 million (previous year: €72 million) for beneficial contracts. In addition to current amortization, the value of customer relationships fell by €69 million due to the sale of BHW Lebensversicherung AG.

A comparison of historical cost and cumulative amortization with the prior-period amounts is presented below:

	Acquired goodwill €m	Acquired software, concessions, industrial rights €m	Internally generated intangible assets and software €m	Advance payments on intangible assets and in-process intangible assets €m	Total €m
Historical cost					
Opening balance at Jan. 1, 2006	62	366	17	35	480
Changes in basis of consolidation	–	602	22	53	677
Additions	1,575	21	18	59	1,673
Reclassifications	–	34	8	–42	0
Disposals	–	10	3	2	15
Closing balance at Dec. 31, 2006	1,637	1,013	62	103	2,815
Changes in basis of consolidation	–	–23	–	–	–23
Additions	5	18	8	44	75
Reclassifications	–	10	12	–22	0
Disposals	–	83	–	3	86
Closing balance at Dec. 31, 2007	1,642	935	82	122	2,781

	Acquired goodwill €m	Acquired software, concessions, industrial rights €m	Internally generated intangible assets and software €m	Advance payments on intangible assets and in-process intangible assets €m	Total €m
Amortization					
Opening balance at Jan. 1, 2006	11	245	1	–	257
Changes in basis of consolidation	–	–	–	–	–
Amortization	–	58	5	–	63
Additions	–	–	–	–	–
Reclassifications	–	–1	1	–	0
Disposals	–	10	–	–	10
Closing balance at Dec. 31, 2006	11	292	7	–	310
Changes in basis of consolidation	–	–19	–	–	–19
Amortization	–	69	9	–	78
Additions	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	13	–	–	13
Closing balance at Dec. 31, 2007	11	329	16	–	356
Carrying amount at Dec. 31, 2006	1,626	721	55	103	2,505
Carrying amount at Dec. 31, 2007	1,631	606	66	122	2,425

The carrying amounts of intangible assets changed as follows in the year under review:

	Carrying amount at Jan. 1, 2007 €m	Additions €m	Disposals €m	Reclassifications €m	Amortization €m	Carrying amount at Dec. 31, 2007 €m
Acquired goodwill	1,626	5	–	–	–	1,631
Acquired software, concessions, industrial rights	721	18	74	10	69	606
Internally generated intangible assets and software	55	8	–	12	9	66
Advance payments on intangible assets and in-process intangible assets	103	44	3	–22	–	122
Total	2,505	75	77	0	78	2,425

The carrying amount as of December 31, 2007 of advance payments on intangible assets is €83 million (previous year: €70 million); the carrying amount of in-process intangible assets is €39 million (previous year: €33 million).

(24) Property and equipment

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Land and buildings	768	784
Operating and office equipment	148	152
Advance payments and assets under development	11	5
Total	927	941

A comparison of historical cost and cumulative depreciation with the prior-period amounts is presented below:

	Land and buildings €m	Operating and office equipment €m	Advance payments and assets under development €m	Total €m
Historical cost				
Opening balance at Jan. 1, 2006	864	429	7	1,300
Changes in basis of consolidation	164	80	2	246
Additions	1	51	5	57
Reclassifications	1	6	–7	0
Disposals	2	156	2	160
Closing balance at Dec. 31, 2006	1,028	410	5	1,443
Changes in basis of consolidation	–	1	–	1
Additions	50	149	11	210
Reclassifications	3	1	–4	–
Disposals	2	61	1	64
Closing balance at Dec. 31, 2007	1,079	500	11	1,590

	Land and buildings €m	Operating and office equipment €m	Advance payments and assets under development €m	Total €m
Depreciation				
Opening balance at Jan. 1, 2006	212	337	–	549
Changes in basis of consolidation	–2	–6	–	–8
Depreciation	34	73	–	107
Reclassifications	–	–	–	–
Disposals	–	146	–	146
Closing balance at Dec. 31, 2006	244	258	–	502
Changes in basis of consolidation	0	1	–	1
Additions	48	92	–	140
Reclassifications	–	–	–	–
Depreciation	20	61	–	81
Disposals	1	58	–	59
Closing balance at Dec. 31, 2007	311	352	–	663
Carrying amount at Dec. 31, 2006	784	152	5	941
Carrying amount at Dec. 31, 2007	768	148	11	927

The carrying amounts of property and equipment changed as follows in the year under review:

	Carrying amount at Jan. 1, 2007 €m	Additions €m	Disposals €m	Reclassi-fications €m	Depre-ciation €m	Carrying amount at Dec. 31, 2007 €m
Land and buildings	784	2	–	3	21	768
Operating and office equipment	152	59	3	1	61	148
Advance payments and assets under development	5	11	1	–4	–	11
Total	941	72	4	0	82	927

Additions and disposals reflect other adjustments to cost and cumulative depreciation.

At the balance sheet date, assets under development amount to €8 million (previous year: €4 million).

(25) Investment property

A comparison of historical cost and cumulative depreciation with the prior-period amounts is presented below:

	Historical cost		Cumulative depreciation	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Investment property	102	102	29	28

The carrying amounts of investment property changed as follows in the year under review:

	Carrying amount at Jan. 1, 2007 €m	Additions €m	Disposals €m	Reclassifications €m	Depreciation €m	Carrying amount at Dec. 31, 2007 €m
Investment property	74	–	–	–	1	73

The disclosures relating to investment property for fiscal years 2006 and 2007 are as follows:

	Third-party use %	Rental income €m	Direct operating expenses €m	Restraints on disposal €m	Disposal proceeds received €m	Contractual obligations €m
Investment property	100	1	1	–	–	–

The fair value of investment property amounts to €73 million according to expert's opinion.

(26) Current and deferred tax assets

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Current tax assets	117	86
Deferred tax assets		
from temporary differences	333	42
from tax loss carryforwards	150	202
domestic	150	202
foreign	–	–
	483	244
Total	600	330

Deferred tax assets were recognized in connection with temporary differences relating to the following balance sheet items, and in connection with unused tax losses:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Assets		
Loans and advances	207	93
Allowance for losses on loans and advances	–	15
Trading assets	–	–
Hedging derivatives	–	–
Investment securities	186	24
Property and equipment	3	3
Other assets	18	125
Liabilities		
Amounts due to other banks and customers	75	2
Trading liabilities	1,440	916
Hedging derivatives	138	235
Provisions for pensions and other employee benefits	33	46
Other provisions	12	79
Other liabilities	2	3
	2,114	1,541
Tax loss carryforwards	150	202
Netted against deferred tax liabilities	1,781	1,499
Total	483	244

At December 31, 2007, there were no deductible temporary differences and tax loss carryforwards for which no deferred tax assets were recognized in the balance sheet.

(27) Other assets

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Prepaid expenses	363	327
Trade receivables	90	62
Advances to members of the mobile sales force	11	23
Receivables from tax authorities	10	8
Miscellaneous	55	161
Total	529	581

€276 million of prepaid expenses (previous year: €283 million) relates to prepaid brokerage commissions and €48 million (previous year: €42 million) relates to prepaid rent and lease expenses.

Other assets amounting to €393 million (previous year: €335 million) have a maturity of more than 12 months.

(28) Assets held for sale

	Dec. 31, 2007 €m
Loans and advances to customers	595
Allowance for losses on loans and advances	–30
Total	565

(29) Deposits from other banks

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Domestic banks		
Payable on demand	2,708	2,245
With an agreed maturity or withdrawal notice	37,125	27,376
	39,833	29,621
Foreign banks		
Payable on demand	584	474
With an agreed maturity or withdrawal notice	20,729	17,224
	21,313	17,698
Total	61,146	47,319

€783 million of the deposits from other banks is covered by fair value hedges (previous year: €2,802 million).

Deposits from other banks only include financial instruments classified as liabilities at amortized cost.

€11,454 million (previous year: €9,236 million) of deposits from other banks is due after more than 12 months.

Deposits from other banks include fixed-interest deposits in the amount of €54.2 billion (previous year: €44.8 billion) and variable-interest deposits in the amount of €6.9 billion (previous year: €2.5 billion).

As of December 31, 2007 there were bona fide securities repurchase agreements amounting to €8.7 billion (previous year: €9.2 billion).

(30) Due to customers

Amounts due to customers are primarily composed of savings deposits, amounts payable on demand and term deposits.

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Savings deposits		
With an agreed withdrawal notice of three months	34,588	35,574
With an agreed withdrawal notice of more than three months	408	460
	34,996	36,034
Home savings deposits	16,915	16,981
thereof: on terminated contracts	70	68
thereof: on allotted contracts	6	5
Other amounts due		
Payable on demand	26,589	23,525
With an agreed maturity or withdrawal notice	32,196	24,776
	58,785	48,301
Total	110,696	101,316
Domestic customers	105,281	97,312
Foreign customers	5,415	4,004
Total	110,696	101,316

€4,542 million of the amounts due to customers is covered by fair value hedges (previous year: €4,761 million).

Amounts due to customers only include financial instruments classified as liabilities at amortized cost.

€32,257 million (previous year: €28,962 million) of amounts due to customers is due after more than 12 months.

Amounts due to customers contain fixed-interest deposits in the amount of €46.2 billion (previous year: €43.1 billion) and variable-interest deposits in the amount of €64.5 billion (previous year: €58.2 billion).

(31) Securitized liabilities

Amounts reported as securitized liabilities relate to bonds, including mortgage bonds *(Hypothekenpfandbriefe)* and public sector mortgage bonds *(Pfandbriefe)*, and money market instruments (e. g. Certificates of Deposit, Euro Notes, Commercial Paper).

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Mortgage bonds *(Hypothekenpfandbriefe)*	11	53
Public-sector mortgage bonds *(Pfandbriefe)*	59	81
Other debt instruments	9,488	15,752
Total	9,558	15,886

€5,797 million of the securitized liabilities is covered by fair value hedges (previous year: €8,012 million).

Securitized liabilities only include financial instruments classified as liabilities at amortized cost.

€7,393 million (previous year: €8,059 million) of securitized liabilities is due after more than 12 months.

Securitized liabilities include fixed-interest liabilities in the amount of €6.2 billion (previous year: €13.7 billion) and variable-interest liabilities in the amount of €3.4 billion (previous year: €2.2 billion).

Repurchased own bonds amounting to €100 million (previous year: €158 million) were deducted directly from securitized liabilities.

(32) Trading liabilities

Trading liabilities consist of the negative fair values of derivatives carried in the trading portfolio and in the banking book as well as delivery obligations under securities sold short.

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Negative fair values of trading derivatives	4,955	2,864
Negative fair values of banking book derivatives	330	351
Negative fair values from derivatives relating to hedged items accounted for under the fair value option	308	401
Delivery obligations under securities sold short	1	2
Total	5,594	3,618

€4,875 million (previous year: €2,753 million) of trading liabilities is due after more than 12 months.

(33) Hedging derivatives

Hedges with negative fair values that qualify for hedge accounting in accordance with IAS 39 are composed of the following items:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	34	66
Purchased available-for-sale loans	–	–
	34	66
Hedging derivatives on loans to customers		
Loans and receivables	31	50
Purchased available-for-sale loans	–	–
	31	50
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	267	344
Equities and other non-fixed-income securities	–	–
	267	344
Liabilities		
Deposits from other banks	6	63
Due to customers	51	78
Securitized liabilities	311	237
Subordinated debt	173	120
	541	498
Total	873	958

€696 million (previous year: €808 million) of hedging derivatives is due after more than 12 months.

(34) Provisions for pensions and other employee benefits

The provisions for pension obligations are as follows:

Reconciliation of the present value of obligations, fair value plan assets and net pension provisions at December 31	2007 Mio €	2006 Mio €
Present value of obligations of fully or partially funded benefits	698	773
Present value of obligations of non-funded benefits	729	824
Present value of total defined benefit obligation	1,427	1,597
Fair value of plan assets	–392	–381
Unrealized gains (+)/losses (–)	108	–101
Net pension provisions	1,143	1,115

Change in present value of total defined benefit obligation	2007 €m	2006 €m
Present value of total defined benefit obligation at January 1	1,597	834
Current service cost, excluding employee contributions	34	38
Employee contributions	–	–
Interest cost	72	68
Pension benefits paid	–71	–69
Past service cost	–14	1
Plan settlements	–	–
Transfers	4	79
Changes in basis of consolidation	16	726
Actuarial gains (–)/losses (+)	–210	–80
Currency effects	–1	–
Present value of total defined benefit obligation at December 31	1,427	1,597

Change in plan assets	2007 €m	2006 €m
Fair value of plan assets at January 1	381	59
Employer contributions	16	16
Employee contributions	–	–
Expected return on plan assets	17	16
Gains (+)/losses (–) on plan assets	–7	–1
Pension benefits paid	–26	–25
Transfers	1	–2
Changes in basis of consolidation	11	316
Plan settlements	–	–
Currency effects	–1	2
Fair value of plan assets at December 31	392	381

Plan assets consist of fixed-income securities, time deposits, other cash and cash equivalents, etc. (10 %, previous year: 10 %), insurance contracts (80 %, previous year: 83 %), equities (1 %, previous year: 1 %) and other assets such as real estate (9 %, previous year: 6 %). None of the assets are used directly by the Postbank Group.

Gains and losses

Gains and losses on plan assets	2007 €m	2006 €m	2005 €m
Actual return on plan assets	10	15	6
Expected return on plan assets	17	16	3
Experience gains (+)/losses (–) on plan assets	–7	–1	3

Gains and losses on defined benefit obligation	2007 €m	2006 €m	2005 €m
Experience gains (+)/losses (–) on defined benefit obligations	33	–12	–13
Increase (+)/decrease (–) in defined benefit obligations arising from changes in assumptions	177	91	–60
Total actuarial gains (+)/losses (–) on defined benefit obligations	210	79	–73

	Change in net pension provisions	
	2007 €m	2006 €m
Balance at January 1	1,115	585
Pension expense	81	101
Pension benefits paid	–45	–44
Contributions to fund assets	–16	–16
Changes in basis of consolidation	5	410
Transfers	3	81
Currency effects	–	–2
Balance at December 31	1,143	1,115

Postbank expects payments in the amount of €69 million for net pension provisions in 2008. Of this figure, €56 million is attributable to expected direct pension payments by the Company and €13 million to expected plan assets contributions.

	Pension expense	
	2007 €m	2006 €m
Current service cost	34	38
Interest cost	72	68
Expected return on plan assets	–17	–16
Recognized past service cost	–14	1
Amortization of unrecognized gains (–)/losses (+)	5	10
Effects of plan settlements	1	–
Other	–	–
Pension expense	81	101

(35) Other provisions

The other provisions changed as follows in the year under review:

	Balance at Jan. 1, 2007 €m	Changes in basis of consolidation €m	Utilization €m	Reversal €m	Additions €m	Balance at Dec. 31, 2007 €m
Technical reserves (insurance)	1,560	–1,800	52	1	293	0
Provisions for home savings business	727	–	176	8	167	710
Restructuring	111	10	46	7	8	76
Provisions for credit risks	34	–	10	3	18	39
Risk compensation amounts of the Postbeamtenkrankenkasse (Postal Civil Service Health Insurance Fund)	6	–	–	–	–	6
Miscellaneous	138	7	133	29	150	133
Total	2,576	–1,783	417	48	636	964

€723 million (previous year: €2,277 million) of recognized provisions is due after more than 12 months.

Provisions for home savings business changed as follows in the year under review:

	Balance at Jan. 1, 2007 €m	Utilization €m	Reversal €m	Additions €m	Balance at Dec. 31, 2007 €m
Provisions for home savings business					
for interest premiums	507	134	–	148	521
for reimbursement claims from arrangement fees	132	22	–	1	111
for changes in interest rates	78	19	–	17	76
Miscellaneous	10	1	8	1	2
Total	727	176	8	167	710

Miscellaneous other provisions include provisions for litigation costs amounting to €13 million (previous year: €9 million), provisions for jubilee benefits amounting to €10 million (previous year: €9 million) and provisions for year-end closing costs amounting to €2 million (previous year: €3 million).

(36) Current and deferred tax liabilities

	Balance at Jan. 1, 2007 €m	Changes in basis of consolidation €m	Utilization €m	Reversal €m	Additions €m	Balance at Dec. 31, 2007 €m
Current taxes	84	–3	27	5	73	122
Deferred taxes	974	–16	–	1,605	1,749	1,102
Total	1,058	–19	27	1,610	1,822	1,224

Provisions for current taxes relate to current payment obligations to the tax authorities.

Deferred tax liabilities relate to the following balance sheet items:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Assets		
Loans and advances	242	384
Allowance for losses on loans and advances	2	–
Trading assets	1,515	958
Hedging derivatives	102	148
Investment securities	344	475
Property and equipment	12	8
Other assets	270	306
Liabilities		
Amounts due to other banks and customers	91	83
Trading liabilities	–	–
Hedging derivatives	6	–
Provisions for pensions and other employee benefits	12	22
Other provisions	15	1
Other liabilities	272	88
	2,883	2,473
Netted against deferred tax assets	1,781	1,499
Total	1,102	974

(37) Other liabilities

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Liabilities from other taxes	188	123
Trade payables	99	76
Liabilities from expenses for services performed by Deutsche Post AG	81	53
Liabilities from expenses for outstanding invoices	75	69
Liabilities from expenses for management bonuses	77	63
Liabilities from expenses for commissions and premiums	43	43
Deferred income	42	40
Liabilities from expenses for outstanding vacation entitlements and other compensated absences	46	45
Miscellaneous liabilities	184	274
Total	835	786

€69 million (previous year: €125 million) of other liabilities is due after more than 12 months.

(38) Subordinated debt

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Subordinated liabilities	2,778	2,822
Hybrid capital instruments	1,508	1,039
Profit participation certificates outstanding	1,262	1,132
Contributions by typical silent partners	55	55
Total	5,603	5,048

Subordinated debt only includes financial instruments classified as liabilities at amortized cost.

€5,260 million (previous year: €4,980 million) of subordinated debt is due after more than 12 months.

Due to the current maturity structure, only €3,521 million (previous year: €3,354 million) of the items reported as subordinated debt represents liable capital in accordance with the Basel Capital Accord.

The interest expense on subordinated liabilities amounts to €142 million (previous year: €134 million). Deferred interest not yet due amounting to €30 million (previous year: €43 million) is carried as subordinated debt and allocated to subordinated liabilities.

Hybrid capital instruments represent four issues in the form of Class B preferred securities that were issued by subsidiaries established for this purpose. The Class B preferred securities of Postbank Funding LLC I to IV are issued for an unlimited term and represent Tier 1 capital for banking regulatory purposes.

Deferred interest on hybrid capital instruments not yet due amounted to €16 million (previous year: €14 million); they are reported in hybrid capital instruments.

Holders of profit participation certificates receive an annual profit-related distribution ranking prior to shareholders' profit rights; the distribution right is reduced if and to the extent that no distributable profit is available.

The interest expense for 2007 on profit participation certificates outstanding totals €55 million (previous year: €52 million). Deferred interest not yet due amounting to €48 million (previous year: €53 million) is allocated directly to profit participation certificates.

Due to their contractual arrangements and economic substance, contributions by typical silent partners represent debt and are reported under subordinated debt in accordance with IAS 32.

The interest expense on contributions of assets by silent partners amounts to €4 million (previous year: €4 million).

A total of €2,006 million of the subordinated debt (previous year: €1,668 million) is hedged against changes in fair value, of which €498 million (previous year: €629 million) is attributable to subordinated liabilities and €1,508 million (previous year: €1,125 million) to hybrid capital instruments.

€4.1 billion of subordinated debt is (previous year: €4.2 billion) fixed-interest, while €1.6 billion (previous year: €0.8 billion) is variable-interest.

(39) Liabilities directly related to assets held for sale

Liabilities directly related to assets held for sale concern amounts due to customers.

(40) Equity

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Issued capital	410	410
Share premium	1,160	1,160
Retained earnings	3,541	3,051
Foreign currency translation reserve	–149	–117
Revaluation reserve	–523	6
Retained earnings	2,869	2,940
Unappropriated surplus	870	695
Minority interest	2	2
Total	5,311	5,207

Postbank's issued capital is composed of 164,000,000 no-par value registered shares.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the Bank's share capital on one or more occasions 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). This authorization can be exercised in full or in part. Shareholders' pre-emptive subscription rights are disapplied. The Management Board is authorized, with the consent of the Supervisory Board, to determine all additional rights attached to the shares and the conditions governing their issuance.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the Bank's share capital on one or more occasions by up to a total of €137 million up to May 10, 2011 by issuing new, no-par value registered shares against cash contributions (authorized capital II). This authorization can be exercised in full or in part. Shareholders must be granted preemptive rights. However, the Management Board is authorized, with the consent of the Supervisory Board, to disapply shareholders' pre-emptive rights if this is required to eliminate fractions. The Management Board is authorized, with the consent of the Supervisory Board, to determine all additional rights attached to the shares and the conditions governing their issuance.

The Management Board was authorized at the Annual General Meeting on May 10, 2007 to purchase own shares for the purposes of securities trading in accordance with section 71 (1) no. 7 of the AktG (German Stock Corporation Act) amounting to up to a total of 5 % of the share capital or for other purposes in accordance with section 71 (1) no. 8 of the AktG amounting to up to a total of 10 % of the share capital. In accordance with the legal regulation, the aggregate number of own shares held may not account for more than 10 % of the share capital. The authorizations took effect at the end of the Annual General Meeting and are valid until November 9, 2008. The authorizations on the purchase of own shares in accordance with section 71 (1) no. 7 of the AktG as well as section 71 (1) no. 8 of the AktG existing at the time of the Annual General Meeting, originally restricted until November 10, 2007, were revoked when the new authorization became effective.

The gains or losses on the measurement of available-for-sale financial instruments reported in the revaluation reserve in equity changed as follows:

	Available-for-sale financial instruments	
	2007 €m	2006 €m
Balance at January 1	6	311
Remeasurement gains/losses	–742	–247
Available for sale, hedged (due to changes in credit risk)	–227	–122
Available for sale, unhedged	–515	–125
Disposals and impairment	36	–187
Available for sale due to impairment	63	128
thereof hedged financial instruments	2	–
thereof unhedged financial instruments	61	128
Available for sale due to disposal/ hedge termination	–27	–315
thereof hedged financial instruments	60	–10
thereof unhedged financial instruments	–87	–305
Deferred taxes recognized directly in equity	177	129
Balance at December 31	–523	6

An amount of €36 million (previous year: €187 million) carried in the revaluation reserve was reversed to income from disposals and impairment on available-for-sale financial instruments in the year under review. In addition, the revaluation reserve decreased by €742 million (previous year: €247 million) due to the remeasurement of available-for-sale financial instruments. Deferred taxes recognized directly in equity changed by €177 million (previous year: €129 million) in the fiscal year under review to a closing balance of €286 million (previous year: €109 million); the revaluation reserve rose accordingly.

Other disclosures

(41) Segment reporting

Segment reporting by business division

The Postbank Group manages its activities on the basis of a management information system whose core component is management accounting by business division. The business divisions correspond to the Group's organizational structure.

In the Retail Banking business division, Postbank offers private and business customers a broad spectrum of banking and financial services. The product range encompasses checking and savings products, lending and debit cards, mortgage lending, installment credits, the home savings business, securities and securities accounts, and investment funds.

The result of this segment comprises the operating results of Postbank AG's retail banking, BHW subgroup, BHW Bank, Postbank Filialbetrieb AG, and VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH.

Postbank's Corporate Banking business division provides payment transaction services.

Commercial finance, especially regarding real estate, factoring, leasing, and logistics finance, also belong to this business division.

The result of this segment comprises Postbank AG's corporate banking business, PB Firmenkunden AG, PB Capital, Postbank Leasing GmbH, PB Factoring GmbH, the London Branch, and Deutsche Postbank International S.A.'s corporate banking business.

Proprietary trading activities and Deutsche Postbank International S.A.'s activities conducted from Luxembourg as well as fund management for a number of Postbank's retail funds and special funds (Deutsche Postbank Privat Investment Kapitalanlagegesellschaft GmbH and Deutsche Postbank Financial Services GmbH) are allocated to the Financial Markets business division.

The Transaction Banking business division offers organizational and technical settlement and processing services for the Group as well as for other banks in the area of domestic and international payment transaction services.

The "Others" item contains consolidation adjustments, items not attributable to the business divisions, unallocated overhead costs and Postbank's proprietary trading result.

The prior-period amounts were adjusted to reflect the organizational structures prevailing in 2007 as well as modified allocation criteria.

	Retail Banking		Corporate Banking		Transaction Banking		Financial Markets		Others		Group[1]	
	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m
Net interest income	2,392	2,339	292	260	4	5	114	92	–562	–542	2,240	2,154
Net trading income	14	32	–9	5	–	–	72	46	213	181	290	264
Net income from investment securities	50	25	–5	2	–	–1	1	6	248	260	294	292
Balance sheet-related revenues	2,456	2,396	278	267	4	4	187	144	–101	–101	2,824	2,710
Net fee and commission income	988	1,061	104	105	350	263	83	63	–96	–85	1,429	1,407
Total income	3,444	3,457	382	372	354	267	270	207	–197	–186	4,253	4,117
Administrative expenses	–2,210	–2,178	–163	–171	–331	–245	–83	–78	–69	–140	–2,856	–2,812
Allowance for losses on loans and advances	–292	–277	–28	–38	–	–	4	–3	–22	–19	–338	–337
Other income/expenses	2	–78	–	2	13	5	–1	6	–69	38	–55	–27
Profit before tax	944	924	191	165	36	27	190	132	–357	–307	1,004	941
Cost/income ratio (CIR)	64.2 %	63.0 %	42.7 %	46.0 %	93.5 %	91.8 %	30.7 %	37.7 %	–	–	67.2 %	68.3 %
Return on equity before taxes (RoE)	32.7 %	32.7 %	50.5 %	46.7 %	–	–	37.2 %	23.8 %	–25.3 %	–25.6 %	19.3 %	18.9 %
Segment assets	79,107	77,370	21,032	16,364	93	82	22,521	28,209	72,500	58,086	195,253	180,111
Segment liabilities	94,563	93,200	18,469	17,179	1	–	12,569	11,313	61,392	46,447	186,994	168,139

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[1] Prior-period figures restated (see Note 5)

In addition to the results in the income statements of the companies allocated to the business divisions, imputation procedures for the originator-based calculation of the segment results are used. The allocation of net interest income from customer products to the segments follows the market rate method, under which the customer interest rate is compared with imputed money and capital market rates at matching terms. Administrative expenses are based on the results of cost center accounting. The level of the allocated allowance for losses on loans and advances is measured according to established standard risk costs, i.e., expected losses.

Equity is allocated to the segments according to their risk capital requirements. Risk capital requirements are derived from Postbank's risk cover amount and define the extent of allowed exposures to market price risk, credit risk, operational risk, business risk, investment and real estate risks, and collective risks. The average IAS equity is allocated to the segments according to the segment's responsibility for the risk capital positions within the individual risk type.

Since the settlement of payment transactions is not banking business in the traditional sense, we do not report return on equity in our Transaction Banking business segment.

The allocation of assets and liabilities to the segments is based on the operating activities of the segments. For this purpose, loans and advances to other banks, loans and advances to customers, trading assets, and investment securities, and deposits from other banks, amounts due to customers, securitized liabilities, and trading liabilities are allocated to the business divisions according to their sources.

Segment reporting by geographical region

The allocation of segments by the domicile of the branch or Group company produces the following distribution:

	Assets		Liabilities		Income		Profit before tax	
	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m	2007 €m	2006 €m
Germany	163,155	145,171	156,683	134,940	3,995	3,884	824	785
Others	32,098	34,940	30,311	33,199	258	233	180	156
Europe	25,974	30,081	24,665	28,765	174	142	134	106
USA	5,655	4,484	5,225	4,116	70	85	41	49
Asia	469	375	421	318	14	6	5	1
Total	195,253	180,111	186,994	168,139	4,253	4,117	1,004	941

(42) Contingencies and other obligations

Contingent liabilities arise from past events that will lead to possible future obligations. These obligations arise from the occurrence of uncertain future events whose settlement amount cannot be estimated with sufficient reliability. Financial guarantee contracts are recognized in accordance with the net method.

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Contingent liabilities		
on guarantees and warranties	1,428	1,974
Other obligations		
irrevocable loan commitments	23,480	21,369
of which: building loans provided	707	1,536
Total	24,908	23,343

(43) Fair value of financial instruments carried at amortized cost or hedge fair value

The fair values of financial instruments carried at amortized cost or hedge fair value on the balance sheet are compared with their carrying amounts in the following table:

	Dec. 31, 2007		Dec. 31, 2006	
	Carrying amount €m	Full fair value €m	Carrying amount €m	Full fair value €m
Assets				
Cash reserve	3,352	3,352	1,015	1,015
Loans and advances to other banks (loans and receivables)	24,581	24,510	16,350	16,357
Loans and advances to customers (loans and receivables)	85,159	85,414	80,483	82,496
Loans and advances to customers (held to maturity)	456	456	518	518
Allowance for losses on loans and advances	–1,184	–1,184	–1,155	–1,155
Investment securities (loans and receivables)	26,600	25,922	19,031	18,838
Investment securities (held to maturity)	730	731	4,956	5,025
	139,694	139,201	121,198	123,094
Liabilities				
Deposits from other banks (liabilities at amortized cost)	61,146	60,935	47,319	47,366
Due to customers (liabilities at amortized cost)	110,740	110,335	101,316	101,439
Securitized liabilities and subordinated debt	15,161	14,753	20,934	21,019
	187,047	186,023	169,569	169,824

In general, fair value is calculated for all financial instruments. The only exceptions are items payable on demand and savings deposits with an agreed withdrawal notice of one year or less.

If there is an active market for a financial instrument (e.g. a stock exchange), the fair value is expressed by the market or quoted exchange price at the balance sheet date. If there is no active market, the fair value is determined using recognized valuation techniques.

The valuation models used must reflect the key factors affecting the value of the financial instruments, and their parameters are based on market conditions at the balance sheet date. The cash flows used in the present value method are based on the contractual terms of the financial instruments.

(44) Revenue and expense items, gains and losses as defined by IFRS 7, and financial instruments in accordance with the measurement categories as defined by IAS 39

	Note	2007 €m	2006 €m
Interest income and expense	(6)		
Loans and receivables		6,192	5,606
Available for sale		1,572	1,332
Held to maturity		130	184
Liabilities at amortized cost		5,692	5,004
Net gains or losses	(9), (10)		
Held for trading		271	243
Designated as at fair value		12	19
Loans and receivables		–62	52
Available for sale		–33	165

	Fair value hedges/option		Unhedged		Total	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Assets	30,624	31,512	165,050	149,084	195,674	180,596
Loans and receivables	8,319	9,005	127,426	106,859	135,745	115,864
Loans to other banks	1,516	2,136	23,065	14,214	24,581	16,350
Loans to customers	1,356	1,500	83,208	78,983	84,564	80,483
Investment securities	5,447	5,369	21,153	13,662	26,600	19,031
Available for sale	14,633	15,770	26,643	23,542	41,276	39,312
Investment securities	14,633	15,770	26,643	23,542	41,276	39,312
Held to maturity	–	–	1,186	5,474	1,186	5,474
Loans to other banks	–	–	–	–	–	–
Loans to customers	–	–	456	518	456	518
Investment securities	–	–	730	4,956	730	4,956
Held for trading	141	71	9,795	13,209	9,936	13,280
Trading assets	141	71	9,795	13,209	9,936	13,280
Fair value option	7,110	6,181	–	–	7,110	6,181
Loans to customers	7,110	6,181	–	–	7,110	6,181
Hedging derivatives	421	485	–	–	421	485
Liabilities	14,309	18,602	179,161	155,543	193,470	174,145
Liabilities at amortized cost	13,128	17,243	173,875	152,326	187,003	169,569
Deposits from other banks	783	2,802	60,363	44,517	61,146	47,319
Due to customers	4,542	4,761	106,154	96,555	110,696	101,316
Securitized liabilities	5,797	8,012	3,761	7,874	9,558	15,886
Subordinated debt	2,006	1,668	3,597	3,380	5,603	5,048
Held for trading	308	401	5,286	3,217	5,594	3,618
Trading liabilities	308	401	5,286	3,217	5,594	3,618
Hedging derivatives	873	958	–	–	873	958

(45) Derivatives

The Postbank Group uses derivatives to hedge positions as part of its asset/liability management policy. They are also entered into for trading purposes.

Derivatives on foreign currencies are mostly entered into in the form of currency forwards, currency swaps, cross-currency swaps and currency options. Interest rate derivatives relate primarily to interest rate swaps, forward rate agreements and interest rate futures and options; forward transactions in fixed-income securities are occasionally entered into. Equity derivatives are entered into in the form of equity options and equity/index futures in particular. Credit derivatives (credit default swaps) mainly result from separated derivatives of synthetic CDOs.

The notional amounts represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

The fair values of the individual contracts were calculated using recognized valuation models and do not reflect any netting agreements.

Holdings of derivatives are composed of the following items:

	Notional amount		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
Trading derivatives	518,853	438,244	5,427	3,289	5,593	3,616
Hedging derivatives	34,052	43,568	421	485	873	958
Total	552,905	481,812	5,848	3,774	6,466	4,574

The following table presents the open interest-rate and foreign currency, conditional and unconditional forward and option contracts of the Postbank Group at the balance sheet date.

			Fair value			
	Notional amount		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
Trading derivatives						
Foreign currency derivatives						
OTC products						
Currency forwards	2,273	4,115	35	36	50	22
Currency swaps	22,518	17,767	202	152	270	129
Total holdings of foreign currency derivatives	24,791	21,882	237	188	320	151
Interest rate derivatives						
OTC products						
Interest rate swaps	469,220	398,821	5,142	3,068	5,046	3,436
Cross-currency swaps	146	55	4	2	5	–
FRAs	5,723	2,632	–	9	2	1
OTC interest rate options	673	645	1	–	1	1
Other interest rate contracts	871	479	3	1	2	1
Exchange-traded products						
Interest rate futures	9,893	4,131	–	–	–	–
Interest rate options	490	7,996	1	1	–	–
Total holdings of interest rate derivatives	487,016	414,759	5,151	3,081	5,056	3,439

	Notional amount		Fair value: Positive fair values		Fair value: 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
Equity/index derivatives						
OTC products						
Equity options (long/short)	453	165	10	13	66	19
Exchange-traded products						
Equity/index futures	117	8	–	–	–	2
Equity/index options	259	83	2	1	1	1
Total holdings of equity/index derivatives	829	256	12	14	67	22
Credit derivatives						
Credit default swaps	6,217	1,347	27	6	150	4
Total holdings of credit derivatives	6,217	1,347	27	6	150	4
Total holdings of trading derivatives	518,853	438,244	5,427	3,289	5,593	3,616
of which: banking book derivatives	15,416	22,214	131	276	330	351
of which: derivatives relating to hedged items accounted for under the fair value option	12,767	8,097	141	71	308	401
Hedging derivatives						
Fair value hedges						
Interest rate swaps	32,560	41,423	410	482	621	733
Cross-currency swaps	1,338	1,796	10	3	252	222
Credit default swaps	154	349	1	–	–	3
Total holdings of hedging derivatives	34,052	43,568	421	485	873	958
Total holdings of derivatives	552,905	481,812	5,848	3,774	6,466	4,574

Total holdings of recognized derivative assets and liabilities:

	Hedging derivatives			
	Positive fair values Dec. 31, 2007 €m	Negative fair values Dec. 31, 2007 €m	Positive fair values Dec. 31, 2006 €m	Negative fair values Dec. 31, 2006 €m
Remaining maturity				
less than 3 months	45	138	63	123
3 months to 1 year	5	39	15	27
from 1 to 2 years	18	131	11	65
from 2 to 3 years	15	67	22	148
from 3 to 4 years	7	29	31	129
from 4 to 5 years	23	69	21	50
more than 5 years	308	400	322	416
	421	873	485	958

	Trading and banking book derivatives			
	Positive fair values Dec. 31, 2007 €m	Negative fair values Dec. 31, 2007 €m	Positive fair values Dec. 31, 2006 €m	Negative fair values Dec. 31, 2006 €m
Remaining maturity				
less than 3 months	316	508	471	749
3 months to 1 year	144	211	105	116
from 1 to 2 years	147	233	120	151
from 2 to 3 years	205	201	182	272
from 3 to 4 years	197	193	226	193
from 4 to 5 years	270	336	144	170
more than 5 years	4,148	3,911	2,041	1,965
	5,427	5,593	3,289	3,616

The remaining maturity is the period between the balance sheet date and the contractual maturity of the asset or liability.

The following table presents the positive and negative fair values of derivatives by counterparties.

	Positive fair values		Negative fair values	
	Dec. 31, 2007 €m	Dec. 31, 2006 €m	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Counterparties				
Banks in OECD countries	5,720	3,699	6,132	4,457
Public institutions in OECD countries	–	17	–	26
Other counterparties in OECD countries	117	58	250	91
Non-OECD	11	–	84	–
	5,848	3,774	6,466	4,574

(46) Bonds outstanding

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Bonds outstanding		
Bonds issued	18,673	16,034
Registered mortgage bonds issued as collateral (*Namenspfandbriefe*)	10	62
Public-sector mortgage bonds (*Pfandbriefe*)/municipal bonds	12	23
Cover requirement for bonds outstanding	18,695	16,119

(47) Cover for bonds outstanding

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Cover for registered securities		
Loans to other banks and customers	14,408	11,390
Total registered securities requiring cover	13,307	9,191
Excess cover	1,101	2,199
Mortgage bond cover (*Pfandbriefe*)		
Loans to other banks and customers (mortgage loans)	2,583	3,023
Total mortgage bonds requiring cover	1,423	1,890
Excess cover	1,160	1,133
Municipal bond cover		
Loans to other banks and customers and substitute cover in securities	4,544	5,640
Total municipal bonds requiring cover	3,943	4,953
Excess cover	601	687
Cover for interest expenses on registered securities		
Interest expense on registered securities	582	395
Interest income from cover assets	655	555
Excess cover	73	160
Cover for interest expenses on mortgage bonds (*Pfandbriefe*)		
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	272
Excess cover	45	24

(48) Foreclosures and compulsory administration

	Dec. 31, 2007 Number	Dec. 31, 2006 Number
Foreclosures pending	1,161	996
Compulsory administration proceedings	764	678
Foreclosures completed	272	218

(49) Foreign currency volume

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Foreign currency assets	19,404	15,831
Foreign currency liabilities	19,191	15,799

(50) Disclosures on significant concentration of business

The percentage classification of Deutsche Postbank AG's loans by sector is as follows:

	2007 %	2006 %
Dependent employees and other private individuals	46.9	51.9
Other enterprises and self-employed individuals	25.8	18.1
Public sector	6.6	10.0
Credit institutions	20.7	20.0
	100.0	100.0

The percentage classification by German and foreign residents is as follows:

	2007 %	2006 %
German residents	73.5	83.6
Foreign residents	26.5	16.4
	100.0	100.0

(51) Risk-weighted assets and capital ratio

Postbank ensures the correct determination of liable capital and own funds at Group level. Its regulatory own funds in accordance with the *Kreditwesengesetz* (KWG – German Banking Act) and the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) were as follows:

	Dec. 31, 2007 €m	Dec. 31, 2006[1] €m
Credit and counterparty risk	75,788	68,705
Market risk positions	12,225	13,375
Operational risk	3,063	3,063
Total capital charge	91,076	85,143
Additional capital charge in accordance with transitional provision[2]	4,500	0
Tier 1 capital	5,455	4,701
thereof: hybrid capital instruments	1,651	1,151
Tier 2 capital	3,312	3,459
thereof: profit participation certificates outstanding	1,213	1,152
thereof: subordinated liabilities	2,308	2,394
Tier 3 capital	0	24
Eligible own funds	8,767	8,184
Tier 1 ratio before application of transitional provision in %	6.9	6.6
Effect of transitional provision[2] in percentage points	–0.4	0.0
Capital ratio before application of transitional provision in %	9.6	9.6
Effect of transitional provision[2] in percentage points	–0.4	0.0

Postbank's regulatory risk-bearing capacity is ensured by its compliance with the regulatory minimum capital requirements. These are determined as quotients of available capital and risk positions entered into. The key components of Postbank's Tier 1 capital are the share capital, recognized reserves, and innovative capital instruments. Tier 2 capital is composed of profit participation certificates outstanding and long-term subordinated liabilities after deductions prescribed by law. The positive effect as against the previous Principle I disclosure was not realized in full due to the transitional provision for IRBA (internal ratings-based approach) institutions in accordance with section 339(1) in conjunction with (3–5) of the SolvV. Under the SolvV, the regulatory own funds of institutions that use internal rating systems (IRB approach) to calculate the capital charge for credit and counterparty risk may not fall below 95 % of the minimum capital determined using regulatory weighting factors in accordance with Principle I in the first year of application.

[1] Internal calculation
[2] Section 339(1) in conjunction with (3–5) of the SolvV

(52) Maturity structure

As of December 31, 2007:

	Payable on demand €m	Less than three months €m	3 months to 1 year €m	1 to 2 years €m	2 to 3 years €m	3 to 4 years €m	4 to 5 years €m	More than 5 years €m	Total €m
Loans and advances to other banks	1,601	14,071	2,038	1,624	772	679	1,846	1,950	24,581
Loans and advances to customers	3,362	10,413	8,586	7,177	5,852	6,627	7,085	43,028	92,130
Trading assets	1	1,002	1,568	1,691	456	346	301	4,571	9,936
Hedging derivatives	1	44	5	18	15	7	23	308	421
Investment securities	–	2,203	4,926	7,469	6,545	5,133	7,094	35,236	68,606
Current and deferred tax assets	3	32	94	47	9	72	336	7	600
Other assets	71	68	34	47	38	48	27	196	529
Total	5,039	27,833	17,251	18,073	13,687	12,912	16,712	85,296	196,803
Deposits from other banks	3,293	41,068	5,332	2,515	830	898	1,299	5,911	61,146
Due to customers	26,589	45,538	6,312	1,755	1,811	3,451	5,439	19,801	110,696
Securitized liabilities	–	992	1,173	3,913	1,206	258	248	1,768	9,558
Trading liabilities	–	508	211	233	201	193	336	3,912	5,594
Hedging derivatives	–	138	39	131	67	29	69	400	873
Provisions	14	70	226	274	222	208	180	913	2,107
Provisions for pensions	–	19	50	94	80	78	77	745	1,143
Other provisions	14	51	176	180	142	130	103	168	964
Current and deferred tax liabilities	5	–	66	9	5	453	539	147	1,224
Other liabilities	208	296	263	14	14	13	2	25	835
Subordinated debt	–	14	329	234	102	318	274	4,332	5,603
Total	30,109	88,624	13,951	9,078	4,458	5,821	8,386	37,209	197,636

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The remaining maturities of derivatives are presented separately in a table in Note (45).

As of December 31, 2006:

	Payable on demand €m	Less than three months €m	3 months to 1 year €m	1 to 2 years €m	2 to 3 years €m	3 to 4 years €m	4 to 5 years €m	More than 5 years €m	Total €m
Loans and advances to other banks	1,906	5,470	1,733	934	1,254	858	846	3,349	16,350
Loans and advances to customers	2,193	5,777	8,340	8,429	8,976	7,129	10,050	36,288	87,182
Trading assets	–	643	827	6,817	1,365	568	708	2,352	13,280
Hedging derivatives	–	63	15	11	22	31	21	322	485
Investment securities	46	1,948	5,714	4,484	5,127	4,594	5,540	35,846	63,299
Current and deferred tax assets	4	17	82	7	71	5	10	134	330
Other assets	132	110	6	22	16	36	21	238	581
Total	4,281	14,028	16,717	20,704	16,831	13,221	17,196	78,529	181,507
Deposits from other banks	2,719	30,719	4,645	1,614	2,224	508	488	4,402	47,319
Due to customers	21,436	48,379	2,539	793	982	453	2,406	24,328	101,316
Securitized liabilities	–	5,227	2,600	1,818	3,552	1,210	116	1,363	15,886
Trading liabilities	–	749	116	151	272	193	170	1,967	3,618
Hedging derivatives	–	123	27	65	148	129	50	416	958
Provisions	11	86	273	349	206	188	184	2,394	3,691
Provisions for pensions	–	19	52	70	68	67	66	773	1,115
Other provisions	11	67	221	279	138	121	118	1,621	2,576
Current and deferred tax liabilities	5	–	131	11	5	89	421	396	1,058
Other liabilities	204	228	229	16	13	18	34	44	786
Subordinated debt	16	–	24	300	238	125	1,422	2,895	5,048
Total	24,391	85,539	10,584	5,117	7,640	2,913	5,291	38,205	179,680

(53) Subordinated assets

Assets are subordinated if their recovery as receivables ranks behind other creditors in the event of liquidation or bankruptcy of the issuer.

Balance sheet assets contain the following subordinated assets:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Loans and advances to customers	–	–
Loans and advances to other banks	21	5
Investment securities	–	–
Total	21	5

(54) Other financial obligations

Commencing in 2000, Postbank pays 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 (*Unterstützungskasse*) established for this purpose 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 no further obligations for benefits paid by the pension fund, which are the responsibility of the German government.

Postbank ensures that, with the exception of political risk, its Deutsche Postbank International S.A., Luxembourg, and PB Capital Corp., Delaware, U.S.A, subsidiaries will be able to meet their obligations.

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

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 €5.0 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 – the 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).

In addition, Deutsche Postbank International S.A., Luxembourg, is a member of the "Association pour la Garantie des Dépôts Luxembourg" (AGDL), the Luxembourg deposit guaranty and investor indemnity fund.

Financial obligations under Postbank AG's operating leases involving non-cancelable leasing agreements relate to land and buildings and have the following maturity structures:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
in the first year after the balance sheet date	23	20
in the second year after the balance sheet date	22	18
in the third year after the balance sheet date	19	17
in the fourth year after the balance sheet date	15	16
in the fifth year after the balance sheet date	12	11
more than five years after the balance sheet date	65	65
Total	156	147

In addition, Postbank Filialvertrieb AG has annual obligations from rent and service charges (2007: €81 million).

(55) Trust activities

Trust activities are composed of the following items:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Trust assets		
Loans and advances to other banks	51	47
Loans and advances to customers	1,123	1,240
	1,174	1,287
Trust liabilities		
Trust funds for transmitted loans	551	594
Special fund of the State of Mecklenburg-Western Pomerania	45	44
Retired farmers' pension fund	11	11
Special-purpose funds	567	638
	1,174	1,287

(56) Employees

The average number of employees in the Group in the period under review was as follows:

	Total 2007	Total 2006
Full-time		
Civil servants	6,661	6,838
Salaried employees	11,460	11,734
	18,121	18,572
Part-time		
Civil servants	1,005	1,046
Salaried employees	2,714	2,666
	3,719	3,712
	21,840	22,284

The employees are employed almost exclusively in Germany.

(57) Related party disclosures

In addition to the companies included in the consolidated financial statements, the Postbank Group has direct or indirect relationships with a wide range of Deutsche Post World Net subsidiaries and other investees and a small number of unconsolidated Postbank AG subsidiaries and other investees in the course of its ordinary business activities. Related parties are defined as the members of the Management Board and the Supervisory Board of Deutsche Postbank AG, and of the parent company Deutsche Post AG, and the close members of their families. Other related parties are Deutsche Post AG subsidiaries and other investees, including unconsolidated subsidiaries. In the course of ordinary business activities, all transactions for the provision of goods and services entered into with the aforementioned companies were conducted at standard market terms and conditions.

Business relationships with Deutsche Post AG

Deutsche Post AG and Postbank entered into a new cooperation agreement effective January 1, 2006. Under this agreement, Postbank will serve Postbank customers via its own branch-based sales network. In addition, under a supplement to the cooperation agreement dated October 30, 2007, Postbank sells postal services via its branch-based sales network on behalf of and for the account of Deutsche Post AG. The goal of the cooperation agreement is to measure the remuneration payable to Deutsche Post AG according to the value added contribution of the relevant underlying products. In addition to payment transactions, the products and services governed by the cooperation agreement relate in particular to checking accounts, money services, credit cards, private loans, the savings and investment fund business, mortgage lending and insurance products, and the provision of cash for and maintenance of ATMs and statement printers.

Services provided between Postbank and Deutsche Post AG and the companies affiliated with Deutsche Post AG are reported as business relationships.

Business relationships with other related parties

All related parties that are controlled by Deutsche Postbank AG or on which the Group has significant influence are presented in the list of shareholdings, which includes disclosures on the interest held, equity, and profit or loss for the year by business area. The list of shareholdings can be viewed in the Electronic Federal Gazette.

Related party transactions also include Deutsche Postbank AG 's membership of a defined contribution pension plan, the expenses for which relate mainly to payments made to Bundes-Pensions-Service für Post und Telekommunikation e.V. in the amount of €111 million (previous year: €111 million). Other disclosures relating to Bundes-Pensions-Service für Post und Telekommunikation e.V. can be found
115 in Note 4(n) "Provisions".

Related party receivables

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Loans and advances to customers		
Deutsche Post AG	402	4
Subsidiaries	30	54
	432	58
Other assets		
Deutsche Post AG	24	63
Subsidiaries	2	–
Other related parties	4	3
	30	66

Deutsche Postbank AG reported loans and advances of €204 million to Deutsche Post AG, and Deutsche Postbank International S.A. reported loans and advances of €198 million to Deutsche Post AG. These relate to loans and overdrafts granted on an arm's length basis at standard market terms and conditions.

Loans and advances to subsidiaries primarily include loans and advances between BHW Bank AG and BHW Eurofinance B.V. in the amount of €15 million.

Other assets (Deutsche Post AG) primarily include receivables from Deutsche Post AG for counter charges of Postbank AG amounting to €7 million, receivables of Postbank Filialvertrieb AG from Deutsche Post AG amounting to €9 million, and prepaid expenses of Deutsche Postbank AG from Deutsche Post AG amounting to €6 million.

Other assets (other related parties) primarily consist of receivables of PB Factoring GmbH from DHL Vertriebs GmbH & Co. OHG amounting to €3 million.

Related party payables

Payables to unconsolidated subsidiaries and other investees are presented below:

	Dec. 31, 2007 €m	Dec. 31, 2006 €m
Due to customers		
Deutsche Post AG	–	380
Subsidiaries	44	26
Other related parties	36	25
	80	431
Other liabilities		
Deutsche Post AG	95	65
Subsidiaries	2	1
Other related parties	4	5
	101	71
Subordinated debt		
Subsidiaries	141	–

Amounts due to subsidiaries relate primarily to a term deposit by Postbank P.O.S. Transact GmbH at Deutsche Postbank International S.A. amounting to €18 million and the provision of services between Deutsche Postbank AG and Betriebs-Center für Banken Processing GmbH amounting to €15 million.

Amounts due to other related parties are primarily attributable to services exchanged between Deutsche Postbank International S.A. and Deutsche Post Pensionsfonds GmbH amounting to €23 million.

Other liabilities mainly result from the branch business as stipulated in the cooperation agreement.

The subordinated debt line item contains subordinated liabilities (BHW Bausparkasse: €126 million; BHW Bank AG: €15 million) to BHW Eurofinance B.V. in the form of subordinated promissory note loans.

Contingent liabilities from guarantees and warranty obligations to Deutsche Post AG amount to €6 million. There are no contingent liabilities from other obligations, i.e., from irrevocable loan commitments or similar obligations to subsidiaries and associates.

Income and expenses from related parties

Interest income from Deutsche Post AG amounted to €24 million and interest expense to €1 million, while interest income from unconsolidated subsidiaries amounted to €4 million and interest expense to €8 million. Net interest income from other related parties amounted to €3 million.

Net fee and commission income from Deutsche Post AG amounted to €518 million (fee and commission income €520 million, fee and commission expense €2 million), and from unconsolidated subsidiaries €–7 million.

Administrative expenses were €357 million to Deutsche Post AG, €151 million to other related parties, and €21 million to unconsolidated subsidiaries.

Other income amounted to €26 million from other related parties, €11 million from Deutsche Post AG, and €6 million from unconsolidated subsidiaries.

Other expenses to Deutsche Post AG amounted to €18 million.

Deutsche Postbank AG's income from and expenses to Deutsche Post AG are composed of the following items:

	2007 €m	2006 €m
Branch expense under cooperation agreement		
Commission for provision of the sales network	100	105
Selling commission for new business	11	19
Maintenance of ATMs and statement printers	6	8
Corporate Banking transactions	6	8
Investment subsidies	4	6
	127	146
Cost of other business relationship		
Postage costs	65	67
Payroll services	5	5
Printing and enveloping costs	4	6
Other expenses	10	14
	84	92

Deutsche Postbank AG's income from Deutsche Post AG from other business relationships amounted to €95 million, €82 million of which relate to reimbursements for advertising expenditure.

Income from the business relationships of Deutsche Postbank AG's subsidiaries with Deutsche Post AG is composed of the following items:

	2007 €m	2006 €m
Fee and commission income from Postbank Filialvertrieb AG branch business	434	460
Interest income from lending and money market transactions of PB Factoring GmbH	21	18
Interest income from lending and money market transactions of Deutsche Postbank International S.A.	2	1
	457	479

Expenses from the business relationships of Deutsche Postbank AG's subsidiaries with Deutsche Post AG amounted to €164 million, €138 million of which are administrative expenses and €18 million of which are other expenses of Postbank Filialvertrieb AG.

Deutsche Postbank AG incurred expenses from other related parties relating to the following intercompany services:

	2007 €m	2006 €m
Property management for real estate	9	4
Operation and maintenance of buildings	7	7
Reimbursement of personnel expenses	7	4
Market research and opinion surveys	4	–
Services and In Haus Service	3	2
Statement preparation and dispatch	3	–
Other services	4	27
	37	44

Deutsche Postbank AG received income from other related parties relating to the following intercompany services:

	2007 €m	2006 €m
Rental income and service charges	9	8
Extra pension contributions for seconded civil servants	8	6
Reimbursement of personnel expenses	1	2
Other reimbursements from related parties	–	10
	18	26

Deutsche Postbank AG's subsidiaries incurred expenses from other related parties relating to the following intercompany services:

	2007 €m	2006 €m
Rental expense and service charges	81	75
Operation and maintenance of buildings	12	10
Property management	9	6
Other	–	13
	102	104

There were no acquisitions or sales of land, buildings, or other assets from or to related parties.

Lease expenses from renting from other related parties amount to €63 million (previous year: €62 million), lease income from renting to other related parties amounts to €11 million (previous year: €12 million), and income from renting to unconsolidated subsidiaries of Postbank AG remained unchanged from the previous year at €1 million.

There are no transfers to related parties under license agreements and no provisions for doubtful receivables relating to related parties were recognized.

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 size of the bonuses is based on the degree to which predetermined target values are reached 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 active members of the Management Board received remuneration totaling €10,529.0 thousand in fiscal year 2007. Of this amount, €4,469.8 thousand related to fixed components (previous year: €4,489.2 thousand), and €6,059.2 thousand to bonuses (previous year: €6,082.2 thousand).

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

The following table provides an individual breakdown:

	Fixed remuner-ation component € thousand	Other compen-sation € thousand	Performance-related component € thousand	Total € 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.

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.

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 € thousand	Variable remuneration* € thousand	Total € thousand	Entitlement to remuneration with long-term incentive effect € 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
Thorsten 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.

(58) Other disclosures

Deutsche Postbank AG's consolidated financial statements are included in the consolidated financial statements of Deutsche Post AG.

In accordance with section 2 (4) of the *Postumwandlungsgesetz* (PostUmwG – Postal Service Transformation Act), the German government guarantees settlement of all liabilities existing at the time of Deutsche Postbank AG's registration in the commercial register. The government guarantee for savings deposits expired five years after the date of registration in the commercial register.

Deutsche Postbank AG is a member of the deposit protection fund of the Bundesverband deutscher Banken e.V. and the Entschädigungseinrichtung deutscher Banken GmbH investor compensation scheme.

Deutsche Postbank AG has issued guarantee bonds for its subsidiary PB Capital Corp., Delaware, USA, in the amount of $156.0 million. These include a guarantee bond for the Commercial Paper program ($87.8 million), a guarantee bond for swaps ($62.6 million) and a rental guarantee for business premises in New York ($5.6 million).

(59) 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, Bonn	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 Deutsche Postbank AG 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
Member 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 Supervisory 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 Supervisory 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	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)

(60) Auditors' fee in accordance with section 314 (1) no. 9 of the HGB

	2007 €m	2006 €m
Audits of the financial statements	7.0	5.6
Other assurance of valuation services	3.1	3.2
Tax advisory services	0.1	0.1
Other services rendered to the parent company or subsidiaries	6.2	5.3
Total	16.4	14.2

(61) Declaration of Compliance with the German Corporate Governance Code

On November 30, 2007, the Management Board and the Supervisory Board of Deutsche Postbank AG 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). The declaration of compliance can be accessed on the Internet on our homepage at www.postbank.com.

On December 11, 2007, the Management Board and the Supervisory Board of BHW Holding AG, whose financial statements are included in the consolidated financial statements of Deutsche Postbank AG, 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). The declaration of compliance can be accessed on the Internet on our homepage at www.bhw.de.

Responsibility Statement

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

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

Auditors' Report

We have audited the consolidated financial statements prepared by Deutsche Postbank AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group 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 consolidated financial statements comply with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group'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
(German Certified Public Accountant)	(German Certified Public Accountant)

Other Information

Consolidated Income Statement – Quarterly Overview[1]

	2007				2006[1]				2007	2006
	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Jan.–Dec. €m	Jan.–Dec. €m
Interest income	2,215	2,101	2,081	1,987	1,981	1,933	1,861	1,875	8,384	7,650
Interest expense	–1,613	–1,561	–1,526	–1,444	–1,437	–1,372	–1,328	–1,359	–6,144	–5,496
Net interest income	602	540	555	543	544	561	533	516	2,240	2,154
Allowance for losses on loans and advances	–70	–92	–86	–90	–78	–87	–86	–86	–338	–337
Net interest income after allowance for losses on loans and advances	532	448	469	453	466	474	447	430	1,902	1,817
Fee and commission income	436	424	396	419	414	402	398	409	1,675	1,623
Fee and commission expense	–60	–67	–57	–62	–59	–53	–51	–53	–246	–216
Net fee and commission income	376	357	339	357	355	349	347	356	1,429	1,407
Net trading income	26	95	108	61	79	47	76	62	290	264
Net income from investment securities	2	184	38	70	109	55	58	70	294	292
Administrative expenses	–728	–706	–707	–715	–702	–695	–700	–715	–2,856	–2,812
Other income	71	36	29	24	45	47	53	60	160	205
Other expenses	–81	–64	–42	–28	–58	–57	–61	–56	–215	–232
Profit before tax	198	350	234	222	294	220	220	207	1,004	941
Income tax	–29	56	–83	–77	–17	–76	–79	–73	–133	–245
Profit from ordinary activities after tax	169	406	151	145	277	144	141	134	871	696
Minority interest	0	0	0	–1	–2	1	1	–1	–1	1
Consolidated net profit	169	406	151	144	275	145	142	133	870	695

[1] Q1 to Q3 2006 restated in accordance with IFRS 7.20d due to the fair value option (see Note 5) and unwinding.

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Consolidated Income Statement – Multi-Year Overview

	2003 €m	2004 €m	2005 €m	2005 pro forma €m	2006[1] €m	2007 €m
Interest income	5,610	5,271	5,350	7,045	7,650	8,384
Interest expense	–3,957	–3,704	–3,675	–5,097	–5,496	–6,144
Net interest income	1,653	1,567	1,675	1,948	2,154	2,240
Allowance for losses on loans and advances	–154	–185	–205	–286	–337	–338
Net interest income after allowance for losses on loans and advances	1,499	1,382	1,470	1,662	1,817	1,902
Fee and commission income	539	706	801	1,560	1,623	1,675
Fee and commission expense	–72	–94	–102	–181	–216	–246
Net fee and commission income	467	612	699	1,379	1,407	1,429
Net trading income	183	198	205	231	264	290
Net income from investment securities	75	297	252	270	292	294
Administrative expenses	–1,809	–1,869	–1,886	–2,870	–2,812	–2,856
Other income	218	161	252	361	205	160
Other expenses	–136	–133	–273	–318	–232	–215
Profit before tax	497	648	719	715	941	1,004
Income tax	–144	–212	–226	–225	–245	–133
Profit from ordinary activities after tax	353	436	493	490	696	871
Minority interest	–1	–1	–1	–1	–1	–1
Consolidated net profit	352	435	492	489	695	870
Cost/income ratio (CIR)	76.1 %	69.9 %	66.6 %	75.0 %	68.3 %	67.2 %
Return on equity (RoE)						
before tax	10.7 %	14.0 %	15.0 %	14.9 %	18.9 %	19.3 %
after tax	7.6 %	9.4 %	10.3 %	10.2 %	14.0 %	16.7 %

[1] Prior-period figures restated (see Note 5)

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Annex

International Financial Reporting Standards (IFRSs) applied as of December 31, 2007

Standard [1]	Status	Original Title	German Title	Effective since [2]	Adopted by EU Regulation[3]
1. International Financial Reporting Standards (IFRSs)[4]					
1.1. International Accounting Standards (IASs)					
IAS 1	2005	Presentation of Financial Statements	Darstellung des Abschlusses	Jan. 1, 2007	108/2006, Jan. 11, 2006
IAS 7	rev. 1992	Cash Flow Statements	Kapitalflussrechnungen	Jan. 1, 1994	1725/2003, Sept. 29, 2003
IAS 8	rev. 2003	Accounting Policies, Changes in Accounting Estimates and Errors	Bilanzierungs- und Bewertungsmethoden, Änderungen von Schätzungen und Fehler	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 10	rev. 2003	Events after the Balance Sheet Date	Ereignisse nach dem Bilanzstichtag	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 12	rev. 2000	Income Taxes	Ertragsteuern	Jan. 1,1998	1725/2003, Sept. 29, 2003
IAS 14	rev. 1997	Segment Reporting	Segmentberichterstattung	July 1, 1998	1725/2003, Sept. 29, 2003
IAS 16	rev. 2003	Property, Plant and Equipment	Sachanlagen	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 17	rev. 2003	Leases	Leasingverhältnisse	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 18	rev. 1993	Revenue	Erträge	Jan. 1, 1995	1725/2003, Sept. 29, 2003
IAS 19	2004	Employee Benefits	Leistungen an Arbeitnehmer	Nov. 1, 2005	1910/2005, Nov. 8, 2005
IAS 21	2005	The Effects of Changes in Foreign Exchange Rates	Auswirkungen von Ände-rungen der Wechselkurse	Jan. 1, 2006	708/2006, May 8, 2006
IAS 24	rev. 2003	Related Party Disclosures	Angaben über Bezie-hungen zu nahestehen-den Unternehmen und Personen	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 27	rev. 2003	Consolidated and Separate Financial Statements	Konzern- und separate Einzelabschlüsse nach IFRS	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 28	rev. 2003	Investments in Associates	Anteile an assoziierten Unternehmen	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 31	rev. 2003	Interests in Joint Ventures	Anteile an Joint Ventures	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 32	rev. 2003	Financial Instruments: Disclosure and Presentation	Finanzinstrumente: Angaben und Darstellung	Jan. 1, 2005	2237/2004, Dec. 29, 2004
IAS 33	rev. 2003	Earnings per Share	Ergebnis je Aktie	Jan. 1, 2005	2238/2004, Dec. 29, 2004
IAS 34	1998	Interim Financial Reporting	Zwischenberichterstattung	Jan. 1, 1999	2238/2004, Dec. 29, 2004
IAS 36	rev. 2004	Impairment of Assets	Wertminderung von Vermögenswerten	March 31, 2004	2236/2004, Dec. 29, 2004
IAS 37	1998	Provisions, Contingent Liabilities and Contingent Assets	Rückstellungen, Eventual-schulden und Eventual-forderungen	July 1, 1999	1725/2003, Sept. 29, 2003
IAS 38	rev. 2004	Intangible Assets	Immaterielle Vermögens-werte	March 31, 2004	2236/2004, Dec. 29, 2004
IAS 39	2005	Financial Guarantee Contracts	Finanzgarantien	Jan. 1, 2006	108/2006, Jan. 11, 2006
IAS 40	rev. 2003	Investment Property	Als Finanzinvestition gehaltene Immobilien	Jan. 1, 2005	2238/2004, Dec. 29, 2004

[1–4] Key see side 166

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International Financial Reporting Standards (IFRSs) applied as of December 31, 2007

Standard [1]	Status	Original Title	German Title	Effective since [2]	Adopted by EU Regulation [3]
1.2. International Financial Reporting Standards (IFRSs) [4]					
IFRS 3	rev. 2004	Business Combinations	Unternehmenszusammen-schlüsse	March 31, 2004	2236/2004, Dec. 29, 2004
IFRS 4	2005	Insurance Contracts	Versicherungsverträge	Jan. 1, 2006	108/2006, Jan. 11, 2006
IFRS 5	2004	Non-current assets held for sale and discountinued operations	Zur Veräußerung gehaltene langfristige Vermögenswerte und aufgegebene Geschäftsbereiche	Jan. 1, 2005	2236/2004, Dec. 29, 2004
IFRS 7	2004	Financial Instruments: Disclosures	Finanzinstrumente: Angaben	Jan. 1, 2007	108/2006, Jan. 11, 2006
1.3. Standard Interpretation Committee (SIC)					
SIC-12	2004	Consolidation – Special Purpose Entities	Konsolidierung – Zweckgesellschaften	Jan. 1, 2005	1751/2005, Oct. 25, 2005
1.4. International Financial Reporting Interpretation Committee (IFRIC)					
IFRIC 4	2004	Determining whether an arrangement contains a lease	Feststellung, ob eine Vereinbarung ein Leasing-verhältnis enthält	Jan. 1, 2006	1910/2005, Nov. 8, 2005
IFRIC 10	2006	Interim Financial Reporting and Impairment	Zwischenberichterstattung und Wertminderung	Jan. 1, 2007	610/2007, June 1, 2007
2. Deutscher Rechnungslegungs Standard (DRS) [5] – German Accounting Standards (GASs)					
DRS 5-10	2005	n. r.	Risikoberichterstattung von Kredit- und Finanz-dienstleistungsinstitu-tionen	Jan. 1, 2005	n. r.
DRS 15	rev. 2005	n. r.	Lageberichterstattung	Jan. 1, 2003/Jan. 1, 2004/ Jan. 1, 2005	n. r.
DRS 16nfd	2007	n. r.	Zwischenberichterstattung (near final draft)	[6]	n.r.
3. Kapitalmarktorientierte Vorschriften – Capital market-oriented provisions					
WpHG	2007	n. r.	Wertpapierhandelsgesetz; insbesondere § 37v bis § 37z	Jan. 1, 2007	n.r.
DCGK i.V.m. § 161 AktG	2007	n. r.	Deutscher Corporate Governance Kodex	Dec. 31, 2007	n.r.
FWBO	2007	n. r.	Frankfurter Wertpapier-börsenordnung	Nov. 1, 2007	n.r.

Key:

1 Not all pronouncements that exist as of the reporting date are listed, but only those that are relevant to the Postbank Group.

2 The date from which application is compulsory; voluntary, earlier application is often possible. Should Postbank voluntarily apply a pronouncement earlier, this is explicitly referred to in the Notes.

3 In accordance with section 315a (1) HGB in conjunction with the IAS Regulation (EU Regulation 1606/2002), Postbank is obliged to apply the IFRSs adopted by the EU (endorsement). The date shown corresponds to the date of approval by the European Commission (publication in the EU Official Journal follows shortly thereafter). As a rule, the date of application of the IFRSs adopted by the EU is the same date as given in the standards (see "Effective since" column). Should the EU adopt an IFRS in the period after the balance sheet date and before the day that the annual financial statements are signed, this IFRS may be applied in the annual financial statements (clarification by the European Commission at the ARC meeting on November 30, 2005).

4 IFRS: a generic term for all financial reporting standards published by the International Accounting Standards Board (IABS). Also the name for new financial reporting standards issued by the IABS since 2003. The pronouncements issued up to 2002 continue to be referred to as International Accounting Standards (IASs). IASs are only renamed IFRSs if fundamental changes are made to standards.

5 Deutsche Rechnungslegungs Standards (German Accounting Standards -GASs) are applied if they pertain to items that are to be accounted for in accordance with section 315a HGB and are not already governed by IFRSs themselves.

6 Although these GASs had not yet been published by the Federal Ministry of Justice in accordance with section 342 (2) HGB as of December 31, 2007, Postbank already applied these (voluntarily) as of the balance sheet date.

Executive Bodies

Management Board

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, Bonn
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

CFO and Executive Manager

Marc Heß, Bonn
since April 1, 2007

Supervisory Board

Klaus Zumwinkel, Cologne
Chairman,
Chairman of the Board of Management of Deutsche Post AG

Michael Sommer*, Berlin
Deputy Chairman,
Chairman of the German Trade Union Federation

Wilfried Anhäuser*, Kerpen
Chairman of Postbank Filialvertrieb AG's General Works Council
since May 10, 2007

Jörg Asmussen, Berlin
Head of Department, Federal Ministry of Finance

Marietta Auer*, Unterhaching
Head of Department, Deutsche Postbank AG, Head Office

Rolf Bauermeister*, Berlin
Head of National Postal Services Group,
at ver.di Trade Union (national administration)
since May 10, 2007

Rosemarie Bolte*, Stuttgart
Regional Head of Department, Financial Services,
at ver.di Trade Union
until May 10, 2007

Wilfried Boysen, Hamburg

Edgar Ernst, Bonn
Management consultant

Annette Harms*, Hamburg
Deputy Chair of Deutsche Postbank AG's Works Council,
Hamburg Branch

Peter Hoch, Munich

Ralf Höhmann*, Korntal-Münchingen
Chairman of Deutsche Postbank AG's Works Council,
Stuttgart Branch
until May 10, 2007

Elmar Kallfelz*, Wachtberg
Member of Deutsche Post AG's European Works Council
and General Works Council

Ralf Krüger, Kronberg
Management consultant

Harald Kuhlow*, Weingarten
Member of Deutsche Postbank AG's Works Council
until May 10, 2007

Hans-Dieter Petram, Bonn

Bernd Pfaffenbach, Wachtberg-Pech
State Secretary, Federal Ministry of Economics and Technology

Klaus Schlede, Carabietta/Lugano

Elmo von Schorlemer, Aachen
Lawyer

Torsten Schulte*, Hessisch Oldendorf
Chairman of Deutsche Postbank AG's Group Works Council
since May 10, 2007

Sabine Schwarz*, Berlin
Chair of the Deutsche Postbank AG's Works Council, Berlin Branch
until May 10, 2007

Eric Stadler*, Markt Schwaben
Chairman of Deutsche Postbank AG's Works Council
since May 10, 2007

Gerd Tausendfreund*, Nidderau
Trade union secretary of the ver.di Trade Union

Renate Treis*, Brühl
Deputy Chair of Deutsche Postbank AG's General Works Council
since May 10, 2007

Christine Weiler*, Krailing
Employee of Deutsche Postbank AG,
Munich Branch
until May 10, 2007

*Employee representatives

Group Structure*

Deutsche Postbank AG

Group Management Wolfgang Klein	Finance Marc Heß CFO and Executive Manager	Product Marketing Michael Meyer	Mobile Sales Guido Lohmann	Branch Sales Hans-Peter Schmid
Corporate Development	Accounting & Taxes	Retail Banking & Cooperation Strategies		
Corporate Principles/Standards & Sales Controlling	Controlling	Product Management Accounts & Loans		
Corporate Communications	Risk Controlling	Product Management Investment & Insurance		
Internal Audit	Investor Relations & Research	Corporate Banking		
Strategic Investments		Call Centers, Direct Sales Channels		
		Third-Party Sales		
BHW Holding AG		BHW Bausparkasse AG	Postbank Finanzberatung AG	Postbank Filialvertrieb AG
BHW Home Finance Ltd.		BHW Bank AG		
		BHW Immobilien GmbH		

*including selected subsidiaries

Lending Stefan Jütte	Financial Markets Loukas Rizos	Services Mario Daberkow	IT/Operations Dirk Berensmann	Resources Ralf Stemmer
Credit Management Domestic	Money, Forex and Capital Markets	Operations Control	Strategic Projects	HR Strategy
Credit Management International	Treasury	Customers & Sales	Account Management	HR Operations
	Issues and Syndicate Business	Payments Euro	Financial Markets Operations	HR Management
		Payments Global	Branch Sales Service Field	Human Resources, Executives & HR Development
		Accounts & Services	Direct Sales Service Field	Legal Affairs
		Credit Services Home Savings/Mortgage Lending		Real Estate Management
		Credit Services Rates & Workout		Employees and Trustee Customers

PB Capital Corporation	Deutsche Postbank International S.A. Luxembourg	Betriebs-Center für Banken AG	Postbank Systems AG	Postbank Vertriebs-akademie GmbH
Postbank Leasing GmbH	Deutsche Postbank Vermögensmanagement S.A. Luxembourg			
PB Factoring GmbH	Deutsche Postbank Privat Investment Kapital-anlagegesellschaft mbH			
PB Firmenkunden AG	Deutsche Postbank Financial Services GmbH			

Glossary

Amortized cost The amount at which a financial asset or liability was measured at initial recognition, minus principal repayments, plus or minus the reversal of a premium/discount, and minus any write-downs for impairment or uncollectability.

Asset-backed securities Securitized receivables from tradable securities based on pools of assets.

Associate An enterprise that is included in the consolidated financial statements using the equity method rather than full or proportionate consolidation, and over whose business or financial policies a consolidated company has significant influence. At Postbank, such companies are alternatively proportionately consolidated.

Available for sale Financial assets that are available for sale (see Available-for-sale securities).

Available-for-sale securities Securities which are not held for trading purposes and, in the case of debt securities, which are not held to maturity. They are carried at fair value. Changes in fair values are generally recognized directly in the revaluation reserve in equity. If, due to lasting impairment, the fair value of a security is lower than its amortized cost, the difference between these amounts is recognized in expenses (see Impairment). Realized gains and losses are also recognized in income.

Backtesting Procedure for monitoring the quality of value-at-risk models (VaR). Backtesting is used to check whether, retrospectively over a longer period of time, the estimated potential losses based on the VaR approach were actually exceeded substantially more regularly than would be expected given the confidence level applied (see Confidence level).

Cash flow hedge Cash flow hedges are primarily taken to mean hedges against the risk associated with future interest payments from a variable-interest recognized transaction by means of a swap. They are easured at their fair values.

Cash flows Inflows and outflows of cash and cash equivalents.

Cash flow statement Calculation and presentation of the cash flow generated or consumed by an enterprise during a fiscal year as a result of its operating, investing and financing activities, as well as an additional reconciliation of the cash and cash equivalents (cash reserve) at the beginning and the end of the fiscal year.

CDO Collateralized debt obligations – Loans and other debt instruments that are secured by various assets.

CDS Credit default swap – Financial instrument used for the purpose of assuming the credit risk of a reference asset (e.g., securities or loans). The assignee pays a premium to the assignor and receives a compensation payment upon the occurrence of a predetermined credit event.

CLO Collateralized loan obligations – Securities that are backed by a pool of loan obligations as collateral.

CMBS Commercial mortgage-backed securities – Loans that are generally backed by commercial real estate mortgages as collateral.

Commercial Paper Short-term, unsecured debt instruments with flexible maturities (max. 270 days) from prime-rated issuers. They allow companies to cover their short-term financing requirements directly via major issuers.

Confidence level The probability that a potential loss will not exceed an upper limit defined by value at risk.

Counterparty (default) risk This relates to the risk of loss due to changes in creditworthiness or default by a counterparty. Counterparty (default) risk includes credit (issuer) risk, country or transfer risk, and counterparty risk. Credit risk is defined as possible losses arising from the inability of a counterparty to discharge its payment obligations, or from a deterioration in its credit rating. Country or transfer risk can arise during cross-border payments due to the unwillingness (political risk) or inability (economic risk) of a country to discharge its payment obligations. Counterparty risk denotes the risk of losses arising from default in the settlement of payment obligations or the untimely performance of payment obligations.

CPPI Constant proportion portfolio insurance – capital-guaranteed promissory note loans.

Currency risk The risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Deferred taxes Income tax to be paid or received as a result of differences in the carrying amounts in the IFRS financial accounts and the tax base. At the date of recognition, deferred taxes do not yet represent actual amounts receivable from or due to tax authorities.

Derivative A financial instrument whose own value is dependent on the value of another financial instrument. The price of a derivative is derived from the price of an underlying equity, currency, interest rate, etc. These instruments provide wider options for risk management and control.

Discount The difference between the cost of a financial instrument and its notional value.

Effective interest method The amortization of differences between cost and notional value (premium/discount) using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity or the next market-based repricing date to the current net carrying amount of the financial asset or financial liability.

Embedded derivatives Embedded derivatives form part of an originated financial instrument and are inseparably linked with the instrument ("hybrid" financial instruments, such as equity-linked bonds). These components are legally and economically linked, but are accounted for separately under certain circumstances.

Equity method Method of accounting for investments in companies over whose business policies a consolidated company has significant influence (associates). Under the equity method, the investor's share of the net income/loss of the investee is credited/charged to the carrying amount of the investment. Distributions reduce the carrying amount by the investor's proportionate share of the distribution.

Fair value The positive/negative fair value of a financial instrument is the change in its fair value between the trade date and the balance sheet date due to increases or decreases in its market price.

Fair value (full fair value)
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of an asset or liability is often the same as its market price.

Fair value hedge
Fair value hedges primarily relate to fixed-interest balance sheet items (e.g. receivables, equities or securities), which are hedged against market price risk by means of a derivative. They are measured at their fair values.

Fair Value Option (FVO)
In accordance with the fair value option, financial assets or financial liabilities may be (voluntarily) designated at fair value through profit or loss, provided this leads – among other things – to the elimination or significant reduction of inconsistencies in the measurement or recognition (accounting mismatches).

Financial instruments
These are in particular loans and receivables, interest-bearing securities, equities, investments, liabilities and derivatives.

German Accounting Standards (GASs)
Recommendations on the application of (German) consolidated accounting principles, published by the Deutscher Standardisierungsrat (DSR – German Accounting Standards Board/GASB), a body of the Deutsches Rechnungslegungs Committee e. V. (DRSC – Accounting Standards Committee of Germany/Standard ASCG).

Hedge accounting
Presentation of the opposing performance of a hedging instrument (e. g. an interest rate swap) and the related hedged item (e. g. a loan). The objective of hedge accounting is to minimize the impact on the income statement of the measurement and recognition in income of gains and losses on the remeasurement of derivatives.

Hedge fair value
Remeasurement gains or losses on hedged items including determination of unhedged risk factors.

Hedges
Transactions whose change in fair value offsets the change in the fair value of the hedged item.

Hedging
A strategy by which transactions are entered into for the purpose of protecting against the risk of unfavorable price developments (interest rates, share prices).

Held-to-maturity investments
Financial assets with fixed or determinable payments and fixed maturity which an enterprise intends and is able to hold to maturity, with the exception of loans and advances originated by the enterprise.

Impairment
Amount by which the amortized cost of a financial instrument exceeds its estimated recoverable amount on the market.

International Financial Reporting Standards (IFRSs)
This is both the generic term for all financial reporting standards (IFRSs) issued by the International Accounting Standards Board (IASB) and for new financial reporting standards issued by the IASB since 2003. Standards issued up to 2002 will continue to be published as International Accounting Standards (IASs). Only if fundamental changes are made to the existing IAS will it be renamed an IFRS.

Investment book
Risk positions which are not allocated to the trading book.

Investment property
Land and/or buildings held to earn rentals or for capital appreciation and not used in the production or supply of goods or services or for administrative purposes.

Liquidity risk	Describes the risk of being unable to meet current and future payment obligations, either as they fall due or in the full amount due. The funding risk arises when the necessary liquidity cannot be obtained on the expected terms when required.
Loans and receivables	Loans and receivables are financial assets that are not quoted in an active market. These include in particular receivables and certain investment securities.
Market price risk	Market price risk refers to potential losses from financial transactions that may be triggered by changes in interest rates, volatility, foreign exchange rates and share prices. The changes in value are derived from daily marking to market, irrespective of the carrying amounts of assets and liabilities.
Marking to market	Valuation of all of an enterprise's proprietary trading activities at current market prices including unrealized gains, ignoring their historical cost.
Net trading income	Balance of income and expenses from proprietary trading in securities, financial instruments (in particular derivatives), foreign currencies and precious metals valued at market prices.
Netting agreements	Agreements whereby, under certain circumstances, receivables between two parties can be offset against each other, such as in the event of insolvency. The inclusion of a legally binding netting agreement reduces the default risk from a gross to a net amount.
Operational risk	Operational risk is defined by Basel II as "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events". Legal risks are also included here in accordance with the Basel II definition.
Option	Right to purchase (call option) or sell (put option) an underlying asset, such as securities or currency, from a counterparty (writer) at a predetermined price and at a specific date or during a specific period.
OTC derivatives	Non-standardized financial instruments (derivatives) which are traded not on a stock exchange, but directly between market participants (over the counter).
Portfolio	Similar transactions, particularly in securities or derivatives, grouped together according to price risk criteria.
Premium	The difference between the historical cost of a financial instrument and its notional value.
Rating	External rating: standardized evaluation of an issuer's creditworthiness and debt instruments carried out by specialist agencies. Internal rating: detailed risk assessment of every exposure associated with a debtor.
Repos (repurchase agreements)	Agreements to repurchase securities (bona fide transactions under repurchase agreements; the subject of the agreement is still allocated to the borrower). From the perspective of the lender, such agreements are known as reverse repos.
Return on equity (RoE)	Fundamental ratio showing the relationship between the results of operations of an enterprise (net profit for the period) and the capital employed (net profit as a percentage of average capital employed over the period).

Revaluation reserve Changes in the fair values of available-for-sale financial instruments and the related deferred tax effects are recognized directly in the revaluation reserve in equity.

Reverse repos see Repos (repurchase agreements)

Securities loan The lending of fixed-income securities or equities; a distinction is made between closed term (retransfer of the same type and quantity of securities at an agreed date in the future) and open term (securities are made available until future notice) loans.

Securitization Replacing loans or the financing of various kinds of loans and advances by issuing securities (such as bonds or Commercial Paper).

Segment reporting Disclosure of an enterprise's assets and income, broken down by area of activity (division) and geographical area (region).

Sell-and-buy-back A combination of two purchase agreements, i.e. a separate agreement for each of the spot and forward trades.

Sustainability Companies commit to the guiding principle of sustainable development that encompasses responsibility for the social and ecological aspects of their business decisions. In addition, as corporate citizens, they actively address social and environmental issues and support their implementation by using targeted measures.

Swap Exchange of cash flows. Interest rate swap: exchange of flows of interest payments denominated in the same currency but with different terms (e.g. fixed/variable rates). Currency swap: exchange of cash flows and principal amounts denominated in different currencies.

Trading assets This balance sheet item contains securities, promissory note loans, foreign currencies, precious metals and derivatives held for trading and measured at their fair values.

Trading book A banking regulatory term for positions in financial instruments, shares and tradable claims held by a bank which are intended for resale in the short term in order to benefit from price and interest rate fluctuations. This also includes transactions which are closely associated with trading book positions, e.g. for hedging purposes. Risk positions not belonging to the trading book are allocated to the investment book.

Trading liabilities This balance sheet item contains derivatives used for proprietary trading with negative fair values and delivery obligations under securities sold short. They are carried at their fair values.

Underlying The original instrument on which a warrant, certificate, or forward contract is based. An underlying can be, for example, a share, currency, or a bond.

Unwinding Recognition in profit or loss of changes in the present value of expected future cash flows from impaired loans due to the passage of time.

Value-at-risk model (VaR)

VaR is a method of quantifying risks. VaR is currently used primarily in conjunction with the measurement of market price risks. In order to provide meaningful information, the holding period (e.g. 10 days) and the confidence level (see Confidence level) (e.g. 99.0 %) must also be disclosed. The VaR thus describes the potential future loss that will not be exceeded during the holding period with a probability equal to the confidence level.

Volatility

Price fluctuation of a security or a currency, often calculated in terms of standard deviation on the basis of historical performance, or implicitly on the basis of a price-setting formula. The higher the volatility, the higher the risk associated with holding the investment.

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

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