# Deutsche Postbank AG, Bonn
# Annual Financial Statements (HGB)
# as of December 31, 2010

2010

Postbank

Deutsche Postbank AG, Bonn
Annual Financial Statements for the Period Ended December 31, 2010
and Management Report for Fiscal Year 2010

# Deutsche Postbank AG Management Report

## I Business and Environment

### Organization and management

**Business activities**

Deutsche Postbank AG (Postbank) provides financial services for retail and corporate customers as well as other financial services providers primarily in Germany. The focus of its business activities is Retail Banking. Its work is rounded out by the business it conducts with corporate customers (payment transactions and financing), settlement services (Transaction Banking) as well as money market and capital market activities.

**Key locations**

The head office of Postbank is located in Bonn and for parts of the Financial Markets division in Frankfurt am Main. In addition, the number of branch locations operated by Postbank across Germany was 1,104 at the end of 2010. The subsidiary BHW Bausparkasse AG is domiciled in Hamelin.

In European regions outside Germany, Postbank is represented in its retail banking business in Luxembourg and in Italy.

In the divisions of Corporate Banking and Financial Markets, Postbank is also represented by subsidiaries in Luxembourg and New York as well as by a branch in London.

**Fundamental sales markets and competitive position**

In Retail Banking, Postbank conducts its business almost exclusively in Germany and is the largest single-entity institution when viewed in terms of the number of customers. Its major product fields are savings, checking accounts and private mortgage lending as well as home savings through its subsidiary BHW Sparkasse AG. Postbank is among the leaders in Germany in each of these areas, based on balance-sheet volumes. Private retirement provision solutions, personal loans and the securities business round off the product range offered to retail customers. In these areas, Postbank offers some products and services as part of partnerships with other banks and insurance companies. The cooperation with the majority shareholder, Deutsche Bank AG – which began in 2008 and has been and will continue to be intensified – is a key element in this area. 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 provider, we focus in this area in particular on German SMEs. Postbank is also currently the largest provider of the in-sourcing of payment transaction services. With four clients and some 8 billion transactions per year, it has achieved a good competitive position in a market characterized by a comparatively small number of providers.

**Group management at Postbank**

Postbank is responsible for the management of the business throughout the Group.

The management within the Postbank Group is based on an integrated and consistent system of key performance indicators that is uniform Group-wide. The system links targets, planning, operational management, performance measurement and remuneration. The objective of this management approach is to optimize profitability and efficiency.

The central profitability target for the capital market-oriented management of the Postbank Group is the expectation of returns on equity in accordance with IFRSs, as measured by return on equity (RoE) before and/or after taxes. This includes profit after tax, a parameter that allows reconciliation from profitability to efficiency.

Through the use of the fundamental earnings components of total income and administrative expenses, the cost/income ratio (CIR) can be determined as the central benchmark for income and productivity management, and, as a result, for efficiency. It measures the relation of administrative expenses to total income before the allowance for losses on loans and advances.

As the most critical parameter used to assess and manage income power, total income includes in particular net interest income as the key income indicator in the customer business.

On 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 conducted in a similar manner to the way it is performed on the Group level, in which expectations for returns are measured on the basis of RoE before taxes. The allocation of equity to the segments is based on their risk capital requirements.

The previously mentioned income and expense figures serve as management parameters on the segment level. In the core business, the income drivers of volume, margins and risk as well as the contribution margin are also taken into account in management.

For operational management, the strategic and operational targets are further defined as key performance indicators (KPIs) on the basis of balanced scorecards and subjected to regular reviews. This assures that all business activities are focused on achieving company objectives.

In addition to the previously mentioned, established management parameters, Postbank began in 2010 to add a risk/return ratio to its management framework. Similar to RoE, the return is calculated on the basis of regulatory capital and forms a fundament basis for decision making on the individual transaction level and the aggregate level. Management of the return on the basis of economic capital is being prepared. Both resources are expected to yield an appropriate return, which is derived from the return expectations of the capital market and to be generated by both the Group and individual business units.

The variable remuneration of Management Board members, executives and employees in the Postbank Group is closely linked to this management system. It is based on loss/profit before tax and the CIR. As a result of new regulatory requirements for our executives, risk takers and the Management Board, a sustainability factor will be used to calculate a portion of the variable remuneration, the so-called earnings or long-term component (which makes up 30 % to 60 % of variable remuneration). The earnings or long-term component itself is evaluated after the end of the fiscal year, withheld, and then evaluated with the sustainability factor in the following third year. For Management Board members this occurs in the following fourth year. At that time, where appropriate, it becomes due and is paid out, or it is forfeited without compensation.

This sustainability factor is based on the concept of economic value added and further anchors value-focused, sustainability thinking in the incentive system at Postbank.

Within the framework of the implementation of principles for solid remuneration practices developed by the Financial Stability Board (FSB), the German Federal Ministry of Finance decided in October 2010 to approve a regulation that replaced or amended the requirements of Circular 22/2009 issued by the German Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin) on December 21, 2009. The regulation governs the supervisory standards that apply to the remuneration systems of institutions. Postbank is currently conducting an intensive review to determine whether the current remuneration system, which was developed and implemented on the basis of the circular, satisfies these requirements and whether modifications must be made to it.

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

**Share capital, voting rights, and transfer of shares**

Postbank's share capital amounted to €547,000,000 as of December 31, 2010, and is composed of 218,800,000 no-par value registered shares. Each share conveys the same statutory rights and obligations and grants the holder one vote at the Annual General Meeting. No shareholder or group of shareholders is entitled to special rights, in particular those conveying powers of control.

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

**Equity interests in excess of 10 %**

Deutsche Bank AG, Frankfurt am Main, holds through DB Finanz-Holding GmbH, Frankfurt am Main, approximately 52 % of Postbank shares.

The Federal Republic of Germany holds an 80 % equity interest in KfW Bankengruppe, Frankfurt am Main, which in turn holds an interest of around 30.5 % in Deutsche Post AG, which has an interest in Postbank of around 39.5%.

The free float traded on the stock exchanges therefore amounts to around 8.5 % of Postbank's share capital.

**Powers of the Management Board to issue or repurchase shares**

By way of a resolution adopted by the Annual General Meeting on April 22, 2009, the Management Board was 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 €273.5 million up to April 21, 2014 by issuing new no-par value registered shares against cash and/or non-cash contributions including mixed non-cash contributions (Authorized Capital).

The shareholders are generally granted pre-emptive subscription 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 Annual General Meeting on April 29, 2010, approved the contingent increase in share capital by up to €273.5 million by issuing up to 109.4 million new no-par value registered shares (Contingent Capital). The purpose of the contingent capital increase is to grant no-par value registered shares to holders or creditors of convertible bonds and/or bonds with warrants, participating bonds and/or profit participation certificates (or a combination of these instruments), which are issued or guaranteed until April 28, 2015 by the Company or an enterprise it controls or an enterprise in which the Company holds a majority ownership and which provide for conversion or option rights for new no-par value registered shares of the Company, or establish a conversion obligation. The authorization of the Annual General Meeting on April 29, 2010 provides the basis for the issue and guarantee.

The authorization granted by the Annual General Meeting on April 22, 2009, concerning Contingent Capital I and Contingent Capital II was rescinded as a result of a decision made by the Annual General Meeting on April 29, 2010.

Furthermore, the Management Board was authorized during the Annual General Meeting of Postbank on April 29, 2010, to purchase own shares for the purpose of securities trading in accordance with section 71 (1) no. 7 of the *Aktiengesetz* (AktG – German Stock Corporation Act) totaling up to 5 % of the relevant share capital or for other purposes in accordance with section 71 (1) no. 8 of the AktG to acquire up to 10 % of the share capital. In accordance with the legal provisions, the aggregate number of own shares held may not account for more than 10 % of the share capital. The authorization took effect at the end of the Annual General Meeting and will remain in effect until April 28, 2015. The authorization that existed at the time of the Annual General Meeting and extended until October 21, 2010, concerned the purchase of own shares in accordance with Section 71 (1) no. 7 and 8 of the AktG. It was rescinded when the new authorizations took effect.

The details are provided in the motions resolved by the Annual General Meeting on agenda items 6, 7 and 9 of the Annual General Meeting on April 29, 2010, which are also available on the Company's website.

In the year under review, the Bank made no use of its authorization to purchase own shares. At the balance sheet date, Postbank did not hold any treasury shares.

**Appointment of Management Board members**

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

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

**Amendments to the Articles of Association**

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

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

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

The contractual relationship described above is unaffected by the takeover bid by Deutsche Bank AG and the purchase of a total of approximately 52 % of shares in Deutsche Postbank AG (see above) and has not been terminated by Talanx Aktiengesellschaft or its subsidiaries PBV Lebensversicherung AG, PB Versicherung Aktiengesellschaft and PB Lebensversicherung Aktiengesellschaft.

**Compensation agreement concerning takeover bids**

No compensation agreements in the case of a takeover bid have been concluded with current members of the Management Board of Deutsche Postbank AG.

## The Declaration on corporate governance in accordance with section 289a of the HGB

The corporate governance declaration is available on our website at www.postbank.de/ir.

## Remuneration of the Management Board and the Supervisory Board

**Structure of the remuneration of the Management Board in fiscal year 2010**

The overall structure of the remuneration of the Management Board and the significant contract components are stipulated and regularly reviewed by the Supervisory Board of Deutsche Postbank AG.

The Supervisory Board resolves the appropriateness of the remuneration of the members of the Management Board of Deutsche Postbank AG on the basis of a recommendation by the Executive Committee, taking into account the Company's performance, the sector, and the prospects for the future.

The level of remuneration for members of the Management Board is determined on the basis of the size and activity of the Company, its economic and financial situation, and the tasks of the Management Board members in question. Remuneration is calculated so that it is appropriate and competitive in the national and international job market and therefore offers an incentive for dedicated and successful work. The amount of remuneration paid is performance-linked.

Overall remuneration consists of fixed and performance-related components.

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

The annual bonus is the performance-related component.

The annual bonuses awarded to the members of the Management Board are based on the achievement of quantitative and/or qualitative targets.

These targets form part of a target agreement established at the start of each fiscal year (base year). The size of the bonuses is based on the degree to which predetermined target values are reached or exceeded. The size of the bonus is capped on the basis of individual agreements.

The annual bonus is not paid out in full on an annual basis, even when the targets agreed have been reached. Forty percent of the annual bonus calculated in accordance with the degree to which the target was reached is paid out directly in the following year (short-term component). Sixty percent of the annual bonus calculated on the basis of the degree to which the target was reached depends on the Group's sustainable performance (long-term component). The sustainability of the Group's performance is determined three fiscal years after the base year (sustainability phase). The long-term component is not paid out until after the sustainability phase has ended and then only if the relevant sustainability criterion to be established by the Supervisory Board has been met. If the sustainability criterion is positive in the aggregate over the sustainability phase, or if it is the same or better than in the base year during the final year of the sustainability phase, the long-term component is paid out in the fourth year following the base year. Otherwise, the payment is forfeited without compensation. Remuneration of the Management Board is thus affected by any negative performance by the Company during the entire measurement period (malus system).

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

In accordance with the recommendation of the German Corporate Governance Code, the Company will provide compensation for no more than the remainder of the contract term in instances in which a member of the Management Board ends his or her service on the Board prematurely without cause, and will limit the payment to a maximum of two base-pay installments in addition to a maximum of 40 % of twice the maximum annual performance-related remuneration (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 shall as a rule be paid pro rata up to the end of the agreed term of the contract, for a maximum of six months.

The amendments to the remuneration system required as a result of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions) and other regulatory measures are currently being examined in detail and implemented.

### Remuneration of the Supervisory Board

Deutsche Postbank AG's Annual General Meeting last changed the remuneration of the Supervisory Board in 2004, adjusting it in line with the German Corporate Governance Code. 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 consists of a fixed and an annual performance-related component, plus a performance-related component with a long-term incentive effect. This reflects the responsibilities and scope of activity of the Supervisory Board's work and the economic performance of Deutsche Postbank AG. The positions of Chairman and Deputy Chairman as well as the membership of committees are reflected in the remuneration.

The remuneration of a full member of the Supervisory Board who is not a member of a committee is as follows: The fixed annual component amounts to €15,000, while the variable annual component amounts to €300 for each €0.03 by which the consolidated net profit per share for the respective fiscal year exceeds the amount of €2.00. Members of the Supervisory Board will be entitled to performance-related annual remuneration with a long-term incentive effect amounting to €300 for each 1 % by which the consolidated net profit per share for the second fiscal year following the fiscal year under review exceeds the consolidated net profit per share of the fiscal year preceding the fiscal year under review.

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

For further information on and explanations of the remuneration of the Management Board and Supervisory Board, please see the Corporate Governance Report or the notes.

### Employees

At the end of 2010, Deutsche Postbank AG employed 4,443 people, on a full-time equivalent basis, seven fewer than on December 31, 2009.

Approximately 36 % of the total number are active civil servants. 17.8 % of our employees have part-time employment contracts.

## Macroeconomic environment in 2010

### World's economy recovers from the crisis

In 2010, the world's economy quickly got back on track following the deep recession it experienced the previous year. High growth rates were generated particularly during the first half of the year, while economic momentum slowed during the second half. The global upswing was fueled by emerging countries, but recovery trends also gained the upper hand in industrial countries. The upswing was characterized by unusually large differences in economic performance among regions and among individual countries in the regions. Overall, world economic output rose by nearly 5 % in 2010 following a drop of 0.6 % in the previous year.

The United States forcefully emerged from the recession at the beginning of 2010. As the year continued, though, the pace of growth slowed once again because the economic recovery lacked the required breadth. Nonetheless, a significant rise in investments in machinery and equipment occurred: These expenditures climbed from a low level and grew by about 15 %. By contrast, private consumption rose by only 1.8 % as the country's job market remained weak. The U.S. economy continued to be hurt by investments in construction, which fell sharply once again. Exports also created a drag on growth as the considerable increase produced by exports was offset by an even stronger rise in imports. As a result, gross domestic product (GDP) increased only by 2.9 %, even though domestic demand grew by 3.2 %.

With a good 9 %, Asia's emerging countries again produced a high growth rate, serving as the driver of the global recovery during 2010 in the process. With a rise of 10.3 % in GDP, China once more produced a leading result. Its industry profited from the strong recovery of world trade. Exports skyrocketed compared with the previous year, jumping by 31 %. At the same time, growing domestic demand resulted in an even stronger rise in imports – which shot up by nearly 39 %. In the process, China's trade surplus dropped slightly to about $183 billion. Japan too experienced a strong recovery in 2010. In particular, exports rose markedly, climbing a good 24 %. By Japanese standards, private consumption also increased significantly by producing an increase of 1.9 %. Even though investments nearly stagnated, GDP increased by 4.0 % in 2010.

As a whole, the euro zone recovered from the deep recession it experienced in the previous year. But GDP growth was only moderate, rising by 1.7 %. This rise largely resulted from inventory buildup. By contrast, gross capital expenditures decreased slightly. Private consumption saw a moderate increase. Amid the overall modest growth rate in the euro zone, the economic performance of individual countries evinced major differences. One cause of this very dissimilar trend is rooted in industrial structures: Export-oriented industrial branches are profiting disproportionately from the recovery of the world's economy. On the other hand, several members of the euro zone had to battle massive structural problems and excessive government budget deficits. This has resulted in cuts in government spending and tax increases, creating a strong drag on growth in the affected countries.

### Germany: strongest growth since reunification

The German economy recovered at an unusually fast pace in 2010. GDP rose by 3.6 % compared with the previous year. This was the country's strongest growth rate since reunification. Exports initially generated strong economic momentum as the global recovery quickly increased demand for capital goods. Because capital goods are a core area of the German export industry, Germany was able to profit particularly from this trend: German exports rose markedly by 14.2 % in 2010. Even though imports climbed steeply as well, exports contributed 1.1 percentage points to GDP growth. As 2010 proceeded, the foundation of growth expanded. Initially, investments in machinery and equipment rose sharply, climbing by 9.4 %. Investments in construction grew by 2.8 %. Residential construction was particularly strong, rising by 4.4 %. By contrast, investments in commercial construction increased by only 0.7 %, and public-sector investments in construction even fell by 0.9 % – in spite of the continuing momentum being generated by an infrastructure program. Changes in companies warehousing practices also had a positive effect on economic growth. After inventories were massively reduced in 2009, they normalized in 2010. This resulted in a contribution to GDP growth that totaled 0.8 percentage points.

Private consumption climbed by a real 0.5 % in Germany. It began 2010 at a moderate pace, but accelerated its growth rate as the year progressed. Private households profited from continuing stability in price levels. The inflation rate was moderate with an annual average of 1.1 %. Job-market trends also had a positive effect as the powerful recovery fueled employment. On average, the number of unemployed people fell by 179,000 during the year. The unemployment rate decreased by 0.5 percentage points to 7.7 %. The number of people working shortened workweeks plunged during 2010.

In general, macroeconomic developments in Germany and other major economies in 2010 were much more favorable than we had expected at the time of our last Annual Report.

### Market developments

Financial markets were impacted by a range of very different factors during 2010. Although economic trends were comparatively positive, fears of a double-dip recession – particularly in the United States – triggered severe fluctuations in some market segments. The monetary policy pursued by leading central banks remained very expansive. Nonetheless, the central banks had to alter their strategies as the year progressed. Within the euro zone, the sovereign-debt crisis caused major problems. These developments had very different effects on various segments of financial markets, resulting in widely divergent trends.

No uniform trend was seen in international stock markets during 2010. By international comparison, share performance on the German stock market was especially positive. Prices of German equities profited from the strong recovery of the country's economy and rising global demand for industrial goods. Because the DAX is heavily weighted toward industrial stocks, the German blue-chip index climbed by more than 16 % during the year. By contrast, the EURO STOXX 50 fell by almost 6 %. The key reason for this poor performance – both in absolute and relative terms – was the high share of financial stocks in this index. Because financial stocks were hurt by the European sovereign-debt crisis and fell accordingly, they weighed down the performance of the entire index. On the U.S. stock market, no clear trend evolved through late summer. The positive impact of rising corporate profits was offset by recession fears that temporarily flared up. As the economic outlook improved, stock prices in the United States rose steeply. For the year of 2010, the S&P 500 climbed by 12.8 %. Trends among corporate bonds were mixed. The risk premium for investment-grade bonds rose slightly in 2010 compared with the previous year's level – not least as a result of the uncertainties unleashed by the sovereign-debt crisis. In the high-yield sector, by contrast, the risk premium fell moderately. Falling default risks fueled by the economic recovery had a positive effect here.

Beginning in the second quarter of 2010 in particular, massive disruptions occurred among the government bonds issued by euro zone members. After Greece felt the initial pressure, fears emerged that other periphery members of the euro zone could have problems servicing their bonds. A relief package put together by EU members and the IMF at the beginning of May totaling up to €110 billion was able to calm markets only temporarily. Risk premiums, particularly for Greek, Portuguese, Irish and Spanish government bonds, shot up once again. The governments responded to this development by creating a comprehensive rescue package for member countries that were experiencing difficulties. This package has a total volume of €750 billion pledged by the EU, members of the euro zone and the

IMF. Furthermore, the European Central Bank (ECB) decided to buy the bonds of euro zone members as a way of ensuring that markets could continue to operate. The initial purchases were made shortly after the decision was announced. In the beginning, the package of measures helped stop the rise of risk premiums. But these premiums climbed further as the year progressed. The trend differed from country to country. Ireland was particularly hard hit as a result of the problems created by the crisis in the Irish banking industry and the subsequent impact on the government's budget. Even though the Irish government did not have any immediate refinancing needs, the situation became so threatening that Ireland began to draw on the European Financial Stability Facility in November 2010. The risk premium on Portuguese bonds continued to rise at the end of 2010. But the yield on its bonds remained at a level that enabled the Portuguese government to continue obtaining refinancing on the capital market. The yield premium for Spanish bonds climbed at the end of the year following a long phase of stability. The interest rates demanded by the market, however, remained well below the level at which funds from the European facility could be sought.

In 2010, leading central banks continued to apply their very expansive monetary policies. However, they took different approaches in the measures they introduced. The U.S. Federal Reserve (Fed) left its benchmark rate at 0 % to 0.25 %. In the fall, the Fed also stepped up its "quantitative easing" in response to what it considered to be an overly weak recovery and the low rate of price increases: It decided to purchase $600 billion in U.S. Treasuries in order to increase liquidity in the overall economy and thus stimulate growth. This bond purchasing program is scheduled to run through mid-2011. The ECB kept its benchmark rate constant at 1.0 % during 2010. But it decided early in the year to let some of the special liquidity-generating measures it took during the crisis to gradually expire. This decision applied in particular to 12- and six-month tenders that were not replaced upon maturity. During the European government-debt crisis, the ECB found it necessary to discontinue other exit measures from its very expansive monetary policies. As a result, it decided to continue the distribution of all tenders for the remaining refinancing business through the end of the year. For the first time, it also began in May 2010 to buy government bonds of euro zone members in order to ensure that markets remained functional. The partial withdrawal of special monetary actions drove up money market rates in the euro zone. For instance, the three-month Euribor, which was well below the main refinancing rate in the first half of 2010, had risen to 1.0% by year's end.

Trends in capital market interest rates in the euro zone were dominated well into the summer months by the zone's government-debt crisis, resulting in a "flight to quality." As a result, yields of 10-year German bunds fell from about 3.4 % at the beginning of the year to a historic low of 2.1 % in August. The improved outlook for the global economy lifted yields at the end of the year. In 2010, yields of German bunds fell by more than 0.4 percentage points to nearly 3 %. The yields of 10-year U.S. Treasuries fell by more than 0.4 percentage points to about 3.3 % during the same period. As a result, the yield curve in both the euro zone and the United States became somewhat flatter.

Economic trends and the European government-debt crisis were the driving forces on foreign exchange markets as well. As the economy quickly picked up steam in the first months of the year, the U.S. dollar strengthened against the euro, and the intensification of the euro zone's debt crisis exerted further downward pressure on the currency. Beginning the year at a rate of more than $1.43, the euro hit a low for the year of nearly $1.20 by June. A temporary easing of the debt crisis and, above all, fears of a double-dip recession in the United States then applied pressure to the dollar. The euro climbed to a rate of more than $1.40 in the fall before it headed down once again. By the end of the year, the euro stood at about $1.34, 6.7 % below its rate at the end of the previous year.

The markets developed differently from the expectations we expressed in last year's Annual Report. We assumed that interest rates would rise slightly and that capital market rates would increase moderately in the euro zone during 2010. On the other hand, we correctly forecast that the yield curve would flatten slightly.

**Sector situation**

In 2010, the direct impact of the global financial crisis that began in mid-2007 moved far into the background. Around the world, financial institutions reported a relatively low total of writedowns, adjustments and losses on problematic assets for 2010. On the other hand, the indirect impact of the crisis continued to be extensively felt. In the United States alone, 157 banks declared bankruptcy during the reporting year, more than the 140 institutions that collapsed in 2009. To the general public, the debt crisis experienced by the so-called periphery countries of the euro zone emerged as a critical factor. Default insurance for the bonds issued by these countries climbed substantially in 2010. The related decreases in the prices of various bonds may have had a significant negative impact at times on the trading books of some financial institutions.

Since the turn of the year 2010/2011, the German Financial Market Stabilization Fund SoFFin has given no additional support to credit institutions. But it continues to exert control over existing stabilization support. In the fourth quarter, the guarantees extended by the fund decreased significantly – as planned – from €174.6 billion at the end of the third quarter to €63.7 billion as of December 31, 2010. The reason for this drop was the planned reduction in guarantees by Hypo Real Estate's bad bank. On the other hand, the amount of capital support remained unchanged in the fourth quarter at €29.3 billion. The total amount of outstanding stabilization support fell from €203.9 billion to €93.0 billion.

The three-pillar structure of the German banking market, consisting of private banks, savings banks and cooperative banks, remained largely unchanged. A change did occur in the group of private banks. Following the expiration of its mandatory offer to shareholders of Deutsche Postbank, Deutsche Bank AG now holds more than 50 % of Postbank's stock and has thus become its majority shareholder. In mid-December 2010, U.S. anti-trust officials approved the takeover. Merger talks between BayernLB and WestLB collapsed. The EU has given WestLB additional time to restructure itself and to sell the subsidiary WestImmo.

In analyzing business developments of German banks, we considered – as we have done in previous quarters – the four banks listed in Deutsche Börse's Prime Standard. We have compared the banks' results for the period of January through September 2010 with those of the previous year's levels. One positive finding was that all banks generated net interest income both in operating terms and after taxes. The majority of the banks improved their return on equity after taxes and lowered their cost/income ratio. A comparison of individual income statement items confirmed these generally positive trends. All of the banks we analyzed increased their net interest income both before and after making additions for allowances for losses on loans and advances. In the process, the majority of the banks were able to significantly reduce their allowances for losses on loans and advances. They profited from the economy's good performance and the related improvement in the credit ratings of their loan customers as well as from the steepness of the yield curve. A majority of the banks faced rising administrative expenses, but the increases were generally in the range of low single-figure percentages. Both for the fourth quarter and for the entire year, nearly all lending institutions saw the price of their stock fall. As a result, they significantly underperformed the DAX, which rose by 11% in the fourth quarter and by 16.1% for the year. The price of all four banks' stocks remained well below their pre-crisis level in mid-2007.

**Significant events at Postbank in 2010**

March 24: Postbank successfully issued its fourth mortgage *Pfandbrief* with a volume of €1 billion.

April 27: Formation of the company Postbank Filial GmbH, Bonn. The sole stockholder is Postbank Filialvertrieb AG, Bonn. Effective July 1, 2010, Postbank acquired 277 Deutsche Post AG retail outlets and resold them to PB Filial GmbH.

April 29: The Annual General Meeting of Postbank was held in Frankfurt am Main. All motions were approved by large majorities.

August 2: Postbank acquired one hundred percent of the shares in Merkur I SICAV-FIS, Luxembourg, a company that among other things holds shares since then in Teilgesellschaftsvermögens PB 24 of PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen already held by the Group. In this context, Merkur II SICAV-FIS, a fully owned subsidiary of Merkur I SICAV-FIS, was also acquired.

September 12: Deutsche Bank AG announced a voluntary public takeover offer to Postbank shareholders of the free float, combined with the goal of consolidating Postbank in 2010.

October 7: Deutsche Bank released documents concerning the takeover offer for Postbank. The offer period began on October 7, 2010, and ended – following a two-week extension – at midnight on November 24, 2010. The price of the offer was €25.00 per Postbank share. This price corresponded to the average three-month price calculated by Federal German Financial Supervisory Authority (BaFin) for the appointed date of September 11, 2010.

November 29: Deutsche Bank announced that the voluntary public offer was accepted for a total of 23,080,965 Postbank shares, which corresponded to about 22.02% of share capital and voting rights at Postbank.

December 1: Postbank announced the sale of its Indian subsidiary Deutsche Postbank Home Finance Ltd. to a buyer consortium led by Dewan Housing Finance Ltd. The transaction is expected to be concluded during the first quarter of 2011 and is still subject to approval by the Indian regulatory body National Housing Bank.

December 10: Deutsche Bank AG announced that U.S. anti-trust officials had approved the takeover of Deutsche Postbank AG. Its stake in Postbank now totaled 51.98%.

On the same day, Deutsche Bank also announced that the consolidation of Postbank's accounts would take effect as of the settlement date of December 3, 2010.

December 13: Postbank increased the share capital at the subsidiary Postbank Beteiligungen GmbH through non-cash contributions. This led to an increase in the carrying amounts of the investments for Postbank Beteiligungen GmbH by €310 million. At the same time, there was a decrease in the carrying amounts for PB Firmenkunden in Postbank's annual financial statements in the amount of €1.0 million.

December 17: The Supervisory Board appointed Rainer Neske as its Chairman effective January 1, 2011.

As part of the appropriation of profits, Postbank fulfilled its obligation in the year under review to replenish the contributions of its silent partners and the holders of profit participation certificates who participated in Postbank's loss in fiscal year 2009. In addition, considerations for silent partners and profit participation certificate holders that were not paid as a result of net losses for prior periods were recognized as an expense of €9 million.

**Postbank's investment focus in 2010**

In 2010, Postbank began to divide its investments into the areas of business development, legal requirements and life cycle.

Our "business development" investments are those we make as part of the "Postbank4Future" strategy program to further expand sales channels and customer service systems. Noteworthy investments here included the acquisition of 277 retail outlets from Deutsche Post AG in July 2010 that was initiated to secure and increase Postbank's range of financial services, the expansion of the bank's network of automated teller machines and the installation of multi-functional devices in bank branches. In the Transaction Banking business division at our subsidiary BCB AG, we invested in the technical and operational integration of payment transaction processing for the new customer HSH Nordbank.

The investments we made to implement legal requirements focused on the areas of the Consumer Credit Directive, the introduction of SEPA direct debit, modifications related to the flat tax, and standardized consent to receive advertising. In addition, steps to implement the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Accounting Modernization Act) were concluded.

Our life cycle investments were directed at software and systems. In August 2010, the release change of core IT systems to the latest SAP version of Banking Services 6.0 was carried out.

In 2010, Postbank also invested in the optimization of its processes and systems as part of the Bank's strategic program. Among other things, the investments were made in improvements to the infrastructure of risk management – particularly the attainment of AMA (Advanced Measurement Approach for the determination of operational risk) and of A-IRBA (an advanced internal approach to determine credit risks) to reduce risk-weighted assets and, thus, improve the capital ratio – in the introduction of lean banking processes and in the optimization of the complaint process.

## Net Assets, Financial Position, and Results of Operations

**Income statement**
In fiscal year 2010, Postbank generated net profit after tax amounting to €344 million and therefore returned to profitability following losses in both previous fiscal years.

This development is due on the one hand to a significant year-on-year rise in net interest income, in particular from the customer business, and on the other hand, to a noticeable decline in negative effects from risk positions. Furthermore, certain special factors contributed to the significant improvement in earnings.

The customer business remained positive overall despite ongoing tough conditions. Market positions and market shares were maintained in many core business segments.

**Individual items**
**Net interest income**
In fiscal year 2010, net interest income was up 38.8 % year-on-year at €2,565 million.

The improvement in net interest income is due in particular to good volume and margin growth in the customer business, in part because of the realignment of interest expenses with market levels. Scope for additional income was created by the yield curve, which remained comparatively steep, and which had a positive effect reflecting the natural maturity structure of our customer business, which has a long-term oriented lending business and a relatively more short-term oriented deposit business.

The interest expense from derivatives fell to €253 million in the reporting period (previous year: €470 million) and was primarily a result of the reduced volume of derivatives needed to control banking book interest rate risk compared with the previous year.

Offsetting effects were a result in particular of the planned reduction in our investment portfolios and the overall lower interest rate level.

Current income increased by €145 million to €489 million and was almost exclusively due to the distributions by the special funds.

**Net fee and commission income**
In fiscal year 2010, net fee and commission income amounted to €434 million and remained almost unchanged at the level of the previous year (previous year: €435 million).

Net fee and commission income in the securities and insurance business areas and in the lending and guarantee business saw a year-on-year increase and cushions the decline in fee and commission income in the payment transactions area. This is a result among other things of the minimum limit for incoming payments for free private checking accounts, which was reduced in mid-2010.

**Net expense from the trading portfolio**
In fiscal year 2010, Deutsche Postbank AG reported a loss from its trading portfolios amounting to €– 72 million (previous year: gain of €160 million).

The loss is largely attributable to the foreign exchange loss of €–110 million (previous year: gain of €82 million). This includes positive effects of €47 million from the active risk-taking policy of the Bank's Treasury and increased hedging costs in particular from the control exercised over the foreign currency positions in the special funds. The currency risk inherent in special funds, which was previously controlled in the special funds themselves, is now being controlled in full by the Bank's Treasury department. There was an offsetting effect on earnings in net income from the special funds.

Income from financial instruments mainly includes the realized net measurement gains from bonds and notes in the amount of €34 million and from interest rate derivatives in the amount of €10 million.

As part of the risk-adjusted value measurement as of December 31, 2010, the risk discount for the trading portfolio was reduced by a total of €4 million. This was recognized in net income from the trading portfolio.

**Administrative expenses**
Administrative expenses increased by €99 million in the year under review to €2,410 million (previous year: €2,311 million). The increased non-staff operating expense of €1,712 million (previous year: €1,624 million) in particular is attributable to negative one-time effects such as the first-time payment for services to Postbank Direkt GmbH of €61 million (previous year: €15 million) covering a whole year and the increased expenses for contributions and insurances. The contributions made to the deposit protection fund and to the *Entschädigungseinrichtung deutscher Banken* – the mandatory compensation scheme for all deposit-taking institutions in Germany – also recorded an increase of €13 million to €72 million. Furthermore, higher project costs, in particular for implementing regulatory requirements, increased administrative expenses.

Personnel expenses increased moderately by €11 million to €698 million. The increase is mainly a result of the recognition of staff-related provisions in the amount of €30 million. Adjusted for this non-recurring factor, personnel expenses were lower due to the decline in expenses for pensions and other employee benefits.

**Net measurement gains/losses**
In fiscal year 2010, additions to risk provisions for securities grew to a positive €220 million (previous year: €–119 million). This was a consequence of a significant reduction in the negative effects of the financial market crisis on structured credit products in particular, and the continued low level of interest rates. This positive development led to a significant excess of reversals of writedowns of fixed-income securities over writedowns of these items (€88 million).

Price gains in the amount of €243 million were recognized in particular as a result of the sale of fixed-income securities.

Net measurement losses in the lending business amounted to €– 393 million in the year under review, significantly lower than the loss of €–550 million in the previous year, which was impacted by non-recurring factors. This decline is primarily due to the reduced need for allowances for losses on loans and advances in particular in the corporate banking business.

### Writedowns and adjustments of equity investments, investments in affiliated companies, and securities treated as fixed assets

In the year under review, provisions for expected losses on fixed-income securities amounting to €49 million (previous year: €47 million) were recognized. In addition, losses on sales of €25 million were recognized.

Furthermore, PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen was written down by a total of €31 million and DPB Regent’s Park Estates (LP) Holding Ltd. by €6 million.

### Income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets

The net measurement gains are mainly due to the realization of hidden reserves at PB Firmenkunden AG resulting from the contribution at PB Beteiligungen GmbH (€309 million) and to the transfer of the sub-pool of assets (TGV 24) to Merkur I (€180 million). In addition, shares in special funds were returned as part of the policy to reduce investment securities and risk positions. This resulted in income in the amount of €127 million.

### Other income

Net other income and expenses amounted to €380 million in the fiscal year and was therefore stable at the previous year’s level.

Other operating income primarily includes income from reimbursements of personnel and non-personnel operating expenses amounting to €255 million (previous year: €255 million) and rental income amounting to €59 million (previous year: €61 million).

### Addition to the fund for general banking risks

€600 million was added to the fund for general banking risks in the year under review.

### Extraordinary result

Postbank recorded an extraordinary result of €– 5 million due to the initial application of the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Accounting Law Modernization Act).

### Expenses from loss absorption

In fiscal year 2010, Postbank incurred expenses amounting to €1 million (previous year: €18 million) for the settlement of losses arising in connection with profit and loss transfer agreements with subsidiaries and equity investments.

### Profit before tax

Profit before tax amounted to €661 million in fiscal year 2010 after a loss before tax of €– 459 million in the previous year.

### Taxes on income

Taxes on income amounted to €318 million (previous year: €33 million). Of this amount, €14 million was attributable to the findings of the tax audit for the years 1998 to 2000 and 2001 to 2008. Furthermore, €278 million was attributable to deferred taxes.

### Net profit for the period

Net profit for the period amounted to €344 million (previous year: €– 492 million).

## Changes in the balance sheet structure

### Total assets

The introduction of the BilMoG changed certain recognition and measurement rules in fiscal year 2010.

Postbank did not adjust the prior-year figures to reflect the new recognition and measurement rules in accordance with the BilMoG. Therefore, a comparison with the prior-year figures is only possible to a limited extent.

Money market positions, bonds and equities, and other fixed-income and non-fixed-income securities that are allocated to the trading portfolio are reported under the new “Trading portfolio” item at their fair value on the assets or liabilities side of the balance sheet. Furthermore, derivative financial instruments in the trading portfolio are shown in the “Trading portfolio” item in the balance sheet for the first time. They are also recognized at fair value, and presented separately by positive and negative values. The trading portfolio is presented net of a risk discount on all fair values, which is presented separately in the trading portfolio.

Total assets of €172.8 billion were reported as of the reporting date of December 31, 2010, €4.4 billion lower than in the previous year.

Changes on the asset side were mainly characterized by the reduction in the volume of securities in line with our continued strategic realignment to improve the risk structure and earnings quality.

Offsetting effects came from the initial recognition of trading portfolio derivatives and their fair value measurement. The decline in interest rates led to higher positive and negative fair values of financial instruments in the trading portfolio.

Amounts due to customers totaled €112.2 billion and were therefore €2.5 billion lower than in the previous year. The volume of deposits from other banks declined by €23.0 billion in the fiscal year and amounted to €11.7 billion as of the reporting date.

### Loans and advances to customers

Loans and advances to customers amounted to €71.3 billion in fiscal year 2010 and saw a slight year-on-year increase (previous year: €70.5 billion). The increase is due to the areas of installment credits and promissory note loans.

**Money and capital market investments**
Money and capital market investments, comprising loans and advances to other banks, investments in the trading portfolio, and bonds, amounted to €82.7 billion.

Loans and advances to other banks amounted to €16.2 billion, around €13.0 billion lower than at the end of 2009.

The decline in loans and advances to other banks is primarily a result of the initial application of the BilMoG and the resulting reclassification of receivables from securities repurchase agreements to the trading portfolio and the decline in pro rata interest on swap transactions.

Since fiscal year 2010, loans and advances to other banks have only included the value of the pro rata interest on swaps that is not allocated to the trading portfolio.

In fiscal year 2010, pro rata interest on swaps in the amount of €382 million (previous year: €6,609 million) was recorded under loans and advances to other banks.

Securities repurchase agreements in the amount of €3.6 billion were recorded in the trading portfolio. In the previous year, €5.0 billion was reported in loans and advances to other banks.

Postbank continued to scale back the volume of securities in accordance with its program to improve risk structure and earnings quality and, as a result, reduced securities by €15.1 billion to €39.9 billion.

In fiscal year 2010, bonds and other fixed-income securities in the trading portfolio in the amount of €0.6 billion were carried as assets in the trading portfolio.

The trading portfolio amounted to €26.9 billion in the fiscal year and primarily includes positive fair values of derivative financial instruments.

**Due to customers**
Amounts due to customers were reduced by €2.5 billion to €112.2 billion in the year under review. €1.7 billion of the reduction arose in the "Kapital Plus" product and €2.6 billion in call money. This was offset in part by changes in savings, which rose by €1.3 billion to €50.4 billion. There was an increase in our "Aktiv-Sparen" product in particular.

**Money and capital market liabilities**
Money and capital market liabilities, comprising deposits from other banks, debt securities in issue, and the trading portfolio, amounted to €47.9 billion.

Deposits from other banks fell by €23.0 billion to €11.7 billion.

The decline is a result of the initial application of the BilMoG and the resulting reclassification of the liabilities from securities repurchase agreements and the pro rata interest on swaps to the trading portfolio. In addition, open market transactions in the amount of €6 billion were due in the year under review.

Since fiscal year 2010, deposits from other banks have only comprised the volume of pro rata interest on swaps that is not allocated to the trading portfolio.

In the fiscal year, pro rata interest on swaps in the amount of €699 million was recorded under deposits from other banks (previous year: €7,159 million).

Despite the fourth Jumbo mortgage *Pfandbrief* issued in fiscal year 2010 with a volume of €1 billion, the portfolio of debt securities in issue was reduced by €3.7 billion to €12.1 billion. The decline is attributable to bullet bonds and short-term money market securities that were not issued again.

The trading portfolio amounted to €24.1 billion in the fiscal year and mainly comprises negative fair values of derivative financial instruments.

Securities repurchase agreements in the amount of €0.5 billion were reported in the trading portfolio. In the previous year, €7.1 billion was included in deposits from other banks.

**Funds for general banking risks**
To strengthen our capital position, we added €600 million to the fund for general banking risks in the year under review in accordance with section 340g of the *Handelsgesetzbuch* (HGB – German Commercial Code). The volume of the fund for general banking risks increased to €1,765 million.

**Equity**
Equity amounted to €2,621 million as of December 31, 2010, compared with €1,650 million at the end of 2009.

As part of the BilMoG, initial application effects in the amount of €662 million were appropriated to retained earnings. €656 million of this figure relates to the recognition of deferred tax assets for the first time.

In the year under review, net profit for the period amounted to €344 million compared with a loss of €–492 million in the previous year.

The carrying amounts of the creditors of silent contributions (€7 million) and portions of contributions by holders of profit participation certificates (€35 million) who participated in Postbank's loss in fiscal years 2008 and 2009 were increased again as part of the appropriation of profits.

After replenishing the carrying amounts, net retained profit amounted to €302 million. Under the Management Board's proposal for the appropriation of profits, the net retained profit will be appropriated to retained earnings.

**Principles under the *Kreditwesengesetz* (KWG – German Banking Act)**
Due to its consolidation by Deutsche Bank AG for supervisory law purposes, Deutsche Postbank AG is no longer the parent of a group of institutions for supervisory law purposes and is now Deutsche Bank AG's subordinate institution; the Postbank Group no longer constitutes a group of institutions by itself. Therefore, Deutsche

Postbank AG no longer fulfills the criteria for the application of the waiver in accordance with section 2a(6) of the KWG, meaning that it is again subject to the provisions of section 10 of the KWG as well as sections 13 and 13a of the KWG at the level of the individual institution. As of December 31, 2010, the Tier I ratio was 5.8 % and the overall capital ratio was 10.4 %. From the December 31, 2010 reporting date, Postbank will again prepare the relevant individual institution notifications and fulfill its other notification requirements under the KWG.

**Report on Post-Balance Sheet Date Events**

Dr. Hugo Bänziger was appointed to the Supervisory Board of Postbank effective February 1, 2011. On February 9, 2011, the Supervisory Board of Deutsche Postbank AG appointed Hanns-Peter Storr as a new member of the Management Board. He will assume the Chief Risk Officer (CRO) function from March 1, 2011. There were no further events subject to reporting requirements from December 31, 2010 until the preparation of the annual financial statements by the Management Board on February 22, 2011.

## Relationships with affiliated companies

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

# Risk Report

## Summary overview of risk exposure

Following the recovery in the real economy in 2009 and 2010, the effects of the financial market crisis spread to the eurozone countries in 2010. Although central bank intervention and a return of confidence resulted in a considerable improvement in bank liquidity, there was a significant deterioration in the creditworthiness of many eurozone countries. Risk premiums on government bonds from the eurozone periphery increased substantially in 2010. The Bank expects that uncertainty regarding the long-term credit quality of peripheral eurozone countries will persist in 2011, but that the economy will continue to recover regardless.

### Overall bank risk

Risks entered into are regularly identified, measured, monitored, and mitigated as part of the ICAAP (Internal Capital Adequacy Assessment Process), and are included in the overall management of the Bank in the context of the assessment of the Bank's risk-bearing capacity. Limits for market, credit, and operational risks were consistently complied with in 2010. The risk-bearing capacity of Deutsche Postbank AG (hereinafter referred to as Postbank) was ensured at all times.

Postbank's risk profile changed only marginally as against the previous year. Market risk essentially remained at 2009 closing-date levels despite the decline in investment security holdings and a clear reduction in asset-side interest rate positions, due to the resurgence in volatility. The allowance for losses on loans and advances largely takes account of the extreme impact of the financial crisis, while the structure of the Retail Banking portfolio hardly changed.

No risks that could impair Postbank's development or even jeopardize its existence as a going concern were or are discernible among the risk types identified below.

### Credit risk

In 2010, the allowance for losses on loans and advances was significantly below the figure for the previous year. From a strategic perspective, portfolio management continues to take priority over the acquisition of new business. In particular, Postbank is applying especially conservative standards to new commercial real estate finance business in markets that remain exposed to risks.

We currently see no acute default risks with regard to developments in the situation in Greece, Ireland, Portugal, Spain, and Italy, but are keeping a particularly close watch on developments.

### Market risk

The average value at risk for trading book and banking book holdings in 2010 was significantly lower than in the previous year. This is due in particular to the successive reduction in investment securities. Nevertheless, overall VaR for Postbank's market risk positions fluctuated substantially in the course of the year under review due to the resurgence in volatility, especially with respect to government spreads. Consequently, year-end VaR was only slightly below the figure for the prior-year closing date. Holdings of peripheral eurozone bonds remained subject to particular fluctuations in fair value, which had a knock-on effect on their present values. Market liquidity improved slightly.

### Liquidity risk

Postbank's liquidity situation remains sound due to its stable refinancing basis in the form of customer deposits, which recorded a further increase in 2010, and its extensive holdings of ECB-eligible securities.

### Risk management projects

The impact of the financial market crisis on Postbank's financial position and the reviews of its risk management organization and processes have led Postbank to launch and systematically pursue a comprehensive program designed to improve and enhance the efficiency of its risk management organization and processes. Project activities, further parts of which will also be implemented in fiscal year 2011, range from overarching topics such as risk-bearing capacity and risk governance down to credit, market, and operational risks in particular.

One focus of project work in 2010 was on enhancing credit processes – flanked by investment in a substantially improved IT environment. Work on the (sub)projects has largely been completed. Additional IT infrastructure projects are planned for 2011. Moreover, the Bank is planning to implement the requirements of the revised version of the MaRisk (Minimum Requirements for Risk Management) dated December 15, 2010 by the end of 2011 in the course of the ongoing projects.

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

## Organization of risk management

Postbank has a risk management organization that serves as the basis for risk- and earnings-oriented overall bank management by identifying all key risks and risk drivers and measuring and evaluating these independently. The risk management system aims to accept normal banking risk within a defined framework strictly reflecting the Bank's risk-bearing capacity, so as to leverage the resulting opportunities for generating business.

Risk management for the Bank is primarily the responsibility of head office and controlled decentralized units. Unless otherwise noted, all items in the Risk Report specifically relate to these bank functions. Compliance with regulatory requirements relating to subsidiaries is always assured.

## Responsibilities and risk strategy

The Group Management Board is responsible for the Bank's risk and capital profile, its risk strategy, its risk-bearing capacity concept, and the appropriate organization of risk management, as well as for monitoring the risk content of all transactions and for risk control. The Management Board regularly informs the Supervisory Board of Postbank's risk and capital profile.

As required by MaRisk, Postbank's risk strategy is consistent with its business policies and takes into account all significant areas of business and types of risk. In addition to an overarching risk strategy, Postbank's Management Board has resolved specific subrisk strategies for market, credit, liquidity, business, and operational risks.

The nature and extent of the risks taken, as well as the strategy for managing such risks, depend on the strategies defined by the business divisions in line with the Bank's risk appetite. They are documented within the scope of the risk strategies based on Postbank's business strategies. Postbank's areas of activity comprise the Retail Banking, Corporate Banking, Transaction Banking, and Financial Markets segments.

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 Chairman of the Management Board and reports independently to the Group Management Board.

Risk Committees

The following graphic illustrates the composition of the Committees and their areas of responsibility:

Composition and tasks of the Risk Committees

| | Bank Risk Committee | Credit Risk Committee | Market Risk Committee | Operational Risk Committee |
|---|---|---|---|---|
| Members of the Management Board/ Executive Managers | ǀ Finance<br>ǀ Resources/Lending<br>ǀ Financial Markets<br>ǀ Retail<br>ǀ IT/Operations<br>ǀ Chief Risk Officer | ǀ Resources/Lending<br>ǀ Financial Markets<br>ǀ Retail<br>ǀ IT/Operations<br>ǀ Chief Risk Officer | ǀ Financial Markets<br>ǀ Finance<br>ǀ Resources/Lending<br>ǀ Chief Risk Officer | ǀ IT/Operations<br>ǀ Resources/Lending<br>ǀ Branch Sales<br>ǀ Chief Risk Officer |
| Frequency of meetings | ǀ At least quarterly | ǀ At least quarterly | ǀ At least monthly | ǀ Half-yearly |
| Tasks | Advise the Management Board with respect to:<br>ǀ Risk appetite (economic, regulatory)<br>ǀ Risk Strategies and risk profile<br>ǀ Allocation of risk capital<br>ǀ Measures to limit and manage Bank-wide risk positions | ǀ Allocate credit risk limits<br>ǀ Define limit system<br>ǀ Resolve amendments to risk classification procedures<br>ǀ Define standard risk costs | ǀ Allocate market and liquidity risk limits<br>ǀ Manage strategic focus of the banking book<br>ǀ Discuss the Bank's earnings and risk positions | ǀ Define minimum requirements for Group units<br>ǀ Define operational risk parameters<br>ǀ Allocate risk capital amounts to the business divisions |

In 2010, Postbank established a Bank Risk Committee, which assists the Management Board with the Bank's overarching risk management and in particular in determining risk appetite, risk allocation, and the related earnings targets. The Bank Risk Committee is the recipient of the Bank-wide risk report.

The Credit Risk Committee is responsible for the strategic management of counterparty credit risk, while the Market Risk Committee is responsible for the strategic management of market and liquidity risks. This includes a more detailed breakdown of the global limit made available by the Group Management Board in each case. The Operational Risk Committee defines the operational risk strategy and decides on how the risk capital for operational risk is to be allocated to the business divisions. In addition, it lays down the framework for managing operational risk and defines the minimum requirements to be met. The Chief Risk Officer (CRO) is a voting member of the risk committees (Bank Risk Committee, Credit Risk Committee, Market Risk Committee, and Operational Risk Committee).

### Centralized risk monitoring and management

In 2010, the structure of the CRO departments was enhanced and aligned even more closely with the risk types and overarching management functions. The goal is to improve the convergence of process definitions and monitoring functions across the various risk types.

The CRO is responsible throughout the Bank for risk monitoring and risk management functions. He reports regularly to the Group Management Board and the Supervisory Board on Postbank's overall risk position. In terms of the organizational structure, the CRO is responsible for the Risk Management, Risk Analysis and Market Risk Controlling, and Credit Risk Management units. These all form part of the Group Management board department.

The Risk Management unit is continuing to expand overall Bank risk management and its integration with the finance function, reporting, and Bank-wide monitoring of operational risk. The goal is to optimize economic capital and risk allocation for the entire Bank based on the reports and data provided by the Risk Analysis and Market Risk Controlling, Credit Risk Management, Controlling, Reporting, and Operational Risk units. The management tools necessary for this are constantly enhanced. The unit provides support for the Bank Risk Committee and the Operational Risk Committee. Other important activities included analyses of and recommendations on credit and market risk management – including within the Bank Risk Committee – as well as analyses of and recommendations on operational risks, and the implementation of Bank-wide stress tests.

The Risk Analysis and Market Risk Controlling unit is responsible on the one hand for day-to-day risk monitoring and reporting of Postbank's market and liquidity risks, and on the other for subject-specific coordination for the Market Risk Committee, which meets at least once a month. In addition, monthly and/or quarterly analyses are performed of business, real estate, and investment risks, and of the Bank's risk-bearing capacity. The Risk Analysis unit has overall methodological responsibility for all risk quantification methods and models used at Postbank. One key focus here is on responsibility for all rating and scoring methods in use at Postbank.

The Credit Risk Management unit lays down the credit framework for the retail and mortgage lending businesses as well as Postbank's lending guidelines for Corporate Banking and Financial Markets. The MaRisk and the requirements of the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) are the authoritative texts in this context, in addition to the internal management specifications. In addition, the unit is responsible for the credit risk limit monitoring, reporting, analysis, and portfolio management functions, as well as providing support for the Credit Risk Committee and coordinating the risk provisioning process. It also establishes the value of real estate that has been furnished as collateral, under the leadership of the Real Estate Valuation unit.

### Risk management

Within Postbank, responsibility for risk management in connection with position-taking activities at an operational level is spread across a number of units, chief among them Financial Markets, the Credit Management Domestic/International departments, the Retail Banking credit functions, and the London branch.

The Financial Markets division is responsible for the Bank-wide management of market and liquidity risks at the operational level. To this end, it is broken down into the Treasury and Liquidity/Capital Management departments, and the Chief Operating Office. The Treasury department manages interest rate risk, equity risk, currency risk, and spread risk. The Liquidity/Capital Management department is responsible for the central management of liquidity risk, focusing on controlling liquidity maturity transformation and on ensuring continuous solvency.

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

### New developments in risk management

In addition to the enhancement of the CRO structure, there were other major organizational changes during the year under review. The methods, systems, and processes discussed in this Annual Report, and the reporting system that builds on them, are subject to continuous review and enhancement in order to meet market, business, and regulatory requirements. Independent of this, the Group Management Board entrusted the CRO with drawing up improvements to risk management to be implemented in fiscal years 2010 and 2011 in the context of a new risk governance concept.

This involves in particular risk-adjusted earnings management by the relevant bodies at Postbank, based on an enhanced concept for the management of the Bank as a whole and of its risk capital. In line with this, Postbank set up a project in 2010 to revise its risk-bearing capacity concept with particular reference to the calculation of the risk cover amount and the utilization of risk capital in the management of the Bank as a whole. The details of the risk-bearing capacity concept are given in the sections entitled "Risk-bearing capacity" and "Risk capital" in the "Overarching risk management" chapter.

Four large-scale projects were set up in the areas of credit risk management and monitoring to refine the models and processes in the retail and non-retail lending business. These focused on the validation and, where necessary, the (re)calibration of existing rating models, the modification in specific areas of other rating models, process improvements across the entire credit process from early warning through restructuring down to the optimization of the risk provisioning process, the revision of the entire written instructions ("schriftlich fixierte Ordnung" – SFO), the revision of the model change policy, the establishment of a validation body, and improved loan documentation.

Further progress was made in 2010 in particular in the projects designed to introduce advanced risk models for market, credit, and operational risks. The aim of these projects is to increase convergence between internal risk management and regulatory capital requirements, as well as to optimize the risk management systems and processes. Following regulatory approval, it is planned to use risk models for the above-mentioned risk types to determine regulatory capital in accordance with the SolvV.

The revamped modules in the Internal Market Risk Model project largely went live in the year under review. They allow differentiated risk analyses to be performed and existing management approaches to be refined. In addition, we fully implemented a new market data delivery system aimed at further increasing the uniformity and quality of the market data used throughout the Bank.

In the A-IRBA project (Advanced Internal Ratings-Based Approach, for which in-house estimates of default-related losses are used), the development of the rating models and the relevant processes was largely completed in the year under review, thanks to significantly larger resources. This means that the use test can start as of January 1, 2011. The aim is to conduct the regulatory audit in the third quarter of 2011.

The AMA Implementation project (for the introduction of an advanced approach for operational risk measurement) was completed on schedule in the first quarter of 2010. During an on-site audit in the second quarter of 2010, the regulatory authorities satisfied themselves that the relevant requirements of the SolvV had been fulfilled and that the capital model had been suitably implemented. The Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) approved the use of the AMA at the level of the Postbank Group as of December 31, 2010. In the case of Deutsche Postbank AG, the Standardized Approach continues to be used for calculating the weighting required for operational risk.

**Risk types**

Postbank distinguishes between the following risk types:

- Market risk
  Potential financial losses triggered by changes in market prices (e.g., equity and commodity prices, foreign exchange rates) or changes in parameters that determine market prices (e.g., interest rates, spreads, and volatility).

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

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

  Liquidity maturity transformation (LMT) risk is the risk of increased refinancing costs as a result of closing gaps caused by changes in the Bank's refinancing curve.

- 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. This also includes legal risk.

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

- Real estate risk
  The risk of loss of rental income, writedowns to the lower current value under the going concern principle (Teilwert), and losses on sales relating to properties owned by Postbank.

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

**Overarching risk management**

Risk-bearing capacity

The Bank's risk-bearing capacity is assessed from the perspective of investor protection and serves as the basis for deciding on a system for limiting material risk. The Group Management Board specifies its risk appetite by defining a probability for unexpected losses and an upper limit for losses (risk tolerance).

Postbank considers its risk-bearing capacity to be adequate if the risk cover amount exceeds allocated risk capital and the current level of overall risk (VaR). In the concept for protecting prior-ranking investors, risk potential is calculated using a confidence level of 99.93 %. When calculating the risk cover amount, additional discounts and limit buffers are used to account for estimating uncertainties.

The risk-bearing capacity concept currently in use is now being revised in a dedicated project to reflect the lessons learned from the financial market crisis and increasingly specific regulatory requirements.

The key risk types for which Postbank uses operational limits (credit, market, and operational risks) are regularly subjected to defined stress tests as part of the assessment of risk-bearing capacity in order to ensure a holistic risk assessment.

The integrated stress tests for the Bank as a whole are enhanced and updated in an ongoing, dynamic process in line with changes in market trends and in Postbank's risk profile. Stress tests of all risk types for the Bank as a whole are supplemented by risk type-specific sensitivity analyses and stress tests.

### Risk capital

In order to ensure Postbank's long-term risk-bearing capacity, the Postbank Management Board only allocates a portion of the risk cover amount for risk taking, in line with its risk tolerance. This amount is known as risk capital and represents a limit for Postbank's overall risk. Risk capital is determined and allocated to the individual risk types on at least a quarterly basis by the Group Management Board. The Risk Committees allocate the risk capital in more detail. Operating limits are derived with reference to the risk capital allocated to credit, market, and operational risks.

Other risks are handled by making deductions from capital. Liquidity risk is not explicitly included in the risk-bearing capacity and, as a result, is not backed by economic risk capital. Postbank engages in active liquidity management and control to prevent the risk of illiquidity. Postbank has adequate sources of liquidity as well as a collateral portfolio consisting of ECB-eligible securities that can be used in potential stress situations. The risk of increased refinancing costs caused by transforming maturities (liquidity maturity transformation risk) is, at the moment, implicitly covered partly by the risk capital allocated to business risk and partly by that allocated to market risk.

Since simply adding up the risk capital requirements for the individual types of risk would lead to the overall risk being overestimated, correlations between the different types of risk are taken into account during risk aggregation. Experience has shown that there is a high correlation between market and credit risks. Business risk, real estate risk, and investment risk generally exhibit medium to high correlations with the other risk factors. Only in the case of operational risk do we assume a low correlation with all other risk types.

Risk capital allocation takes both potential fluctuations in economic capital and risk-neutral stress scenarios into account. The unexpected loss is quantified in order to calculate the utilization of the economic risk capital. Postbank uses uniform parameters to measure individual risks that have been classified as material. These parameters are oriented on the value at risk (VaR) approach, i.e., on the loss (less the expected gain/loss) that will not be exceeded for a 99.93 % level of probability within the given period (holding period: usually one year; market risk: 90 days).

### Risk limitation

At Postbank, the main method of limiting risk exposures for the risk types included in the risk-bearing capacity is through the total risk capital allocated and, in the case of the specific risk types, using derived VaR limits. Depending on the risk type concerned, these are supplemented by product, volume, and sensitivity limits in order to limit the risk concentration of individual risk types above and beyond the risk exposures themselves. Potential fluctuations in economic capital and sensitivity analyses are taken into account when allocating limits and risk capital.

Operational limits are established for the market and credit risks backed by risk capital and directly manageable in the day-to-day business. Market risk is managed by allocating limits for the relevant portfolios. 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 through definition of a target portfolio. The volume of retail business is controlled using target vs. actual comparisons.

The calculation of the capital requirements for operational risk is based on the internal quantification model. This is used to calculate the utilization of the limit allocated to operational risk on a quarterly basis. The model is based on the loss distribution approach normally used in the banking sector and employs the parameters required by section 284 of the SolvV such as internal loss data, external loss data (obtained from the ORX data consortium), scenario analyses, and Postbank-specific business and internal control factors.

Postbank's four business segments have been allocated specific risk capital amounts, utilization of which is monitored each quarter. The Group Management Board and the Operational Risk Committee members receive quarterly reports on the utilization of defined VaR limits for the Bank as a whole and for each business segment. If limits are exceeded by a business segment, the Operational Risk Committee decides on how to proceed, whereas the Group Management Board performs this function in the event of Bank-wide VaR limits being exceeded.

The other risk types are not managed using operating limits. Instead, the risk capital attributed to them is deducted from the risk cover amount. The Risk Analysis and Market Risk Controlling unit regularly monitors the appropriateness of these deductions.

As long as the limits assigned to the individual risk types are not exceeded at Bank level and the aggregated limits and deductible amounts are lower than the risk cover amount, risk-bearing capacity, based on the correlations assumed by the Bank, is assured.

Risks are only assumed within limits that are in line with the Bank's risk-bearing capacity. This is designed to ensure that risks that could jeopardize the Bank's existence are avoided. The risk situation remained tight in 2010. The market risk resulting from the exposures basically remained at 2009 levels, despite fluctuations. Expected and unexpected losses in the credit risk area are on a downward trend; however, they must be seen in the context of the new limit buffer for uncertainties associated with the model used. For further details, see the relevant section in the Group Management Report, as Postbank's risk-bearing capacity is calculated at Group level.

### Risk concentrations

In the context of the improvements to loan portfolio management, which focus on managing risk concentrations, Postbank implemented a project in 2010 designed to enhance its management of risk concentrations in the lending business. The objective is systematic credit portfolio management that identifies and reports risk concentrations at the borrower unit level as well as at sector level (industries, regions, categories of collateral, etc.) and that limits such concentrations using a predetermined procedure that takes risk-bearing capacity and risk/return considerations into account.

At present, risk concentrations are particularly perceptible at the confidence level of 99.93 % used with respect to "A" rated banks as well as in the structured credit portfolio (SCPs).

Concentrations of liquidity, market, and other risks are identified and monitored using sensitivity analyses and stress tests. Limits take the form of volume or gap limits, which are monitored on an ongoing basis, while the risks are managed in the course of day-to-day management (e. g., via hedging).

Due to its business model as a retail bank operating primarily in Germany, Postbank is also subject to earnings risk, i.e., to the risk that actual retail business earnings will be lower than planned. This earnings risk is monitored with the assistance of the Controlling department as part of the planning process, and involves monitoring risk concentration using sensitivity analyses and statistical techniques, as well as taking other appropriate action.

Risk reporting

Postbank's risk reporting system addresses risk-bearing capacity and risk utilization. In 2010, a new, leading Bank-wide risk report was designed and implemented that informs the Group Management Board and the Supervisory Board of Postbank's risk position on a quarterly basis. Risk utilization for the individual risk types and risk-bearing capacity are presented in a large number of regular, specific reports. These reports are prepared on a daily, weekly, monthly, or quarterly basis, depending on the importance of the respective risk type. The reports are usually addressed to the Group Management Board and/or the responsible members of the Risk Committees, as well as the operating units. In addition, the Supervisory Board receives summaries of these reports. This means that recipients can be kept informed of changes in relevant parameters in a timely manner. The Risk Analysis and Market Risk Controlling unit and the Risk Management unit are responsible for the methodology and content of risk reporting.

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

**Regulatory requirements**

Capital requirements

Postbank has calculated its capital on the basis of Basel II since the SolvV entered into force on January 1, 2007. In a letter dated December 21, 2006, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) granted Postbank approval to adopt the Basic IRB Approach for calculating minimum capital requirements and the IRB Approach for calculating the minimum capital requirements with respect to its retail business; in a further letter dated December 11, 2007, this approval was extended to cover the calculation of additional portfolios using internal ratings systems. As a result, regulatory capital requirements for credit operations are now aligned more closely with economic risk. Accordingly, loans must now be backed by equity on a risk-weighted basis, i.e., depending on the borrower's credit rating and, where applicable, collateral.

As of the reporting date of December 31, 2010, Postbank calculated the regulatory capital requirements for the following portfolios (grouped by exposure class in accordance with the SolvV) on the basis of internal ratings:

- Central governments: countries
- Institutions: banks
- Corporates: domestic corporate customers, foreign corporate customers, domestic commercial lending, foreign commercial lending, purchased corporate loans, insurers
- Retail business: Postbank mortgage loans, installment loans, overdraft facilities for self-employed individuals and business customers, purchased retail loans
- Equity claims, if not covered by the exception in section 338(4) of the SolvV
- Securitization positions
- Other non-credit obligation assets.

Postbank uses internal estimates of probabilities of default in the central governments, institutions, and corporates exposure classes; in addition, the Bank uses internal estimates of expected loss rates and conversion factors for its retail business.

Postbank uses the CRSA for the portfolios not calculated in accordance with the IRB approaches. These primarily relate to the following:

- Overdrafts and collection activities in the retail banking segment
- Business from discontinued operations
- Exposures to business partners from the public sector of the European Economic Area.

In addition, Postbank is currently in the process of implementing the changeover to the Advanced IRB Approach for calculating the capital backing for counterparty credit risk for the non-retail portfolios using internal estimates of expected loss rates. The Bank plans to reach the entry threshold and hence to reduce the charge on its risk-weighted assets and capital ratio by the end of 2011. The supervisory authority must give ultimate approval.

Postbank uses the regulatory standardized approach to calculate capital requirements for market risk. In addition, a project in 2010 laid the key groundwork to extend deployment of the internal model used to measure and manage market risk to include the determination of the capital requirements for general interest rate risk in accordance with the SolvV, once the supervisory authorities have approved its use.

To date, Postbank has used the standardized approach for calculating capital requirements for operational risk. As part of an on-site audit in connection with the approval of an Advanced Measurement Approach (AMA) in the second quarter of 2010, the supervisory authorities examined the suitability of the organizational structures and workflows in the system for identifying, measuring, monitoring, reporting, and managing operational risk; the internal procedures for reviewing the risk measurement system; and the reliability and integrity of the relevant IT systems. The BaFin approved the use of the AMA at the level of the Postbank Group as of December 31, 2010. In the case of Deutsche Postbank AG, the Standardized Approach continues to be used for calculating the weighting required for operational risk.

With regard to the disclosure requirements pursuant to sections 319 to 337 of the SolvV in conjunction with section 26a of the KWG, Postbank published its Pillar III Disclosures for the Postbank Group in accordance with Basel II on its website on March 31, 2010 and August 31, 2010.

Liquidity requirements

Postbank meets the regulatory liquidity requirements in accordance with section 11 of the KWG in conjunction with the *Liquiditätsverordnung* (LiqV – German Liquidity Regulation), which entered into force on January 1, 2007. Postbank calculates its liquidity ratios on the basis of the regulatory Standardized Approach in accordance with sections 2 to 8 of the LiqV. The processes for Bank-wide identification, measurement, monitoring, and management of liquidity risk are based on the requirements formulated in the "Principles for Sound Liquidity Risk Management and Supervision" (see the chapter entitled "Liquidity risk" for further information).

Minimum Requirements for Risk Management (MaRisk)

The *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management) specify the regulatory minimum requirements for credit transactions, trading activities, and the activities of credit institutions' internal audit departments. The primary purpose of the MaRisk in terms of its content is to establish adequate management and control processes based on a bank's overall risk profile. In addition, MaRisk resulted in the regulatory fulfillment of the qualitative Pillar II requirements in accordance with Basel II, which focus in particular on interest rate risk and operational risk.

One of Postbank's core tasks in 2010 was implementing the additional requirements resulting from the revised version of the MaRisk published on August 14, 2009. These requirements relate to the integration of the supervisory bodies, the treatment of risk concentrations, risk management at Group level, and the requirements to be met by the remuneration systems. The key provisions of the revised version of the MaRisk published on December 15, 2010 in Circular 10/2010 were taken into account in the course of the enhancements made to risk management. Postbank will implement the remaining measures by the end of 2011.

**Monitoring and managing market risk**

Definition of risk

Market risk denotes the potential financial losses caused by changes in market prices (e. g., equity prices, foreign exchange rates, commodity prices) and parameters that determine market prices (e. g., interest rates, spreads and volatilities). The changes in value are derived from daily marking to market, irrespective of the carrying amounts of assets and liabilities.

Organization and risk strategy

The responsibility for performing centralized risk management tasks at Postbank lies with the Management Board, while the Supervisory Board is responsible for monitoring this. The Management Board has delegated market risk management to the Market Risk Committee (MRC).

Postbank has established clear rules with regard to responsibility for market risk management. In general, Postbank's Financial Markets division is responsible for the centralized operational management of market risk.

Risk Analysis and Market Risk Controlling acts as an independent monitoring unit for market risk within Postbank. The unit is responsible for operational limit monitoring and reporting, in addition to the methods and models used for risk identification and measurement.

Postbank has laid down the basis for dealing with market risk, among other things, in its overarching risk strategy. The risk capital made available for taking on market risk limits the scope of the market risk that can be assumed to a level that is reasonable and desirable for Postbank from an earnings perspective. Unwanted market risk is hedged or reduced where it makes economic sense to do so and where this is possible given the tight market conditions resulting from the financial market crisis. Where market risk is intentionally taken or retained, this is done with the goal of generating income. Consequently, Postbank enters into interest rate, equity, currency, spread, commodity, and volatility risks in its banking and trading books as an additional source of income.

Risk management and control

Postbank makes use of a combination of risk, earnings, and other inputs to manage its market risk. Changes in the value of market risk are derived from daily marking to market, independently of their measurement for financial reporting purposes. 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 both on specific periods and 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. Other management indicators used are sensitivity indicators and maturity structures.

In addition, market risk exposures are subjected to regular scenario analyses and stress tests, which analyze the impact of unusual market movements on present values. Concentration risk is taken into account separately when measuring market risk. This is done, for example, during regular scenario analyses by quantifying the effects of exposure class-, rating-, or currency-specific stress tests. In addition, sensitivity analyses that identify risk concentrations, among other things, for all portfolios of Postbank are performed in the course of daily monitoring of market risk. Instruments used in this context include gap analyses and credit spread sensitivity analyses by asset class and credit rating, and analyses of Postbank's exposure to equities and foreign currencies.

In 2010, Postbank continued to reduce its market risk exposure in line with the policy it adopted in 2008 in the light of the financial market crisis. In the area of interest rates, the focus on assets adopted in the course of 2009 was scaled back substantially in the course of 2010. Postbank is cutting its holdings of investment securities, primarily as a result of instruments maturing and sales. The risk from equity holdings remains negligible.

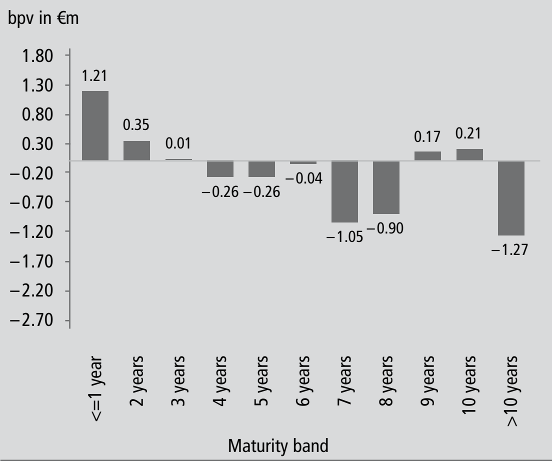
To account for the relative significance of market risk and the volatility of market movements, Postbank has defined escalation mechanisms for critical management parameters and for exogenous events. These mechanisms make it possible to react promptly to situations in which limits are approached or exceeded, 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 changes in the fair value of interest-sensitive financial instruments resulting from a change in market rates of interest. Interest rate risks arise where there are differences in the amounts and interest rates of the interest-sensitive assets and liabilities for individual maturity bands. Specific behavioral assumptions are made on the basis of past behavioral patterns in order to quantify the interest rate risk for customer transactions involving significant implicit options. Particularly important in this connection are Postbank's variable interest customer deposits and the customer loans business. Special modeling rules and deposit base definitions supplement the monitoring and management concept. When measuring interest rate risk, option models are used to account for material statutory and contractual early loan repayment rights, offers of new loans and extensions to existing ones, and loan payment delinquencies. The modeling techniques used for this are monitored and enhanced on an ongoing basis. In the case of deposits without agreed maturities, investor behavior is modeled using the internal models and procedures for managing and monitoring interest rate risk. In accordance with MaRisk, those elements of capital made available to the Bank indefinitely are excluded when determining interest rate risk.

As a matter of principle, operational management of all market risk is performed centrally by Postbank's Financial Markets division. The following chart presents Postbank's open interest rate positions as of December 31, 2010 in the form of a basis point value (bpv) graph. Positions with a negative value represent an asset-side interest rate risk, which means that there is a surplus of assets. In the same way, positive values indicate a surplus of liabilities.

Postbank's interest rate positions (bpv) as of December 31, 2010




*Monitoring market risk using value at risk*

Postbank uses the value at risk concept to quantify and monitor the market risk it assumes. Value at risk (VaR) in the banking book is calculated using the variance-covariance method, while the trading book positions are established using a Monte Carlo simulation. Risk capital allocation is based on a historical observation period of 250 trading days, a holding period of 90 trading days, and a confidence level of 99.93 %. Operational management, however, is based on a confidence level of 99 % and a holding period of 10 days (banking book) or 1 day (trading book). The risk factors taken into account in the VaR include yield curves, equity prices, commodity prices, foreign exchange rates, and volatilities, along with risks arising from changes in credit spreads. Correlation effects between the risk factors are derived from historical data.

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

*Limiting risk*

At Postbank, market risk is monitored using a system of risk limits based on the value at risk methodology. End-of-day risk measurement and monitoring are used for the whole bank; additional intraday monitoring is performed for the trading portfolios. The aggregate limits are set by the Group Management Board and allocated by the Market Risk Committee to the individual operating units as sublimits. These are dynamic outcome-based limits; any losses incurred reduce the limit, while gains replenish it, at a maximum, to the originally defined level. In 2010, fair value losses that were due in particular to adverse spread changes in certain subportfolios led to limits being partially utilized. No limit exceedances were recorded.

In addition to these VaR limits, the Market Risk Committee has defined sensitivity limits for the trading book and banking book as well as for the relevant subportfolios that limit the credit spread and interest sensitivities in the different books and maturities.

*Backtesting*

The methods used to compute VaR are regularly tested for reliability. The predictive accuracy of the calculated VaR is tested by comparing it with the gains and losses arising from actual changes in fair value for the same portfolio (clean backtesting). Evaluation uses the "traffic light" color code model published by the Bank for International Settlements (BIS). The Management Board is informed of the backtesting results in the monthly reports.

As part of the ongoing Internal Market Risk Model project, backtesting for the trading book portfolio was migrated in full from a clean mark-to-model procedure to a clean mark-to-market one.

At the 2010 year-end, backtesting (one-sided binomial test in accordance with the Basel traffic light approach) produced results within the statistically expected ranges ("green" traffic light). This confirms the fundamental appropriateness of the VaR methodology applied.

*Stress testing*

In addition to the VaR calculations, scenario analyses are performed at regular intervals to permit the separate analysis of extreme market movements. These analyses quantify the effects of extraordinary events and extreme market conditions on the relevant Postbank exposures. The scenario analyses and stress tests are performed for all material risk factors in the interest rate, spreads, currency, and equity risk types. The assumptions underlying the stress tests are validated on an ongoing basis.

In fiscal year 2010, as in the past, the scenario assumptions and stress parameters were reviewed and fine-tuned at regular intervals, while the range of stress tests performed was also extended. This also ensures compliance with the stricter requirements resulting from the amended MaRisk. The Group Management Board, the members of the Market Risk Committee, and the Supervisory Board are kept regularly informed of the key results of the scenario analyses. The scenario analyses performed in the year under review indicated that Postbank's risk-bearing capacity is assured even if the tense market situation continues to worsen. The greatest risks are still in the area of interest rates and spreads. In contrast, sensitivities to changes in equities, currencies, and volatilities are significantly less pronounced.

*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*

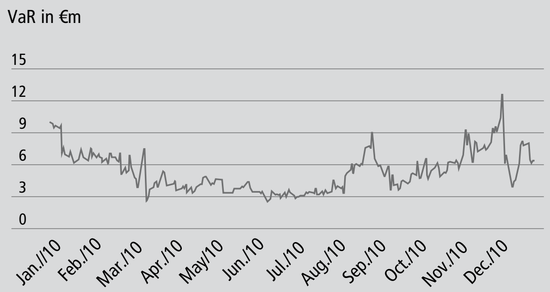
The following value at risk figures for the trading book were calculated for Postbank for the period from January 1 to December 31, 2010 and January 1 to December 31, 2009 (confidence level of 99 %, holding period of 10 days):

| Value at risk, trading book | 2010<br>€m | 2009<br>€m |
|---|---|---|
| VaR at year-end | 5.6 | 9.8 |
| Minimum VaR | 1.5 | 3.9 |
| Maximum VaR | 12.3 | 22.5 |
| Annual average VaR | 4.6 | 12.5 |

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

The following chart shows the development of value at risk for the trading book over 2010:

VaR trading book 2010



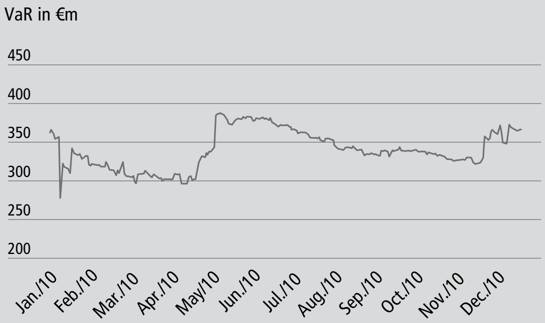

In the course of 2010, the pronounced volatility in the trading book was used flexibly during positioning on the interest rate and equities markets. The VaR in the trading book declined overall last year. After falling in the first half of 2010, it recorded significant gains in the second half of the year in a more volatile overall environment. Nevertheless, the level was significantly lower than in 2009.

The value at risk for the banking book (confidence level 99 %, holding period 10 days), which accounts for by far the largest portion of market risk, amounted to €372.6 million as of December 31, 2010 (for comparative purposes: €365.2 million as of December 31, 2009).

| Value at risk, banking book | 2010 €m | 2009 €m |
|---|---|---|
| VaR at year-end | 372.6 | 365.2 |
| Minimum VaR | 286.7 | 348.6 |
| Maximum VaR | 393.8 | 538.3 |
| Annual average VaR | 347.3 | 461.5 |

The calculation incorporates all market risk-bearing positions in the banking book.

VaR banking book 2010




VaR in Postbank's banking book trended sideways in 2010, while exhibiting volatility. Following a decline in the course of the first half of 2010, VaR rose at the beginning and end of the second half of the year due to increased market volatility resulting from the crises in EU public finances. This offset the effect of the reduction in the asset-side interest rate exposure over the course of the year.

Risk reporting

Postbank uses a variety of regular reporting instruments that provide detailed information on the market risk assumed:

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

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

- The monthly MRC report addressed to the Market Risk Committee presents risk indicators in an aggregated form (VaR, interest rate sensitivities, stress test results), and present value or periodical results by management unit.

- The quarterly risk report to the Supervisory Board summarizes the key risk indicators. It also presents the results of the sensitivity and stress test analyses.

### Monitoring and managing credit risk

Definition of risk

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

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

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

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

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

Organization and risk strategy

The Management Board has overall responsibility for risk management; the Supervisory Board monitors its work via the Loan and Equity Investments Committee. The Management Board has delegated the management of credit risk to the Credit Risk Committee (CRC).

Postbank has established clear rules with regard to responsibility for credit risk management. The Credit Risk Committee (CRC) is responsible for strategic structural management. Operational credit risk management is performed centrally by the Commercial Finance, Commercial Real Estate, and Banks and Capital Markets lending units. Whereas the Risk Analysis unit is responsible for developing, validating, and calibrating the rating models, the Credit Risk Controlling unit performs limit monitoring, reporting, and management. The Lending Policy unit is responsible for the issuance of standards regarding the treatment of credit risk exposure.

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

Postbank uses a target portfolio as a reference for the overall composition of its loan portfolio, which focuses on corporate customers, banks, countries (central and regional governments and local authorities), and retail in addition to related risk concentrations. The target portfolio has been constructed to reflect 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 corporate finance, an individual profitability analysis is additionally performed on the basis of the return on equity (the ratio of the risk-adjusted net margin to the equity tied up). Due to the high degree of risk diversification in the retail business, no limit is set on this in principle when defining the target portfolio; instead, it is managed using the expected net margin less the expected risk.

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

### Risk management and control

#### *Managing individual risks*

*Credit approval procedures*

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

*Scoring and rating*

Postbank has internal rating systems that have been approved for the use of the IRB Approach under Basel II. In addition to meeting the methodological and procedural/organizational requirements, these rating systems have proven their suitability in relation to the classification of existing portfolios and new business. Regardless of the size and type of the loan, individual rating or scoring is performed at least annually, or on an as-needed basis, during the credit approval process.

The Risk Analysis unit is responsible for designing, implementing, and monitoring the functionality of the internal rating systems. The process of monitoring the rating systems includes assessing their predictive quality and correct application, as well as calibrating and validating them. In order to provide systematic support for this process, the Bank established a validation body headed by the CRO in the fourth quarter. This body is also responsible for ensuring that the results of the monitoring activities are incorporated into the internal reporting system and the Bank's management processes. All rating systems are approved by Postbank's Management Board which receives regular information on their functionality as well as on the results of the ratings performed as part of the management reporting process. The Bank's credit risk management functions are responsible for monitoring the process. Work in 2010 was focused on the enhancement, ongoing validation and, where necessary, recalibration of the scoring and rating systems. In order to ensure that the advanced approach is fully and prospectively in compliance with the Solvency Regulation (SolvV), the Bank has significantly increased its human resources in the Risk Analysis unit.

In Retail Banking, loans are approved, decisions to extend them are made, and terms are defined using the results of statistical scoring models and approval guidelines. The scoring models utilized at Postbank make use of internal and external information about the borrower and employ statistical methods to individually estimate the probability of borrower default (PD). 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. For retail checking products, Postbank uses an internal behavior scoring system that individually assesses default risk on the basis of historical account management data and additional external information. The credit conversion factor (CCF) is calculated to determine the proportion of outstandings under open credit lines at the time of default.

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

All internal ratings and scorings are presented using a uniform master scale, which assigns each rating or scoring result to 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 rating and scoring methods are validated as part of Postbank's annual model validation process and during ongoing monitoring. The model validation is based on standard core analyses comprising the following aspects: the stability of the model formula/the estimated parameters and the distributions, as well as the accuracy of the rating model, and the predictive power of the models. During the validation process, any changes in the loss history are taken into account by adjusting the inputs.

In addition, the allocation of the rating classes used in Postbank's master scale to default probabilities and the results of the input estimates (PD, LGD, CCF) are reviewed annually. By including model validation 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 decision process, among other things, these ratings and scores serve 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 following section), along with other variables.

*Risk/return key performance indicators*

When calculating the loan losses expected at Postbank, the average standard risk costs are factored into the advance calculation on an individual loan basis. This system allows all lending transactions to be evaluated during the advance calculation. The standard risk costs are priced in as a premium for the expected loss and are included in the profitability calculation in the form of a return on equity (RoE) ratio 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 retail customers, and at an individual level for non-retail customers.

*Collateral management*

Collateral management is an important and integral component of the credit management process at Postbank. Strict standards have been established regarding the quality (e. g., the legal validity and enforceability) of the collateral accepted. As in the case of the underlying transactions with counterparties, the value of the collateral is continuously monitored on the basis of uniform standards, not only when the loan is granted but also during its term. Key collateral processes were redesigned in 2010 and will be introduced successively as from the beginning of 2011. Additional improvements to processes, reporting, and systems will also be made in 2011. The basic decision on the approval and application of types of collateral instruments to mitigate credit risk is a component of business and credit risk strategies. The protection instruments principally used by Postbank consist of real estate liens to secure real estate financing, guarantees and credit derivatives, and financial collateral and other physical collateral.

The back office units are responsible for collateral management, which includes recognition of an instrument as collateral, its legal ranking, and regular review and measurement, as well as the administration of the collateral taken into account. The exposure management systems provide electronic support for the management of immovable collateral. The amounts recognized as 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 credit derivatives must be irrevocable and unconditional in order to qualify as credit risk mitigation instruments when calculating the minimum capital requirements for credit and counterparty risk. Only guarantees by countries (central and regional governments and local authorities), other public-sector entities, banks, supranational organizations, and legal persons with a rating of at least A- are recognized. With regard to credit derivatives, guarantors and protection sellers are subject to the same risk classification, risk limitation, and risk monitoring procedures as borrowers.

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.

Loan collateral in the Corporate Banking segment 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 concept produced by the Zentraler Kreditausschuss (ZKA – German Central Credit Committee), 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 in excess of €3 million, valuations are always reviewed at the latest after three years by independent, qualified valuation specialists, or a new appraisal is performed by real estate experts.

Postbank is planning to introduce a client collateral administration system in order to improve collateral management. A preliminary study for this has already been produced. The new system will be introduced in a modular process, with the first subportfolios scheduled to go live in 2011.

*Credit monitoring and problem loan procedures*

For non-standardized loans, credit risks are monitored by means of credit assessments carried out at least once annually and whenever events occur that could affect a borrower's credit quality. The controls are carried out by the operational lending units in the back office in accordance with banking regulatory requirements and, in the case of trading transactions, by Risk Controlling in addition.

In the area of individual lending to corporate customers and mortgage lending in excess of €500,000 per borrower or borrowing entity, Postbank has implemented a credit monitoring process in accordance with banking regulatory requirements. The process enables higher-risk loans to be identified using defined qualitative and quantitative indicators (e. g., sector information, management accounting data, customer and account data, and rating changes). The use of early warning 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 settlement.

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

Postbank responded to the crisis in the financial markets and the resulting deterioration in the credit standing of many clients and counterparties by significantly improving its procedures during the year under review in the course of comprehensive projects. Among other things, the focus of activity was on improving the identification, documentation, and specialized processing of exposures at risk of impairment or in need of restructuring. To achieve this, dedicated lending units were set up and staffed by the appropriate specialists.

*Managing credit risk at portfolio level*

*Portfolio management*

In addition to monitoring individual risks, Postbank calculates the credit value at risk (CVaR) for all exposures subject to credit risk. The credit value at risk is the potential negative change in the present value of the total loan portfolio resulting from actual or potential credit risk losses that will not be exceeded within one year for a 99.93 % probability. Under Postbank's risk-bearing capacity concept, CVaR (as a measure of the unexpected loss from credit risk) must be backed by risk capital. Moreover, the specific deductible described in more detail in the chapters entitled "Risk capital" and "Risk limitation" is used to account for uncertainties in the model when risk-bearing capacity is determined.

In contrast to CVaR, the expected loss is the expected amount of losses from credit risk in the Bank portfolio over a one-year period. This is calculated approximately as the product of the default probability, the total size of exposure, and the loss rate. It depends on the rating and the term of the counterparty or transaction. The expected loss does not contribute to the Bank's overall risk, but is factored into margin calculations via the standard risk costs.

CVaR is 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, size category, creditworthiness, and country. The probability of a rating change (migration) is continually updated and adjusted to reflect the changes observed in the current economic environment. In calculating CVaR, all loans and advances are recorded together with their future cash flows and 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 recovery rates.

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

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

In addition to the CVaR calculations, the loan portfolio is subject to regular stress testing and sensitivity analyses across all risk classes with the aim of quantifying losses that might arise from extreme events. Due to the model uncertainties relating to CVaR measurement that were mentioned above, the focus in 2011 will be on replacing the current portfolio model.

*Portfolio structure*

The following table provides an overview of material credit risk indicators for the various profit centers as of December 31, 2010 (calculated on November 30, 2010) compared to the end of 2009. As CVaR including portfolio effects is not calculated at the level of Deutsche Postbank AG, the portfolio structure is shown at Group level in the following table.

| Credit risk | Volume | | Expected loss | | CVaR[1] | |
|---|---|---|---|---|---|---|
| | Dec. 31 2010 €m | Dec. 31 2009 €m | Dec. 31 2010 €m | Dec. 31 2009 €m | Dec. 31 2010 €m | Dec. 31 2009 €m |
| Corporate Banking | 28,605 | 28,422 | 123 | 127 | 272 | 228 |
| Retail Banking | 46,231 | 46,162 | 248 | 278 | 161 | 186 |
| Financial Markets | 119,362 | 141,800 | 312 | 440 | 1,448 | 1,755 |
| Other (banks/local authorities) | 3,840 | 4,530 | 4 | 3 | 98 | 101 |
| BHW[2] | 39,165 | 39,417 | 115 | 104 | 79 | 68 |
| Total (incl. portfolio effect) | 237,203 | 260,331 | 802 | 952 | 1,469 | 1,765 |

[1] Confidence level 99.93 %; due to diversification effects, the CVaR in the Group loan portfolio is lower than the sum of the individual CVaRs for the business divisions

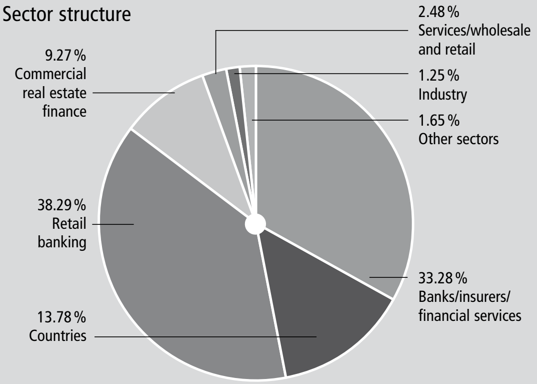
[2] The portfolio of trust activities of BHW Bausparkasse AG is shown under Retail Banking

The total portfolio fell by 8.9 % in 2010, from €260.3 billion at the end of 2009 to €237.2 billion. The expected loss fell by 15.7 % as against December 31, 2009, while the unexpected loss fell by 16.8 %. The overall decline in the expected and unexpected losses is largely due to reduced volumes in the Financial Markets segment (SCPs) and positive rating migrations in the Retail Banking segment.

*Sector structure of the loan portfolio*

Overall, the sector distribution of the instruments subject to credit risk, measured in terms of volume, displays a balanced structure except for the aforementioned concentrations with respect to banks. The loan portfolio consists mainly of loans to retail customers, with a focus on domestic private mortgage lending. It also includes loan exposures in the Corporate Banking division, predominantly in the German business customers segment, and in commercial real estate finance. The holdings of investment securities continue to be dominated by 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 service providers. A target portfolio has been defined as part of the credit risk strategy that has been optimized in terms of diversification and that serves to manage investments in the non-retail area.

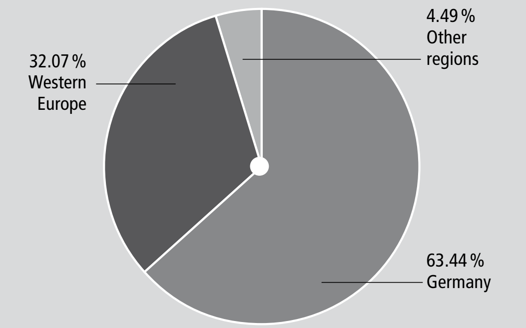
Sector structure




*Regional distribution of the loan portfolio*

Postbank has established country-specific limits for credit allocation in order to manage country risk. The levels of country limits are substantially determined by internal and external ratings, and by the economic strength of the particular country as measured by gross domestic product. A central database keeps track of the limits established for each country and their current utilization, as well as the economic data used in allocating countries to risk categories. The country limit system was thoroughly revised in response to the financial market crisis and supplemented by an early warning system. The regional distribution of the credit volume again reveals a concentration on the domestic German market in line with Postbank's strategy.

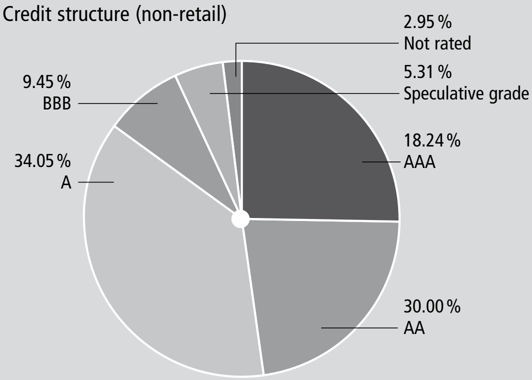
Regional distribution




*Credit structure of the loan portfolio*

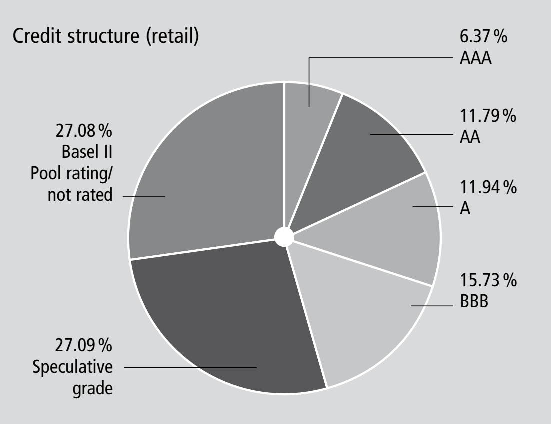
The distribution of ratings in the loan portfolio reflects Postbank's conservative approach. The following graphic depicts the rating structure of the loan portfolio for the non-retail business. The higher rating categories with investment grade predominate.

Credit structure (non-retail)




Compared with year-end 2009, the graphic shows slight rating downgrades as a result of the financial market crisis. The current rating distribution for loans and advances to other banks, corporates, and countries is within the target rating distribution category as specified in the credit risk strategy, and thus within the required range.

Postbank's retail business continues to show a good credit rating structure, as the following graphic illustrates. Legacy retail business portfolios (mainly mortgage loans extended before August 2004) and purchased loans and advances are reported using pool ratings. In other words, homogeneous risk pools are established by segment and measured individually according to the relevant Basel II parameters. The proportion of portfolios covered by these pool ratings is declining gradually since all new transactions are rated on an individual basis.




*Securitization positions*

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

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

Investor

In the course of credit substitution transactions, Postbank invested in structured credit products (SCPs), among other things. Specifically, these relate to asset-backed securities (ABSs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), residential mortgage-backed securities (RMBSs), and commercial mortgage-backed securities (CMBSs). Securitization positions are generally rated by at least one recognized rating agency (Standard & Poor's, Moody's, or FitchRatings).

Originator

In addition to being an investor, Postbank also acts as an originator. The following synthetic transactions involving the securitization of residential mortgage loans relating to Germany not only reduced regulatory capital requirements but also diversified risk. As of the reporting date, Postbank held the PB Domicile 2006-1 transaction with a volume of €1,840 million in its portfolio. In addition, Postbank structured the PB Consumer 2008-1 and PB Consumer 2009-1 originator securitization transactions as traditional securitization transactions; however, no significant transfer of risks has taken place as of the reporting date.

Risk reporting

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

- The credit risk report is submitted quarterly to the Group Management Board and the Loan and Equity Investments Committee of the Supervisory Board, following in-depth discussion in the Credit Risk Committee. It provides information on the development of the loan portfolio, including SCPs, and documents their structure and ratings, the trend in the allowance for losses on loans and advances, and the factors influencing these, as well as the measures taken and their effects.

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

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

- At the level of individual loans, the watch lists are another instrument used to report on larger or impaired exposures.

Environmental risk

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

Identifying and quantifying environmental risk forms part of Postbank's standard risk assessment and management procedures in its domestic and foreign business. With regard to its customers, Postbank believes that fulfilling current environmental standards and acting responsibly towards the environment are key factors for assessing corporate governance.

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

### Monitoring and managing liquidity risk

Definition of risk

Postbank distinguishes between two types of risk in liquidity risk management: illiquidity risk and liquidity maturity transformation risk. Illiquidity risk is defined as the risk of being unable to meet current or future payment obligations, either in the full amount due, or as they fall due. Liquidity maturity transformation (LMT) risk describes the risk of increased refinancing costs due to a change in the Bank's refinancing curve.

Organization and risk strategy

The responsibility for performing centralized risk management tasks lies with the Management Board, while the Supervisory Board is responsible for monitoring this. The Management Board has delegated liquidity risk management to the Market Risk Committee (MRC).

Postbank has established clear rules with regard to responsibility for liquidity risk management. In general, Postbank's Financial Markets division is responsible for the centralized operational management of liquidity risk. In the event of a liquidity shock, the Liquidity Crisis Committee has clear responsibility and authority over all Postbank units responsible for portfolios.

The Risk Analysis and Market Risk Controlling unit functions as a Bank-wide independent monitoring unit. It is responsible for operational limit monitoring and reporting, in addition to the methods and models used for risk identification, measurement, and management.

Postbank has laid down the basis for dealing with liquidity risk, among other things, in its overarching risk strategy.

The goal of liquidity management is to ensure that Postbank is solvent at all times – not only under normal conditions, but also in stress situations. Due to its strategic focus as a retail bank, Postbank enjoys a strong refinancing base in its customer business and is therefore relatively independent of the money and capital markets. To guard against unexpected cash outflows, an extensive portfolio of unencumbered ECB-eligible securities is held that can be used to obtain liquidity rapidly. To further diversify its refinancing activities, Postbank has a *Pfandbrief* license allowing it to issue public-sector *Pfandbriefe* and mortgage *Pfandbriefe*.

In its projects, Postbank has laid the key foundations for differentiated liquidity management in keeping with the requirements derived from the "Principles for Sound Liquidity Risk Management and Supervision". The continuous enhancement of the liquidity management concept takes into account the ongoing regulatory debate and in particular the structure of our liquidity position over the course of several years.

In the year under review, Postbank met the regulatory liquidity requirements in accordance with section 11 of the KWG in conjunction with the *Liquiditätsverordnung* (LiqV – German Liquidity Regulation), which entered into force on January 1, 2007, at all times.

Risk management and control

The Liquidity Management department in the Financial Markets division is responsible for the central management of liquidity risk, focusing on managing liquidity maturity transformation and ensuring continuous solvency.

The management process is based on a number of pillars. Risk Controlling assesses Postbank's liquidity status each business day on the basis of funding matrices and cash flow forecasts, with operational management of risk being performed on the basis of the liquidity status. Risk management is also based on a series of more far-reaching analyses of liquidity management, in addition to regular liquidity and issue planning. Risk management activities focus above all on ensuring solvency at all times, even in stress situations. To ensure this, the Bank's liquidity positions are subject to a series of stress tests at least once a month. These simulated calculations reflect external 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. The stress tests also identify and analyze risk concentrations with respect to Postbank's specific liquidity situation, e. g., in relation to its savings and demand deposits or its access to the collateralized and uncollateralized money markets.

The results of the stress tests show that Postbank's liquidity position continues to be appropriate, despite what were at times very much tougher market conditions during the financial market crisis. This is due not least to the further increase in customer deposits and the Bank's extensive portfolio of ECB-eligible securities.

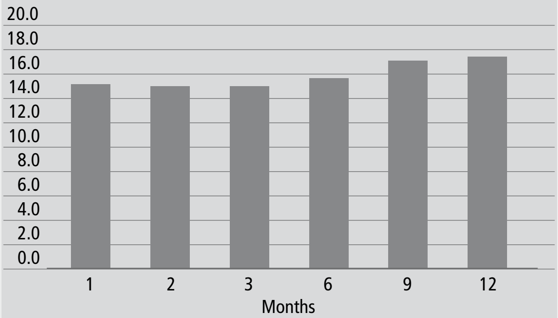
The following graphic illustrates Postbank's liquidity status as of December 31, 2010. This overview presents the expected cash inflows/outflows and the liquidity sources available for the coming twelve months on a cumulative basis, in accordance with the principles of internal liquidity management.

The expected values for cash outflows from liabilities with no fixed capital commitment period, such as savings and checking account deposits, the probability of utilization of irrevocable loan commitments, and the quality of the fungible assets available for ensuring liquidity are based in part on observed historical data and in part on estimates that are validated regularly.

The data and estimates show that Postbank has significant liquidity surpluses across all maturity bands, which underscores its appropriate cash position.

Liquidity status of Deutsche Postbank AG as of December 31, 2010

€bn




Risk reporting

Postbank regularly uses a variety of instruments to report liquidity risk; these are supplemented on a case-by-case basis by ad hoc analyses for individual key items. The standard reports are described in more detail below:

- The Group Management Board, the members of the Market Risk Committee, and the liquidity management units are informed daily by Risk Controlling of the liquidity status including limit utilization. A detailed reconciliation of cash inflows and outflows with available sources of liquidity is provided.

- Supplementing this, the Liquidity Management department uses a separate monthly report to inform the Market Risk Committee of the market situation and of Postbank's liquidity status and refinancing activities.

- The Group Management Board and the members of the Market Risk Committee receive monthly liquidity status overviews, including the established scenario analyses and stress tests.

- Monthly information on liquidity ratios in accordance with the LiqV is sent to the Group Management Board as part of the Management Board information system.

- The Supervisory Board is informed on a quarterly basis of Postbank's liquidity situation, including in the defined stress situations.

**Monitoring and managing operational risk**

Definition of risk

Postbank defines operational risk in accordance with section 269 of the SolvV as the risk of loss resulting from inadequate or failed internal processes and systems, people, or external events. This definition also covers legal risk, but not reputational or strategic risk.

The economic capital requirements for operational risk for the Bank as a whole and for the four individual business divisions are determined using the internal capital model. The capital model is based on a loss distribution approach (LDA) that initially uses internal and external loss events, supplemented by scenario data, in its calculations. A scorecard is used to assess the quality of operational risk management in the business divisions so as to enable qualitative modifications to be made to the capital amounts calculated for them using Monte Carlo simulations; this also represents a material incentive to improve operational risk management.

To date, Postbank has used the standardized approach to calculate regulatory capital requirements for operational risk. Work on introducing an Advanced Measurement Approach (AMA) was completed on schedule at the beginning of 2010. During an on-site audit performed in the second quarter of 2010 as part of the approval process for the AMA, the supervisory authorities examined in depth the suitability of the capital model and the related methods and procedures, the reliability and integrity of the relevant IT systems, and the procedures for reviewing the risk measurement system. The BaFin approved the use of the AMA at the level of the Postbank Group as of December 31, 2010. In the case of Deutsche Postbank AG, the Standardized Approach is used for calculating the weighting required for operational risk.

Organization and risk strategy

Postbank's Management Board is responsible for the key operational risk management tasks, while the Supervisory Board is responsible for monitoring this. The Operational Risk Committee (ORC) commissioned by the Management Board defines the framework for operational risk control. Operational management of operational risk is the responsibility of the individual units within Postbank.

Strategic parameters for managing operational risk are part of the overall strategy. The operational risk strategy comprises four quantitative elements in addition to qualitative statements on day-to-day handling of operational risk:

- Specification of a VaR limit for operational risk at the overall Bank level

- Allocation of economic capital for operational risk at the level of the internal business divisions

- Definition of warning thresholds for structural loss trends per business division (typical loss)

- Definition of warning thresholds for low-volume, high-frequency losses.

Operational risk is fully integrated into Postbank's risk-bearing capacity concept. Capital requirements are calculated on the basis of the internally developed quantification model, which is used to calculate the utilization of the limit allocated to operational risk on a quarterly basis. 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. Postbank's four business segments have been allocated specific risk capital amounts, utilization of which is monitored each quarter.

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

In addition to the quantification model, Postbank uses the following instruments in particular:

- Structured capture of internal losses of €1,000 or more
- 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.

The "OpRisk Manual" describes both the methods and instruments used and the primary responsibilities of the people involved in the operational risk control and management process. Postbank's Legal Affairs department is primarily responsible for identifying and managing legal risk.

At the beginning of 2010, an independent Operational Risk and Business Analysis unit was established within the Risk Management department in order to strengthen central operational risk control and reinforce the importance of the topic. In addition to its central coordination and reporting tasks, this unit has central responsibility for training the local risk managers and for upgrading the software solution used.

Two-tiered organizational structures with decentralized OpRisk managers have been established for each division to supplement the central department and support the managers concerned in risk prevention.

Risk management and control

In 2010, losses from operational risk in excess of the €1,000 reporting threshold rose significantly in comparison to the prior-year period. Only a small proportion is due to individual major loss events; the rest mainly stems from numerous cases of external fraud in Retail Banking. One focus here was on high-frequency losses such as credit card fraud, phishing, and transfer and credit fraud – incidents that, taken in isolation, cause only minor damage, but that occur in large numbers.

A particular focus in the fight against fraud is to communicate all material cases without delay throughout the Bank via the FRAUD group. Another focus is on raising the awareness of the employees involved in the relevant processes, in order to ensure systematic and widespread early identification of cases of fraud. To complement these activities, a number of technical measures that are contributing to a successive improvement in the situation were either initiated or largely implemented in 2010.

To date, Postbank has used the Standardized Approach for calculating the weighting required for operational risk. The weightings for operational risk are calculated for internal purposes – in contrast to the regulatory provisions – each quarter. The following table shows the partial weightings broken down by business segment.

| Business segment in accordance with the SolvV | Weighting for operational risk | |
|---|---|---|
| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
| Corporate finance | 0 | 0 |
| Trading and sales | 21 | 27 |
| Retail banking | 292 | 269 |
| Corporate banking | 48 | 38 |
| Payment transactions and processing | 0 | 1 |
| Agency services | 1 | 1 |
| Asset management | 0 | 0 |
| Retail brokerage | 8 | 8 |
| Total for Deutsche Postbank AG | 371 | 344 |

Risk reporting

In fiscal year 2010, Postbank enhanced its internal operational risk reporting system to include ad hoc reporting to the Supervisory Board plus an additional weekly report to the members of the Operational Risk Committee and of the FRAUD group.

Postbank reports regularly to its senior management on operational risk and losses:

- The Group Management Board and the members of the Operational Risk Committee (ORC) are informed on a monthly basis of losses incurred and of selected indicators, as well as of compliance with warning thresholds for typical losses in the individual business divisions and for high-frequency losses.
- Moreover, the Group Management Board and the members of the ORC are informed on a quarterly basis of the utilization of the defined VaR limits at the level of the Bank as a whole and of the business divisions; in addition, they are provided with the results of the self-assessment every six months.
- Furthermore, the members of the ORC and of the FRAUD group receive a brief weekly summary of current loss trends.
- At a local level, individual managers at the various levels receive reports tailored to meet their informational needs.

ORC members and the heads of the business divisions receive ad hoc reports without delay in the case of material losses that exceed a predefined level, or of serious risks.

**Monitoring and managing investment risk**

Definition of risk

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

Equity investments are defined as all equity interests recognized in the single-entity 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).

Organization and risk strategy

The Bank's Group Management Board is responsible for strategic management of the equity investment portfolio.

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

As of the reporting date of December 31, 2010, Deutsche Postbank AG held a total of 63 direct and a large number of indirect equity investments. In fiscal 2010, the number of investments in affiliated companies/equity investments had not changed materially over the previous year.

Postbank sees these holdings predominantly as strategic investments that reflect the Postbank Group's product and service areas, and as a source of internal services for the Postbank Group. A number of these equity investments are managed as Postbank units. A number of central functions such as accounting, finance, controlling, legal affairs, personnel, and internal audit are performed in some cases by the responsible organizational units at Postbank. The relevant lending departments of Deutsche Postbank AG monitor investment risks that are credit-related or that perform a credit-substitution function.

Postbank continues to have no shareholdings in other companies in the sense of a private equity/investment strategy.

Postbank has established procedures to ensure the adequate management and monitoring of key investment risks at Group level. These also include the interests held by Deutsche Postbank AG in special purpose entities (SPEs). In the year under review, SPEs were used in particular to issue subordinated securities and for the temporary ownership of real estate. Deutsche Postbank AG has no interests in SPEs designed for asset outplacement.

Consequently, all material equity investments are integrated in Postbank's operational management of risk at Group level. Since they are included in risk monitoring at an operational level, the equity investments are analyzed annually for their significance and risk, and where necessary additional equity investments are fully integrated.

The Risk Analysis and Market Risk Controlling unit regularly monitors the materiality thresholds defined for risks within the equity investment portfolio and keeps the Management Board and the Risk Committees informed of this.

#### Risk management and control

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

Ongoing liaison between the companies and the appropriate specialist areas of the Bank also contributes to the timely identification of business and risk developments. To this end, the equity investments are allocated to the relevant board departments.

Equity investments are tested for impairment at quarterly intervals. In accordance with the principles for valuing equity investments and shares in companies laid down by the Institut der Wirtschaftsprüfer, this review primarily uses the *Ertragswertverfahren* (income capitalization approach).

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.

#### Risk reporting

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

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

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

### Monitoring and managing real estate risk

#### Definition of risk

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

#### Organization and risk strategy

The Bank's Group Management Board is responsible for strategic management of the real estate portfolio.

At Postbank, risks from real estate holdings are monitored and controlled on a uniform basis by the Real Estate Management unit, which is part of the Real Estate, Support, and Security department of the Resources/Lending board department. In particular, Real Estate Management coordinates the management of the service providers active in the area of facility and property management and is responsible for overarching cost coordination in line with the Bank-wide real estate strategy. Real Estate Management prevents the risk of loss of rental income, writedowns to the lower current value under the going concern principle, and disposal losses by managing the space and actively marketing excess areas, as well as by long-term resource allocation.

The properties in the Postbank portfolio are primarily owner-occupied properties used by Deutsche Postbank AG.

#### Risk management and control

Properties are reappraised every three years in order to monitor their value on an ongoing basis. In line with the valuation principles applied (in this case Practice Statement (PS) 3.2 of the RICS Valuation Standards (6th edition) published by the Royal Institution of Chartered Surveyors (RICS), London), the reappraisal is based primarily on a determination of the market value. This is defined in the Practice Statement as follows: "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

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

No concentration risks from the real estate exposure are discernible.

Risk reporting

As part of the management and monitoring systems, regular reports are also prepared on the risk relating to real estate owned by the Bank:

- The Real Estate, Support, and Security department submits monthly reports to the Resources/Lending board department that are largely devoted to real estate topics. In addition, the Resources/Lending board department receives reports every two weeks on key issues relating to real estate risk.

- The board department receives reports on key indicators for real estate as part of the department's KPI system.

- The Bank's Group Management Board is informed of the size of the real estate risks as part of the quarterly risk-bearing capacity report.

**Monitoring and managing business risk**

Definition of risk

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

- Model risk
  The risk from unexpected declines in volume or falling margins that cannot be fully covered by modeling customer products with non-deterministic capital commitments and/or variable interest rates.

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

  - Strategic risk
    The risk that earnings targets will not be achieved because Postbank is insufficiently focused on the business environment concerned (which may have changed at short notice). Strategic risk may therefore result from an inadequate strategic decision-making process, from unforeseeable discontinuities on the market, or from the inadequate implementation of the chosen strategy. In the area of strategic risk, Postbank makes a further distinction between internal risk, which arises from inadequate strategic procedures, and external risk, which is caused by unexpected market developments.

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

Organization and risk strategy

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

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

Risk management and control

While model risk primarily affects savings and checking account products in Retail Banking, it also occurs in Corporate Banking. Risks from modeling customer transactions with non-deterministic cash flows result in particular from the definition of theoretical scenarios for customer products with unknown interest rates and capital commitment periods (primarily savings and checking accounts, and overdrafts) in order to manage interest rate and liquidity risks. These scenarios are designed in such a way as to appropriately reflect the repricing and capital commitment behavior of these customer products. Over time, volume and margin fluctuations can occur as a result of changes in the interest rate adjustment policy (or as a result of a lack of opportunities for such adjustments); this could endanger the ability to generate stable net interest income in the long term and impair the liquidity situation.

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

Controlling and the business divisions prepare ongoing market and competitive analyses in order to identify potential risks and to develop appropriate countermeasures as part of an early warning system.

Risk reporting

Postbank uses a variety of regular reporting instruments for business risk:

- The Management Board is informed on a quarterly basis of the size of the business risk in the risk-bearing capacity report.
- The Management Board is informed of the development of model risk in the monthly risk report.
- The monthly Market Risk Committee report informs the MRC of specific business risks arising from model risk.
- The change in volume of the customer products with unknown interest rates and capital commitment periods is monitored in daily reports.
- At Postbank, there are several forms of strategic risk reporting. For example, the Management Board receives regular reports on the results of the market and competition analyses, quarterly reviews of business performance, and the monthly and quarterly Management Board information system reports. Additionally, strategic risk and developments are presented and discussed in depth during the planning process.

**Internal control and risk management system for the financial reporting process**

The following section describes the key features of the internal control and risk management system in relation to the financial reporting process. In this respect, Deutsche Postbank AG complies with the requirement set out in section 289(5) of the HGB (German Commercial Code). Deutsche Postbank AG regards information as being material within the meaning of section 289(5) of the HGB if failure to disclose it could influence the economic decisions taken on the basis of the annual financial statements and the other components of financial reporting. Materiality cannot always be determined in general terms, but is rather established in the context of the issue at hand, and is assessed on the basis of the nature and scope of the issues involved. Postbank assesses the question of the materiality of an issue by reference to its importance with respect to the annual financial statements.

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

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

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

Postbank's internal control system performs the following tasks:

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

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

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

The Management Board is responsible for preparing the annual financial statements and for the management report. The Management Board has assigned responsibilities for the individual components and procedural steps relating to financial reporting in the form of organizational guidelines. The Finance, Group Management, and Resources/Lending board departments are the main units involved in the preparation of the guidelines.

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

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

In addition, certain tasks are performed by the Group Management units, whose main functions are as follows:

- Coordination of the Declaration of Compliance as defined by section 161 of the AktG
- Provision of certain disclosures relating to the notes
- Provision of the information required to be disclosed with respect to market, credit, liquidity, and operational risks.

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

- Calculation of the provisions for pensions and other employee benefits as well as provision of disclosures relating to the notes
- Decisions on specific valuation allowances relating to domestic and foreign loans
- Provision of relevant disclosures relating to the notes and the risk report.

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

- Provision of advice and supervision with respect to financial reporting, the internal control systems, risk management and risk control (insofar as the Loan and Equity Investments Committee is not responsible for this), internal audit (including the right to demand information), 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.

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

The annual financial statements and the management report must be audited by the auditor elected by the Annual General Meeting before the annual 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 towards the internal control system. The control environment materially influences employees' control awareness. A positive control environment is a precondition for an effective internal control system.

Accounting policies and other rules serve to ensure the due and proper treatment of business transactions; the policies and rules are reviewed on an ongoing basis and modified as necessary. Postbank prepares its annual financial statements and management report in accordance with the provisions of German commercial law applicable to major stock corporations (sections 242 – 256, 264 – 287, and 289 of the HGB), taking into consideration the legal-form specific requirements for German stock corporations (sections 150 – 161 of the AktG), the sector-specific requirements for credit institutions, and the requirements of the Bank's Articles of Association.

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

The risk of non-compliant financial statements is addressed by the issuance of guidelines. The quality of the annual financial statements is assured by audits carried out by the Accounting department.

The core principle behind the design of these processes is the clear separation of irreconcilable activities. The principle of dual control plays a key role here. It is applied as a matter of principle at a technical and/or an organizational level to the entry of items during processing.

The financial reporting process for the annual financial statements comprises technical support for the business transactions, data capture and processing, reporting, and the publication of the components of financial reporting.

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

Postbank uses an SAP-based accounting system. In addition, specific data processing tools are used, the design of which is controlled as part of integrated data processing monitoring.

Integrated process controls take the form of plausibility tests within the programs and automated and manual reconciliations. The Bank regularly reconciles the general and sub-ledgers. All items are entered in line with the principle of dual control.

**Internal Audit**

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

Internal Audit 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. In addition, it examines the propriety of all activities and processes. Internal Audit audits all areas of Postbank as a matter of principle at least once every three years. Areas that are exposed to particular risk are audited annually.

Internal Audit's annual audit plan provides for suitable audit tests that are designed to assure the appropriateness of the internal rating systems, including adherence to the minimum requirements for use of the rating systems.

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

Regularity audits and system examinations are conducted regularly as part of the annual program. Internal Audit also carries out special examinations under particular circumstances, and performs audit and consulting activities relating to the introduction and implementation of material projects. Audit concepts are continuously adapted to reflect current changes as well as changes in the legal situation. For instance, new products, changes in the internal control system, or organizational changes in the way audits are performed are all taken into account, as are any changes in the legal framework.

**Remuneration systems**

The BaFin laid down criteria for banks' remuneration systems in its Circular 22/2009 dated December 21, 2009. On October 6, 2010, the German Federal Ministry of Finance issued the *Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten* (InstitutsVergV, Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions) on the basis of section 25a(5) sentences 1– 3 and 5 of the KWG; this replaces the BaFin Circular.

The remuneration systems have been adjusted to comply with the general requirements specified in the Regulation. The adjustments took effect in 2010. The remuneration systems are in keeping with the goals laid down in the strategies and are designed in such a way that negative incentives are avoided. Employees are remunerated appropriately for their tasks and responsibilities; the remuneration systems are reviewed annually for appropriateness.

With respect to the specific requirements placed on remuneration systems for managing directors and employees in high-risk positions, the remuneration systems were designed in such a way as to provide even greater support for sustainability-oriented enterprise goals. Postbank implemented the changes required by the BaFin Circular retroactively as of January 1, 2010 and is examining whether any changes are potentially necessary under the InstitutsVergV. Any changes that may be necessary will be implemented in the relevant employment contracts following a review in accordance with section 10 of the InstitutsVergV, insofar as this is possible under civil, employment, and company law.

**Pending proceedings**

An allegation made by the Monopoly Commission is the subject of a request for information submitted to the German federal government by the European Commission in response to a complaint from a third party. The allegation is that Deutsche Post AG contravenes the prohibition on state aid enshrined in the EU Treaty by allowing Deutsche Postbank AG to use Deutsche Post outlets at below market rates. In the opinion of Deutsche Post AG and Deutsche Postbank AG, this allegation is incorrect and the fee paid by Deutsche Postbank AG complies with the provisions on competition and state aid stipulated in European law.

The European Commission also asked the Federal Republic of Germany to comment on the sale of its entire interest in Deutsche Postbank AG to Deutsche Post AG concluded in 1999. However, the Commission had already investigated the acquisition of Postbank as part of the state aid legal proceedings concluded by the decision of June 19, 2002. At the time, it explicitly concluded that the acquisition of Postbank involved "no grant of state aid".

The German government has already argued before the European Commission that the allegations are in its opinion unfounded. Nevertheless, no assurance can be given with regard to the two allegations relating to the requests for information that the Commission will not find that the facts of the case constitute state aid.

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

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

## Report on Expected Developments

### Global economy

For 2011, signs are pointing toward the continued recovery of the world's economy. Nonetheless, the global upswing remains subject to setbacks. Risks to the economy include current uncertainties on financial markets. In addition, the fiscal momentum particularly in industrial countries that propelled the economy in 2010 may ease. As a result, growth in 2011 will most likely be somewhat lower than in the previous year. We expect global economic output to rise by 4.3 %. In 2012, global GDP growth will likely reach a similar magnitude.

In the United States, the economy will present a differentiated tableau in 2011. Private consumption should increase somewhat faster as a result of gradual improvements on the job market. Investments in machinery and equipment can also be expected to improve as the upward trend should continue here. By contrast, investments in construction may continue to be a drag on the economy. No positive momentum can be expected to be generated by this area until the real estate crisis has passed. Exports and the warehouse cycle will tend to have a slightly negative impact on the economy in 2011. At 2.9 %, however, GDP growth in 2011 should be about the same as last year. For 2012, we think similar growth may be achieved – as the foundation of growth expands and government economic rescue programs end.

The recovery of the Japanese economy could slow considerably in 2011. As a result of the weakening momentum generated by world trade, exports may provide only limited support. Domestic demand will not be strong enough to offset this trend. Following the strong growth produced during the past fiscal year, we expect private consumption to rise only moderately. For this reason, GDP will grow only slightly at 1.3 %. For 2012, we foresee a slight rise in growth. In China, the economy should grow somewhat slower in 2011 than in the reporting year because of government efforts to prevent the economy from overheating. But the economic recovery should remain robust and continue in 2012.

The economy in the euro zone should continue to grow moderately in 2011. As a result of the emerging stabilization of the job market, private consumption is expected to generate somewhat stronger economic momentum. The outlook for investments in machinery and equipment appears positive as well. With the world economy producing solid growth and domestic demand rising moderately, exports should climb faster than imports. By contrast, financial policies will have a dampening effect: Many members of the euro zone will put their budget-cutting plans into effect as part of efforts to restructure government spending. As a result, GDP growth should be generally moderate at 1.7 %. In the process, the differences in the growth rates of individual member countries should shrink. For those countries with major structural problems, the outlook remains rather guarded. For 2012, we expect the euro zone's economy to grow at a similar rate. In the process, economic momentum will increase in countries experiencing the greatest consolidation pressure at the moment.

### Economic outlook for Germany

At the turn of the year 2010/2011, the German economy had a broad base – an indication that the upswing should continue in 2011. Exports should continue to increase. But, as imports rise measurably, exports are unlikely to generate much growth momentum. On the other hand, domestic demand should produce solid growth. Gross capital expenditures may climb markedly once again, fueled in large part by investments in machinery and equipment. On the other hand, investments in construction are expected to rise only moderately as the impact of the – expiring – government infrastructure program eases. But private residential construction and commercial construction may rise further. The job market should profit from the continued recovery in investments, creating a potential foundation for further improvements in employment. Against this backdrop, private consumption should climb steeply. At 2.4 %, GDP growth may lag behind the record level achieved in 2010, but should nevertheless be significantly higher than in the euro zone as a whole. For 2012, we foresee a weakening of the growth momentum in both gross capital expenditures and private consumption. As a result, GDP growth may decrease sharply.

### Markets

The monetary policies of the world's leading central banks should remain very expansive in 2011. In terms of the ECB, we expect that it will continue to carefully roll back its special monetary programs in the spring. One particular source of uncertainty is the European debt crisis. Should this crisis worsen again, the ECB could be forced to leave current programs in place for an extended period of time. Even though the upward pressure on prices will likely increase considerably this year, the ECB may keep its benchmark interest rate at the very low level of 1.0 % for a certain time as a result of the risks related to government deficits and the economy. We do not expect a slight rise in interest rates to 1.25 % until the fourth quarter of 2011. The ECB may gradually increase rates in 2012 as well. We expect that the U.S. Federal Reserve will keep its benchmark rates at 0 % to 0.25 % in 2011. It is likely to conclude its program of buying $600 billion in U.S. Treasuries on schedule in June. With the economic upswing expected to stabilize, we do not expect the Fed to take further steps to increase macroeconomic liquidity. We believe that the Fed could begin to carefully raise rates in 2012.

The continuing economic recovery and the likely rise in inflation rates in 2011 are indicators of higher capital market interest rates. This increase, however, is expected to be limited as a result of the very low benchmark rates and the high amount of liquidity – made available by central banks. With the European government-debt crisis continuing to smolder, German bunds should retain their role as a "safe haven" in the capital market for the foreseeable future. For this reason, we expect yields of 10-year bunds to rise only slightly to 3.2 % in 2011. In the euro zone, the yield curve should flatten slightly. By historical standards, however, it will still remain steep. As a result of the expected increases in interest rates by the ECB, we believe that capital market rates will rise somewhat steeply in 2012. In this environment, the tendency of the yield curve to flatten should continue.

Continuing economic growth should ease worries about corporate bond defaults, resulting in a potential light drop in risk premiums in 2011, among other things. Corporate spreads will likely remain well above the pre-financial crisis level. For 2012, we do not foresee any substantial changes in this market segment. In terms of the risk premiums demanded for government bonds issued by the periphery countries of the euro zone, we think concerns will ease over the long term only after the members of the euro zone have agreed on a credible strategy that extends beyond 2013. Susceptibility to volatility will remain high as long as no fundamental approach to dealing with the heavily indebted members of the euro zone appears on the horizon.

### Sector outlook

The regulatory framework for the international financial community has still not been finalized in some areas. Stricter minimum capital requirements for banks were only recently approved at the G20 summit held in November 2010 in Seoul. These requirements are to be gradually introduced through 2019. The stricter capital requirements should create a need for additional capital at some banks. In addition to the retention of profits, it may be necessary to increase capital in order to close these gaps.

In Germany, the restructuring act, which regulates a banking levy among other issues, has been approved by the German Parliament and Federal Council. The law took effect at the beginning of 2011. But an ordinance that is yet to be passed will regulate the individual details of the law, in particular the banking levy. Under a relevant draft, the annual banking levy should continue to total no more than 15 % of annual profits. Should the calculated levy exceed the upper limit of 15 %, banks must pay the difference in subsequent years. At the beginning of January 2011, it was announced that the European Commission was considering the introduction of an EU-wide banking levy. This would result in a double payment for German financial institutions. Other significant negative effects could be created by the harmonization of deposit protection insurance proposed by the EU Commission.

No EU-wide decision for or against the introduction of a financial transaction or a financial activity tax has been made yet. It remains uncertain if and when a consensus can be reached. The German Finance Ministry favors a financial transaction tax. Should one of these levies be introduced, a further negative impact on banks' earnings would occur.

But one point is already certain on the European level: This spring, European banks and insurance companies will undergo another stress test. It will be coordinated by the newly created European Banking Authority and European Insurance and Occupational Pensions Authority. The ability of the financial industry to weather further financial and economic crises is to be tested once again. The results of the bank tests should be available in mid-2011.

In 2011, the fundamental business conditions of the domestic banking industry should remain largely positive. For one thing, positive economic trends should continue in the coming years, and the credit rating of most loan customers remain stable at the very least. For another, the yield curve may change only slightly by late 2011. Both net interest income and additions to allowances for losses on loans and advances will tend to be initially buttressed by these developments. A flattening of the yield curve during 2012 could tend to have a negative impact on net interest income. On the other hand, the intense price-driven competition for new private and, increasingly, corporate customers may cloud business prospects both in 2011 and 2012. Over the mid-range, the contributions to earnings made by investment banking and proprietary trading will tend to stagnate at many German banks as a result of the continuing challenging capital market business climate. The negative financial impact that the introduction of a banking levy and other possible fees will have on the banking industry cannot be conclusively formulated yet. Furthermore, the debt crisis on the EU's periphery will most likely remain a source of uncertainty in 2011 and 2012 and possibly have a further negative impact on the trading books of some banks. Should a default occur or a government's debt be restructured in the euro zone, this would have a major negative impact on the financial industry. This is because banks, insurers and other institutional investors are among the most important buyers of government bonds. As a result, we expect the majority of German banks to generate moderate increases in earnings in 2011 and 2012. Over the mid-range, the pre-financial crisis level of reported income and returns may not yet be reached again by many banks.

A number of banks are up for sale in Germany. But no cross-pillar transactions appear to be in the making. Rather, international investors seem to be the primary group of interested parties. In years to come, Germany's banking market will continue to be characterized by the three-pillar structure of private banks, savings banks and cooperative banks.

## Expected financial situation

### Investment focuses of Postbank

Legal requirements make it necessary to carry out further investments, particularly in connection with the revisions of IFRSs, the flat tax, SEPA, the German Solvency Regulation (SolvV) and standardized consent to receive advertising.

To optimize its ongoing operations and processes, Postbank continues to invest in its core banking system SAP, payment transactions, front-end sales and banking access for customers (multi-channel banking). One of the focal points of this last area is improving security by taking such steps as replacing the I-TAN with a cutting-edge, secure process.

As part of business development, investments are being made in product innovations in Retail Banking, Financial Markets and the home savings area, the development of client business and the strategic programs of Postbank.

In 2011, the focal points of the continued introduction of the "Postbank4Future" strategy program are the continuing optimization of complaint management, the restructuring of HR systems and the improvement of control mechanisms through the introduction of a strategic financial database. In another program, investments will be made in the standardization of internal Postbank processes and in the achievement of A-IRBA (Advanced Internal Rating-Based Approach) to improve risk-weighted assets and, as a result, the capital ratio.

### The expected impact of Basel III

The Basel Committee on Banking Supervision (BCBS) issued the final text of the rules governing the future international capital adequacy and liquidity requirements (Basel III) on December 16, 2010. The new rules, a response to the financial crisis, represent a significantly tougher regulatory framework that is designed to make the global banking system more resilient. They include both stricter definitions of regulatory capital (higher qualitative standards, additional deductions) and higher capital charges for the assets to be backed by capital. Banks will also face minimum standards for their liquidity base in the future, and their leverage ratio will be monitored.

The new Basel III rules will tend to lead to a reduction in banks' regulatory capital and an increase in their risk-weighted assets. This also applies to Postbank. However, the new rules will be phased in over a transition period running until 2022 to give the banks the time they will need to adapt to the tougher regime. At the same time, the capital adequacy ratios will be increased successively up to 2018 and banks will have to build up an additional capital conservation buffer.

In the period until the launch of Basel III, Postbank plans to further improve its capital position by retaining earnings, introducing advanced models for determining equity requirements (Advanced IRB, internal market risk model, AMA), and reducing the volume of its investment securities. At the same time, Postbank will continuously examine additional measures for optimizing its capital resources.

### Outlook

As part of a review of its strategic positioning at the end of 2009, Postbank undertook a series of steps that are designed to underpin the Bank's good competitive position in its retail, business and corporate customer business in the coming periods as well as to expand the fields of core products.

For 2011 and 2012, we expect the world economy will continue to recover. In Germany, the growth momentum should continue in 2011. We foresee a slowdown beginning in 2012. Business conditions in capital markets will likely remain fragile. Outside Germany in particular, we believe that an above-average number of business bankruptcies will occur and that business conditions in selected international real estate markets will remain difficult. For that reason we still expect an increased – albeit diminishing – need for the allowance for losses on loans and advances in the overall banking sector. The following estimation of Postbank's probable direction in the current fiscal year and in 2012 uses a basis scenario in keeping with our economic expectations presented in this report. It also includes some possible effects of potentially severe setbacks and disruptions in international capital and real estate markets detailed in the sector outlook section of this report. Furthermore, the continuing discussion about stricter regulations for the banking sector, including the reform of deposit protection, as well as a possible acceleration in the reduction of risk positions exceeding today's planning could have a significant impact on Postbank's net assets, financial position, and results of operations.

For the current fiscal year and beyond, it can be assumed that the acquisition of the shareholder majority and Postbank's closer relationship with and integration into the Deutsche Bank Group that are expected will have an impact on the bank's business performance and, as a result, on the mid- and long-term earnings situation of the Postbank Group and thus of Deutsche Postbank AG. This can result from the possible assumption of Group-wide balance-sheet and evaluation standards as well as measurement options and integration expenses. It can also be assumed that a potentially closer relationship in the operating business could have an impact on the earnings situation. Given information available at the moment, it is not possible to provide an evaluation of this impact. For this reason, this topic is not addressed in this outlook.

In our basis scenario we are proceeding on the assumption that the total amount from net interest income and net fee and commission income will decline slightly in 2011 and more substantially in 2012 as a result of the expected decline of current income. Whereas according to current planning the allowance for losses on loans and advances should essentially remain at the 2010 level over the next two years, the expected development of the interest level, among other things, may cause the total amount from the net expense from the trading portfolio and net measurement gains and losses in the securities business to remain below the good level of the past fiscal year. Here it should be kept in mind that continuingly volatile economic conditions on money and capital markets make prognoses about expected net measurement gains and losses in the securities business in particular possible only to a limited extent and that an expedited reduction of our securities portfolio could lead to one-time negative effects that are not included in the previous assessment.

In summary, we expect, on the basis of previously discussed assessment, that Postbank's net profit and loss in 2011 and 2012 will stay below the level of the past fiscal year. Here it should be taken into consideration that the good performance of net measurement gains and losses, particularly in the securities business, and income from the transfer of equity investments, for example, had a positive impact on net profit and loss in 2010.

The long-range outlook for a sustainably achievable return on equity continues to be difficult to make for banks in general as of result of existing uncertainties and the ongoing discussion about future regulation of the banking market – including about the reform of deposit protection and tougher capital requirements. Furthermore, Postbank cannot predict at the moment what specific impact its possible integration into the Deutsche Bank Group will have on the mid- and long-term earnings situation. Postbank is responding to this situation and has decided that it will not issue any prognoses about returns achievable over the mid- and long term. We are determined to further expand the strong position of Postbank and its operating subsidiaries on the German market, and we are confident that we will move forward in our drive to generate profitable growth.

**Responsibility Statement**

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

Bonn, February 22, 2011
Deutsche Postbank Aktiengesellschaft

The Management Board

Stefan Jütte

Mario Daberkow | Marc Hess

Horst Küpker | Michael Meyer

Hans-Peter Schmid | Ralf Stemmer

# Balance Sheet as of December 31, 2010 – Deutsche Postbank AG, Bonn

## Assets

| | Previous year € | Previous year €m | € | € | € | Previous year €m |
|---|---|---|---|---|---|---|
| **1. Cash reserve** | | | | | | |
| a) Cash balance | | | | 763,412,772.85 | | 873 |
| b) Balances with central banks | | | | 2,310,835,005.30 | | 3,596 |
| of which: with Deutsche Bundesbank | 2,308,886,842.65 | 3,594 | | | 3,074,247,778.15 | |
| **2. Loans and advances to other banks** | | | | | | |
| a) Payable on demand | | | | 4,018,898,670.28 | | 4,823 |
| b) Other loans and advances | | | | 12,175,036,314.33 | | 24,371 |
| of which: | | | | | | |
| mortgage loans | 654,710,196.20 | 804 | | | | |
| public-sector loans | 173,490,594.06 | 254 | | | 16,193,934,984.61 | |
| **3. Loans and advances to customers** | | | | | | |
| of which: | | | | | | |
| mortgage loans | 29,439,450,945.39 | 29,201 | | | | |
| public-sector loans | 3,809,882,194.63 | 2,743 | | | 71,347,404,648.83 | 70,487 |
| **4. Bonds and other fixed-income securities** | | | | | | |
| a) Money market securities | | | | | | |
| aa) Public-sector issuers | | | 1,067,129,522.67 | | | 0 |
| of which: eligible as collateral with Deutsche Bundesbank | 1,067,129,522.67 | 0 | | | | |
| ab) Other issuers | | | 1,696,341,212.03 | 2,763,470,734.70 | | 3,531 |
| of which: eligible as collateral with Deutsche Bundesbank | 1,696,341,212.03 | 3,531 | | | | |
| b) Bonds | | | | | | |
| ba) Public-sector issuers | | | 16,749,679,181.04 | | | 21,116 |
| of which: eligible as collateral with Deutsche Bundesbank | 16,581,245,739.13 | 20,956 | | | | |
| bb) Other issuers | | | 20,059,198,396.09 | 36,808,877,577.13 | | 29,593 |
| of which: eligible as collateral with Deutsche Bundesbank | 16,552,686,406.05 | 24,475 | | | | |
| c) Own bonds | | | | 0.00 | | 77 |
| Principal amount | 0.00 | 84 | | | 39,572,348,311.83 | |
| **5. Equities and other non-fixed-income securities** | | | | | 312,211,104.12 | 634 |
| **5a. Trading portfolio** | | | | | 26,910,090,849.15 | 0 |
| **6. Equity investments** | | | | | | |
| of which: | | | | | | |
| in other banks | 1,171,593.72 | 1 | | | | |
| in financial services providers | -.-- | 0 | | | 15,290,717.07 | 16 |
| **7. Investments in affiliated companies** | | | | | | |
| of which: | | | | | | |
| in other banks | 552,332,765.28 | 552 | | | | |
| in financial services providers | 17,046,461.58 | 17 | | | 10,646,708,004.77 | 13,610 |
| **8. Trust assets** | | | | | | |
| of which: trustee loans | 883,092,477.12 | 937 | | | 934,021,401.40 | 1,045 |
| **9. Intangible assets** | | | | | | |
| a) Internally generated industrial and similar rights and assets | | | | 0.00 | | |
| b) Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets | | | | 48,826,031.39 | | |
| c) Goodwill | | | | 33,080,000.02 | | |
| d) Prepayments | | | | 0.00 | 81,906,031.41 | 37 |
| **10. Property and equipment** | | | | | 548,494,655.73 | 574 |
| **11. Other assets** | | | | | 732,536,735.95 | 805 |
| **12. Prepaid expenses** | | | | | | |
| a) From issuing and lending business | | | | 162,611,061.80 | | 197 |
| b) Other | | | | 1,853,734,547.78 | 2,016,345,609.58 | 1,813 |
| **13. Deferred tax assets** | | | | | 377,996,405.25 | 0 |
| **Total assets** | | | | | **172,763,537,237.85** | **177,198** |

## Equity and Liabilities

| | € | Previous year €m | € | € | € | Previous year €m |
|---|---|---|---|---|---|---|
| **1. Deposits from other banks** | | | | | | |
| a) Payable on demand | | | | 1,836,314,656.74 | | 1,634 |
| b) With an agreed maturity or withdrawal notice | | | | 9,859,891,977.84 | | 33,094 |
| of which: | | | | | | |
| registered mortgage *Pfandbriefe* issued | 25,328,271.23 | 83 | | | | |
| registered public-sector *Pfandbriefe* issued | 553,549,916.31 | 654 | | | | |
| *Pfandbriefe* lodged with lenders as collateral for loans received: | | | | | | |
| registered mortgage *Pfandbriefe* | 0.00 | 0 | | | | |
| registered public-sector *Pfandbriefe* | 0.00 | 0 | | | | |
| registered bonds (mixed cover) in accordance with DSL Bank Reorganization Act (DSLBUmwG) | 984,392,717.42 | 1,136 | | | 11,696,206,634.58 | |
| **2. Due to customers** | | | | | | |
| a) Savings deposits | | | | | | |
| aa) With an agreed withdrawal notice of three months | | | 50,200,999,199.54 | | | 48,876 |
| ab) With an agreed withdrawal notice of more than three months | | | 164,266,853.92 | 50,365,266,053.46 | | 177 |
| b) Registered mortgage *Pfandbriefe* issued | | | | 1,009,980,449.85 | | 1,021 |
| c) Registered public-sector *Pfandbriefe* issued | | | | 298,898,574.27 | | 276 |
| d) Registered bonds (mixed cover) in accordance with DSLBUmwG | | | | 13,257,349,199.75 | | 13,394 |
| e) Other amounts due | | | | | | |
| ea) Payable on demand | | | 37,401,889,710.49 | | | 38,528 |
| eb) With an agreed maturity or withdrawal notice | | | 9,856,931,030.11 | 47,258,820,740.60 | | 12,406 |
| of which: | | | | | | |
| *Pfandbriefe* lodged with lenders as collateral for loans received: | | | | | | |
| registered mortgage *Pfandbriefe* issued | 0.00 | 0 | | | | |
| registered public-sector *Pfandbriefe* | 0.00 | 0 | | | 112,190,315,017.93 | |
| **3. Debt securities in issue** | | | | | | |
| a) Bonds issued | | | | | | |
| aa) Mortgage *Pfandbriefe* | | | 4,868,270,408.70 | | | 4,220 |
| ab) Public-sector *Pfandbriefe* | | | 1,808,224,039.05 | | | 1,737 |
| ac) Bonds (mixed cover) in accordance with DSLBUmwG | | | 50,780,233.04 | | | 134 |
| ad) Other bonds | | | 2,490,169,207.62 | 9,217,443,888.41 | | 4,073 |
| b) Other debt securities in issue | | | | 2,861,594,226.45 | | 5,619 |
| of which: money market securities | 2,861,594,226.45 | 5,619 | | | 12,079,038,114.86 | |
| **3a. Trading portfolio** | | | | | 24,135,416,564.99 | 0 |
| **4. Trust liabilities** | | | | | | |
| of which: trustee loans | 883,092,477.12 | 937 | | | 934,021,401.40 | 1,045 |
| **5. Other liabilities** | | | | | 579,100,778.25 | 618 |
| **6. Deferred income** | | | | | | |
| a) From issuing and lending business | | | | 57,269,476.16 | | 74 |
| b) Other | | | | 785,687,598.62 | 842,957,074.78 | 984 |
| **7. Provisions** | | | | | | |
| a) Provisions for pensions and other employee benefits | | | | 624,414,667.01 | | 592 |
| b) Provisions for taxes | | | | 19,487,069.08 | | 90 |
| c) Other provisions | | | | 365,299,809.60 | 1,009,201,545.69 | 891 |
| **8. Subordinated debt** | | | | | 3,713,632,071.97 | 3,688 |
| **9. Profit participation capital** | | | | | | |
| of which: due within two years | 31,075,886.00 | 74 | | | 1,197,575,885.95 | 1,211 |
| **10. Fund for general banking risks** | | | | | 1,765,000,000.00 | 1,165 |
| **11. Equity** | | | | | | |
| a) Issued capital | | | | 547,000,000.00 | | 547 |
| b) Capital contributions by typical silent partners | | | | 20,225,837.62 | | 13 |
| c) Share premium | | | | 1,090,499,481.11 | | 1,091 |
| d) Retained earnings | | | | 661,555,807.89 | | 0 |
| e) Net retained profit for the period | | | | 301,791,020.83 | 2,621,072,147.45 | 0 |
| **Total equity and liabilities** | | | | | **172,763,537,237.85** | **177,198** |

| | € | € | Previous year €m |
|---|---|---|---|
| **1. Contingent liabilities** | | | |
| a) Contingent liabilities from endorsed bills settled with customers | -.-- | | – |
| b) Liabilities from guarantees and indemnity agreements* | 4,322,670,623.39 | | 5,040 |
| c) Liability from the provision of collateral for third-party liabilities | -.-- | 4,322,670,623.39 | – |
| **2. Other commitments** | | | |
| a) Repurchase obligations from non-genuine securities repurchase agreements | -.-- | | – |
| b) Placement and underwriting obligations | -.-- | | – |
| c) Irrevocable loan commitments | 6,909,275,853.92 | 6,909,275,853.92 | 7,150 |

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

# Income Statement – Deutsche Postbank AG, Bonn, for the Period from January 1, 2010 to December 31, 2010

Comparative figures from January 1, 2009 to December 31, 2009

**Expenses**

| | Previous year | | | | | Previous year |
|---|---|---|---|---|---|---|
| | € | €m | € | € | € | €m |
| **1. Interest expense** | | | | | 3,027,168,830.07 | 4,426 |
| **2. Fee and commission expense** | | | | | 364,482,160.28 | 384 |
| **3. Net expense from the trading portfolio** | | | | | 72,174,356.37 | 0 |
| **4. General administrative expenses** | | | | | | |
| a) Personnel expenses | | | | | | |
| aa) Wages and salaries | | | 505,216,923.29 | | | 466 |
| ab) Social security contributions, pensions, and other employee benefits | | | 192,724,264.86 | 697,941,188.15 | | 221 |
| of which: for pensions | 145,689,686.23 | 173 | | | | |
| b) Other administrative expenses | | | | 1,679,754,297.34 | 2,377,695,485.49 | 1,590 |
| **5. Depreciation, amortization, and writedowns of intangible assets and property and equipment** | | | | | 32,047,301.06 | 33 |
| **6. Other operating expenses** | | | | | 98,907,875.32 | 95 |
| **7. Writedowns and adjustments to loans and advances and certain securities, and additions to provisions for credit risks** | | | | | 173,053,165.22 | 669 |
| **8. Writedowns and adjustments of equity investments and investments in affiliated companies, and securities treated as fixed assets** | | | | | 111,672,331.20 | 527 |
| **9. Expenses from loss absorption** | | | | | 638,413.15 | 18 |
| **10. Extraordinary expenses** | | | | | 31,706,267.58 | 0 |
| **11. Taxes on income** | | | | | 317,775,251.02 | 33 |
| **12. Other taxes not reported under item 6** | | | | | 2,430,736.52 | 2 |
| **13. Profit transferred due to profit pooling, profit and loss transfer agreements, or partial profit and loss transfer agreements** | | | | | 0.00 | 0 |
| **14. Addition to the fund for general banking risks** | | | | | 600,000,000.00 | 0 |
| **15. Net profit for the period** | | | | | 343,639,727.34 | 0 |
| **Total expenses** | | | | | 7,553,391,900.64 | 8,464 |

Income

| | € | € | Previous year €m |
|---|---|---|---|
| **1. Interest income from** | | | |
| a) Lending and money market transactions | 3,436,337,743.03 | | 3,767 |
| b) Fixed-income and book entry securities | 1,398,832,876.82 | 4,835,170,619.85 | 1,878 |
| **2. Current income from** | | | |
| a) Equities and other non-fixed-income securities | 5,019,828.01 | | 17 |
| b) Equity investments | 156,237.34 | | 0 |
| c) Investments in affiliated companies | 484,275,395.78 | 489,451,461.13 | 328 |
| **3. Income from profit pooling, profit and loss transfer agreements, or partial profit and loss transfer agreements** | | 267,292,893.21 | 283 |
| **4. Fee and commission income** | | 798,093,913.53 | 819 |
| **5. Net income from the trading portfolio** | | 0.00 | 160 |
| **6. Income from reversals of writedowns of equity investments, investments in affiliated companies, and securities treated as fixed assets** | | 655,042,897.00 | 241 |
| **7. Other operating income** | | 481,385,587.39 | 479 |
| **8. Extraordinary income** | | 26,954,528.53 | 0 |
| **9. Net loss for the period** | | 0.00 | 492 |
| **Total income** | | 7,553,391,900.64 | 8,464 |

| | € | Previous year €m |
|---|---|---|
| **1. Net profit/loss for the period** | 343,639,727.34 | −492 |
| **2. Withdrawals from share premium** | 0.00 | 479 |
| | 343,639,727.34 | −13 |
| **3. Withdrawals from retained earnings** | | |
| a) from legal reserves | -.-- | -.-- |
| b) from reserves for treasury shares | -.-- | -.-- |
| c) from reserves provided for under the Articles of Association | -.-- | -.-- |
| d) from other retained earnings | -.-- | -.-- |
| | -.-- | -.-- |
| **4. Withdrawals from profit participation capital** | -.-- | 11 |
| **5. Withdrawals from contributions by silent partners** | -.-- | 2 |
| **6. Additions to retained earnings** | | |
| a) to legal reserves | -.-- | -.-- |
| b) to reserves for treasury shares | -.-- | -.-- |
| c) to reserves provided for under the Articles of Association | -.-- | -.-- |
| d) to other retained earnings | -.-- | -.-- |
| | -.-- | -.- |
| **7. Replenishment of profit participation capital** | −34,769,157.94 | -.-- |
| **8. Replenishment of capital contributions by silent partners** | −7,079,548.57 | -.-- |
| **9. Net retained profit for the period** | 301,791,020.83 | 0 |

# Notes to the Annual Financial Statements of Deutsche Postbank AG for the Fiscal Year 2010

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

### I. General information

The annual financial statements of Deutsche Postbank AG (Postbank) have been prepared in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code) and the *Aktiengesetz* (AktG – German Stock Corporation Act), as well as the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Regulation); they cover the period from January 1 to December 31, 2010. Postbank has added disclosures for *Pfandbrief* banks to its statutory balance sheet format.

The new rules under the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Accounting Law Modernization Act) that entered into force on May 29, 2009 have been implemented since January 1, 2010 unless they were already required to be applied in fiscal year 2009. Related amendments to the AktG and the RechKredV are taken into account, and options under the transitional provisions are explained. The introduction of the BilMoG led to changes in measurement and presentation in the BilMoG opening balance sheet as of January 1, 2010. In accordance with Art. 67(8) sentence 2 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB – Introductory Act to the German Commercial Code), no adjustment was made to the prior-year figures as part of initial application.

### II. Accounting policies

**1. General information**

Unless otherwise stated in the following, and in particular due to the new rules under the BilMoG, all accounting policies were unchanged compared with the previous year.

**2. Accounting policies for asset items**

**Current assets**

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

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

Bonds and other fixed-income securities as well as equities and other non-fixed-income securities classified as current assets are recognized at historical cost, taking into account the strict principle of lower of cost or market value and the requirement to reverse writedowns (section 340e (1) sentence 2 in conjunction with section 253(4) sentence 1 of the HGB and section 253(5) sentence 1 of the HGB).

**Hedge accounting**

Postbank recognizes hedges for assets as microhedges to hedge its interest rate risk. The goal is to hedge interest rate fluctuations in assets using forward or option contracts with matching amounts, currencies, or maturities.

Hedge accounting in the HGB financial statements complies with the requirements of section 254 of the HGB in accordance with Statement 35 of the Auditing and Accounting Board (HFA) of the Institut der Wirtschaftsprüfer (IDW). Hedging relationships end when the hedged item or hedging instrument expires or has been sold or exercised, or the requirements for hedge accounting are no longer met.

Effectiveness testing for all hedges is performed prospectively by way of a sensitivity analysis of the hedged item and the hedging instrument. The changes in the fair value of the hedged item attributable to the hedged risk are compared retrospectively with the change in the fair value of the hedging instrument for each hedging relationship. If they offset each other (effective portion), they are not recognized. If negative, ineffective changes in value are reported under provisions for expected losses. Changes in the value of the hedged item that are not attributable to the hedged risk are recognized in accordance with general accounting rules.

Postbank has recognized hedges between bonds reported as current assets (liquidity reserve) as hedged items and interest rate swaps as hedging instruments. In the past fiscal year, the carrying amount of hedged bonds was €9,166 million. The changes in value attributable to the hedged risk of the hedged items amounted to €339.9 million at the reporting date. This contrasted with changes in value of the hedging instruments of €–315.1 million. Hedge effectiveness measured by a retrospective effectiveness test is demonstrated using the dollar offset method. An absolute change in value of 107.9 % was determined at the reporting date, which means that the changes in value largely offset each other. Future interest rate-related changes in the value of the hedged item are generally hedged using a hedging instrument with a matching maturity until the bond matures. The hedge fair values determined for hedge accounting in accordance with IFRSs are used to calculate the hedged risk.

Initial measurement of the hedges in accordance with the new commercial law provisions led to an extraordinary expense of €–27.1 million in the BilMoG opening balance sheet.

The other derivatives used in interest rate risk management are not subject to itemized measurement in the balance sheet in accordance with the established accounting convention at banks. The interest rate risk for these portfolios is measured using a present value analysis at an aggregated level. If this analysis leads to a loss, a provision for expected losses from interest rate risk is recognized. Additionally, the risk-reducing effect of the derivatives used in interest rate risk management is demonstrated.

Where entered into for trading purposes, derivative products are measured at current market prices (fair value).

### Trading portfolio

If there is an active market for a financial instrument carried in the trading portfolio, the fair value is determined by reference to the market or quoted exchange price at the balance sheet date. If there is no active market, the fair value is determined using recognized valuation techniques.

Observable market data is used to the greatest possible extent when determining fair values using valuation techniques for financial instruments measured at fair value and for derivative financial instruments not recognized at fair value. In most cases, Postbank uses discounted cash flow analysis, which mainly uses yield and spread curves (credit spreads, basis spreads) as inputs. In addition, CDS spreads and hazard rates are used to value credit derivatives. Option pricing models also use share prices, index prices, and volatilities as inputs.

Postbank allocates individual financial instruments to the trading portfolio on the basis of internal guidelines and processes. Deutsche Postbank AG's criteria for including transactions in the trading book in accordance with section 1a (1) of the *Kreditwesengesetz* (KWG – German Banking Act) are applied here.

Under the recognition and measurement rules for the trading portfolio required to be applied for the first time following the introduction of the BilMoG, Postbank no longer measures the trading books in the Operating Liquidity Management and Trading departments on a portfolio basis. Interest rate derivatives in the trading portfolios (including the "liquidity optimization" and "trading interest" portfolios) are measured at market prices. They are presented in the "trading portfolio" balance sheet item under assets and liabilities. In addition, all equities and currency-based derivatives in the trading portfolio are reported at fair value in the above-mentioned item. Any resulting measurement gains or losses are recognized in income. Money market positions, bonds and other fixed-income securities, and equities and other non-fixed-income securities in the trading portfolio are also included in this balance sheet item. They are recognized at fair value. Changes in value during the term are also recognized in income.

The effect of the initial application of the BilMoG on the recognition of financial instruments in the trading portfolio at fair value led to extraordinary income of €27.0 million in the BilMoG opening balance sheet.

As part of risk-adjusted marking-to-market as of December 31, 2010, a risk discount (risk premium) of €6 million was determined for Postbank's trading portfolio and offset against net income from the trading portfolio. Value at risk (ten-day holding period, 99 % confidence level, one-year historical analysis period) including the correlations between risk factors and portfolios is used as the calculation method.

An internal valuation technique that uses market data to the greatest possible extent continues to be used for structured credit products (SCPs) such as CDOs, consumer ABSs, commercial ABSs, CMBSs, and RMBSs due to the limited availability of verifiable indicative prices.

Receivables and liabilities with matching maturities and currencies and the same counterparties are offset in the area of collateralized money market trading. The net amount after offsetting is reported in the balance sheet.

### Derivatives in the non-trading portfolio

If interest rate derivatives, in particular interest rate swaps, interest rate futures, and forward rate agreements, are not allocated to the trading portfolio, they are treated as executory contracts in accordance with the applicable principles. If negative changes in value are established in the course of subsequent measurement, interest rate derivatives are accounted for in the balance sheet by recognizing a provision for expected losses. Depending on the purpose of the derivative, the expense is reported in "writedowns and adjustments to loans and advances and certain securities, and additions to provisions for credit risks" (hedging instruments for interest rate risk associated with bonds in the liquidity reserve) or in net interest income if the derivative is used to hedge general interest rate risk. Paid initial margins are included in "other assets". If securities are pledged, they continue to be reported by Postbank as the legal and beneficial owner.

Options that cannot be allocated to the trading portfolio or to a hedge and for which Postbank is the beneficiary are initially measured in the amount of the option premium paid. They are reported in "other assets" or in "equities and other non-fixed-income securities" if they are warrants. They are subsequently measured in accordance with the general measurement rules for current assets under section 340e(1) sentence 2 of the HGB.

If Postbank is the writer of an option, the option premium received is recognized in the balance sheet in "other liabilities". If the value of the option in subsequent measurement is higher than the recognized option premium, a provision for expected losses is recognized in the amount of the difference calculated. Gains and losses on measurement, exercise, settlement, or expiry are reported in "other operating expenses/other operating income".

### Fixed assets

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

Certain asset-backed securities are allocated to fixed assets. The synthetic collateralized debt obligations (CDOs) included in these assets constitute structured products as defined by IDW AcP HFA 22 and are presented separately in the balance sheet.

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

Shares in PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen (PB Spezialinvest) are reported under investments in affiliated companies and measured as current assets to ensure continuity and consistency of measurement.

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

#### Intangible assets

Purchased intangible assets are recognized at cost less amortization in accordance with the actual useful life of the assets.

#### Property and equipment

Property and equipment is carried at cost and reduced by depreciation over the standard useful life of the asset. Writedowns are recognized where required.

Ongoing maintenance and acquisition costs of up to €150 are expensed in full as incurred in accordance with section 6(2) of the *Einkommensteuergesetz* (EStG – German Income Tax Act). Replacement part costs for property and equipment are capitalized.

Acquisitions of low-value assets up to €410 are immediately recognized as an expense for reasons of materiality.

The *Wachstumsbeschleunigungsgesetz* (German Economic Growth Acceleration Act) that entered into force as of January 1, 2010 provides an option for accounting for low-value assets. Postbank is returning to the old rule. The omnibus item rule under section 6(2a) of the EStG (2008-2009) is no longer applied.

#### Prepaid expenses and deferred income

Close-out payments received and paid on microswaps whose underlying contracts are still in the portfolio are generally accrued and amortized ratably over the time of the underlying. The close-out payment is reversed in order to compensate the impairment loss on the underlying contract.

#### Deferred taxes

Postbank exercises the recognition and offsetting option under section 274(1) sentences 2 and 3 of the HGB for the first time in 2010. The recognition option relates to the overall excess of deferred tax assets.

As a result of the initial recognition of deferred taxes as part of the initial application of the BilMoG, the Bank appropriated €656 million to retained earnings.

### 3. Accounting policies for liability items

#### Liabilities

Liabilities are carried at their settlement amount. Premiums/discounts are amortized ratably. Zero bonds issued are recognized at their issue amount plus proportionate interest up to the balance sheet date. The pro rata interest on zero bonds added to the carrying amount is amortized using the effective interest method.

#### Debt securities in issue

In fiscal year 2010, Postbank issued its fourth jumbo mortgage *Pfandbrief* with a volume of €1 billion. The issue has a maturity of ten years and bears annual interest of 3.375 %.

#### Provisions

Provisions for pensions are calculated in accordance with actuarial principles. The actuarial method used by Postbank for calculation is the projected unit credit method.

The calculation is based on the following actuarial assumptions in Germany:

| | 2010 |
|---|---|
| Discount rate | 5.15 % |
| Salary growth | 2.50 % |
| Pension growth | 2.00 % |
| Fluctuation | 4.0 % p.a. |
| Pensionable age | 60 – 63 years |
| Mortality, disability, etc. | Heubeck tables 2005G |

Provisions for pensions and other employee benefits are discounted in the aggregate at the average market interest rate for the past seven years published by Deutsche Bundesbank in January 2010 that results from an assumed remaining maturity of 15 years (section 253(2) sentence 2 of the HGB).

As of January 1, 2010, the new measurement requirements for pension provisions that entered into force under the BilMoG on May 29, 2009 led to a difference of €66.6 million at Postbank compared with the previous legal requirements; at least one-fifteenth of this amount must be appropriated to the pension provisions annually in the next 15 years. €4.4 million was added as of December 31, 2010, giving a remaining difference of €62.2 million. The amounts appropriated annually are expensed and reported in the income statement under "extraordinary expenses".

Pension obligations primarily reflect direct pension commitments. The nature and amount of the pension payments of those employees entitled to pension benefits are governed by the applicable pension rules (including pension guidelines and pension fund rules), which depend largely on the duration of the employment. Postbank has assumed a direct occupational pension commitment for pensioners and employees admitted to the Bank's occupational pension plan who were previously insured with Versorgungsanstalt der Deutschen Bundespost (VAP – Postal Service Institution for Supplementary Retirement Pensions).

Adequate tax provisions and other provisions are recognized to cover all identifiable risks and uncertain liabilities. Postbank has not exercised the option to retain the existing carrying amount of provisions resulting from the introduction of the BilMoG (Art. 67(1) sentence 2 of the EGHGB). Provisions with a remaining maturity of more than one year are measured using the yield curve made available by Deutsche Bundesbank in accordance with the *Rückstellungsabzinsungsverordnung* (German Discounting of Provisions Regulation). The initial adjustment effect of €6 million was transferred to retained earnings. The time value of money resulting from interest cost is recognized as interest expense for banking provisions and as other operating expenses for non-banking provisions.

### Subordinated debt

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

### Contingent liabilities

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

### Currency translation

In accordance with section 256a of the HGB, assets and liabilities denominated in foreign currency are translated into euros at the middle spot rate prevailing at the balance sheet date. Forward contracts still open at the balance sheet date are measured at the forward rate prevailing at the balance sheet date. In the case of foreign currency transactions in the banking book, the forward rate is split into its constituent components and the swap points are accrued.

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

Balance sheet items and executory contracts denominated in foreign currency are classified as separately covered and measured in each currency because they are managed in the aggregate by Treasury and because strategic currency positions are not used (section 340h in conjunction with section 256a of the HGB). As a result, all gains and losses from currency translation were recognized in the income statement under net income or net expense from the trading portfolio. There was no requirement to eliminate any of the income because the items existing at the balance sheet date had been established recently due to the high turnover rate.

## III. Information on investors and investees

Deutsche Bank AG, Frankfurt am Main, disclosed on November 29, 2010 that it was offered an equity interest of 22.02 % in the course of its voluntary takeover offer and that it has acquired the majority of voting rights of Deutsche Postbank AG.

On December 10, 2010, Deutsche Bank disclosed that the U.S. antitrust authorities had approved the acquisition and that Deutsche Bank holds an equity interest of 51.98 % (113,735,431 shares).

Deutsche Bank AG held 49.95 % of the voting rights of Deutsche Postbank AG until the acquisition of Deutsche Postbank AG was approved by the U.S. antitrust authorities.

Deutsche Postbank AG was initially consolidated in Deutsche Bank AG's consolidated financial statements as of December 3, 2010.

Deutsche Post AG held 39.5 % of the voting rights of Deutsche Postbank AG as of December 31, 2010. The remaining 8.52 % of the voting rights are in free float.

As of December 31, 2010, Postbank AG was included as an associate in Deutsche Post AG's consolidated financial statements.

As a publicly listed German stock corporation, Postbank AG has prepared its annual financial statements for the fiscal year ended December 31, 2010 in accordance with the HGB in conjunction with RechKredV requirements as well as the relevant AktG rules.

## IV. Principles under the *Kreditwesengesetz* (KWG – German Banking Act)

Due to its consolidation by Deutsche Bank AG for supervisory law purposes, Deutsche Postbank AG is no longer the parent of a group of institutions for supervisory law purposes and is now Deutsche Bank AG's subordinate institution; the Postbank Group no longer constitutes a group of institutions by itself. Therefore, Deutsche Postbank AG no longer fulfills the criteria for the application of the waiver in accordance with section 2a(6) of the KWG, meaning that it is again subject to the provisions of section 10 of the KWG as well as sections 13 and 13a of the KWG at the level of the individual institution. As of December 31, 2010, the Tier I ratio was 5.8 % and the overall capital ratio was 10.4 %. From the December 31, 2010 reporting date, Postbank AG will again prepare the relevant individual institution notifications and fulfill its other notification requirements under the KWG.

## B. Balance sheet and income statement disclosures

### I. Assets

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Affiliated companies | | |
| The following items include loans and advances to affiliated companies: | | |
| Loans and advances to other banks | 10,979 | 11,556 |
| Loans and advances to customers | 4,750 | 5,176 |
| Bonds and other fixed-income securities | 5,916 | 6,873 |
| Other assets | 318 | 335 |
| Other long-term investees and investors | | |
| The following items include loans and advances to other long-term investees and investors: | | |
| Loans and advances to other banks | 0 | 0 |
| Loans and advances to customers | 49 | 52 |
| Bonds and other fixed-income securities | 0 | 0 |
| Other assets | 0 | 0 |
| | | |
| Subordinated loans and advances | | |
| Subordinated loans and advances are reported in the following items: | | |
| Loans and advances to other banks | 21 | 21 |
| Loans and advances to customers | 0 | 0 |
| Bonds and other fixed-income securities | 83 | 76 |
| Equities and other non-fixed-income securities | 0 | 10 |

The reduction in bonds and other fixed-income securities results primarily from the scheduled repayment of bonds (securitizations) and the decrease in short-term intragroup refinancing.

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Loans and advances to other banks | | |
| Used as cover, with an agreed maturity or withdrawal notice | 173 | 231 |
| of which: at least three months but less than four years | 0 | 0 |
| of which: four years or more | 173 | 231 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Loans and advances to customers | | |
| Used as cover, with an agreed maturity or withdrawal notice | 21,759 | 20,038 |
| of which: less than four years | 279 | 99 |
| of which: four years or more | 21,480 | 19,939 |
| Secured by mortgage charges | 29,439 | 29,201 |
| of which: used as cover | 17,949 | 17,294 |
| Public-sector loans | 3,810 | 2,743 |
| of which: used as cover | 3,810 | 2,743 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Bonds and other fixed-income securities | | |
| This item includes negotiable securities totaling: | 39,572 | 54,317 |
| Money market securities | | |
| Public-sector issuers | | |
| listed money market securities | 1,067 | 0 |
| unlisted money market securities | 0 | 0 |
| Other issuers | | |
| listed money market securities | 1,696 | 3,531 |
| unlisted money market securities | 0 | 0 |
| Bonds | | |
| Public-sector issuers | | |
| listed bonds | 16,594 | 20,783 |
| unlisted bonds | 155 | 333 |
| Other issuers | | |
| listed bonds | 18,762 | 27,790 |
| unlisted bonds | 1,298 | 1,803 |
| Securities not measured at the lower of cost or market | 5,879 | 1,213 |
| Own bonds | | |
| listed own bonds | 0 | 76 |
| unlisted own bonds | 0 | 1 |

Fixed assets include 51 securities with a carrying amount of €5,760 million (previous year: €1,213 million), for which writedowns amounting to €550 million (previous year: €285 million) would have been recognized if they had been measured at their quoted market prices at the balance sheet date. These securities include four asset-backed securities (carrying amount €71 million, fair value €35 million) issued in a country outside Europe, as well as one asset-backed security (carrying amount €9 million, fair value €7 million), 18 bank bonds (carrying amount €1,608 million, fair value €1,535 million), and 22 government bonds (carrying amount €3,942 million, fair value €3,604 million) issued in the European Union. In addition, the Bank holds six asset-backed securities (carrying amount €130 million, fair value €29 million) that were issued in Jersey, Channel Islands. Of these changes in value, a total of €49.4 million has been recognized as a provision for expected losses on the credit derivatives embedded in these instruments.

To avoid temporary writedowns, 22 government bonds with a carrying amount of €2,385 million and 23 bank bonds with a carrying amount of €1,908 million issued in the European Union were reclassified as fixed assets in fiscal year 2010. If the reclassified securities had been measured at their quoted market prices at the balance sheet date, writedowns amounting to €217 million would have been recognized.

The changes in the value of the interest-bearing securities are due to interest rate and credit spreads and are not expected to be permanent. A provision for expected losses amounting to €125 million was recognized for the credit default swaps separated from the synthetic collateralized debt obligations in accordance with IDW AcP HFA 22.

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Equities and other non-fixed-income securities | | |
| This item includes negotiable securities totaling: | 312 | 593 |
| of which: listed securities | 303 | 282 |
| of which: unlisted securities | 9 | 311 |
| Securities not measured at the lower of cost or market | 0 | 0 |

Postbank's trading activities include trading in derivative financial instruments, money market receivables and liabilities, bonds and other fixed-income securities, and equities and other non-fixed-income securities. All trading portfolios are measured at fair value. A discount amounting to the 10-day VaR is charged on these portfolios and reported separately.

| | Dec. 31, 2010 €m |
|---|---|
| Trading portfolio | |
| Positive fair values of derivative financial instruments of the trading portfolio | 22,637 |
| Money market receivables | 3,629 |
| Bonds and other fixed-income securities | 637 |
| Equities and other non-fixed-income securities | 13 |
| Risk discount | –6 |

The trading portfolio on the liabilities side includes the negative fair values of derivative financial instruments, trading portfolio liabilities, and short sales. All trading portfolios are measured at fair value.

| | Dec. 31, 2010 €m |
|---|---|
| Trading portfolio | |
| Negative fair values of derivative financial instruments of the trading portfolio | 23,305 |
| Money market liabilities | 823 |
| Short sales | 8 |

Money market receivables and liabilities in the trading portfolio mainly comprise securities repurchase agreements.

Reverse repos amounting to €3,523 million and buy and sell back transactions amounting to €71 million are reported as money market receivables. Interest of €121 million arising from such transactions is recognized as interest income.

Repos amounting to €465 million and sell and buy back transactions amounting to €53 million are reported as money market liabilities. Interest of €42 million arising from such transactions is recognized as interest expense.

Interest income and expense from financial instruments in the trading portfolio are reported in net interest income.

Securities purchased under repurchase agreements are not reported in the balance sheet.

Securities with a carrying amount of €538 million were sold as collateral under repurchase agreements.

A rise in the market interest rate by 1 basis point would lead to an increase in the fair value of interest-based derivative financial instruments by approximately €6 million.

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Equity investments | | |
| This item includes negotiable investments totaling: | 5 | 5 |
| of which: listed | 5 | 5 |
| of which: unlisted | 0 | 0 |
| Investments in affiliated companies | | |
| This item includes negotiable investments totaling: | 3,705 | 3,701 |
| of which: listed | 0 | 0 |
| of which: unlisted | 3,705 | 3,701 |

### Statement of changes in assets

| | Historical cost Jan. 1, 2010 | Additions | Disposals | Changes in exchange rates/deferred interest | Cumulative depreciation, amortization, and write-downs | Cumulative reversals of write-downs | Residual value Dec. 31, 2010 | Depreciation, amortiza-tion, and writedowns in fiscal year 2010 | Reversals of write-downs in fiscal year 2010 |
|---|---|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| Bonds and other fixed-income securities | 6,114 | 4,293 | −1,023 | 93 | −42 | | 9,435 | 0 | |
| Equity investments | 20 | 0 | 0 | 0 | −4 | | 16 | 0 | |
| Investments in affiliated companies | 14,491 | 1,684 | −4,648 | 0 | −1,155 | 274 | 10,646 | −37 | 38 |
| Property and equipment | 996 | 3 | −3 | 0 | −448 | | 548 | −29 | |
| Intangible assets | 53 | 48 | −3 | 0 | − 16 | | 82 | −3 | |
| Total | 21,674 | 6,028 | −5,677 | 93 | −1,665 | 274 | 20,727 | −69 | 38 |

The additions to bonds and other fixed-income securities relate mainly to the securities reclassified from the liquidity reserve to fixed assets in fiscal year 2010. Government bonds with a carrying amount of €2,385 million and bank bonds with a carrying amount of €1,908 million were reclassified.

Disposals mainly comprise bullet bonds.

Additions to investments in affiliated companies relate mainly to the following matters:

Effective August 2, 2010, Postbank acquired all the shares of Merkur I SICAV-FIS, Luxembourg (€1,350 million), which since then has held the shares of the TGV 24 sub-pool of assets previously held by PB Spezialinvest. Merkur I also holds 100 % of the shares of Merkur II SICAV-FIS.

Postbank Beteiligungen GmbH’s share premium was increased by way of a non-cash contribution (€310 million). Postbank contributed all the shares of PB Firmenkunden AG to Postbank Beteiligungen GmbH as a non-cash contribution. In this context, hidden reserves of €309 million were realized.

Furthermore, additions to investments in affiliated companies include the increase in the share premium at PB Finanzberatung AG (€5 million).

The reversals of writedowns are attributable in full to PB Spezialinvest’s sub-pools of assets (€38 million).

Disposals of investments in affiliated companies relate primarily to the cash distribution and unit redemption of TGV 2-22 in the amount of €3,574 million. As a result, hidden reserves totaling €127 million were realized. The disposals also relate to the shares held by PB Spezialinvest in the TGV 24 sub-pool of assets in the amount of €1,070 million that were transferred to Merkur I SICAV-FIS. The transfer of TGV 24 resulted in hidden reserves of €180 million being realized.

Writedowns of the investments in affiliated companies relate to PB Spezialinvest’s sub-pools of assets (total of €31 million), DPB Regent’s Park Estates (LP) Holding Ltd (€6 million), and CREDA Objektanlage- und Verwaltungs GmbH (€1 million).

Property and equipment totaling €548 million mainly includes land and buildings amounting to €496 million used in Postbank’s own operations and operating and office equipment amounting to €8 million.

Writedowns of €7 million were recognized in fiscal year 2010. €5 million of this amount is attributable to owner-occupied land and buildings.

The addition to intangible assets relates exclusively to the rights to use the Corebanking Platform acquired by PB Systems AG. The remaining intangible assets primarily comprise the goodwill of the London branch and the securities accounts business taken over from BHW Bank AG. A useful life of 15 years is recognized for the goodwill. The length of the useful life is attributable to assumptions with regard to estimates of expected use.

### Investment funds

| | Carrying amount | Fair value | Difference between fair value/carrying amount | Distribution | Daily redemption possible | Writedowns not recog-nized |
|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | | €m |
| | Dec. 31, 2010 | Dec. 31, 2010 | | 2010 | | |
| PB Spezialinvest | | | | | | |
| TGV 02 | 468 | 495 | 27 | 63 | Yes | 0 |
| TGV 03 | 133 | 133 | 0 | 5 | Yes | 0 |
| TGV 04 | 115 | 115 | 0 | 0 | Yes | 0 |
| TGV 05 | 35 | 36 | 1 | 0 | Yes | 0 |
| TGV 06 | 53 | 54 | 1 | 0 | Yes | 0 |
| TGV 07 | 277 | 277 | 0 | 12 | Yes | 0 |
| TGV 08 | 475 | 494 | 19 | 62 | Yes | 0 |
| TGV 09 | 529 | 537 | 8 | 16 | Yes | 0 |
| TGV 10 | 234 | 234 | 0 | 15 | Yes | 0 |
| TGV 11 | 604 | 604 | 0 | 30 | Yes | 0 |
| TGV 12 | 230 | 230 | 0 | 10 | Yes | 0 |
| TGV 13 | 329 | 329 | 0 | 65 | Yes | 0 |
| TGV 14 | 331 | 331 | 0 | 65 | Yes | 0 |
| TGV 15 | 147 | 147 | 0 | 7 | Yes | 0 |
| TGV 16 | 270 | 270 | 0 | 12 | Yes | 0 |
| TGV 17 | 198 | 198 | 0 | 6 | Yes | 0 |
| TGV 18 | 342 | 342 | 0 | 62 | Yes | 0 |
| TGV 19 | 0 | 0 | 0 | 0 | | 0 |
| TGV 20 | 136 | 138 | 2 | 10 | Yes | 0 |
| TGV 21 | 192 | 207 | 15 | 0 | Yes | 0 |
| TGV 22 | 69 | 69 | 0 | 3 | Yes | 0 |
| TGV 23 | 0 | 0 | 0 | 0 | | 0 |
| Merkur I | | | | | | |
| TGV 24 | 1,250 | 1,271 | 21 | 30 | Yes | 0 |
| Merkur II | 100 | 100 | 0 | 0 | Yes | 0 |
| Other funds | | | | | | |
| Equity funds | 16 | 18 | 2 | 0 | Yes | 0 |
| Mixed funds | 197 | 207 | 10 | 3 | Yes | 0 |
| Real estate funds | 2 | 2 | 0 | 0 | No | 0 |
| Bond funds | 97 | 100 | 3 | 2 | Yes | 0 |

The investment objective of the 2-24 special funds is to purchase corporate bonds (investment grade/high yield). The funds' portfolios also include securities that are held to maturity.

The funds distributed a total of €478 million in fiscal year 2010. All funds permit daily redemption. No writedowns were recognized. The shares in PB Spezialinvest are reported under investments in affiliated companies. The sub-pools of assets are measured as current assets to ensure continuity and consistency of measurement.

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Other assets | | |
| This item primarily includes the following: | | |
| Receivables arising from non-bank business | 330 | 344 |
| Claims to tax reimbursement | 306 | 265 |
| Claims to reimbursement against PB Lebensversicherung AG (Talanx) | 61 | 56 |
| Collection documents | 18 | 128 |

Postbank reported receivables from profit transfer totaling €267 million under other assets. These relate to Postbank Filialvertrieb AG (€123 million), PB Firmenkunden AG (€78 million), Postbank Systems AG (€29 million), PB Factoring GmbH (€23 million), and Deutsche Postbank Financial Services GmbH (€13 million).

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Prepaid expenses | | |
| This item includes: | | |
| Close-out payments on microswaps | 1,789 | 1,648 |
| Prepaid premiums on loans and advances | 75 | 106 |
| Prepaid issue costs/discounts | 72 | 73 |
| Investment allowances | 29 | 38 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Remaining maturities | | |
| Other loans and advances to other banks | 12,175 | 24,371 |
| less than 3 months | 5,805 | 15,684 |
| 3 months to 1 year | 640 | 2,841 |
| 1 to 5 years | 2,025 | 2,022 |
| more than 5 years | 3,705 | 3,824 |
| | | |
| Loans and advances to customers | 71,347 | 70,487 |
| less than 3 months | 11,186 | 12,261 |
| 3 months to 1 year | 5,181 | 4,767 |
| 1 to 5 years | 25,630 | 22,983 |
| more than 5 years | 26,805 | 28,169 |
| without fixed maturity | 2,545 | 2,307 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Bonds and other fixed-income securities | | |
| Amounts due in the following year | 6,392 | 6,604 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Foreign currency assets | | |
| Total amount of assets denominated in foreign currency | 12,957 | 13,402 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Trust assets | 934 | 1,045 |
| This item includes: | | |
| Loans and advances to customers | 883 | 974 |
| Loans and advances to other banks | 51 | 71 |

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

### Deferred tax assets

Postbank exercises the recognition and offsetting option under section 274(1) sentences 2 and 3 of the HGB in respect of the recognition of deferred taxes.

Postbank recognizes deferred taxes for all temporary differences between the carrying amounts in the HGB financial statements and the carrying amounts in the tax accounts (tax base). Equally, tax credits and interest carried forward are included in the calculation of deferred taxes insofar as they are likely to be realized in the next five years. Measurement is based on a tax rate of 29.83 %. Deferred taxes of around €378 million were attributable to temporary differences in fiscal year 2010. There are no tax loss carryforwards.

The following table shows deferred taxes on temporary differences:

| | Dec. 31, 2010 €m |
|---|---|
| Loans and advances to other banks | 1 |
| Loans and advances to customers | 141 |
| Bonds and other fixed-income securities | 15 |
| Equities and other non-fixed-income securities | 16 |
| Investments in affiliated companies | 30 |
| Property and equipment | 29 |
| Other assets | 1 |
| Intangible assets | 51 |
| Due to customers | 15 |
| Provisions for pensions and other employee benefits; other provisions | 78 |
| Other liabilities | 1 |
| Total | 378 |

## II. Equity and liabilities

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Affiliated companies | | |
| The following items include amounts due to affiliated companies in unsecuritized form: | | |
| Due to customers | 1,257 | 4,314 |
| Deposits from other banks | 125 | 324 |
| Other liabilities | 190 | 158 |
| The following items include amounts due to affiliated companies in securitized form: | | |
| Debt securities in issue | 0 | 0 |
| Subordinated debt | 1,600 | 1,605 |
| Profit participation certificates outstanding | 20 | 30 |
| Other long-term investees and investors | | |
| Deposits from other banks | 0 | 0 |
| Due to customers | 0 | 0 |
| Other liabilities | 0 | 0 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Other liabilities | | |
| This item is primarily composed of: | | |
| Liabilities arising from non-bank business | 234 | 211 |
| Tax liabilities | 111 | 174 |
| Adjustment item from currency translation | 41 | 99 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Deferred income | | |
| This item includes: | | |
| Close-out payments on microswaps | 737 | 836 |
| Discount accruals arising on loans and advances | 45 | 57 |
| Issue costs/premium accruals on bonds issued | 10 | 14 |
| Upfront payments on trading swaps | 0 | 99 |
| Par structure bonds acquired at par | 0 | 5 |

| | 31.12.2010 Mio € | 31.12.2009 Mio € |
|---|---|---|
| Provisions | | |
| Other provisions include: | | |
| Employee-related provisions | 119 | 108 |
| Provisions for anticipated losses on derivatives | 127 | 667 |

**Subordinated debt**

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

| ISIN | Currency | Amount | Interest rate | Due |
|---|---|---|---|---|
| DE0001397081 | € | 500,000,000 | variable | Nov. 4, 2015 |
| XF0002431707 | € | 500,027,000 | variable | Dec. 23, 2034 |
| XF0002432002 | € | 500,076,000 | 5.991 % | June 29, 2037 |

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

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Expenses (including proportionate interest and premiums) incurred by subordinated debt amounted to: | 174 | 179 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Remaining maturities | | |
| Deposits from other banks with an agreed maturity or withdrawal notice | 9,860 | 33,094 |
| less than 3 months | 1,424 | 8,962 |
| 3 months to 1 year | 1,583 | 17,425 |
| 1 to 5 years | 2,161 | 2,149 |
| more than 5 years | 4,692 | 4,558 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Savings deposits with an agreed withdrawal notice of more than 3 months | 157 | 169 |
| 3 months to 1 year | 50 | 51 |
| 1 to 5 years | 107 | 118 |
| more than 5 years | 0 | 0 |
| Other amounts due to customers with an agreed maturity or withdrawal notice | 24,423 | 27,097 |
| less than 3 months | 4,592 | 5,489 |
| 3 months to 1 year | 2,488 | 3,449 |
| 1 to 5 years | 3,565 | 3,830 |
| more than 5 years | 13,778 | 14,329 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Debt securities in issue | | |
| Bonds issued | | |
| Amounts due in following year | 739 | 2,215 |
| Other debt securities in issue with an agreed maturity or withdrawal notice | 2,862 | 5,619 |
| less than 3 months | 1,793 | 4,632 |
| 3 months to 1 year | 1,069 | 987 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Foreign currency liabilities | | |
| Total amount of liabilities denominated in foreign currency | 12,985 | 13,885 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Open market transactions | | |
| Securities with repurchase agreements were pledged as collateral to the Land Central Bank collateral pool as part of open market transactions | 0 | 6,000 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Trust liabilities | 934 | 1,045 |
| This item includes: | | |
| Trust funds (transmitted loans) | 483 | 489 |
| Special-purpose funds | 394 | 443 |
| Deposits from other banks | 0 | 55 |
| Special fund of the state of Mecklenburg-Western Pomerania | 45 | 46 |
| Retired farmers' pension fund | 12 | 12 |

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Profit participation certificates outstanding | 1,198 | 1,211 |
| This item includes: | | |
| Bearer profit participation certificates outstanding | 580 | 567 |
| Registered profit participation certificates outstanding | 618 | 644 |

The Bank is obliged to ensure that those holders of profit participation certificates who participated in the net loss for the year are treated on a priority basis in the following three years before any allocation is made to retained earnings, and that the contribution reduced by the loss participation is replenished. The contributions by holders of profit participation certificates that were reduced by the loss participation in fiscal years 2008 and 2009 were replenished in fiscal year 2010.

### Fund for general banking risks

€600 million was added to the fund for general banking risks in the reporting period in accordance with section 340g of the HGB.

### Equity

Postbank's issued capital amounts to €547 million and is composed of 218,800,000 no-par value registered shares.

By way of a resolution adopted by the Annual General Meeting on April 22, 2009, the Management Board was 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 €273.5 million up to April 21, 2014 by issuing new no-par value registered shares against cash and/or non-cash contributions including mixed non-cash contributions (Authorized Capital).

The shareholders are generally granted pre-emptive subscription 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 Annual General Meeting on April 29, 2010 approved the contingent increase in share capital of up to €273.5 million by issuing up to 109.4 million new no-par value registered shares (Contingent Capital). The contingent capital increase serves to issue no-par value registered shares to the holders and/or creditors of convertible bonds and/or bonds with warrants, income bonds, and/or profit participation certificates (or combinations of these instruments) that are issued or guaranteed by the Company, or by a dependent or majority-held entity of the Company, in the period up to April 28, 2015 on the basis of the authorization resolved by the Annual General Meeting on April 29, 2010, and that grant a conversion or option right to new no-par value registered shares in the Company, or that establish a conversion obligation.

The "Contingent Capital I" and "Contingent Capital II" authorizations resolved by the Annual General Meeting on April 22, 2009 were revoked by a corresponding resolution by the Annual General Meeting on April 29, 2010.

In addition, the Management Board was authorized at the Annual General Meeting on April 29, 2010 to purchase own shares for the purposes of securities trading in accordance with section 71(1) no. 7 of the *Aktiengesetz* (AktG – German Stock Corporation Act) up to a total of 5 % of the relevant share capital, or for other purposes in accordance with section 71(1) no. 8 of the AktG up to a total of 10 % of the share capital. In accordance with the legal provisions, the aggregate number of own shares held may not account for more than 10 % of the share capital. The authorizations took effect at the end of the Annual General Meeting and are valid until April 28, 2015. The authorizations to purchase own shares in accordance with section 71(1) nos. 7 and 8 of the AktG existing at the time of the Annual General Meeting, which were valid for a limited period until October 21, 2010, were revoked as of the time when the new authorization became effective.

The authorization to purchase own shares was not exercised in the reporting period. Postbank held no treasury shares as of the balance sheet date.

| Changes in equity in 2010 | Issued capital | Contributions by typical silent partners | Share premium | Retained earnings | Net retained profit for the period | Equity |
|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m |
| Balance at Jan. 1, 2010 | 547 | 13 | 1,090 | 0 | 0 | 1,650 |
| Dividend payment | | | | | | |
| Appropriation to issued capital | | | | | | |
| Appropriation to share premium | | | | | | |
| Appropriation to retained earnings | | | | 662 | | 662 |
| Withdrawal from share premium | | | | | | |
| Withdrawal from retained earnings | | | | | | |
| Withdrawal from profit participation capital | | | | | | |
| Replenishment of profit participation capital | | | | | −35 | −35 |
| Withdrawal from contributions by typical silent partners | | | | | | |
| Replenishment of capital contributions by typical silent partners | | 7 | | | −7 | 0 |
| Net profit for the period | | | | | 344 | 344 |
| Balance at Dec. 31, 2010 | 547 | 20 | 1,090 | 662 | 302 | 2,621 |

Postbank generated net profit for the period of €344 million in fiscal year 2010. The carrying amounts of the creditors of silent contributions (€7 million) and portions of contributions by holders of profit participation certificates (€35 million) who participated in Postbank's loss in fiscal years 2008 and 2009 were replenished as part of the appropriation of profits. Under the Management Board's proposal for the appropriation of profits, the remaining net retained profit for the period of €302 million will be appropriated to retained earnings.

Initial application effects appropriated to retained earnings in accordance with the BilMoG are as follows:

| | Dec. 31, 2010 €m |
|---|---|
| Amounts (deferred taxes) appropriated to retained earnings due to the initial application of section 274 of the HGB in accordance with Art. 67(6) sentence 1 of the EGHGB | 656 |
| Amount appropriated to retained earnings due to the non-exercise of the option under Art.67(1) sentence 2 of the EGHGB | 6 |
| | 662 |

No unrealized reserves within the meaning of section 10(2b) sentence 1 no. 6 or 7 of the KWG are allocated to liable capital.

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Contributions by typical silent partners | 20 | 13 |

Based on the principal amount of their contributions, the typical silent partners receive a share of profits for every fiscal year in which net profit is generated in the amount of the percentage that Postbank uses to calculate the dividend payment on its share capital, including disclosed reserves. The percentage is limited in each case by minimum and maximum rates. In the event of a net loss for the period, such net loss is to be deducted from the contributions of typical silent partners in the ratio of its carrying amount to the Bank's total liable capital reported in the balance sheet that participates in the loss. At the same time, the silent partners do not receive any consideration for their contributions. For fiscal years 2008 and 2009, the silent partners participated in the net loss for the period in accordance with the contractual terms and conditions. In fiscal year 2010, the contributions reduced by the loss participation were replenished before the allocation to the reserves.

## III. Contingent liabilities

Postbank reports a guarantee of €565 million issued to PB Capital Corp. (PB Capital) under contingent liabilities. This consists primarily of rental guarantees for office space, guarantees for CP programs, swaps, and derivatives as well as for repo transactions and transactions with Deutsche Bank. This item also includes a guarantee of €1,834 million issued to PBI. This mainly covers exposures in the form of risk subparticipation agreements that exceed PBI's large exposure limits, among other things. In addition, the item includes a guarantee amounting to €928 million in favor of KfW as protection buyer under a senior guarantee as part of a securitization deal.

Liabilities to third parties from indemnity agreements entered into in favor of affiliated companies were not recognized because the underlying liabilities are expected to be settled by the affiliated companies and therefore no utilization is anticipated.

There were no placement or underwriting obligations as of the balance sheet date.

## IV. Other commitments

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Other obligations | | |
| This item includes: | | |
| Irrevocable loan commitments | 6,909 | 7,150 |
| thereof: building loans provided | 1,903 | 2,178 |

In fiscal year 2010, Postbank had credit lines amounting to €12,094 million that can be called immediately.

The method to be disclosed in accordance with section 34(2) no. 4 of the RechKredV for assessing and quantifying the reported liability or credit risk contractually entered into but not likely to be realized as well as the obligations from transactions for which Postbank has entered into an (irrevocable) agreement and will therefore be exposed to credit or liquidity risk in the future is described in Postbank's risk and management report.

## V. Income statement

Writedowns and adjustments to loans and advances and certain securities, and additions to provisions for credit risks mainly comprise risk provisions for securities amounting to €220 million. This is due to the significant excess of reversals of writedowns of fixed-income securities compared with writedowns of this item. Writedowns of structured credit products (SCPs) in particular declined. Net measurement losses in the lending business amounted to €–393 million.

Other operating expenses mainly comprise effects from the interest cost added back to pension provisions amounting to €33.5 million, court and litigation costs of €15.9 million, and payments made to the Bundesanstalt für Post und Telekommunikation of €9.7 million.

Writedowns and adjustments of equity investments, investments in affiliated companies, and securities treated as fixed assets primarily consist of provisions for expected losses recognized in the reporting period for credit derivatives embedded in fixed-income securities (€49 million) and realized losses on sales (€25 million). In addition, writedowns were recognized on the carrying amounts of the investments in PB Spezialinvest (€31 million) and DPB Regent's Park Estates (LP) Holding Ltd. (€6 million).

Income from reversals of writedowns and adjustments of equity investments, investments in affiliated companies, and securities treated as fixed assets mainly comprise realized gains from the contribution of PB Firmenkunden AG to PB Beteiligungen GmbH (€309 million), from the cash distribution or unit redemption of TGV 2-22 (€127 million), and the realization of hidden reserves as part of the transfer of TGV 24 to Merkur I SICAV-FIS (€180 million).

Other operating income primarily includes income from reimbursements of personnel and non-personnel operating expenses (€255 million), rental and lease income (€59 million), and income from the reversal of provisions (€16 million).

Due to the initial application of the BilMoG, Postbank recognized the following initial application effects before taxes in its extraordinary result in accordance with Art. 67(7) of the EGHGB:

| | Dec. 31, 2010 €m |
|---|---|
| Financial instruments in the trading portfolio | 27 |
| Adjustment of hedges in accordance with section 254 of the HGB | –27 |
| Additions to pension provisions | –5 |
| Total | –5 |

The total effect of the initial application of the BilMoG recognized in income amounts to €–0.3 million.

Taxes on income amounted to €318 million. Of this amount, €14 million is attributable to the findings of the tax audit for the years 1998 to 2000 and 2001 to 2008. In addition, €278 million relates to deferred taxes.

**Income by geographical area**

| | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
|---|---|---|
| Germany | 2,854 | 2,370 |
| Others | 77 | 73 |
| Europe | 77 | 73 |
| Total | 2,931 | 2,443 |

The total includes the following line items reported on the face of the income statement: net interest income, net fee and commission income, and net income from the trading portfolio.

## C. Other disclosures

## I. 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 relevant pension fund, Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT), 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.

For information regarding potential risks from the (special) contributions to the mandatory compensation scheme of the Bundesverband deutscher Banken (Association of German Banks), please refer to the explanations in the Management Report.

To a manageable extent, Postbank uses leases as an alternative means of financing. The main advantages for the Bank are that leases preserve liquidity. These advantages are partially offset by the risk that the lease assets may not be required over the entire term of the lease concerned.

The present value of lease obligations amounts to €80 million.

**Letters of comfort**
The letters of comfort issued in favor of subsidiaries and creditors of subsidiaries of Postbank primarily lead to benefits for the subsidiaries in the form of improved terms and conditions for business and finance. Postbank profits from these benefits since they have a positive impact on the enterprise value of the subsidiary concerned. These benefits are matched by the possibility of the creditors having recourse against Postbank.

Postbank ensures that, with the exception of political risk, its Deutsche Postbank International S.A. (Luxembourg), PB Capital Corp. (Delaware, U.S.A.), PB Factoring GmbH (Bonn), and BHW Bausparkasse AG (Hamelin) subsidiaries will be able to meet their obligations.

Postbank has issued subordinated letters of comfort in accordance with the issuing of subordinated bonds by Deutsche Postbank Funding LLC I, II, III, and IV, all of which are domiciled in Delaware, U.S.A.

**Additional funding obligation**
The existing additional funding obligations derive from statutory provisions, articles of association, and other arrangements.

The investment in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, results in a pro rata additional funding obligation of up to €5.4 million in accordance with the provisions of the company's Articles of Association. Postbank is also liable pro rata for the fulfillment of the additional funding obligations of other shareholders belonging to the Bundesverband deutscher Banken e.V. (Berlin) (Association of German Banks).

In all the above cases, there is a risk that the Bank may become subject to the obligations but this is offset by the opportunity to participate in the stabilization and development of confidence in the retail banking sector in Germany.

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

**Administration and brokerage services**
The Bank provides brokerage services in connection with insurance, home savings contracts, and investment fund units under cooperation agreements with HUK Coburg, the Talanx Group, and the DWS Group as well as with BHW Bausparkasse.

## II. Restriction on distribution

The amounts subject to a restriction on distribution are as follows at Postbank:

| Total of the amounts subject to a restriction on distribution in accordance with section 268(8) of the HGB (section 285 no. 28 of the HGB) | Dec. 31, 2010<br>€m |
|---|---|
| Internally generated intangible fixed assets | 0 |
| Deferred tax assets | 378 |

## III. Employees (average full-time equivalents)

| | Dec. 31, 2010<br>€m | Dec. 31, 2009<br>€m |
|---|---|---|
| Employees | | |
| Full-time | 2,592 | 2,724 |
| Part-time | 254 | 266 |
| Civil servants full-time | 1,360 | 1,477 |
| Civil servants part-time | 282 | 356 |
| | 4,488 | 4,823 |
| Trainees | | |
| Vocational trainees | 303 | 293 |
| Management trainees | 0 | 0 |
| AIS students | 15 | 14 |
| | 318 | 307 |
| Total employees | 4,806 | 5,130 |

Management Report
Balance Sheet
Income Statement
Notes
Auditors' Report

## IV. Equity investments and investments in affiliated companies

| Name and domicile of the company | Equity interest % | Equity € thousand | Profit/loss for the period € thousand |
|---|---|---|---|
| a) Investments in affiliated companies | | | |
| included in the consolidated financial statements | | | |
| Betriebs-Center für Banken AG, Frankfurt am Main | 100.0 | 262,519 | 8,607 |
| Betriebs-Center für Banken Processing GmbH, Frankfurt am Main | 100.0 | 2,749 | 1,436 |
| BHW Bausparkasse Aktiengesellschaft, Hamelin | 100.0 | 983,674 | 0 [1] |
| BHW Gesellschaft für Vorsorge mbH, Hamelin | 100.0 | 242,370 | 0 [1] |
| BHW Gesellschaft für Wohnungswirtschaft mbH, Hamelin | 100.0 | 918,844 | 0 [1] |
| BHW Gesellschaft für Wohnungswirtschaft mbH & Co. Immobilienverwaltungs KG, Hamelin | 100.0 | 83,872 | 3,747 |
| BHW Holding Aktiengesellschaft, Berlin/Hamelin | 100.0 | 709,493 | –18,738 |
| BHW Immobilien GmbH, Hamelin | 100.0 | 2,065 | –757 |
| Deutsche Postbank Finance Center Objekt S.à.r.l., Schuttrange (Munsbach), Luxembourg | 100.0 | –305 | 440 |
| Deutsche Postbank Financial Services GmbH, Frankfurt am Main | 100.0 | 5,000 | 0 [1] |
| Deutsche Postbank Funding LLC I, Wilmington, Delaware, U.S.A. | 100.0 | 25 | 17 |
| Deutsche Postbank Funding LLC II, Wilmington, Delaware, U.S.A. | 100.0 | 8 | 8 |
| Deutsche Postbank Funding LLC III, Wilmington, Delaware, U.S.A. | 100.0 | 29 | 6 |
| Deutsche Postbank Funding LLC IV, Wilmington, Delaware, U.S.A. | 100.0 | 67 | 20 |
| Deutsche Postbank Funding Trust I, Wilmington, Delaware, U.S.A. | 100.0 | 1 | 0 |
| Deutsche Postbank Funding Trust II, Wilmington, Delaware, U.S.A. | 100.0 | 1 | 0 |
| Deutsche Postbank Funding Trust III, Wilmington, Delaware, U.S.A. | 100.0 | 1 | 0 |
| Deutsche Postbank Funding Trust IV, Wilmington, Delaware, U.S.A. | 100.0 | 57 | 3 |
| Deutsche Postbank Home Finance Limited, Gurgaon, India | 100.0 | 76,205 | 10,129 [3] |
| Deutsche Postbank International S.A., Schuttrange (Munsbach), Luxembourg | 100.0 | 741,172 | 85,642 |
| Deutsche Postbank Vermögens-Management S.A., Schuttrange (Munsbach), Luxembourg | 100.0 | 28,420 | 10,570 |
| DPBI Immobilien S.C.A., Schuttrange (Munsbach), Luxembourg | 100.0 | 348 | 120 |
| DSL Holding Aktiengesellschaft i.A., Bonn | 100.0 | 57,042 | 2,347 |
| DSL Portfolio GmbH & Co. KG, Bonn | 100.0 | 20,929 | 430 |
| DSL Portfolio Verwaltungs GmbH, Bonn | 100.0 | 25 | 1 |
| Merkur I SICAV-FIS, Luxembourg, Luxembourg | 100.0 | | [8] |
| Merkur II, SICAV-FIS, Luxembourg, Luxembourg | 100.0 | | [8] |
| Miami MEI, LLC, Dover, Delaware, U.S.A. | 0.0 | 11,151 | 0 [7] |
| PB (USA) Holdings, Inc., Wilmington, Delaware, U.S.A. | 100.0 | 636,677 | 0 |
| PB Capital Corp., Wilmington, Delaware, U.S.A. | 100.0 | 389,589 | 8,562 |
| PBC Carnegie, LLC, Wilmington, Delaware, U.S.A. | 0.0 | 0 | 0 [7] |
| PB Factoring GmbH, Bonn | 100.0 | 11,546 | 0 [1] |
| PB Finance (Delaware) Inc., Wilmington, Delaware, U.S.A. | 100.0 | 184 | 0 |
| PB Firmenkunden AG, Bonn | 100.0 | 1,100 | 0 [1] |
| PB Hollywood II Lofts, LLC, Dover, Delaware, U.S.A. | 0.0 | 16,889 | –1,077 [7] |
| PB Hollywood I Hollywood Station, LLC, Dover, Delaware, U.S.A. | 0.0 | 2,953 | 468 [7] |
| PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt am Main | 100.0 | 10,277,865 | 373,243 |
| PB (USA) Realty Corp., New York, U.S.A. | 94.7 | 1,314,372 | 56,896 |
| PMG Collins, LLC, Tallahassee, Florida, U.S.A. | 100.0 | 11,221 | 1,161 |
| Postbank Beteiligungen GmbH, Bonn | 100.0 | 325 | 300 [1] |
| Postbank Direkt GmbH, Bonn | 100.0 | 20,858 | 0 [1] |
| Postbank Filial GmbH, Bonn | 100.0 | – | – [1,8] |
| Postbank Filialvertrieb AG, Bonn | 100.0 | 55 | 0 [1] |
| Postbank Finanzberatung AG, Hamelin | 100.0 | 27,419 | –26,336 |
| Postbank Immobilien und Baumanagement GmbH, Bonn | 100.0 | 18,874 | 0 [1] |
| Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn | 90.0 | 0 | 2,893 |
| Postbank Leasing GmbH, Bonn | 100.0 | 500 | 0 [1] |
| Postbank Support GmbH, Cologne | 100.0 | 759 | 0 [1] |
| Postbank Systems AG, Bonn | 100.0 | 51,573 | 0 [1] |
| Postbank Versicherungsvermittlung GmbH, Bonn | 100,0 | 25 | 0 [1] |
| VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn | 75,0 | 11,946 | 3,099 |

| Name and domicile of the company | Equity interest % | Equity € thousand | Profit/loss for the period € thousand |
|---|---|---|---|
| a) Investments in affiliated companies | | | |
| not included in the consolidated financial statements | | | |
| BHW Direktservice GmbH, Hamelin | 100.0 | 3,466 | 493 |
| BHW Eurofinance B.V., Arnheim, Netherlands | 100.0 | 3,853 | 309 |
| BHW Financial S.r.l., Verona, Italy | 100.0 | 907 | 220 |
| BHW Invest S.à.r.l., Luxembourg, Luxembourg | 100.0 | 36,896 | 1,301 |
| CREDA Objektanlage- und -verwaltungsgesellschaft mbH, Bonn | 100.0 | 1,000 | 0[1] |
| DPB Financial Consultants Limited, Gurgaon, India | 100.0 | 82 | 37[3] |
| DPB Regent´s Park Estates (GP) Holding Limited, London, U.K. | 100.0 | | [8] |
| DPB Regent´s Park Estates (LP) Holding Limited, London, U.K. | 100.0 | | [8] |
| easyhyp GmbH, Hamelin | 100.0 | 144 | 38 |
| EC EUROPA IMMOBILIEN FONDS NR. 3 GmbH & Co. KG, Hamburg | 65.0 | 10,287 | 282 |
| Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl „Rimbachzentrum“ KG, Bad Homburg v. d. Höhe | 74.0 | –1,705 | –77 |
| Iphigenie Verwaltungs GmbH, Bonn | 100.0 | 22 | 0 |
| PB EuroTurks Finanzdienstleistungen GmbH i.L., Bonn | 100.0 | – | –[4] |
| PB Sechste Beteiligungen GmbH, Bonn | 100.0 | 55 | –2 |
| Postbank Akademie und Service GmbH, Hamelin | 100.0 | 886 | 116 |
| Postbank P.O.S. Transact GmbH, Eschborn | 100.0 | 6,409 | 3,927 |
| RALOS Verwaltung GmbH & Co. Vermietungs-KG, Pullach i. Isartal | 94.0 | 0 | 440 |
| SAB Real Estate Verwaltungs GmbH, Hamelin | 100.0 | 26 | 3 |

[1] Profit and loss transfer agreement

[2] Translated at the following exchange rate: €1 = DKK 7.44

[3] Translated at the following exchange rate: €1 = INR 60.06

[4] In accordance with section 286(3) sentence 1 of the HGB and section 313(2) no. 4 of the HGB, information has not been provided on the equity and profit/loss of companies whose effect on the net assets, financial position, and results of operations of Deutsche Postbank AG or of the Deutsche Postbank Group is not material.

[5] The share of the voting rights amounts to 5.0 %

[6] The share of the voting rights amounts to 4.8 %

[7] The share of the voting rights amounts to 100.0 %

[8] The company was formed in 2010. No financial statements have yet been prepared.

| Name and domicile of the company | Equity interest % | Equity € thousand | Profit/loss for the period € thousand |
|---|---|---|---|
| b) Equity investments | | | |
| IG BCE Mitglieder-Service GmbH, Hanover | 50.0 | 153 | 44 |
| Regent´s Park Estates LP, Douglas, Isle of Man | 50.0 | | [8] |
| Regent´s Park Estates (GP) Limited, Douglas, Isle of Man | 50.0 | | [8] |
| Starpool Finanz GmbH, Berlin | 50.0 | 200 | 0 |
| Fünfte SAB Treuhand und Verwaltung GmbH & Co. „Leipzig-Magdeburg" KG, Bad Homburg v. d. Höhe | 40.7 | −1,275 | −79 |
| giropay GmbH, Frankfurt am Main | 33.3 | 0 | −116 |
| Fünfte SAB Treuhand und Verwaltung GmbH & Co. Dresden „Louisenstraße" KG, Bad Homburg v. d. Höhe | 30.6 | −771 | −36 |
| SRC Security, Research & Consulting GmbH, Bonn | 16.9 | 3,793 | 1,115 |
| GENOPACE GmbH, Berlin | 15.0 | 200 | 0 [1] |
| Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin | 14.1 | 17,025 | 0 |
| BSQ Bauspar AG, Nuremberg | 14.1 | 34,010 | −7,300 |
| Quelle Immo-Service GmbH, Fürth | 14.1 | 26 | 0 |
| Landgesellschaft Mecklenburg-Vorpommern mbH, Leezen | 11.0 | 38,390 | 1,962 |
| Gut Dummerstorf GmbH, Dummerstorf | 11.0 | 732 | − 91 |
| Metallrente Pensionsfonds AG i.G., Stuttgart | 10.0 | – | – [4] |
| LHA Anlagenverwaltungsgesellschaft mbH, Munich | 10.0 | 225 | 113 |
| Hypoport AG, Berlin | 9.7 | 25,403 | 3,782 |
| SILEX Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bad Schwalbach KG, Düsseldorf | 9.5 | 0 | −488 [5] |
| SUSIK Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Rathaus Lübben KG, Düsseldorf | 9.5 | 0 | 9 [5] |
| MAXUL Beteiligungs GmbH & Co. Vermietungs-KG, Pullach i. Isartal | 9.0 | 0 | 0 [6] |
| Eurogiro A/S, Taastrup, Denmark | 8.6 | 2,067 | 319 [2] |
| SENA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Sonderhausen KG, Düsseldorf | 7.5 | 0 | 171 |
| ROSARIA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bankakademie KG, Düsseldorf | 6.0 | 0 | 7 [4] |
| SAB Spar- und Anlageberatung GmbH, Bad Homburg v. d. Höhe | 6.0 | – | – [4] |
| SIDA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt BBS IV Oldenburg KG, Düsseldorf | 5.5 | 0 | −129 [5] |
| TOSSA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Perleberg KG, Düsseldorf | 5.5 | 0 | 192 |
| Von Gablenz Straße GmbH & Co. KG, Frankfurt am Main | 5.2 | – | – [4] |
| MFG Flughafen-Grundstücksverwaltungsgesellschaft mbH & Co. BETA KG, Grünwald | 4.6 | – | – [4] |
| Fernkälte Geschäftsstadt Nord GbR, Hamburg | 2.8 | – | – [4] |
| ConCardis GmbH, Frankfurt am Main | 1.5 | – | – [4] |
| EURO Kartensysteme GmbH, Frankfurt am Main | 1.5 | – | – [4] |
| SALEG Sachsen-Anhaltinische Landesentwicklungsgesellschaft mbH, Magdeburg | 1.3 | – | – [4] |
| Standard Life Investments UK Property Development Fund No.3 Unit Trust, Edinburgh (U.K.) | 0.7 | – | – [4] |
| Liquiditäts-Konsortialbank GmbH, Frankfurt am Main | 0.5 | – | – [4] |
| Börse Düsseldorf AG, Düsseldorf | 0.5 | – | – [4] |
| Standard Life Investments UK Property Development Fund No.4 Unit Trust, Edinburgh (U.K.) | 0.5 | – | – [4] |
| Standard Life Investments UK Property Development Fund No.2 Unit Trust, Edinburgh (U.K.) | 0.2 | – | – [4] |
| AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main | 0.1 | – | – [4] |
| Standard Life Investments UK Property Development Fund No.1 Unit Trust, Edinburgh (U.K.) | 0.1 | – | – [4] |

[1] Profit and loss transfer agreement

[2] Translated at the following exchange rate: €1 = DKK 7.44

[3] Translated at the following exchange rate: €1 = INR 60.06

[4] In accordance with section 286(3) sentence 1 of the HGB and section 313(2) no. 4 of the HGB, information has not been provided on the equity and profit/loss of companies whose effect on the net assets, financial position, and results of operations of Deutsche Postbank AG or of the Deutsche Postbank Group is not material.

[5] The share of the voting rights amounts to 5.0%

[6] The share of the voting rights amounts to 4.8%

[7] The share of the voting rights amounts to 100.0%

[8] The company was formed in 2010. No financial statements have yet been prepared.

## V. Remuneration of the Management Board

**Structure of the remuneration of the Management Board in fiscal year 2010**

The overall structure of the remuneration of the Management Board and the significant contract components are stipulated and regularly reviewed by the Supervisory Board of Deutsche Postbank AG.

The Supervisory Board resolves the appropriateness of the remuneration of the members of the Management Board of Deutsche Postbank AG on the basis of a recommendation by the Executive Committee, taking into account the Company's performance, the sector, and the prospects for the future.

The level of remuneration for members of the Management Board is determined on the basis of the size and activity of the Company, its economic and financial situation, and the tasks of the Management Board members in question. Remuneration is calculated so that it is appropriate and competitive in the national and international job market and therefore offers an incentive for dedicated and successful work. The amount of remuneration paid is performance-linked.

Overall remuneration consists of fixed and performance-related components.

The base pay (fixed component) and additional remuneration are not linked to performance. The base pay is paid as a monthly salary in twelve equal installments. The additional remuneration relates primarily to the use of company cars, the reimbursement of travel costs, and contributions to insurance schemes. In principle, the additional remuneration is available to all members of the Management Board equally; the amount varies depending on their different personal circumstances.

The annual bonus is the performance-related component.

The annual bonuses awarded to the members of the Management Board are based on the achievement of quantitative and/or qualitative targets. These targets form part of a target agreement established at the start of each fiscal year (base year). The size of the bonuses is based on the degree to which predetermined target values are reached or exceeded. The size of the bonus is capped on the basis of individual agreements.

The annual bonus is not paid out in full on an annual basis, even when the targets agreed have been reached.

Forty percent of the annual bonus calculated in accordance with the degree to which the target was reached is paid out directly in the following year (short-term component).

Sixty percent of the annual bonus calculated on the basis of the degree to which the target was reached depends on the Group's sustainable performance (long-term component). The sustainability of the Group's performance is determined three fiscal years after the base year (sustainability phase). The long-term component is not paid out until after the sustainability phase has ended and then only if the relevant sustainability criterion to be established by the Supervisory Board has been met. If the sustainability criterion is positive in the aggregate over the sustainability phase, or if it is the same or better than in the base year during the final year of the sustainability phase, the long-term component is paid out in the fourth year following the base year. Otherwise, the payment is forfeited without compensation. Remuneration of the Management Board is thus affected by any negative performance by the Company during the entire measurement period (malus system).

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

In accordance with the recommendation of the German Corporate Governance Code, the Company will provide compensation for no more than the remainder of the contract term in instances in which a member of the Management Board ends his or her service on the Board prematurely without cause, and will limit the payment to a maximum of two base-pay installments in addition to a maximum of 40 % of twice the maximum annual performance-related remuneration (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 is paid pro rata up to the end of the agreed term of the contract, for a maximum of six months. In derogation of the above, three months' remuneration is payable to Management Board members Marc Hess and Ralf Stemmer in the period up to February 28, 2011 and June 30, 2011 respectively in the event of their deaths.

In the case of the Chairman of the Management Board, Stefan Jütte, three months' remuneration is payable in the event of the premature termination of his contract due to his death. If Stefan Jütte terminates his work on the Management Board prematurely due to incapacity to work, he is entitled to claim a pension. In the case that his contract is terminated prematurely without good cause, Stefan Jütte will receive a transitional allowance in the amount of his pension entitlement as of the time of his departure.

The amendments to the remuneration system required as a result of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions) and other regulatory measures are currently being examined in detail and implemented.

**Remuneration of the Management Board in fiscal year 2010**

The seven members of the Management Board active in fiscal year 2010 received total remuneration of €6,640.2 thousand (previous year: €4,159.8 thousand) in the period under review. €4,564.0 thousand of this total amount relates to fixed remuneration components (previous year: €4,159.8 thousand) and €2,076.2 thousand to non-deferred performance-related components (previous year: €0). The Supervisory Board is expected to resolve the 2011 payment modalities for the non-deferred performance-related components for fiscal year 2010 on March 15, 2011. The total amount of the deferred performance-related component with a long-term incentive effect for fiscal year 2010 is €3,114.3 thousand (previous year: €0). The amount will be paid in fiscal year 2014 if the sustainability criterion has been met; if not, it will be forfeited.

The fixed component includes "other compensation" totaling €164.0 thousand (previous year: €196.2 thousand). This additional remuneration relates primarily to the use of company cars, the reimbursement of travel costs, and contributions to insurance schemes.

In principle, the additional remuneration is available to all members of the Management Board equally; the amount varies depending on their different personal circumstances.

The total remuneration for the seven members of the Management Board active in fiscal year 2010 amounted to €6,640.2 thousand (previous year: €4,159.8 thousand).

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

Deutsche Postbank AG does not currently have a share-based compensation program.

### Management Board remuneration in 2010

| | Fixed remuneration component | | Performance-related component | Total |
|---|---|---|---|---|
| | Fixed component € thousand | Other compensation € thousand | Short-term component[1] € thousand | € thousand |
| Stefan Jütte (Chairman) | 900.0 | 15.4 | 359.7 | 1,275.1 |
| Mario Daberkow | 600.0 | 21.4 | 280.0 | 901.4 |
| Marc Hess | 600.0 | 26.9 | 280.0 | 906.9 |
| Horst Küpker | 600.0 | 34.5 | 320.0 | 954.5 |
| Michael Meyer | 600.0 | 28.9 | 280.0 | 908.9 |
| Hans-Peter Schmid | 500.0 | 19.2 | 276.5 | 795.7 |
| Ralf Stemmer | 600.0 | 17.7 | 280.0 | 897.7 |
| Total | 4,400.0 | 164.0 | 2,076.2 | 6,640.2 |

[1] The Supervisory Board is expected to resolve the 2011 payment modalities on March 15, 2011.

### Management Board remuneration in 2009

| | Fixed remuneration component | | Performance-related component | Total |
|---|---|---|---|---|
| | Fixed component € thousand | Other compensation € thousand | € thousand | € thousand |
| Stefan Jütte (Chairman since July 1, 2009) | 700.6 | 14.9 | 0 | 715.5 |
| Dirk Berensmann (until May 29, 2009) | 208.3 | 10.2 | 0 | 218.5 |
| Mario Daberkow (since May 30, 2009) | 292.2 | 17.0 | 0 | 309.2 |
| Marc Hess | 500.0 | 35.3 | 0 | 535.3 |
| Wolfgang Klein (Chairman until June 30, 2009) | 437.5 | 13.0 | 0 | 450.5 |
| Horst Küpker | 500.0 | 32.8 | 0 | 532.8 |
| Michael Meyer | 425.0 | 20.4 | 0 | 445.4 |
| Hans-Peter Schmid | 400.0 | 26.1 | 0 | 426.1 |
| Ralf Stemmer | 500.0 | 26.5 | 0 | 526.5 |
| Total | 3,963.6 | 196.2 | 0 | 4,159.8 |

### Pension commitments

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

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

Under the standard pension commitments valid until February 28, 2007, pension rights generally accrue after at least five years of service. Exceptions to this minimum waiting period requirement exist in some cases for disability.

The size of the pension depends on the length of service and the amount of pensionable remuneration. Only the fixed component of remuneration (base pay) is pensionable. A cap on the pensionable base pay has been specified except in the cases of Management Board members Marc Hess and Horst Küpker. The basic rule is that pension benefits of 50 % of the final salary accrue to members of the Management Board after five years of service. Benefits accrue at a constant rate of 2 % for each eligible year of service. The maximum level of pension benefits (60 % of the final salary) is generally reached after ten years of service.

The arrangements in the case of Chairman of the Management Board Stefan Jütte are different; in this case, his maximum pension benefits amount to 50 % of his pensionable income. He will reach this level of benefits when he turns 65. Due to the fact that his contract of service on the Management Board has been extended beyond this age, his claim to an old-age pension will only arise at the end of his contract of service.

In addition, the pension commitments include rules governing the payment of a transitional allowance for Management Board members who leave the Company upon reaching the age limit or for reasons of disability. The benefit period is two years.

Should the Management Board contracts of Mario Daberkow, Hans-Peter Schmid, and Ralf Stemmer be terminated by Postbank prior to the expiration of their regular contract terms, their pensions shall be calculated as if their contracts had been fulfilled until their regular expiration. This shall not apply if Postbank terminates the employment relationship for good cause. The length of service of Board member Mario Daberkow shall be measured from the first time a Management Board employment contract was signed with him as of November 1, 2005.

Future pension payments will be adjusted in line with the percentage growth in the highest pay group of the collective agreement for the Verband öffentlicher Banken (Association of German Public Sector Banks). Otherwise, payments are adjusted in line with Germany's consumer price index.

In May 2007, the Executive Committee of Deutsche Postbank AG's Supervisory Board resolved to restructure the pension arrangements for members of the Management Board appointed for the first time after March 31, 2007 and to replace the previous final salary-based pension system by a defined contribution plan. The pension commitments of the members of the Management Board newly appointed after that date, Marc Hess, Michael Meyer, and Horst Küpker, are therefore based on the following basic system: A benefit contribution in the amount of 25 % of the pensionable basic pay is granted for each eligible year of service. The benefit contributions are credited to a virtual pension account that bears annual interest at the interest rate used in the assessment for tax purposes of direct pension commitments from the time of the grant until the insured event. An additional amount was credited to Marc Hess's pension account in the period under review; this replaced a pension commitment made by the Company before he became a member of the Management Board. In the case of Michael Meyer, his contract specifies that special contributions shall be granted. When the insured event occurs, the amount of the pension is determined by distributing the pension assets accumulated in the pension account across the expected benefit period of the pension in accordance with actuarial principles. There is no waiting period and the entitlements from pension commitments vest immediately. The pensions have a 1 % p. a. adjustment rate.

Members of the Management Board Marc Hess, Horst Küpker, and Michael Meyer have the right to choose between regular pension payments and a lump-sum capital payment.

**Pension commitments for individual members of the Management Board**

| | Pension commitments | | |
|---|---|---|---|
| | Percentage of final salary as of Dec. 31, 2010<br>% | Maximum percentage of final salary<br>% | Service cost for pension obligations<br>€ |
| Stefan Jütte | 26.50 | 50.00 | 574,486 |
| Mario Daberkow | 50 | 60.00 | 133,709 |
| Hans-Peter Schmid | 50 | 60.00 | 249,048 |
| Ralf Stemmer | 52 | 60.00 | 82,351 |

A positive service cost arose in comparison to the previous year in the case of the Chairman of the Management Board, Stefan Jütte, due to the fact that his pensionable age has been increased to the end of his contract of service. Management Board members Mario Daberkow and Hans-Peter Schmid fulfilled the waiting period in fiscal year 2010 and reached the pension benefit level of 50 % of their final salary.

| | Contribution amount for 2010<br>€ | Pension account balance as of Dec. 31, 2010<br>€ | Service cost for pension obligations<br>€ |
|---|---|---|---|
| Marc Hess | 696,996 | 1,038,314 | 122,696 |
| Horst Küpker | 150,000 | 513,086 | 114,665 |
| Michael Meyer | 225,000 | 748,715 | 102,309 |

Contractually agreed grants of special amounts increased the contribution amounts in the case of Marc Hess and Michael Meyer.

The remuneration paid to former members of the Management Board and their surviving dependants amounted to €6.02 million (previous year: €4.68 million).

The defined benefit obligation (DBO) for current pensions and entitlements on the part of former members of the Management Board calculated in accordance with the International Financial Reporting Standards amounted to €47.54 million (previous year: €43.88 million).

## VI. Remuneration of the Supervisory Board

Deutsche Postbank AG's Annual General Meeting last changed the remuneration of the Supervisory Board in 2004, adjusting it in line with the Corporate Governance Code. 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 consists of a fixed and an annual performance-related component, plus a performance-related component with a long-term incentive effect. This reflects the responsibilities and scope of activity of the Supervisory Board's work and the economic performance of Deutsche Postbank AG. The positions of Chairman and Deputy Chairman as well as the membership of committees are reflected in the remuneration.

The remuneration of a full member of the Supervisory Board who is not a member of a committee is as follows: The fixed annual component amounts to €15,000, while the variable annual component amounts to €300 for each €0.03 by which the consolidated net profit per share for the respective fiscal year exceeds the amount of €2.00. Members of the Supervisory Board will be entitled to performance-related annual remuneration with a long-term incentive effect amounting to €300 for each 1 % by which the consolidated net profit per share for the second fiscal year following the fiscal year under review exceeds the consolidated net profit per share of the fiscal year preceding the fiscal year under review.

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

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

The amount of the Supervisory Board's remuneration is capped in a number of ways: Neither of the two variable components may exceed the amount of the fixed annual remuneration. Furthermore, the short-term variable component may not exceed in total 0.5 % of the Company's net retained profit less 4 % of contributions made on the lowest issue price of the shares. In addition, remuneration of committee members may not exceed twice the remuneration of the Supervisory Board member concerned.

Supervisory Board members receive their remuneration after the Annual General Meeting.

Persons who are members of the Supervisory Board for only part of a fiscal year receive the corresponding pro rata amount.

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. Consequently, no remuneration will be paid to Rainer Neske and Werner Steinmüller for the period since Deutsche Bank AG acquired a majority interest in the capital of Deutsche Postbank AG. Rainer Neske and Werner Steinmüller have furnished Deutsche Postbank AG with a corresponding waiver.

The total remuneration paid to members of the Supervisory Board for fiscal year 2010 amounted to €547.2 thousand including attendance allowances (previous year: €536.3 thousand). The members of the Supervisory Board will not receive any variable (performance-related) remuneration for the past fiscal year.

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

| Members of the Supervisory Board | Remuneration for fiscal year 2010 | | | | Remuneration for fiscal year 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed remuneration | Variable remuneration[1] | Attendance allowances | Total | Fixed remuneration | Variable remuneration[1] | Attendance allowances | Total |
| | € thousand | € thousand | € thousand | € thousand | € thousand | € thousand | € thousand | € thousand |
| Frank Appel | 52.5 | – | 3.3 | 55.8 | 52.5 | – | 2.8 | 55.3 |
| Frank Bsirske | 16.8 | – | 2.0 | 18.8 | – | – | – | – |
| Michael Sommer | 22.3 | – | 0.8 | 23.1 | 45.0 | – | 1.8 | 46.8 |
| John Allan | – | – | – | – | 10.0 | – | 0.3 | 10.3 |
| Wilfried Anhäuser | 22.5 | – | 3.3 | 25.8 | 22.5 | – | 2.5 | 25.0 |
| Marietta Auer | 22.5 | – | 3.5 | 26.0 | 22.5 | – | 2.0 | 24.5 |
| Rolf Bauermeister | 15.0 | – | 1.8 | 16.8 | 15.0 | – | 1.0 | 16.0 |
| Wilfried Boysen | 15.0 | – | 2.0 | 17.0 | 15.0 | – | 1.0 | 16.0 |
| Henry B. Cordes | 12.7 | – | 0.5 | 13.2 | 15.0 | – | 0.8 | 15.8 |
| Edgar Ernst | 30.0 | – | 4.8 | 34.8 | 30.0 | – | 3.8 | 33.8 |
| Annette Harms | 15.0 | – | 1.8 | 16.8 | 15.0 | – | 1.0 | 16.0 |
| Timo Heider | 7.6 | – | 1.3 | 8.9 | – | – | – | – |
| Tessen von Heydebreck | 22.5 | – | 1.8 | 24.3 | 14.9 | – | 2.0 | 16.9 |
| Peter Hoch | 30.0 | – | 4.0 | 34.0 | 32.3 | – | 3.0 | 35.3 |
| Elmar Kallfelz | 30.0 | – | 5.0 | 35.0 | 27.0 | – | 2.5 | 29.5 |
| Ralf Krüger | 22.5 | – | 3.5 | 26.0 | 28.6 | – | 2.5 | 31.1 |
| Rainer Neske[2] | – | – | – | – | – | – | – | – |
| Hans-Dieter Petram | 22.5 | – | 1.3 | 23.8 | 22.5 | – | 1.3 | 23.8 |
| Bernd Pfaffenbach | – | – | – | – | 4.6 | – | 0.0 | 4.6 |
| Lawrence A. Rosen | 15.0 | – | 1.8 | 16.8 | 4.6 | – | 0.5 | 5.1 |
| Elmo von Schorlemer | – | – | – | – | 4.6 | – | 0.3 | 4.9 |
| Torsten Schulte | 7.4 | – | 0.5 | 7.9 | 26.8 | – | 2.3 | 29.1 |
| Eric Stadler | 22.5 | – | 3.3 | 25.8 | 16.6 | – | 1.5 | 18.1 |
| Werner Steinmüller[2] | 33.8 | – | 3.5 | 37.3 | 24.5 | – | 2.8 | 27.3 |
| Gerd Tausendfreund | 22.5 | – | 3.8 | 26.3 | 22.5 | – | 3.0 | 25.5 |
| Renate Treis | 30.0 | – | 3.0 | 33.0 | 24.1 | – | 1.5 | 25.6 |
| Total | 490.6 | – | 56.6 | 547.2 | 496.1 | – | 40.2 | 536.3 |

[1] The reported variable remuneration comprises the short- and long-term remuneration to be paid to the Supervisory Board member for the relevant fiscal year.

[2] Under the Articles of Association of Deutsche Postbank AG, Rainer Neske and Werner Steinmüller also have a claim to remuneration for the period following the acquisition of the majority interest in the Bank's capital: Rainer Neske in the amount of €0.9 thousand and Werner Steinmüller in the amount of €4.5 thousand. Both members have waived their claim to remuneration in line with Deutsche Bank AG's internal Group policies.

Peter Hoch received remuneration of €26.2 thousand for his Supervisory Board work at the BHW Group, whereas Timo Heider received €19.5 thousand.

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 arrangement 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**

In fiscal year 2010, the aggregate shareholdings of all members of the Management Board and Supervisory Board amounted to less than 1% of the shares issued by the Company.

As of the balance sheet date, loans of €863.1 thousand (previous year: €950.4 thousand) had been granted to members of the Management Board and members of the Supervisory Board. No other contingent liabilities were entered into.

**D&O insurance**

The members of the Management Board and of the Supervisory Board are covered by D&O insurance in line with international standards. In accordance with the requirements of the Corporate Governance Code, the individual Management Board and Supervisory Board members are required to pay a deductible if a claim is brought. The deductible amounts were changed effective January 1, 2010 in line with the requirements of section 93 of the AktG and section 3.8 of the German Corporate Governance Code.

## VII. Forward contracts

Postbank uses derivatives to hedge positions as part of its asset/liability management policy. Derivatives are also entered into for trading purposes.

The volume of unsettled derivatives subject to settlement risk, and currency, interest and/or market risk from open and, in the case of counterparty credit risk, from closed positions, amounted to €811 billion as of December 31, 2010 (previous year: €809 billion).

The current derivatives contracts broken down by their risk structure are listed on the following page (Table 1). In line with normal international practice the notional amounts are reported. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

Tables 2, 3, and 4 break down this information further in line with various criteria. In addition to providing information on maturity classes by risk category, they offer a breakdown by counterparty. Transactions entered into for trading purposes have been presented separately.

The notional amounts represent the gross volume of all sales and purchases. The fair values of the individual contracts were calculated using recognized valuation techniques and do not reflect any netting agreements.

The derivative transactions in Postbank's trading portfolio (Table 4) are measured and recognized at fair value.

| Table 1 | Derivatives – broken down by volume | | | | | |
|---|---|---|---|---|---|---|
| | Notional amounts | | Positive fair values | | Negative fair values | |
| | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
| Interest rate risk | | | | | | |
| OTC products | | | | | | |
| Interest rate swaps | 749,957 | 697,744 | 23,581 | 19,494 | −25,424 | −21,693 |
| FRAs | 40,563 | 81,591 | 5 | 18 | −9 | −25 |
| Interest rate options | | | | | | |
| Long calls | 690 | 200 | 10 | 2 | 0 | 0 |
| Short puts | 830 | 10 | 0 | 0 | −17 | 0 |
| Caps, floors | 1,040 | 964 | 5 | 6 | −8 | −8 |
| Other interest rate forwards | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange-traded products | | | | | | |
| Interest rate futures (Bund, Bobl, Schatz) | 2,756 | 6,983 | 0 | 0 | 0 | 0 |
| Interest rate options (Bund, Bobl, Schatz) | 13 | 70 | 0 | 0 | 0 | 0 |
| Subtotal | 795,849 | 787,562 | 23,601 | 19,520 | −25,458 | −21,726 |
| Currency risk | | | | | | |
| OTC products | | | | | | |
| Currency forwards/swaps | 10,518 | 19,614 | 72 | 95 | −44 | −213 |
| Cross-currency swaps | 4,199 | 691 | 118 | 55 | −158 | −2 |
| Currency options | | | | | | |
| Long calls | 10 | 15 | 0 | 0 | 0 | 0 |
| Short puts | 14 | 5 | 0 | 0 | 0 | 0 |
| Other currency forwards | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange-traded products | | | | | | |
| Currency futures | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency options | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal | 14,741 | 20,325 | 190 | 150 | −202 | −215 |
| Equity and other price risk | | | | | | |
| OTC products | | | | | | |
| Equity forwards | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity/index options | | | | | | |
| Long calls | 0 | 0 | 0 | 0 | 0 | 0 |
| Short puts | 0 | 0 | 0 | 0 | 0 | 0 |
| Other equity/index contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange-traded products | | | | | | |
| Equity/index futures | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity/index options | 119 | 142 | 4 | 6 | 0 | 0 |
| Subtotal | 119 | 142 | 4 | 6 | 0 | 0 |
| Credit derivatives | | | | | | |
| Calls | 108 | 379 | 2 | 2 | 0 | −3 |
| Puts | 278 | 533 | 0 | 1 | −130 | −142 |
| Subtotal | 386 | 912 | 2 | 3 | −130 | −145 |
| Total | 811,095 | 808,941 | 23,797 | 19,679 | −25,790 | −22,086 |

| Table 2 | Derivatives – broken down by residual maturities | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Notional amounts in €m | Interest rate risk | | Currency risk | | Equity and other price risk | | Credit derivatives | |
| | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
| Remaining maturities | | | | | | | | |
| less than 3 months | 79,094 | 46,552 | 10,329 | 18,645 | 119 | 138 | 20 | 23 |
| 3 months to 1 year | 83,153 | 123,298 | 1,472 | 1,026 | 0 | 0 | 24 | 101 |
| 1 to 5 years | 265,060 | 218,093 | 2,529 | 306 | 0 | 4 | 189 | 435 |
| more than 5 years | 368,542 | 399,619 | 411 | 348 | 0 | 0 | 153 | 353 |
| Total | 795,849 | 787,562 | 14,741 | 20,325 | 119 | 142 | 386 | 912 |

| Table 3 | Derivatives – broken down by counterparties | | | | | |
|---|---|---|---|---|---|---|
| | Notional amounts | | Positive fair values | | Negative fair values | |
| | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
| Counterparties | | | | | | |
| Banks in OECD countries | 809,092 | 806,087 | 23,709 | 19,580 | –25,658 | –21,937 |
| Banks in non-OECD countries | 189 | 359 | 0 | 0 | –127 | –140 |
| Other counterparties | 1,814 | 2,495 | 88 | 99 | –5 | –9 |
| Total | 811,095 | 808,941 | 23,797 | 19,679 | –25,790 | –22,086 |

| Table 4 | Derivatives – held for trading | | | | | |
|---|---|---|---|---|---|---|
| | Notional amounts | | Positive fair values | | Negative fair values | |
| | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m | Dec. 31, 2010 €m | Dec. 31, 2009 €m |
| Interest rate contracts | 728,986 | 716,527 | 22,608 | 18,789 | –23,277 | –19,254 |
| Currency contracts | 2,483 | 6,960 | 28 | 70 | –27 | –61 |
| Equity contracts | 14 | 24 | 1 | 1 | 0 | 0 |
| Credit derivate contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 731,483 | 723,511 | 22,637 | 18,860 | –23,304 | –19,315 |

## VIII. Cover for bonds outstanding

- Register A and B: issues under the *Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten* (German Act on *Pfandbriefe* and Related Debt Instruments Issued by Public-Sector Credit Institutions), superseded by the *Öffentliches Pfandbriefgesetz* (ÖPG – German Public-Sector *Pfandbrief* Act)

- Register C: issues under the *Gesetz über die Umwandlung der Deutschen Siedlungs- und Landesrentenbank in eine Aktiengesellschaft* (DSLBUmwG – German Act on the Reorganization of Deutsche Siedlungs- und Landesrentenbank as a Stock Corporation)

- Register D and E: issues under the *Pfandbriefgesetz* (PfandBG – German *Pfandbrief* Act).

| | Cover assets | *Pfandbriefe* outstanding | Excess cover |
|---|---|---|---|
| | Dec. 31, 2010 €m | Dec. 31, 2010 €m | Dec. 31, 2010 €m |
| Mortgage *Pfandbriefe* Register A | | | |
| Principal amount | 876 | 10 | 866 |
| Present value | 955 | 11 | 944 |
| Public-sector *Pfandbriefe* Register B | | | |
| Principal amount | 908 | 669 | 239 |
| Present value | 977 | 737 | 240 |
| Bonds Register C (mixed cover) | | | |
| Principal amount | 17,089 | 13,967 | 3,122 |
| Present value | 18,382 | 15,564 | 2,818 |
| Mortgage *Pfandbriefe* Register D | | | |
| Principal amount | 7,820 | 5,716 | 2,104 |
| Present value | 8,676 | 6,232 | 2,444 |
| Public-sector *Pfandbriefe* Register E | | | |
| Principal amount | 2,713 | 1,948 | 765 |
| Present value | 2,917 | 2,038 | 879 |

| | Cover assets | *Pfandbriefe* outstanding | Excess cover |
|---|---|---|---|
| | Dec. 31, 2009 €m | Dec. 31, 2009 €m | Dec. 31, 2009 €m |
| Mortgage *Pfandbriefe* Register A | | | |
| Principal amount | 1,013 | 119 | 894 |
| Present value | 1,091 | 126 | 965 |
| Public-sector *Pfandbriefe* Register B | | | |
| Principal amount | 1,181 | 895 | 286 |
| Present value | 1,264 | 979 | 285 |
| Bonds Register C (mixed cover) | | | |
| Principal amount | 16,796 | 14,335 | 2,461 |
| Present value | 17,936 | 15,638 | 2,298 |
| Mortgage *Pfandbriefe* Register D | | | |
| Principal amount | 6,649 | 5,041 | 1,608 |
| Present value | 7,243 | 5,495 | 1,748 |
| Public-sector *Pfandbriefe* Register E | | | |
| Principal amount | 2,380 | 1,728 | 652 |
| Present value | 2,563 | 1,784 | 779 |

# IX. Disclosures in accordance with section 28 of the *Pfandbriefgesetz* (PfandBG – German Pfandbrief Act)

## A) Section 28(1) no. 1 to no. 3 of the PfandBG

### 1. Mortgage Pfandbrief issues outstanding and associated cover assets:

| | Nominal amount | Nominal amount | Present value | Present value | Present value of risk* | Present value of risk** |
|---|---|---|---|---|---|---|
| | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m |
| Cover assets *** | 7,820.2 | 6,649.1 | 8,675.8 | 7,243.2 | 8,131.5 | 6,810.0 |
| of which derivatives | 0.0 | 0,.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Mortgage *Pfandbriefe* | 5,715.5 | 5,040.5 | 6,232.2 | 5,495.2 | 5,920.1 | 5,245.8 |
| Excess cover in % | 36.8 | 31.9 | 39.2 | 31.8 | 37.4 | 29.8 |

* dynamic method

** prior-year amount adjusted from a low interest rate to a high interest rate scenario due to a change in the statutory requirements

***including additional cover assets in accordance with section 19(1) of the PfandBG

### Public-sector *Pfandbrief* issues outstanding and associated cover assets:

| | Nominal amount | Nominal amount | Present value | Present value | Present value of risk* | Present value of risk** |
|---|---|---|---|---|---|---|
| | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m |
| Cover assets *** | 2,712.6 | 2,380.2 | 2,916.8 | 2,563.5 | 2,782.5 | 2,455.0 |
| of which derivatives | 0,0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Public-sector *Pfandbriefe* | 1,948.0 | 1,728.0 | 2,038.2 | 1,783.6 | 1,958.3 | 1,713.4 |
| Excess cover in % | 39.3 | 37.7 | 43.1 | 43.7 | 42.1 | 43.3 |

* dynamic method

** prior-year amount adjusted from a low interest rate to a high interest rate scenario due to a change in the statutory requirements

***including additional cover assets in accordance with section 20(2) of the PfandBG

### 2. Maturity structure of mortgage *Pfandbrief* issues outstanding as well as fixed-interest periods of the relevant cover assets, including additional cover assets in accordance with section 19(1) of the PfandBG, by fixed-interest period or remaining maturity in the case of *Pfandbrief* issues:

| | Cover assets | Cover assets | Mortgage *Pfandbriefe* | Mortgage *Pfandbriefe* |
|---|---|---|---|---|
| | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m |
| less than 1 year | 673.7 | 296.5 | 100.0 | 390.0 |
| from 1 to 2 years | 447.9 | 622.9 | 0.0 | 100.0 |
| from 2 to 3 years | 469.0 | 431.4 | 1,500.0 | 0.0 |
| from 3 to 4 years | 565.8 | 638.7 | 1,010.0 | 1,500.0 |
| from 4 to 5 years | 557.1 | 601.3 | 1,000.0 | 1,010.0 |
| from 5 to 10 years | 3,197.2 | 2,237.1 | 1,391.0 | 1,321.0 |
| more than 10 years | 1,909.5 | 1,821.2 | 714.5 | 719.5 |
| Total | 7,820.2 | 6,649.1 | 5,715.5 | 5,040.5 |

Maturity structure of public-sector *Pfandbrief* issues outstanding as well as fixed-interest periods of the relevant cover assets, including cover assets in accordance with section 20(2) of the PfandBG, by fixed-interest period or remaining maturity in the case of *Pfandbrief* issues:

| | Cover assets | Cover assets | Public-sector *Pfandbriefe* | Public-sector *Pfandbriefe* |
|---|---|---|---|---|
| | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m |
| less than 1 year | 676.0 | 184.7 | 50.0 | 0.0 |
| from 1 to 2 years | 56.4 | 451.5 | 158.0 | 50.0 |
| from 2 to 3 years | 269.9 | 56.3 | 25.0 | 158.0 |
| from 3 to 4 years | 341.3 | 273.2 | 1,500.0 | 0.0 |
| from 4 to 5 years | 664.5 | 353.6 | 0.0 | 1,500.0 |
| from 5 to 10 years | 441.8 | 893.2 | 105.0 | 20.0 |
| more than 10 years | 262.7 | 167.7 | 110.0 | 0.0 |
| Total | 2,712.6 | 2,380.2 | 1,948.0 | 1,728.0 |

## B) Section 28(2) no. 1a of the PfandBG

Receivables by size category used to cover mortgage *Pfandbrief* issues:

| | Mortgage cover assets | Mortgage cover assets |
|---|---|---|
| | IV/2010 €m | IV/2009 €m |
| up and including €300,000 | 6,736.8 | 5,467.8 |
| €300,000 to € 5 million | 108.4 | 86.3 |
| more than € 5 million | 0.0 | 0.0 |
| Total | 6,845.2 | 5,554.1 |

## B) Section 28(3) no. 1 of the PfandBG

Receivables used to cover public-sector *Pfandbrief* issues, by type of debtor/guaranteeing unit and its registered office (country):

| | Public-sector cover assets | |
|---|---|---|
| | IV/2010 €m | IV/2009 €m |
| Germany | | |
| State | 0.0 | 0.0 |
| Regional authorities | 500.0 | 400.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 1,212.6 | 1,180.2 |
| Total Germany | 1,712.6 | 1,580.2 |
| Belgium | | |
| State | 200.0 | 200.0 |
| Regional authorities | 0.0 | 0.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 0.0 | 0.0 |
| Total Belgium | 200.0 | 200.0 |
| France and Monaco | | |
| State | 200.0 | 200.0 |
| Regional authorities | 0.0 | 0.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 0.0 | 0.0 |
| Total France and Monaco | 200.0 | 200.0 |
| Ireland | | |
| State | 0.0 | 100.0 |
| Regional authorities | 0.0 | 0.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 0.0 | 0.0 |
| Total Ireland | 0.0 | 100.0 |
| Italy | | |
| State | 100.0 | 200.0 |
| Regional authorities | 0.0 | 0.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 0.0 | 0.0 |
| Total Italy | 100.0 | 200.0 |
| Spain | | |
| State | 100.0 | 100.0 |
| Regional authorities | 0.0 | 0.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 0.0 | 0.0 |
| Total Spain | 100.0 | 100.0 |
| Netherlands | | |
| State | 200.0 | 0.0 |
| Regional authorities | 0.0 | 0.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 0.0 | 0.0 |
| Total Netherlands | 200.0 | 0.0 |
| Austria | | |
| State | 200.0 | 0.0 |
| Regional authorities | 0.0 | 0.0 |
| Local authorities | 0.0 | 0.0 |
| Other debtors | 0.0 | 0.0 |
| Total Austria | 200.0 | 0.0 |
| Total | 2,712.6 | 2,380.2 |

## C) Section 28(2) no. 1b and c of the PfandBG

Receivables used to cover mortgage *Pfandbrief* issues, by region in which the mortgaged properties are located and their type of use:

| | Mortgage cover assets | | | |
|---|---|---|---|---|
| | Residential properties | Residential properties | Commercial properties | Commercial properties |
| | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m |
| Total | 6,845.2 | 5,554.1 | 0.0 | 0.0 |

| | Mortgage cover assets | | | |
|---|---|---|---|---|
| | Residential properties | Residential properties | Commercial properties | Commercial properties |
| | IV/2010 €m | IV/2009 €m | IV/2010 €m | IV/2009 €m |
| Germany | | | | |
| Apartments | 2,130.5 | 2,101.1 | 0.0 | 0.0 |
| Single-family houses | 4,163.1 | 3,010.0 | 0.0 | 0.0 |
| Multi-family houses | 551.6 | 443.0 | 0.0 | 0.0 |
| Office buildings | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade buildings | 0.0 | 0.0 | 0.0 | 0.0 |
| Industrial buildings | 0.0 | 0.0 | 0.0 | 0.0 |
| Other commercial buildings | 0.0 | 0.0 | 0.0 | 0.0 |
| Buildings under construction | 0.0 | 0.0 | 0.0 | 0.0 |
| Construction sites | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Germany | 6,845.2 | 5,554.1 | 0.0 | 0.0 |

## C) Section 28(3) no. 2 of the PfandBG

Total amount of payment arrears on public-sector receivables, overdue at least 90 days:

| | IV/2010 €m | IV/2009 €m |
|---|---|---|
| Total | 0.0 | 0.0 |

## D) Section 28(2) no. 2 of the PfandBG

Total amount of payment arrears on mortgage receivables, overdue at least 90 days:

| | IV/2010 €m | IV/2009 €m |
|---|---|---|
| Total | 0.0 | 0.0 |

## E) Substitute cover

| | IV/2010 €m | IV/2009 €m |
|---|---|---|
| Percertage of substitute cover (section 19(1) of the PfandBG) | 975.0 | 1,095.0 |

## F) Foreclosure and compulsory administration proceedings pending as of the balance sheet date and foreclosures completed in the year under review

| | IV/2010 €m | IV/2009 €m |
|---|---|---|
| Total | 0.0 | 0.0 |

Disclosures relating to sections 28(2) sentence 1 and sentence 3 of the *Pfandbriefbankgesetz* (German Pfandbrief Bank Act) were required neither as of December 31, 2010 nor for the comparative period in 2009.

## X. Other disclosures

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

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

Deutsche Postbank AG is a member of the deposit protection fund of the Bundesverband deutscher Banken e.V. and the Entschädigungseinrichtung deutscher Banken GmbH investor compensation scheme.

## XI. Declaration of compliance

On November 29, 2010, the Management Board and the Supervisory Board of Deutsche Postbank AG together published the declaration of compliance with the German Corporate Governance Code for fiscal year 2010 required by section 161 of the AktG. The full wording of the declaration of compliance can be accessed on the Internet on our homepage at www.postbank.com.

On February 8, 2011, the Management Board and the Supervisory Board of Deutsche Postbank AG issued a supplementary declaration on section 5.4.2 sentence 4 of the German Corporate Governance Code. The full wording of this declaration can be accessed on our website at www.postbank.com.

## D. Members of Executive Bodies

### Management Board

| The members of the Management Board of Deutsche Postbank AG are: |
|---|
| Stefan Jütte, Bonn (Chairman) |
| Mario Daberkow, Bonn |
| Marc Hess, Bonn |
| Horst Küpker, Bad Honnef |
| Michael Meyer, Bonn |
| Hans-Peter Schmid, Baldham |
| Ralf Stemmer, Königswinter |

Offices held by members of the Management Board of Deutsche Postbank AG as of December 31, 2010 on supervisory boards or other supervisory bodies:

| Stefan Jütte | Chairman |
|---|---|
| Function | Company |
| Chairman of the Supervisory Board | Postbank Filialvertrieb AG, Bonn |
| Chairman of the Supervisory Board | PB Firmenkunden AG, Bonn |
| Chairman of the Board of Directors | PB Capital Corp., Wilmington (Delaware, U.S.A.) |
| Chairman of the Board of Directors | PB (USA) Holdings, Inc., Wilmington (Delaware, U.S.A.) |
| Member of the Supervisory Board | IVG Institutional Funds GmbH, Wiesbaden |
| Member of the Advisory Board | CORPUS SIREO Holding GmbH & Co. KG, Cologne |
| Offices relinquished during the year | |
| Member of the Supervisory Board (until August 24, 2010) | BVVG Bodenverwertungs- und -verwaltungsgesellschaft mbH, Berlin |

| Mario Daberkow | |
|---|---|
| Function | Company |
| Chairman of the Supervisory Board | Betriebs-Center für Banken AG, Frankfurt am Main |
| Chairman of the Supervisory Board | Postbank Systems AG, Bonn |
| Chairman of the Advisory Board | Postbank Support GmbH, Cologne |
| Deputy Chairman of the Advisory Board | Deutsche WertpapierService Bank AG, Frankfurt am Main |
| Deputy Chairman of the Advisory Board | VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn |
| Deputy Chairman of the Board of Directors | Eurogiro A/S, Taastrup (Denmark) |
| Member of the Supervisory Board | BHW Bausparkasse AG, Hamelin |
| Member of the Supervisory Board | BHW Holding AG, Berlin/Hamelin |

| Marc Hess | |
|---|---|
| Function | Company |
| Member of the Supervisory Board | BHW Bausparkasse AG, Hamelin |
| Member of the Supervisory Board | BHW Holding AG, Berlin/Hamelin |
| Member of the Supervisory Board | Deutsche Postbank Financial Services GmbH, Frankfurt am Main |
| Member of the Supervisory Board | PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt am Main |

| Horst Küpker | |
|---|---|
| Function | Company |
| Chairman of the Supervisory Board | Deutsche Postbank Financial Services GmbH, Frankfurt am Main |
| Chairman of the Supervisory Board | PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt am Main |
| Chairman of the Board of Directors | Deutsche Postbank International S.A., Luxembourg |
| Chairman of the Board of Directors | Deutsche Postbank Vermögens-Management S.A., Luxembourg |
| Deputy Chairman of the Supervisory Board | PB Firmenkunden AG, Bonn |
| Deputy Chairman of the Supervisory Board | Postbank Finanzberatung AG, Hamelin |
| Member of the Board of Directors (since July 16, 2010) | PB Capital Corp., Wilmington (Delaware, U.S.A.) |
| Member of the Board of Directors (since July 16, 2010) | PB (USA) Holdings, Inc., Wilmington (Delaware, U.S.A.) |

| Michael Meyer | |
|---|---|
| Function | Company |
| Chairman of the Supervisory Board | BHW Bausparkasse AG, Hamelin |
| Chairman of the Supervisory Board | BHW Holding AG, Berlin/Hamelin |

| | |
|---|---|
| Chairman of the Supervisory Board | Postbank Direkt GmbH, Bonn |
| Chairman of the Supervisory Board | Postbank Finanzberatung AG, Hamelin |
| Chairman of the Advisory Board | VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn |
| Chairman of the Board of Directors (since May 10, 2010)<br>Member of the Board of Directors (since May 10, 2010) | Deutsche Postbank Home Finance Ltd., Gurgaon/New Delhi (India) |
| Deputy Chairman of the Supervisory Board | Deutsche Postbank Financial Services GmbH, Frankfurt am Main |
| Deputy Chairman of the Supervisory Board | PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt am Main |
| Deputy Chairman of the Supervisory Board | Postbank Akademie und Service GmbH, Hamelin* |
| Deputy Chairman of the Board of Directors | Deutsche Postbank International S.A., Luxembourg |
| Deputy Chairman of the Board of Directors | Deutsche Postbank Vermögens-Management S.A., Luxembourg |
| Member of the Supervisory Board | Betriebs-Center für Banken AG, Frankfurt am Main |
| Member of the Supervisory Board | Postbank Filialvertrieb AG, Bonn |
| Member of the Supervisory Board | PB Lebensversicherung AG, Hilden |
| Member of the Supervisory Board | PB Versicherung AG, Hilden |
| Member of the Board of Directors | VISA Deutschland e.V., Frankfurt am Main |
| Member of the Advisory Board | Proactiv Holding AG, Hilden |
| Member of the Economic Advisory Board | HUK-Coburg Versicherungsgruppe, Coburg |

* previously Postbank Vertriebsakademie GmbH, Hamelin

Hans-Peter Schmid

| Function | Company |
|---|---|
| Chairman of the Supervisory Board (since July 1, 2010)<br>Member of the Supervisory Board (until June 30, 2010) | Bayerische Börse AG, Munich |
| Member of the Supervisory Board | Postbank Finanzberatung AG, Hamelin |
| Member of the Supervisory Board | Postbank Akademie und Service GmbH, Hamelin* |
| Member of the Advisory Board (since January 1, 2011) | Proactiv Holding AG, Hilden |

* previously Postbank Vertriebsakademie GmbH, Hamelin

Ralf Stemmer

| Function | Company |
|---|---|
| Chairman of the Supervisory Board | Postbank Immobilien und Baumanagement GmbH, Bonn |
| Chairman of the Supervisory Board | Postbank Akademie und Service GmbH, Hamelin* |
| Deputy Chairman of the Supervisory Board | Postbank Direkt GmbH, Bonn |
| Deputy Chairman of the Supervisory Board | Postbank Systems AG, Bonn |
| Deputy Chairman of the Advisory Board | Postbank Support GmbH, Cologne |
| Member of the Supervisory Board | Betriebs-Center für Banken AG, Frankfurt am Main |
| Member of the Supervisory Board | BHW Bausparkasse AG, Hamelin |
| Member of the Supervisory Board | BHW Holding AG, Berlin/Hamelin |
| Member of the Supervisory Board | PB Firmenkunden AG, Bonn |
| Member of the Supervisory Board | PB Pensionsfonds AG, Hilden |
| Member of the Supervisory Board | Postbank Filialvertrieb AG, Bonn |
| Member of the Administrative Board | Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn |
| Member of the Board of Directors | PB Capital Corp., Wilmington (Delaware, U.S.A.) |
| Member of the Board of Directors | PB (USA) Holdings, Inc., Wilmington (Delaware, U.S.A.) |

* previously Postbank Vertriebsakademie GmbH, Hamelin

The members of the Supervisory Board of Deutsche Postbank AG are:

| 1. Shareholder representatives | |
|---|---|
| Frank Appel, Chairman of the Board of Management of Deutsche Post AG, Königswinter (Chairman) | until December 31, 2010 |
| Rainer Neske, Member of the Management Board of Deutsche Bank AG, Bad Soden (Chairman since January 1, 2011) | since December 17, 2010 |
| Hugo Bänziger, Member of the Management Board of Deutsche Bank AG, London | since February 1, 2011 |
| Wilfried Boysen, businessman, Hamburg | |
| Henry B. Cordes, *Ministerialdirektor*, Federal Ministry of Finance, Berlin | until November 5, 2010 |
| Edgar Ernst, management consultant, Bonn | |
| Tessen von Heydebreck, previously Member of the Management Board of Deutsche Bank AG and current Chairman of the Board of Deutsche Bank Foundation, Berlin | |
| Peter Hoch, Munich | |
| Ralf Krüger, management consultant, Kronberg | |
| Hans-Dieter Petram, consultant, Inning | |
| Lawrence A. Rosen, Member of the Board of Management of Deutsche Post AG, Bonn | |
| Werner Steinmüller, Member of the Group Executive Committee, Head of Global Transaction Banking, Deutsche Bank AG, Dreieich | |

| 2. Employee representatives | |
|---|---|
| Frank Bsirske, Chairman of the ver.di Trade Union, Berlin (Deputy Chairman) | since July 20, 2010 |
| Michael Sommer, Chairman of the German Trade Union Federation, Berlin (Deputy Chairman) | until June 30, 2010 |
| Wilfried Anhäuser, Chairman of Postbank Filialvertrieb AG's General Works Council, Kerpen | |
| Marietta Auer, Head of Department, Deutsche Postbank AG, Head Office, Unterhaching | |
| Rolf Bauermeister, Head of National Postal Services Group, at ver.di Trade Union (national administration), Berlin | |
| Annette Harms, Deputy Chair of Deutsche Postbank AG's Works Council, Hamburg | |
| Timo Heider, Chairman of the General Works Councils of BHW Bausparkasse AG and Postbank Finanzberatung AG, Hamelin | since July 1, 2010 |
| Elmar Kallfelz, Chairman of Deutsche Post AG's European Works Council, Wachtberg | |
| Torsten Schulte, clerical employee, Hessisch Oldendorf | until June 30, 2010 |
| 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, Deputy Chair of Deutsche Postbank AG's General Works Council, Brühl | |

Offices held by members of the Supervisory Board of Deutsche Postbank AG as of December 31, 2010 on supervisory boards or other supervisory bodies:

## Shareholder representatives

**Hugo Bänziger** – Member of the Supervisory Board since February 1, 2011

| Function | Company |
|---|---|
| Chairman of the Supervisory Board | DWS Investment GmbH, Frankfurt am Main |
| Chairman of the Board of Directors | Deutsche Bank Luxembourg S.A., Luxembourg |
| Member of the Supervisory Board | EUREX Clearing AG, Frankfurt am Main |
| Member of the Supervisory Board | EUREX Frankfurt AG, Frankfurt am Main |
| Member of the Supervisory Board | EUREX Zürich AG, Zurich |
| Member of the Board of Directors | Deutsche Bank Trust Company Americas, New York (New York, U.S.A.) |
| Member of the Board of Directors | Deutsche Bank Trust Corporation, New York (New York, U.S.A.) |

**Wilfried Boysen**

| Function | Company |
|---|---|
| Member of the Supervisory Board | ASKLEPIOS Kliniken Hamburg GmbH, Hamburg |

**Henry B. Cordes** – Member of the Supervisory Board until November 5, 2010

| Function | Company |
|---|---|
| Deputy Chairman of the Supervisory Board (until October 21, 2010) | TLG Immobilien GmbH, Berlin |
| Member of the Supervisory Board (until October 1, 2010) | Flughafen Berlin-Schönefeld GmbH, Berlin |
| Member of the Supervisory Board (until October 21, 2010) | T-Mobile Deutschland GmbH, Bonn |

**Edgar Ernst**

| Function | Company |
|---|---|
| Member of the Supervisory Board (since April 22, 2010) | Österreichische Post AG, Vienna |
| Member of the Supervisory Board (since May 14, 2010) | Gildemeister AG, Bielefeld |

**Tessen von Heydebreck**

| Function | Company |
|---|---|
| Member of the Supervisory Board | Dussmann Verwaltungs AG, Frankfurt am Main |
| Member of the Supervisory Board | Vattenfall Europe AG, Berlin |

**Peter Hoch**

| Function | Company |
|---|---|
| Member of the Supervisory Board | BHW Holding AG, Berlin/Hamelin |
| Member of the Supervisory Board | BHW Bausparkasse AG, Hamelin |

**Ralf Krüger**

| Function | Company |
|---|---|
| Chairman of the Supervisory Board | DIAMOS AG, Sulzbach |
| Member of the Advisory Board | CORPUS SIREO Holding GmbH & Co. KG, Cologne |

**Hans-Dieter Petram**

| Function | Company |
|---|---|
| Member of the Supervisory Board | Talanx AG, Hanover |

**Werner Steinmüller**

| Function | Company |
|---|---|
| Chairman of the Supervisory Board (since April 1, 2010) | Deutsche Bank Nederland N.V., Amsterdam |
| Chairman of the Supervisory Board | Deutsche Bank Portugal S.A., Lisbon |
| Member of the Supervisory Board (until June 25, 2010) | Deutsche Bank S.A.E., Barcelona |
| Member of the Supervisory Board (until May 12, 2010) | OOO Deutsche Bank, Moscow |
| Member of the Supervisory Board (until June 9, 2010) | ZAO „Deutsche Securities", Moscow |
| Member of the Board of Directors | Deutsche Bank Luxembourg S.A., Luxembourg |
| Member of the Advisory Board | True Sale International GmbH, Frankfurt am Main |

## Employee representatives

**Frank Bsirske** – Member of the Supervisory Board since July 20, 2010

| Function | Company |
|---|---|
| Deputy Chairman of the Supervisory Board | Deutsche Lufthansa AG, Cologne |
| Deputy Chairman of the Supervisory Board | RWE AG, Essen |
| Member of the Supervisory Board | IBM Central Holding GmbH, Ehningen |
| Member of the Board of Supervisory Directors | Kreditanstalt für Wiederaufbau, Frankfurt am Main |

**Michael Sommer** – Member of the Supervisory Board until June 30, 2010

| Function | Company |
|---|---|
| Member of the Supervisory Board | Deutsche Telekom AG, Bonn |
| Member of the Board of Supervisory Directors | Kreditanstalt für Wiederaufbau, Frankfurt am Main |

| Wilfried Anhäuser | |
|---|---|
| Function | Company |
| Member of the Supervisory Board | Postbank Filialvertrieb AG, Bonn |

| Rolf Bauermeister | |
|---|---|
| Function | Company |
| Member of the Supervisory Board | Deutsche Post AG, Bonn |

| Annette Harms | |
|---|---|
| Function | Company |
| Member of the Supervisory Board (until October 6, 2010) | Deutsche Post AG, Bonn |

| Timo Heider | Member of the Supervisory Board since July 1, 2010 |
|---|---|
| Function | Company |
| Deputy Chairman of the Supervisory Board | BHW Bausparkasse, Hamelin |
| Deputy Chairman of the Supervisory Board | Pensionskasse der BHW Bausparkasse, Hamelin |

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

| Torsten Schulte | Member of the Supervisory Board until June 30, 2010 |
|---|---|
| Function | Company |
| Deputy Chairman of the Supervisory Board | BHW Holding AG, Hamelin/Berlin |
| Member of the Administrative Board | Sparkassenzweckverband der Sparkasse Weserbergland, Hamelin |

| Gerd Tausendfreund | |
|---|---|
| Function | Company |
| Member of the Supervisory Board | BHW Bausparkasse AG, Hamelin |
| Member of the Supervisory Board | Betriebs-Center für Banken AG, Frankfurt am Main |

| Renate Treis | |
|---|---|
| Function | Company |
| Member of the General Assembly of Members | Erholungswerk Post, Postbank, Telekom e.V., Stuttgart |

**Responsibility Statement**

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

Bonn, February 22, 2011
Deutsche Postbank Aktiengesellschaft

The Management Board

Stefan Jütte

Mario Daberkow | Marc Hess

Horst Küpker | Michael Meyer

Hans-Peter Schmid | Ralf Stemmer

**Auditors' Report**

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Deutsche Postbank AG, Bonn, for the business year from January 1 to December 31, 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Düsseldorf, February 23, 2011

PricewaterhouseCoopers
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Burkhard Eckes | Christoph Theobald |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# Contacts

Published by

Deutsche Postbank AG
Head Office
Investor Relations

Friedrich-Ebert-Allee 114–126
53113 Bonn, Germany

Postfach 40 00
53105 Bonn, Germany

Phone: +49 228 920 - 0

Investor Relations

Phone: +49 228 920 -18003
E-mail: ir@postbank.de
www.postbank.com/ir

Design and layout

EGGERT GROUP, Düsseldorf

Coordination/editing

Postbank
Investor Relations

Translation

Deutsche Post Corporate Language Services et al.

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

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

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