2017

POSTBANK GROUP ANNUAL REPORT

Postbank

POSTBANK GROUP IN FIGURES 2017

		Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016[1]
Consolidated income statement			
Total income	€m	3,194	3,317
Administrative expenses	€m	−3,030	−2,853
Profit before tax	€m	248	304
Consolidated net profit	€m	250	314
Adjusted profit before tax[2]	€m	649	466
Cost/income ratio	%	89.9	85.9
Return on tangible equity			
before tax	%	4.6	5.9
after tax	%	4.7	6.1
Earnings per share[3]	€	1.14	1.44

		Dec. 31, 2017	Dec. 31, 2016[1]
Consolidated balance sheet			
Total assets	€m	145,345	147,190
Liabilities due to customers	€m	118,699	118,918
Loans and advances to customers	€m	106,997	101,996
Allowance for losses on loans and advances	€m	997	998
Equity	€m	7,115	7,219
Common Equity Tier 1 capital ratio regular phased-in	%	12.9[4]	14.2
Common Equity Tier 1 capital ratio fully phased-in	%	11.9[4]	12.4
Leverage ratio regular phased-in	%	3.7[4]	4.1
Leverage ratio fully phased-in	%	3.3[4]	3.4
Headcount (FTEs)		17,441	18,112
Long-term rating			
Fitch		BBB+ Outlook stable	BBB+ Outlook stable

[1]Figures adjusted (see Note 6)
[2]The adjustments are shown in the Group Management Report in the section entitled “Results of operations, financial position, and net assets.”
[3]Based on 218.8 million shares
[4]By factoring in the net consolidated profit subject to supervisory authority approval

digital & personal

Postbank

CONTENTS

01 FOR OUR STAKEHOLDERS

02 GROUP MANAGEMENT REPORT

03 CONSOLIDATED FINANCIAL STATEMENTS

04 OTHER INFORMATION

Ladies and gentlemen,

As in past years, fiscal year 2017 for Postbank was once again marked by a difficult market environment with historically low interest rates and fierce competition. We are therefore all the more delighted that we can look back on a satisfying fiscal year in which we made good progress implementing our Postbank management agenda.

In 2017, we restructured our entire range of products and services, subdivided them into five fields of expertise and repositioned sales for our retail customer business. Our primary aim in these actions was to align our offer even more closely with our customers and their needs.

This decision contributed to the good economic performance of Postbank in 2017, both on the income and cost sides. We were able to moderately improve fee and commission income thanks to the newly introduced price model for our core checking account product for retail and business customers and thanks to strong growth in the securities business. In addition, the renewed growth surge in the lending business was substantial enough to advance us significantly closer to our goal of an equal balance between customer loans and deposits in 2017 and to enable us to stabilize our income base. Our strict cost management led to lower administrative expenses excluding expenses for strategic initiatives in 2017. In this way, we have further fortified our economic foundation.

Profit before tax, adjusted for significant non-recurring effects, markedly exceeded our own forecasts by rising €183 million or 39.3 % year-on-year to €649 million. When non-recurring effects are factored in, profit before tax in 2017 was €248 million, an amount €56 million or 18.4 % below the prior-year value. Gains from our business performance were offset by a €225-million rise in expenses for strategic initiatives in fiscal year 2017, expenses primarily attributable to measures for the pending integration into Deutsche Bank Group.

The unchanged low level of interest rates led us to take great care in ensuring strict cost management. We made additional progress here in 2017 thanks primarily to our improved cost discipline, adapted capacities, and increases in efficiency. Accordingly we were able to reduce administrative expenses excluding expenses for strategic initiatives by €41 million or 1.5 %. In this process Postbank reduced the number of its staff by some 670 full-time equivalents – from 18,112 in 2016 to 17,441 in 2017 – in a socially responsible manner.

The allowance for losses on loans and advances, owing in part to a successful commercial real estate disposal, amounted to €99 million. This was an appreciable decrease of €85 million or 46.2 % as against the already very low level in the previous year (€184 million).

As of the 2017 year-end, the fully phased-in Common Equity Tier 1 (CET1) capital ratio, including the profit for fiscal year 2017, fell to 11.9 % following 12.4 % recorded in the previous year and the 12.6 % recorded at the end of third-quarter 2017. Remeasurement losses on defined benefit plans recognized in other comprehensive income and the corresponding reduction of Common Equity Tier 1 capital had a negative impact over the course of the year. The downward trend in the fourth quarter of 2017 is essentially related to expenses for the integration of the Postbank Group into the Deutsche Bank Group and the profit transfer. Without these latter effects, the fully phased-in CET1 capital ratio would have been 13.2 %.

The fully phased-in leverage ratio, including profit for fiscal year 2016, remained nearly stable at 3.3 % as of December 31, 2017.

Return on tangible equity (RoTE) after tax, excluding adjusted non-recurring effects, was 9.9 % following 8.3 % in the previous year. If the non-recurring effects are not adjusted, RoTE after tax was 4.7 %.

Marked growth in the customer business allowed us to maintain stable income, adjusted for special factors such as the disposal of an investment in Visa Europe in the previous year. We were also able to better balance our mix of income and lessen our dependence on interest rate products in the past fiscal year thanks to the reorganization of the account model and a securities campaign to which customers responded positively. As a result of the successful implementation of numerous strategic measures of the Postbank management agenda, net fee and commission income rose appreciably by €101 million or 12.0 % to €936 million. Against this background and despite significant negative effects from the low interest rate environment, the total of net interest income and net fee and commission income held nearly stable. A crucial role was also played here by growth in loans and advances to customers, up €5.0 billion or 4.9 % to €107.0 billion. Moreover, Postbank was once again able to moderately increase the number of new checking accounts in the second half of 2017.

Our lending business also continued to grow in 2017. The main driver of this positive development was the new lending business with retail, business and corporate customers, which remained vigorous with volumes reaching the record €19.4 billion level of the prior-year period.

As one of the leading digital banks, we place great value on the progress we have made in digitization. In 2017, we achieved gratifying results in this area. In addition to offering a digital process for opening accounts, customers can now apply digitally for an installment loan and get a decision within minutes since the middle of last year. Almost every 10th checking account was opened online in fiscal year 2017. New volumes of installment loans transacted online grew in 2017 by €59 million or 6.6 % to €962 million. New business volumes for real estate financing concluded online through "Meine Immobilie," Postbank's home savings and mortgage lending portal, increased 105.4 %, from €179 million in 2016 to €368 million in 2017.

Ladies and gentlemen, in 2018 Postbank will begin a new chapter in its company history. In March 2017, Deutsche Bank altered its strategy relating to the future of Postbank, deciding in favor of merging Postbank with Deutsche Bank's Private & Commercial Clients business. "One Bank, Two Brands" is the motto under which we are creating the largest bank for retail, business and corporate customers in Germany, a bank with some 20 million customers. We will merge both organizations into one legal entity with headquarters in two locations, Bonn and

Frankfurt. The two brands – Postbank and Deutsche Bank – will not change. In 2017, Postbank once again demonstrated that it is healthy and can generate growth. We intend to continue on this path now with Deutsche Bank and take advantage of merger-related synergies.

The element most crucial to Postbank's economic development in the past years has been our employees.

Despite the strategic reversal and a challenging market environment, our employees have once again demonstrated an impressive flexibility in the face of change and achieved a satisfying business performance. In the name of the Management Board and the Supervisory Board of Postbank, I would like to express my heartfelt thanks to our employees.

My board colleagues and I are convinced that Postbank, with its product and service range and economic strength, will play a key role in the vitality and flourishing of the new bank.

Bonn, March 23, 2018

Frank Strauss
Chairman of the Management Board

EXECUTIVE BODIES

Management Board

Frank Strauss, Bad Nauheim
Chairman

Marc Hess, Bonn
CFO

Susanne Klöss-Braekler, Munich
Retail Banking I

Philip Laucks, Goldbach
Resources
since June 1, 2017

Ralph Müller, Bonn
Corporates and Markets

Zvezdana Seeger, Berlin
IT/Operations
since January 1, 2018

Ralf Stemmer, Königswinter
Resources
until May 31, 2017

Hanns-Peter Storr, Bonn
Risk Management

Lars Stoy, Bonn
Retail Banking II
since June 1, 2017

Supervisory Board

Werner Steinmüller, Dreieich-Buchschlag
Chairman
Member of the Management Board
of Deutsche Bank AG

Frank Bsirske[1], Berlin
Deputy Chairman
Chairman of the ver.di Trade Union

Susanne Bleidt[1], Bell
Member of Postbank Filialvertrieb AG's
General Works Council

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

Frank Fuss[1], Elsdorf
Chairman of the General Works Council of
Deutsche Postbank AG
since March 22, 2017

Stefanie Heberling, Wuppertal
Regional Manager, Retail Customers,
central Ruhr region Deutsche Bank Privat- und
Geschäftskunden AG

Timo Heider[1], Emmerthal
Chairman of the General Works Council of
BHW Bausparkasse Aktiengesellschaft and
Postbank Finanzberatung AG

Tessen von Heydebreck, Berlin
Chairman of the Board of Trustees of
Deutsche Bank Foundation

Jens Isselmann[1], Bornheim
Executive employee of Deutsche Postbank AG

Hans-Jürgen Kummetat[1], Cologne
Civil servant
until March 22, 2017

Katja Langenbucher-Adolff, Frankfurt am Main
Professor for Private Law,
Corporate and Financial Law,
Goethe University Frankfurt am Main

Karen Meyer, Frankfurt am Main
Global Chief Operating Officer, HR
Deutsche Bank AG

Christiana Riley, Bad Homburg v.d. Höhe
CFO Corporate & Investment Banking
Deutsche Bank AG

Karl von Rohr, Oberursel
Member of the Management Board
of Deutsche Bank AG

Bernd Rose[1], Menden (Sauerland)
Chairman of the General Works Council of
Postbank Filialvertrieb AG and Postbank Filial GmbH

Martina Scholze[1], Munich
Trade union secretary of the ver.di Trade Union

Christian Sewing, Osnabrück
Member of the Management Board
of Deutsche Bank AG

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

Eric Stadler[1], Markt Schwaben
Chairman of Betriebs-Center für Banken AG's
Works Council

Gerd Tausendfreund[1], Nidderau
Trade union secretary of the ver.di Trade Union

Renate Treis[1], Brühl
Deputy Chair of Deutsche Postbank AG's
General Works Council
until February 28, 2017

Anna Lisa Trompa[1], Lehrte
Chairperson of the Group Youth and Trainee
Delegation of Deutsche Postbank AG
since March 22, 2017

[1]Employee representatives

REPORT OF THE SUPERVISORY BOARD

Ladies and gentlemen,

During fiscal year 2017, Deutsche Postbank AG (hereinafter also referred to as Postbank) was once again able to expand its stable competitive position despite a persistently challenging market environment. Economic parameters were marked by the continuing low interest rate policy of the European Central Bank (ECB), regulatory requirements, and rapidly advancing digitization in the banking industry. Moreover, the monetary policies of the ECB seem to indicate that interest rates will continue to remain relatively low in the coming years as well.

Under these conditions, Postbank was able to increase its profit before tax significantly year-on-year. This success is mainly attributable to the positive trend in the allowance for losses on loans and advances and strategic measures taken on both the income and cost sides. They include the successful reorganization of the account model and the establishment of a new advisory approach in the securities business, which had a positive impact on net fee and commission income. Other contributions were made by the satisfactory performance of the new lending business as well as our disciplined cost management.

A key event in fiscal year 2017 was the decision of Deutsche Bank AG (hereinafter also referred to as Deutsche Bank) announced on March 5, 2017, to merge Postbank with Deutsche Bank's Private & Business Clients business. This decision had a substantial impact on fiscal year 2017.

As part of our intensive and constructive working relationship, the Management Board informed us in a regular, timely and comprehensive manner during fiscal year 2017 about all issues concerning the Company's strategy, planning, the financial and economic performance of the Bank, the risk position, the risk management system, the internal control system, and compliance. Together with the Management Board, we also discussed changes to the remuneration system, strategic measures, and regulatory developments, as well as important business transactions and projects. Deviations between the course of business and the plans and targets in individual segments were explained to us and reasons given. We discussed at length the Company's strategic focus as well as all measures requiring the approval of the Supervisory Board that were presented to us. Where required by law, the Articles of Association, or the Bylaws, we voted and passed resolutions after thorough examination and discussion. When it was necessary to consider issues outside regularly scheduled meetings, decisions were made by means of written procedures. In addition, the Chairs of the Supervisory Board, the Audit Committee, and the Risk Committee were also informed between Supervisory Board meetings by the Management Board about important business transactions and forthcoming decisions. The Chairman of the Supervisory Board also stayed in constant touch with the Chairman of the Management Board.

Main subjects of discussion by the Supervisory Board

The Supervisory Board held a total of six regularly scheduled meetings and five extraordinary meetings during fiscal year 2017. In all meetings of the Supervisory Board, we were informed by the Management Board about the Bank's current economic and business situation, the performance of the individual business divisions, risk development, and risk management, as well as new statutory and regulatory requirements. During a half-day closed meeting, we joined the Management Board in taking a close look at Postbank's business and risk strategies and then thoroughly discussed these issues.

Other focal points of discussions during the year under review were Postbank's risk structure, the impact of current and future regulatory changes, and the requirements for digitization. We also discussed a new schedule of responsibilities for Postbank that led to a reorganization of the retail customer business. The members of the Supervisory Board regularly received information about the Company's current situation.

In fiscal year 2017, all Supervisory Board members attended at least half of the meetings of the Supervisory Board and its committees.

During the regularly scheduled meeting held on February 3, 2017, we resolved on the Management Board's target achievement in fiscal year 2016. The Supervisory Board also passed resolutions on the appointment of a new Management Board member and on amending the schedule of responsibilities to reflect the reorganization of the retail customer business in particular. The meeting also included the election of a new member each to the Executive Committee, the Nomination Committee, and the Remuneration Committee, as well as two new members each to the Human Resources Committee and the Risk Committee. The Supervisory Board also resolved to establish a temporary Digital Transformation committee.

During an extraordinary meeting on February 14, 2017, the Board discussed in detail the planning for fiscal year 2017 and adopted it.

At the financial statements meeting held on March 22, 2017, we approved the 2016 annual and consolidated financial statements of Postbank. This step was taken after our own thorough deliberation, examination and earlier discussion with the auditor, and reflects the recommendation of the Audit Committee. To that end, the Management Board and the auditor also informed us during the meeting about key findings in 2016. In addition, we resolved on the Report of the Supervisory Board to the Annual General Meeting in accordance with section 171(2) of the *Aktiengesetz* (AktG – German Stock Corporation Act) and the Annual Corporate Governance Statement. Using current mid-term planning as our basis, we passed a resolution on the 2017 targets of the Management Board, and the contracts of two Management Board members were extended. The Supervisory Board and the Management Board also jointly examined and discussed the status of Deutsche Bank AG's strategic decision. As part of equity investment-related issues, a decision was made in accordance with section 32 of the *Mitbestimmungsgesetz* (MitbestG – German Co-Determination Act) to formally approve the conduct of office of the respective Management Boards and Supervisory Boards of Postbank Filialvertrieb AG and Betriebs-Center für Banken AG. Other issues addressed by the Supervisory Board during the meeting included the risk position of the Bank as a whole, the human resources and social report, and the annual report of internal audit. At this meeting we also approved motions on the agenda items for the Annual General Meeting on March 22, 2017. The Supervisory Board meeting following the Annual General Meeting on that same date focused on new appointments and/or reappointments for committees due to the change on the Supervisory Board.

The extraordinary meeting on May 11, 2017, was held for the purposes of succession planning and a Management Board appointment for the Resources board department.

During the Supervisory Board meeting on June 2, 2017, the Management Board informed us of the Bank's business performance in the first quarter of 2017 and of the current status of the Postbank management agenda. In addition, target agreements and Management Board contracts were amended or revised, the subject of protection against dilution discussed, and the compensation control report duly noted. The Management Board also provided us information on the risk situation of the Bank as a whole and we considered the annual report of internal audit. Resolutions were passed where necessary.

During its meeting of September 7, 2017, the Supervisory Board also addressed questions related to Management Board remuneration and the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions). It also passed resolutions in accordance with section 32 of the MitbestG to elect a Supervisory Board member each to Postbank Filialvertrieb AG and Betriebs-Center für Banken AG and approved the disposal of an investment. The Management Board also informed us about the Bank's business performance in the second quarter of 2017 and presented the human resources and social report as well as the overall bank risk report. Finally, the Management Board updated the Supervisory Board on the Postbank management agenda and reported on the current state of Postbank's integration into Deutsche Bank.

In two extraordinary meetings of the Supervisory Board on October 18 and 25, 2017, the Management Board once again informed us of the current state of Postbank's integration into Deutsche Bank and we discussed the method of proceeding in detail.

During the extraordinary meeting of the Supervisory Board on November 28, 2017, the Management Board once again updated us on the current state of Postbank's integration into Deutsche Bank. We also discussed in detail the planning for fiscal year 2018 and approved it.

In its last meeting of the year held on December 13, 2017, the Supervisory Board focused on business performance, business planning for 2018, the risk position of the Bank as a whole, Postbank's business and risk strategy, and the efficiency test in line with section 25d(11) sentence 2, number 4, of the *Kreditwesengesetz* (KWG – German Banking Act).

In the past fiscal year, we exercised our voting authority five times by means of written procedures.

Conflict of interest

No conflicts of interest of Supervisory Board members were reported in fiscal year 2017. The Supervisory Board is also not aware of any such conflicts.

Work of the committees

To carry out its work in fiscal year 2017, the Supervisory Board of Postbank formed seven committees and one temporary "Digital Transformation" committee. The following members serve on the Supervisory Board and its committees:

Members of the Deutsche Postbank AG Supervisory Board and its committees

Supervisory Board

Werner Steinmüller (Chair)	Stefanie Heberling	Karen Meyer	Christian Sewing
Frank Bsirske (Deputy Chair)	Timo Heider	Christiana Riley	Michael Spiegel
Susanne Bleidt	Tessen von Heydebreck	Karl von Rohr	Eric Stadler
Edgar Ernst	Jens Isselmann	Bernd Rose	Gerd Tausendfreund
Frank Fuss	Katja Langenbucher-Adolff	Martina Scholze	Anna Lisa Trompa

Executive Committee (section 11 of the Supervisory Board Bylaws)

Werner Steinmüller (Chair)	Karl von Rohr
Frank Bsirske (Deputy Chair)	Eric Stadler

Nomination Committee (section 15 of the Supervisory Board Bylaws)

Werner Steinmüller (Chair)	Frank Bsirske
Karl von Rohr (Deputy Chair)	Eric Stadler

Risk Committee (section 12 of the Supervisory Board Bylaws)

Michael Spiegel (Chair)	Stefanie Heberling
Edgar Ernst (Deputy Chair)	Jens Isselmann
Frank Fuss	Bernd Rose

Compensation Control Committee (section 16 of the Supervisory Board Bylaws)

Werner Steinmüller (Chair)	Karl von Rohr
Frank Bsirske (Deputy Chair)	Eric Stadler

Audit Committee (section 13 of the Supervisory Board Bylaws)

Christiana Riley (Chair)	Karen Meyer
Edgar Ernst (Deputy Chair)	Bernd Rose
Timo Heider	Gerd Tausendfreund

Mediation Committee (section 17 of the Supervisory Board Bylaws)

Werner Steinmüller (Chair)	Karl von Rohr
Frank Bsirske (Deputy Chair)	Eric Stadler

Human Resources Committee (section 14 of the Supervisory Board Bylaws)

Frank Bsirske (Chair)	Stefanie Heberling
Werner Steinmüller (Deputy Chair)	Timo Heider
Susanne Bleidt	Karen Meyer

Digital Transformation Committee

Michael Spiegel (Chair)	Timo Heider
Eric Stadler (Deputy Chair)	Christiana Riley
Stefanie Heberling	Bernd Rose

The responsibilities of the Executive Committee include preparing the appointment and withdrawal of members of the Management Board with due consideration for the recommendations of the Nomination Committee, preparing the financial statements, amending and terminating the employment contracts for members of the Management Board, and granting loans to members of the Management Board and Supervisory Board. It is also responsible for preparing decisions related to corporate governance, special issues of overriding importance, and fundamental questions about the Company's strategic direction. The committee met eleven times during the year under review. The meetings focused on such things as the further development of governance as well as loans to members of executive bodies of the Postbank Group. During its meetings, the Executive Committee also prepared resolutions for the Supervisory Board and approved the assumption of offices by Management Board members in other companies.

The Risk Committee is responsible for monitoring risk appetite, profile and strategy as well as consultation related to these areas. It also addresses fundamental questions related to the remuneration system and the setting of terms and conditions in the customer business. Its decisions touch on the issuance of loans to members of executive bodies, key loan decisions, special investment decisions, and fundamental questions related to the issuance of loans. The Risk Committee met six times in 2017, with one meeting held together with the Audit Committee. During those meetings in the past fiscal year, the Management Board provided regular comprehensive information to the Risk Committee on developments related to key financial figures and risk indicators. In line with its remits, the committee discussed the current market environment and the respective risk situation and made decisions on the approval of new loans, the extension of existing loans and increases in the lending limits for various individual loans and credit facilities. The Risk Committee also conferred with the Management Board on the risk strategy, the portfolio strategy and structures as well as measures to manage risks. Moreover, the committee intensively discussed changes to regulatory requirements in order to derive measures to improve risk management and risk culture. In this context, the committee examined the way in which remuneration system incentives take into account the risk, capital and liquidity structures, and discussed whether terms had been defined adequately in the customer business. To be able to efficiently advise the Supervisory Board and the Management Board with regard to overarching topics, the Risk Committee worked closely with the Audit Committee.

The Audit Committee is assigned the issues of accounting, risk management, compliance, internal audit, the internal control system, and audit of the financial statements. It met six times in the period under review, with one meeting held together with the Risk Committee. The meetings – at which the auditor was present – focused on providing extensive support to the examination of the annual and consolidated financial statements for 2016 and interim reports as well as discussions of accounting. The half-yearly report and the interim management statements for 2017 were discussed with the Management Board before their release. During the period under review, the Audit Committee examined the effectiveness of Postbank's risk management system, the internal control system, and the internal audit system. The committee was involved in the issuance of audit contracts and defined the focal points for the audit of the annual financial statements for the fiscal year. In the process, the committee assured itself of the autonomy of the auditor. During its six meetings in 2017, the committee also conducted a thorough examination of the findings of the auditor, the work of Internal Audit, questions regarding compliance, accounting and legal risks, as well as of special reviews that had been conducted and objections raised by supervisory authorities. The committee intensely supported the handling of the examination findings during the entire reporting year. The Management Board regularly informed the Audit Committee about changes in regulatory conditions and their impact on Postbank as well as about the implementation status of projects launched in connection with these issues. The committee prepared its own resolutions when necessary or submitted a resolution recommendation to the Supervisory Board.

The Human Resources Committee addresses the structures of Deutsche Postbank AG's human resources activities and the principles of human resources development. The committee met twice in fiscal year 2017. In those meetings, the human resources reports of the Management Board focused on the human resources strategy and development within the Group. In this regard, issues such as diversity, the age structure, and demography at Deutsche Postbank AG, planned educational and training concepts including talent management, and information on personnel costs and workforce management were addressed. The committee also discussed the results of the 2017 people survey.

The Nomination Committee prepares the recommendation of the Supervisory Board for the election or appointment of shareholder representatives to the Supervisory Board by the Annual General Meeting. The committee also assists the Supervisory Board with the task of identifying candidates for the Management Board and senior management positions as well as of complying with related principles. It defines the goals related to the composition of the Supervisory Board and monitors the achievement of these goals. In addition, the Nomination Committee regularly examines the structure, size and composition of the Management Board and Supervisory Board. It also evaluates the expertise, skills and experience of individual board members as well as the respective board as a whole. In fiscal year 2017, the Nomination Committee met seven times. The committee held detailed discussions of the restructuring of the Bank's retail customer business. The meetings also discussed the preparation of election proposals for the Annual General Meeting for the election of shareholder representatives to the Supervisory Board as well as succession planning of the Supervisory Board and the Management Board. As part of an evaluation and an examination of efficiency, the committee focused intently on the structure, size and composition of the Management Board and Supervisory Board as well as the expertise, skills and experience of individual board members and the respective board as a whole.

The Compensation Control Committee helps the Supervisory Board monitor the appropriate structure of the remuneration systems for the Management Board and employees and in particular compensation received by the heads of the Risk Control and Compliance functions. Furthermore, it prepares proposals for resolutions on the remuneration of senior managers in terms of the impact these decisions will have on Postbank's risk position and risk management. It ensures that the internal control units and all other important units are included in the structuring of remuneration systems. The committee met nine times in the fiscal year. The committee extensively discussed the reports of the compensation control officer. In addition to discussing the target achievement of the Management Board for fiscal year 2016 and the Management Board targets for fiscal year 2017, the committee also intensively deliberated the remuneration of Management Board members and the standards for comparing remuneration.

The Mediation Committee is a committee required by the provisions of the MitbestG. It submits personnel recommendations to the Supervisory Board in case the statutorily required two-thirds majority in the Supervisory Board is not achieved for the appointment or dismissal of Management Board members. The past fiscal year evinced no need here. For that reason, the Mediation Committee did not meet in the period under review.

In February 2017, the Supervisory Board of Deutsche Postbank AG passed a resolution establishing a temporary "Digital Transformation Committee" until the end of 2018. The committee is to discuss strategic and business policy decisions with the Management Board as they concern digitization. The committee is also charged with supporting the Management Board in maintaining and improving the Bank's competitiveness with the help of digitization and new technologies both in the area of current banking operations and in strategic further development. The committee did not meet in fiscal year 2017.

The chairs of the committees regularly reported to the full Supervisory Board about the work of the committees.

Audit of the annual and consolidated financial statements

The auditor elected by the previous year's Annual General Meeting – PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf – audited the accounting, the annual financial statements of Deutsche Postbank AG, and the consolidated financial statements, including the respective management reports, for fiscal year 2017 and issued an unqualified audit opinion for each one.

In accordance with section 317(4) of the *Handelsgesetzbuch* (HGB – German Commercial Code), the auditor performed an audit of the early-warning system for risks to be set up in accordance with section 91(2) of the AktG and confirmed that the Management Board had taken measures to satisfy the requirements associated with risk strategy, risk-bearing capacity, risk management, and risk monitoring, including the establishment of a suitable early-warning system for risks that is able to recognize developments early on that could jeopardize Postbank's existence as a going concern.

Deutsche Postbank AG's annual financial statements, the consolidated financial statements, the management reports, and the auditors' reports were made available to all Supervisory Board members and were examined by us. Since there was no distributable net retained profit for the year under review, the Management Board did not submit to the Supervisory Board a proposal for the appropriation of that profit. Rather the net profit for the period as reported in the single-entity financial statements on the basis of the HGB had already been transferred to DB Beteiligungs-Holding GmbH pursuant to the control and profit and loss transfer agreement.

The discussions were conducted in the presence of representatives of the auditor. They reported on the execution and key findings of the audit during the Supervisory Board meeting on March 22, 2018, and were available to provide supplemental information and answer questions. During that same meeting, the Chairperson of the Audit Committee reported on the results of that committee's examination of the annual and consolidated financial statements from March 13, 2018. We concurred with the results of the audit of the annual financial statements and the consolidated financial statements. The final results of our own examination did not give rise to any objections to Deutsche Postbank AG's annual financial statements or the consolidated financial statements.

The Supervisory Board approves the annual financial statements of Deutsche Postbank AG that were put forward by the Management Board as well as the consolidated financial statements. The annual financial statements of Deutsche Postbank AG are thus adopted.

Changes in the Management Board and Supervisory Board

In fiscal year 2017, the following changes were made to the Management Board:

Ralf Stemmer resigned from his office as member of the Management Board of Deutsche Postbank AG as of May 31, 2017. Philip Laucks and Lars Stoy were appointed to serve on the Management Board of Deutsche Postbank AG effective June 1, 2017. Zvezdana Seeger, Executive Manager to date, was also appointed to the Management Board of Deutsche Postbank AG as of January 1, 2018. Marc Hess resigned from his office as member of the Management Board of Deutsche Postbank AG as of March 31, 2018.

The following changes were made to the Supervisory Board:

On March 22, 2017, Tessen von Heydebreck and Christian Sewing were confirmed as members of the Supervisory Board by the Annual General Meeting. Renate Treis stepped down from her position on the Supervisory Board effective as of the end of February 28, 2017, owing to her retirement. Hans-Jürgen Kummetat stepped down from his position on the Supervisory Board effective March 22, 2017 due to the expiry of his term of office. The assembly of delegates called upon Anna Lisa Trompa and Frank Fuss to serve as new employee representatives on the Supervisory Board.

We would like to thank our departing member of the Management Board – Ralf Stemmer – and those of the Supervisory Board – Renate Treis and Hans-Jürgen Kummetat – for their dedicated work on the respective boards and the constructive support they provided to the Company in the past months and years.

Corporate governance

Deutsche Postbank AG has not been listed since January 14, 2016. Since that time, the Supervisory Board and the Management Board of Deutsche Postbank AG have not been required to make a Declaration of Conformity pursuant to section 161 of the AktG. The most recent Declaration of Conformity made by the Supervisory Board and the Management Board on December 17, 2015, and the rationale contained therein, is no longer valid. Postbank is also not otherwise required to follow the recommendations of the German Corporate Governance Code.

We would like to thank the Management Board, employee representatives and all Group employees for their successful work.

Bonn, March 22, 2018

The Supervisory Board

Werner Steinmüller
Chairman

POSTBANK GROUP MANAGEMENT REPORT

BUSINESS AND ENVIRONMENT

Corporate profile and business model of the Group

Corporate profile

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

Business model

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

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

Postbank has organized its activities into the business divisions of Retail Banking, Business and Corporate Banking, Financial Markets, and Cost Centers.

- In the Retail Banking division, Postbank offers retail customers standardized, reasonably priced banking and financial services designed to meet typical needs. The focal point is placed on the traditional checking account and savings deposit business, home savings and mortgage lending products as well as personal loans. The product range is complemented by Postbank serving as a securities and securities accounts provider. The Bank also conducts brokerage activities in insurance and real estate.

- The Business and Corporate Banking division provides Postbank's business and corporate customers with services for payment transactions and corporate loans, commercial real estate finance with a European orientation, factoring, and leasing. Cash investments as well as interest rate and currency management offers complete the range of products and services.

- The Financial Markets division conducts Postbank's money market and capital market activities. Its responsibilities include both optimizing the balance sheet structure by exploiting risk returns from maturity transformation and hedging net interest margin contributions from the customer business by controlling interest rate risk and market risk. Moreover, the Financial Markets division also manages Postbank's liquidity position.

- The profit/loss of Postbank's infrastructure functions are reported in the Cost Centers segment. Details can be found in the section entitled "Segment reporting" (see Note 39 to the Consolidated Financial Statements).

116

Key locations

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

The subsidiary BHW Bausparkasse Aktiengesellschaft is domiciled in Hameln.

Fundamental sales markets and competitive position

In retail banking, Postbank conducts its business almost exclusively in Germany and is one of the largest financial service providers in the country. The Bank wants to position itself as a fair and reliable partner in financial questions and excels in the savings and deposit business owing primarily to a demand-actuated offer of checking accounts as well as home savings and investment products. With some 6.3 million retail and business customers who have the option of banking online, Postbank is one of the largest direct banks in Germany. In the lending business with private mortgage loans, Postbank with its DSL Bank and BHW brands is one of the largest mortgage lenders in Germany based on balance-sheet volumes. Postbank also increasingly engages in the installment loans business. Private retirement provision solutions, diverse insurance products, and the securities business round out the product range for retail customers. In all these areas, Postbank offers some products and services as part of partnerships with fund companies, banks, and insurance companies. The Bank has also developed an integrated advisory concept for securities and securities accounts and recently relaunched an associated online brokerage platform as part of its intention to offer customers prudent guidance on investments in low interest rate environments that go above and beyond savings and checking products.

In its own 1,023 Finance Centers, including the recently established Sales Centers, Postbank offers both comprehensive banking and financial services as well as Deutsche Post AG services. In addition, the Bank cooperates with some 4,200 Deutsche Post AG partner retail outlets, where customers can access select Postbank financial services, as well as some 600 Postbank Finanzberatung AG Advisory Centers. Postbank's major competitors in the retail banking business in Germany are providers from the sector of savings banks and cooperative banks as well as several major banks.

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

Group management at Postbank

Non-financial key performance indicators at Postbank

In its Group management, Postbank makes use of financial as well as non-financial key performance indicators. The essential non-financial key performance indicators are measures of employee and customer satisfaction. Both are Group targets within the target system and as such were relevant to the remuneration of all Management Board members in 2017.

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

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

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

Financial key performance indicators

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

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

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

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

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

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

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

The variable remuneration of Management Board members, executives, and employees at Postbank is closely linked to this management system. It is based on individual targets, divisional targets, and Postbank Group targets measured against an adjusted profit before tax and the associated CIR. As a result of regulatory requirements and the company goal of sustainable success, a sustainability factor is used to calculate the long-term portion of the variable remuneration of the Management Board, risk takers (persons with substantial influence on the Bank's overall risk profile), and our other executives (long-term component). Additional details are provided in Note 54 to the Consolidated Financial Statements ("Related party disclosures").

137

Management process

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

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

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

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

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

137

Information on and explanations of the remuneration of both the Management Board and Supervisory Board can be found in Note 54 to the Consolidated Financial Statements.

NON-FINANCIAL STATEMENT

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

COMPOSITION OF ISSUED CAPITAL

114

Disclosures in accordance with section 160 of the *Aktiengesetz* (AktG – German Stock Corporation Act) can be found in Note 38 to the Consolidated Financial Statements.

EMPLOYEES

At the end of 2017, Postbank employed 17,441 full-time equivalents, some 670 less than the 18,112 employed as of December 31, 2016. This decline reflects among other things efforts to adapt the Bank's capacities to achieve a more efficient nationwide presence. In addition, the number of employees working in payment transaction services was also influenced both by the sale of a portion of the business and efficiency measures in the service companies. Of the total 17,441 employees, 75 civil servants on a full-time equivalent basis have been delegated to the Bundesamt für Migration und Flüchtlinge (German Federal Office for Migration and Refugees – BAMF) in Saarbrücken and are not actively involved in operations at the Postbank Group.

The workforce included 4,310 civil servants on a full-time equivalent basis, which equals some 25 % of the headcount.

About 25 % of our employees work part time.

Our external turnover rate – calculated as a departure rate in relation to the number of full-time equivalents at the start of the year – was around 6 % in 2017. The reasons for that figure can primarily be found in the expiration of fixed-term employment contracts, the start of legal retirement, and early retirement agreements.

The average length of a person's employment at the Bank was approximately 21 years. Postbank remunerates almost all of its employees on the basis of performance and profit-related criteria that flow into a variable remuneration component.

SIGNIFICANT EVENTS AT POSTBANK IN 2017

Executive bodies

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

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

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

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

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

Changes in the Group

On March 22, 2017, upon entry in the commercial register, BHW Gesellschaft für Vorsorge GmbH was merged with BHW Gesellschaft für Wohnungswirtschaft mbH, with retroactive effect as of January 1, 2017.

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

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

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

REPORT ON ECONOMIC POSITION

OVERALL ECONOMIC PARAMETERS IN 2017

Macroeconomic conditions in 2017

Global economy accelerates

Global economic growth strengthened in 2017, attributable to a broad-based rise in economic momentum. Average growth in the gross domestic product (GDP) of the industrialized countries climbed to 2.3 %, while growth in the emerging markets rose to 4.7 %. This recovery was attributable in part to several of the large emerging economies moving out of the in some cases severe recessions they had been facing. Overall, global economic activity – adjusted for purchasing power – rose by 3.7 % as compared to 3.2 % in the previous year. The International Monetary Fund (IMF) had predicted growth of 3.4 % at the start of the year.

The economy in the United States accelerated significantly in 2017. Corporate investments in particular climbed sharply. This was caused not least by the rising oil price as compared to the prior year and the resulting increase in investment in the energy sector. At the same time, inventory investments had a much less negative impact on growth than in the prior year. Private consumption once again grew markedly and remained the most important growth driver. Both exports and imports rose significantly. All in all, foreign trade had a slightly damping impact on growth. As a whole, GDP growth accelerated markedly from 1.5 % in the prior year to 2.3 % in 2017. This corresponds to our projection at the start of the reporting year. Against the backdrop of the positive economic environment, hiring continued to grow in the United States at only a slightly diminished pace. At the same time, the already low unemployment rate decreased substantially once again.

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

The economic upswing in the eurozone intensified in 2017. Domestic demand continued to generate strong momentum. According to the available data, private consumption rose 1.9 % while government spending climbed 1.1 %. Gross capital expenditures rose by approximately 4.0 %. The upward trend in exports increased sharply. As a result, foreign trade had a positive impact on economic growth after exerting an adverse effect on it in the prior year. Ultimately, this propelled acceleration of GDP growth to 2.5 % following growth of 1.8 % in the previous year. From a regional perspective, economic development was more balanced than in previous years. Several countries that had previously experienced relatively weak growth were able to largely catch up with the average in the eurozone. In line with the robust upswing, the average unemployment rate sank markedly to 9.1 %.

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

Strong upturn in Germany

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

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

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

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

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

In regard to ECB monetary policy, 2017 saw an important but very cautious shift in trends. After having drastically relaxed the monetary policy environment in the past several years to combat crises and what it deemed deflationary risks, the central bank has now initiated its exit from the bond-buying program. It proceeded very cautiously in order to minimize the risk of market turbulence and an economic downturn in the EMU. In April, the monetary authorities lowered the monthly purchasing volume for bonds from €80 billion to €60 billion, thereby putting the decision of December 2016 into effect. In October 2017, a decision was made to further reduce purchases to €30 billion a month starting in January 2018. As with the previous change in volume, the monetary authorities again opted to extend the purchases for another nine months. The change in the forward guidance during the council meeting in June 2017, according to which the ECB expects no further lowering of key interest rates, can also be evaluated as a cautious shift in trends in monetary policy. The ECB Governing Council left key interest rates untouched throughout 2017. The main refinancing rate remained stable at 0.00 %, the deposit facility rate at –0.40 % and the marginal lending rate at 0.25 %. As a result of the constant interest rate policy, money market interest rates remained at a low level. At the end of 2017, the three-month Euribor was –0.33 %, 0.01 percentage points lower than at the prior year-end.

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

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

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

The market developments largely reflected our expectations at the time of our last Annual Report. We expected the yields of ten-year German Bunds to end 2017 at a slightly higher level than at the beginning of the year. At the same time, we also assumed that ECB key interest rates would remain constant and that the yield curve would steepen moderately.

Sector situation

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

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

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

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

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

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

Between January and October of 2017, the number of bankruptcies in Germany fell significantly by 5.9 % year-on-year. The number of business bankruptcies dropped sharply by 7.2 %. Accordingly, the positive trend seen in previous years continued. The economic upswing and the very low interest rates likely contributed to this development. The number of consumer bankruptcies (including the bankruptcies of formerly self-employed individuals and other bankruptcies) dropped by a further 5.6 % after already falling noticeably in recent years. The continued improvement of employment may have had a positive impact here once again.

The German banking landscape continues to feature a three-pillar structure consisting of private, public and cooperative banks. In 2017, there were no significant developments between the individual pillars to report. However, mergers between smaller institutions, both in the public and the cooperative sector, continued to occur. Increasing regulatory demands were likely key drivers of this trend.

In analyzing the business performance of German banks, we considered the banks listed in the industry index – Deutsche Börse's Prime Standard – and Postbank, as we have done in the past. We compared the banks' results for the period of January through September 2017 with the previous year's results. All five banks generated profits both before and after tax. However, profit in both parameters was lower than in the prior-year period for three of the five banks. The continuing low interest rate environment left its mark on the income statements of all financial institutions. This was evident in particular in the development of net interest income: Four banks reported a decline in net interest income both before and after accounting for the allowance for losses on loans and advances. The banks were predominately able to successfully master the generally less volatile market. Four of the five financial institutions improved their net trading income. Four of the institutions were also able to improve net fee and commission income compared with the prior year. The trend in administrative expenses revealed that the majority of financial institutions continue to focus strongly on cost control. Four of the banks reduced their administrative expenses in the period under review. As a result, these four banks were able to reduce their cost/income ratio. However, only two banks were able to increase their return on equity (RoE) after tax.

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

COURSE OF BUSINESS

The individual income statement and balance sheet items are explained in detail in the following. Unless otherwise stated, the comments on individual income statement items relate to the comparison of the results with the adjusted figures for fiscal year 2016. The adjustments made can be found in Note 6 to the Consolidated Financial Statements.

93

Results of operations, financial position, and net assets
In a year marked by a persistently difficult market environment and significant investments in the planned further integration in the Deutsche Bank Group, Postbank recorded profit before tax of €248 million, following €304 million in the previous year. This represents a year-on-year decline of €56 million or 18.4 %.

Profit before tax adjusted for significant non-recurring effects, which is used to assess operational performance, rose significantly by €183 million or 39.3 % year-on-year to €649 million. These earnings exceeded the forecast increase in the mid-double digit millions of euros.

Profit for fiscal year 2017 was adjusted for expenses for strategic initiatives – primarily including provisions for the integration with Deutsche Bank's Private & Commercial Clients business including the restructuring of our sales model – (€–434 million), the reversal of an impairment loss on the BHW Bausparkasse brand (€23 million), the other income realized from the sale of the Frankfurt girocard network operation of VÖB-ZVD Processing GmbH, net of corresponding transaction costs (€21 million), and extraordinary expenses to cover legal risks in connection with customer protection rulings (€–11 million). For comparison purposes, prior-year profit before tax was adjusted for expenses for strategic initiatives (€–209 million), extraordinary expenses to cover legal risks in connection with customer protection rulings (€–56 million), and one-time income from the sale of the strategic investment in Visa Europe Ltd. (€104 million).

Excluding the non-recurring effects mentioned above, Postbank recorded positive earnings growth despite the negative impact on income of the low interest rate environment. The main factors driving this growth were the successful implementation of the strategic measures to increase net fee and commission income, the further increase in the volume of new lending business, and a reduction in the cost base. For example, we held net interest income and net fee and commission income largely constant despite the significant negative effects of the low interest rate environment, with the result that the €123 million or 3.7 % decline in unadjusted total income to €3,194 million was attributable mainly to the sale in the previous year of the strategic investment in Visa Europe Ltd. Including the €86 million or 61.0 % increase in other income to €227 million – which benefited from the reversal of an impairment loss on the BHW Bausparkasse brand and the sale of the Frankfurt girocard network operation of VÖB-ZVD Processing GmbH to the tune of €46 million – earnings recorded positive growth. At the same time, the €85 million (46.2 %) drop in the allowance for losses on loans and advances had a positive effect on profit before tax.

Excluding the expenses for strategic initiatives, there was an underlying reduction in administrative expenses by €41 million or 1.5 % – despite a further €9 million increase in expenses for the bank levy and deposit guarantee schemes. The progress achieved on the cost side was driven largely by improved cost discipline, capacity adjustments, and efficiency enhancement measures from the implementation of our strategic program. The €45 million reduction in extraordinary expenses to cover legal risks in connection with customer protection rulings, which had impacted other expenses to a considerably greater extent in the previous year, also had a positive effect.

Profit after tax decreased in line with profit before tax and was down €64 million or 20.4 % on the prior-year figure, at €250 million as of December 31, 2017. Postbank generated tax income of €2 million in the reporting period (previous year: €10 million). Among other factors, this was a result of Deutsche Postbank AG's membership in the Deutsche Bank AG tax group.

At 0.2 %, Postbank's return on capital – calculated as the ratio of consolidated net profit to total assets – was on a level with the previous year.

Postbank's results of operations, financial position, and net assets continue to be significantly influenced by its focus on business with retail, business and corporate customers. Due to the persistently low and, in part, even negative interest rate environment, net interest income in the reporting period declined moderately by €108 million (5.0 %) as against the previous year (€2,174 million) to €2,066 million, whereby the negative impact of the low interest rates was partly offset by increases in the lending business. By contrast, net fee and commission income rose by €101 million or 12.1 % to €936 million. The total of net trading income and net income from investment securities dropped by €117 million or 37.9 % year-on-year, due largely to the sale of the strategic investment in Visa Europe Ltd. in the prior-year period.

The allowance for losses on loans and advances amounted to €99 million, a significant decrease of €85 million or 46.2 % as against the already very low level in the previous year (€184 million). This positive development is primarily attributable to the reversal of the loss allowance, income (€63 million) generated in connection with the realization of a corporate customer exposure, and the sale of two loan portfolios, and confirms the high quality of our loan portfolio, measured by the loan-to-value (LtV) ratio. The continued good health of the German real estate market and the ongoing positive labor market situation in Germany are factors supporting the positive trend in the allowance for losses on loans and advances. In addition to the decline in the allowance for losses on loans and advances, the reduction in the net additions ratio by 9 basis points to 9 basis points reflects the further expansion of loans and advances to customers in the year under review.

In light of the continued low and partly negative interest rates, Postbank places particular emphasis on stringent cost management. For example, administrative expenses (excluding expenses for strategic initiatives) were cut by €41 million or 1.5 % in the reporting period. The expenses for strategic initiatives rose by €225 million to €434 million – €334 million of this total is attributable to expenses in connection with the integration of the Postbank Group with the Deutsche Bank Group.

RESULTS OF OPERATIONS

Net interest income

Due to high volumes in its demand and savings deposits compared to the current lending business, Postbank has a deposit surplus. In times of negative money market interest rates coinciding with a conservative investment strategy, that surplus negatively affects net interest income. By contrast, at €2,066 million net interest income was moderately below the prior-year figure of €2,174 million, contrary to our expectation of a marginal increase. Interest income was impacted by the continued reduction in fixed-rate investment securities, maturities, and the further high willingness of borrowers to repay. In the low interest rate environment, these portfolios are replaced by new business bearing lower rates of interest or invested on the money market at negative yields. The impact solely from investing the existing deposit surplus at negative interest rates on the money market or with the ECB rose to €67 million in the reporting period (previous year: €54 million). Overall, interest income declined by €377 million or 9.6 % year-on-year. The continuing encouraging trend in new lending business and the resulting growth in the portfolio of loans and advances to customers, together with the stable volume of deposits, helped mitigate the negative impact of the low interest rate environment. The further reduction in high-interest liabilities had a positive effect on net interest income. However, the resulting decrease in interest expenses by €273 million or 15.8 % was reduced by higher interest expenses due to hedging transactions for the unexpectedly strong growth in the portfolio of forwards for our private mortgage lending business.

Net trading income

With an increase of €62 million or 124.0 % to €112 million, net trading income grew much better than expected; we had originally anticipated a decline in the single-digit millions of euros. This unexpected increase was due in particular to a €45 million rise in measurement gains (€57 million) relating to the mortgage loan portfolio to which the fair value option is applied.

Net income from investment securities

At €80 million, as expected, net income from investment securities was down substantially by €178 million, or 69.0 %, as against the prior-year period, which had benefited from the sale of the strategic investment in Visa Europe Ltd. in the amount of €104 million and the sale of corporate bonds to the tune of €58 million. The ongoing reduction in a strategic equity investment based on a sales cooperation generated net income of €12 million – whereas income from the reduction had amounted to €22 million in the prior year. Excluding the effects described above, net income from investment securities remained almost on a level with the previous year. This reflects – largely unchanged as against the previous year – the successful exploitation of opportunities arising in the market for government bonds.

Net fee and commission income

As a result of the implementation of numerous strategic measures, net fee and commission income grew by €101 million or 12.1 % to €936 million, just in line with our growth forecast, which had anticipated an increase in the low three digit millions of euros. Major elements of these strategic measures were the introduction of a new checking account model for retail customers at the end of 2016 and the adjustment of the price model for business customers in mid-2017. The introduction of the new securities strategy based on an optimized advisory process also proved successful. Together with improved sales activities, this is the background to the significant increase in new business with funds in fiscal year 2017 by €0.5 billion or 31.8 % to €2.3 billion. The rise in assets under management in securities and investment accounts by €1.8 billion (12.0 %) to €16.8 billion drove up trailer fees in the securities business.

At €263 million, net fee and commission income generated through business with postal services and payment transaction services was down slightly year-on-year, mainly due to the way the quality bonus in the postal business is presented. Among other things, net fee and commission income generated from insurance brokerage profited from a non-recurring settlement payment of €5 million by a product provider.

Total income

Postbank's total income in the reporting period was €3,194 million. The €123 million or 3.7 % decline is attributable primarily to the change in net income from investment securities, which had been positively affected in the prior-year period by the sale of a strategic investment in Visa Europe Ltd. (€104 million) and of corporate bonds (€58 million).

Allowance for losses on loans and advances

After a historically low level of €184 million in the previous year, the allowance for losses on loans and advances declined by a further €85 million, or 46.2 %, to €99 million in 2017, contrary to our expectation at the beginning of the year of an increase in the low double-digit millions of euros. This positive trend is due largely to the successful realization of a corporate customer exposure and the resulting reversal of the relevant loss allowance (€63 million), as well as the sale of two loan portfolios. In addition to Postbank's conservative business model, this was supported by the improved macroeconomic environment in Germany and the continued favorable conditions on the German labor market.

The annualized net additions ratio – the allowance for losses on loans and advances for the customer loan portfolio – was an encouragingly low 9 basis points. In addition to the decline in the allowance for losses on loans and advances, the 9 basis point reduction achieved in the net additions ratio documents the continued expansion of loans and advances to customers in the year under review. The reduced need for an allowance for losses on loans and advances underscores Postbank's continued high level of credit quality.

Administrative expenses

Contrary to our forecast of a moderate improvement, administrative expenses increased by €177 million or 6.2 % to €3,030 million, largely because of the recognition of unscheduled provisions in connection with the forthcoming integration of the Postbank Group with the Deutsche Bank Group. Excluding expenses for strategic initiatives, we were able to reduce administrative expenses slightly by €41 million or 1.5 %, despite the increase in new business and the persistent cost pressure from new regulatory requirements. This slight improvement is primarily attributable to the successful implementation of the strategic measures, resulting in enhanced efficiency and capacity adjustments.

Staff costs rose by €268 million or 19.2 % year-on-year to €1,663 million in connection with the forthcoming integration, as already mentioned, because of the recognition of provisions of €289 million for a voluntary early retirement and severance program, while the headcount declined moderately in line with our expectations. By contrast, the other administrative expenses decreased by €99 million, or 7.3 %, to €1,261 million. Postbank's operating cost discipline is evident in particular in light of the further €9 million increase in expenses for the bank levy and deposit guarantee schemes. Despite the persistent cost pressure, Postbank invested an amount in the low three-digit millions of euros in measures to increase efficiency, in automation, and in the further digitization of the business model, in line with the management agenda.

At €425 million, the expenses for strategic initiatives attributable to administrative expenses were considerably higher than in the previous year (€208 million).

Depreciation, amortization, and impairment losses contained in administrative expenses amounted to €106 million, and were up €8 million or 8.2 % year-on-year, largely because of increased depreciation of real estate.

Other income and expenses

Net other income and expenses amounted to €183 million in fiscal year 2017, a considerable €159 million higher than the prior-year figure of €24 million. This growth was largely due to compensation for participation in the TLTRO group in the amount of €106 million (previous year: €40 million), income from the sale of the Frankfurt girocard network operation of VÖB-ZVD Processing GmbH amounting to €23 million, and the unscheduled reversal of an impairment loss of €23 million on the BHW Bausparkasse brand. The prior-year period had been impacted by extraordinary expenses to cover legal risks in connection with customer protection rulings amounting to €56 million. These expenses amounted to €11 million in the year under review.

Profit before tax and consolidated net profit

Postbank generated profit before tax of €248 million. This represents a year-on-year decline of €56 million or 18.4 %, in which the positive operating profit growth was more than offset by the significant €225 million (108.0 %) increase in expenses for strategic initiatives in fiscal year 2017 – attributable to a considerable extent to the measures relating to the forthcoming integration of the Postbank Group with the Deutsche Bank Group.

Consolidated net profit declined by €64 million or 20.4 % year-on-year to €250 million. Because of Deutsche Postbank AG's membership of the Deutsche Bank AG tax group, tax income of €2 million was realized in fiscal year 2017, whereas the prior-year period had additionally benefited from tax refunds for previous years and the reduction in valuation allowances on deferred taxes.

Postbank's total comprehensive income, including changes in valuation reserves, declined by €43 million or 27.6 % year-on-year to €113 million in 2017. This change was primarily driven by the €64 million decrease in profit after tax. It was partly offset by the €21 million year-on-year improvement in other comprehensive income, although this remained negative because of remeasurement losses on defined benefit plans recognized in other comprehensive income and a negative revaluation reserve.

The return on tangible equity (RoTE) after tax was 4.7 % (previous year: 6.1 %).

Earnings per share

Earnings per share were €1.14, down on the prior-year figure of €1.44.

SEGMENT REPORTING

Following the successful reduction in risks attributable to assets not belonging to the core business, the Non-Core Operating Unit segment was formally closed as a Postbank Group segment as of July 31, 2017. The remaining portfolios of selected investment securities, certain foreign activities, and products from the customer business that have been discontinued, as well as some high-interest liabilities, were transferred back to the operating segments. The prior-year period was adjusted accordingly. This does not imply any change in the portfolio strategies for the portfolios in question, which will continue to be reduced even after separate reporting has been discontinued.

116 The resulting adjustments made retroactively can be found in Note 39 to the Consolidated Financial Statements.

Retail Banking

Profit before tax in the Retail Banking segment amounted to €293 million in fiscal year 2017, after €386 million in the previous year, and was thus below our forecast increase by a mid to high double-digit amount in the millions of euros. The main reason for this decline is the €194 million increase in cost allocations to €1,186 million due to the significant investment of an amount in the mid-three digit millions of euros in the planned further integration with the Deutsche Bank Group. Without the increase in cost allocations, there would have been positive earnings growth in light of the good business performance.

At €2,822 million, total income decreased moderately year-on-year by €77 million or 2.7 %. This reduction is primarily attributable to the positive €90 million effect from the Visa Europe Ltd. transaction in the prior-year period, whereas the negative impact of the low interest rate environment on the deposit business was almost offset by the strong new lending business and a significant increase in net fee and commission income.

Net interest income declined by €122 million or 5.7 % to €2,023 million. This modest decrease thus confirmed our forecast. The low interest rate environment continues to represent a particular challenge in terms of investing customer deposits. Even the new lending business, which was still at a record level, could not fully compensate for this effect.

Net trading income was up €44 million or 366.7 % year-on-year, at €56 million. The segment's net trading income was mainly attributable to substantial measurement gains relating to the BHW mortgage loan portfolio, to which the fair value option is applied.

Net income from investment securities decreased by €89 million to an almost neutral €1 million. In the previous year, the sale of the strategic investment in Visa Europe Ltd. had been a positive factor, whereas there were no significant effects in the reporting period.

Net fee and commission income rose by an amount in the high double-digit millions of euros, from €652 million to €742 million. The €90 million increase fell slightly short of our forecast of an increase in the low three-digit millions of euros. The drivers of this positive earnings growth were the successful reorganization of the account models for retail customers and the successful securities campaign, which led to noticeable growth in assets under management in securities and investment accounts.

Contrary to our expectation of a significant increase, the allowance for losses on loans and advances declined by €9 million or 6.3 % to €134 million, despite the growth recorded in the lending business. This is due to the ongoing stable development of the German labor market and to the continued high level of credit quality throughout the entire retail banking business, which is dominated by our highly collateralized retail mortgage lending business, as before.

Against the background of strict cost discipline and the more efficient design of our sales organization, we were able to achieve a moderate €35 million or 2.7 % reduction in administrative expenses to €1,276 million.

Net other income and expenses increased significantly by €80 million in fiscal year 2017 to a positive €13 million. This was mainly attributable to the clear reduction in the unusually high charges for provisions for legal risks in the previous year. These had amounted to €56 million in the prior-year period, but were €5 million in 2017. Additionally, net other income and expenses benefited in the reporting period from reversals of provisions amounting to €15 million and an interest payment on a tax refund from a subsidiary.

The segment's cost/income ratio deteriorated from 82.9 % to 87.8 %, largely because of the increase in recharged investment costs and the absence of the non-recurring effect of the sale of the strategic investment in Visa Europe Ltd. The return on equity before tax amounted to 7.1 %, following 11.7 % in the previous year.

Business and Corporate Banking

Profit before tax in the Business and Corporate Banking segment reflects our expectation of a significant improvement. The €101 million or 48.6 % increase in profit before tax to €309 million is primarily attributable to the successful improvement in total income by €23 million or 4.9 % to €496 million as well as the positive change in the allowance for losses on loans and advances.

In light of the successful growth of €2.8 billion or 14.2 % achieved in the notional volume of the business and corporate loans portfolio to €19.7 billion, we were able to increase net interest income moderately by €20 million (5.8 %) to €364 million. The main driver here is the sharp growth in the commercial real estate finance business as well as the steady growth in net interest income from factoring. The increase fell slightly short of our forecast of a noticeable improvement. The reasons were firstly the persistently low – and in some cases negative – interest rates, and secondly the smaller than expected volume of new lending business.

Among other factors, net fee and commission income profited from the adjustment of the price model for business customers implemented in the middle of the reporting period, and rose by €11 million or 9.0 % to €133 million.

The total of net income from investment securities and net trading income declined by €8 million to €–1 million. The positive figure in the previous year was due primarily to higher margins from interest rate and currency management, as well as contract amendments in connection with hedging interest paid by customers with variable rate loans.

Due to the successful realization of a corporate customer exposure and the resulting reversal of a loss allowance (€63 million), the allowance for losses on loans and advances did not impact profit before tax but actually delivered a positive earnings contribution of €35 million because of the successful realization of collateral.

At €110 million, administrative expenses were almost on a level with the previous year, despite the further expansion of the sales centers. The increase in staff costs attributable to this expansion was offset by a decline in non-staff operating costs. Overall, administrative expenses were thus higher than our forecast of a modest decrease.

Non-recurring other expenses of €6 million in 2017 resulted in a decline in net other income and expenses in the same amount.

Allocated items amounted to €107 million and were thus €9 million, or 7.8 %, lower than the prior-year level.

Driven by the positive growth in total income and an overall stable cost basis, we were able to cut the cost/income ratio from 50.8 % to 48.7 %. In addition to the positive growth in total income, the return on equity before tax benefited from the positive earnings contribution made by the allowance for losses on loans and advances and amounted to 36.5 %, following 26.9 % in the previous year.

Financial Markets

The loss before tax recorded by the Financial Markets segment widened by €53 million to €–357 million. As we had expected, the loss before tax was thus a mid to high double-digit euro amount below the prior-year figure. The main driver behind this development was the €88 million or 57.1 % drop in net income from investment securities, which had benefited relatively strongly in the prior-year period from the restructuring of asset allocation to reduce spread risk in the banking book.

Net interest income was €–322 million and thus remained in negative territory, as in 2016. Whereas net interest income only declined marginally by €3 million or 0.9 % year-on-year, its components exhibited stronger but offsetting trends. Interest rate hedges entered into for the growing portfolio of new forwards for private mortgage lending had an increased negative effect. By contrast, interest expenses were reduced by the deterministic expiration of in part high-interest liabilities – which were allocated to the Financial Markets segment following the closure of the Non-Core Operating Unit – as well as a positive effect (€11 million) from the termination of a hybrid bond.

Net trading income built on the positive prior-year figure and was up €26 million or 83.9 % year-on-year, at €57 million. As in the previous year, this was influenced by derivative interest rate and currency management and credit valuation adjustments, as well as foreign exchange gains.

In line with our expectations, net income from investment securities declined significantly by €88 million or 57.1 % to €66 million. A considerably lower level of gains – especially on corporate bonds – was realized compared with the previous year, in line with our expectations. Net income from investment securities in the reporting period thus resulted primarily from successful government bond transactions and the ongoing reduction of a strategic equity investment based on a sales cooperation.

At €–23 million, net fee and commission income was almost unchanged compared with the previous year.

By contrast, administrative expenses fell by €2 million or 18.2 % to €9 million. Net other income and expenses were zero in the reporting period, an improvement of €1 million. Cost allocations declined by €9 million or 6.7 % to €126 million.

Both the cost/income ratio and the return on equity before tax were in negative territory.

Cost Centers

This segment comprises the profit/loss of the cost centers, the profit/loss of the subsidiaries allocated to this segment (see Note 39 to the Consolidated Financial Statements), and the other reconciliations to consolidated profit. In principle, all income and expenses are allocated to the operating segments. Both profits and losses are primarily due to non-recurring effects.

116

Because of unpredicted non-recurring effects, at €57 million, profit before tax in fiscal year 2017 was above our expectation of a break-even result. The profit resulted from the reversal of an impairment loss on the BHW Bausparkasse brand (€23 million) and two transactions by VÖB-ZVD Processing GmbH, which divested its investment in Concardis GmbH (€13 million) and the Frankfurt girocard network operation (€21 million).

Net interest income decreased by €3 million or 75.0 % year-on-year to €1 million. Net fee and commission income continued to be generated by payment transaction services and was on a level with the previous year, at €84 million.

Net income from investment securities amounted to €13 million, following €14 million in the previous year. Whereas the previous year's result was attributable to the recognition of the share-based purchase price component from the Visa Europe Ltd. transaction, net income from investment securities in 2017 was generated by the sale of the investment in Concardis GmbH.

Administrative expenses increased significantly by €214 million or 15.1 % to €1,635 million. This is attributable to significant investments in the planned further integration with the Deutsche Bank Group. Due to the allocation of fully absorbed costs, costs totaling €1,419 million were allocated to the other segments. Charges in the same amount were incurred in those segments, i.e., €–1,419 million.

Net other income and expenses amounted to €175 million, up €85 million on the prior-year figure. The positive change is largely attributable to the €66 million increase in the compensation for participation in the TLTRO group, the reversal of an impairment loss on the BHW Bausparkasse brand (€23 million), and the sale of the Frankfurt girocard network operation (€23 million).

NET ASSETS AND FINANCIAL POSITION

Total assets

Postbank's total assets amounted to €145.3 billion as of the 2017 year-end, down €1,845 million or 1.3 % on the prior-year figure (€147.2 billion). This decrease is due largely to a reduction in short-term loans and advances to other banks and the expiration of long-term liabilities. On the asset side, loans and advances to customers rose by €5.0 billion or 4.9 % to €107.0 billion on the back of the successful lending growth. The strong new lending business allowed us to consistently further reduce non-customer-related exposures and make further progress towards an equal balance between customer loans and deposits. With the deposit business remaining stable, the existing deposit surplus was reduced and the share of the lending business with retail, business and corporate customers as a proportion of total assets was expanded.

The deterministic reduction of high-interest liabilities and the exercise of a termination opportunity to reduce subordinated debt allowed us to continue reducing investment securities. The reduction in deposits from other banks by €1.1 billion or 8.1 % was more than offset by a reduction in loans and advances to other banks by €2.3 billion or 17.4 %. Other significant changes on the liabilities side of the balance sheet were recorded in the "Provisions" (€+0.2 billion) and "Trading liabilities" (€–0.2 billion) items.

Loans and advances to customers

Loans and advances to customers, which also include securitized assets such as promissory note loans, increased by €5.0 billion or 4.9 % as against year-end 2016 to reach €107.0 billion. The successful expansion in the portfolio of loans and advances to customers makes a significant contribution toward reaching the goal of an equal balance between customer loans and deposits. The main driver of this positive trend was again Postbank's strong new lending business, which, at €19.4 billion, confirmed the record level in the prior-year period. Because of the unchanged dominance of private mortgage lending in the new lending business, a large proportion of loan commitments are still in the preparatory phase.

Private mortgage lending rose to €71.4 billion (previous year: €69.0 billion), despite a persistently higher proportion of existing customers wanting to repay principal. This success is based on sustained high new business volumes in private mortgage lending, mainly driven by the exceptionally favorable financing conditions resulting from general interest rate levels in the market. Postbank achieved significant growth in the installment loan business, expanding the portfolio by an appreciable €0.6 billion or 8.3 % to approximately €8.1 billion. This was buoyed by higher consumer spending in Germany. Especially in the corporate banking business, the growth achieved in the commercial loans portfolio, which increased by €2.2 billion or 16.0 %, made a substantial contribution to shifting the balance sheet away from low-interest money and capital market investments toward the customer loans business.

Money and capital market investments

We reduced money and capital market investments, comprising investment securities, trading assets, and loans and advances to other banks, by €6.6 billion to €33.7 billion in fiscal year 2017.

In line with the strategic aim of increasing the share of the lending business with retail, business and corporate customers as a proportion of total assets, Postbank again significantly reduced holdings of investment securities by €4.2 billion or 15.5 % to €22.6 billion as of the 2017 year-end. The gains realized on the disposals had a positive impact on net income from investment securities.

Loans and advances to other banks were reduced by €2.3 billion or 17.4 % to €10.8 billion.

Trading assets attributable to the positive fair values of derivatives in the trading portfolio fell to €310 million (previous year: €475 million).

Amounts due to customers

On the liabilities side of the balance sheet, amounts due to customers, at €118.7 billion, were down €0.2 billion or 0.2 % compared with 2016. Savings deposits declined by €1.9 billion or 4.9 %, from €38.6 billion in the previous year to €36.7 billion, while demand deposits rose by €4.6 billion or 9.9 % to €51.5 billion. The decrease in savings deposits is mainly due to the historically low level of interest rates and the resulting preference of consumers for spending over saving. Home savings deposits declined slightly by €0.2 billion or 1.2 % to approximately €18.6 billion as of the 2017 year-end.

In addition to demand deposits, other liabilities include liabilities with agreed maturities amounting to €11.9 billion, which declined by €2.7 billion or 18.7 % in the reporting period due to maturing liabilities. This deterministic expiration had a positive effect on net interest income over the course of the year.

Money and capital market liabilities

Money and capital market liabilities, comprising deposits from other banks, debt securities in issue, and trading liabilities, declined by 8.2 % or €1.4 billion in fiscal year 2017 to approximately €15.5 billion.

Deposits from other banks, including earmarked refinancing funds provided by development banks, decreased by €1.1 billion year-on-year to €12.1 billion.

Holdings of debt securities in issue declined by €0.1 billion or 3.7 % to €3.2 billion in fiscal year 2017 due to maturing positions.

Trading liabilities decreased from €409 million as of December 31, 2016, to €217 million, largely in line with trading assets.

Largely because of the exercise of the first opportunity to terminate a hybrid bond that would no longer have been eligible for inclusion in the Bank's regulatory capital, subordinated debt fell by €0.5 billion or 19.4 % year-on-year to €2.1 billion.

Equity

Recognized capital declined by €104 million or 1.4 % year-on-year to €7,115 million in the year under review. Consolidated net profit of €250 million was reduced by effects from the control and profit and loss transfer agreement with DB Beteiligungs-Holding GmbH amounting to €217 million, remeasurement losses on defined benefit plans of €82 million – net of deferred taxes – recognized in other comprehensive income, and a reduction in the revaluation reserve by €55 million.

The remeasurement losses on defined benefit plans recognized in other comprehensive income are attributable to the reduction in the discount factor for pension obligations and the corresponding increase in pension obligations caused by the interest rate environment. Together with the reclassification of consolidated net profit from the previous year and the effects of the control and profit and loss transfer agreement, retained earnings only rose slightly by €15 million or 0.4 % to €3,823 million.

As of the 2017 year-end, the fully phased-in Common Equity Tier 1 (CET1) capital ratio, including the profit for fiscal year 2017, was 11.9 %, following 12.4 % recorded in the previous year and 12.6 % at the end of the third quarter of 2017. This decrease was primarily attributable to the provisions recognized in the fourth quarter of 2017 in connection with the integration of the Postbank Group with the Deutsche Bank Group, as well as the profit transfer paid and the corresponding reduction in CET1, with risk-weighted assets remaining almost unchanged. Excluding the effects described above, fully phased-in CET1 would have been 13.2 %.

The regular phased-in CET1 (Common Equity Tier 1) capital ratio was 12.9 %, including the profit for fiscal year 2017, compared with the prior-year figure of 14.2 %. This reduction was largely due to the provisions recognized in the fourth quarter of 2017 in connection with the integration of the Postbank Group with the Deutsche Bank Group, the profit transfer, and the regulatory increase in capital deductions. Excluding the effects described above, regular phased-in CET1 would have been 14.2 %.

On a fully phased-in basis and including profit, the leverage ratio was 10 basis points lower than the previous year. The main reason for the reduction to 3.3 % was the decline in CET – because of the expenses incurred for the integration and the profit transfer – that could not be fully offset by the reduction in the leverage exposure by €2.4 billion.

At 3.7 %, the regular phased-in leverage ratio as of December 31, 2017, including profit, was below the level of the prior year-end figure of 4.1 %. Besides the regulatory increase in capital deductions, the profit transfer had a negative effect, in addition to the termination of a hybrid bond that would in any case no longer have been eligible for inclusion in the Bank's regulatory capital once the first termination opportunity had arisen.

The calculations are based on the regulatory requirements as laid out in Article 429 of the CRR.

Postbank's investment focuses in 2017

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

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

Efforts to strengthen competitiveness included in particular investments to improve digital efficiency and to increase new business entered into via digital channels. To this end, Postbank continued to invest in the development of holistic digital process models (end-to-end optimization). In addition to digital account opening, customers have been able since mid-2017 to enter into an installment loan entirely digitally within a few minutes. The "Financial Assistant" is a cornerstone of Postbank's strategy of making mobile payments attractive for consumers on a large scale. In addition, online brokerage received a new web presence as part of the securities campaign, and now offers an even more attractive platform for our securities account customers. In line with the "digital & personal" strategic orientation, the optimization of the branch network was driven forward with the expansion of the sales centers and the establishment of "compact branches" in regions with a relatively low customer frequency. We also invested in efficiency increases and the modernization of our branches through additional customer-friendly, automated self-service facilities.

In addition to investments in digitally supported consulting, sales and service processes (video identity verification, digital signatures, relaunch of the online brokerage and the customer service portal), we continued to invest in measures to comply with regulatory requirements. These efforts included meeting the requirements of IFRS 9, the recently revised EU Markets in Financial Instruments Directive (MiFID II), the Payment Accounts Directive and the Payment Services Directive (PAD/PSD), the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), Basel III/IV, as well as the specifications of the ECB and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority).

Overall assessment of business performance in 2017

Results of operations declined due to the persistently challenging market environment and low interest rate levels. The negative growth in total income due in particular to the interest rate environment and the absence of positive non-recurring effects in the previous year was almost totally offset in the reporting period in light of the successful implementation of numerous strategic initiatives, and was thus caused almost entirely by non-recurring effects. In particular in light of the reorganization of the account models and a securities campaign that met with a positive customer response, Postbank succeeded in the reporting period to achieve a better balance in its income mix and to make it less dependent on interest rate products. At the same time, administrative expenses – excluding expenses for strategic initiatives – were successfully reduced.

As before, Postbank's net assets and financial position in 2017 were shaped by the ongoing focus on growing the loan portfolio in our business with retail, business and corporate customers, which remains relatively immune to fluctuation, with the aim of reaching an equal balance between customer loans and deposits. The successful portfolio growth in the lending business and the active management of holdings of investment securities enabled Postbank to align its balance sheet more strongly on the customer business.

Financial and non-financial key performance indicators

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

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

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

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

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

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

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

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

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

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

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

OPPORTUNITY REPORT

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

A reversal of European monetary policy, acting as an altered macroeconomic scenario, in addition to rising interest income could contribute to private investors rethinking their positioning in terms of asset allocation going forward. This, in turn, would fuel commission business. Net fee and commission income would benefit if Postbank's savings customers use their deposits in greater volumes than expected to acquire securities. The commission business could likewise profit more than anticipated from banking customers with a broader understanding for the revision of fee models against the backdrop of the low interest rate environment.

Major opportunities for the Bank will arise from disciplined cost management, which is closely linked with its digitization strategy. The changed demands of today's banking customers – which have evolved from the desire for personal advisory sessions to a need for multi-channel advisory and other services – have noticeably altered the banking business. The acceptance and use of digital opportunities to approach customers for advisory services has proceeded faster than forecast, giving Postbank the opportunity to operate its customer business more efficiently.

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

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

Better than anticipated developments in economic conditions in Germany, in the interest rate environment, and in competitive conditions in the financial services industry could lead to higher income that would only be partially eroded by additional costs. This could improve profit before tax and the cost/income ratio.

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

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

RISK REPORT

Summary overview of risk exposure

The focus of Postbank's risk profile is on lending and deposit business with retail, business and corporate customers in Germany. Risk management at Postbank in 2017 focused on strengthening the regulatory and economic capital base while maintaining our risk profile. This was against the background of the low interest rate policy still being maintained by the European Central Bank (ECB) as well as political uncertainty in Great Britain (Brexit) and France (elections).

Postbank continues to operate in a solid economic environment. Economic growth accelerated in Germany and the eurozone in 2017. The healthy state of the labor market at present, as documented by falling unemployment coupled with a rise in the number of people in work, and the upward trend in both real estate prices and German industry spawn opportunities for expanding lending to retail and business customers. At the same time, the macroeconomic environment in Germany is having a positive effect on credit risk for our existing business.

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

Overall bank risk

Taking risks in order to generate earnings is a core function of Postbank's business activities. Risks entered into are regularly identified, measured, monitored, and allocated limits using the ICAAP (Internal Capital Adequacy Assessment Process), and are incorporated in the overall management of the Bank via the assessment of the Bank's risk-bearing capacity. Group limits, in particular the limits for market, credit and operational risks, were consistently complied with throughout 2017. The Group's risk-bearing capacity was ensured at all times. No risks that could impair the development of Postbank and its subsidiaries, or that could even jeopardize its existence as a going concern, are discernible at present. The key operationally managed risks for the Postbank Group are addressed in the following sections.

Credit risk

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

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

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

For 2018, we are expecting the risk situation to continue on a positive footing with a solid economic environment, supported by a stable trend in economic growth and the labor market.

Market risk

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

The market risk capital requirement, which is calculated on the basis of a stressed value at risk approach, also declined significantly compared with the prior year-end. This was due on the one hand to a reduction in the interest rate and credit spread exposures and to an adjustment in the modeling of the relevant risk parameters on the other. Looking ahead, we expect risk capital requirements to remain at the current level in 2018. However, the political uncertainty that continues to dominate, for instance due to the current Brexit negotiations, could also result in a return to increased market volatility and thus to corresponding fluctuations in present value.

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

Liquidity risk

Based on a stable refinancing structure, adequate liquidity buffers were maintained at all times in 2017 to ensure solvency and compliance with the regulatory liquidity requirements. Postbank's liquidity position continues to be solid thanks to its stable refinancing base in the form of customer deposits and its extensive holdings of highly liquid securities.

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

Operational risk

Postbank's operational risk loss profile primarily reflects its strategic focus as a retail bank for retail, business and corporate customers. One consistent focus over recent years has been on high frequency/low impact losses, i.e., loss events that individually are only minor but that occur repeatedly during a year. The resulting loss was lower year-on-year. In addition, in recent years litigation and complaints about investment advice have been high. Most of these relate to advice provided and transactions entered into in the area of closed-end funds, although the distribution of closed-end funds was discontinued in 2012. The number of proceedings remained at the level of the prior year.

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

Developments in risk management

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

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

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

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

Postbank also continued its measures for implementing the new Analytical Credit Dataset (AnaCredit) project launched by the ECB and other new regulatory reporting requirements as well as various new regulatory proposals submitted by the Basel Committee on Banking Supervision to complete and reform the Basel III framework and its implementation in European law (CRR II – Capital Requirements Regulation II/CRD V – Capital Requirements Directive V).

In addition, 2017 saw comprehensive preparatory measures for implementing the new accounting requirements to be met in accordance with IFRS 9 effective from 2018.

Risk management within the Deutsche Bank Group

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

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

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

Risk types

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

The risk inventory, which is performed at least annually, reviews the materiality of the risk types and the existence of additional, previously untracked risks. When performing the risk inventory, Postbank uses instruments that, in the aggregate, cover all material organizational units and risk areas within the Bank. The risk types identified as material in the risk inventory are quantified during the risk-bearing capacity assessment and – with the exception of liquidity risk – are backed by risk capital. They are monitored on a regular basis. For details of the quantification procedure, please see Note 48 to the Consolidated Financial Statements. 132

- Market risk

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

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

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

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

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

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

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

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

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

Real estate and investment risks were identified as immaterial for Postbank in the risk inventory but they are still backed by risk capital as part of a conservative quantification of risk.

- Credit risk

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

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

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

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

- Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

  b) Collective risk: The specific business risk associated with BHW Bausparkasse AG's home savings business – comprises potential negative effects on the net assets, risk position, and results of operations due to variances between the actual and the forecast behavior of the home savings collective.

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

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

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

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

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

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

Risk management within the Group is the responsibility of the units at head office and the local units networked with these. Unless otherwise noted, all items in the Risk Report specifically relate to these Group functions. Subsidiaries are included in risk management in line with their materiality for the Group. Compliance with specific regulatory requirements relating to subsidiaries is always assured.

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

Responsibilities and risk strategy

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

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

As required by the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), the Group's risk strategy is consistent with its business strategy and takes into account all significant areas of business and types of risk. The nature and extent of the risks taken, as well as the strategy for managing such risks, depend on the strategies defined by the individual business divisions in line with Postbank's risk appetite, risk profile, and target returns. They are defined and documented as part of the risk strategy that is adopted each year on the basis of the divisions' business strategies. With the purpose of implementing the SREP Guidelines, the risk strategy defines an internal capital adequacy assessment process (ICAAP) as well as an internal liquidity adequacy assessment process (ILAAP) for liquidity risk. The objective of risk management is to safeguard earnings and optimize the risk/return profile by improving capital allocation and by ensuring operational excellence. As part of this process, the integrated risk management function strengthens the future viability of Postbank and enhances the risk culture and risk discipline.

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

Risk committees

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

Tasks of the Bank Risk Committee and its subordinate risk committees

	Bank Risk Committee (BRC)	Credit Risk Committee (CRC)	Market Risk Committee (MRC)	Operational Risk Committee (ORC)	Cover Business Committee (CBC)	Model and Validation Committee (MVC)
Frequency of meetings	Monthly	Quarterly	Monthly	Quarterly	Monthly	Monthly
Tasks	Advise the Management Board with respect to: • Risk appetite (economic, regulatory) • Risk strategies and risk profile • Allocation of risk capital • Measures to limit and manage Bank-wide risk positions	Allocate credit risk limits Define limit system Analyze and evaluate credit risk Issue credit risk management guidelines	Allocate market risk limits Define liquidity risk profile Analyze and evaluate collective risk and savings and checking account risk Manage strategic focus of the banking book Discuss the Bank's earnings and risk positions	Define minimum requirements for Group units Define operational risk parameters Allocate risk capital amounts to the business divisions	Address issues relating to the cover business register Implement regulatory requirements relating to the *Pfandbrief* business Ensure conformity with targets relating to strategic orientation and ability to access the capital markets	Monitor and validate all rating systems and risk classification procedures Validate all models annually Modify rating systems, risk classification procedures, and internal models

The Bank Risk Committee is a Group-wide risk committee on which the Management Board is represented. It aggregates all risk issues and submits them to the Group Management Board. The Credit Risk Committee (CRC), the Market Risk Committee (MRC), the Operational Risk Committee (ORC), the Cover Business Committee (CBC), and the Model and Validation Committee (MVC) are headed by members of the Bank's senior management. The Cover Business Committee develops management triggers for Postbank's cover business. The Model and Validation Committee is responsible for modifications to and extensions of risk models and risk classification procedures, as well as for approving the validation reports.

Other bodies headed by members of the senior management are the Data Quality Committee (DQC), the Outsourcing Committee (OC), the Regulatory RADAR Committee (RRC), and the Business Control Forum (BCF). These committees perform their duties in close cooperation with the Bank Risk Committee and the operational management units. Similar to Postbank, BHW Bausparkasse has a Bank Risk Committee (BHW BRC) on which the Management Board is represented. This committee reports to Postbank's Bank Risk Committee and to the BHW Management Board.

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

Centralized risk monitoring and management

Risk Control function

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

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

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

The Pfandbrief Management unit, which includes the Trusteeship unit, is also allocated to the CRO board department. The Trusteeship unit monitors the required cover for Postbank's *Pfandbriefe* and maintains the cover register. The unit thus works together closely with the Regulatory Requirements Retail Banking Pfandbrief/Principles unit, which is allocated to the Retail Banking II board department.

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

Risk management units and tasks

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

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

Risk management by risk type

Within the Group, responsibility for risk management at an operational level – in the sense of position-taking activities – is spread across a number of units. Chief among these are the Financial Markets business division, the Corporate Finance, Commercial Real Estate Finance and Banks & Capital Markets credit units, and the Retail Banking credit functions. In addition, the subsidiaries BHW Bausparkasse AG, PB Factoring GmbH, and PB Leasing GmbH manage their risks independently using separately defined risk limits. The Luxembourg branch is integrated into Deutsche Postbank AG's management system and limited separately.

As a matter of principle, operational management of the Group's market risk is performed centrally by the Financial Markets division within Deutsche Postbank AG's Corporates & Markets board department. Limit monitoring and reporting of market risk is performed centrally by the Market Risk Management team within the Risk Management unit.

As a matter of principle, monitoring and management of liquidity risk is performed centrally in the CRO board department. The primary goal of the Liquidity Risk Management unit is to ensure Postbank's solvency at all times, including in certain stress situations, and to maintain a stable refinancing structure. Operational management of liquidity and of the liquidity buffer necessary for managing liquidity risk is located centrally in the Corporates & Markets board department of Deutsche Postbank AG. BHW Bausparkasse AG manages its risks independently but is subject to Group-wide risk monitoring on the basis of uniform procedures and processes. Deutsche Postbank AG serves as the lender of last resort in the case of local liquidity squeezes.

The Group Risk Control Risk Models unit is responsible for developing and calibrating the rating models, whereas the Group Risk Control Credit Risk Management unit performs credit risk limit monitoring, reporting and management. In this context, the Model Risk Management and Validation function acts as the independent validation unit (for IRBA procedures) as required by supervisory regulations. The Chief Operating Office Risk Standards unit is responsible for issuing standards on the treatment of credit risk exposure.

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

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

BHW Bausparkasse AG is responsible for the decentralized operational management and monitoring of collective risk.

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

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

Overarching risk management

Risk-bearing capacity

In addition to its regulatory own funds in accordance with the CRR, the Bank's risk-bearing capacity is assessed both from the perspective of a liquidation approach (economic creditor protection) and in line with the going concern concept (regulatory going concern approach). Postbank considers its risk-bearing capacity to be adequate if the risk cover amount exceeds the allocated risk capital and the level of overall risk (VaR).

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

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

Postbank is actively following the current supervisory discussion on changes to methods within the Bank regarding the calculation of the risk-bearing capacity and the ICAAP. Once the pertinent new standards are adopted by the ECB/Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority), these may also lead to changes in existing procedures at Postbank.

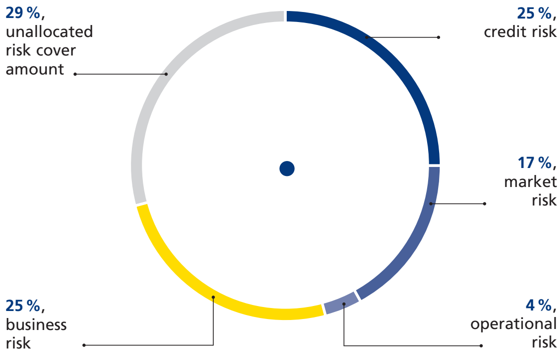
Risk capital and risk limitation

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

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

The percentage allocation of Postbank's "economic creditor protection" risk cover amount by risk type, after factoring in correlation effects, is as follows for fiscal year 2017 (calculated as of December 31, 2017):

Breakdown of Postbank's "economic creditor protection" risk cover amount by risk type (approved risk capital)

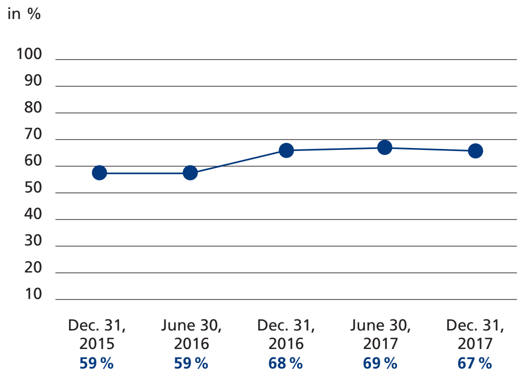


The absolute amount of economic creditor protection risk cover and a breakdown of the absolute amount of risk capital by risk type (as of December 31, 2017, and the prior-year closing date) are given in Note 48 to the Consolidated Financial Statements.

132

The following graphic shows the development of approved risk capital in relation to the total risk cover amount:

Development of the ratio of approved risk capital to the "economic creditor protection" risk cover amount



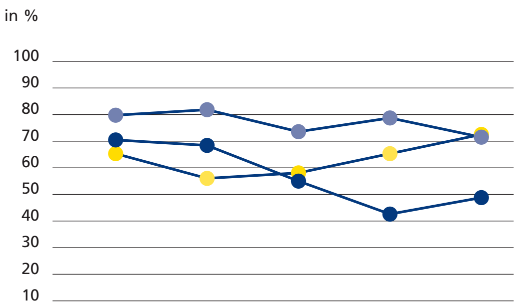
Risk cover utilization (in economic creditor protection), measured in terms of the allocated risk capital after diversification, amounted to 67 % as of the reporting date. Overall, in 2017, there was a decline of around €500 million in the aggregate allocated risk capital compared with the 2016 year-end. The risk cover amount decreased by around €600 million as against December 31, 2016, and utilization therefore decreased by just 1 % year-on-year. The main reason for the decline in the risk cover amount is a reduction in subordinated debt (in particular due to the termination of a hybrid bond). From a going concern perspective as well, the available risk cover amount provides sufficient cover for the risk potential calculated.

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

Market risk is managed by allocating VaR and loss limits both at Group level and for the relevant portfolios. In the assessment of risk-bearing capacity (in economic creditor protection), a stressed value at risk (sVaR) concept is used for market risk – a method of calculating capital requirements for market risk assuming a period of stress. The period used to determine the stressed VaR as of year-end 2017 was the period from August 8, 2011, to July 26, 2012, since this historical period represented a period of significant stress by comparison with the Bank's positioning as of the reporting date. For loans to banks, corporates, and countries (central and regional governments and local authorities), credit risk is primarily managed by allocating limits at portfolio level and by defining a target portfolio. The retail business volume is managed using variance analyses. In the case of operational risk, limits are defined both for the Bank as a whole and for each segment. The other risk types are managed using Group-wide limits.

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

Development of the limit utilization for operationally managed risk types



	Dec. 31, 2015	June 30, 2016	Dec. 31, 2016	June 30, 2017	Dec. 31, 2017
Market risk	70 %	68 %	55 %	43 %	49 %
Credit risk	79 %	81 %	73 %	78 %	71 %
Operational risk	65%	56 %	58 %	65 %	72 %

As of December 31, 2017, utilization of the authorized risk capital for market risk in the narrower sense of the term amounted to 49 %, a further decline compared with the prior year-end (December 31, 2016: 55 %), despite a reduction in the limit. This was due on the one hand to a reduction in the interest rate and credit spread exposure and to an adjusted assignment of spread curves for public-sector loans and federal state bonds in the VaR model. Credit risk limit utilization amounted to 71 % as of December 31, 2017 (December 31, 2016: 73 %). The reduction in limit utilization was mainly due to lower concentration risks in Financial Markets, which more than offset the simultaneous reduction in the credit risk limit. The increase in utilization of the authorized risk capital limit for operational risk from 58 % as of the 2016 year-end to 72 % as of December 31, 2017, was mainly due to the reduction in the limit, from €700 million to €600 million, as of the 2017 closing date.

Postbank's risk-bearing capacity was ensured at all times.

Risk concentrations

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

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

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

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

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

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

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

New products process

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

Group-wide risk reporting

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

Group-wide reporting

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

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

Monitoring and managing market risk

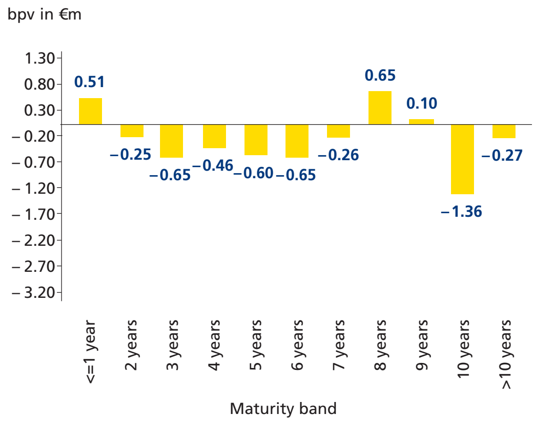
Postbank manages its market risk in the narrower sense of the term using, on the one hand, VaR limits and present value-based loss limits at Group level and for subportfolios. On the other, sensitivity indicators and maturity structures are used as additional management indicators. The changes in value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

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

Interest rate risk management

Interest rate risk – a significant component of market risk – is the term used to denote the risk of a decline in the fair value of interest-sensitive financial instruments resulting from a change in the market rate of interest or a deterioration in net interest income for the period due to changes in the general market rate of interest. Interest rate risk analysis is an integral part of daily market risk measurement. The following chart presents the profile of Postbank's open interest rate positions as of December 31, 2017, in the form of a basis point value (bpv) graph. Positions with a negative value represent an assets-side interest rate risk, which means that there is a surplus of assets. In the same way, positive values indicate a surplus of liabilities. Overall, Postbank continued to have a long interest rate position as of December 31, 2017.

The Postbank Group's interest rate positions (bpv) as of December 31, 2017



The graphic shows that the long interest rate positions open as of the reporting date of December 31, 2017, are distributed across almost all maturity ranges. Only in the maturity range of less than one year and in the maturity band of eight to nine years are the majority of interest rate risk overhangs on the short side. The open interest rate positions in the >10-year maturity range were reduced significantly compared with the prior year by portfolio hedges to control the interest rate risk resulting principally from long-term mortgage lending. The total bpv as of December 31, 2017, amounted to €–3.3 million, compared with €–3.6 million as of December 31, 2016. Interest rate sensitivity is primarily the result of positions in euros; interest rate sensitivities in other currencies are immaterial. Postbank mainly uses interest rate swaps to actively manage interest rate risk. Those elements of capital made available to the Bank indefinitely are excluded when determining interest rate risk.

Value at risk measurement, limit setting, and backtesting

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

VaR is calculated uniformly throughout Postbank using a Monte Carlo simulation. Operational management is based on a confidence level of 99 % and a holding period appropriate to day-to-day risk management of ten days. The material risk factors taken into account when calculating VaR are interest rates and credit spreads, share prices, exchange rates, and volatilities.

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

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

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

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

The methods used to compute VaR are regularly validated and tested for reliability. The predictive accuracy of the calculated VaR is tested by comparing it with the hypothetical gains and losses arising from actual changes in fair value for the same portfolio (clean mark-to-market backtesting), among other things. The backtesting results as of December 31, 2017 (one-sided binomial test in accordance with the Basel traffic light approach) produced four outliers at Group level and were thus in the green zone, thereby confirming the general adequacy of the market risk model.

Stress testing and risk concentrations

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

In fiscal year 2017, the risk capital available for market risk was sufficient at all times to cover the fair value losses arising in even the most adverse of the historical and hypothetical stress scenarios examined.

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

Appropriate market terms

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

Risk indicators

The following VaR figures were calculated for fiscal year 2017 and fiscal year 2016:

Postbank Group VaR relating to market risk

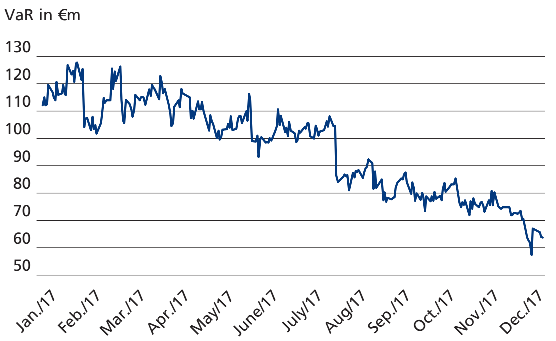
Group VaR (10 days, 99 %)	Year-end VaR		Maximum VaR		Minimum VaR		Average VaR	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	2017 €m	2016 €m	2017 €m	2016 €m	2017 €m	2016 €m
Interest rate risk	37.8	58.5	82.0	87.8	37.4	39.7	56.9	69.0
Equity/stock index risk	5.0	6.3	6.7	9.9	4.7	6.1	5.7	8.0
Currency risk	5.2	7.2	8.2	8.6	2.6	3.2	4.1	4.5
Other market risk (spread)	39.5	73.2	78.3	120.3	37.8	71.3	58.8	96.4
Diversification effects	–25.6	–36.9	–39.1	–55.9	–19.3	–0.5	–28.9	–36.1
Total	**61.9**	**108.3**	**128.1**	**177.3**	**58.4**	**100.4**	**96.5**	**141.8**

The VaR for market risk (confidence level of 99 %, holding period of 10 days) amounted to a total of €62 million as of December 31, 2017 (for comparative purposes: €108 million as of December 31, 2016).

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

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

Postbank Group VaR (99 %, 10 days) for the period from January 1, 2017, to December 31, 2017



The VaR trend in Postbank's banking book is driven mainly by the development of two risk factors: interest rate spread and credit spread. The operational VaR figures fluctuated in a range between €130 million and €100 million until the end of July 2017. Hedging activity in the third quarter of 2017 (principally hedging of mortgage portfolios), which aimed at reducing open interest rate risk positions, triggered a reduction in interest rate VaR and total VaR to a level of between €90 million and €60 million. This trend was reinforced by a reduction in credit spread volatilities. At the end of the reporting period, the VaR was at a historically low level of around €60 million.

Postbank's trading book no longer contains any active positions. There was no trading book business in the year under review and no new business is planned in this area for strategic reasons.

Real estate risk management

The properties in the Postbank portfolio are primarily owner-occupied properties of Deutsche Postbank AG and BHW Bausparkasse AG. They are reappraised every three years in order to monitor their value on an ongoing basis.

Investment risk management

Equity investments are defined as all equity interests recognized in the annual financial statements of Deutsche Postbank AG under "equity investments" and "investments in affiliated companies," and investments in companies pursuant to section 16(2) and (4) of the *Aktiengesetz* (AktG – German Stock Corporation Act). As of December 31, 2017, Deutsche Postbank AG held a total of 42 (previous year-end: 45) direct and a large number of indirect equity investments.

These holdings are predominantly strategic investments that reflect Postbank's product and service lines, and that provide internal services for Postbank. As of December 31, 2017, Postbank held equity investments classified as held for sale in accordance with IFRS 5 in the amount of €9 million (see Note 4(r)).

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

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

Monitoring and managing credit risk

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

90

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

Managing individual risks

Credit approval procedures

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

Scoring and rating

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

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

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

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

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

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

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

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

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

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

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

- Real estate liens to secure private and commercial real estate financing
- Master netting agreements
- Guarantees and trade credit insurance
- Financial collateral (cash collateral).

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

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

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

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

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

In the case of prudential credit risk mitigation using netting agreements, the underlying exposure is reduced either by netting offsetting individual transactions or by using netting agreements. As part of its collateral management activities, Postbank uses netting agreements for derivatives and repurchase agreements. The agreements are entered into on the basis of standard international master agreements and comply with the requirements of the CRR. Netting agreements are entered into with most key trading counterparties. Collateral is managed using a computerized process that complies with the required collateral management standards. Netted positions are integrated into risk management for the counterparties concerned and the aggregate credit risk exposure.

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

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

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

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

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

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

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

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

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

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

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

The portfolio-based valuation allowances 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 (loss identification period, LIP), depending on the type of product and customer group concerned in each case. The default probabilities and the loss rates for defaults at the portfolio level are calculated at portfolio level and updated where necessary on the basis of the results of the annual validation and recalibration of the IRBA rating systems; LIP factors are estimated on an individual basis, reviewed on an annual basis, and adjusted where necessary in line with the relevant risk monitoring processes.

Uncollectible loans are written off directly through profit or loss.

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

Forbearance and forborne and non-performing exposures
The terms “forbearance” and “forborne” are used in conjunction with all of a bank’s exposures for which the contract terms have been modified due to financial difficulties of the obligor. These may involve renegotiations, restructurings, and refinancing arrangements, as well as guarantees for refinancing purposes.

The term “non-performing” is used to describe all exposures of which a material portion is more than 90 days past due or for which – irrespective of whether or not they are past due – there is an identifiable risk that full repayment will not be made. This includes all exposures defined as being in default for regulatory purposes as well as exposures for which specific valuation allowances or collective specific valuation allowances have been recognized. Classification as non-performing does not take into account whether the institution could have recourse to additional measures to enhance the credit, such as the realization of collateral. The EBA’s definition of “non-performing” borrows heavily from the definition of “default” in the CRR and the IFRS requirements governing impairment, although there is no 1:1 equivalence for “forborne exposures.” A distinction is also made between a defaulted exposure and the default of an obligor; the latter results in all exposures of that obligor being declared non-performing (also known as pulling).

Managing credit risk at portfolio level

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

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

In contrast to EC, the expected loss (EL) indicated in the “Credit risk” table in the section entitled “Portfolio structure” is the expected amount of losses due to credit risk in the Group portfolio over a one-year period. This is calculated approximately as the product of the default probability, the total size of exposure, and the loss rate. It depends on the counterparty/transaction rating and on the transaction term. The expected loss does not contribute to the Bank’s overall risk, but is factored into margin calculations via the standard risk costs.

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

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

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

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

Portfolio structure

The following table provides an overview of material credit risk indicators for the various segments and pension funds as of December 31, 2017, compared with December 31, 2016 (volumes: economic exposure).

Credit risk[1]	Economic exposure		Expected loss		Economic capital (EC)[2]	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Retail Banking	95,860	93,286	336	323	703	576
Business and Corporate Banking	21,838	19,060	52	56	567	394
Financial Markets	38,363	46,730	6	6	501	953
Pension funds	1,881	1,910	1	1	67	49
Total	**157,942**	**160,985**	**395**	**386**	**1,838**	**1,971**

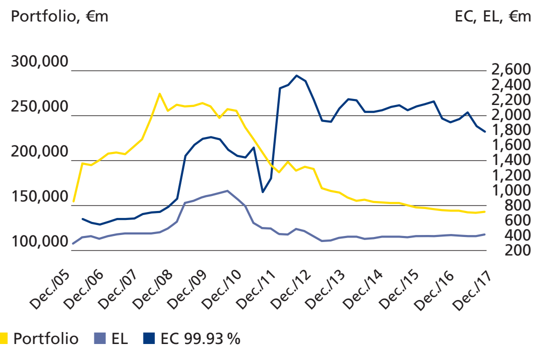
[1]Differing presentation in the breakdown vis-à-vis the prior-year closing date owing to the closure of the Non-Core Operating Unit in 2017. For the purpose of consistent presentation, the figures for 2016 are also disclosed in line with the new portfolio breakdown.

[2]The underlying confidence level is 99.93%.

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

The following graphic shows the portfolio, EC, and EL over time. The increase as of the 2011 closing date was due to the introduction of a new credit portfolio model and the resulting improvements in the model methodology.

Overall bank portfolio and risk development over time



The “Maximum counterparty credit risk” table breaks down the maximum exposure to credit risk in accordance with IFRS 7.36(a) into categories of risk-bearing financial instruments both before and after the allowance for losses on loans and advances, and before and after accounting for credit risk mitigation techniques. The presentation does not contain any information on ratings, in contrast to the economic risk quantification contained in the “Credit risk” table.

Maximum counterparty credit risk

Risk-bearing financial instruments	Maximum counter-party credit risk exposure		Allowance for losses on loans and advances		Maximum coun-terparty credit risk exposure after allowance for losses on loans and advances		Collateral[1]		Guarantees/ credit derivatives		Maximum counter-party credit risk exposure after allowance for losses on loans and advances and after credit risk mitigation	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trading assets	**310**	**475**	**–**	**–**	**310**	**475**	**45**	**51**	**–**	**–**	**265**	**424**
Held for trading	310	475	–	–	310	475	45	51	–	–	265	424
Derivatives	265	422	–	–	265	422	–	–	–	–	265	422
Loans	45	53	–	–	45	53	45	51	–	–	–	2
Hedging derivatives	**47**	**112**	**–**	**–**	**47**	**112**	**–**	**–**	**–**	**–**	**47**	**112**
Loans and advances to other banks	**10,821**	**13,108**	**–**	**–**	**10,821**	**13,108**	**834**	**5,832**		**–**	**9,987**	**7,276**
Loans and receivables	10,821	13,108	–	–	10,821	13,108	834	5,832	–	–	9,987	7,276
Securities repurchase agreements	834	5,832	–	–	834	5,832	834	5,832	–	–	–	–
Overnight money	8,924	6,381	–	–	8,924	6,381	–	–	–	–	8,924	6,381
Loans	63	92	–	–	63	92	–	–	–	–	63	92
Registered bonds	0	300	–	–	0	300	–	–	–	–	–	300
Term deposits	1,000	500	–	–	1,000	500	–	–	–	–	1,000	500
Other loans and advances	–	3	–	–	–	3	–	–	–	–	–	3
Loans and advances to customers	**106,997**	**101,996**	**997**	**998**	**106,000**	**100,998**	**78,444**	**74,888**	**674**	**645**	**26,882**	**25,465**
Loans and receivables	104,154	98,351	997	998	103,157	97,353	75,644	71,336	674	645	26,839	25,372
Private mortgage lending	68,563	65,384	226	292	68,337	65,092	65,430	61,953	–	–	2,907	3,139
Home savings loans	2,760	2,992	5	5	2,755	2,987	2,716	2,912	–	–	39	75
Commercial loans[2]	15,857	13,670	125	153	15,732	13,517	7,498	6,471	674	645	7,560	6,401
Public-sector receivables	5,078	5,205	3	4	5,075	5,201	–	–	–	–	5,075	5,201
Installment loans	8,053	7,438	473	389	7,580	7,049	–	–	–	–	7,580	7,049
Overdraft facilities	2,195	2,085	165	155	2,030	1,930	–	–	–	–	2,030	1,930
Promissory note loans	1,604	1,537	–	–	1,604	1,537	–	–	–	–	1,604	1,537
Other loans and advances	44	40	–	–	44	40	–	–	–	–	44	40
Fair value option	2,843	3,645	–	–	2,843	3,645	2,800	3,552	–	–	43	93
Private mortgage lending	2,843	3,645	–	–	2,843	3,645	2,800	3,552	–	–	43	93
Investment securities	**22,605**	**26,766**	**–**	**–**	**22,605**	**26,766**	**–**	**–**	**–**	**–**	**22,605**	**26,766**
Loans and receivables	8,451	12,196	–	–	8,451	12,196	–	–	–	–	8,451	12,196
Bonds and other fixed-income securities	8,451	12,196	–	–	8,451	12,196	–	–	–	–	8,451	12,196
Available for sale	14,154	14,570	–	–	14,154	14,570	–	–	–	–	14,154	14,570
Bonds and other fixed-income securities	13,858	14,252	–	–	13,858	14,252	–	–	–	–	13,858	14,252
Investment fund shares	264	270	–	–	264	270	–	–	–	–	264	270
Equity investments	31	43	–	–	31	43	–	–	–	–	31	43
Investments in unconsolidated subsidiaries	1	5	–	–	1	5	–	–	–	–	1	5
Subtotal	**140,780**	**142,457**	**997**	**998**	**139,783**	**141,459**	**79,323**	**80,771**	**674**	**645**	**59,786**	**60,043**
Contingent liabilities from guarantees	**426**	**379**	**13**	**18**	**413**	**361**	**–**	**–**	**–**	**0**	**413**	**361**
Revocable and irrevocable loan commitments	**21,608**	**21,225**	**14**	**27**	**21,594**	**21,198**	**–**	**–**	**1**	**13**	**21,593**	**21,185**
Revocable loan commitments[3, 4]	13,501	13,459	8	13	13,493	13,446	–	–	–	–	13,493	13,446
Irrevocable loan commitments	8,107	7,766	6	14	8,101	7,752	–	–	1	13	8,100	7,739
Total	**162,814**	**164,061**	**1,024**	**1,043**	**161,790**	**163,018**	**79,323**	**80,771**	**675**	**658**	**81,792**	**81,589**

[1]Collateral value of private mortgage lending portfolio for 2016 adjusted by €80 million owing to a model adjustment
[2]2016 figure adjusted for commercial loans (see Note 6)
[3]Item includes irrevocable payment obligations (deposit protection fund and cash collateral for bank levy; see Note 40)
[4]Prior-year figure for revocable loan commitments adjusted by €364 million

The table contains netting effects relating to trading assets and hedging derivatives (December 31, 2017: €5.2 billion; December 31, 2016: €7.1 billion) and to securities repurchase agreements (December 31, 2017: €0.5 billion; December 31, 2016: €4.0 billion) in the amount disclosed for the maximum counterparty credit risk exposure before collateral.

€3.5 billion of the amount disclosed in the "Investment securities" balance sheet item as of the reporting date relates to covered bonds (December 31, 2016: €4.1 billion).

The following tables show the risk concentrations as gross exposures before the allowance for losses on loans and advances and credit risk mitigation techniques.

Sector structure of the loan portfolio

The following table illustrates the risk concentrations by sector and borrower group, broken down by balance sheet item, holding category, and product group.

Risk concentrations by sector and borrower group

Risk-bearing financial instruments	Retail customers		Banks/ insurers/ financial services		Countries		Commercial real estate finance		Services/ wholesale and retail		Industry		Other sectors		Total	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trading assets	**45**	**53**	**85**	**211**	**0**	**–**	**72**	**97**	**37**	**26**	**26**	**23**	**45**	**65**	**310**	**475**
Held for trading	45	53	85	211	0	–	72	97	37	26	26	23	45	65	310	475
Derivatives	–	0	85	211	0	–	72	97	37	26	26	23	45	65	265	422
Loans	45	53	–	–	–	–	–	–	–	–	–	–	–	–	45	53
Hedging derivatives	**–**	**–**	**47**	**112**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47**	**112**
Loans and advances to other banks	**–**	**–**	**10,821**	**13,078**	**–**	**–**	**–**	**30**	**–**	**–**	**–**	**–**	**–**	**–**	**10,821**	**13,108**
Loans and receivables	–	–	10,821	13,078	–	–	–	30	–	–	–	–	–	–	10,821	13,108
Securities repurchase agreements	–	–	834	5,832	–	–	–	–	–	–	–	–	–	–	834	5,832
Overnight money	–	–	8,924	6,381	–	–	–	–	–	–	–	–	–	–	8,924	6,381
Loans	–	–	63	62	–	–	–	30	–	–	–	–	–	–	63	92
Registered bonds	–	–	–	300	–	–	–	–	–	–	–	–	–	–	–	300
Term deposits	–	–	1,000	500	–	–	–	–	–	–	–	–	–	–	1,000	500
Other loans and advances	–	–	–	3	–	–	–	–	–	–	–	–	–	–	–	3
Loans and advances to customers	**83,880**	**80,723**	**577**	**365**	**5,553**	**5,693**	**8,797**	**7,662**	**4,060**	**4,030**	**3,113**	**2,573**	**1,017**	**950**	**106,997**	**101,996**
Loans and receivables	81,040	77,081	577	365	5,553	5,693	8,797	7,662	4,059	4,029	3,113	2,573	1,015	948	104,154	98,351
Private mortgage lending	68,467	65,271	0	0	0	1	–	–	18	20	0	0	78	92	68,563	65,384
Home savings loans	2,757	2,988	–	–	0	0	–	–	0	0	0	0	3	4	2,760	2,992
Commercial loans[1]	735	336	453	299	97	20	8,797	7,662	2,844	2,992	2,364	1,861	567	500	15,857	13,670
Public-sector receivables	0	–	–	–	5,016	5,135	–	–	1	1	–	–	61	69	5,078	5,205
Installment loans	8,052	7,437	–	0	–	–	–	–	1	1	0	0	0	0	8,053	7,438
Overdraft facilities	1,029	1,049	13	12	5	0	–	–	690	567	379	329	79	128	2,195	2,085
Promissory note loans	–	–	88	31	432	533	–	–	501	446	370	383	213	144	1,604	1,537
Other loans and advances[2]	–	–	23	23	3	4	–	–	4	2	–	–	14	11	44	40
Fair value option	2,840	3,642	–	–	0	0	–	–	1	1	–	–	2	2	2,843	3,645
Private mortgage lending	2,840	3,642	–	–	0	0	–	–	1	1	–	–	2	2	2,843	3,645
Investment securities	**–**	**–**	**7,440**	**8,963**	**12,674**	**15,319**	**–**	**–**	**1,174**	**1,284**	**675**	**675**	**642**	**525**	**22,605**	**26,766**
Loans and receivables	–	–	3,090	4,171	4,334	6,860	–	–	581	669	235	279	211	217	8,451	12,196
Bonds and other fixed-income securities	–	–	3,090	4,171	4,334	6,860	–	–	581	669	235	279	211	217	8,451	12,196
Available for sale	–	–	4,350	4,792	8,340	8,459	–	–	593	615	440	396	431	308	14,154	14,570
Bonds and other fixed-income securities	–	–	4,061	4,484	8,340	8,459	–	–	593	611	440	396	424	302	13,858	14,252
Investment fund shares	–	–	264	270	–	–	–	–	–	–	–	–	–	–	264	270
Equity investments	–	–	25	38	–	–	–	–	0	0	–	–	6	5	31	43
Investments in unconsolidated subsidiaries	–	–	–	–	–	–	–	–	0	4	–	–	1	1	1	5
Subtotal	**83,925**	**80,776**	**18,970**	**22,729**	**18,227**	**21,012**	**8,869**	**7,789**	**5,271**	**5,340**	**3,814**	**3,271**	**1,704**	**1,540**	**140,780**	**142,457**
Contingent liabilities from guarantees	**6**	**6**	**39**	**13**	**–**	**–**	**14**	**9**	**161**	**199**	**130**	**84**	**76**	**68**	**426**	**379**
Revocable and irrevocable loan commitments	**17,684**	**18,142**	**130**	**136**	**115**	**140**	**389**	**233**	**2,006**	**1,458**	**777**	**766**	**507**	**350**	**21,608**	**21,225**
Revocable loan commitments[3, 4]	11,510	11,988	70	12	35	20	–	–	1,028	748	502	450	356	241	13,501	13,459
Irrevocable loan commitments	6,174	6,154	60	124	80	120	389	233	978	710	275	316	151	109	8,107	7,766
Total	**101,615**	**98,924**	**19,139**	**22,878**	**18,342**	**21,152**	**9,272**	**8,031**	**7,438**	**6,997**	**4,721**	**4,121**	**2,287**	**1,958**	**162,814**	**164,061**

[1] 2016 figure adjusted for commercial loans (see Note 6)
[2] Breakdown of prior-year figures adjusted (€23 million from Other sectors to Insurers)
[3] Item includes irrevocable payment obligations (deposit protection fund and cash collateral for bank levy; see Note 40)
[4] Prior-year figure for revocable loan commitments adjusted by €364 million

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

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

Regional distribution of the loan portfolio

Postbank has established country-specific limits for credit approvals in order to manage country risk. The country limits are largely determined by internal and external ratings, and by the economic strength of the particular country as measured by its gross domestic product. A 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. Postbank also uses an early warning system to monitor country limits.

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

Risk concentrations by geographic region

Risk-bearing financial instruments	Germany		Western Europe		Other regions		Total	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trading assets	**250**	**377**	**59**	**95**	**1**	**3**	**310**	**475**
Held for trading	250	377	59	95	1	3	310	475
Derivatives	205	324	59	95	1	3	265	422
Loans	45	53	–	–	–	–	45	53
Hedging derivatives	**4**	**5**	**35**	**70**	**8**	**37**	**47**	**112**
Loans and advances to other banks	**10,580**	**12,301**	**232**	**779**	**9**	**28**	**10,821**	**13,108**
Loans and receivables	10,580	12,301	232	779	9	28	10,821	13,108
Securities repurchase agreements	834	5,832	–	–	–	–	834	5,832
Overnight money	8,683	5,774	232	579	9	28	8,924	6,381
Loans	63	92	–	–	–	–	63	92
Registered bonds	–	100	–	200	–	–	–	300
Term deposits	1,000	500	–	–	–	–	1,000	500
Other loans and advances	–	3	–	–	–	–	–	3
Loans and advances to customers	**97,554**	**93,943**	**8,321**	**7,331**	**1,122**	**722**	**106,997**	**101,996**
Loans and receivables	94,721	90,309	8,313	7,322	1,120	720	104,154	98,351
Private mortgage lending	65,945	62,546	2,574	2,793	44	45	68,563	65,384
Home savings loans	2,463	2,695	295	296	2	1	2,760	2,992
Commercial loans[1]	9,656	9,009	5,140	3,996	1,061	665	15,857	13,670
Public-sector receivables	5,072	5,198	6	7	–	–	5,078	5,205
Installment loans	8,019	7,409	23	21	11	8	8,053	7,438
Overdraft facilities	2,183	2,077	10	7	2	1	2,195	2,085
Promissory note loans	1,342	1,336	262	201	–	–	1,604	1,537
Other loans and advances	41	39	3	1	–	–	44	40
Fair value option	2,833	3,634	8	9	2	2	2,843	3,645
Private mortgage lending	2,833	3,634	8	9	2	2	2,843	3,645
Investment securities	**7,674**	**9,312**	**14,676**	**16,961**	**255**	**493**	**22,605**	**26,766**
Loans and receivables	4,230	5,170	4,163	6,728	58	298	8,451	12,196
Bonds and other fixed-income securities	4,230	5,170	4,163	6,728	58	298	8,451	12,196
Available for sale	3,444	4,142	10,513	10,233	197	195	14,154	14,570
Bonds and other fixed-income securities	3,171	3,843	10,513	10,229	174	180	13,858	14,252
Investment fund shares	264	270	–	–	–	–	264	270
Equity investments	8	28	0	0	23	15	31	43
Investments in unconsolidated subsidiaries	1	1	0	4	–	–	1	5
Subtotal	**116,062**	**115,938**	**23,323**	**25,236**	**1,395**	**1,283**	**140,780**	**142,457**
Contingent liabilities from guarantees	**425**	**341**	**1**	**38**	**–**	**–**	**426**	**379**
Revocable and irrevocable loan commitments	**21,290**	**20,922**	**297**	**290**	**21**	**13**	**21,608**	**21,225**
Revocable loan commitments[2, 3]	13,442	13,347	48	101	11	11	13,501	13,459
Irrevocable loan commitments	7,848	7,575	249	189	10	2	8,107	7,766
Total	**137,777**	**137,201**	**23,621**	**25,564**	**1,416**	**1,296**	**162,814**	**164,061**

[1]2016 figure adjusted for commercial loans (see Note 6)
[2]Item includes irrevocable payment obligations (deposit protection fund and cash collateral for bank levy; see Note 40)
[3]Prior-year figure for revocable loan commitments adjusted by €364 million

As was also the case at the prior year-end, Postbank did not hold any credit default swaps with sovereign borrowers in its portfolio as of the reporting date.

Rating structure of the loan portfolio

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 individually impaired as of December 31, 2017 (excluding "contingent liabilities" and "other liabilities").

In principle, Postbank uses the same rating for risk management as for capital requirements; this is normally the issuer rating rather than the rating given to a specific issue. Postbank has a large portfolio of *Pfandbriefe* and similarly collateralized issues that are relatively low-risk in nature. For this reason, the issue ratings are shown in the following table. The distribution of ratings in the Group loan portfolio reflects Postbank's conservative approach. The good rating categories predominate: 92 % of the rated portfolio is classified as investment grade (rating of "BBB" or better).

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, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trading assets	**–**	**–**	**6**	**18**	**37**	**74**	**141**	**211**	**81**	**75**	**–**	**44**	**265**	**422**
Held for trading	–	–	6	18	37	74	141	211	81	75	–	44	265	422
Derivatives	–	–	6	18	37	74	141	211	81	75	–	44	265	422
Hedging derivatives	**–**	**–**	**–**	**–**	**47**	**112**	**–**	**–**	**–**	**–**	**–**	**–**	**47**	**112**
Held for trading	–	–	–	–	47	112	–	–	–	–	–	–	47	112
Loans and advances to other banks	**8,580**	**5,600**	**33**	**44**	**1,018**	**4,970**	**1,126**	**2,414**	**13**	**21**	**51**	**59**	**10,821**	**13,108**
Loans and receivables	8,580	5,600	33	44	1,018	4,970	1,126	2,414	13	21	51	59	10,821	13,108
Securities repurchase agreements	–	–	–	–	834	4,284	–	1,548	–	–	–	–	834	5,832
Overnight money	8,580	5,482	33	44	165	685	126	135	11	18	9	17	8,924	6,381
Loans	–	17	–	–	19	–	–	30	2	3	42	42	63	92
Registered bonds	–	99	–	–	–	–	–	201	–	–	–	–	–	300
Term deposits	–	–	–	–	–	–	1,000	500	–	–	–	–	1,000	500
Other loans and advances	–	2	–	–	–	1	0	0	0	0	0	0	0	3
Available for sale	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances to customers	**5,124**	**4,666**	**2,418**	**2,450**	**1,615**	**1,948**	**8,816**	**7,294**	**4,562**	**4,117**	**201**	**445**	**22,736**	**20,920**
Loans and receivables	5,124	4,666	2,418	2,450	1,615	1,948	8,814	7,294	4,561	4,117	201	442	22,733	20,917
Private mortgage lending	–	1	–	–	4	6	40	29	49	52	3	20	96	108
Home savings loans	–	–	–	–	–	–	2	–	1	–	–	4	3	4
Commercial loans[1]	1,103	818	952	580	1,574	1,874	7,145	5,951	3,943	3,540	128	344	14,845	13,107
Public-sector receivables	3,985	3,815	1,049	1,344	–	–	6	–	–	–	32	39	5,072	5,198
Installment loans	–	–	–	–	–	–	–	–	–	–	–	–	0	–
Overdraft facilities	5	–	–	–	5	1	634	500	425	422	–	–	1,069	923
Promissory note loans	31	32	414	522	32	67	984	813	143	103	–	–	1,604	1,537
Other loans and advances[2]	–	–	3	4	–	–	3	1	–	–	38	35	44	40
Fair value option	–	–	–	–	–	–	2	–	1	–	–	3	3	3
Private mortgage lending	–	–	–	–	–	–	2	–	1	–	–	3	3	3
Investment securities	**8,479**	**10,674**	**6,647**	**8,308**	**5,793**	**6,189**	**1,658**	**1,423**	**8**	**135**	**13**	**30**	**22,598**	**26,759**
Loans and receivables	2,623	4,109	1,886	3,668	3,144	3,488	791	808	–	116	–	–	8,444	12,189
Bonds and other fixed-income securities	2,623	4,109	1,886	3,668	3,144	3,488	791	808	–	116	–	–	8,444	12,189
Available for sale	5,856	6,565	4,761	4,640	2,649	2,701	867	615	8	19	13	30	14,154	14,570
Bonds and other fixed-income securities	5,856	6,565	4,760	4,639	2,362	2,416	866	613	7	19	7	–	13,858	14,252
Investment fund shares	–	–	–	–	264	270	–	–	–	–	–	–	264	270
Equity investments[2]	–	–	1	1	23	15	–	1	1	–	6	26	31	43
Investments in unconsolidated subsidiaries	–	–	–	–	–	–	1	1	–	–	–	4	1	5
Total	**22,183**	**20,940**	**9,104**	**10,820**	**8,510**	**13,293**	**11,741**	**11,342**	**4,664**	**4,348**	**265**	**578**	**56,467**	**61,321**

[1] 2016 figure for commercial loans adjusted (see Note 6)

[2] Rating distribution for other loans and advances (€23 million) and equity investments (€15 million) adjusted between "A" and "Not rated" for 2016

Similarly, the following table shows the credit quality of the risk-bearing financial instruments for Postbank's retail banking business that were neither past due nor individually impaired as of the December 31, 2017, reporting date (excluding "contingent liabilities" and "other liabilities"). Postbank's retail banking business continues to exhibit a stable rating distribution following implementation of the customer rating. Compared with the prior year-end, the installment loan business exhibits the expected higher concentration of volumes in the lower rating categories. Against the backdrop of a stable risk differentiation, the retail mortgage lending business essentially reveals a moderate rise in volumes as shown by the customer rating. A disproportionate rise in volumes can be seen in the best rating categories, in line with our expectations.

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, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trading assets	**–**	**–**	**0**	**0**	**2**	**5**	**24**	**27**	**19**	**21**	**–**	**–**	**45**	**53**
Held for trading	–	–	0	0	2	5	24	27	19	21	–	–	45	53
Loans	–	–	0	0	2	5	24	27	19	21	–	–	45	53
Loans and advances to customers	**0**	**0**	**255**	**490**	**6,536**	**4,807**	**32,022**	**32,662**	**41,410**	**37,828**	**2,069**	**3,197**	**82,292**	**78,984**
Loans and receivables	0	0	241	470	6,267	4,469	30,543	30,737	40,369	36,522	2,046	3,168	79,466	75,366
Private mortgage lending	0	0	131	173	5,370	3,775	28,353	28,351	32,530	29,754	1,219	2,196	67,603	64,249
Home savings loans	0	0	66	73	545	597	1,389	1,509	646	688	81	86	2,727	2,953
Commercial loans	0	0	36	214	263	4	102	61	325	31	1	25	727	335
Installment loans	–	–	0	3	45	53	481	593	6,287	5,431	669	787	7,482	6,867
Overdraft facilities	–	0	8	7	44	40	218	223	581	618	76	74	927	962
Fair value option	0	0	14	20	269	338	1,479	1,925	1,041	1,306	23	29	2,826	3,618
Private mortgage lending	0	0	14	20	269	338	1,479	1,925	1,041	1,306	23	29	2,826	3,618
Total	**0**	**0**	**255**	**490**	**6,538**	**4,812**	**32,046**	**32,689**	**41,429**	**37,849**	**2,069**	**3,197**	**82,337**	**79,037**

The following table shows the disbursed credit exposure for the private mortgage lending portfolio, grouped by loan-to-value (LtV) class.

LtV is calculated as the ratio of the disbursed credit exposure per borrower to the property value of the underlying real estate collateral. The valuation of the respective real estate collateral is based on the current property value, which is determined by a reappraisal of the original market value on the current reporting date.

Disbursed credit exposures relating to loans and advances in the private mortgage lending portfolio are included into the calculation of loan to value if there is real estate collateral. Disbursed credit exposures that are backed by home savings deposits (4.7 % of the portfolio; December 31, 2016: 5.3 %) or secured by substitute collateral and negative pledge agreements (7.0 % of the portfolio; December 31, 2016: 7.9 %) are not included in the LtV calculation.

Private mortgage lending, grouped by loan-to-value class

Loan-to-value class	Dec. 31, 2017 in %	Dec. 31, 2016 in %
< = 50 %	28.5	29.9
> 50 %, <= 70 %	25.8	27.1
> 70 %, <= 90 %	26.3	25.5
> 90 %, <= 100 %	10.9	9.9
> 100 %, <= 110 %	5.6	5.5
> 110 %, <= 130 %	2.3	1.7
> 130 %	0.6	0.4
Total	**100.0**	**100.0**

As of December 31, 2017, 54.3 % of the private mortgage lending portfolio had a loan-to-value ratio of less than or equal to 70 % (December 31, 2016: 57.0 %).

8.5 % of total exposures are represented in the LtV classes of greater than 100 % (December 31, 2016: 7.6 %). These are exposures that are backed by real estate collateral and, in addition, regularly secured by highly liquid additional collateral.

Loans past due but not impaired

The following table shows those risk-bearing financial instruments that were past due but not impaired as of December 31, 2017.

Time bands for financial instruments past due but not impaired

Risk-bearing financial instruments and collateral	Financial instruments past due but not impaired										Fair value of the collateral for financial instruments past due but not impaired	
	Past due ≤ 3 months		Past due > 3 months, ≤ 6 months		Past due > 6 months, ≤ 1 year		Past due > 1 year		Total			
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Loans and advances to customers	**158**	**169**	**103**	**17**	**28**	**32**	**122**	**127**	**411**	**345**	**310**	**313**
Loans and receivables	158	168	102	16	25	28	117	121	402	333	302	302
Private mortgage lending	138	154	10	13	22	23	96	112	266	302	242	276
Home savings loans	4	4	2	3	3	5	7	8	16	20	14	18
Commercial loans	0	0	90	–	–	0	–	0	90	0	46	8
Public-sector receivables	–	–	–	–	–	–	–	–	–	–	–	–
Installment loans	7	1	0	–	0	0	13	0	20	1	–	–
Overdraft facilities	9	9	0	0	0	0	1	1	10	10	–	–
Other loans and advances	–	–	–	–	–	–	–	–	–	–	0	0
Fair value option	0	1	1	1	3	4	5	6	9	12	8	11
Private mortgage lending	0	1	1	1	3	4	5	6	9	12	8	11
Total	**158**	**169**	**103**	**17**	**28**	**32**	**122**	**127**	**411**	**345**	**310**	**313**

The value of past due financial instruments in the commercial lending business resulted from the outstanding and not yet finalized sale of an individual exposure that had been classified as impaired as of December 31, 2016 (for details of the decrease in impaired commercial loans, please see next section).

Impaired loans

The following table shows all impaired financial assets as of December 31, 2017, and December 31, 2016, broken down into individually impaired loans and advances to customers, and investment securities for which impairment losses have been recognized; no impairment losses have been recognized for loans and advances to other banks. The carrying amount after recognition of impairment losses is shown in the table as the difference between the carrying amount before impairment and the amount of the impairment loss.

Impaired financial instruments

Impaired risk-bearing financial instruments and collateral	Carrying amount before impairment		Amount of impairment loss		Carrying amount after impairment		Fair value of collateral for impaired instruments	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Loans and advances to customers	**1,558**	**1,747**	**799**	**798**	**759**	**949**	**640**	**702**
Loans and receivables	1,553	1,735	799	798	754	937	635	691
Private mortgage lending	598	725	164	209	434	516	544	569
Home savings loans	14	15	5	5	9	10	13	14
Commercial loans	195	228	106	127	89	101	78	108
Public-sector receivables	6	7	3	4	3	3	–	–
Installment loans	551	570	372	313	179	257	–	–
Overdraft facilities	189	190	149	140	40	50	–	–
Promissory note loans	–	–	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–	–
Fair value option	5	12	–	–	5	12	5	11
Private mortgage lending	5	12	–	–	5	12	5	11
Investment securities	**62**	**70**	**55**	**63**	**7**	**7**	**–**	**–**
Loans and receivables	62	70	55	63	7	7	–	–
Bonds and other fixed-income securities	62	70	55	63	7	7	–	–
Total	**1,620**	**1,817**	**854**	**861**	**766**	**956**	**640**	**702**

The decrease in impaired financial instruments in fiscal year 2017 mainly resulted from a perceptible decline in impaired private mortgages due to the good economic situation and the associated positive development of real estate prices. Within the "Loans and advances to customers" balance sheet item, the ratio of specific valuation allowances to the carrying amount of impaired financial instruments (coverage ratio) was 48 % as of December 31, 2017 (December 31, 2016: 46 %).

Forborne and non-performing exposures
The following table shows the performing and non-performing loans within the "Loans and advances to customers" balance sheet item, broken down by forborne and non-forborne exposure.

Forborne and non-performing exposures to customers

Financial instruments within the "Loans and advances to customers" balance sheet item	Performing loans		Non-performing loans						Total	
	Not impaired		Impaired		Not impaired		Total			
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Forborne	**410**	**375**	**297**	**401**	**184**	**99**	**481**	**500**	**891**	**875**
Loans and receivables	407	373	297	401	182	98	479	499	886	872
Private mortgage lending	62	52	19	23	45	51	64	74	126	126
Home savings loans	0	0	0	0	0	0	0	0	0	0
Commercial loans	30	37	57	159	86	0	143	159	173	196
Public-sector receivables	0	0	6	7	0	0	6	7	6	7
Installment loans	253	218	169	152	49	42	218	194	471	412
Overdraft facilities	59	61	46	60	2	5	48	65	107	126
Promissory note loans	3	5	0	0	0	0	0	0	3	5
Other loans and advances	0	0	0	0	0	0	0	0	0	0
Fair value option	3	2	0	0	2	1	2	1	5	3
Private mortgage lending	3	2	0	0	2	1	2	1	5	3
Non-forborne	**104,143**	**99,037**	**1,261**	**1,346**	**702**	**738**	**1,963**	**2,084**	**106,106**	**101,121**
Loans and receivables	101,368	95,474	1,256	1,334	644	671	1,900	2,005	103,268	97,479
Private mortgage lending	67,301	63,974	579	702	557	582	1,136	1,284	68,437	65,258
Home savings loans	2,709	2,935	14	15	37	42	51	57	2,760	2,992
Commercial loans[1]	15,537	13,376	138	69	9	29	147	98	15,684	13,474
Public-sector receivables	5,072	5,198	0	0	0	0	0	0	5,072	5,198
Installment loans	7,169	6,595	382	418	31	13	413	431	7,582	7,026
Overdraft facilities	1,935	1,824	143	130	10	5	153	135	2,088	1,959
Promissory note loans	1,601	1,532	0	0	0	0	0	0	1,601	1,532
Other loans and advances	44	40	0	0	0	0	0	0	44	40
Fair value option	2,775	3,563	5	12	58	67	63	79	2,838	3,642
Private mortgage lending	2,775	3,563	5	12	58	67	63	79	2,838	3,642
Total	**104,553**	**99,412**	**1,558**	**1,747**	**886**	**837**	**2,444**	**2,584**	**106,997**	**101,996**

[1]2016 figure adjusted for commercial loans (see Note 6)

Forborne exposures within the "Loans and advances to customers" balance sheet item totaled €891 million as of December 31, 2017 (December 31, 2016: €875 million); the increase in installment loans was partially offset by the decline in commercial loans and overdraft facilities.

Non-performing exposures amounted to €2,444 million as of the reporting date (December 31, 2016: €2,584 million). The decline is principally due to the decrease in impaired loans.

In addition to the exposures presented in the table above, as of December 31, 2017, Postbank recorded a non-performing exposure for trading assets in the amount of €5 million, and one of €6 million for investment securities (€6 million of which were forborne exposures).

Non-performing exposures thus accounted for 2.1 % of the total volume of higher-risk loans (NPL ratio) which are defined as loans and advances to customers plus loans and advances to other banks excluding securities lending agreements (December 31, 2016: 2.4 %).

Securitization positions

Asset securitization makes it possible to transfer the underlying credit risk to third parties. Usually, entire exposure pools consisting of two or more subclasses of risk (tranches) entailing varying degrees of risk are transferred.

As the following originator securitization transactions have been terminated and are now in deferred redemption, they are disregarded for regulatory purposes. The following amounts (class principal amount after distribution) were outstanding as of the reporting date (the amounts in brackets refer to the figures as of the 2016 closing date):

Provide Blue 2005-1 (BHW Bausparkasse AG) €7.1 million (€9.0 million)

Provide Blue 2005-2 (BHW Bausparkasse AG) €21.4 million (€25.6 million)

PB Domicilio 2007-1 (BHW Bausparkasse AG) €31.7 million (€37.8 million)

PB Domicile 2006-1 (Deutsche Postbank AG) €16.6 million (€18.4 million)

Postbank has limited investments in redeemed residential mortgage-backed securities. The portfolio had a carrying amount of €13 million as of December 31, 2017 (December 31, 2016: €17 million), having fallen due to repayments. The portfolio is valued periodically using arranger quotes or an internal valuation model.

Environmental risk

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

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

Monitoring and managing liquidity risk

As a matter of principle, monitoring and management of liquidity risk is performed centrally in the CRO board department. The primary goal of liquidity risk management is to ensure Postbank's solvency at all times, including in certain stress situations. To achieve this, Postbank has laid down the principles for handling liquidity risk, among other things, in its overarching risk strategy. The liquidity risk management process is based on several pillars and is generally performed on a stress basis. The scenarios cover both institution-specific and general market issues and, in the MaRisk scenario, the combination of the two. This permits changes in a variety of market factors, panic reactions by customers, and structural changes in funding resources (e.g., due to a decline in market liquidity) to be reflected. The MaRisk scenario simulates severe outflows of savings, demand and corporate customer deposits, restricted access to the uncollateralized money market, and increased haircuts on central bank-eligible securities. The internally defined survival period is two months, longer than the minimum required under supervisory law. A requirement for all stress scenarios was to maintain customer loans at existing levels at least, even in times of stress. In the event of unexpected cash outflows, cash holdings, central bank balances, and an extensive portfolio of unencumbered, highly liquid, central bank-eligible securities can be used to obtain liquidity rapidly, including on (private) repo markets. Further highly liquid reserves are held to ensure the necessary intra-day liquidity.

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

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

Due to its strategic focus as a bank for retail, business and corporate customers, Postbank enjoys a broad and stable refinancing base from its customer business and is therefore largely independent of the money and capital markets. The stability of the refinancing structure is regularly reviewed on the basis of internal analyses and also guaranteed by limiting the net stable funding ratio (NSFR). For this purpose, the NSFR for the Postbank Group is calculated and monitored in accordance with the requirements of the Quantitative Impact Study (QIS) of the Basel Committee on Banking Supervision.

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

The following table shows the financial liabilities as of December 31, 2017, and December 31, 2016, broken down into residual maturity bands:

Liabilities by residual maturity

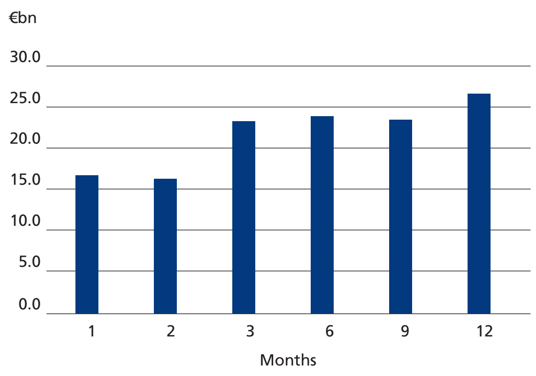
Liabilities	Payable on demand		≤ 3 months		> 3 months and ≤ 1 year		> 1 year and ≤ 5 years		> 5 years		Total	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Non-derivative liabilities	**71,952**	**67,645**	**41,634**	**43,753**	**21,030**	**21,878**	**13,555**	**15,742**	**12,039**	**14,033**	**160,210**	**163,051**
Deposits from other banks	58	369	3,410	3,334	979	1,439	4,676	5,325	4,352	4,784	13,475	15,251
Due to customers	49,860	45,672	37,355	39,787	19,589	20,163	5,995	7,019	4,321	5,275	117,120	117,916
Debt securities in issue	–	–	71	72	52	103	2,529	2,611	1,053	1,094	3,705	3,880
Subordinated debt	–	–	58	19	410	173	355	787	2,313	2,880	3,136	3,859
Other liabilities	–	–	740	541	–	–	–	–	–	–	740	541
Contingent liabilities from guarantees	426	379	–	–	–	–	–	–	–	–	426	379
Revocable and irrevocable loan commitments	21,608	21,225	–	–	–	–	–	–	–	–	21,608	21,225
Revocable loan commitments[1]	13,501	13,459	–	–	–	–	–	–	–	–	13,501	13,459
Irrevocable loan commitments	8,107	7,766	–	–	–	–	–	–	–	–	8,107	7,766
Derivative liabilities	**–**	**–**	**37**	**63**	**24**	**91**	**39**	**113**	**143**	**182**	**243**	**449**
Hedging derivatives	–	–	6	7	1	–	8	16	11	18	26	41
Trading liabilities	–	–	31	56	23	91	31	97	132	164	217	408
Total	**71,952**	**67,645**	**41,671**	**43,816**	**21,054**	**21,969**	**13,594**	**15,855**	**12,182**	**14,215**	**160,453**	**163,500**

[1]Prior-year figure for revocable loan commitments adjusted by €364 million

The contractual cash flows from on- and off-balance sheet liabilities have been assigned to the respective categories. In conformity with the 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. This is particularly relevant for demand deposits and savings deposits that are held at call or that have a short maturity of usually three months but that are available to the Bank for a significantly longer period of time, statistically speaking.

In contrast to the presentation of the contractual cash flows of the financial liabilities, the following overview of Postbank's liquidity status as of December 31, 2017, presents the expected cash inflows/outflows for the coming twelve months on a cumulative basis under normal conditions, in accordance with the principles of internal liquidity management:

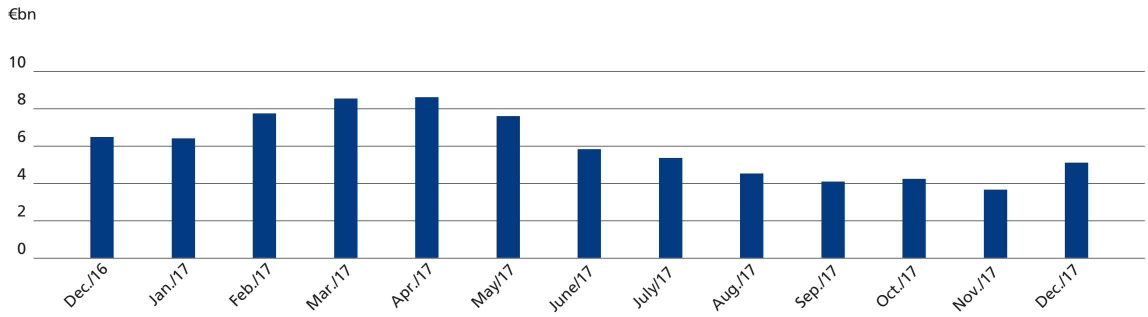
Liquidity status of the Postbank Group as of December 31, 2017



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

The results of the daily stress tests in the year under review also confirm Postbank's solid liquidity position. Even after the combined stress effects in the MaRisk scenario were taken into account, comfortable surpluses existed in the net liquidity position at all times, both during and beyond the survival period. The surplus liquidity in the MaRisk scenario, which already includes the Bank's risk appetite, also bears testimony to the comfortable liquidity position. The following graphic shows the lowest levels of surplus liquidity for each month in the period from December 31, 2016, to December 31, 2017. In fiscal 2017, surplus liquidity was always above the €3.7 billion mark.

Surplus liquidity of the Postbank Group in 2017



In the event of a liquidity shock, at the level of the Postbank Group, the Liquidity Crisis Committee has clear responsibility and authority over all portfolio managers at Postbank as well as at its subsidiaries and its foreign branch.

Postbank is integrated with Deutsche Bank's liquidity risk management process.

Monitoring and managing operational risk

The economic capital requirements for operational risk for the Bank as a whole and for the individual business divisions are determined using the AMOR (Advanced Measurement of Operational Risk) operational risk capital model. Postbank's EC capital model is based on a loss distribution approach (LDA). Calculation is based on internal and external loss events and scenario analyses. In the year under review, the model was fundamentally revised and adjusted. The primary changes to the model involve the modification of the risk matrix (the reduction of the number of cells from ten to three, with one cell per segment) and the change in source for external loss event data (loss events now provided by the Operational Risk Data Consortium (DaKOR) and no longer by the Operational Riskdata eXchange Association (ORX)). In addition, the loss history used to determine frequency was reduced from ten to five years. The result is a model that responds sooner to trends in loss events.

The VaR limit for operational risk at overall bank level amounted to €600 million as of the reporting date. In the case of limit exceedances, the limit for operational risk is increased (including during the course of the year) at the expense of other risk types or of the unallocated risk cover amount.

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

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

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

A two-tier organizational structure with decentralized operational risk managers has been created for each business division and subsidiary to ensure the management of operational risk at an operational level. Operational Risk Control is responsible for central coordination and reporting in the CRO board department.

At approximately €38 million, total operational risk losses declined significantly year-on-year (fiscal year 2016: €117 million). Alongside the essentially positive trend in loss events in the reporting period, it should be noted that the total amount in the prior year was dominated by legal actions and complaints relating to consumer protection rulings.

The main drivers of the trend in loss events in 2017 were the number of legal actions and complaints by customers – still high compared with the long-term average – in connection with closed-end funds, the distribution of which has been discontinued. Losses from cases of fraud, which were mainly caused externally, were down significantly year-on-year at approximately €13 million in 2017 (2016: €27 million). Other losses from cases of external fraud, which individually are only minor but that occur repeatedly during a year (high frequency/low impact losses), were also below the previous year's low level at approximately €9 million. The focus in the fight against fraud remains on using the FRAUD Committee to communicate all material cases of fraud promptly throughout the Bank, as well as on raising the awareness of the employees involved in the relevant processes in order to ensure the systematic and widespread early identification of cases of fraud. The technical and organizational measures taken in previous years continued to prove their worth.

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

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

The following table shows the operational value at risk (OpVaR) after adjustment at the level of the Bank as a whole and of the individual divisions, for a confidence level of 99.93 %:

Business division	Operational value at risk (OpVaR)	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Retail Banking	406	268
Corporate Banking	15	41
Financial Markets	10	97
Postbank total	**431**	**407**

Postbank's strategic focus on retail banking can clearly be seen from the operational value at risk figures for the individual divisions. The Retail Banking business division had by far the highest capital requirement as of the reporting date, at €406 million (December 31, 2016: €268 million). Even after applying the OpRisk capital model which was revised in the reporting period, the Postbank Group's total capital requirement for operational risk remained at the prior-year level. However, use of the new model has significantly altered the amounts allocated to the business divisions.

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

Monitoring and managing business risk

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

Managing savings and checking account risk

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

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

Managing collective risk

BHW Bausparkasse AG uses a collective simulation model to quantify collective risk. The model captures planned 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. Building on the individual contracts, the simulation model uses a broad range of behavioral parameters to calculate the statistically expected total cash flow and income statement/balance sheet data at the overall collective level on a quarterly basis for use in planning.

The plausibility and prediction quality of the collective simulation model was confirmed by an audit firm in connection with the exercise of the permission in accordance with section 5 of the *Bausparkassenverordnung* (BausparkV – German Bausparkassen Regulation). In addition, quality assurance of the model in the form of backtesting and variance analyses is performed annually.

The complex simulation of the home savings business, which uses a large number of different parameters, derives assumptions as to the behavior of home savings customers given different interest rate scenarios from historical data series. There is a risk of incorrect assumptions being made when modeling the parameters for savers' future behavior, which could result in adverse effects on the results of operations and net assets.

The collective simulation incorporates both existing contracts and assumptions as to new business in the coming years. Material effects on the medium-term results of operations would occur if actual new business were to be significantly below the assumptions, as in this case BHW Bausparkasse AG would have access to a reduced volume of low-interest customer funds.

Postbank considers the collective risk arising from its home savings and loan business to be material. A scenario-based model is used to quantify risk capital requirements for collective risk. Reporting and monitoring is performed by the Risk Control unit of BHW Bausparkasse AG which is functionally integrated in Postbank's Risk Management unit.

Reputational risk management

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

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

Managing residual business risk

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

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

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

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

Internal control and risk management system for the financial reporting process

As required by section 315(2) no. 5 of the *Handelsgesetzbuch* (HGB – German Commercial Code), the following section describes the key features of the internal control and risk management system for the Group financial reporting process. Postbank regards information as being material within the meaning of section 315(2) no. 5 of the HGB if failure to disclose it could influence the economic decisions taken on the basis of the consolidated financial statements and the other components of financial reporting. Materiality cannot be determined in general terms, but is rather established on the basis of the nature and scope of the issues involved. Postbank assesses the question of the materiality of an issue by reference to its importance with respect to the consolidated financial statements.

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

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

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

Postbank's internal control system performs the following tasks:

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

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

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

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

Postbank prepares its consolidated financial statements in compliance with IFRSs as endorsed by the European Union. Its financial statements are supplemented by the disclosures required by the German commercial law pursuant to section 340i of the HGB in conjunction with section 315a(1) of the HGB, the German Accounting Standards (GASs), as well as the sector-specific requirements for credit institutions and the legal form requirements for German stock corporations (sections 150–160 of the AktG).

Consolidated subsidiaries and special-purpose entities prepare reports at Group level (Group reporting packages) in accordance with the Bank's group accounting policies.

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

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

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

- Provision of certain disclosures relating to the notes.

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

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

The Chief Risk Office performs the following tasks:

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

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

- Advice and supervision with respect to financial reporting, the internal control system, risk management and risk control (insofar as the Risk Committee is not responsible for this), internal audit, and compliance
- Discussion of questions relating to the requirement of auditor independence
- Engagement of the auditors, determination of the areas of emphasis of the audit, and agreement of the fee.

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

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

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

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

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

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

Accounting policies and other rules serve to ensure the due and proper treatment of business transactions; the policies and rules are reviewed on an ongoing basis and modified as necessary. Postbank uses SAP to account for transactions. In addition, end user data processing tools are used, the design of which is supervised during monitoring of end user data processing. The Group reporting packages submitted by the companies to be included in consolidation are loaded into the SAP SEM system by the companies or entered manually in individual cases. This data, together with other information provided by the companies to be included in consolidation, is used by the Bank to prepare its consolidated financial statements in the SmartNotes system.

The risk of non-compliant financial statements is addressed by corresponding instructions in the policies. Group reporting packages are checked for conformity with Group manuals. The annual and consolidated financial statements are prepared and their quality is assured by the Accounting and Tax department. The subsidiaries are informed each month of the deadlines for, and changes relating to, the preparation of the consolidated financial statements. The Group policies are updated at regular intervals and the updated versions communicated to the subsidiaries.

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

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

The financial reporting process for the annual and consolidated financial statements comprises technical support for the business transactions, data capture and processing, reporting, and the publication of the components of financial reporting. In addition, preparation of the consolidated financial statements comprises in particular determining the basis of consolidation, the reports by the companies included in consolidation, intercompany reconciliations, currency conversion, automated and manual consolidation entries and, ultimately, the generation of the consolidated financial statements.

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

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

Internal Audit

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

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

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

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

Pending litigation

On October 20, 2017, the Cologne Regional Court ruled in favor of the actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 28, 2015, on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement. Deutsche Postbank AG has filed an appeal against this decision with the Higher Regional Court in Cologne.

OUTLOOK

Overall economic parameters

Macroeconomic environment

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

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

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

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

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

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

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

As a result of the still expansionary ECB monetary policy, capital market interest rates in the EMU are likely to remain low, although some factors point toward a rise in yields over the course of the year. These include in particular continuation of the robust economic recovery in the eurozone. Moreover, as a result of the slightly tighter monetary policy in the United States, returns on U.S. Treasuries may tend to rise – a situation that commonly impacts the German market. We anticipate an increase in yields of ten-year German Bunds to 0.80 % by the end of 2018. With key interest rates remaining constantly low, the yield curve may become somewhat steeper once again.

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

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

Sector situation

The sustained low level of interest rates in the eurozone will prospectively continue to make it quite difficult for German banks to improve their operating business. By the end of 2018, we anticipate only a moderate rise in interest rates. This will make it difficult for most banks to significantly widen their margins, especially since tough competition in the German retail and corporate banking segments continues to push down net interest income and impede increases in net fee and commission income. Low financing costs, however, could have a positive effect on the equity and debt capital markets business issues as well as stimulate the mergers and acquisitions activities (M&A) of companies. This should have a positive effect on investment banking income. Due to the persistently difficult conditions on the income side, many banks are likely to have additional cost optimizations on their agendas in 2018 as well. The financial resources that banks must employ to implement new regulatory requirements also have a negative impact on income statements. In addition, many banks are investing in digitizing numerous processes. While such projects admittedly tie up resources, digitization appears necessary for strengthening customer relationships and responding to new competitors in the digital world.

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

We believe that the three-pillar structure of private, public and cooperative banks is unlikely to change in 2018. Mergers and/or acquisitions are expected to take place primarily within the respective sectors and for the most part involve smaller institutions.

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

The ECB is currently analyzing the internal risk assessment models used by the banks it supervises. This targeted review of internal models (TRIM) will help to reduce major differences in internal risk assessment by individual banks in the sector. The process will take until 2019, according to the ECB.

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

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

Outlook for the Postbank Group

Postbank's investment focuses

In addition to investments in its integration into the Deutsche Bank Group in fiscal year 2018, Postbank will continue to invest predominantly in measures to heighten its competitiveness. In that vein, Postbank will further pursue the digital transformation of its advisory, sales and service processes, a path on which it has already made progress. After success in establishing a fully digitized lending process for installment loans in 2017, the Bank will now concentrate increasingly in 2018 on the digitization of lending for mortgage loans. Our systematic pursuit of the Bank's digital transformation will remain oriented on customer needs to ensure a "digitally & personally"-linked customer experience.

To improve efficiency in the front/back offices and central areas Postbank will also maintain efforts to adapt its capacities to the challenging banking environment and invest in a modern infrastructure. The Bank's investment portfolio in 2018 will remain committed to developing additional self-service options for retail and business customers and to further expanding the Sales Centers. We will also make greater use of our "compact branches" to maintain efficient branch operations even in locations with low customer traffic. Postbank will also continue to push forward with the automation of back office processes to create more efficient processes.

In fiscal year 2018, Postbank will once again find it necessary to use its investments to ensure an efficient response to pending regulatory requirements. This will include meeting requirements from the EU General Data Protection Regulation, PSD II, and BCBS consultative document 239.

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

Non-financial key performance indicators

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

Expected development of the earnings situation of the Postbank Group

The following assessment of the presumed direction of business at Postbank in 2018 is based on expectations concerning overall economic parameters and an interest rates forecast that was generated exclusively on the basis of market data (implied forwards). Unforeseen events such as unexpected and markedly stricter regulation of the banking industry could have a significant effect on the financial position, net assets, and results of operations at Postbank that is not taken into consideration. The following outlook reflects the impact on profit that the purposed further integration of the Bank into the Deutsche Bank Group – and the associated merger of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG that is currently pursued – may have insofar as the resulting effects could be unequivocally assigned to Postbank.

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

In particular, we expect net interest income to rise moderately in 2018 above the level of last year given current plans to expand the lending business and continue with reductions of high-interest liabilities. This outcome is anticipated despite the fact that the interest rate level – which is expected to increase slightly but still remain negative in the maturity range of up to three months – will have an even greater negative impact on the deposits business.

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

Net income from investment securities should decline markedly compared with the prior-year period since among other things the anticipated rise in the interest rate level is unlikely to generate opportunities of comparable degree.

Net trading income is also expected to experience a marked drop in fiscal year 2018. While this metric benefited in fiscal year 2017 from measurement gains relating to the mortgage loan portfolio to which the fair value option was applied, this effect will no longer arise owing to the reclassification effective January 1, 2018.

For the allowance for losses on loans and advances, we expect a marked increase for 2018 as a result of a period of normalization that should follow fiscal year 2017, a year in which the allowance for losses on loans and advances benefited from such things as the successful disposal of a commercial real estate finance transaction. The mandatory initial application of IFRS 9 in fiscal year 2018 and the concomitant replacement of the former incurred loss model with an expected credit loss model – which allows default risk to be accounted for in a timelier manner – should also make a contribution here.

Administrative expenses are expected to experience a noticeable improvement in 2018 thanks to planned efficiency improvements and continuing capacity adaptations. Markedly lower expenses for strategic initiatives compared with fiscal year 2017 are also assumed in our outlook for 2018. A role in this result should be played by a foreseen slight drop in the number of full-time equivalents in our headcount. In line with the fundamental assumptions of our forecast, here too the expectations that we have for our administrative expenses only take into consideration the impact on profit that the purposed further integration of the Bank into the Deutsche Bank Group may have insofar as the resulting effects could be unequivocally assigned to Postbank.

Profit before tax should rise significantly year-on-year thanks to the expected developments in the above-mentioned areas of the consolidated income statement, a rise which nevertheless will be driven primarily by the reduction of expenses for strategic initiatives.

Profit before tax, adjusted for non-recurring effects, is expected to turn out markedly lower than its level in 2017.

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

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

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

Expected developments in the segments

Retail Banking

In fiscal year 2018, we plan to continue to adjust our capacities as we did in the reporting period; we also expect competition to remain fierce. In light of the expected economic trend, we believe our retail banking business in Germany will perform positively in 2018. We also foresee substantial growth in profit before tax in this fiscal year. This forecast is based on the assumption that cost allocations will be markedly lower in 2018 following higher levels in the current reporting period that resulted from significant investments in the planned further integration.

Corporate Banking

We expect profit before tax in the Corporate Banking segment in 2018 to remain at the prior-year level despite extraordinarily good proceeds from disposal in 2017. This expectation is fueled primarily by the business growth planned for corporate loans and the continued expansion of the Sales Centers whose opposite effects should initially offset each other in the coming fiscal year.

Financial Markets

In the Financial Markets segment, we anticipate an improvement in profit before tax in the low three-digit million euro range in fiscal year 2018. This gain should essentially be attributable to the deterministic expiry of high-interest liabilities as well as lower interest charges from hedging transactions.

Cost Centers

For this segment, we expect the complete allocation of costs to the remaining segments to lead to a balanced result in fiscal year 2018. Because of €57 million in non-recurring effects registered in the reporting period that result will be markedly below the one in the year under review.

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 Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Bonn, February 21, 2018

Deutsche Postbank AG

The Management Board

Frank Strauss

Marc Hess

Susanne Klöss-Braekler

Philip Laucks

Ralph Müller

Zvezdana Seeger

Hanns-Peter Storr

Lars Stoy

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

Consolidated Income Statement	Note	2017 €m	2016[1] €m
Interest income	(7)	3,555	3,932
Positive interest on financial liabilities	(7)	38	29
Interest expense	(7)	–1,460	–1,733
Negative interest on financial assets	(7)	–67	–54
Net interest income	(7)	2,066	2,174
Allowance for losses on loans and advances	(8)	–99	–184
Net interest income after allowance for losses on loans and advances		1,967	1,990
Fee and commission income	(9)	1,160	1,091
Fee and commission expense	(9)	–224	–256
Net fee and commission income	(9)	936	835
Net trading income	(10)	112	50
Net income from investment securities	(11)	80	258
Administrative expenses	(12)	–3,030	–2,853
Other income	(13)	227	141
Other expenses	(14)	–44	–117
Profit before tax		**248**	**304**
Income tax	(15)	2	10
Profit from ordinary activities after tax		**250**	**314**
Non-controlling interests		–	–
Consolidated net profit		**250**	**314**

	2017	2016[1]
Basic/diluted earnings per share (€)	1.14	1.44

[1]Figures adjusted (see Note 6)

Condensed Statement of Comprehensive Income	2017 €m	2016[1] €m
Profit from ordinary activities after tax	250	314
Other comprehensive income after tax	**–137**	**–158**
Items not reclassified to profit or loss, before tax	–93	–225
Remeasurement gains/losses (–) on defined benefit plans	–93	–225
Income tax on items not reclassified to profit or loss	11	35
Items reclassified to profit or loss, before tax	–55	31
Change in revaluation reserve	–55	31
Unrealized gains/losses (–) for the period, before tax	–93	63
Gains (–)/losses reclassified to profit or loss, before tax	38	–32
Income tax on items reclassified to profit or loss	0	1
Total comprehensive income for the period attributable to non-controlling interests	–	–
Total comprehensive income	**113**	**156**

[1]Figures adjusted (see Note 6)

Earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares outstanding during the fiscal year. The average number of shares outstanding in fiscal year 2017 was unchanged, at 218,800,000.

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

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2017

Assets	Note	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m	Jan. 1, 2016[1] €m
Cash reserve	(16)	2,020	2,291	1,357
Loans and advances to other banks	(17)	10,821	13,108	15,876
Loans and advances to customers	(18)	106,997	101,996	98,933
Allowance for losses on loans and advances	(19)	–997	–998	–923
Trading assets	(20)	310	475	647
Hedging derivatives	(21)	47	112	78
Investment securities	(22)	22,605	26,767	30,768
thereof transferred as collateral	(22)	2,596	2,918	5,971
Intangible assets	(23)	2,038	1,963	1,902
Property and equipment	(24)	715	699	678
Current tax assets	(25)	74	144	101
Deferred tax assets	(25)	229	198	77
Other assets	(26)	477	388	514
Assets held for sale	(27)	9	47	489
Total assets		**145,345**	**147,190**	**150,497**

Equity and Liabilities	Note	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m	Jan. 1, 2016[1] €m
Deposits from other banks	(28)	12,065	13,133	15,341
Due to customers	(29)	118,699	118,918	119,150
Debt securities in issue	(30)	3,215	3,339	3,446
Trading liabilities	(31)	217	409	665
Hedging derivatives	(32)	27	42	208
Provisions		1,138	907	703
a) Provisions for pensions and other employee benefits	(33)	328	254	56
b) Other provisions	(34)	810	653	647
Current tax liabilities	(35)	39	98	110
Deferred tax liabilities	(35)	22	17	9
Other liabilities	(36)	740	541	466
Subordinated debt	(37)	2,068	2,567	3,239
Equity	(38)	7,115	7,219	7,160
a) Issued capital		547	547	547
b) Share premium		2,191	2,191	2,010
c) Retained earnings		4,127	4,167	3,987
d) Consolidated net profit		250	314	610
Non-controlling interests		–	–	6
Total equity and liabilities		**145,345**	**147,190**	**150,497**

[1]Figures adjusted (see Note 6)

STATEMENT OF CHANGES IN EQUITY

	Issued capital €m	Share premium €m	Retained earnings €m	Revaluation reserve €m	Consolidated net profit €m	Equity before non-controlling interests €m	Non-controlling interests €m	Total €m
Balance at Dec. 31, 2015	**547**	**2,010**	**3,664**	**327**	**610**	**7,158**	**6**	**7,164**
Restatement	–	–	–4	–	–	–4	–	–4
Balance at Jan. 1, 2016	**547**	**2,010**	**3,660**	**327**	**610**	**7,154**	**6**	**7,160**
Dividend payment	–	–	–	–	–	–	–	–
Changes in retained earnings	–	–	610	–	–610	–	–	–
Initial consolidation effect – service companies	–	–	–263	–	–	–263	–	–263
Capital increase	–	181	–	–	–	181	–	181
Profit from ordinary activities after tax[3]	–	–	–	–	314	314	–	314
Other comprehensive income	–	–	–190	32	–	–158	–	–158
Treasury shares	–	–	–	–	–	–	–	–
Other changes	–	–	–9	–	–	–9	–	–9
Change in recognition for non-controlling interests (debt instruments)	–	–	–	–	–	–	–6	–6
Balance at Dec. 31, 2016	**547**	**2,191**	**3,808**	**359[1]**	**314**	**7,219**	**–**	**7,219**
Dividend payment	–	–	–	–	–	–	–	–
Changes in retained earnings	–	–	314	–	–314	–	–	–
Profit from ordinary activities after tax	–	–	–	–	250	250	–	250
Other comprehensive income	–	–	–82	–55	–	–137	–	–137
Treasury shares	–	–	–	–	–	–	–	–
Other changes	–	–	–217	–	–	–217	–	–217
Balance at Dec. 31, 2017	**547**	**2,191**	**3,823**	**304[2]**	**250**	**7,115**	**–**	**7,115**

[1]Of this prior-year figure, €14 million relates to an investment held for sale.
[2]Of this figure, €9 million relates to an investment held for sale (see Note 27).
[3]Figures adjusted (see Note 6)

Comprehensive income includes measurement and disposal gains and losses on available-for-sale financial instruments, which are recognized in the revaluation reserve, and remeasurement gains and losses from defined benefit plans, which are recognized in retained earnings, as well as related income taxes.

114

More detailed disclosures on the changes in the revaluation reserve can be found in Note 38.

Postbank did not hold any treasury shares as of December 31, 2017.

The "Other changes" item comprises the effects of the control and profit and loss transfer agreement with DB Finanz-Holding GmbH for 2016 and DB Beteiligungs-Holding GmbH for 2017.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2017 €m	2016[1] €m
Consolidated net profit		**250**	**314**
Non-cash items in consolidated net profit and reconciliation to cash flow from operating activities			
Depreciation and writedowns of property and equipment, writedowns of investment securities, loans and advances and reversals of impairment losses on these items		**227**	239
Changes in provisions	(33), (34), (35)	95	–70
Changes in other non-cash items		–82	–51
Gains on disposal of property and equipment and investment securities		–76	–258
Other adjustments (net, primarily net interest income)		–1,907	–2,076
Subtotal		**–1,493**	**–1,902**
Changes in working capital after adjustment for non-cash components			
Loans and advances to other banks		2,269	2,951
Loans and advances to customers		–5,294	–3,142
Trading assets		246	235
Hedging derivatives with positive fair values		58	–133
Assets held for sale		0	13
Other assets		–49	99
Deposits from other banks		–1,032	–2,273
Due to customers		–125	–298
Debt securities in issue		–62	–312
Trading liabilities		–191	–256
Hedging derivatives with negative fair values		10	72
Other liabilities		–10	–37
Interest received		3,698	3,862
Interest paid		–1,403	–1,686
Other cash inflows		1	5
Income taxes paid		–21	–42
Net cash used in operating activities		**–3,398**	**–2,844**

[1]Figures adjusted (see Note 6)

	Note	2017 €m	2016[1] €m
Proceeds from the disposal of			
Investment securities		5,968	6,709
Investments in associates	(2)	0	393
Property and equipment		20	10
Payments to acquire			
Investment securities		–2,267	–2,208
Investments in subsidiaries	(2)	0	–357
Property and equipment		–83	–96
Intangible assets		–102	–108
Net cash from investing activities		**3,536**	**4,343**
Payments into share premium		0	181
Net change in cash and cash equivalents from other financing activities		–409	–746
Net cash used in financing activities		**–409**	**–565**
Cash and cash equivalents at start of period	(16)	**2,291**	**1,357**
Net cash used in operating activities		–3,398	–2,844
Net cash from investing activities		3,536	4,343
Net cash used in financing activities		–409	–565
Cash and cash equivalents at end of period	(16)	**2,020**	**2,291**

[1]Figures adjusted (see Note 6)

Item	Carrying amount as of Dec. 31, 2016	Cash flows (changes affecting cash flow statement)	Non-cash changes: Acquisition of companies	Non-cash changes: Exchange rate effects	Non-cash changes: Changes in fair value	Non-cash changes: Other changes	Carrying amount as of Dec. 31, 2017
	€m	€m	€m	€m	€m	€m	€m
Hybrid capital instruments	1,447	–500	–	–	–	–79	868
Subordinated liabilities	909	120	–	–17	–	–1	1,011
Profit participation certificates outstanding	189	–21	–	–	–	–1	167
Total	**2,545**	**–401**	**–**	**–17**	**–**	**–81**	**2,046**

Reported cash and cash equivalents correspond to the cash reserve.

Net cash flow used in operating activities is calculated using the indirect method, i.e., on the basis of consolidated net profit plus non-cash expenses and 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 reclassified. These payments are recognized in the cash flows used in/from investing activities or financing activities.

119

NOTES

BASIS OF PREPARATION

In a merger agreement dated April 19, 2017, DB Finanz-Holding GmbH transferred its assets and liabilities as a whole with all rights and obligations by dissolution without liquidation to DB Beteiligungs-Holding GmbH. The merger entered into effect upon entry in the commercial register on April 27, 2017.

As a result, DB Finanz-Holding GmbH has been dissolved upon entry of the above-mentioned merger and thus no longer holds interests in the share capital of Deutsche Postbank AG. DB Beteiligungs-Holding GmbH as the legal successor to DB Finanz-Holding GmbH now holds a direct majority stake in the share capital of Deutsche Postbank AG instead of an indirect one.

The control and profit and loss transfer agreement now exists between Deutsche Postbank AG, as the dependent company, and DB Beteiligungs-Holding GmbH.

(1) Basis of accounting

As a capital market-oriented company, Deutsche Postbank AG, Bonn (registered with the commercial register of the local court (Amtsgericht) Bonn under HRB 6793) has prepared its consolidated financial statements for the year ended December 31, 2017, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of German commercial law under section 315e(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code). The annual report contains the components of an annual financial report within the meaning of section 37v of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act).

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 statement of comprehensive income (comprising the income statement and other comprehensive income), 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 are 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, including the assessment of whether an active or inactive market exists, the recognition and measurement of the allowance for losses on loans and advances, of intangible assets, of interest bonus liabilities, and of provisions, and the ability to realize deferred taxes. Among other things, the estimation uncertainty associated with measurement models for financial instruments is addressed in Note 41, Fair value of financial instruments. When determining the intention to hold financial instruments, business strategy and current market conditions are also taken into account. 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 fair value of securities holdings in the form of government bonds, *Pfandbriefe*, and bank and corporate bonds is determined using observable market prices or inputs that are observable in the market.

The management of the individual risk types and the disclosures on risks from financial instruments (in accordance with IFRS 7) are explained in the Risk Report contained in the Group Management Report. 33

(2) Basis of consolidation

In addition to the parent company Deutsche Postbank AG, 29 (December 31, 2016: 32) subsidiaries that are presented in the following overview are included in the consolidated financial statements as of December 31, 2017.

Consolidated companies

Name and domicile	Equity (%) interest direct	Equity (%) interest indirect
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	
BHW Holding AG, Hameln	100.0	
BHW Kreditservice GmbH, Hameln	100.0	
Deutsche Postbank Funding LLC I, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding LLC II, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding LLC III, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding Trust I, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding Trust II, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding Trust III, Wilmington, Delaware, U.S.A.	100.0	
DSL Portfolio GmbH & Co. KG, Bonn	100.0	
DSL Portfolio Verwaltungs GmbH, Bonn	100.0	
PB International S.A., Munsbach, Luxembourg	100.0	
PB Spezial-Investmentaktiengesellschaft, Bonn	100.0	
Postbank Beteiligungen GmbH, Bonn	100.0	
Postbank Direkt GmbH, Bonn	100.0	
Postbank Filialvertrieb AG, Bonn	100.0	
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	
Postbank Leasing GmbH, Bonn	100.0	
Postbank Service GmbH, Essen	100.0	
Postbank Systems AG, Bonn	100.0	
BHW Bausparkasse Aktiengesellschaft, Hameln		100.0
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln		100.0
Deutsche Postbank Finance Center Objekt GmbH, Munsbach, Luxembourg		100.0
PB Factoring GmbH, Bonn		100.0
PB Firmenkunden AG, Bonn		100.0
Postbank Immobilien GmbH, Hameln		100.0
Postbank Finanzberatung AG, Hameln	23.3	76.7
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn		90.0
VÖB-ZVD Processing GmbH, Bonn	75.0[1]	

[1] 25 % of the share capital of VÖB-ZVD Processing GmbH is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of the Bank.

In accordance with IFRS 10, the eight subpools of assets of PB Spezial-Investmentaktiengesellschaft are included in the consolidation basis, as in the previous year. All of the subpools of assets are structured entities in accordance with IFRS 12.

On March 22, 2017, upon entry in the commercial register, BHW Gesellschaft für Vorsorge GmbH was merged with BHW Gesellschaft für Wohnungswirtschaft mbH, with retroactive effect as of January 1, 2017.

Deutsche Postbank Funding Trust IV and Deutsche Postbank Funding LLC IV were dissolved on September 22, 2017, following the early repayment of the issue on June 29, 2017.

As a wholly-owned subsidiary of Deutsche Postbank AG, Postbank Beteiligungen GmbH implemented an ordinary capital increase through non-cash contributions. The new share was subscribed by the sole shareholder Deutsche Postbank AG, which contributed all of its shares in PB Factoring GmbH as a non-cash contribution. This change in shareholders means that Deutsche Postbank AG is indirectly invested in PB Factoring GmbH via Postbank Beteiligungen GmbH.

There were no other changes in the basis of consolidation.

(3) Consolidation methods
In accordance with IFRS 10.19, the consolidated financial statements of Deutsche Postbank AG have been prepared in accordance with uniform Group accounting and measurement policies.

Acquisition accounting is used in accordance with IFRS 10.B86. The carrying amounts of the shares in subsidiaries at the parent-company level are replaced by the assets and liabilities of the consolidated companies.

Any goodwill arising from initial consolidation using the acquisition method in accordance with IFRS 3 is tested for impairment once a year and written down if required.

Interests in the equity of subsidiaries not attributable to the parent that are puttable financial instruments within the meaning of IAS 32 are reported under other liabilities as "non-controlling interests."

Intercompany receivables and liabilities, income and expenses from intercompany transactions, and intercompany profits within the Group were eliminated in accordance with IFRS 10.B86.

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date.

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

(a) Fair value and active market
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If available, the prices quoted in an active market are used for financial instruments measured at fair value; the principal or most advantageous market is determined in each case (IFRS 13.72ff. in conjunction with IFRS 13.B34).

Active markets are distinguished by high trading volumes and liquidity, in particular. If the above criteria are not met, the market is regarded as being inactive.

Postbank considers all of the following criteria in identifying the principal market:

- The market with the greatest trading volume and the highest market activity,

- The Bank has access to the defined principal market.

The principal market can be the interbank market, the brokered market, stock exchanges, or futures exchanges, depending on the type of product.

The most advantageous market is used to measure fair value if the Bank does not have access to the principal market.

(b) 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 money market receivables.

Postbank applies the fair value option in accordance with IAS 39 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 if this leads – among other things – to the elimination or significant reduction of inconsistencies in measurement or recognition (accounting mismatches). In accordance with IFRS 13.61ff. in conjunction with IFRS 13.B12ff., receivables are measured on the basis of discounted cash flow analysis using a current swap yield curve and loan-specific risk or cost premiums. A detailed description of the valuation technique used can be found in Note 41. Receivables 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.

119

Impairments of loans and advances due to changes in credit risk 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 as well as hedge premiums and commitment interest (if the utilization of the loan commitment is presumable) are recognized in net interest income over the term of the loans and advances using the effective interest method. Deferred interest on loans and advances, as well as premiums and discounts, are carried together under the relevant items of loans and advances.

The fair value of financial instruments measured at amortized cost or at the hedge fair value is determined using observable market prices or discounted cash flow analysis using swap yield curves and credit spreads currently observable in the market. Additional information on the fair value of financial instruments is given in Note 41, Fair value of financial instruments.

119

Financial instruments are grouped into classes as required by IFRS 7.6 at Postbank on the basis of the categories of financial instruments in accordance with IAS 39 together with the relevant balance sheet items and product types. To further increase transparency, Postbank has broken down the credit risk information required to be disclosed under IFRS 7.36f. by individual classes in the Risk Report contained in the Group Management Report.

33

(c) Leases
Leases are accounted for in accordance with IAS 17 and IFRIC 4.

In accordance with IAS 17, leased assets are allocated to and recognized at the lessor or the lessee, and the leases are classified as a finance or operating lease, on the basis of the risks and rewards incidental to ownership.

Where Postbank is the lessee in a finance lease, it capitalizes the leased asset at the fair value amount applicable at the beginning of the lease or at the lower present value of the minimum lease payments under property and equipment. The lease payments due are reported in the balance sheet under other liabilities. Writedowns of the leased assets are recognized in administrative expenses.

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 broken down into the interest component, which is recognized as interest income in profit or loss, and the principal redemption component, which is deducted from the receivables reported in other comprehensive income. Postbank has not entered into any finance leases relating to real estate either as a lessor or as a lessee.

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

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

(d) Allowances and provisions for losses on loans and advances, writedowns, and impairments
Identifiable credit risks are covered by recognizing specific valuation allowances (or collective specific valuation allowances). Additionally, in the case of 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 the individual parameters of loss given default (LGD) and probability of default (PD), as well as a portfolio-specific loss identification period (LIP) factor. The allowance for losses on loans and advances is deducted from assets as a separate balance sheet item. It relates to writedowns of losses on loans and advances to other banks and to customers.

A potential need to recognize impairment losses is assumed in the case of defined qualitative and rating-related trigger events such as delinquency over a certain period, the initiation of enforcement measures, imminent insolvency or over-indebtedness, the application for or opening of 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) uncollectible. If this is the case, the loss on financial assets carried at amortized cost must be recognized through a writedown (loan loss allowance) or by writing down the asset directly and recognizing the loss in profit or loss (IAS 39.63).

In accordance with IAS 39.63ff., the recoverable amount is determined using the following methods:

- the discounted present value of estimated future cash flows (interest and principal payments as well as payments received from the liquidation of collateral) from the financial asset;

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

Uncollectible 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 loan commitments involving a default risk.

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

Trading assets are carried at their fair values. If there are publicly quoted prices in an active market within the meaning of IFRS 13.72ff. in conjunction with IFRS 13.B34, they are generally used as the fair value; otherwise the fair value is determined based on recognized valuation techniques (in accordance with IFRS 13.61ff. in conjunction with IFRS 13.B5ff.). Remeasurement gains and losses as well as gains or losses realized on the sale or disposal of trading assets are recognized in net trading income.

The interest on spot transactions and interest on swaps in derivative transactions allocated to the fair value option are recognized in net interest income. All other interest on swaps is reported in net trading income.

Embedded derivatives that are not closely related to the host contract due to their economic characteristics and risks and that meet the criteria in the provisions of IAS 39.10ff. are separated and reported as embedded derivatives required to be separated such as standalone derivatives in the “trading assets” balance sheet item (in the case of positive fair values) or “trading liabilities” (in the case of negative fair values).

The measurement methods used are described in detail in Note 41, Fair value of financial instruments.

(f) Securities lending and repurchase agreements

Postbank enters into genuine securities repurchase agreements. Securities sold under securities repurchase transactions (repos) 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 based on the respective counterparty. 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 recognized as interest expenses or positive interest on financial liabilities.

Reverse repos 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 or negative interest on financial assets.

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.

(g) Hedging derivatives

IAS 39 governs the use of hedge accounting. Under IFRSs, hedge accounting may only be used for hedging relationships that meet the requirements of IAS 39.88ff. A hedging relationship ends when the hedged item or the hedging instrument expires, is sold, or is exercised, or if the hedge no longer meets the criteria for qualification for hedge accounting. The hedge accounting criteria must be satisfied at each balance sheet date and for each hedging relationship.

The aim of asset/liability management at the Postbank Group is to manage the Bank's overall exposure in a way that minimizes risk while maximizing earnings, with a particular focus being placed on interest rate risk.

Fair value hedges are used to hedge exposure to any changes in the fair value of financial assets and liabilities.

Interest-rate swaps and structured swaps are used as fair value hedges for interest-bearing securities, non-current receivables and issued bonds to convert fixed-income or structured transactions into variable-interest exposures. These are micro fair value hedges, i.e., individual transactions are hedged against interest rate risk. Postbank also uses portfolio fair value hedges in accordance with IAS 39 to hedge interest rate risk arising from loans and advances to customers at portfolio level. They hedge cash flows from the hedged portfolio grouped by maturity band, rather than individual transactions. 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 known as microhedges.

Derivatives are entered into primarily as microhedges to hedge interest rate risk. Gains or losses on effective hedges (hedging gains or losses) are presented under net interest income.

If there are no effective microhedges, the changes in value of the derivatives are reported in net trading income in accordance with IFRSs, regardless of whether risk management was successful or not from an economic perspective. New swaps are entered into as hedging instruments for microhedges and existing hedges are unwound and settled as part of active management of the fixed-rate position in the overall bank balance sheet. The review of the fixed-rate position and the decision to enter into or unwind and settle microhedges are based on economic factors. The unwinding of microswaps is accounted for in the balance sheet and in net profit or loss for the period in the same way as for ineffective hedges. Effectiveness tests – and hence measurement in profit or loss – are performed at the end of the month.

Effectiveness testing for fair value hedges is generally performed prospectively by way of a sensitivity analysis of the hedged item and the hedging instrument. In the case of portfolio fair value hedges, prospective effectiveness testing is performed using regression analysis. Actual changes in the fair values of the hedged item and the hedging instrument are compared retrospectively for each hedge at regular intervals using a retrospective effectiveness test.

(h) Investment securities

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

Postbank holds investment securities in both the "loans and receivables" (LaR) or "available for sale" (AfS) categories.

Postbank allocates financial instruments to the LaR and AfS measurement categories if they were not acquired for selling in the near term or for short-term profit taking, and were not designated as at fair value through profit or loss. If the financial instrument comprises fixed and determinable payments and if there is no active market, the financial instrument is principally categorized as LaR where, however, it may also be assigned to the AfS category.

Equity instruments are assigned to the AfS category. Investments in unconsolidated subsidiaries and other equity investments of the available-for-sale category are generally carried at cost as these do not have a quoted market price in an active market and their fair value cannot reliably be determined.

Investment securities are measured on initial recognition at fair value. Financial instruments of the available-for-sale category (AfS) are recognized in the balance sheet on the trade date, whereas instruments of the loans and receivables category (LaR) are recognized on the settlement date.

LaR instruments are subsequently measured at amortized cost using the effective interest method. Changes in the fair values of LaR investment securities are not recognized, but allocated to the hidden liabilities or reserves, and only recognized in profit or loss when the investment security is derecognized.

AfS investment securities are recognized at their fair value provided that this can be determined reliably. Changes in the fair values of available-for-sale investment securities are recognized directly in the revaluation reserve in equity and are not recognized in profit or loss 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 profit or loss.

Premiums and discounts as well as premiums on hedges are allocated directly to the financial instruments and amortized over the remaining maturity by applying the effective interest method.

Impairment losses on all financial instruments of the LaR category are charged only in the event of permanent impairment. The existence of permanent impairment is determined by certain objective evidence. 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.

For financial instruments of the AfS category, writedowns are charged in the event of significant or longer-term impairment of the fair value.

If the reasons for impairment cease to apply, the impairment loss is reversed up to the maximum of the (amortized) cost. With debt instruments, the reversal is recognized in profit or loss, whereas in the case of equity instruments, it is charged directly to equity.

Impairments, together with the results of reversals recognized in profit or loss and of any disposals are reported in net income from investment securities.

The fair values of corporate bonds, government bonds, *Pfandbriefe*, and bank bonds are measured on the basis of observable market prices or inputs that are observable in the market in accordance with IFRS 13.72ff. in conjunction with IFRS 13.B34.

119

The measurement methods used are described in Note 41, Fair value of financial instruments.

(i) Recognition and derecognition of financial instruments

A financial asset or a financial liability is generally recognized if the Bank becomes a party to a financial instrument. In principle, a financial asset or a financial liability is initially recognized at its fair value, which usually corresponds to the transaction price. If there is evidence that the transaction price does not correspond to the fair value, the difference is treated in accordance with IAS 39.AG76.

The derecognition criteria for financial assets are reviewed at Group level after subsidiaries and structured entities have been consolidated. Financial assets are derecognized when the contractual entitlement to cash flows arising from the financial asset expires or is transferred, or when an obligation to forward such cash flows has been accepted and this obligation meets the criteria of a pass-through arrangement in accordance with IAS 39.19. Thus, derecognition occurs as soon as substantially all risks and rewards of ownership of the financial assets have been transferred. In the event that substantially the related risks and rewards of ownership of the assets are neither retained nor transferred, derecognition will occur if the right of disposal over the assets is relinquished. Otherwise, the assets will continue to be reported according to the extent of the continuing exposure. If an existing financial asset is replaced by another financial asset of the same counterparty at significantly different contractual terms and conditions, the existing financial asset will be derecognized and a new financial asset recognized. The difference between the two carrying amounts is recognized through profit or loss.

A financial liability is derecognized if the associated obligation is met, canceled, or expires. The reacquisition of own debt instruments also leads to the derecognition of the financial obligations. Any differences between the carrying amount of the obligation (including premiums and discounts) and the purchase price on reacquisition are recognized through profit or loss. If an existing financial liability is replaced by another financial liability to the same lender with significantly different contractual terms, or if the contractual terms of the existing liability are significantly modified, the original liability is derecognized and a new liability recognized. The difference between the two carrying amounts is recognized through profit or loss.

(j) Intangible assets

Intangible assets comprise internally generated and purchased intangible assets and goodwill acquired.

Intangible assets in the Postbank Group are only recognized in accordance with IAS 38.21–23 if it is probable that the expected benefit will flow to the entity and the cost can be reliably determined. Development costs for internally generated software are capitalized if the evidence required under IAS 38.57 (a)–(f) can be provided. If the criteria for capitalization are not met, the expenses are recognized immediately in the income statement for the period in which they arise.

Intangible assets are recognized at amortized cost.

Intangible assets with a finite useful life are amortized using the straight-line method over a period of 5 to 10 years, recognized customer relationships over a period of 25 years, and beneficial contracts over a period of 20 years. The amortization period for intangible assets with a finite useful life is reviewed at least at the end of each fiscal year. Changes to expected useful lives are accounted for as changes in accounting estimates. There were no changes in the reporting period with respect to expected useful lives with a material impact on the profit and loss of this or future periods. Intangible assets with a finite useful life are reviewed at the balance sheet date for evidence of possible impairment. If this is the case, the impairment loss is deter--mined. This is done by determining whether the respective carrying amount of the asset exceeds its recoverable amount, taking into account the possibility of a complete write-down and/or disposal of the asset. Intangible assets not yet ready for use are tested for impairment annually.

The intangible assets with an indefinite useful life recognized at Postbank are brands and purchased goodwill. In terms of purchased goodwill and brands, the bank expects that it will in principle be possible to generate indefinite cash flows from this. These are thus classified as intangible assets with an indefinite useful life. Purchased goodwill is not amortized.

Intangible assets with indefinite useful lives are tested for possible impairment annually (impairment test in accordance with IAS 36). To conduct the impairment test, the recognized goodwill is allocated to the corresponding cash-generating units as required by IAS 36. For this purpose, pursuant to IAS 36.80, the operating segments in accordance with IFRS 8 are identified as cash-generating units. For the goodwill impairment test, the recoverable amount of the cash-generating units is compared with the relevant carrying amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell.

Value in use is determined based on the corresponding cash flows of the cash-generating unit. Fair value less costs to sell is only determined if calculating value in use would result in identification of an impairment. Value in use is calculated based on appropriate projections (management approach). The planning period covers five years. Following the detailed planning period, a projection using a growth rate of 1 % (previous year: 1 %) for the Retail Banking segment and 1 % (previous year: 1 %) for the Business and Corporate Banking segment (perpetual annuity) was used. A discount rate of 7.59 % (previous year: 7.24 %) was used to calculate the value in use of the Retail Banking cash-generating unit, while the discount rate for the Business and Corporate Banking cash-generating unit was 7.27 % (previous year: 7.11 %). The discount rate consists of a risk-free interest rate plus a company-specific risk premium, which is calculated on the basis of the systematic market risk (beta factor) and the current market risk premium.

With reference to IAS 36.134 (d) (ii), the segment results calculated in the projections are based on both historical data and assumptions about future trends in markets that are crucial for Postbank's business. The key planning assumptions with regard to macroeconomic fundamentals are based on experience and the use of market models in Postbank's Research units, as well as on product management's estimates of market trends and market data (implied forwards). In addition, estimates and models by credit risk managers that are based on these fundamentals are used to assess changes in the allowance for losses on loans and advances.

In accordance with IAS 36.134 (d) (i), the key assumptions on which management has based its projections of the segment results are presented below.

With regard to the macroeconomic fundamentals in Germany, average growth in gross domestic product (GDP) of 1.4 % is assumed for the 2018 to 2022 planning period. At the same time, the unemployment rate is expected to increase slightly in the years 2019 to 2022, but remain at a very low level up to the end of the planning period. Private households' disposable income is likely to rise at an above-average rate over the entire planning period. After inflation of 1.8 % in 2017 and 2018, a moderate increase in inflation heading toward 2 % is projected for the subsequent years. Consumer spending should grow at a roughly average rate over the entire planning period, while the savings rate should stabilize at a low level. At the same time, management predicts that the lending business will profit from the low interest rates and that the portfolio of loans to retail customers will be expanded moderately. Growth rates in the lending business are likely to decline slightly over the course of the planning period. Despite the high political uncertainty, the probability of significant market distortions in 2018 is quite low thanks to the measures adopted by politicians and central banks. Management sees the UK's planned exit from the European Union, the worsening of geopolitical crises, and a change in the monetary policy stance of the major central banks as the main risks to the development of macroeconomic fundamentals in the planning period.

The forecast changes in relevant market parameters for Postbank's core products derived from the macroeconomic assumptions described above show an overall expansion in business activity, especially for lending and investment products.

Calculation of the fair value less costs to sell of the brands is based on forecasted growth in new business. The long-term projection is based on a growth rate of 1 % (previous year: 1 %). A discount rate of 7.62 % is used (previous year: 7.25 %).

The impairment test for brands takes place at the level of the individual asset. To this end, the fair value less costs to sell is determined using a net present value-based method and then compared with the carrying amount of the brands. The added value of the brands is then determined from the volume of new business that can be transacted as a result of the recognized brand name.

(k) 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. Writedowns 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	40–60
IT systems	4–5
Other operating and office equipment	5–20

Other operating and office equipment includes leasehold improvements, the cost of which is calculated in accordance with IAS 16.16 and depreciated on a straight-line basis over 10 years or the remaining lease term.

Maintenance and repair costs are recognized in profit or loss at their full amount. Costs for replacing components of property and equipment are capitalized.

The cost of low-value assets is expensed immediately for reasons of materiality.

(l) Liabilities

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

The carrying amount of liabilities that are part of a hedging relationship is adjusted for the 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.

Liabilities covering reimbursements of arrangement fees, and for interest premiums payable retroactively in the case of unutilized loans, or of changes in interest rates or tariffs, are recognized for the home savings business in line with the different tariffs and contract terms. The amount of the liabilities is calculated on the basis of predefined rational customer decision patterns. An estimate is made for each individual customer as to whether utilization of the home loan and, hence, the waiver of a reimbursement of the arrangement fees or the retroactive receipt of interest premiums is economically advantageous for the customer. In addition, past experience of actual customer behavior, which does not always meet expectations, is taken into account in the form of a separate add-on amount. As it is not usually possible to predict customer behavior solely on the basis of rational decision-making patterns and past actions do not always indicate future customer behavior, there is an inherent uncertainty in the amount of the liabilities recognized. In the reporting period, the estimated average remaining maturity of the relevant home savings deposits was reduced by 0.1 years on the basis of current analyses.

(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. The negative fair values of banking book derivatives are also reported under trading liabilities. Remeasurement gains and losses as well as gains and losses on the sale of derivatives are recognized in the net trading income. Derivatives are recognized for the first time at the trade date. Interest rate derivatives relating to the hedged items accounted for under the fair value option are also reported here.

Embedded derivatives that are not closely related to the host contract due to their economic characteristics and risks and that meet the criteria in the provisions of IAS 39.10ff. are separated and reported as embedded derivatives required to be separated such as standalone derivatives in the "trading assets" balance sheet item (in the case of positive fair values) or "trading liabilities" (in the case of negative fair values).

(n) Provisions

Provisions for pensions and other employee benefits

There are commitments to provide occupational benefits at Deutsche Postbank AG and its subsidiaries. The commitments are classified as either defined contribution plans or defined benefit plans depending on the terms and conditions of the plans concerned.

The annual contribution to defined contribution plans is converted into a benefit using actuarial techniques and credited to a pension account.

Along with other sponsoring employers, the Group is a member of BVV Versicherungsverein des Bankgewerbes a.G. (BVV) for a small group of its employees. BVV provides pension benefits to entitled employees in addition to the Group's direct commitments. Both the employer and the employees concerned make regular contributions to BVV. BVV's plans provide for fixed pension payments with profit sharing. For BVV, employers have a subsidiary liability for occupational pension commitments to its own employees. The Group is not liable for third-party obligations. The Group classifies the BVV plan as a defined-benefit multi-employer plan and treats it as a defined-contribution plan since the information available is not sufficient to allocate the assets and the pension obligations to current and former employees to the individual member companies. This is mainly because BVV does not fully allocate its assets to either the beneficiaries or the member companies.

The existing defined benefit pension commitments provide for different benefits for different groups. The majority of the benefits are granted in the form of direct pension commitments plus, since the acquisition of the BHW Group, indirect pension commitments via BHW Bausparkasse VVaG's Pensionskasse (occupational pension fund).

Direct pension commitments: Direct pension commitments provide for old-age, disability, and survivors' benefits, mostly in the form of lifelong pension payments. Different arrangements exist due to the assumption of pension plans in connection with corporate transactions, among other things. Specifically, these are

- modular pension plans, where the future pension increases every year depending on the salary received;

- final salary-based commitments, where the future pension is linked to the length of service and the salaries received before the insured event;

- (indexed) fixed pensions, where the amount of the future pension is fixed but in some cases is indexed by a set percentage amount every year.

Postbank directly assumed the commitments to the pensioners and employees who were previously insured with Versorgungsanstalt der Deutschen Bundespost (VAP – Postal Service Institution for Supplementary Retirement Pensions).

BHW Bausparkasse VVaG's Pensionskasse: The Pensionskasse is a legally independent occupational pension provider in the form of a mutual insurance association (VVaG – Versicherungsverein auf Gegenseitigkeit), which grants beneficiaries a legal right to their pension benefits. As a regulated Pensionskasse, it is supervised in full by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) on the basis of the *Versicherungsaufsichtsgesetz* (VAG – German Insurance Supervision Act). The pension scheme is funded by the sponsoring employers, who make regular contributions to the Pensionskasse. The solvency of the Pensionskasse was confirmed vis-à-vis BaFin for the prior-year reporting date. The employees and pensioners insured by the Pensionskasse generally also have direct pension commitments that are credited toward the occupational pension fund insurance.

In 2013, Postbank established a CTA (contractual trust arrangement) to finance previously unfunded direct obligations that are not covered via the Pensionskasse. The assets held in the CTA qualify as plan assets under IAS 19. Transfers of funds to the CTA are not subject to any statutory minimum requirements; rather, they can be determined by Postbank in accordance with internal guidelines.

The amount of the liability is determined annually by independent actuaries using the projected unit credit method required under IAS 19. The discount rate applicable for the pension obligations is set at the reporting date by reference to the yield on high quality long-term corporate bonds and has been commercially rounded to two decimal places since 2016. The Bank modified the procedure for determining the discount rate in the reporting period. This resulted in an increase in the discount rate by two basis points, and consequently in a decrease of approximately €10 million in the pension provision at the reporting date, as well as in a corresponding actuarial gain in other comprehensive income in the reporting period. The assumptions regarding the salary trend reflect Postbank's expectations as to how this will develop over the long term. The nominal rate of expected salary increases is determined based on inflation plus the expected long-term real salary trend ("building block approach"). The inflation rates implied by inflation swaps denominated in euros on the balance sheet date are used as a reference for long-term inflation.

In accordance with legal requirements, future pension adjustments are linked to inflation/salary trends, unless a guaranteed adjustment of 1 % p.a. has been awarded.

The following overview shows the input parameters used:

	2017	2016
Discount rate	1.80 %	1.75 %
Salary growth	2.4 %	2.0 %
Inflation rate	1.9 %	1.8 %
Mortality	Heubeck tables 2005G	Heubeck tables 2005G

Other provisions

Obligations resulting from other short-term and long-term employee benefits are recognized in other provisions in accordance with the requirements of IAS 19. This applies in particular to partial retirement and early retirement benefits.

Provisions for litigation are recognized if there is a more than 50 % probability that current legal disputes will lead to a cash outflow and a reliable estimate of the obligation can be made. The Bank takes into account a large number of factors to determine whether the probability of the cash outflow is greater than 50 % and to estimate the amount of the potential obligation. These factors include the nature of the claim and the underlying circumstances, the status and progress of the individual proceedings, court and arbitration board decisions, the experience of the Bank and third parties in similar cases (where the Group is aware of such cases), preliminary settlement discussions, available exemptions, and the opinions and assessments of legal advisors and other experts. Since the assessment of the probability and the amount of the obligation arising from legal disputes involves a level of uncertainty, the actual obligation at the end of the legal proceedings or out-of-court settlement may differ from the provisions recognized.

(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 closing rate of the relevant month of the business transaction.

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.

(p) Recognition of income

Interest from interest-bearing assets and liabilities is recognized using the effective interest method and, in general, reported as either interest income or interest expense. When the effective interest method is used, the expected cash flows are discounted with the effective interest over the entire term of the asset or liability. All directly attributable transaction costs, fees, and other payments made or received are included in the calculation of the effective interest rate. If a related financial instrument exists, commissions that are an integral part of the effective interest rate of this financial instrument will also be included in the calculation to determine the effective interest.

If negative interest is paid on financial assets, this is not recognized within interest income but in a separate item within net interest income entitled "Negative interest on financial assets." Positive interest on financial liabilities is not recognized as interest expense but in a separate item within net interest income entitled "Positive interest on financial liabilities." As a consequence, non-typical interest is recognized in net interest income and presented separately in the income statement. In the case of interest rate swaps, interest payments are aggregated per swap in the same way as cash flows are presented on a net basis in a normal interest rate environment.

Income is recognized in the period in which the amount of the income and the associated expenses can be reliably estimated and it is reasonably probable that the economic benefit of the transaction will accrue to the Bank.

Recurring fees and charges for existing business, and the other fees for services (primarily in checking business) are recognized when the respective service is rendered. Fees for services rendered over a certain period of time are recognized over the period in which the services are rendered.

In securities and fund business, the Bank earns trail commissions besides the acquisition commissions recognized on conclusion of the contract for the respective product. Trail commissions relate primarily to portfolio management. The Bank is entitled to this commission for as long as this is provided for in the respective contract, and it is recognized when the service is rendered. If there is any uncertainty as to the timing of the service, the income is recognized upon receipt of payment.

The Bank receives, in particular, acquisition commissions for brokering life insurance. The entitlement to the acquisition commission arises upon payment of the first premium by the customer. The acquisition commission is therefore recognized in the amount of its expected present value immediately upon the provision of the service with due regard to future cancellations. The Bank recognizes the commission for brokering payment protection insurance payable to it over the term of such insurance on the basis of a reliable estimate of the expected present value directly after the provision of the service.

Postbank participates in the ECB's refinancing program – Targeted Longer-Term Refinancing Operations II (TLTRO II) – as a member of the TLTRO group headed by Deutsche Bank as the lead institution. Postbank does not receive any refinancing funds from Deutsche Bank. Postbank receives remuneration for services rendered for its participation in this TLTRO group on the basis of an agreement with Deutsche Bank, the amount of which depends for the share of basic remuneration on the refinancing advantage achieved (depending on the collateral given) and its term and for the share of additional remuneration on the credit volume of the group. As of December 31, 2017, Postbank reported the income from the agreement that could be reliably estimated in accordance with IAS 18.20 under "Other income."

(q) Income taxes

Income taxes are recognized and measured in accordance with IAS 12, with the consolidated income tax group with Deutsche Bank established in 2012 being taken into account from a formal legal perspective. Under this approach, income taxes are not recognized at the level of the Postbank consolidated tax group because they are owed by the tax group parent, Deutsche Bank AG.

The assessment of income tax assets and liabilities requires certain estimates to be made. A differing assessment by the tax authorities cannot be ruled out. Account is taken of the associated uncertainty by recognizing uncertain tax assets and liabilities if Postbank considers their probability to be greater than 50 %. A change in the assessment, for example based on final tax assessments, would affect the current and deferred tax items. The uncertain income tax items recognized are based on the best estimate of the expected tax payment.

The following applies to the taxes owed by companies not belonging to the Postbank consolidated tax group:

Deferred taxes are 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 and temporary differences in the amount of their probable future utilization. Deferred tax assets are recognized for tax loss carryforwards based on future taxable income within a planning period that generally covers five years.

Deferred tax items are reported under "deferred tax assets" in the case of future assets and "deferred tax liabilities" in the case of future liabilities.

Current and non-current deferred tax assets and liabilities are offset in accordance with IAS 12.74.

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 profit or loss when the balance sheet item is itself recognized in profit or loss. Deferred taxes are credited or charged to other comprehensive income or in equity when the balance sheet item is itself credited or charged directly to other comprehensive income or in equity (IAS 12.61A), e.g., in the case of remeasurement of available-for-sale securities.

(r) Assets held for sale

Non-current assets (and disposal groups) are classified as held for sale in accordance with IFRS 5 if their carrying amount is recovered principally through sale and their sale is highly probable.

Assets held for sale are generally measured at the lower of their previous carrying amount and fair value less costs to sell and are reported in the "Assets held for sale" balance sheet item. According to IFRS 5.5 exceptions to this measurement rule are, among other things, applied to financial instruments. The liabilities associated with these assets are reported in the "Liabilities directly related to assets held for sale" balance sheet item if these are also to be transferred.

Either the purchase prices quoted on the active market – insofar as the asset is being traded on an active market – or existing bids and/or agreed prices are used to calculate the fair value of held-for-sale assets eligible for measurement under IFRS 5.

The assets that are not eligible for IFRS 5 measurement are calculated using the respective standards as before.

(5) New developments in international accounting under IFRSs

New developments in fiscal year 2017

The amendments to IAS 7 "Statement of Cash Flows" resulting from the Disclosure Initiative were applied for the first time in the reporting period.

The amendments to IAS 7 relate to the disclosures on changes in financial liabilities for which cash flows are presented in the statement of cash flows as cash flows used in financing activities. Disclosures on the associated financial assets are also required. The application of the amendments did not have any significant effect on the net assets, financial position, and results of operations of the Bank. The disclosures on cash flows used in financing activities have been expanded accordingly.

Amendments resulting from standards and interpretations to be applied in future fiscal years

The following provides an overview of the main standards and interpretations as well as their anticipated effects for Postbank.

IAS 28 "Long-term Interests in Associates and Joint Ventures"

The IASB issued an amendment to IAS 28 in October 2017. This clarifies that the IFRS 9 impairment requirements are to be applied to long-term interests. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

This amendment takes effect for fiscal years beginning on or after January 1, 2019. Not yet endorsed by the EU.

IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The revision clarifies that when measuring cash-settled share-based payments, the fair value must reflect market and non-vesting conditions, and the quantity structure must take into account service conditions and other performance conditions. With respect to equity-settled share-based payments, it also clarifies that shares withheld by a company to meet beneficiaries' tax obligations are to be treated in the same way as repurchased equity instruments. The standard also governs the recognition of a change in terms, if the payment is originally to be settled in cash but is subsequently settled using equity instruments. Accordingly, the equity-settled payment must be recognized as an increase in equity at the pro rata fair value on the date of the change and any difference arising from the derecognition of the liability reported in income. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

The amendments take effect for fiscal years beginning on or after January 1, 2018. Not yet endorsed by the EU.

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement"; it comprises updated requirements on the classification and measurement of financial instruments, impairment, and general hedge accounting (not including macrohedge accounting). In addition, it adds to the disclosures required on financial instruments. The Standard was adopted by the EU and is effective for annual periods beginning on or after January 1, 2018.

Financial instruments are classified in accordance with the two criteria of "business model" and "solely payments of principal and interest" (SPPI). Under the "business model" criterion, the different financial instruments are allocated at the portfolio level to the company-specific "business models," "hold" or "hold and sell." Under the "cash flow characteristics" (SPPI) criterion, the characteristics of the cash flows of the respective financial instrument are analyzed and measured in accordance with the new rules of IFRS 9. How these two criteria are interpreted determines whether the instruments are subsequently accounted for at amortized cost or at fair value (either recognized in profit and loss or in other comprehensive income). Financial instruments of all categories are initially measured at fair value.

In a first step in 2016, Postbank determined the existing business models at portfolio level and analyzed the respective contractual cash flow criteria. Based on these estimates, the business models of the individual portfolios were determined in December 2017. Derivatives and equity instruments are measured at fair value through profit or loss in accordance with IFRS 9. The analysis shows that there will be reclassifications of individual financial instruments between the fair value through profit or loss, fair value through other comprehensive income, and amortized cost categories at the date of initial application.

With regard to impairment, the previous incurred loss impairment model has been replaced by an expected credit loss model, which allows default risk to be accounted for in a more timely manner. These requirements will apply in future to assets measured at amortized cost and assets measured at fair value through other comprehensive income. All other things being equal, Postbank is anticipating an increase in the allowance for losses on loans and advances, mainly due to the switch to a 12-month or lifetime ECL, as a result of the new rules on impairment.

The IFRS 9 requirements governing general hedge accounting are intended to achieve a stronger correlation between the accounting treatment and internal risk management. However, IFRS 9 does offer an accounting option to postpone the application of the IFRS 9 hedge accounting requirements and continue to use the IAS 39 requirements. Postbank has decided to exercise this accounting option. The new disclosures on hedge relationships required to be provided in the notes will be taken into account in the future and implemented in this context.

Recognized capital will be negatively impacted by an amount in the mid three-digit million euro range as a result of the introduction of IFRS 9. Around 60 % of this effect is attributable to the new classification requirements and the resulting shift between the fair value through profit or loss, fair value through other comprehensive income, and amortized cost categories. The remainder of the impact on recognized capital is attributable to the increase in the allowance for losses on loans and advances and primarily relates to the shift toward the expected credit loss model. Postbank has also decided to exercise the initial application option in IFRS 9, which allows it not to restate comparative periods in accordance with IFRS 9 for the periods prior to initial application.

IFRS 9 "Prepayment Features with Negative Compensation"

The IASB issued an amendment to IFRS 9 in October 2017 addressing "Prepayment Features with Negative Compensation". This clarifies or amends the existing requirements in IFRS 9.B4.1.10 and IFRS 9.B4.1.11(b) relating to their application in the case of financial instruments that contain symmetric termination and compensation clauses – whereby compensation could, in theory, be paid both by the debtor to the creditor and vice versa. The amendment is not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

This amendment takes effect for fiscal years beginning on or after January 1, 2019. Not yet endorsed by the EU.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 is a new standard on revenue recognition, which brings together the numerous requirements previously contained in various standards and interpretations in a single standard and provides a set of uniform principles that are applicable for all sectors and categories of revenue transactions. Under IFRS 15, the amount of the consideration to which the entity expects to be entitled, in exchange for transferring goods or services to a customer, must be recognized as revenue. It also expands the notes disclosures required on revenue from contracts with customers.

As a general rule, the standard applies to all contracts with customers that agree on the sale of goods and services from the company's normal business activities. The IASB published "Clarifications to IFRS 15 – Revenue from Contract with Customers" in April 2016. It contains clarifications on the identification of performance obligations, principal versus agent relations, licensing agreements, and transitional provisions for modified and completed contracts. Application is likewise mandatory.

At Postbank, IFRS 15 applies in particular to the fees and charges reported under "Fee and commission income" in the Bank's income statement. The introduction of the Standard will not materially affect the presentation of Postbank's net assets, financial position, and results of operations. The main effects will relate to the presentation of fee and commission income in the notes.

IFRS 15 takes effect for fiscal years beginning on or after January 1, 2018. The standard was adopted by the EU through EU Regulation 2016/1905 of September 22, 2016. The clarifications to IFRS 15 must be applied together with IFRS 15. These were adopted by the EU through EU Regulation 2017/1987b of October 31, 2017.

Postbank has decided to exercise the option for the initial application method, which allows it not to restate comparative periods in accordance with IFRS 15 for the periods prior to initial application.

IFRS 16 "Leases"

IFRS 16 governs the recognition, measurement, presentation and disclosure obligations with respect to leases, and replaces the current IAS 17 "Leases." The new accounting model requires the lessee to recognize all assets and liabilities relating to leasing arrangements. This means that the distinction between financing and operating leases (previously the case with IAS 17) no longer applies at all to the lessee. With regard to the lessor, the regulations of IFRS 16 do not differ significantly from those contained in the current IAS 17 accounting model. Postbank is currently examining the potential effects on its consolidated financial statements.

The standard was adopted by the EU through EU Regulation 2017/1986 of October 31, 2017.

Annual Improvements 2014–2016

The IASB has implemented clarifications, amendments, and additions to existing standards as part of its Annual Improvements 2014-2016 project. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

The amendments take effect for fiscal years beginning on or after January 1, 2017 or January 1, 2018. The amendments were adopted by the EU through EU Regulation 2018/182 of February 7, 2018.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IFRIC 22 is a new interpretation of IAS 21 "The Effects of Changes in Foreign Exchange Rates." This clarifies when to determine the exchange rate for translating transactions in foreign currency that include the receipt or payment of advance consideration. The exchange rate of the underlying asset, income, or expense is calculated based on the date of initial recognition of the asset or liability resulting from the advance consideration. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

The interpretation takes effect for fiscal years beginning on or after January 1, 2018. Not yet endorsed by the EU.

IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies the accounting of uncertainty over income tax treatments. The interpretation applies to taxable profit (loss), tax bases, unused tax losses, unused tax credits, and tax rates if there is uncertainty about the treatment of income tax under IAS 12.

The interpretation is not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

The interpretation takes effect for fiscal years beginning on or after January 1, 2019. Not yet endorsed by the EU.

(6) Adjustments of prior-year figures

In fiscal year 2017, the Bank retrospectively adjusted the recognition of processing fees charged for commercial real estate financing. Previously, this income was recognized directly in fee and commission income. These processing fees are now included in effective interest.

This retrospective adjustment resulted as of January 1, 2016, in a reduction of loans and advances to customers and retained earnings of €4 million in each case. As of December 31, 2016, loans and advances to customers and retained earnings were reduced by €7 million in each case.

In fiscal year 2016, interest income increased by €5 million and fee and commission income decreased by €8 million.

This reduced consolidated profit for 2016 by €3 million, resulting in an decrease of €0.01 in earnings per share.

The changes mainly affect the Corporate Banking segment.

INCOME STATEMENT DISCLOSURES

(7) Net interest income

	2017 €m	2016[1] €m
Interest and current income		
Interest income from:		
Lending and money market transactions	3,193	3,458
Fixed-income and book-entry securities	371	474
Net gains/losses on hedges	–10	–5
	3,554	**3,927**
Current income from:		
Equities and other non-fixed-income securities	0	0
Equity investments	1	5
	1	**5**
	3,555	**3,932**
Positive interest on financial liabilities	38	29
Interest expense on:		
Deposits	1,164	1,343
Debt securities in issue	54	75
Subordinated debt	105	165
Swaps	137	150
	1,460	**1,733**
Negative interest on financial assets	67	54
Total	**2,066**	**2,174**

[1]Figures adjusted (see Note 6)

Interest income from the lending business and from money market transactions includes €12 million (previous year: €14 million) of interest income on impaired assets (unwinding in accordance with IAS 39).

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

In addition, net interest income includes interest of €127 million (previous year: €185 million) from derivatives used to hedge loans and advances designated under the fair value option.

Interest income and expenses of €10 million (previous year: €–35 million) on swaps used in hedging relationships are reported as net expense. The underlying transactions are hedging instruments that meet the qualification criteria for hedge accounting in accordance with IAS 39.

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

	2017 €m	2016 €m
Gains/losses on the fair value remeasurement of hedged items	–1	104
Gains/losses on the fair value remeasurement of hedging instruments	–9	–109
Total	**–10**	**–5**

(8) Allowance for losses on loans and advances

	2017 €m	2016 €m
Cost of additions to allowance for losses on loans and advances		
Specific valuation allowances	305	316
Portfolio-based valuation allowances	109	79
Cost of additions to provisions for credit risks	11	27
Direct loan write-offs	26	30
Income from reversals of the allowance for losses on loans and advances		
Specific valuation allowances	176	140
Portfolio-based valuation allowances	111	77
Income from the reversal of provisions for credit risks	27	21
Recoveries on loans previously written off	38	30
Total	**99**	**184**

As in the previous year, the allowance for losses on loans and advances did not include any loans and advances to other banks.

€115 million (previous year: €178 million) of the allowance for losses on loans and advances relates to customer receivables classified as loans and receivables; €16 million relates to income from guarantees, warranties, and loan commitments (previous year: expense of €6 million).

The cost of additions to and the income from reversals of the allowance for losses on loans and advances to customers can be broken down by product group as follows:

	2017 €m	2016 €m
Additions		
Private mortgage lending	70	98
Home savings loans	1	2
Commercial loans	36	20
Installment loans	156	145
Overdrafts	42	51
Portfolio-based valuation allowances	109	79
Total	**414**	**395**

	2017 €m	2016 €m
Reversal		
Private mortgage lending	65	75
Home savings loans	–	1
Commercial loans	53	17
Installment loans	39	26
Overdrafts	19	21
Portfolio-based valuation allowances	111	77
Total	**287**	**217**

(9) Net fee and commission income

	2017 €m	2016[1] €m
Checking account business	455	367
Securities business	81	56
Lending and guarantee business	41	40
Branch business	186	196
Other fee and commission income	173	176
Total	**936**	**835**

[1]Figures adjusted (see Note 6)

Net fee and commission income from trust activities amounts to €4 million (previous year: €4 million) and is reported in “Other fee and commission income.”

Fee and commission income includes €610 million (previous year: €547 million) and fee and commission expense includes €126 million (previous year: €154 million) which result from transactions with financial instruments not designated at fair value through profit or loss.

(10) Net trading income

	2017 €m	2016 €m
Net income from sale of securities and loans	0	0
Net gains/losses on remeasurement of securities and loans		
Bonds and other fixed-income securities	0	0
Loans (held for trading)	0	1
	0	**1**
Net gains/losses on derivatives carried in the trading portfolio and the banking book		
Gain on derivatives	2,311	2,316
Loss on derivatives	–2,265	–2,286
	46	**30**
Net gains/losses from application of the fair value option		
thereof loans and advances to customers	–73	–120
thereof derivatives substantively linked to the fair value option	130	132
	57	**12**
Foreign exchange gain/loss	9	7
Net fee and commission income carried in the trading portfolio	0	0
Total	**112**	**50**

The net gains/losses on derivatives carried in the trading portfolio and the banking book include expenses from interest on swaps of €59 million (previous year: €49 million). The underlying swap holdings are not part of a hedging relationship as defined by IAS 39.

(11) Net income from investment securities

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

	2017 €m	2016 €m
Net income from loans and receivables investment securities	16	84
thereof net income from sale	15	84
Gains on sale	18	92
Losses on sale	3	8
thereof reversals of impairment losses/ impairment losses (net)	1	0
Net income from available-for-sale investment securities and other equity investments	64	174
thereof net income from sale	68	176
Gains on sale	69	181
Losses on sale	1	5
thereof current profit/loss	0	0
thereof impairment losses (net)	–4	–2
Total	**80**	**258**

	2017 €m	2016 €m
Net income from bonds and promissory note loans	55	131
Net income from equities and other non-fixed-income securities	0	0
Net income from equity investments	28	129
Impairment	–3	–2
Total	**80**	**258**

Net income from equity investments primarily includes the income from the reduction of an equity investment based on a sales cooperation (€12 million), and the sale of Concardis GmbH (€13 million). Income from fixed-income securities includes gains of €53 million from the sale of government bonds.

€1 million (previous year: €1 million) of the net impairment loss on investment securities relates to closed-end funds and €3 million to an equity investment.

(12) Administrative expenses

Consolidated administrative expenses are composed of staff costs, non-staff operating expenses, and amortization, depreciation, and writedowns of intangible assets and property and equipment. These expenses are composed of the following items:

	2017 €m	2016 €m
Staff costs		
Wages and salaries	1,357	1,106
Social security contributions	133	130
Expenses for pensions and other benefits	173	159
	1,663	**1,395**
Other administrative expenses	1,261	1,360
Amortization of intangible assets	43	44
Depreciation and writedowns of property and equipment	63	54
Total	**3,030**	**2,853**

Staff costs include the addition of new provisions in connection with the planned merger of Postbank with Deutsche Bank Privat- und Geschäftskunden AG and the reorganization of the sales organization (see Note 34).

112

Expenses for pensions and other benefits primarily include expenses for defined contribution plans of €93 million (previous year: €96 million) and expenses for defined benefit plans of €52 million (previous year: €37 million). In addition, administrative expenses also include the employer contributions of €65 million (previous year: €64 million) for statutory pension insurance.

Deutsche Postbank AG seconded civil servants to the Bundesamt für Migration und Flüchtlinge (German Federal Office for Migration and Refugees – BAMF) as of May 1, 2016. Benefits accrued to the civil servants since then are reimbursed by the BAMF. The reimbursements in the amount of €4 million are offset against staff costs.

Other administrative expenses relate primarily to IT costs of €278 million (previous year: €338 million), expenses for intragroup services received from Deutsche Post AG of €78 million (previous year: €88 million), operating building and premises expenses of €181 million (previous year: €171 million), market communication costs of €79 million (previous year: €88 million), legal, consulting and audit costs of €75 million (previous year: €75 million), as well as expenses for the bank levy of €21 million (previous year: €23 million).

Other administrative expenses include lease expenses of €147 million (previous year: €147 million), which are composed of expenses for leased intangible assets, land and buildings, and operating and office equipment under operating leases.

As in the previous year, no impairment losses were recognized on property and equipment or intangible assets.

(13) Other income

	2017 €m	2016 €m
Remuneration for participation in ECB's refinancing program	106	40
Income from property and equipment and intangible assets	37	18
Reimbursements from internal welfare institutions	11	11
Income from uncollectable transactions	7	4
Miscellaneous	66	68
Total	**227**	**141**

Income from property and equipment and intangible assets includes an impairment loss reversal of €23 million (previous year: €0 million) on the BHW brand (see Note 23) and rental income of €14 million (previous year €15 million).

102

Miscellaneous other income contains the income from the sale of a business unit of VÖB-ZVD Processing GmbH amounting to €23 million (previous year: €0 million) as well as a large number of individual items.

(14) Other expenses

	2017 €m	2016 €m
Expenses for the Federal Posts and Telecommunications Agency (BAnstPT)	14	12
Expenses from property and equipment and intangible assets	9	12
Expenses for claims settlement and ex gratia payments	7	10
Expenses for other taxes	5	3
Expenses from litigation and customer redress	1	58
Miscellaneous	8	22
Total	**44**	**117**

Expenses for other taxes mainly relate to land taxes amounting to €3 million, unchanged as against the previous year.

In addition, the miscellaneous item includes a large number of individual items.

(15) Income taxes

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

	2017 €m	2016 €m
Effective income tax expense		
Current income tax expense		
Corporate income tax and solidarity surcharge	18	15
Trade income tax	14	12
	32	**27**
Prior-period income tax	–20	–22
	12	**5**
Deferred income tax		
Temporary differences	10	–22
Reversal of tax loss carryforwards	–24	7
	–14	**–15**
Total	**–2**	**–10**

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

	2017 €m	2016[1] €m
Profit from ordinary activities after tax	250	314
Income tax expense	–2	–10
Profit before tax	248	304
Applicable tax rate	30.83 %	31.04 %
Expected income taxes	76	94
Tax effects		
Effect of changes in tax rate	0	0
Effect of difference between applicable tax rates in Germany and abroad	0	0
Effect of non-deductible expenses	9	18
Effect of tax-free income	–8	–45
Effect of additions/reductions for local income tax purposes	3	3
Effect of consolidated tax group	–39	–64
Effect of changes in valuation allowances on deferred tax	–14	–5
Effect of prior-period taxes	–29	–11
Other	0	0
	–78	**–104**
Income tax expense (+)/ income tax income (–)	**–2**	**–10**

[1]Figures adjusted (see Note 6)

Due to the formal legal perspective, the weighted average tax rate is used for the applicable tax rate.

BALANCE SHEET DISCLOSURES

(16) Cash reserve

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Cash	1,245	1,485
Balances with central banks	775	806
Total	**2,020**	**2,291**

€772 million (previous year: €803 million) of the balances with central banks relates to balances with the Deutsche Bundesbank.

The minimum reserve requirement at the end of December 2017 was €889 million (previous year: €872 million).

(17) Loans and advances to other banks

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Domestic banks		
Payable on demand	5,282	4,908
Other loans and advances	1,897	6,000
	7,179	**10,908**
Foreign banks		
Payable on demand	3,642	1,475
Other loans and advances	0	725
	3,642	**2,200**
Total	**10,821**	**13,108**

€523 million (previous year: €2,045 million) of loans and advances to other banks is due after more than 12 months.

Loans and advances to other banks can be broken down as follows in accordance with the categories of financial instruments defined in IAS 39:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Loans and advances to other banks (loans and receivables)	10,821	13,108
Total	**10,821**	**13,108**

The loans and advances to other banks can be broken down by product group as follows:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Securities repurchase agreements	834	5,832
Overnight money	8,924	6,381
Loans	63	92
Registered bonds	–	300
Term deposits	1,000	500
Other loans and advances	0	3
Total	**10,821**	**13,108**

Collateral received that can be unconditionally liquidated or 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, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Financial collateral	585	5,123	315	1,008
Non-financial collateral	–	–	–	–
Total	**585**	**5,123**	**315**	**1,008**

Collateral is utilized at standard market conditions.

As of December 31, 2017, receivables under genuine repurchase agreements amounted to €834 million (previous year: €5,832 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, and corporate bonds.

Loans and advances to other banks include fixed-interest loans in the amount of €10.8 billion (previous year: €12.6 billion) and variable-interest loans in the amount of €0.1 billion (previous year: €0.5 billion).

(18) Loans and advances to customers

	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m
Private mortgage lending	71,406	69,029
Home savings loans	2,760	2,992
Commercial loans	15,857	13,670
Public sector	5,078	5,205
Installment loans	8,053	7,438
Overdrafts	2,195	2,085
Promissory note loans	1,604	1,537
Other loans and advances	44	40
Total	**106,997**	**101,996**
thereof		
Domestic customers	98,570	93,627
Foreign customers	8,427	8,369
Total	**106,997**	**101,996**

[1]Figures adjusted (see Note 6)

Loans and advances to customers without a fixed maturity amount to 1.9 % of total assets (previous year: 1.7 %). These loans and advances have been allocated to the shortest maturity band in the maturity structure (see Note 49).

133

Loans and advances to customers include public-sector loans with a residual capital of €4,571 million (previous year: €5,050 million) and loans and advances secured by real estate liens with a residual capital of € 45,520 million (previous year: €43,869 million).

€86,452 million (previous year: €81,762 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 €93.1 billion (previous year: €89.4 billion) and variable-interest loans in the amount of €13.9 billion (previous year: €12.6 billion).

The carrying amount of loans and advances to customers can be broken down as follows in accordance with the categories of financial instruments defined in IAS 39:

	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m
Loans and receivables	104,154	98,351
thereof fair value hedges	2,558	2,482
Fair value option	2,843	3,645
Total	**106,997**	**101,996**

[1]Figures adjusted (see Note 6)

The maximum credit risk on the loan portfolios allocated to the fair value option corresponds to the carrying amount of €2.8 billion (previous year: €3.6 billion). The change in fair value attributable to changes in the default risk on financial assets was €4.8 million in the reporting period (previous year: €4.2 million).

Loans and advances to customers include amounts due under finance leases.

Total outstanding minimum lease payments amount to €248 million (previous year: €295 million) and have the following maturity structure:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
in the first year after the balance sheet date	73	113
in the second year after the balance sheet date	62	59
in the third year after the balance sheet date	48	52
in the fourth year after the balance sheet date	33	35
in the fifth year after the balance sheet date	19	20
more than five years after the balance sheet date	13	16
Total	**248**	**295**

The reconciliation to the present value of the outstanding minimum lease payments is as follows:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Outstanding minimum lease payments	248	295
Unguaranteed residual values	2	3
Total gross investment	**250**	**298**
Unearned finance income	10	13
Net investment	**240**	**285**
Present value of unguaranteed residual values	1	2
Present value of minimum lease payments	**239**	**283**

The accumulated allowance for uncollectible outstanding minimum lease payments amounts to €8 million (previous year: €3 million).

(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 risks that have arisen but not yet been identified.

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, 2017 €m	Dec. 31, 2016 €m
Allowance for losses on loans and advances to customers	997	998
Provisions for credit risks	27	45
Total	**1,024**	**1,043**

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

	Specific valuation allowances		Portfolio-based valuation allowances		Total	
	2017 €m	2016 €m	2017 €m	2016 €m	2017 €m	2016 €m
Balance at Jan. 1	**798**	**725**	**200**	**198**	**998**	**923**
Reclassification due to IFRS 5	–	–1	–	–	0	–1
Additions						
Allowance charged to the income statement	305	316	109	79	414	395
Disposals						
Utilization	116	88	–	–	116	88
Allowance reversed to the income statement	176	140	111	77	287	217
Unwinding	12	14	–	–	12	14
Currency translation differences	–	–	–	–	–	–
Balance at Dec, 31	**799**	**798**	**198**	**200**	**997**	**998**

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

The allowance for losses on loans and advances to customers can be broken down by product group as follows:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Specific valuation allowances		
Private mortgage lending	164	209
Home savings loans	5	5
Commercial loans	106	127
Public-sector receivables	3	4
Installment loans	372	313
Overdrafts	149	140
Portfolio-based valuation allowances	198	200
Total	**997**	**998**

Specific valuation allowances were recognized for loans with a total volume of €1,558 million (previous year: €1,747 million).

Loans and advances amounting to €26 million were written off directly in fiscal year 2017 (previous year: €30 million). Recoveries on loans written off amounted to €39 million (previous year: €30 million).

(20) Trading assets

In fiscal year 2017, trading assets were mainly comprised of derivatives. All trading assets are carried at their fair values.

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Building loans held for trading	45	53
Positive fair values of derivatives carried as trading assets	1	1
Positive fair values of banking book derivatives	264	421
Positive fair values from derivatives relating to hedged items accounted for under the fair value option	0	0
Total	**310**	**475**

€252 million (previous year: €409 million) is due after more than 12 months.

(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, 2017 €m	Dec. 31, 2016 €m
Assets		
Hedging derivatives on loans to customer		
Loans and receivabless	0	0
	0	**0**
Liabilities		
Deposits from other banks	2	3
Due to customers	12	15
Debt securities in issue	8	9
Subordinated debt	25	85
	47	**112**
Total	**47**	**112**

Holdings of €36 million (previous year: €102 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, equity investments, and investments in unconsolidated subsidiaries.

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Bonds and other fixed-income securities		
Public-sector issuers	13,111	16,042
Other issuers	9,198	10,406
	22,309	**26,448**
Equities and other non-fixed-income securities		
Investment fund shares	264	271
	264	**271**
Equity investments	31	43
Investments in unconsolidated subsidiaries	1	5
Total	**22,605**	**26,767**

As in the previous year, bonds and other fixed-income securities do not contain any securities and interest coupons due on the balance sheet date.

Holdings of €16,974 million (previous year: €22,266 million) are due after more than 12 months.

€21.3 billion (previous year: €25 billion) of the bonds and other fixed-income securities have a fixed rate of interest over the entire term, while €1.0 billion (previous year: €1.5 billion) have a variable rate of interest (floaters).

Postbank's portfolio of structured credit products has a total volume of €61 million (previous year: €72 million).

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

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Bonds and other fixed-income securities		
Loans and receivables investment securities	8,451	12,196
thereof fair value hedges	1,550	2,090
Available for sale	13,858	14,252
thereof fair value hedges	8,149	8,870
	22,309	**26,448**
Equities and other non-fixed-income securities		
Available for sale	264	271
	264	**271**
Equity investments (available for sale)	31	43
Investments in unconsolidated subsidiaries (available for sale)	1	5
Total	**22,605**	**26,767**

The following amounts of investment securities are negotiable and listed:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Bonds and other fixed-income securities	22,296	26,436
Equities and other non-fixed-income securities	0	0
Equity investments	0	14

Investment securities were furnished as collateral for the following liabilities:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Liabilities	6,258	7,625
Contingent liabilities	46	21
Total	**6,304**	**7,646**

Investment securities still carried in the balance sheet in the amount of €3,341 million (previous year: €2,956 million) were transferred as collateral. Of this figure, the transferee could resell or pledge investment securities in the amount of €2,596 million (previous year: €2,918 million) on the basis of contractual or customary rights (IAS 39.37(a)).

Collateral taking the form of investment securities in the amount of €2,749 million (previous year: €3,147 million) was transferred for liabilities relating to securities repurchase transactions amounting to €2,596 million (previous year: €2,918 million).

Investment securities are pledged as collateral in accordance with standard market conditions.

Changes in the fair value of available-for-sale securities in the amount of €–75 million that are not hedged were recognized in the revaluation reserve (previous year: €–63 million). A total of €62 million (previous year: €111 million) reported in the revaluation reserve was reversed to income in the period under review as a result of the disposal of investment securities and the recognition of impairment losses.

Impairment losses of €3 million (previous year: €2 million) were recognized in fiscal year 2017 to reflect the performance of the financial instruments.

In fiscal years 2008 and 2009, Postbank reclassified securities from the "available-for-sale" category to the "loans and receivables" category due to a change in its intention to hold the securities. The fair value of the securities at the respective reclassification date was reported as the new carrying amount.

As of December 31, 2017, the total volume of securities reclassified in accordance with IAS 39.50E had a fair value of €3.1 billion and a carrying amount of €3.1 billion.

Prior to the above-mentioned reclassification dates, the changes in fair value that had been recognized in the revaluation reserve for the reclassified securities amounted to €468 million before tax. Had Postbank not changed its intention to hold the securities, the loss recognized in the revaluation reserve would have decreased by a further €48 million in the period up to December 31, 2017 (previous year: decrease of €167 million).

Given a nominal weighting of the reclassified securities, the effective interest rate calculated on the basis of their restated cost as of the date of the reclassifications was 4.4 % (range of effective interest rates: 1.8 % to 34.5 %). The estimated cash flows that Postbank expected as of the date of the reclassifications amount to €45.4 billion. Impairment losses of €621 million (previous year: €621 million) were charged for all reclassified securities in the period up to December 31, 2017; net disposal gains on reclassified securities amounted to €102 million (previous year: €88 million).

Interest income of €94 million (previous year: €124 million) was recognized for the reclassified securities in the reporting period.

(23) Intangible assets

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Acquired goodwill	1,581	1,581
Acquired software, concessions, industrial rights	264	253
Internally generated intangible assets and software	83	54
Advance payments on intangible assets and in-process intangible assets	110	75
Total	**2,038**	**1,963**

85
116

€1,424 million of purchased goodwill (previous year: €1,424 million) is attributable to the Retail Banking segment, while €157 million (previous year: €157 million) is attributable to the Business and Corporate Banking segment (see Note 4(j) and Note 39).

The “acquired software, concessions, industrial rights” item includes the “BHW” brand in the amount of €162 million. The “BHW” brand is allocated to the Retail Banking segment. The capitalized amounts for customer relationships amounted to €50 million (previous year: €54 million), while those for beneficial contracts amounted to €6 million (previous year: €8 million).

An impairment loss on the BHW brand was reversed by €23 million in the reporting period due to the increase in brand-related new business.

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, 2016	**1,603**	**1,059**	**244**	**27**	**2,933**
Changes in the basis of consolidation	–	35	–	–	35
Additions	–	34	20	60	114
Reclassifications	–	0	11	−11	0
Disposals	0	17	37	1	55
Closing balance at Dec. 31, 2016	**1,603**	**1,111**	**238**	**75**	**3,027**
Changes in the basis of consolidation	–	–	–	–	–
Additions	–	9	17	75	101
Reclassifications	–	3	32	−35	0
Disposals	0	17	–	5	22
Closing balance at Dec. 31, 2017	**1,603**	**1,106**	**287**	**110**	**3,106**

	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, 2016	**22**	**811**	**198**	**0**	**1,031**
Changes in the basis of consolidation	–	32	–	–	32
Amortization	–	27	17	–	44
Additions	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	12	31	–	43
Closing balance at Dec. 31, 2016	**22**	**858**	**184**	**0**	**1,064**
Changes in the basis of consolidation	–	–	–	–	–
Amortization	–	23	20	–	43
Additions	–	−23	–	–	−23
Reclassifications	–	–	–	–	–
Disposals	–	16	–	–	16
Closing balance at Dec. 31, 2017	**22**	**842**	**204**	**0**	**1,068**
Carrying amount at Dec. 31, 2016	**1,581**	**253**	**54**	**75**	**1,963**
Carrying amount at Dec. 31, 2017	**1,581**	**264**	**83**	**110**	**2,038**

The carrying amounts of intangible assets changed as follows in the reporting period:

	Carrying amount at Jan. 1, 2017 €m	Changes in basis of con-solidation €m	Additions €m	Disposals €m	Reclassifi-cations €m	Reversals of impair-ment losses €m	Amortiza-tion €m	Carrying amount at Dec. 31, 2017 €m
Acquired goodwill	1,581	–	–	–	–	–	–	1,581
Acquired software, concessions, industrial rights	253	0	9	1	3	23	23	264
Internally generated intangible assets and software	54	0	17	–	32	–	20	83
Advance payments on intangible assets and in-process intangible assets	75	–	75	5	–35	–	–	110
Total	**1,963**	**0**	**101**	**6**	**0**	**23**	**23**	**2,038**

As in the previous year, no borrowing costs for qualifying assets (software under development) were capitalized in accordance with IAS 23 in fiscal year 2017.

The carrying amount as of December 31, 2017, of advance payments on intangible assets was €31 million (previous year: €16 million); the carrying amount of in-process intangible assets was €79 million (previous year: €59 million).

To validate the values in use determined for the cash-generating units, certain external factors and the significant value drivers of each cash-generating unit are regularly reviewed. This resulted in a variance between the determined value in use and the carrying amount of €91 million for the Retail Banking cash-generating unit and/or €1,747 million for the Business and Corporate Banking cash-generating unit respectively. To test the reliability of the values in use, the key assumptions used for the net present value-based method, such as the growth factor and the discount rate, are subjected to a sensitivity test. Analyses have shown that a realistic change in the key assumptions would only result in a decrease in value of the Retail Banking cash-generating unit. The changes to the key assumptions presented in the following, however, cause the value in use of the Retail Banking cash-generating unit to correspond to the carrying amount.

	Retail Banking percentage points
Increase in discount rate	0.1
Decrease in long-term growth rate	0.5

(24) Property and equipment

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Land and buildings	496	480
Operating and office equipment	186	176
Advance payments and assets under development	33	43
Total	**715**	**699**

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, 2016	**920**	**476**	**22**	**1,418**
Changes in the basis of consolidation	–	19	–	19
Reclassification due to IFRS 5	–27	–	–	–27
Additions	0	72	24	96
Reclassifications	16	3	–3	16
Disposals	0	59	0	59
Closing balance at Dec. 31, 2016	**909**	**511**	**43**	**1,463**
Prior-year closing balance	**909**	**511**	**43**	**1,463**
Changes in the basis of consolidation	–	0	–	0
Reclassification due to IFRS 5	0	0	–	0
Additions	10	52	20	82
Reclassifications	27	4	–30	1
Disposals	5	64	–	69
Closing balance at Dec. 31, 2017	**941**	**503**	**33**	**1,477**

	Land and buildings €m	Operating and office equipment €m	Advance payments and assets under development €m	Total €m
Depreciation				
Opening balance at Jan. 1, 2016	**407**	**333**	**–**	**740**
Changes in the basis of consolidation	–	16	–	16
Reclassification due to IFRS 5	–6	–	–	–6
Depreciation	12	42	–	54
Reversals of impairment losses	–	–	–	–
Reclassifications	16	0	–	16
Disposals	0	56	–	56
Closing balance at Dec. 31, 2016	**429**	**335**	**0**	**764**
Prior-year closing balance	**429**	**335**	**–**	**764**
Changes in basis of consolidation	–	–	–	–
Reclassification due to IFRS 5	–	–	–	–
Depreciation	20	43	–	63
Reversals of impairment losses	–	–	–	–
Reclassifications	–	–	–	–
Disposals	4	61	–	65
Closing balance at Dec. 31, 2017	**445**	**317**	**0**	**762**
Carrying amount at Dec. 31, 2016	**480**	**176**	**43**	**699**
Carrying amount at Dec. 31, 2017	**496**	**186**	**33**	**715**

The carrying amounts of property and equipment changed as follows in the reporting period:

	Carrying amount at Jan. 1, 2017 €m	Changes in basis of consolidation €m	Additions €m	Disposals €m	Reclassifications €m	Reclassification due to IFRS 5 €m	Reversals of impairment losses €m	Depreciation €m	Carrying amount at Dec. 31, 2017 €m
Land and buildings	480	0	10	–	26	–	–	20	496
Operating and office equipment	176	0	52	3	4	0	–	43	186
Advance payments and assets under development	43	0	20	–	–30	0	–	–	33
Total	**699**	**0**	**82**	**3**	**0**	**0**	**0**	**63**	**715**

At the balance sheet date, assets under development amounted to €33 million (previous year: €43 million).

(25) Current and deferred tax assets

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Current tax assets	74	144
Deferred tax assets		
from temporary differences	201	194
from tax loss carryforwards	28	4
domestic	28	4
foreign	0	0
	229	**198**
Total	**303**	**342**

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

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Assets		
Allowance for losses on loans and advances	14	2
Trading assets	170	176
Investment securities	1	3
Property and equipment	6	6
Other assets	24	28
Liabilities		
Amounts due to other banks and customers	73	90
Trading liabilities	106	148
Hedging derivatives	0	1
Provisions for pensions and other employee benefits	169	160
Other provisions	27	22
Other liabilities	3	4
	593	**640**
Tax loss carryforwards	28	4
Netted against deferred tax liabilities	392	446
Total	**229**	**198**

In the reporting period, deferred tax assets for temporary differences amounting to €11 million and for tax loss carryforwards not limited in time of €19 million were not recognized.

The deferred tax assets for tax loss carryforwards are primarily attributable to the German subsidiaries of Deutsche Postbank AG.

(26) Other assets

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Prepaid expenses	188	171
Receivables from subsidiaries	162	55
Trade receivables	64	65
Advances to members of the mobile sales force	6	7
Receivables from tax authorities	1	32
Miscellaneous	56	58
Total	**477**	**388**

Other assets amounting to €157 million (previous year: €106 million) have a maturity of more than 12 months.

Realized but not yet received amounts from insurance brokerage are recognized under trade receivables (see Note 4(p)).

(27) Assets held for sale

The Bank classified an equity investment as held for sale in the second half of 2017. The carrying amount of the investment was €9 million as of December 31, 2017. The investment is allocated to the available-for-sale measurement category and Level 1 of the fair value hierarchy. It is presented in the Financial Markets segment in segment reporting. The sales process was completed in January 2018.

The assets included in the previous year's assets held for sale item were sold in fiscal year 2017.

Intention to sell after the reporting date

In January 2018, the Bank resolved to sell a property with a carrying amount of €102 million in the first half of 2018. The property is allocated to the Cost Centers segment.

(28) Deposits from other banks

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Domestic banks		
Payable on demand	178	383
With an agreed maturity or withdrawal notice	11,808	12,616
	11,986	**12,999**
Foreign banks		
Payable on demand	79	125
With an agreed maturity or withdrawal notice	0	9
	79	**134**
Total	**12,065**	**13,133**

€324 million of the deposits from other banks is covered by fair value hedges (previous year: €654 million).

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

€7,901 million (previous year: €8,425 million) is due after more than 12 months.

Deposits from other banks include fixed-interest deposits in the amount of €11.9 billion (previous year: €12.9 billion) and variable-interest deposits in the amount of €0.2 billion (previous year: €0.2 billion).

As of December 31, 2017, liabilities relating to genuine securities repurchase agreements amounted to €2.7 billion (previous year: €3.1 billion).

(29) Amounts due to customers

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

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Savings deposits		
With an agreed withdrawal notice of three months	36,593	38,482
With an agreed withdrawal notice of more than three months	95	103
	36,688	**38,585**
Home savings deposits	18,587	18,809
thereof: interest premiums payable	957	968
thereof: arrangement fees to be reimbursed	60	50
thereof: on terminated contracts	81	91
thereof: on allotted contracts	3	2
Other amounts due		
Payable on demand	51,481	46,841
With an agreed maturity or withdrawal notice	11,943	14,683
	63,424	**61,524**
Total	**118,699**	**118,918**
Domestic customers	116,743	116,977
Foreign customers	1,956	1,941
Total	**118,699**	**118,918**

€5,304 million of the amounts due to customers is covered by fair value hedges (previous year: €6,827 million).

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

€20,279 million (previous year: €22,424 million) is due after more than 12 months.

Amounts due to customers contain fixed-interest deposits of €76.9 billion (previous year: €75.4 billion) and variable-interest deposits of €41.8 billion (previous year: €43.5 billion).

The home savings deposits include interest bonus liabilities of €957 million (previous year: €968 million) which must be paid to the home savings customers in the case of unutilized loans. Furthermore, arrangement fees to be reimbursed (in the case of unutilized loans with respect to legacy tariffs) of €60 million (previous year: €50 million) were recognized.

(30) Debt securities in issue

Amounts reported as debt securities in issue relate to bonds, including mortgage *Pfandbriefe* and public-sector *Pfandbriefe*, and money market instruments (e.g., certificates of deposit and euro notes).

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Public-sector *Pfandbriefe*	56	56
Mortgage *Pfandbriefe*	2,344	2,405
Other debt instruments	815	878
Total	**3,215**	**3,339**

€2,284 million of the debt securities in issue is covered by fair value hedges (previous year: €76 million).

"Debt securities in issue" consist solely of financial instruments classified as liabilities at amortized cost.

€3,121 million (previous year: €3,195 million) is due after more than 12 months.

Debt securities in issue include fixed-interest liabilities in the amount of €3.1 billion (previous year: €3.1 billion) and variable-interest liabilities in the amount of €0.1 billion (previous year: €0.2 billion).

Of the debt securities in issue, repurchased own bonds amounting to €1 million (previous year: €1 million) were derecognized.

(31) Trading liabilities

Trading liabilities consist of the negative fair values of derivatives carried in the trading portfolio and in the banking book.

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Negative fair values of trading derivatives	76	81
Negative fair values of banking book derivatives	128	300
Negative fair values from derivatives relating to hedged items accounted for under the fair value option	13	28
Total	**217**	**409**

€163 million (previous year: €262 million) is due after more than 12 months.

(32) 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, 2017 €m	Dec. 31, 2016 €m
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	0	0
	0	**0**
Hedging derivatives on loans to customers		
Loans and receivables	2	3
	2	**3**
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	25	39
	25	**39**
Liabilities		
Due to customers	0	0
Subordinated debt	0	0
	0	**0**
Total	**27**	**42**

€20 million (previous year: €35 million) is due after more than 12 months.

(33) Provisions for pensions and other employee benefits

The provisions for pensions and other employee benefits under defined benefit pension commitments are calculated as follows:

	2017 €m	2016 €m
Present value of pension obligations	2,860	2,837
Fair value of plan assets	–2,532	–2,583
Net pension provisions	**328**	**254**

Net pension provisions changed as follows:

	2017 €m	2016 €m
Balance at January 1	**254**	**56**
Service cost	48	35
Net interest expense	4	2
Actuarial gains (–)/losses (+) from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) from changes in financial assumptions	13	330
Actuarial gains (–)/losses (+) from experience adjustments	–2	2
Return on plan assets less amount recognized in profit or loss	83	–140
Employer contributions to plan assets	–72	–70
Pension benefits paid	0	0
Transfers and mergers	0	39
Balance at December 31	**328**	**254**

The following expenses were recognized in fiscal year 2017 in connection with defined benefit pension plans:

	2017 €m	2016 €m
Service cost	48	35
Net interest expense	4	2
Total	**52**	**37**

The following tables show the changes in the present value of the pension obligations and in the fair value of the plan assets:

	2017 €m	2016 €m
Total present value of obligations at January 1	**2,837**	**2,249**
Components recognized in profit or loss	**96**	**95**
Service cost	58	48
Interest expense	48	60
Past service cost and gains (–)/losses (+) on plan settlements	–10	–13
Components recognized in other comprehensive income	**11**	**332**
Actuarial gains (–)/losses (+)	11	332
from changes in demographic assumptions	0	0
from changes in financial assumptions	13	330
from experience adjustments	–2	2
Payments and other changes	**–84**	**161**
Employee contributions	3	3
Pension benefits paid	–87	–85
Payments for plan settlements	0	0
Transfers and mergers	0	243
Total present value of pension obligation at December 31	**2,860**	**2,837**

The past service cost was incurred by a subsidiary, mainly due to the introduction of a career average plan, which includes a lump-sum capital payment option, and the change in the process for granting a special disability pension.

	2017 €m	2016 €m
Fair value of plan assets at January 1	**2,583**	**2,193**
Components recognized in profit or loss	**44**	**58**
Interest income	44	58
Components recognized in other comprehensive income	**–83**	**140**
Return on plan assets less amount recognized in profit or loss	–83	140
Payments and other changes	**–12**	**192**
Employee contributions	3	3
Employer contributions	72	70
Payments for plan settlements	0	0
Pension benefits paid	–87	–85
Transfers and mergers	0	204
Fair value of the plan assets at December 31	**2,532**	**2,583**

There are no reimbursement rights for the pension obligations.

Contributions of €81 million (previous year: €77 million) to plan assets (including direct benefit payments) are expected in the following fiscal year.

The allocation of the present value of the pension obligations to the different beneficiary groups and the weighted duration of the obligations are shown in the following table:

	2017 €m	2016 €m
Future beneficiaries still working for the company	1,063	1,051
Future beneficiaries no longer working for the company with vested benefits	483	496
Pensioners	1,314	1,290
Present value of pension obligations	**2,860**	**2,837**
Weighted duration of obligations in years	**16.9**	**18.2**

The fair value of the plan assets is allocated to the asset classes as follows:

	2017 €m	2017 in %	2016 €m	2016 in %
Plan assets traded in an active market	**557**	**22.0**	**509**	**19.7**
Cash	97	3.8	45	1.7
Equities	28	1.1	26	1.0
Government bonds	432	17.1	438	17.0
Fixed-income securities with investment grade	0	0.0	0	0.0
Other fixed-income securities	0	0.0	0	0.0
Structured products	0	0.0	0	0.0
Investment funds	0	0.0	0	0.0
Alternative investments	0	0.0	0	0.0
Derivatives	0	0.0	0	0.0
Plan assets not traded in an active market	**1,975**	**78.0**	**2,074**	**80.2**
Cash	0	0.0	0	0.0
Equities	3	0.1	0	0.0
Government bonds	160	6.3	182	7.0
Fixed-income securities with investment grade	1,607	63.5	1,583	61.3
Other fixed-income securities	15	0.6	6	0.2
Structured products	40	1.6	36	1.4
Investment funds	0	0.0	0	0.0
Alternative investments	132	5.2	159	6.2
Derivatives	18	0.7	108	4.2
Fair value of plan assets at December 31	**2,532**	**100**	**2,583**	**100**

Plan assets include financial instruments of €15 million (previous year: €15 million) issued by BHW Bausparkasse AG.

The investment and risk management of the assets, with the exception of the pension fund assets of BHW Bausparkasse AG, is based on Deutsche Bank's strategy in the light of Postbank's specific requirements.

The purpose of risk management is to minimize the fluctuations between the present value of the pension obligations and the value of the plan assets caused by capital market fluctuations. An investment strategy that closely reflects the risk profile of the pension commitments with regard to market risk factors, such as interest rates and credit risk, is pursued to achieve this goal.

The investment strategy for the pension fund assets of BHW Bausparkasse AG is determined by the Pensionskasse's management board, taking into account all supervisory law requirements (VAG in conjunction with the *Anlageverordnung* (AnlV - Investment Regulation)). The appropriateness of the investment strategy is reviewed on a regular basis.

The pension obligations are sensitive to changes in market conditions and measurement assumptions. Following the adoption by the Group of an obligation-oriented investment strategy, changes in the obligations due to variation in the measurement assumptions relating to the capital market – predominantly interest rates and inflation rate – also cause changes in the plan assets. To enhance the transparency of the Group's overall risk profile relating to significant changes in the capital market, net changes in pension obligations and plan assets are shown; in the case of assumptions which do not have any influence on the assets, only the change in the obligations is reported.

Asset-related sensitivities are determined by Market Risk Management using risk-sensitive factors. These sensitivity calculations are based on data provided by the plan asset managers.

The sensitivities reflect plausible changes over time with respect to capital market movements and material assumptions. The Group is not able to provide estimates on the probability of such changes in the capital market or in the assumptions.

While these sensitivities reveal the overall change to the funding level, the impact and the range of reasonable alternative assumptions may vary from plan to plan. Although the plan assets and obligations are sensitive with respect to similar risk factors, the actual changes in plan assets and obligations may not be fully compensated due to the insufficient correlation between market risk factors and actuarial assumptions. These sensitivity calculations do not factor in possible measures taken by management to reduce the associated risks in the pension plans.

Sensitivity to changes in the capital market and the main assumptions are set out in the table below. Each market risk factor and assumption is changed in isolation.

	2017 €m	2016 €m
Discount rate (–50 bp)		
Increase in pension obligations	267	268
Expected increase in plan assets	150	191
Expected net effect on carrying amount	**117**	**77**
Discount rate (+50 bp)		
Decrease in pension obligations	–244	–239
Expected decrease in plan assets	–150	–191
Expected net effect on carrying amount	**–94**	**–48**
Inflation rate (–50 bp)		
Decrease in pension obligations	–121	–119
Expected decrease in plan assets	0	0
Expected net effect on carrying amount	**–121**	**–119**
Inflation rate (+50 bp)		
Increase in pension obligations	128	129
Expected increase in plan assets	0	0
Expected net effect on carrying amount	**128**	**129**
Salary growth (–50 bp)		
Decrease in pension obligations = decrease in net carrying amount	–27	–23
Salary growth (+50 bp)		
Increase in pension obligations = increase in net carrying amount	33	25
10 % decline in mortality		
Increase in pension obligations = increase in net carrying amount	102	103

The following table shows the expected pension payments under the defined benefit plans. The payments shown include both the benefit payments to be made from plan assets and those to be paid directly by Postbank.

	€m
Expected payments in 2018	93
Expected payments in 2019	95
Expected payments in 2020	97
Expected payments in 2021	98
Expected payments in 2022	100
Expected payments from 2023 to 2027	537

BVV is expected to receive contributions in the amount of €2.7 million from member companies and Postbank Group employees in 2018. Around 2,300 of the Postbank Group's employees are insured by BVV, which corresponds to 0.65 % of the BVV's total insurees. The approximately 1,200 pensioners allocated to this category account for 1.03 % of BVV's total pensioners.

(34) Other provisions

The other provisions changed as follows in the reporting period:

	Balance at Dec. 31, 2016/ Jan.1, 2017 €m	Changes in basis of con-solidation €m	Utilization €m	Reversal €m	Reclassifi-cation €m	Additions €m	Balance at Dec. 31, 2017 €m
Staff-related provisions	194	0	65	4	–	297	422
Litigation and customer redress	163	0	50	32	1	35	117
Provisions for credit risks	45	0	2	27	–	11	27
Miscellaneous	251	0	86	37	5	111	244
Total	**653**	**0**	**203**	**100**	**6**	**454**	**810**

€502 million (previous year: €345 million) of the recognized provisions is due after more than 12 months.

The majority of the provisions is expected to be utilized in the years 2018 to 2020.

Of the staff-related provisions of €422 million, €287 million relates to new provisions in connection with the planned merger of Postbank with Deutsche Bank Privat- und Geschäftskunden AG and the reorganization of the sales organization.

The provisions for litigation and customer redress are primarily intended for risks in connection with revoked loan agreements and for legal actions and complaints about investment advice. Most of these latter legal actions and complaints relate to advice provided and transactions entered into in the area of closed-end funds, the distribution
119
of which was discontinued in 2012. In this context there are also contingent liabilities (see Note 40). The amount also includes provisions for numerous claims brought by customers in relation to various matters. Since the legal proceedings are similar in nature, they have been grouped together. The cash outflows estimated for each of these proceedings, where a reliable estimate is possible, are not reported separately. Postbank considers that the disclosure of further information regarding these proceedings could have a serious impact on the course of these proceedings.

The provisions for credit risks relate primarily to the risks arising from contingent liabilities and from loan commitments.

Miscellaneous other provisions include provisions for variable remuneration components of €47 million (previous year: €45 million), for interest on payments of tax arrears of €13 million (previous year: €36 million), for risks arising from the sale of products of €37 million (previous year: €39 million), for commission payments of €20 million (previous year: €19 million), for jubilee benefit payments of €4 million (previous year: €5 million), and for various other issues requiring the recognition of provisions.

The provisions for variable remuneration components include the total carrying amount of the liabilities from share-based remuneration in the form of share awards and phantom shares of €20.0 million (previous year: €17.6 million). Postbank awards share-based remuneration to members of the Management Board, managing directors who are not members of Postbank's Management Board, and risk takers. Risk takers are awarded the share-based remuneration in the form of phantom shares, based on the Deutsche Bank share price. Members of the Management Board receive Deutsche Bank share awards and phantom shares from the years 2013 to 2016. The nature of and conditions governing the agreements concerned are
137
described in detail in Note 54. However, the remuneration system does not provide for cliff vesting for other risk takers. Tranches are granted on a pro rata basis.

The increase compared with 2016 is chiefly due to the rise in the number of individuals in the group of risk takers. Of the total carrying amount of the liabilities from share-based remuneration, €6.6 million (previous year: €6.8 million) was attributable to members of the Management Board. The fair value of the liability in the amount of €20.0 million was determined on the basis of the expected future target achievement and, in the case of phantom shares already granted, on the basis of the last traded Xetra closing prices as of the reporting date and expected price fluctuations until the end of the lock-up period. In both cases, the calculation takes into account the time value of money until the expected payment date.

A total expense of €6.8 million was recorded for share-based remuneration in fiscal year 2017 (previous year: €6.4 million).

As of December 31, 2017, 263 thousand (previous year: 225 thousand) vested phantom shares of Deutsche Bank AG had been granted by way of conversion in March 2017 (previous year: March 2016). The conversion was based on the Xetra closing price in the amount of €15.96 (previous year: €17.47). €4.2 million (previous year: €3.3 million) was thus recognized for the reconversion and payment of the granted and vested phantom shares after the expiry of the one-year lock-up period in March 2018 (previous year: March 2017). In 2017, 225 thousand shares of Deutsche Bank AG (previous year: 123 thousand) granted in 2016 were reconverted and paid out at a price of €18.00 (previous year: €17.41).

(35) Current and deferred tax liabilities

	Balance at Jan. 1, 2017 €m	Utilization €m	Reversal €m	Additions €m	Balance at Dec. 31, 2017 €m
Current taxes	98	54	22	17	39
Deferred taxes	17	–	4	9	22
Total	**115**	**54**	**26**	**26**	**61**

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, 2017 €m	Dec. 31, 2016 €m
Assets		
Loans and advances	124	137
Allowance for losses on loans and advances	1	0
Trading assets	154	215
Investment securities	2	3
Property and equipment	6	5
Other assets	70	64
Liabilities		
Amounts due to other banks and customers	20	4
Hedging derivatives	0	1
Provisions for pensions and other employee benefits	28	28
Other provisions	9	6
	414	**463**
Netted against deferred tax assets	392	446
Total	**22**	**17**

(36) Other liabilities

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trade payables	112	100
Liabilities from expenses for outstanding invoices	106	111
Liabilities from other taxes	58	55
Liabilities from expenses for management bonuses	55	49
Liabilities from expenses for outstanding vacation entitlements and other compensated absences	42	44
Liabilities from expenses for commissions and premiums	45	39
Deferred income	17	21
Non-controlling interests (debt instruments)	7	6
Miscellaneous liabilities	298	116
Total	**740**	**541**

€58 million (previous year: €36 million) is due after more than 12 months.

Miscellaneous liabilities include the profit transfer to DB Beteiligungs-Holding GmbH in the amount of €217 million (previous year: €9 million).

(37) Subordinated debt

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Subordinated liabilities	1,011	909
Hybrid capital instruments	868	1,447
Profit participation certificates outstanding	167	189
Contributions by typical silent partners	22	22
Total	**2,068**	**2,567**

A total of €927 million[1] of the recognized regular phased-in subordinated debt (previous year: €1,090 million) is eligible as Tier 2 capital for regulatory purposes.

In addition to maturities, subordinated debt includes the addition of a new issue.

One trust preferred securities issue in the amount of €0.5 billion, which is reported under hybrid capital instruments, was paid back in the reporting period.

The decline in profit participation certificates is due to certificates reaching maturity.

"Subordinated debt" consists solely of financial instruments classified as liabilities at amortized cost.

€1,444 million (previous year: €2,430 million) is due after more than 12 months.

The interest expense on subordinated liabilities amounts to €46 million (previous year: €47 million). Deferred interest not yet due amounting to €23 million (previous year: €24 million) is carried as subordinated debt under subordinated liabilities.

The interest expense on hybrid capital instruments amounts to €49 million (previous year: €92 million). Deferred interest not yet due on capital instruments amounts to €2 million (previous year: €17 million) and is reported under hybrid capital instruments.

Holders of profit participation certificates receive a fixed 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 2017 on profit participation certificates outstanding totals €9 million (previous year: €25 million). Deferred interest not yet due amounting to €8 million (previous year: €9 million) is allocated directly to the profit participation certificates outstanding item.

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

A total of €925 million of the subordinated debt (previous year: €1,508 million) is hedged against interest-driven changes in fair value.

[1]Based on the consolidated financial statements as of December 31, 2017, subject to approval

€1.0 billion of subordinated debt (previous year: €1.4 billion) is fixed-interest, while €1.1 billion (previous year: €1.2 billion) is variable-interest.

(38) Equity

	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m
Issued capital	547	547
Share premium	2,191	2,191
Retained earnings	3,823	3,808
Revaluation reserve	304[2]	359[3]
Other reserves	4,127	4,167
Consolidated net profit	250	314
Total	**7,115**	**7,219**

[1]Figures adjusted (see Note 6)
[2]Of which €9 million relates to an investment held for sale (see Note 27)
[3]Of which €14 million related in the prior year to an investment held for sale.

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

Premiums from the issue of shares are reported in the share premium.

Undistributed profits from previous years and remeasurement gains/losses from defined benefit plans are generally reported under retained earnings with due regard to deferred taxes.

The profit or loss from the measurement of investment securities at fair value after deduction of deferred taxes is reported in the revaluation reserve. Any profit or loss is not recognized in the income statement until the asset has been sold or impairment has been identified.

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

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

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

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

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

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

	2017 €m	2016 €m
Balance at January 1	**359**	**327**
Remeasurement gains/losses	**–93**	**63**
Available for sale, hedged (risk not hedged)	–18	126
Available for sale, unhedged	–75	–63
Disposals and impairment	**38**	**–32**
Impairment	1	2
thereof available for sale	1	2
thereof loans and receivables	0	0
Disposal/hedge termination	–63	–113
thereof available for sale	–67	–174
thereof loans and receivables	4	61
Writedown effect in net interest income	100	79
thereof available for sale	102	80
thereof loans and receivables	–2	–1
Income tax recognized directly in equity	**0**	**1**
Balance at December 31	**304[1]**	**359[2]**

[1]Of which €9 million relates to an investment held for sale (see Note 27)
[2]Of which €14 million related in the prior year to an investment held for sale.

€62 million (previous year: €111 million) of the revaluation reserve was reversed to income from disposals of and impairment losses on available-for-sale financial instruments and financial instruments reclassified out of the “available-for-sale” category to the “loans and receivables” category in the fiscal year. The effect of the writedown of these financial instruments led to a reversal of €100 million from the revaluation reserve to income in the fiscal year (previous year: €79 million). In addition, the revaluation reserve decreased by €93 million (previous year: increase of €63 million) due to the remeasurement of available-for-sale financial instruments. Income tax recognized in other comprehensive income remained on a level with the previous year, at €–1 million.

(39) Segment reporting

Segment reporting by business division

	Retail Banking		Business and Corporate Banking		Financial Markets		Cost Centers		Total	
	2017 €m	2016[1] €m	2017 €m	2016[1] €m	2017 €m	2016[1] €m	2017 €m	2016[1] €m	2017 €m	2016[1] €m
Net interest income	2,023	2,145	364	344	–322	–319	1	4	2,066	2,174
Net trading income	56	12	–1	7	57	31	0	0	112	50
Net income from investment securities	1	90	0	0	66	154	13	14	80	258
Net fee and commission income	742	652	133	122	–23	–23	84	84	936	835
Total income	**2,822**	**2,899**	**496**	**473**	**–222**	**–157**	**98**	**102**	**3,194**	**3,317**
Administrative expenses	–1,276	–1,311	–110	–110	–9	–11	–1,635	–1,421	–3,030	–2,853
Allowance for losses on loans and advances	–134	–143	35	–41	0	0	0	0	–99	–184
Other income	24	20	1	2	0	0	202	119	227	141
Other expenses	–11	–87	–6	0	0	–1	–27	–29	–44	–117
Allocations	–1,186	–992	–107	–116	–126	–135	1,419	1,243	0	0
thereof income	216	180	37	30	–10	–3	–243	–207	0	0
thereof expenses	–1,402	–1,172	–144	–146	–116	–132	1,662	1,450	0	0
Profit/loss before tax	**239**	**386**	**309**	**208**	**–357**	**–304**	**57**	**14**	**248**	**304**
Impairment losses	–18	–20	–1	–1	0	0	–87	–77	–106	–98
Reversal of impairment losses	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	–18	–20	–1	–1	0	0	–87	–77	–106	–98
Cost/income ratio (CIR)[2]	**87.8 %**	**82.9 %**	**48.7 %**	**50.8 %**	**–53.9 %**	**–90.1 %**	**–**	**–**	**89.9 %**	**85.9 %**
Return on equity before taxes (RoE)	**7.1 %**	**11.7 %**	**36.5 %**	**26.9 %**	**–11.5 %**	**–10.1 %**	**–**	**–**	**3.4 %**	**4.3 %**

[1]Figures adjusted (see explanation in this Note)
[2]For the segments the metric was calculated using exact amounts which come from the management information system. When rounded figures are used for calculation this might lead to minor differences.

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.

Accounting by business division was impacted by the following changes and special issues in 2017:

- The adjustments made to prior-year figures (see Note 6) in the reporting period were also included in segment reporting. In the Business and Corporate Banking segment, net interest income for 2016 increased by €1 million and in the Financial Markets segment by €4 million, fee and commission income fell by €4 million in the Business and Corporate Banking segment and by the same amount in the Cost Centers segment. In the cost allocations, €4 million is charged to the Retail Banking segment as an offset to the Cost Centers segment.
- In line with an adapted management approach and the corresponding change in management responsibilities, the allocations of the relevant earnings contributions to segments were adjusted in the same way:
  - Following the successful reduction of most of the portfolios, the Non-Core Operating Unit was closed as a separate management unit and is thus no longer presented as a separate segment. The home savings high interest rate plans, the BHW Italy branch, the BHW Luxembourg branch, and the retirement account and closed-end funds retail products that are no longer actively marketed, all of which were previously reported in the NCOU segment, were allocated to the Retail Banking segment. The corporate high risk portfolio was transferred to the Business and Corporate Banking segment. The earnings contributions from collateralized and uncollateralized issues, investment securities from issuers in GIIPS countries, and the central NCOU team were allocated to the Financial Markets segment.

- Expenses for deposit guarantee schemes and certain expenses for litigation risks that were previously recognized in the Cost Centers segment have been transferred to the Retail Banking segment to reflect a new management responsibility.

- In line with the management approach, the functional allocation of the infrastructure units to Management Board departments was prioritized over the previous allocation by individual company: In particular, costs incurred by the infrastructure functions of subsidiaries that, depending on the core business of the company, could previously also be allocated to the Retail Banking, Corporate Banking, and Financial Markets segments, are now allocated to the Cost Centers segment together with the other infrastructure functions of the Postbank Group.

- The external (non-Group) effect of a transaction is now reported as the contribution of that transaction to the relevant segment profit or loss. In the past, this was presented at segment level, including the intragroup earnings components, and by eliminating these earnings in the Cost Centers segment. This means that intersegmental income is no longer disclosed.

- Overall, the figures for the prior-year period changed as follows due to the retrospective adjustment:

  - Net interest income fell by €77 million in the Retail Banking segment, by €282 million in the Financial Markets segment, and increased by €1 million in each of the Business and Corporate Banking and the Cost Centers segments.

  - Net trading income in the Retail Banking business decreased by €1 million and increased by the same amount in the Cost Centers segment.

  - Net income from investment securities in the Financial Markets segment improved by €11 million.

  - Net fee and commission income in the Retail Banking segment declined by €29 million, while the figures for the Financial Markets and Cost Centers segments rose by €2 million and €26 million, respectively.

  - Administrative expenses decreased by €145 million in the Retail Banking segment and €19 million in the Financial Markets segment, and increased by €2 million in the Business and Corporate Banking segment and €171 million in the Cost Centers segment.

  - Other income improved by €16 million in the Cost Centers segment and declined by €14 million in the Retail Banking segment and €1 million in the Financial Markets segment.

  - Other expenses of €84 million were removed from the Retail Banking segment, with an offsetting charge of €89 million in the Cost Centers segment.

  - Charges from cost allocations increased by €197 million in the Retail Banking segment and by €96 million in the Financial Markets segment, decreasing by €36 million in the Business and Corporate Banking segment and by €216 million in the Cost Centers segment.

  - Overall, profit before tax increased by €36 in the Business and Corporate Banking segment, decreasing by €347 million in the Financial Markets segment and by €104 million in the Retail Banking segment.

In the Retail Banking business division, Postbank offers a broad spectrum of postal, banking and financial services. This encompasses checking and savings products, credit and debit cards, mortgage lending, installment loans, the home savings business, securities and securities accounts, and investment funds. Additionally, income from brokerage activities for retail products that are no longer actively marketed (retirement account and closed-end funds) is recognized.

The segment result comprises the results of business with Deutsche Postbank AG's retail customers, BHW Bausparkasse AG's domestic and foreign retail business, as well as the customer business of other subsidiaries, in particular BHW Holding AG, Postbank Filialvertrieb AG, Postbank Finanzberatung AG, Postbank Immobilien GmbH, BHW Gesellschaft für Wohnungswirtschaft GmbH, and Postbank Direkt GmbH. In addition, the result of the projected effects of purchase price allocation from the acquisition of BHW Bausparkasse AG has been allocated to the Retail Banking segment.

Postbank's Business and Corporate Banking business division provides payment transaction services for business and corporate customers. Commercial finance, especially regarding real estate, constitutes the second important pillar of the corporate banking business in national and international terms. Factoring and leasing is another business area of the division. In addition, the investment banking and other lending business with business and corporate customers is reported in this segment.

The segment result comprises the results of services for business and corporate customers of PB Firmenkunden AG, Postbank Leasing GmbH, PB Factoring GmbH, transactions with Deutsche Postbank AG's business and corporate customers, and a portion of the results of the Luxembourg branch.

The results of the Group's Financial Markets transactions (banking and trading books), the subpools of assets of PB Spezial-Investmentaktiengesellschaft, collateralized and uncollateralized issues, and investment securities from issuers in GIIPS countries have been assigned to the Financial Markets business division.

The segment result comprises the banking and trading books of Deutsche Postbank AG and BHW Bausparkasse AG, as well as the profit/loss of the PB International S.A. subsidiary and the Luxembourg branch (excluding the corporate banking business), as well as the profit/loss of the subpools of assets, Deutsche Postbank Funding Trust I, Deutsche Postbank Funding Trust II, Deutsche Postbank Funding Trust III, Deutsche Postbank Funding Trust IV (until September 22, 2017), Deutsche Postbank Funding LLC I, Deutsche Postbank Funding LLC II, Deutsche Postbank Funding LLC III, and Deutsche Postbank Funding LLC IV (until September 22, 2017).

The Cost Centers segment includes results of the infrastructure functions of Deutsche Postbank AG, BHW Bausparkasse AG, BHW Holding AG, PB Firmenkunden AG, Deutsche Postbank AG's Luxembourg branch, Postbank Direkt GmbH, Postbank Filialvertrieb AG, Postbank Finanzberatung AG, and Postbank Immobilien GmbH. The segment also includes the profit/loss of the subsidiaries allocated to the cost centers, i.e., Postbank Systems AG, Postbank Immobilien und Baumanagement GmbH, Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Deutsche Postbank Finance Center Objekt GmbH, DSL Portfolio GmbH & Co. KG, DSL Portfolio Verwaltungs GmbH, Postbank Service GmbH, BHW Kreditservice GmbH, Betriebs-Center für Banken AG, VÖB-ZVD Processing GmbH, and Postbank Beteiligungen GmbH.

In addition to the profit/loss in the income statement of the business units allocated to the business divisions, imputation procedures are applied to ensure correct allocation of the segment profit/loss to their originators. In accordance with IFRS 8.23, we report net interest income (net interest revenue) instead of interest income and interest expense. The allocation of net interest income from customer products to the segments uses the market rate method, under which the customer interest rate is compared with imputed money and capital market rates for matching terms. The administrative expenses and other expenses of the units included in the segment results are primarily based on the results of cost center accounting. Income taxes are not calculated at segment level.

Reversals of impairment losses and impairment losses relate to intangible assets and property and equipment. Both amortization/depreciation and impairments are taken into account.

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 the permitted exposures to market risk, credit risk, operational risk, business risk, investment and real estate risk, and collective risk. The average IFRS equity is allocated to the segments according to their respective responsibility for the risk capital positions within the individual risk types.

Company-level disclosures

The following table contains information about income per product or service:

	2017 €m	2016[1] €m
Deposits and loans for Private Banking, Business and Corporate Banking	2,477	2,587
Payment transaction services for Private Banking, Business and Corporate Banking	467	378
Commission income for Private Banking, Business and Corporate Banking	343	341
Transaction Banking insourcing	–76	–79
Other	–17	90
Total	**3,194**	**3,317**

[1]Figures adjusted (see explanation in this Note)

The total comprises the Postbank Group's net interest income, net fee and commission income, net trading income, and net income from investment securities. The items "Deposits and loans", "Payment transaction services," and "Fee and commission income" constitute the income from banking products for net interest income and net fee and commission income for the Retail Banking and Business and Corporate Banking segments. The "Transaction Banking" item contains the net fee and commission income of Betriebs-Center für Banken AG. Among other things, the "Other" item contains the Group's net trading income and net income from investment securities, as well as the net interest income and net fee and commission income of the Financial Markets segment.

The results of the geographical areas are calculated using the profit and loss as reported in the income statements of the legal entities and branches attributable to the areas.

The Europe region contains the Luxembourg entities PB International S.A., the Luxembourg branch, Deutsche Postbank Finance Center Objekt GmbH, plus the branches of BHW in Italy and Luxembourg. The Germany region comprises all domestic business units, including all consolidation adjustments. The U.S.A. region comprises Deutsche Postbank Funding LLC I–IV and Deutsche Postbank Funding Trust I–IV, Wilmington, Delaware (Deutsche Postbank Funding LLC IV and Deutsche Postbank Funding Trust IV until September 22, 2017).

	Income		Profit before tax		Non-current assets	
	2017 €m	2016[1] €m	2017 €m	2016[1] €m	2017 €m	2016 €m
Germany	3,136	3,248	229	274	2,737	2,645
Europe	58	69	19	30	16	17
U.S.A.	0	0	0	0	0	0
Total	**3,194**	**3,317**	**248**	**304**	**2,753**	**2,662**

[1]Figures adjusted (see explanation in this Note)

Non-current assets comprise intangible assets and property and equipment.

(40) Contingencies and other obligations

Contingent liabilities arise from past events that will lead to possible future obligations. These obligations arise from the occurrence of uncertain future events whose settlement amount cannot be estimated with sufficient reliability.

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Contingent liabilities		
on guarantees and warranties	413	362
Other obligations		
irrevocable loan commitments	8,102	7,752
miscellaneous obligations		
irrevocable payment obligations – deposit protection fund	46	22
irrevocable payment obligations – cash collateral for bank levy	16	13
miscellaneous obligations	13,444	13,425[1]
Total	**22,021**	**21,574**

[1]Prior-year figure adjusted by €364 million

Miscellaneous obligations mainly relate to credit lines that can be called in by Postbank at any time. This figure also includes a contingent liability for complaints relating to advice provided and transactions entered into in the area of closed-end funds. Further information regarding this issue is not disclosed separately, as this could have serious impact on the situation of the Bank.

On October 20, 2017, the Cologne District Court ruled in favor of the actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 28, 2015 on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement. Deutsche Postbank AG has filed an appeal against this decision with the Higher Regional Court in Cologne.

Contingencies and other obligations were reduced by the recognized allowance for losses on loans and advances.

The amount and timing of utilization are often variable, particularly in the case of credit lines, guarantees, and warranties.

(41) Fair values of financial instruments

Fair value hierarchy

The following presents the allocation of financial instruments measured at fair value to the three-level fair value hierarchy in accordance with IFRS 13.72ff. In line with this, Postbank assigns the assets and liabilities to the respective level:

Level 1: Quoted market prices for the identical asset or the identical liability exist for the instruments classified as Level 1. In other words, Level 1 fair value measurement is based solely on quoted market prices in an active market for an identical financial instrument. Level 1 therefore mainly consists of highly liquid securities and exchange-traded derivatives.

Level 2: Level 2 fair values are measured either with the help of quoted prices in active markets for similar instruments or using techniques whose inputs are based solely on directly or indirectly observable market data. This includes non-exchange-traded derivatives (e.g., swaps, caps, and floors) as well as bonds and promissory note loans that are valued using yield and spread curves and/or volatilities.

Level 3: Level 3 fair values are determined using measurement models whose significant inputs are not observable in the market. Such valuation techniques are used in particular to measure structured credit products.

The following tables show the allocation of the individual categories of financial instruments to the corresponding levels in the fair value hierarchy:

As of December 31, 2017

Assets measured at fair value

Classes	Dec. 31, 2017 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial assets at fair value through profit or loss (FVtPL)				
Trading assets	310	0	310	0
Loans held for trading	45	0	45	0
Derivatives	265	0	265	0
Hedging derivatives	47	0	47	0
Loans and advances to customers	2,843	0	2,843	0
thereof private mortgage lending	2,843	0	2,843[1]	0
Available-for-sale financial assets				
Investment securities	14,154	9,953	4,161	40
Bonds and other fixed-income securities	13,858	9,953	3,892	13
Equities and other non-fixed-income securities	264	0	264	0
Equity investments	32	0	5	27
Other assets	232	0	0	232
Trade receivables	232	0	0	232
Total	**17,586**	**9,953**	**7,361**	**272**

[1]Due to the trend in interest rates, the discount rate used to measure loans under the fair value option has contained a greater share of inputs not observable in the market since the beginning of 2014. These continue to be allocated to Level 2 given their relatively low expected volatility and their insignificance for the fair value as a whole.

Liabilities measured at fair value

Classes	Dec. 31, 2017 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial liabilities at fair value through profit or loss (FVtPL)				
Trading liabilities	217	0	217	0
Derivatives	217	0	217	0
Hedging derivatives	27	0	27	0
Total	**244**	**0**	**244**	**0**

As of December 31, 2016

Assets measured at fair value

Classes	Dec. 31, 2016 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial assets at fair value through profit or loss (FVtPL)				
Trading assets	475	0	475	0
Loans held for trading	53	0	53	0
Derivatives	422	0	422	0
Hedging derivatives	112	0	112	0
Loans and advances to customers	3,645	0	3,645	0
thereof private mortgage lending	3,645	0	3,645[1]	0
Available-for-sale financial assets				
Investment securities	14,571	12,078	2,454	39
Bonds and other fixed-income securities	14,252	12,064	2,171	17
Equities and other non-fixed-income securities	271	0	271	0
Equity investments	48	14	12	22
Other assets	140	0	0	140
Trade receivables	140	0	0	140
Total	**18,943**	**12,078**	**6,686**	**179**

[1]Due to the trend in interest rates, the discount rate used to measure loans under the fair value option has contained a greater share of inputs not observable in the market since the beginning of 2014. These continue to be allocated to Level 2 given their relatively low expected volatility and their insignificance for the fair value as a whole.

Liabilities measured at fair value

Classes	Dec. 31, 2016 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial liabilities at fair value through profit or loss (FVtPL)				
Trading liabilities	409	0	409	0
Derivatives	409	0	409	0
Hedging derivatives	42	0	42	0
Total	**451**	**0**	**451**	**0**

Postbank uses discounted cash flow models to measure financial instruments allocated to Level 2, if they cannot be measured using transactions in identical financial instruments at the measurement date or using transactions in similar financial instruments at the measurement date. Most of the above-mentioned financial instruments (derivatives, bonds, promissory note loans) are measured using yield and spread curves (credit spreads, basis spreads) as inputs. In addition, CDS spreads and hazard rates are used to value credit derivatives. Option pricing models also use share prices, index prices, and volatilities as inputs.

The Postbank Group applies the fair value option exclusively to specific loan portfolios in the mortgage lending business. The current swap yield curve and loan-specific risk and cost premiums are used as inputs. The risk premiums are calculated on the basis of the estimated LGD and PD factors; these are sourced from the Bank's internal rating model, which has been approved by the supervisory authority.

The year-on-year decrease in Level 1 instruments results largely from a transfer into Level 2 of instruments whose prices are no longer quoted in an active market.

Valuation techniques whose inputs mean they are allocable to Level 3 are used for both assets and liabilities. Embedded derivatives (CDSs) from the synthetic structured credit products are allocated to Level 3.

Financial assets allocable to Level 3 changed as follows in the reporting period:

Assets measured at fair value based on Level 3

	Assets measured at fair value in Level 3 as of Dec. 31, 2017						
	Financial assets at FVtPL			AfS financial assets			Total
	Trading assets €m	Hedging derivatives €m	Loans and advances to other banks/ customers €m	Investment securities €m	Loans and advances to other banks/ customers €m	Other assets €m	€m
Opening balance	0	0	0	39	0	140	179
Total gains or losses	0	0	0	5	0	0	5
in profit or loss	0	0	0	–2	0	0	–2
in revaluation reserve	0	0	0	7	0	0	7
Purchases	0	0	0	1	0	147	148
Disposals	0	0	0	–1	0	0	–1
Issues	0	0	0	0	0	0	0
Settlements	0	0	0	–4	0	–55	–59
Exchange rate effects	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Transfers to Level 3	0	0	0	0	0	0	0
Closing balance	**0**	**0**	**0**	**40**	**0**	**232**	**272**
Total remeasurement gains/losses for assets held at the end of the reporting period	0	0	0	5	0	0	5

Level 3 financial assets changed as follows as of December 31, 2016:

Assets measured at fair value based on Level 3

	Assets measured at fair value in Level 3 as of Dec. 31, 2016						
	Financial assets at FVtPL			AfS financial assets			Total
	Trading assets €m	Hedging derivatives €m	Loans and advances to other banks/ customers €m	Investment securities €m	Loans and advances to other banks/ customers €m	Other assets €m	€m
Opening balance	1	0	0	34	0	105	140
Total gains or losses	–1	0	0	1	0	0	0
in profit or loss	–1	0	0	–1	0	0	–2
in revaluation reserve	0	0	0	2	0	0	2
Purchases	0	0	0	26	0	96	122
Disposals	0	0	0	–11	0	0	–11
Issues	0	0	0	0	0	0	0
Settlements	0	0	0	–11	0	–61	–72
Exchange rate effects	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Transfers to Level 3	0	0	0	0	0	0	0
Closing balance	**0**	**0**	**0**	**39**	**0**	**140**	**179**
Total remeasurement gains/losses for assets held at the end of the reporting period	–1	0	0	1	0	0	0

The fair value of the structured credit products within investment securities allocated to Level 3 is measured at present using arranger/dealer quotes which are validated by means of an internal valuation technique. The internal valuation technique also takes the illiquidity of the markets for structured products into account in addition to the impact of default on expected cash flows. This is done by adding a premium to the "risk-free" interest rate for the same maturity when discounting the previously calculated cash flows. Assuming a change in arranger/dealer quotes by +/–100 basis points, the fair value would change by +/–€0.1 million.

The holdings in closed-end funds are recognized with cash flow models which take the risk adjusted planning assumptions of the individual funds into account. If the planning assumptions deviate by +/–10 % from the assumptions made when calculating the fair value, this would result in a fair value change of +/– €0.4 million.

The preferred shares in Visa Inc. are presented as equity investments under Level 3. When measuring the fair value, assumptions with respect to the conversion rate (common share conversion ratio) and the liquidity of the shares are taken into account. Any change in the assumptions with respect to the conversion rate and the liquidity of the shares of +/– 10 % would lead to a change in the fair value of +/– €2 million.

The trade receivables allocated to Level 3 relate to fee and commission receivables in connection with insurance brokerage and receivables from affiliated companies for services rendered. The fair values of the acquisition commissions to be paid for insurance brokerage are determined by taking future cancellations/anticipated premature terminations into account. The reliable determination of the fair values of the above commissions is based on the reporting system of the product provider and contains assumptions as to the cancellation rate/anticipated premature termination of concluded insurance contracts. Assuming a change in cancellation rates of +/–5 %, this would lead to a change in the fair value of +/–€8 million which, as a change in cash flows, would be recognized through profit or loss.

The fair value of the receivable from the services rendered in connection with the ECB's refinancing program is calculated on the basis of the expected term and amount of the refinancing advantage and the related future payments to Postbank. The amount of the receivable rose by €106 million as against December 31, 2016, after uncertainties arising from the refinancing program were eliminated.
If the assumptions deviate by +/–10 % from the estimates made when calculating the fair value, this would result in a fair value change of +/–€13 million.

Since the liabilities allocated to Level 3 had a carrying amount and a fair value of €0 million as of December 31, 2017 and in the previous year, these are not presented in tabular form.

There were no non-recurring fair value measurements of financial instruments in the reporting period.

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, 2017					Dec. 31, 2016[1]	
	Carrying amount €m	Full fair value €m	Level 1 €m	Level 2 €m	Level 3 €m	Carrying amount €m	Full fair value €m
Assets							
Cash reserve	**2,020**	**2,020**	**2,020**	**0**	**0**	**2,291**	**2,291**
Loans and advances to other banks (loans and receivables)	**10,821**	**10,825**	**8,924**	**1,901**	**0**	**13,108**	**13,117**
Securities repurchase agreements	834	834	0	834	0	5,832	5,834
Amounts payable on demand	8,924	8,924	8,924	0	0	6,381	6,381
Loans	63	64	0	64	0	92	94
Registered bonds	0	0	0	0	0	300	306
Term deposits	1,000	1,003	0	1,003	0	500	499
Other loans and advances	0	0	0	0	0	3	3
Loans and advances to customers (loans and receivables)	**104,154**	**108,258**	**0**	**0**	**108,258**	**98,351**	**102,222**
Private mortgage lending	68,563	72,214	0	0	72,214	65,384	68,890
Home savings loans	2,760	2,760	0	0	2,760	2,992	2,992
Commercial loans	15,857	15,979	0	0	15,979	13,670	13,717
Public-sector receivables	5,078	5,145	0	0	5,145	5,205	5,234
Installment loans	8,053	8,292	0	0	8,292	7,438	7,704
Overdrafts	2,195	2,195	0	0	2,195	2,085	2,085
Promissory note loans	1,604	1,629	0	0	1,629	1,537	1,560
Other loans and advances	44	44	0	0	44	40	40
Allowance for losses on loans and advances (loans and receivables)	**–997**	**–997**	**0**	**0**	**–997**	**–998**	**–998**
Private mortgage lending	–226	–226	0	0	–226	–292	–292
Home savings loans	–5	–5	0	0	–5	–5	–5
Commercial loans	–125	–125	0	0	–125	–153	–153
Public-sector receivables	–3	–3	0	0	–3	–4	–4
Installment loans	–473	–473	0	0	–473	–389	–389
Overdrafts	–165	–165	0	0	–165	–155	–155
Promissory note loans	0	0	0	0	0	0	0
Other loans and advances	0	0	0	0	0	0	0
Investment securities (loans and receivables)	**8,451**	**8,648**	**3,733**	**4,908**	**7**	**12,196**	**12,573**
Bonds and other fixed-income securities	8,451	8,648	3,733	4,908	7	12,196	12,573
Other assets (loans and receivables)	**150**	**150**	**0**	**0**	**150**	**147**	**147**
	124,599	**128,904**	**14,677**	**6,809**	**107,418**	**125,095**	**129,352**
Liabilities							
Deposits from other banks (liabilities at amortized cost)	**12,065**	**12,345**	**66**	**2,750**	**9,529**	**13,133**	**13,539**
Due to customers (liabilities at amortized cost)	**118,699**	**120,066**	**0**	**0**	**120,066**	**118,918**	**120,616**
Savings deposits	36,688	36,688	0	0	36,688	38,585	38,585
Home savings	18,587	18,587	0	0	18,587	18,809	18,809
Other liabilities	63,424	64,791	0	0	64,791	61,524	63,222
Debt securities in issue (liabilities at amortized cost)	**3,215**	**3,589**	**60**	**0**	**3,529**	**3,339**	**3,767**
Public-sector *Pfandbriefe*	56	60	60	0	0	56	62
Mortgage *Pfandbriefe*	2,344	2,397	0	0	2,397	2,405	2,467
Other debt instruments	815	1,132	0	0	1,132	878	1,238
Subordinated debt (liabilities at amortized cost)	**2,068**	**2,332**	**0**	**0**	**2,332**	**2,567**	**2,598**
Hybrid capital instruments	868	1,042	0	0	1,042	1,447	1,385
Subordinated liabilities	1,011	1,089	0	0	1,089	909	989
Profit participation certificates outstanding	167	179	0	0	179	189	202
Contributions by typical silent partners	22	22	0	0	22	22	22
Other liabilities (liabilities at amortized cost)	**546**	**546**	**0**	**0**	**546**	**318**	**318**
	136,593	**138,878**	**126**	**2,750**	**136,002**	**138,275**	**140,838**

[1]Figures adjusted (see Note 6)

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.

(42) 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	2017 €m	2016[1] €m
Interest income and interest expense (including non-typical interest)	(7)		
Loans and receivables		3,315	3,676
Available for sale		182	206
Held for trading		– 147	– 155
Liabilities at amortized cost		– 1,284	– 1,553
Net gains or losses	(10), (11)		
Held for trading		55	38
Designated as at fair value		57	12
Loans and receivables		16	84
Available for sale		64	174

[1]Figures adjusted (see Note 6)

	Fair value hedges/option		Unhedged		Total	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m
Assets	**15,147**	**17,199**	**126,015**	**125,546**	**141,162**	**142,745**
Loans and receivables	4,108	4,572	119,468	119,230	123,576	123,802
Loans to other banks	0	0	10,821	13,108	10,821	13,108
Loans to customers	2,558	2,482	101,596	95,869	104,154	98,351
Investment securities	1,550	2,090	6,901	10,106	8,451	12,196
Other assets	–	–	150	147	150	147
Available for sale	8,149	8,870	6,237	5,841	14,386	14,711
Investment securities	8,149	8,870	6,005	5,701	14,154	14,571
Other assets	–	–	232	140	232	140
Held for trading	–	–	310	475	310	475
Trading assets	–	–	310	475	310	475
Fair value option	2,843	3,645	–	–	2,843	3,645
Loans to customers	2,843	3,645	–	–	2,843	3,645
Hedging derivatives	47	112	–	–	47	112
Liabilities	**8,877**	**9,135**	**127,960**	**129,591**	**136,837**	**138,726**
Liabilities at amortized cost	8,837	9,065	127,756	129,210	136,593	138,275
Deposits from other banks	324	654	11,741	12,479	12,065	13,133
Due to customers	5,304	6,827	113,395	112,091	118,699	118,918
Debt securities in issue	2,284	76	931	3,263	3,215	3,339
Subordinated debt	925	1,508	1,143	1,059	2,068	2,567
Other liabilities	–	–	546	318	546	318
Held for trading	13	28	204	381	217	409
Trading liabilities	13	28	204	381	217	409
Hedging derivatives	27	42	–	–	27	42

(43) Derivatives

The Postbank Group uses derivatives to hedge positions as part of its asset/liability management policy. Derivatives are also entered into for trading purposes.

Postbank's foreign currency financial derivatives consist for the most part of forward exchange transactions, currency swaps, cross currency swaps, and currency options. Interest rate derivatives primarily comprise interest rate swaps and interest rate options. Credit derivatives (credit default swaps) are 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 techniques. Postbank utilizes the available netting opportunities when derivative transactions are settled via a central counterparty.

Holdings of derivatives are composed of the following items:

	Notional amount		Positive fair values		Negative fair values	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trading derivatives	131,764	138,822	265	422	217	409
Hedging derivatives	23,543	21,785	47	112	27	42
Total	**155,307**	**160,607**	**312**	**534**	**244**	**451**

The following table presents the Postbank Group's interest, credit, and foreign currency, conditional and unconditional forward transactions open at the balance sheet date.

			Fair Value			
	Notional amount		Positive fair values		Negative fair values	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Trading derivatives						
Foreign currency derivatives						
OTC products						
Currency forwards	1,023	1,124	31	29	20	32
Currency swaps	2,180	3,877	3	15	7	7
Currency options[1]	663	884	12	10	11	10
Total holdings of foreign currency derivatives	**3,866**	**5,885**	**46**	**54**	**38**	**49**
Interest rate derivatives						
OTC products						
Interest rate swaps	124,199	129,738	153	228	165	323
Cross currency swaps	653	866	63	137	10	33
Forward rate agreements	–	–	–	–	–	–
OTC interest rate options	173	46	1	0	1	0
Other interest rate contracts	2,865	2,274	2	3	3	4
Total holdings of interest	**127,890**	**132,924**	**219**	**368**	**179**	**360**

[1]Including gold options

	Notional amount		Fair value: Positive fair values		Fair value: Negative fair values	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Equity/index derivatives						
OTC products						
Equity options (long/short)	–	–	–	–	–	–
Total holdings of equity/ index derivatives	**–**	**0**	**–**	**0**	**–**	**–**
Credit derivatives						
Credit default swaps	8	13	0	0	0	0
Total holdings of credit derivatives	**8**	**13**	**0**	**0**	**0**	**0**
Total holdings of trading derivatives	**131,764**	**138,822**	**265**	**422**	**217**	**409**
thereof banking book derivatives	63,688	57,497	265	421	128	300
thereof derivatives relating to hedged items accounted for under the fair value option	7,844	11,180	0	0	13	28
Hedging derivatives						
Fair value hedges						
Interest rate swaps	23,540	21,779	47	112	26	40
Cross currency swaps	3	6	0	0	1	2
Credit default swaps	–	–	–	–	–	–
Total holdings of hedging derivatives	**23,543**	**21,785**	**47**	**112**	**27**	**42**
Total holdings of derivatives	**155,307**	**160,607**	**312**	**534**	**244**	**451**

Total holdings of recognized derivative assets and liabilities:

	Hedging derivatives: Positive fair values		Hedging derivatives: Negative fair values	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Remaining maturity				
less than 3 months	11	10	6	7
3 months to 1 year	0	0	1	0
from 1 to 2 years	1	0	4	5
from 2 to 3 years	1	2	2	8
from 3 to 4 years	0	1	1	3
from 4 to 5 years	0	0	2	1
more than 5 years	34	99	11	18
	47	**112**	**27**	**42**

	Trading and banking book derivatives			
	Positive fair values		Negative fair values	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Remaining maturity				
less than 3 months	28	30	31	56
3 months to 1 year	26	25	23	91
from 1 to 2 years	18	15	7	31
from 2 to 3 years	24	20	7	11
from 3 to 4 years	10	35	9	26
from 4 to 5 years	21	28	8	30
more than 5 years	138	269	132	164
	265	**422**	**217**	**409**

The remaining maturity is the period between the balance sheet date and the contractual maturity of the asset or liability.

The following table presents the positive and negative fair values of derivatives by counterparty.

	Positive fair values		Negative fair values	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Counterparties				
Banks in OECD countries	126	320	224	397
Other counterparties in OECD countries	186	214	20	54
Non-OECD	–	–	–	–
	312	**534**	**244**	**451**

(44) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities that meet the conditions for offsetting set out in IAS 32.42ff. are presented on a net basis in the balance sheet.

The following tables contain the disclosures as of December 31, 2017, on the effects of offsetting on the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are covered by a legally enforceable master netting arrangement or similar agreement.

	Financial assets (gross) €m	Offset recognized amounts (gross) €m	Recognized financial assets (net) €m	Effects of master netting arrangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Assets							
Loans and advances to other banks	11,354	–800	10,554	–	–	–835	9,719
Trading assets	4,842	–4,532	310	–54	–41	–	215
Hedging derivatives	722	–675	47	0	–7	–	40
Total	**16,918**	**–6,007**	**10,911**	**–54**	**–48**	**–835**	**9,974**

	Financial liabilities (gross) €m	Offset recognized amounts (gross) €m	Recognized financial liabilities (net) €m	Effects of master netting arrangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Equity and Liabilities							
Deposits from other banks	3,204	–455	2,749	–	0	–2,588	161
Trading liabilities	5,226	–5,009	217	–54	–111	–	52
Hedging derivatives	570	–543	27	0	–14	–	13
Total	**9,000**	**–6,007**	**2,993**	**–54**	**–125**	**–2,588**	**226**

The column headed “Offset recognized amounts (gross)” contains the amounts set off in accordance with the provisions of IAS 32.42ff. The column entitled “Effects of master netting arrangements” contains the amounts that are covered by master netting arrangements but that have not been set off because the conditions of IAS 32.42ff. have not been met. The “Cash collateral” and “Collateral taking the form of financial instruments” columns show the fair values concerned. The right to set off collateral taking the form of financial instruments and cash collateral is contingent upon the prior default of the counterparty concerned.

Offset financial assets and financial liabilities from securities repurchase agreements (reverse repos/repos) are included in the “Loans and advances to other banks (including allowance for losses on loans and advances)” and “Deposits from other banks” balance sheet items.

Offset derivatives are included in the “Trading assets,” “Trading liabilities” and “Hedging derivatives” line items. The cash collateral received as security for positive fair values of derivatives and transferred for negative fair values of derivatives is reported under the “Deposits from other banks” and “Loans and advances to other banks” line items.

The following tables contain the comparative figures as of December 31, 2016:

	Financial assets (gross) €m	Offset recognized amounts (gross) €m	Recog-nized financial assets (net) €m	Effects of master netting ar-rangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Assets							
Loans and advances to other banks	17,714	–4,606	13,108	–	–	–5,839	7,269
Trading assets	6,632	–6,157	475	–191	–73	–	211
Hedging derivatives	1,042	–930	112	–1	–19	–	92
Total	**25,388**	**–11,693**	**13,695**	**–192**	**–92**	**–5,839**	**7,572**

	Financial liabilities (gross) €m	Offset recognized amounts (gross) €m	Recog-nized financial liabilities (net) €m	Effects of master netting ar-rangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Equity and Liabilities							
Deposits from other banks	7,167	–4,020	3,147	–	–	–2,881	266
Trading liabilities	7,271	–6,862	409	–191	–289	–	–71
Hedging derivatives	853	–811	42	–1	–30	–	11
Total	**15,291**	**–11,693**	**3,598**	**–192**	**–319**	**–2,881**	**206**

(45) Foreclosures and compulsory administration

	Dec. 31, 2017 Number	Dec. 31, 2016 Number
Foreclosures pending	322	385
Compulsory administration proceedings	65	72
Foreclosures completed	289	377

(46) Foreign currency volume

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Foreign currency assets	3,469	3,245
Foreign currency liabilities	3,433	3,236

(47) Capital management, risk-weighted assets, and capital ratio

Postbank satisfies the requirements of Basel III, which took effect on January 1, 2014, in the form of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV) as well as related German regulations. Numerous transitional provisions continued to apply in 2017.

Postbank's processes for calculating and managing capital resources and leverage ratio comply with all legislation, regulations, and European Banking Authority (EBA) standards in the most recently amended versions. Internal calculations are always performed on a regulatory phased-in basis, as well as on a fully phased-in basis. The Bank's performance relating to own funds is monitored and managed in accordance with both views.

Postbank was subject to additional capital buffer requirements for the first time in 2016. All of these buffers must be covered by Common Equity Tier 1 capital (CET1), which in terms of risk-weighted assets must be held available in addition to the existing minimum requirements. The CRR defines transitional periods during which the capital buffer requirements are increased step by step between 2016 and 2019. Depending on their type, the capital buffer requirements are defined either directly in CRD IV and/or in the *Kreditwesengesetz* (KWG – German Banking Act) or are defined and communicated by the competent supervisory authorities for individual banks and/or countries.

The amount of the capital conservation buffer has already been defined by CRD IV and was equal to 1.25 % of risk-weighted assets in 2017. The maximum capital conservation buffer requirement of 2.5 % will be reached in 2019. At present, BaFin has set the counter-cyclical buffer for Germany to 0 %. Based on the relevant foreign exposures, this gives a weighted counter-cyclical capital buffer requirement of 0.007 % of RWAs for Postbank. Above and beyond these capital buffer requirements, the responsible supervisory authority can impose additional capital requirements on banks that exceed the statutory minimum requirements as part of the supervisory review and evaluation process (SREP).

In this connection Postbank complies with all minimum capital requirements including statutory and individual capital buffer requirements imposed on it.

Postbank expects the introduction of the new IFRS 9 in 2018 to have a negative initial application effect on recognized capital[1]. When determining regulatory capital, part of the additional allowance for losses on loans and advances recognized in accordance with IFRS 9 may be eligible as part of the impairment comparison, which may partly offset the negative initial application effect of the accounting on CET1.

Based on current assessments, Postbank expects that it will continue to comply with all minimum capital requirements imposed on it in 2018, including statutory and individual capital buffer requirements.

The external regulatory capital requirements constitute an absolute lower limit for Postbank's strategic management. They are embedded in the risk-appetite framework. The corresponding indicators are identified and managed at the level of the Postbank Group as well as the individual institutions within the Group which fall within the scope of the CRR.

The management of capital requirements is integrated with the overarching capital management process, which comprises a regulatory (normative) and an economic management approach. For further information on economic capital management, reference should be made to our explanations in Note 48, Risk-bearing capacity, risk cover amount, and risk capital.

132

Regulatory (normative) capital management focuses on requirements with respect to Common Equity Tier 1 (CET1) capital and additionally takes account of Tier 1 capital and own funds. In this way, the Pillar I requirements are addressed. The capital management system comprises the following three levels:

1. Observance of regulatory minimum ratios in accordance with CRR/CRD IV or those fixed by BaFin/ECB.

2. Monitoring and observation of the internally defined thresholds which, if fallen below, trigger capital management measures. Thresholds have been defined for the actual capital ratios in each case, the ratios calculated in the forecast, as well as for the results of the stress test.

3. Medium-term target ratio for CET1 redefined each year by the Management Board as part of its risk strategy.

There is no regulatory minimum requirement for the leverage ratio. However, the Bank has defined thresholds and internal target ratios for internal management purposes as well. These are integrated in general capital management via the risk strategy. The general capital management process contains various monitoring and forecasting processes for the defined indicators. As part of the multi-year planning process, a preview of expected capital and leverage ratios as well as MREL liabilities is conducted once a year over a period of the following three years on the basis of volume, migration, and profit/loss planning and dedicated assumptions. The planning process also comprises a downside scenario.

The current capital and leverage ratios are calculated on a monthly basis. The current ratios and stress-testing results are submitted to the Management Board and the Supervisory Board on a quarterly basis in the overall bank risk report.

[1]See Note (5)

The risk strategy defines the corresponding internal thresholds which, if fallen below, trigger countermeasures and recommendations. In addition, a capital ratio forecast to the next quarter and the end of the fiscal year is prepared monthly during the year to review the necessity of any countermeasures.

The Asset & Liability Committee is the central body responsible for monitoring and managing capital ratios as well as the leverage ratio. It develops, evaluates and decides on suggestions for control measures and monitors their effectiveness.

The Bank's regulatory own funds calculated in accordance with the CRR/CRD IV rules (regular phased-in) were as follows:

	Dec. 31, 2017[1] €m	Dec. 31, 2016[2] €m
Credit and counterparty risk (including CVAs)	36,459	36,108
Market risk positions	68	62
Operational risk	5,373	5,827
Total risk-weighted assets	41,900	41,997
Regular phased-in:		
Common Equity Tier 1 capital (CET 1)	5,417	5,946
Additional Tier 1 capital (AT 1)	125	228
Tier 1 capital	5,541	6,174
Tier 2 capital	900	1,052
Own funds	6,441	7,226
	%	%
CET 1 capital ratio	12.9	14.2
Tier 1 capital ratio	13.2	14.7
Total capital ratio	15.4	17.2
Fully phased-in:		
CET 1 capital ratio	11.9	12.4
Tier 1 capital ratio	11.9	12.4
Total capital ratio	15.2	15.9

[1]Based on the consolidated financial statements as of December 31, 2017, subject to approval
[2]Based on the consolidated financial statements as of December 31, 2016, figures adjusted (see Note 6)

The regular phased-in Common Equity Tier 1 capital ratio as reported on December 31, 2017, is 12.9 %.

The key components of Postbank's Tier 1 capital are the share capital and recognized reserves. Tier 2 capital is composed of long-term subordinated liabilities and profit participation certificates outstanding.

(48) Risk-bearing capacity, risk cover amount, and risk capital

Postbank considers its risk-bearing capacity to be adequate if the risk cover amount exceeds the allocated risk capital and the current level of overall risk (VaR). The risk cover amount available for covering all risks consists of the Bank's capital in accordance with IFRSs (less goodwill and deferred tax assets) and its subordinated debt in accordance with IFRSs as well as other reserves and liabilities associated with financial instruments including customer transactions, less net cost. Other reserves include additional reserves that are not reported in the IFRS balance sheet or the notes. These are prorated checking and savings-related reserves as well as those of the BHW home savings collective as determined by replication models. Conservative discounts and limit buffers are used when calculating the risk cover amount in order to account for estimating uncertainties. The capital from the risk cover amount that is allocated to the various units and risk types is known as risk capital.

The regulatory capital requirements (regulatory capital adequacy in accordance with the CRR, the KWG, the *Solvabilitätsverordnung* (SolvV – German 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.

In accordance with the requirements of the MaRisk, the risk strategy is consistent with the business strategy and takes into account all significant areas of business and types of risk. The following table shows the allocation of the Postbank Group's risk cover amount, broken down by risk type on the basis of the authorized risk capital, for fiscal years 2017 and 2016 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 type (economic creditor protection)

Capital and risk components	Allocated risk capital	
	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Credit risk	2,600	2,700
Market risk	1,800	2,180
Operational risk	600	700
Business risk	2,670	2,670
Total before diversification	**7,670**	**8,250**
Diversification effects	1,376	1,460
Total after diversification	**6,294**	**6,790**
Unallocated risk cover amount	3,059	3,128
Total risk cover amount	**9,353**	**9,918**

More detailed disclosures relating to the management of economic risk capital can be found in the Risk Report section of the Group Management Report. 33

(49) Maturity structure

As of December 31, 2017:

	Payable on demand €m	Less than 3 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	8,925	424	949	195	0	0	217	111	10,821
Loans and advances to customers	5,470	6,920	8,155	9,988	8,896	9,900	8,907	48,761	106,997
Trading assets	–	30	28	19	31	16	23	163	310
Hedging derivatives	–	11	–	1	1	0	0	34	47
Investment securities	–	2,577	3,054	4,473	2,171	1,840	1,743	6,747	22,605
Current tax assets	1	11	57	5	0	–	–	–	74
Deferred tax assets	0	0	30	3	20	22	70	84	229
Other assets	120	52	148	88	41	8	3	17	477
Total	**14,516**	**10,025**	**12,421**	**14,772**	**11,160**	**11,786**	**10,963**	**55,917**	**141,560**
Deposits from other banks	258	3,082	824	1,050	859	1,040	1,031	3,921	12,065
Due to customers	51,645	37,438	9,337	4,528	2,213	3,115	1,943	8,480	118,699
Debt securities in issue	84	0	10	122	1,111	1,084	0	804	3,215
Trading liabilities	–	31	23	7	7	9	8	132	217
Hedging derivatives	–	6	1	4	2	1	2	11	27
Provisions	10	36	281	273	183	81	61	213	1,138
Provisions for pensions	0	5	14	19	19	19	50	202	328
Other provisions	10	31	267	254	164	62	11	11	810
Current tax liabilities	0	–	38	1	–	–	–	–	39
Deferred tax liabilities	0	0	2	0	0	0	11	9	22
Other liabilities	193	160	329	22	10	10	6	10	740
Subordinated debt	0	239	385	133	14	24	15	1,258	2,068
Total	**52,190**	**40,992**	**11,230**	**6,140**	**4,399**	**5,364**	**3,077**	**14,838**	**138,230**
Contingent liabilities	413	0	0	0	0	0	0	0	413
Irrevocable loan commitments	8,102	0	0	0	0	0	0	0	8,102

126
The remaining maturities of derivatives are presented separately in a table in Note 43.

As of December 31, 2016:

	Payable on demand €m	Less than 3 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	6,383	2,853	1,827	1,422	92	0	236	295	13,108
Loans and advances to customers[1]	5,034	6,452	8,753	9,950	9,350	8,571	8,625	45,261	101,996
Trading assets	–	39	27	17	21	43	34	294	475
Hedging derivatives	–	10	0	0	2	1	0	99	112
Investment securities	–	2,267	2,234	6,126	4,557	2,222	1,882	7,479	26,767
Current tax assets	0	0	81	53	0	10	–	–	144
Deferred tax assets	0	0	37	16	3	2	59	81	198
Other assets	170	34	78	67	16	8	4	11	388
Total	**11,587**	**11,655**	**13,037**	**17,651**	**14,041**	**10,857**	**10,840**	**53,520**	**143,188**
Deposits from other banks	508	3,214	986	1,171	1,073	869	1,123	4,189	13,133
Due to customers	47,029	39,740	9,725	4,815	2,866	2,114	2,967	9,662	118,918
Debt securities in issue	83	0	61	10	123	1,141	1,115	806	3,339
Trading liabilities	–	56	91	31	11	26	30	164	409
Hedging derivatives	–	7	0	5	8	3	1	18	42
Provisions	14	36	271	180	119	53	28	206	907
Provisions for pensions	–	3	10	13	12	12	12	192	254
Other provisions	14	33	261	167	107	41	16	14	653
Current tax liabilities	0	–	62	15	–	21	–	–	98
Deferred tax liabilities	–	0	0	11	0	0	4	2	17
Other liabilities	179	172	154	11	7	7	4	7	541
Subordinated debt	0	9	128	401	133	14	25	1,857	2,567
Total	**47,813**	**43,234**	**11,478**	**6,650**	**4,340**	**4,248**	**5,297**	**16,911**	**139,971**
Contingent liabilities	362	0	0	0	0	0	0	0	362
Irrevocable loan commitments	7,752	0	0	0	0	0	0	0	7,752

[1]Figures adjusted (see Note 6)

(50) Other financial obligations

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

Postbank ensures that, with the exception of political risk, its PB Factoring GmbH (Bonn) and BHW Bausparkasse AG (Hameln) subsidiaries will be able to meet their obligations. The comfort letter in favor of Deutsche Postbank International S.A. (now: PB International S.A.), Luxembourg, became ineffective as of July 1, 2014, and was therefore terminated in respect of new obligations from that date, after Deutsche Postbank AG, Luxembourg branch, took over the business operations of Deutsche Postbank International S.A., Luxembourg, by acquiring almost all of the assets and liabilities of Deutsche Postbank International S.A., Luxembourg, as of July 1, 2014.

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

Postbank has issued subordinated comfort letters under the terms of issue of subordinated bonds issued by Deutsche Postbank Funding LLC I, II, and III, all of which are domiciled in Delaware, U.S.A.

Financial obligations under Postbank's operating leases involving non-cancelable leasing agreements relate to land and buildings and have the following maturity structures:

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
in the first year after the balance sheet date	59	59
in the second year after the balance sheet date	53	51
in the third year after the balance sheet date	46	43
in the fourth year after the balance sheet date	35	35
in the fifth year after the balance sheet date	28	24
more than five years after the balance sheet date	63	66
Total	**284**	**278**

(51) Trust activities

Trust activities are composed of the following items:

	Dec. 31, 2017 €m	Dec. 31, 2016[1] €m
Trust assets		
Loans and advances to other banks	1	1
Loans and advances to customers	350	380
	351	**381**
Trust liabilities		
Deposits from other banks	2	1
Due to customers	349	380
	351	**381**

[1]Prior-year figure adjusted

(52) Employees

The average number of employees in the Group in the period under review was as follows:

	Total 2017	Total 2016
Full-time		
Civil servants	3,953	4,278
Salaried employees	12,100	12,301
	16,053	**16,579**
Part-time		
Civil servants	1,051	1,050
Salaried employees	4,232	4,564
	5,283	**5,614**
	21,336	**22,193**

The employees are employed almost exclusively in Germany.

(53) Relationships with unconsolidated structured entities

This Note is focused on relationships with structured entities which are not controlled by Postbank and thus are not consolidated.

Relationships with structured entities include contractual and non-contractual business relationships that expose the Bank to variable positive and/or negative returns from the performance of the structured entity.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. A structured entity often has the following features: restricted activities, a narrow and well-defined objective, insufficient equity, and financing that creates concentrations of credit or other risks.

In the area of commercial real estate finance, Postbank has, among other things, lending relationships with real estate investment vehicles, whose purpose is the holding and rental of commercial real estate primarily in Germany and Europe, and with national and international real estate funds ("Commercial Real Estate Finance" category). The real estate is equity and debt-financed. Usually real estate investment vehicles use a higher proportion of debt capital.

Relationships with structured entities also include the securities that have been issued by structured entities (e.g., securitization vehicles) ("Other" category) and fund certificates/shares ("Funds" category) held by the Group.

The maximum exposure to loss shown is the highest potential loss to which the Bank could be exposed as a result of its relationships with structured entities. The maximum exposure to loss from transactions measured at cost comprises the carrying amount and the value of the Bank's off-balance sheet liabilities from its relationships with structured entities. The maximum exposure to loss is shown without taking account of collateral received.

The size of the structured entities is determined based on the following measures:

- Commercial real estate finance and funds: total assets of the structured entity
- Other: notional amounts of the notes issued.

	Commercial real estate finance	Funds	Other	Total
	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m	Dec. 31, 2017 €m
Assets				
Loans and advances to customers	6,354	–	4	6,358
Trading assets	–	–	–	–
Investment securities	0	264	–	264
Allowance for losses on loans and advances	–48	–	–	–48
Maximum exposure to loss	**6,553**	**264**	**4**	**6,821**
Loans and advances to customers	6,354	–	4	6,358
Trading assets	–	–	–	–
Investment securities	0	264	–	264
Allowance for losses on loans and advances	–48	–	–	–48
Off-balance sheet liabilities	247	–	–	247
Size of structured entities	**7,039**	**8,396**	**4**	**15,439**

The following table contains the comparative figures as of December 31, 2016.

	Commercial real estate finance	Funds	Other	Total
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Assets				
Loans and advances to customers	5,089	–	11	5,100
Trading assets	–	–	–	–
Investment securities	3	270	–	273
Allowance for losses on loans and advances	–80	–	–	–80
Maximum exposure to loss	**5,139**	**270**	**11**	**5,420**
Loans and advances to customers	5,089	–	11	5,100
Trading assets	–	–	–	–
Investment securities	3	270	–	273
Allowance for losses on loans and advances	–80	–	–	–80
Off-balance sheet liabilities	127	–	–	127
Size of structured entities	**5,633**	**5,660**	**11**	**11,304**

The off-balance sheet liabilities represent contractual obligations on the part of the Bank to financially support the structured entities. In the period under review, the Bank did not render any non-contractual financial support to the structured entities nor does it intend to do so.

(54) Related party disclosures

In addition to the companies included in the consolidated financial statements, in the course of its ordinary business activities, Postbank has direct or indirect relationships with Deutsche Bank AG, which controls Postbank, and with a relatively small number of subsidiaries, associates, and joint ventures not included in Postbank's consolidated financial statements. Other related parties are Deutsche Bank AG's subsidiaries, the associates and joint ventures of Postbank and Deutsche Bank, and their subsidiaries. Related parties are defined as key management personnel (Management Board and Supervisory Board) of Deutsche Postbank AG and of Deutsche Bank AG, and the close members of their families. In the course of business activities, all transactions for the provision of goods and services entered into with the aforementioned companies and persons were conducted at standard market terms and conditions.

Business relationships with related parties

150

All related parties that are controlled by Deutsche Postbank AG are presented in the list of shareholdings (Note 59).

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 BanstPT, PVK (formerly Bundes-Pensions-Service für Post und Telekommunikation e.V.) in the amount of €93 million (previous year: €96 million). Furthermore, administrative expenses incurred by BAnstPT in the amount of €14 million (previous year: €12 million) were reimbursed on a pro rata basis.

With effect from January 1, 2016, Postbank reacquired its five service companies and included them in the consolidated financial statements as of this date. As a result, the relationships with these companies are no longer disclosed in this Note from the changeover date as they are eliminated in the consolidated financial statements in accordance with IFRS 10.

Control and Profit and Loss Transfer Agreement

In a merger agreement dated April 19, 2017, DB Finanz-Holding GmbH transferred its assets and liabilities as a whole with all rights and obligations by dissolution without liquidation to DB Beteiligungs-Holding GmbH. The merger entered into effect upon entry in the commercial register on April 27, 2017.

As a result, DB Finanz-Holding GmbH has been dissolved upon entry of the above-mentioned merger and thus no longer holds interests in the share capital of Deutsche Postbank AG. DB Beteiligungs-Holding GmbH as the legal successor to DB Finanz-Holding GmbH now holds a direct majority stake in the share capital of Deutsche Postbank AG instead of an indirect one.

The control and profit and loss transfer agreement now exists between Deutsche Postbank AG, as the dependent company, and DB Beteiligungs-Holding GmbH.

Related party receivables

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Loans and advances to other banks		
Deutsche Bank AG	1,133	2,288
Subsidiaries	42	42
Other related parties	4	4
	1,179	**2,334**
Loans and advances to customers		
Other related parties	0	0
	0	**0**
Trading assets		
Deutsche Bank AG	31	125
Investment securities		
Deutsche Bank AG	1,020	1,118
	1,020	**1,118**
Other assets		
Deutsche Bank AG[1]	158	50
Other related parties	5	5
	163	**55**

[1]Prior-year figures adjusted by €40 million due to change in allocation

The loans and advances to other banks primarily relate to money market transactions with Deutsche Bank AG and its subsidiaries. The decline in loans and advances to Deutsche Bank AG is primarily the result of the lower volume of securities repurchase transactions being entered into compared with the previous year.

The decrease in trading assets is mainly attributable to measurement effects.

The investment securities relate to Deutsche Bank AG bonds.

In 2017, other assets also included a receivable from Deutsche Bank AG in the amount of €126 million resulting from Postbank's participation in the ECB's refinancing program (TLTRO II) as a member of the TLTRO group headed by Deutsche Bank as the lead institution. The payment of €106 million received by Postbank is reported in other income.

Related party payables

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Deposits from other banks		
Deutsche Bank AG	2,847	3,004
Other related parties	1	0
	2,848	**3,004**
Due to customers		
Subsidiaries	5	8
Other related parties	0	5
	5	**13**
Trading liabilities		
Deutsche Bank AG	149	237
	149	**237**
Hedging derivatives		
Deutsche Bank AG	0	1
	0	**1**
Other liabilities		
Deutsche Bank AG	37	35
DB Beteiligungs-Holding GmbH	217	9
Other related parties	0	1
	254	45
Subordinated debt		
Deutsche Bank AG	185	0
	185	**0**

The liabilities to Deutsche Bank AG primarily comprise securities repurchase transactions.

The decrease in trading liabilities is mainly attributable to measurement effects.

The other liabilities to DB Beteiligungs-Holding GmbH relate to effects of the control and profit and loss transfer agreement that were recognized in retained earnings.

The “subordinated debt” item refers to a new issue at the end of the reporting period.

Contingent liabilities from warranty obligations to Deutsche Bank AG amounted to €45 million at the reporting date (December 31, 2016: €41 million).

Income and expenses from related parties

	2017 €m	2016 €m
Interest income		
Deutsche Bank AG	17	12
Subsidiaries	1	0
Other related parties	– 12	– 11
	6	**1**
Interest expense		
Deutsche Bank AG	5	4
Other related parties	0	0
	5	**4**
Fee and commission income		
Deutsche Bank AG	26	30
Other related parties	24	27
	50	**57**
Fee and commission expense		
Deutsche Bank AG	2	2
Other related parties	1	0
	3	**2**
Net trading income		
Deutsche Bank AG	13	6
	13	**6**
Net income from investment securities		
Other related parties	0	–
	0	**–**
Administrative expenses		
Deutsche Bank AG	15	24
Subsidiaries	15	16
Other related parties	11	16
	41	**56**
Other income		
Deutsche Bank AG	111	61
Subsidiaries	3	3
Other related parties	4	5
	118	**69**
Other expenses		
Other related parties	0	–
	0	**–**

Interest income from Deutsche Bank AG includes €7 million from non-standard interest-bearing securities repurchase agreements.

Changes in other income are attributable to the remuneration of €106 received by Postbank from its participation in the ECB’s refinancing program as a member of the TLTRO group headed by Deutsche Bank as the lead institution.

Key management personnel
As of the balance sheet date, loans of €1,042 thousand (previous year: €891 thousand) had been granted to key management personnel and deposits of €1,678 thousand (previous year: €2,198 thousand) received from key management personnel.

The following table contains the staff costs incurred, in the period under review, in connection with remuneration of the members of the Management Board of Deutsche Postbank AG in accordance with IAS 24.17.

	2017 € thousand	2016 € thousand
Short-term employee benefits	4,737.3	5,024.3
Post-employment benefits	3,036.5	2,478.8
Other long-term benefits	2,057.1	2,097.4
Termination benefits	0.0	625.0
Share-based payment	2,057.3	2,097.6
Total remuneration in accordance with IAS 24.17	11,888.2	12,323.1

The short-term employee benefits also include, along with the basic remuneration and the variable remuneration component to be directly remunerated in cash, the incidental benefits, mainly comprising non-cash benefits in the form of company cars, the payment of insurance premiums, and the reimbursement of business-related expenses including any taxes on these items. The benefits after the termination of the employment relationship mirror the service cost of the period under review. Other long-term benefits due include the expenses for the period in relation to the cash granted with a long-term incentive effect.

The total carrying amount of the obligation arising from the benefits granted to members of the Management Board amounted to €11,129.7 thousand (previous year: €11,347.1 thousand) as of the reporting date.

The defined benefit obligation (DBO) for current pensions and entitlements attributable to active members of the Management Board amounted to €30,539 thousand (previous year: €24,876 thousand) as of the end of this year.

The total remuneration paid to members of the Supervisory Board for the period under review of €1,091.3 thousand (previous year: €1,137.7 thousand) is classified as a short-term benefit in accordance with IAS 24.17.

For a detailed description of the main features of the remuneration system, please see the following section "Remuneration of the Management Board and the Supervisory Board".

Remuneration of the Management Board and the Supervisory Board
Deutsche Postbank AG hereby publishes the principles used to determine the remuneration of the Management Board and the Supervisory Board. The report also includes summarized quantitative disclosures on the remuneration of the members of the governing bodies.

Remuneration system for members of the Management Board

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

Structure of the remuneration of the Management Board in fiscal year 2017
The overall structure of the remuneration of the Management Board and the principal components of Management Board contracts are stipulated and regularly reviewed by Postbank's Supervisory Board. This review focuses in particular on the appropriateness of the system's design and on changes that become necessary in response to new legislative and regulatory requirements.

The main goal is to remunerate Management Board members appropriately in line with the market and competitors and in accordance with all statutory and regulatory requirements, taking into account members' areas of activity and responsibility, Postbank's overall long-term performance, and the collective and individual performance of the members of the Management Board. For fiscal year 2017, a vertical and a horizontal remuneration comparison was performed that confirmed the appropriateness of the remuneration.

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

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

a) Non-performance-related components
The non-performance-related components are the base pay (fixed remuneration) and incidental benefits. Incidental benefits mainly comprise contributions to occupational pensions (pension benefits based on individual agreements), non-cash benefits in the form of company cars, the payment of insurance premiums, and the reimbursement of business-related expenses including any taxes on these items. Incidental benefits are available to all members of the Management Board equally; however, the amount may vary depending on their individual personal circumstances.

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

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant[1] of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board once again with effect from fiscal year 2015. This has been agreed with the individual members of the Management Board by amending their employment contracts accordingly.

Variable remuneration for 2017: grant, performance, deferral and forfeiture provisions
The award arrangements for the variable remuneration fixed were modified with effect on the variable remuneration for 2014 and modified again for 2015 due to Deutsche Bank's changed strategic plans with respect to Postbank's positioning. It was not necessary to change the award arrangements again for fiscal year 2017.

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

In accordance with the requirements of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions), at least 60 % of the total variable remuneration is awarded on a deferred basis and deferred over several years. Half of the upfront portion of the variable remuneration is awarded in the form of a share-based remuneration component (equity upfront award) and the other half is paid out directly (cash bonus). Half of the deferred portion of the variable remuneration comprises share-based remuneration components (restricted equity award), while the remaining half is granted as a deferred cash payment (restricted incentive award). The value of the share-based remuneration components depends on the performance of Deutsche Bank's shares during the deferral and holding periods. Special performance, deferral, and forfeiture provisions apply to the restricted equity award during the deferral period and, where applicable, the holding period.

Equity upfront award
The non-deferred component of the share-based remuneration is awarded to members of the Management Board in the form of an equity upfront award (EUA). The EUA vests immediately but is subject to a further holding period during which the performance, deferral and forfeiture provisions outlined below apply. The holding period for the EUA granted for fiscal year 2017 is twelve months. At time of publication, the EUA is granted as Deutsche Bank shares on the expiry of the holding period.

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

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

For fiscal year 2017 this means that, in light of the performance, deferral and forfeiture provisions, none of the members of the Management Board may realize the value of the REA granted for 2017 until 2022 at the earliest (four years after it was defined).

The number of share awards granted to members of the Management Board in 2018 for fiscal year 2017 in the form of EUA and REA will be calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2018.

Restricted incentive award
The non-share-based component of the deferred remuneration is granted as a deferred cash payment (restricted incentive award – RIA); this vests in three equal tranches over a period of three years. Special performance, deferral and forfeiture provisions apply during the deferral period. The final tranche of the RIA awarded to members of the Management Board for 2017 will be paid out in 2021 at the earliest.

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

The above-mentioned awards do not entail entitlements to interest or dividend payments. The plan rules for share-based remuneration components contain an antidilutive provision in the event of a capital increase.

Performance, deferral and forfeiture provisions

The EUA, RIA and REA remuneration components are subject to certain performance, deferral and forfeiture provisions during the deferral and holding periods. These provisions and periods form a core element of the structure of deferred remuneration. They ensure that the awards are aligned with future behavior and performance, and that certain events are also accounted for appropriately in remuneration over the long term. The REA and RIA remuneration components granted on a deferred basis are subject to performance conditions, i.e., clawback provisions linked to the performance of the Postbank Group or the Deutsche Bank Group. Under these provisions, up to 100 % of the outstanding RIA and REA tranches may be forfeited if the Postbank Group and/or the Deutsche Bank Group fail to satisfy the performance conditions relating to profit before tax. This means that up to one-third of the REA granted for 2017 can be forfeited for each year of the deferral period in which the performance conditions are not met. A further performance condition is the Common Equity Tier 1 provision, under which up to 100 % of the REA that has not yet vested is forfeited if, at the end of any given quarter prior to the expiry of the deferral period, the Common Equity Tier 1 ratio of the Deutsche Bank Group and of the Postbank Group drops below the applicable regulatory minimum capital (including an additional risk buffer of 200 basis points).

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

Variable remuneration for 2014 to 2016: grant, performance, deferral and forfeiture provisions

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board again with effect from fiscal year 2015, although no changes were made to the underlying structures. Accordingly, the explanations provided for fiscal year 2017 largely also apply to the conditions for the grant, performance, deferral and forfeiture of variable remuneration entitlement for fiscal years 2014, 2015, and 2016. This applies above all to the division of the variable remuneration into the remuneration components cash bonus, equity upfront award (EUA), restricted incentive award (RIA), and restricted equity award (REA). The following specifics must be taken into account.

a) Fiscal year 2016

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of EUA and REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017 (€ 18.499).

The above-mentioned remuneration components for fiscal year 2016 do not entail entitlements to interest or dividend payments.

b) Fiscal year 2015

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

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

c) Fiscal year 2014

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

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

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

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

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

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

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

Granting and payment of variable remuneration until the end of 2013

Under the remuneration system valid until the end of 2013, the variable remuneration was split into a short-term component (40 %) and a long-term component (60 %). It was not fully paid out in cash, even if the agreed targets were met. There were still outstanding long-term components in 2017 for the remuneration years 2012 to 2013; payment is and/or was due on the agreed dates in accordance with the contractual provisions applicable at the time the components were granted.

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

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

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

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

These remuneration mechanisms still affect the deferred remuneration components granted in the years 2012 to 2013 and continue to apply to this extent.

The converted phantom share amounts of the long-term component for base years 2012 (Tranche 3) and 2013 (Tranche 2) were paid out in 2017 after the expiry of the lock-up period. For this purpose, the remuneration components that had been converted into phantom shares of Deutsche Bank AG in 2016 were multiplied by the average Xetra closing price of Deutsche Bank shares on the last ten trading days (March 8 to 21, 2017) up to the end of the lock-up period (€18.00)[1]. The third and final tranche of the cash component of the long-term component for base year 2013 was additionally paid out in 2017 upon the sustainability criterion being satisfied. The other halves of the above tranches were converted into phantom shares of Deutsche Bank AG on the basis of the average share price (Xetra closing price) on the last ten trading days preceding March 22, 2017 (€18.00) and are due for payment in 2018 upon expiry of the lock-up period[2].

No dividend equivalent was calculated for the phantom shares that were blocked on the date of the Annual General Meeting of Deutsche Bank AG in 2017, because Deutsche Bank did not distribute any dividend for 2015.

Other benefits for Management Board members leaving the Company prematurely

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

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

Other provisions

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

[1]Because of the capital increase at Deutsche Bank AG that was completed on March 19, the price for March 21 (first ex rights quotation after the capital increase) was retrospectively increased by the price of the preemptive right (€2.21), with the result that the average price increased to €18.00. This resulted in corresponding additional payments.

[2]The total number of phantom shares was subsequently increased by 12.04 % to compensate for the capital increase by Deutsche Bank AG in 2017.

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

Remuneration of members of the Management Board

The Supervisory Board's resolutions establishing the variable remuneration for the members of the Management Board were discussed in depth at the end of January 2018 by the Compensation Control Committee, which prepared these for the full Supervisory Board. The Supervisory Board established the variable remuneration for the members of the Management Board for fiscal year 2017 on the basis of the recommendation made by the Compensation Control Committee.

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

The long-term component I and/or the restricted incentive awards are deferred, non-share-based remuneration and are subject to certain (forfeiture) provisions. In accordance with GAS 17, these are only included in the total benefits in the fiscal year in which they are paid out (i.e., the fiscal year in which unconditional payment is made), and not in the fiscal year in which the commitment, or the award, was originally introduced. Accordingly, the individual members of the Management Board received the following benefits for/in the years 2017 and 2016 for their work on the Management Board, including incidental benefits.

GAS 17

	Jan. 1.– Dec. 31, 2017 € thousand	Jan. 1.– Dec. 31, 2016 € thousand
Remuneration		
Performance-related components		
Without long-term incentive effect		
paid out immediately	733.5	716.9
With long-term incentive effect		
Cash		
long-term component I	252.0	578.0
restricted incentive award paid out	689.7	295.8
Share-based		
equity upfront award	733.5	716.9
restricted equity award	1,188.5	1,144.2
Total of performance-related components	**3,597.2**	**3,451.8**
Non-performance related components		
Fixed remuneration	3,822.5	4,150.0
Incidental benefits	181.4	157.4
Total	**7,601.1**	**7,759.2**

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of equity upfront awards (EUA) and restricted equity awards (REA) was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017 (€18.499). This resulted in the following number of share awards (rounded):

Year		Equity upfront award(s) (with holding period) €	Restricted equity award(s) (deferred with additional holding period) €
2016	**Total**	**34,580.25**	**55,594.90**

The number of share awards to be granted to members of the Management Board in 2018 for fiscal year 2017 in the form of equity upfront awards (EUA) and restricted equity awards (REA) will be calculated by dividing the respective euro amounts (see "Defined figures" in the grant table) by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2018. As this price was not available at the time of preparation of the consolidated annual financial statements, details of the share awards will be disclosed in the Notes for the following year.

Remuneration of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

The employee representatives received remuneration of €627.7 thousand in fiscal year 2017 as set out in their respective employment contracts.

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

Shareholdings of the members of the Management Board and Supervisory Board

As of December 31, 2017, no shares issued by Deutsche Postbank AG were held by members of the Management Board or the Supervisory Board.

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

D&O insurance

The members of the Management Board and the members of the Supervisory Board are covered by D&O insurance in line with international standards. If a claim is brought, the individual Management Board members are required to pay a deductible.

(55) Other disclosures

Deutsche Postbank AG is a member of the deposit protection fund of the Bundesverband deutscher Banken e.V. and of Entschädigungseinrichtung deutscher Banken GmbH's investor compensation scheme.

Postbank has furnished BHW Bausparkasse AG, Luxembourg, a guarantee in the amount of €12 million which will cover the first loss piece of a retail credit portfolio of the BHW branch in Luxembourg.

Significant restrictions on the transfer of assets within the Postbank Group

The transfer of assets and liabilities within a group can be restricted by legal, regulatory and contractual provisions. Within the Postbank Group, this affects assets of €15,506 million (previous year: €18,177 million) that are used to cover collateralized issues (*Pfandbriefe*), assets of €2,596 million (previous year: €2,918 million) that are used as collateral in securities repurchase agreements, and assets of €39 million (previous year: €38 million) that are furnished for clearing margins. For the first time, collateral of €706 million was furnished for OTC derivative exposures. In addition, assets in the amount of €46 million (previous year: €21 million) also serve to cover irrevocable payment obligations.

In addition, some Group companies are subject to legal restrictions on the distribution of profits in particular in accordance with section 268(8) and section 253(6) of the HGB and with respect to minimum capital requirements. However, the Group considers these restrictions to be insignificant.

(56) Members of executive bodies
Management Board

The members of the Management Board are:

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

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

Frank Strauss
Chairman of the Management Board

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

Marc Hess

Function	Company
Chairman of the Supervisory Board	BHW Holding AG, Hameln
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln

Susanne Klöss-Braekler

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

Philip Laucks
Member of the Management Board since June 1, 2017

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

Ralph Müller

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

Zvezdana Seeger
Member of the Management Board since January 1, 2018

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

Ralf Stemmer
Member of the Management Board until May 31, 2017

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

Hanns-Peter Storr

Function	Company
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board (since August 31, 2017)	Postbank Finanzberatung AG, Hameln
Member of the Supervisory Board	Postbank Systems AG, Bonn

Lars Stoy
Member of the Management Board since June 1, 2017

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

The members of the Supervisory Board of Deutsche Postbank AG are:

1. Shareholder representatives

Werner Steinmüller (Chairman)
Member of the Management Board of
Deutsche Bank AG, Dreieich-Buchschlag

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

Stefanie Heberling
Regional Manager, Retail Customers, central Ruhr region
Deutsche Bank Privat- und Geschäftskunden AG, Wuppertal

Tessen von Heydebreck
Chairman of the Board of Trustees of
Deutsche Bank Foundation, Berlin

Katja Langenbucher-Adolff
Professor for Private Law,
Corporate and Financial Law,
Goethe University Frankfurt am Main,
Frankfurt am Main

Karen Meyer
Global Chief Operating Officer, HR,
Deutsche Bank AG, Frankfurt am Main

Christiana Riley
CFO Corporate & Investment Banking
Deutsche Bank AG, Bad Homburg v.d.Höhe

Karl von Rohr
Member of the Management Board
of Deutsche Bank AG, Oberursel

Christian Sewing
Member of the Management Board
of Deutsche Bank AG, Osnabrück

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

2. Employee representatives

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

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

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

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

Jens Isselmann
Executive employee of Deutsche Postbank AG,
Bornheim

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

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

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

Eric Stadler
Chairman of Betriebs-Center für Banken AG's
Works Council, Markt Schwaben

Gerd Tausendfreund
Trade union secretary of the ver.di
Trade Union, Nidderau

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

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

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

Shareholder representatives:

Edgar Ernst

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

Tessen von Heydebreck

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

Karen Meyer

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

Karl von Rohr

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

Christian Sewing

Function	Company
Chairman of the Supervisory Board	Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main

Employee representatives:

Frank Bsirske
Deputy Chairman of the Supervisory Board

Function	Company
Deputy Chairman of the Supervisory Board	innogy SE, Essen
Deputy Chairman of the Supervisory Board	RWE AG, Essen
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board (until Juni 30, 2017)	IBM Central Holding GmbH, Ehningen
Member of the Board of Supervisory Directors	Kreditanstalt für Wiederaufbau, Frankfurt am Main

Susanne Bleidt

Function	Company
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the General Assembly of Members	Erholungswerk Post, Postbank, Telekom e.V., Stuttgart

Timo Heider

Function	Company
Deputy Chairman of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Deputy Chairman of the Supervisory Board	Pensionskasse der BHW Bausparkasse VVaG, Hameln
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main

Bernd Rose

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

Martina Scholze

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

Gerd Tausendfreund

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

Renate Treis
Member of the Supervisory Board until February 28, 2017

Function	Company
First substitute member of the General Assembly of Members	Erholungswerk Post, Postbank, Telekom e.V., Stuttgart

(57) Auditors’ fee in accordance with sections 285 no. 17 and 314(1) no. 9 of the HGB

	2017 €m	2016 €m
Audits of the financial statements	5.3	4.7
Other assurance of valuation	1.2	2.7
Tax advisory services	0.1	0.1
Other services rendered to the parent company or subsidiaries	0.6	2.5
Total	**7.2**	**10.0**

The fees for the fiscal year are presented net of value added tax in compliance with the requirements of IDW AcP HFA 36 “Disclosures on the Auditors’ Fee in Accordance with Sections 285 no. 17 and 314(1) no. 9 of the HGB.”

The audit services relate to the fees for auditing the consolidated financial statements, the audit of the single-entity financial statements of Deutsche Postbank AG and its subsidiaries, the audit of the consolidated reporting package as of December 31, 2017, and the review of the half-yearly financial report. The fees for other assurance services mainly comprise the review of the group reporting packages and statutory, contractual or voluntary assurance services. The fees for other services primarily consist of fees for project-related consulting services.

(58) Application of section 264(3) of the HGB
The following consolidated subsidiaries applied the simplification options contained in section 264(3) of the HGB in fiscal year 2017:

- PB Firmenkunden AG
- Postbank Beteiligungen GmbH
- Postbank Filialvertrieb AG
- Postbank Immobilien und Baumanagement GmbH
- Postbank Systems AG

(59) Disclosures in accordance with section 313(2) of the HGB

List of shareholdings

Name and domicile of the company	Equity interest %	Equity € thousand	Profit/loss for the period[1] € thousand
a) Subsidiaries			
Included in the consolidated financial statements			
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	197,860	7,025
BHW Bausparkasse Aktiengesellschaft, Hameln	100.0	952,432	37,159
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln	100.0	918,946	0[3]
BHW Holding AG, Hameln	100.0	727,503	0[3]
BHW Kreditservice GmbH, Hameln	100.0	6,980	4,110
Deutsche Postbank Finance Center Objekt GmbH, Schuttrange (Munsbach), Luxembourg	100.0	3,000	380
Deutsche Postbank Funding LLC I, Wilmington, Delaware, U.S.A.	100.0		[4]
Deutsche Postbank Funding LLC II, Wilmington, Delaware, U.S.A.	100.0		[5]
Deutsche Postbank Funding LLC III, Wilmington, Delaware, U.S.A.	100.0		[6]
Deutsche Postbank Funding Trust I, Wilmington, Delaware, U.S.A.	100.0	14	–19[4]
Deutsche Postbank Funding Trust II, Wilmington, Delaware, U.S.A.	100.0	88	–21[5]
Deutsche Postbank Funding Trust III, Wilmington, Delaware, U.S.A.	100.0	17	–17[6]
DSL Portfolio GmbH & Co. KG, Bonn	100.0	4,620	12
DSL Portfolio Verwaltungs GmbH, Bonn	100.0	58	1
PB Factoring GmbH, Bonn	100.0	11,546	0[3]
PB Firmenkunden AG, Bonn	100.0	1,100	0[3]
PB International S.A., Schuttrange (Munsbach), Luxembourg	100.0	57,735	2,346
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0	3,967,186	168,024[2]
Teilgesellschaftsvermögen PB 02	100.0	512,225	20,713
Teilgesellschaftsvermögen PB 08	100.0	855,263	25,039
Teilgesellschaftsvermögen PB 09	100.0	580,883	26,415
Teilgesellschaftsvermögen PB 11	100.0	684,254	30,056
Teilgesellschaftsvermögen PB 13	100.0	367,120	15,534
Teilgesellschaftsvermögen PB 14	100.0	366,878	16,965
Teilgesellschaftsvermögen PB 21	100.0	226,676	11,299
Teilgesellschaftsvermögen PB 26	100.0	310,220	17,647
Postbank Beteiligungen GmbH, Bonn	100.0	310,970	0[3]
Postbank Direkt GmbH, Bonn	100.0	19,004	3,145
Postbank Filialvertrieb AG, Bonn	100.0	31,135	0[3]
Postbank Finanzberatung AG, Hameln	100.0	67,285	2,070
Postbank Immobilien GmbH, Hameln	100.0	2,908	0[3]
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	18,874	0[3]
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn	90.0	23,098	532
Postbank Leasing GmbH, Bonn	100.0	500	0[3]
Postbank Service GmbH, Essen	100.0	5,010	4,885
Postbank Systems AG, Bonn	100.0	60,170	–2[3]
VÖB-ZVD Processing GmbH, Bonn	75.0	22,699	7,522[7]

Footnotes see page 151.

Name and domicile of the company	Equity interest %	Equity € thousand	Profit/loss for the period1[1] € thousand
a) Subsidiaries			
Not included in the consolidated financial statements[8]			
CREDA Objektanlage- und -verwaltungsgesellschaft mbH, Bonn	100.0	1,000	0[3]
EC EUROPA IMMOBILIEN FONDS NR. 3 GmbH & CO. KG in Insolvenz, Hamburg	65.2	–10,390	–6,745
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl „Rimbachzentrum" KG, Bad Homburg v. d. Höhe	74.9	0	–20
Postbank Akademie und Service GmbH, Hameln	100.0	1,020	16
SAB Real Estate Verwaltungs GmbH, Hameln	100.0	37	4
b) Other companies in which an equity interest of at least 20 % is held			
Not included in the consolidated financial statements[8]			
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Dresden „Louisenstraße" KG, Bad Homburg v. d. Höhe	30.6	0	–8
Fünfte SAB Treuhand und Verwaltung GmbH & Co. „Leipzig-Magdeburg" KG, Bad Homburg v. d. Höhe	41.2	0	–20
giropay GmbH, Frankfurt am Main	33.3	0	13
MT „CAPE BEALE" Tankschiffahrts GmbH & Co. KG, Hamburg	27.5	29	–883
MT „KING DANIEL" Tankschiffahrts GmbH & Co. KG, Hamburg	25.7	1,772	–3,396
MT „KING DOUGLAS" Tankschiffahrts GmbH & Co. KG, Hamburg	25.7	9,420	–2,902
SRC Security Research & Consulting GmbH, Bonn	22.5	4,971	942
Starpool Finanz GmbH, Berlin	49.9	407	68
c) Equity interests in large corporations in which Deutsche Postbank AG holds more than 5 % of the voting rights			
BSQ Bauspar AG, Nuremberg	14.1	29,044	–163
Landgesellschaft Mecklenburg-Vorpommern mit beschränkter Haftung, Leezen	11.0	48,990	3,379

[1]The data on equity and profit and loss for the year are based on the most recently adopted annual financial statements of the companies concerned.
[2]The company also includes the shares in Teilgesellschaftsvermögen PB 25 which are not held by a company belonging to the Postbank Group.
[3]Profit and loss transfer agreement within the Deutsche Postbank Group
[4]The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust I. These include both Deutsche Postbank Funding Trust I and Deutsche Postbank Funding LLC I.
[5]The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust II. These include both Deutsche Postbank Funding Trust II and Deutsche Postbank Funding LLC II.
[6]The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust III. These include both Deutsche Postbank Funding Trust III and Deutsche Postbank Funding LLC III.
[7]25 % of the share capital is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of Deutsche Postbank AG.
[8]These companies are not disclosed because they are neither strategically nor quantitatively material and are thus insignificant for the presentation of a true and fair view of the Group's net assets, financial position, and results of operations.

(60) Declaration of Conformity with the German Corporate Governance Code

Deutsche Postbank AG has not been listed since January 14, 2016. Since that time, the Supervisory Board and the Management Board of Deutsche Postbank AG have not been required to make a Declaration of Conformity pursuant to section 161 of the AktG. The most recent Declaration of Conformity made by the Supervisory Board and the Management Board on December 17, 2015, and the rationale contained therein, is no longer valid. Postbank has not otherwise undertaken to comply with the recommendations of the German Corporate Governance Code.

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 Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Bonn, February 21, 2018

Deutsche Postbank Aktiengesellschaft

The Management Board

Frank Strauss

Marc Hess

Susanne Klöss-Braekler

Philip Laucks

Ralph Müller

Zvezdana Seeger

Hanns-Peter Storr

Lars Stoy

INDEPENDENT AUDITOR'S REPORT

To Deutsche Postbank AG, Bonn

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Deutsche Postbank AG, Bonn, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Deutsche Postbank AG for the financial year from 1 January to 31 December 2017.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

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

1. Interest bonus liabilities

2. Provisions for litigation and redress

3. Provisions for restructuring

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

1. Matter and issue

2. Audit approach and findings

3. Reference to further information

Hereinafter we present the key audit matters:

1. Interest bonus liabilities

1. In the Deutsche Postbank AG's consolidated financial statements interest bonus liabilities amounting to € 957 million for home savings deposits are reported under the "Due to customers" balance sheet item as at 31 December 2017.

   Interest bonus liabilities are incurred in the case of unutilized loans or changes in interest rates by customers. The liabilities are measured on the basis of the Group entity's own measurement model, which estimates for each individual customer as to whether waiving the utilization of the home savings loan and, hence, the reimbursement of the arrangement fees and the retrospective payment of interest bonus is economically advantageous for the customer in lieu of alternative financing and therefore probable. The Group entity ascertains the expected payment date on the basis of past experience from the home savings collective. The measurement model and its parameters are selected on the basis of assumptions and judgments made by the executive directors of the Company. The primary assumptions relate to the comparative interest rate, the estimated probability for the customer with respect to the utilization of the interest bonus and reimbursement of the arrangement fees, as well as theoretical payment scenarios. This matter was of particular significance in the context of our audit, as the amount of the liabilities against this background depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to corresponding uncertainties.

2. As part of our audit, we conducted interviews and inspected the Group entity's underlying documents in order to obtain an understanding of how the processes used to calculate the liabilities are designed, of the measurement model, and of the measurement assumptions. In particular, we evaluated to what extent the measurement model used is appropriate to calculate the liabilities and the key assumptions made by the executive directors are appropriate and conclusive. Furthermore we assessed the appropriateness and functionality of the controls to ensure the completeness and correctness of the data used in the calculation as well as examined the mathematical accuracy of the calculations. In order to assess the probabilities used by the Group entity with respect to the utilization of interest bonus and the reimbursement of arrangement fees as well as the theoretical payment scenarios, we primarily assessed the comparison performed by the Group entity for estimates made for previous financial years with the subsequent actual results (backtesting) and analyzed the results in order to determine whether or not they confirm the measurement model used. We assessed the appropriateness of the comparative interest rate used by the Group entity by comparing this against market data and other publicly available information. We assessed the appropriateness of the payment outflows used in the measurement by comparing the theoretical payment scenarios with the data analyses from the home savings collective simulation.

   Based on our audit procedures and taking into consideration the information available, we were able to satisfy ourselves that the estimates and judgments made by the executive directors are appropriate overall for the purpose of appropriately measuring interest bonus liabilities.

3. The Company's disclosures on the liabilities are contained in the Note (4) „Accounting policies", (l) "Liabilities" and Note (29) "Due to customers" of the notes to the consolidated financial statements.

2. Provisions for litigation and redress

1. In the Deutsche Postbank AG's consolidated financial statements provisions for litigation and redress amounting to € 117 million are reported under the "Other provisions" balance sheet item as at 31 December 2017.

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

2. As part of our audit, we assessed the process implemented by the Group, including the relevant controls, to record legal risks, estimate the outcome of the proceedings, and account for litigation and redress. This assessment also included an evaluation of the Group's two types of material legal risks mentioned above. In the knowledge that estimated values bear an increased risk of accounting misstatements and that the executive directors' recognition and measurement decisions have a direct effect on consolidated profit, we assessed the recognition and appropriateness of the carrying amounts for both material legal risks, including by taking past experience into consideration with respect to the course and outcome of legal disputes and by evaluating the consistently applied calculation method. In addition to this and with respect to the overall legal disputes, we regularly conducted interviews with the executive directors and Deutsche Postbank AG's legal department for the Group entities in order to gain an understanding of current developments and of the reasons underlying the estimates concerning the outcomes of proceedings. Furthermore, we obtained external legal confirmations as at the balance sheet date.

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

3. The Company's disclosures on provisions are contained in the Note (4) "Accounting policies", (n) "Provisions" and Note (34) "Other provisions" of the notes to the consolidated financial statements.

3. Provisions for restructuring

1. In the Deutsche Postbank AG's consolidated financial statements staff-related provisions amounting to € 422 million are reported under the "Other provisions" balance sheet item as at 31 December 2017.

   These provisions include primarily obligations from the voluntary early retirement and severance payment program of the Group entities in connection with the planned merger of Deutsche Postbank AG and Deutsche Bank Privat- und Geschäftskunden AG as well as other obligations in connection with the reorganization of the sales organization. The amount of the provisions for planned offers and measures depends to a large extent on the estimates and assumptions made by the executive directors. Against this background and its material significance for the results of operations of the Group, this matter was of particular significance for our audit.

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

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

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

3. The Company's disclosures on provisions are contained in the Note (4) "Accounting policies", (n) "Provisions" and Note (34) "Other provisions" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

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

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

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

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

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Düsseldorf, 22 February 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

CONSOLIDATED FINANCIAL STATEMENTS: QUARTERLY AND MULTI-YEAR OVERVIEWS

CONSOLIDATED INCOME STATEMENT – QUARTERLY OVERVIEW[1]

	2017				2016[1]				2017	2016[1]
	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Jan.– Dec. €m	Jan.– Dec. €m
Interest income	884	872	897	902	976	957	1,006	993	3,555	3,932
Positive interest on financial liabilities	11	5	11	11	8	8	7	6	38	29
Interest expense	–351	–354	–369	–386	–434	–408	–455	–436	–1,460	–1,733
Negative interest on financial assets	–14	–15	–18	–20	–16	–15	–13	–10	–67	–54
Net interest income	530	508	521	507	534	542	545	553	2,066	2,174
Allowance for losses on loans and advances	–50	–37	21	–33	–63	–45	–35	–41	–99	–184
Net interest income after allowance for losses on loans and advances	480	471	542	474	471	497	510	512	1,967	1,990
Fee and commission income	278	290	288	304	286	261	264	280	1,160	1,091
Fee and commission expense	–63	–52	–53	–56	–62	–65	–63	–66	–224	–256
Net fee and commission income	215	238	235	248	224	196	201	214	936	835
Net trading income	28	32	41	11	30	11	0	9	112	50
Net income from investment securities	3	19	19	39	66	18	130	44	80	258
Administrative expenses	–1,028	–664	–664	–674	–751	–684	–711	–707	–3,030	–2,853
Other income	133	37	30	27	69	20	23	29	227	141
Other expenses	–16	–13	–14	–1	–15	–12	–63	–27	–44	–117
Profit/loss before tax	**–185**	**120**	**189**	**124**	**94**	**46**	**90**	**74**	**248**	**304**
Income tax	–10	27	–9	–6	44	–9	–16	–9	2	10
Profit/loss from ordinary activities after tax	**–195**	**147**	**180**	**118**	**138**	**37**	**74**	**65**	**250**	**314**
Non-controlling interests	–	–	–	–	–	–	–	–	–	–
Consolidated net profit	**–195**	**147**	**180**	**118**	**138**	**37**	**74**	**65**	**250**	**314**
Basic/diluted earnings per share €	–0.89	0.67	0.82	0.54	0.63	0.17	0.34	0.30	1.14	1.44

[1]Figures adjusted (see Note 6)

OTHER INFORMATION

CONDENSED STATEMENT OF COMPREHENSIVE INCOME – QUARTERLY OVERVIEW

	2017				2016[1]				2017	2016[1]
	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Jan.–Dec. €m	Jan.–Dec. €m
Profit/loss from ordinary activities after tax[1]	–194	146	181	117	138	37	74	65	250	314
Other comprehensive income after tax	3	–59	40	–121	–125	–24	–79	70	–137	–158
Items not reclassified to profit or loss, before tax	–2	–75	50	–66	–39	–93	–60	–33	–93	–225
Remeasurement gains/losses (–) on defined benefit plans	–2	–75	50	–66	–39	–93	–60	–33	–93	–225
Income tax on items not reclassified to profit or loss	6	4	–3	4	19	4	2	10	11	35
Items reclassified to profit or loss, before tax	0	11	–7	–59	–106	65	–21	93	–55	31
Change in revaluation reserve	0	11	–7	–59	–106	65	–21	93	–55	31
Unrealized gains/ losses (–) for the period, before tax	–24	1	–22	–48	–121	32	61	91	–93	63
Gains (–)/losses reclassified to profit or loss, before tax	24	10	15	–11	15	33	–82	2	38	–32
Income tax on items reclassified to profit or loss	–1	1	0	0	1	0	0	0	0	1
Total comprehensive income[1]	**–191**	**87**	**221**	**–4**	**13**	**13**	**–5**	**135**	**113**	**156**

[1]Figures adjusted (see Note 6)

CONSOLIDATED INCOME STATEMENT – MULTI-YEAR OVERVIEW

	2013 €m	2014 €m	2015[1] €m	2016[1] €m	2017 €m
Interest income	5,158	4,734	4,180	3,961	3,593
Interest expense	–2,695	–2,249	–1,942	–1,787	–1,527
Net interest income	2,463	2,485	2,238	2,174	2,066
Allowance for losses on loans and advances	–319	–265	–209	–184	–99
Net interest income after allowance for losses on loans and advances	2,144	2,220	2,029	1,990	1,967
Fee and commission income	1,376	1,210	1,074	1,091	1,160
Fee and commission expense	–256	–259	–252	–256	–224
Net fee and commission income	1,120	951	822	835	936
Net trading income	–53	–6	56	50	112
Net income from investment securities	274	415	27	258	80
Administrative expenses	–3,177	–2,754	–2,593	–2,853	–3.030
Other income	129	364	889	141	227
Other expenses	–119	–758	–646	–117	–44
Profit/loss before tax	318	432	584	304	248
Income tax	13	–172	27	10	2
Profit/loss from ordinary activities after tax	331	260	611	314	250
Non-controlling interests	–1	–1	–1	–	–
Consolidated net profit	**330**	**259**	**610**	**314**	**250**
Cost/income ratio (CIR)	83.8 %	83.4 %	80.3 %	85.9 %	89.9 %
Return on equity (RoE)					
before tax	5.5 %	6.9 %	8.8 %	4.3 %	3.4 %
after tax	5.7 %	4.2 %	9.2 %	4.4 %	3.4 %

[1]Figures adjusted (see Note 6)

CONSOLIDATED BALANCE SHEET – MULTI-YEAR OVERVIEW

Assets	Dec. 31, 2013 €m	Dec. 31, 2014 €m	Dec. 31, 2015[1] €m	Dec. 31, 2016[1] €m	Dec. 31, 2017 €m
Cash reserve	1,739	1,230	1,357	2,291	2,020
Loans and advances to other banks	20,096	19,602	15,876	13,108	10,821
Loans and advances to customers	101,313	98,340	98,933	101,996	106,997
Allowance for losses on loans and advances	–1,478	–1,361	–923	–998	–997
Trading assets	1,824	697	647	475	310
Hedging derivatives	113	119	78	112	47
Investment securities	34,015	33,477	30,768	26,767	22,605
Intangible assets	2,028	1,952	1,902	1,963	2,038
Property and equipment	698	683	678	699	715
Current tax assets	115	148	101	144	74
Deferred tax assets	101	73	77	198	229
Other assets	717	283	514	388	477
Assets held for sale	157	–	489	47	9
Total assets	**161,438**	**155,243**	**150,497**	**147,190**	**145,345**

[1]Figures adjusted (see Note 6)

Equity and Liabilities	Dec. 31, 2013 €m	Dec. 31, 2014 €m	Dec. 31, 2015[1] €m	Dec. 31, 2016[1] €m	Dec. 31, 2017 €m
Deposits from other banks	18,282	17,425	15,341	13,133	12,065
Due to customers	121,450	120,493	119,150	118,918	118,699
Debt securities in issue	7,342	4,571	3,446	3,339	3,215
Trading liabilities	1,681	767	665	409	217
Hedging derivatives	460	298	208	42	27
Provisions	688	854	703	907	1,138
a) Provisions for pensions and other employee benefits	93	155	56	254	328
b) Other provisions	595	699	647	653	810
Current tax liabilities	80	104	110	98	39
Deferred tax liabilities	70	41	9	17	22
Other liabilities	833	526	466	541	740
Subordinated debt	4,358	3,699	3,239	2,567	2,068
Liabilities directly related to assets held for sale	168	–	–	–	–
Equity	6,026	6,465	7,160	7,219	7,115
a) Issued capital	547	547	547	547	547
b) Share premium	2,010	2,010	2,010	2,191	2,191
c) Retained earnings	3,134	3,644	3,987	4,167	4,127
d) Consolidated net profit	330	259	610	314	250
Non-controlling interests	5	5	6	–	–
Total equity and liabilities	**161,438**	**155,243**	**150,497**	**147,190**	**145,345**

[1]Figures adjusted (see Note 6)

SEGMENT REPORTING – MULTI-YEAR OVERVIEW

	Retail Banking					Business and Corporate Banking					Financial Markets				
	2013 €m	2014 €m	2015 €m	2016[1] €m	2017 €m	2013 €m	2014 €m	2015 €m	2016[1] €m	2017 €m	2013 €m	2014 €m	2015 €m	2016[1] €m	2017 €m
Net interest income	2,485	2,591	2,303	2,145	2,023	302	277	358	344	364	115	47	5	–319	–322
Net trading income	17	–10	22	12	56	–2	1	1	7	–1	–52	3	33	31	57
Net income from investment securities	0	0	0	90	1	0	–10	–2	0	0	22	50	29	154	66
Net fee and commission income	908	877	731	652	742	90	83	126	122	133	–14	–15	–21	–23	–23
Total income	**3,410**	**3,458**	**3,056**	**2,899**	**2,822**	**390**	**351**	**483**	**473**	**496**	**71**	**85**	**46**	**–157**	**–222**
Administrative expenses	–1,980	–1,707	–1,434	–1,311	–1,276	–95	–79	–91	–110	–110	–63	–51	–44	–11	–9
Allowance for losses on loans and advances	–210	–221	–172	–143	–134	–38	–37	–36	–41	35	–2	1	1	0	0
Other income	31	4	49	20	24	9	16	2	2	1	19	1	1	0	0
Other expenses	–31	–222	–146	–87	–11	0	–1	–1	0	–6	0	–3	0	–1	0
Allocations	–516	–783	–832	–992	–1,186	–92	–99	–149	–116	–107	–33	–38	–42	–135	–126
Profit/loss before tax	**704**	**529**	**521**	**386**	**239**	**174**	**151**	**208**	**208**	**309**	**–8**	**–5**	**–38**	**–304**	**–357**
Cost/income ratio (CIR)	**75.1 %**	**79.8 %**	**79.7 %**	**82.9 %**	**87.8 %**	**49.8 %**	**51.2 %**	**53.2 %**	**50.8 %**	**48.7 %**	**107.5 %**	**107.3 %**	**178.9 %**	**–30.1 %**	**–53.9 %**
Return on equity before taxes (RoE)	**28.3 %**	**19.9 %**	**17.2 %**	**11.7 %**	**7.1 %**	**27.1 %**	**25.2 %**	**42.3 %**	**26.9 %**	**36.5 %**	**–0.7 %**	**–0.5 %**	**–2.6 %**	**–10.1 %**	**–11.5 %**

[1]Figures adjusted (see Note 39)

	NCOU			Cost Centers					Group				
	2013 €m	2014 €m	2015 €m	2013 €m	2014 €m	2015 €m	2016[1] €m	2017 €m	2013 €m	2014 €m	2015 €m	2016[1] €m	2017 €m
Net interest income	–416	–430	–369	–23	0	–59	4	1	2,463	2,485	2,238	2,174	2,066
Net trading income	–15	0	0	–1	0	0	0	0	–53	–6	56	50	112
Net income from investment securities	–60	–10	13	312	385	–13	14	13	274	415	27	258	80
Net fee and commission income	18	6	6	118	0	–20	84	84	1,120	951	822	835	936
Total income	**–473**	**–434**	**–350**	**406**	**385**	**–92**	**102**	**98**	**3,804**	**3,845**	**3,143**	**3,317**	**3,194**
Administrative expenses	–27	–25	–13	–1,012	–892	–1,011	–1,421	–1,635	–3,177	–2,754	–2,593	–2,853	–3,030
Allowance for losses on loans and advances	–69	–8	–2	0	0	0	0	0	–319	–265	–209	–184	–99
Other income	1	3	4	69	340	833	119	202	129	364	889	141	227
Other expenses	–32	–100	–16	–56	–432	–483	–29	–27	–119	–758	–646	–117	–44
Allocations	–53	–40	–38	694	960	1,061	1,243	1,419	0	0	0	0	0
Profit/loss before tax	**–653**	**–604**	**–415**	**101**	**361**	**308**	**14**	**57**	**318**	**432**	**584**	**304**	**248**
Cost/income ratio (CIR)	**–23.7 %**	**38.4 %**	**–19.8 %**	**–**	**–**	**–**	**–**	**–**	**83.8 %**	**83.5 %**	**80.3 %**	**85.9%**	**89.9%**
Return on equity before taxes (RoE)	**–44.3 %**	**–31.7 %**	**–25.7 %**	**–**	**–**	**–**	**–**	**–**	**5.5 %**	**6.9 %**	**8.8 %**	**4.3%**	**3.4%**

[1]Figures adjusted (see Note 39)

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