2016

POSTBANK GROUP ANNUAL REPORT

Postbank

POSTBANK GROUP IN FIGURES 2016

		Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015[1]
Consolidated income statement			
Total income	€m	3,320	3,143
Administrative expenses	€m	–2,853	–2,593
Profit before tax	€m	307	584
Consolidated net profit	€m	317	611
Adjusted profit before tax[2]	€m	468	523
Cost/income ratio	%	85.8	80.3
Return on tangible equity			
before tax	%	6.0	12.5
after tax	%	6.2	13.1
Earnings per share[3]	€	1.45	2.79

		Dec. 31, 2016	Dec. 31, 2015[1]
Consolidated balance sheet			
Total assets	€m	147,197	150,501
Liabilities due to customers	€m	118,918	119,150
Loans and advances to customers	€m	102,003	98,937
Allowance for losses on loans and advances	€m	998	923
Equity	€m	7,226	7,164
Common Equity Tier 1 capital ratio regular phased-in	%	14.2[4]	13.7
Common Equity Tier 1 capital ratio fully phased-in	%	12.4[4]	11.5
Leverage ratio regular phased-in	%	4.1[4]	4.1
Leverage ratio fully phased-in	%	3.4[4]	3.4
Headcount (FTEs)		18,112	14,758
Long-term rating			
Fitch		BBB+ Outlook stable	BBB+ Outlook evolving

[1]Figures adjusted (see Note 6)
[2]The adjustments are shown in the Group Management Report in the section entitled “Results of operations, financial position, and net assets.”
[3]Based on 218.8 million shares
[4]Factoring in the consolidated net profit for fiscal year 2016

digital & personal

Postbank

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Ladies and gentlemen,

Once again the whole banking industry and of course Postbank look back on an intense year marked by an adverse market environment. Nevertheless we were able to expedite the execution of our strategy and to complete key tasks on schedule. In addition, we took important steps toward achieving an equal balance between customer loans and deposits, and greater efficiency as a bank overall, one that is available to its customers both personally and digitally.

Despite the historically low interest rate level, continually increasing regulatory demands, and tough competition, we have been able to hold our own – generating an adjusted profit before tax of €468 million following €523 million in 2015. This corresponds to a decline of around 10 %.

Postbank successfully responded to the environment and the resultant negative impact on earnings with a variety of efficiency measures in 2016, with efficiency understood here as a balance between costs and income. In light of the prevailing economic conditions, Postbank reduced its staff capacities by around 3 % in a manner that is socially responsible. On the income side, the introduction of the new checking account model as of November 1 initially had a stabilizing effect. Its full effect will be felt in 2017.

The new account model and the adoption of our new securities strategy, which includes a new advisory concept in 50 securities centers and over 200 advisory specialists, will lead to marked growth in net fee and commission income in 2017.

Our new lending business with retail, business and corporate customers also developed very encouragingly, reaching €19.4 billion and thus 13.6 % more than in the prior year. This new record level was made possible owing primarily to strong growth in new business with installment loans, loans to SMEs, and commercial real estate finance. Thanks not least to gains on the assets side, we have made substantial progress toward our strategic goal of an equal balance between customer loans and deposits in 2016, and were able to reduce the deposit surplus by €3.5 billion compared with last year.

Despite the strong growth in the lending business, we were able to markedly improve our capitalization. The fully phased-in Common Equity Tier 1 capital ratio rose appreciably to 12.4 % following 11.5 % at the end of 2015. We were able to stabilize the fully phased-in leverage ratio at 3.4 %. These figures underscore the stability of our business model in difficult times.

The foundation for this positive performance is our "digital & personal" strategy. Digitization at Postbank also saw substantial progress in 2016. For one thing, we utilized our Postbank Agenda corporate strategy to derive a clear plan for the digital transformation process and have already begun its implementation.

For another, we have already made progress as planned through targeted investments in the development of an integrated digital process model – progress that includes an end-to-end digital process for opening a checking account or obtaining an installment loan and our "Meine Immobilie" home savings and mortgage lending portal. The latter led to an increase in financing volumes transacted online to around €300 million following €120 million in 2015.

The transformation has not been limited to digital customer solutions. It is more than just a process or an app. In 2016, we also set a course for cultural change at Postbank. In addition to establishing a Chief Digital Office to organize the transformation process, we also introduced a new format for generating ideas such as our nationwide "Hackathon" programming roadshow. The digital center that we opened in Bonn in December of 2014 will be gradually transformed into a Digital Factory, where innovative customer solutions and processes will be developed in new working models. And by establishing a Digital Expert Board comprising five top digital experts from industries outside banking, we have ensured that Postbank will be prudently advised during the transformation.

Amidst this intense focus on the digital transformation of our Bank, personal service for our customers remains crucial to us.

Nationwide we continue to offer our services in more than 5,500 finance centers and agencies. We are also pursuing the sustainable modernization of this network and making it efficient. We are investing in 15 sales centers at major locations where we take care of all of our customer groups up to and including our SME customers. We will increase the number of centers to 30 by the end of 2017. In addition to the sales centers, we also pilot tested our "compact" branches in the summer of 2016. We intend to utilize these in the coming years primarily in regions with comparatively low customer volumes. Moreover, we also continued to invest in a customer-friendly self-service infrastructure at our branches and installed some 3,200 ATMS in 2016. Postbank views competitor imitation in this area as confirmation of its branch strategy.

Ladies and gentlemen, in the past fiscal year Postbank took key steps toward securing its future, some of which already had an impact in 2016 or will have one in the near future. In 2017, we will focus primarily on the methodic implementation of our strategy and the achievement of our sales goals. We do not expect the interest level to improve significantly in the short-term even though the bottom has certainly been reached. Thanks to the measures we launched in 2016, we anticipate for 2017 that both net interest income and fee and commission income will grow slightly for the first time in some time. This will likely be felt in a marked increase in adjusted profit before tax.

The aforementioned could not have been achieved without our employees and their willingness to change – employees who energetically serve our customers despite the circumstances and thereby make a substantial contribution to the successful evolution of Postbank. The positivity of our colleagues is also on display in the good satisfaction scores of our people survey from late summer of 2016, which were the highest we have had in a long time. On behalf of the Management Board, I would like to express my heartfelt thanks to the 18,000-plus employees and some 3,000 independent sales agents for the accomplishments of 2016.

Ladies and gentlemen, allow me to give a final piece of information to close. On March 5, 2017, Deutsche Bank announced a modification of its strategy as well as a capital increase. A series of measures will be undertaken including one that involves the merger of Postbank with Deutsche Bank's Private & Business Clients division. Given this change in strategy, the Management Board and the Supervisory Board saw no need to revise Postbank's Consolidated Financial Statements as of December 31, 2016, nor its Group Management Report for fiscal year 2016, that had already been prepared on February 21, 2017.

Bonn, March 23, 2017

Frank Strauss
Chairman of the Management Board

EXECUTIVE BODIES

Management Board

Frank Strauss, Bad Nauheim
Chairman

Marc Hess, Bonn
CFO

Susanne Klöss-Braekler, Munich
Products

Ralph Müller, Bonn
Corporates and Markets

Hans-Peter Schmid, Baldham
Branch Sales
until September 30, 2016

Ralf Stemmer, Königswinter
Resources

Hanns-Peter Storr, Bonn
Risk Management

Supervisory Board

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

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

Rolf Bauermeister[1], Berlin
Head of National Postal Services Group,
at ver.di Trade Union (national administration)
until March 31, 2016

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

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

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

Timo Heider[1], Emmerthal
Chairman of the Group Works Council of
Deutsche Postbank AG and Chairman of the
General Works Council of BHW Kreditservice GmbH

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

Jens Isselmann[1], Bornheim
Executive employee of Deutsche Postbank AG
since December 31, 2016

Hans-Jürgen Kummetat[1], Cologne
Civil servant

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

Karen Meyer, Frankfurt am Main
Global HR Business Partner PWCC&AM,
Deutsche Bank AG
since February 1, 2016

Christian Ricken, Bad Homburg v.d. Höhe
Chief Operating Officer PBC, Deutsche Bank AG
until January 31, 2016

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

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

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

Martina Scholze[1], Munich
Trade union secretary of the ver.di Trade Union
since April 21, 2016

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

Michael Spiegel, London
Global Head of Trade Finance and
Cash Management Corporates Deutsche Bank AG

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

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

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

Wolfgang Zimny[1], Bornheim
Banking lawyer, Head of Department,
Deutsche Postbank AG, Head Office
until December 30, 2016

[1]Employee representatives

BUSINESS DIVISION DEVELOPMENTS IN 2016

Lending business and digitization serve as drivers of growth

In fiscal year 2016, Postbank was once again able to expand its new lending business above the high prior-year level, with a record €19.4 billion. This equaled a gain of €2.3 billion or 13.6 % over last year. In its checking business, Postbank established a new account world with a new price model and introduced a fully digital process for opening accounts that utilizes video legitimation for verifying identities. The expansion of its strong market position both in digital banking as well as in personal contact with customers has given Postbank a solid foundation for its banking future.

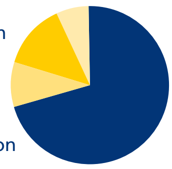
CONSUMER LOANS

+ 8.4 %

In the consumer loan business, Postbank performed better than the market. New business grew (including disbursed home savings loans) 8.4 % to €2.7 billion, while the German market only saw growth of 6.2 %.[1]

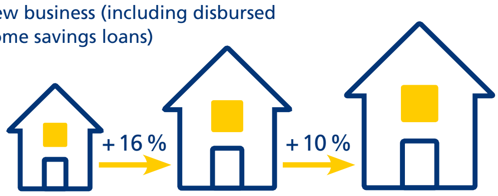
LENDING VOLUME/PORTFOLIO

Postbank was able to expand its lending volume by 3.1 % to €102.0 billion.



MORTGAGE LENDING

New business (including disbursed home savings loans)



2014 **€9.0 billion** | 2015 **€10.5 billion** | 2016 **€11.5 billion**

CHECKING ACCOUNTS

No. 1

With 5.05 million private checking accounts, Postbank remains the largest retail bank on the German market.[2]

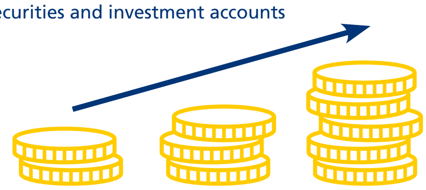
CORPORATE BANKING

Postbank generated 25.8 % more new business with corporate loans (including factoring, leasing, and commercial real estate finance), reaching a total of €5.1 billion.

+ 25.8 %

ASSETS UNDER MANAGEMENT

in securities and investment accounts



2014 **€13.4 billion** | 2015 **€13.9 billion** | 2016 **€15.0 billion**

[1] Deutsche Bundesbank
[2] Financial market data service

Checking accounts successfully repositioned

Despite the Bank's restructuring of its checking account models at the start of November 2016, the number of private checking accounts has remained at over five million, showing that customers overall have responded to the change with objectivity and general understanding. More than 170,000 of them have already switched to the new *direkt* model, which has been specially designed for users who prefer to do their banking online. In addition to introducing a new price model aimed at stabilizing the income side in the low interest rate environment, Postbank has also offered a second central innovation in the Bank's checking business since August 2016: An end-to-end digital process for opening accounts. The new process for opening checking accounts affords real advantages to new customers as well as the Bank and also enhances the shopping experience.

Nearly 360,000 recently opened checking accounts confirm yet again Postbank's attractive positioning in the competitive arena. A recent test conducted by the financial publication FOCUS-MONEY (7/2017 edition) declared that Postbank's new account world offers "the best checking account nationwide with online and branch access", a distinction confirming Postbank's successful orientation on customer behavior.

Customer deposits stable – savings business on a downward trend

Deposit volumes in Postbank's core business (excluding home savings deposits), at €100.1 billion, showed little change compared with the end of the prior year. The savings products among those volumes decreased markedly by around €3.3 billion or 7.8 % year-on-year to €38.6 billion. The decline could be offset by a rise in demand deposits by circa €3.7 billion or 8.5 % to €46.8 billion. The focal point of Postbank's savings offer continues to be the "Postbank SparCard Rendite plus," a traditional and transparent savings offer in card form. The savings volume of this product, including the online variant, "Rendite plus *direkt*", amounted to €7.4 billion at the end of 2016.

Consumer credit business still outperforming the market

In fiscal year 2016, new consumer credit business repeated its satisfying performance by outstripping the prior-year figure once again thanks to gains of more than €0.2 billion or 8.4 %. For all German banks, the Deutsche Bundesbank reported an increase in consumer credit growth for 2016 of 6.3 %, a figure showing that Postbank's new business continues to outperform the market. The online sales channel for these loans once again proved to be of special significance by generating some €0.9 billion or 34.9 % of total new volumes. Compared with the prior year, the Postbank brand's new business performed very well, achieving growth of €0.1 billion or 6 %. Sales of the DSL Bank brand also led to a substantial boost in new volumes year-on-year, climbing €0.1 billion or 13 %. Thanks to this strong new business across all sales channels, the consumer credit portfolio also continued to grow without compromising portfolio quality. At more than €7.4 billion as of December 31, 2016, it was up about €0.8 billion or 12.9 % over the corresponding prior-year figure.

In the consumer credit test conducted by FOCUS-MONEY (25/2016 edition) in cooperation with the Deutsche Finanz-Service Institut (DFSI – German Financial Services Institute), Postbank was once again named overall winner.

Home savings business: Subdued new business in a declining market environment

New total home savings written reached volumes of around €9.1 billion in fiscal year 2016, €1.3 billion or 12.4 % below the prior-year level. Business here was fueled primarily by €5.2 billion generated by Postbank Finanzberatung. New business in the Postbank branches fell slightly to €1.9 billion. This result, however, gave BHW Bausparkasse small market share gains in a declining market environment. Home savings deposits shrunk by just under €0.5 billion or 2.8 % to €18.8 billion, an outcome amongst others driven by utilization of matured home savings contracts.

The ratio of tariffs with low deposit and loan interests to total revenue also increased. This gain underscores the high value of home savings as a building block of financing. In the segment of tariffs with high deposit and loan interests, BHW Bausparkasse responded to the continuing low interest rate levels by modifying its product portfolio accordingly. In a recent study on customer satisfaction conducted by FOCUS-MONEY (20/2016 edition), Postbank subsidiary BHW Bausparkasse AG was once again rated as "excellent" overall. The list of pleasing distinctions continued to lengthen in 2017 as well: "BHW FörderBausparen Flex", Postbank's government-supported home savings offer ("Wohn-Riester"), was ranked number one in the latest rate comparison conducted by FOCUS-MONEY (3/2017 edition).

New business in mortgage lending exceeds record level of 2015

New business volumes including disbursed home savings loans surpassed the record-breaking prior-year figure by expanding by nearly €1.1 billion or 10.0 % to over €11.5 billion in fiscal year 2016. In its brokerage business, in which Postbank is positioned as a "partner bank to financial service providers" under the DSL Bank brand, volumes amounted to €7.1 billion, €0.7 billion more than the prior-year figure. BHW was also able to expand its new business (including disbursed home savings loans) by approximately €0.4 billion compared with the prior year to €4.4 billion. In light of the Mortgage Credit Directive in particular, which was introduced in March 2016 and led new business on the German market to decline by 3.6 % in that same year, this volume expansion can be viewed as an impressive success.

Given tough regulatory requirements for private mortgage lending, the positive new business trend was sustained substantially by extraordinarily favorable financing terms and conditions and dedicated sales activities. The successful combination of a digital approach to customers with personal financing advisory services generated additional mortgage lending and home savings volumes in the amount of nearly €0.3 billion.

The private mortgage loan portfolio (excluding home savings loans) rose to €69.0 billion (prior year: €68.8 billion), the persistent heightened readiness of existing customers to repay notwithstanding. This achievement was based above all on new business generated by DSL Bank in private mortgage lending, which was continually brisk and led to a €1.5 billion portfolio gain, on a marked increase of the extension rate for loans with expiring fixed interest rates, and on loans already disbursed from the pool of high new business volumes. In addition a large proportion of loan commitments that will have an impact on the portfolio in the short to mid-term are still in the preparatory phase.

In a mortgage lending test conducted by the financial consulting company Finanzberatung Max Herbst (FMH) in cooperation with the German television news agency n-tv, Postbank and DSL Bank received the 2017 FMH Award for achieving first place as the best mortgage lender nationwide for loans with fixed interest rates of 15 years.

Securities and retirement provisions business gains significance as key source of fee and commission income

At the end of the year, the Bank implemented both a new securities strategy in the personal channel in the form of a new integrated advisory process and initial measures in the digital channel. These steps were taken so that Postbank could offer customers advisory services on capital market-oriented products with attractive opportunities of returns even in a low interest rate environment. Assets under management in securities and investment accounts expanded by €1.1 billion or 8.0 % to €15.0 billion. At the same time, the number of securities accounts rose above the 600,000 mark, which corresponded to a nearly 5.9 % rise. New business with investment funds held steady at €1.7 billion compared with the prior year. A clear trend toward investments in exchange traded funds (ETFs) became apparent here. Postbank has adopted this trend and will expand its offer to include ETF savings plans in 2017.

With regard to sales in the non-life insurance business with cooperation partner HUK-COBURG insurance group, Postbank benefited from more efficient advisory processes and optimized offers. In the insurance business with PB Versicherung the Bank also successfully optimized its measures related to product structure and advisory processes to meet the requirements of the *Lebensversicherungsreformgesetz* (LVRG – German Life Insurance Reform Act).

Corporate Banking maintains positive trend

Postbank's long-term strategic orientation on German small and medium-sized enterprises (SMEs) in connection with a continuingly low allowance for losses on loans and advances invigorated its corporate banking business. New business with corporate loans grew by more than €1.0 billion or 25.8 % to just under €5.1 billion, leading the portfolio to expand strongly to €16.2 billion.

In commercial real estate finance, Postbank focuses on the financing of existing properties for professional real estate investors. New business in fiscal year 2016 grew considerably by 18.5 % or €0.5 billion to more than €3.3 billion. Postbank was able to expand its commercial real estate finance portfolio to nearly €7.7 billion (prior year: €6.7 billion). PB Factoring GmbH defended its position as a key player on the market and once again markedly enlarged its portfolio volume year-on-year, here by €0.2 billion to more than €3.2 billion.

In the area of payment transactions, Postbank once again managed to boost the number of transactions processed for its main target group of German SMEs by around 5 million year-on-year to 777 million. Business and corporate customer deposits, at €8.9 billion by the end of 2016, rose markedly above the prior-year figure of €7.9 billion owing essentially to an increase in demand deposits.

To support its small and medium-sized customers with their digitization investments in particular and to demonstrate its reliability as a partner in this digital transformation, Postbank created a special loan program in mid-2016 with volumes of €500 million, called "Digitizing German SMEs". In the meantime those volumes have been almost fully utilized. In addition, Postbank was able to increase customer satisfaction for the third time in a row to a TRI*M Index of 76.

Financial Markets secures customer business margins

The Financial Markets business division performs the Postbank Group's money market and capital market activities. Its responsibilities include hedging net interest margin contributions from the customer business by managing interest rate risk and market risk and managing the liquidity position of the Postbank Group.

A particular challenge in this area is the disposal of the deposit surplus in a negative interest rate environment. Postbank is currently striving to reduce its money market assets through portfolio growth in the lending business, and has placed a particular focus on the disposal of short-term money market investments on its path toward balanced assets and liabilities in the customer business. At the same time, this business division supports efforts related to reducing risk-weighted assets, with the aim of improving the relevant regulatory key figures. Year-on-year, it has been able to reduce loans and advances to other banks successfully by €2.8 billion to €13.1 billion. Postbank was also able to reduce investment securities successfully by €4.0 billion to €26.8 billion, a move that led to a positive net income from investment securities and an improved Common Equity Tier 1 capital ratio.

Non-Core Operating Unit successfully reducing risks

Portfolios in the Non-Core Operating Unit have been further scaled down since December 31, 2015. The assets allocated to this segment, which primarily consist of selected investment securities holdings, specific international activities, and products from the customer business that are no longer offered for sale, were reduced from €8.9 billion to €6.3 billion.

The reduction of liabilities, some of which are high-interest, continued with a decrease from €25.2 billion at the end of 2015 to €21.3 billion as of December 31, 2016.

REPORT OF THE SUPERVISORY BOARD

Ladies and gentlemen,

During fiscal year 2016, Deutsche Postbank AG (hereinafter also referred to as Postbank) performed well against its competitors despite challenging business conditions. Historically low yield levels, narrow margins, and increased costs for deposit protection had a negative impact on the business performance of the German banking and financial services industry in the past fiscal year. Moreover, the monetary policies of the European Central Bank seem to indicate that interest rates will continue to remain low in the coming years as well.

In 2016, Postbank countered the persistently challenging market environment and the continuing low interest rate levels by implementing numerous measures such as the reorganization of its account model and the introduction of a new securities strategy whose full positive impact on profit will first be felt in the coming periods. Nevertheless, Postbank achieved satisfying results in a difficult capital market environment. The palpably improved allowance for losses on loans and advances and slightly lower administrative expenses – taking into consideration the administrative expenses that would have been attributed to the service companies in the prior-year period – made key contributions to a good outcome in this challenging market.

As part of our intensive and constructive working relationship, the Management Board informed us in a regular, timely and comprehensive manner during fiscal year 2016 about all issues concerning the Company's strategy, planning, the financial and economic performance of the Bank, the risk position, the risk management system, the internal control system, and compliance. Together with the Management Board, we also discussed changes to the remuneration system, strategic measures, and regulatory developments, as well as important business transactions and projects. Deviations between the course of business and the plans and targets in individual segments were explained to us and reasons given. We discussed at length the Company's strategic focus as well as all measures requiring the approval of the Supervisory Board that were presented to us. Where required by law, the Articles of Association

or the Bylaws, we voted and passed resolutions after thorough examination and discussion. When it was necessary to consider issues outside regularly scheduled meetings, decisions were made by means of written procedures. In addition, the Chairs of the Supervisory Board, the Audit Committee, and the Risk Committee were also informed between Supervisory Board meetings by the Management Board about important business transactions and forthcoming decisions. The Chairman of the Supervisory Board also stayed in constant touch with the Chairman of the Management Board.

Main subjects of discussion by the Supervisory Board

The Supervisory Board held a total of five regularly scheduled meetings during fiscal year 2016. In all meetings of the Supervisory Board, we were informed by the Management Board about the Bank's current economic and business situation, the performance of the individual business divisions, risk development, and risk management, as well as new statutory and regulatory requirements. During a one-day closed meeting, we joined the Management Board in taking a close look at Postbank's business and risk strategies and then thoroughly discussed these issues.

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

In fiscal year 2016, all Supervisory Board members attended at least half of the meetings of the Supervisory Board and its committees.

During the regularly scheduled meeting held on February 1, 2016, we resolved on the Management Board's target achievement in fiscal year 2015 and also elected a new Chair of the Audit Committee.

During the financial statements meeting held on March 22, 2016, we approved the 2015 annual and consolidated financial statements of Postbank. This step was taken after our own thorough deliberation, examination and earlier discussion with the auditor, and reflects the recommendation of the Audit Committee. To that end, the Management Board and the auditor also informed us during the meeting about key findings in 2015. In addition, we resolved on the Report of the Supervisory Board to the Annual General Meeting in accordance with sections 171(2) of the *Aktiengesetz* (AktG – German Stock Corporation Act) and the Annual Corporate Governance Statement as well as the Corporate Governance Report. Using current mid-term planning as our basis, we passed a resolution on the 2016 targets of the Management Board. As part of equity investment-related issues, a decision was made in accordance with section 32 of the *Mitbestimmungsgesetz* (MitbestG – German Co-Determination Act) to formally approve the conduct of office of the respective Management Boards and Supervisory Boards of Postbank Filialvertrieb AG and BetriebsCenter für Banken AG. Other issues addressed by the Supervisory Board during the meeting included the risk position of the Bank as a whole, the human resources and social report and the annual report of internal audit. The Supervisory Board and the Management Board also jointly examined and discussed the status of key ongoing projects. At this meeting we also approved motions on the agenda items for the Annual General Meeting on April 5, 2016.

During the Supervisory Board meeting on May 25, 2016, the Management Board informed us of the Bank's business performance in the first quarter of 2016, the current status of the Postbank agenda, and changes to the Management Board's composition that had become necessary. The Management Board also provided information on the risk situation of the Bank as a whole, and we debated and discussed the 2016 compensation control report.

During the Supervisory Board meeting on September 8, 2016, the Supervisory Board was consulted on the appointment of a new compensation control officer. An updated compensation control report and a supplement to the compensation control report were also presented to the Supervisory Board. In addition, we discussed the conditions of a Management Board member's termination agreement effective September 30, 2016, and passed a corresponding resolution. The Management Board also informed us about the Bank's business performance in the second quarter of 2016. In addition, the Management Board presented the human resources and social report as well as the overall bank risk report and an update on the Postbank agenda.

In its last meeting of the year held on December 9, 2016, the Supervisory Board focused on business performance, business planning for 2017, the risk position of the Bank as a whole, Postbank's business and risk strategy, and the efficiency test in line with section 25d(11) sentence 2, number 4, of the *Kreditwesengesetz* (KWG – German Banking Act). We also were informed about the 2016 vertical remuneration comparison. Together with the Management Board, we discussed Postbank's business and risk strategy for 2017.

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

Conflict of interest

No conflicts of interest of Supervisory Board members were reported in fiscal year 2016. The Supervisory Board is also not aware of any such conflicts.

Work of the committees

To carry out its work in fiscal year 2016, the Supervisory Board of Postbank formed seven committees.

The following members serve on the Supervisory Board and its committees:

Members of the Deutsche Postbank AG Supervisory Board and its committees

Supervisory Board

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

Executive Committee (section 11 of the Supervisory Board Bylaws)

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

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

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

Risk Committee (section 12 of the Supervisory Board Bylaws)

Michael Spiegel (Chair)	Timo Heider
Edgar Ernst (Deputy Chair)	Jens Isselmann
Stefanie Heberling	Bernd Rose

Nomination Committee (section 15 of the Supervisory Board Bylaws)

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

Audit Committee (section 13 of the Supervisory Board Bylaws)

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

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

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

Mediation Committee (section 17 of the Supervisory Board Bylaws)

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

The Executive Committee, among other things, is responsible for preparing the appointment and withdrawal of members of the Management Board with due consideration for the recommendations of the Nomination Committee, preparing the financial statements, amending and terminating the employment contracts for members of the Management Board, and granting loans to members of the Management Board and Supervisory Board. It is also responsible for preparing decisions related to corporate governance, the monitoring of compliance with the Declaration of Conformity, special issues of overriding importance, and fundamental questions about the Company's strategic direction. The committee met four times during the year under review.

The meetings focused on such things as the further development of governance as well as loans to members of executive bodies of the Postbank Group. During its meetings, the Executive Committee also prepared resolutions for the Supervisory Board and approved the assumption of offices by Management Board members in other companies.

The Risk Committee is responsible for monitoring risk appetite, profile and strategy as well as consultation related to these areas. It also addresses fundamental questions related to the remuneration system and the setting of terms and conditions in the customer business. Its decisions touch on the issuance of loans to members of executive bodies, key loan decisions, special investment decisions, and fundamental issues related to the issuance of loans. The Risk Committee met five times in 2016, with one meeting held together with the Audit Committee. During those meetings in the past fiscal year, the Management Board provided regular comprehensive information to the Risk Committee on developments related to key financial figures and risk indicators. In line with its remits, the committee discussed the current market environment and the respective risk situation and made decisions on the approval of new loans, the extension of existing loans and increases in the lending limits for various individual loans and credit facilities. The Risk Committee also conferred with the Management Board on the risk strategy, the portfolio strategy and structures as well as measures to manage risks. Moreover, the committee intensively discussed changes to regulatory requirements in order to derive measures to improve risk management and risk culture. In this context, the committee examined the way in which remuneration system incentives take into account the risk, capital and liquidity structures, and discussed whether terms had been defined adequately in the customer business. To be able to efficiently advise the Supervisory Board and the Management Board with regard to overarching topics, the Risk Committee worked closely with the Audit Committee.

The Audit Committee is assigned the issues of accounting, risk management, compliance, internal audit, the internal control system and audit of the financial statements. It met seven times in the period under review, with one meeting held with the Risk Committee. The meetings – at which the auditor was present – focused on providing extensive support to the examination of the annual and consolidated financial statements for 2015 and interim reports as well as discussions of accounting. The half-yearly report and the interim management statements for 2016 were discussed with the Management Board before their release. During the period under review, the Audit Committee examined the effectiveness of Postbank's risk management system, the internal control system, and the audit system. The committee was involved in the issuance of audit contracts and defined the focal points for the audit of the annual financial statements for the fiscal year. In the process, the committee assured itself of the autonomy of the auditor. During its seven meetings in 2016, the committee also conducted a thorough examination of the findings of the auditor, the work of Internal Audit, questions regarding compliance, accounting and legal risks, as well as of special reviews that had been conducted and objections raised by supervisory authorities. The committee intensely supported the handling of the examination findings during the entire reporting year. The Management Board regularly informed the Audit Committee about changes in regulatory conditions and their impact on Postbank as well as about the implementation status of projects launched in connection with these issues. The committee prepared its own resolutions when necessary or submitted a resolution recommendation to the Supervisory Board.

The Human Resources Committee addresses the structures of Deutsche Postbank AG's human resources activities and the principles of human resources development. The committee met twice in fiscal year 2016. In those meetings, the human resources reports of the Management Board focused on the human resources strategy and development within the Group. In this regard, issues such as diversity, the age structure, and demography at Deutsche Postbank AG, planned educational and training concepts including talent management, and information on personnel cost and workforce management were addressed. The committee also discussed the results of the 2016 people survey as well as the subject of employee delegation to the Bundesamt für Migration und Flüchtlinge (German Federal Office for Migration and Refugees).

The Nomination Committee prepares the recommendation of the Supervisory Board for the election or appointment of shareholder representatives to the Supervisory Board by the Annual General

Meeting. The committee also assists the Supervisory Board with the task of identifying candidates for the Management Board and senior management positions as well as of complying with related principles. It defines the goals related to the composition of the Supervisory Board and monitors the achievement of these goals. In addition, the Nomination Committee regularly examines the structure, size and composition of the Management Board and Supervisory Board. It also evaluates the expertise, skills and experience of individual board members as well as the respective board as a whole. In fiscal year 2016, the Nomination Committee met six times. The meetings took a detailed look at restructuring the retail customer business to further improve its orientation on customers and create the structural and staff-related prerequisites for further growth in that business. The meetings also discussed the preparation of election proposals for the Annual General Meeting for the election of shareholder representatives to the Supervisory Board as well as succession planning of the Supervisory Board and the Management Board. As part of an evaluation and an examination of efficiency, the committee focused intently on the structure, size and composition of the Management Board and Supervisory Board as well as the expertise, skills and experience of individual board members and the respective board as a whole.

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

The Compensation Control Committee helps the Supervisory Board monitor the appropriate structure of the remuneration systems for the Management Board and employees and in particular compensation received by the heads of the Risk Control and Compliance functions. Furthermore, it prepares proposals for resolutions on the remuneration of senior managers in terms of the impact these decisions will have on Postbank's risk position and risk management. It ensures that the internal control units and all other important units are included in the structuring of remuneration systems. The committee met five times in the fiscal year. The discussions focused on such things as the appointment of a new compensation control officer. The committee also extensively discussed the reports of the compensation control officer. In addition to discussing the target achievement of the Management Board for fiscal year 2015 and the Management Board targets for fiscal year 2016, the committee also intensively deliberated the remuneration of Management Board members and the standards for comparing remuneration.

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

Audit of the annual and consolidated financial statements

The auditor elected by the previous year's Annual General Meeting – Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf – audited the accounting, the annual financial statements of Deutsche Postbank AG, and the consolidated financial statements, including the respective management reports, for fiscal year 2016 and issued an unqualified audit opinion for each one.

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

Deutsche Postbank AG's annual financial statements, the consolidated financial statements, the management reports, and the auditors' reports were made available to all Supervisory Board members and were examined by us. Since there was no distributable net retained profit for the year under review, the Management

Board did not submit to the Supervisory Board a proposal for the appropriation of that profit. Rather the net profit for the period as reported in the single-entity financial statements on the basis of the HGB had already been transferred to DB Finanz-Holding GmbH pursuant to the control and profit and loss transfer agreement.

The discussions were conducted in the presence of representatives of the auditor. They reported on the execution and key findings of the audit during the Supervisory Board meeting on March 22, 2017, and were available to provide supplemental information and answer questions. During that meeting, the Chairman of the Audit Committee reported on the results of that committee's examination of the annual and consolidated financial statements from March 10, 2017. We concurred with the results of the audit of the annual financial statements and the consolidated financial statements. The final results of our own examination did not give rise to any objections to Deutsche Postbank AG's annual financial statements or the consolidated financial statements.

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

Changes in the Management Board and Supervisory Board

In fiscal year 2016, the following changes were made to the Management Board:

Hans-Peter Schmid resigned from his office as member of the Management Board of Deutsche Postbank AG as of September 30, 2016.

The following changes were made to the Supervisory Board:

Christian Ricken resigned from his office as of the end of January 31, 2016. On February 1, 2016, the Annual General Meeting confirmed Michael Spiegel as a member of the Supervisory Board and elected Karen Meyer as shareholder representative and successor to Christian Ricken on that same board.

Rolf Bauermeister resigned from his office on the Supervisory Board effective as of the end of March 31, 2016. Wolfgang Zimny also stepped down from the Supervisory Board effective as of the end of December 30, 2016, owing to his retirement. As successor to Rolf Bauermeister, Martina Scholze, Munich, was appointed by the court as a member of the Supervisory Board of Deutsche Postbank AG. Jens Isselmann joined the Supervisory Board of Deutsche Postbank AG as the elected deputy of Wolfgang Zimny. Finally, Renate Treis stepped down from her position on the Supervisory Board effective as of the end of February 28, 2017, owing to her retirement.

We would like to thank our departing members of the Management Board – Hans-Peter Schmid – and those of the Supervisory Board – Christian Ricken, Rolf Bauermeister, Wolfgang Zimny, and Renate Treis – for their dedicated work on the respective boards and the constructive support they provided to the Company in the past months and years.

Corporate governance

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

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

Bonn, March 22, 2017

The Supervisory Board

W. Steinmüller

Werner Steinmüller
Chairman

POSTBANK GROUP MANAGEMENT REPORT

BUSINESS AND ENVIRONMENT

Corporate profile and business model of the Group

Corporate profile

Postbank has been part of the Deutsche Bank Group, Frankfurt am Main, since December 3, 2010. On its journey to independence Postbank has succeeded with efforts to create in fiscal year 2016 the general framework for technical and operational deconsolidation from Deutsche Bank. These efforts have been based on the results of internal projects and constitute a necessary prerequisite for the planned deconsolidation on the balance sheet. Deutsche Postbank AG is now positioned in such a way that it will be able to operate independently within a short period of time.

Business model

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

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

Postbank has organized its activities into the business divisions of Retail Banking, Corporate Banking, Financial Markets, and the Non-Core Operating Unit (NCOU):

- In the Retail Banking division, Postbank offers retail customers standardized, reasonably priced banking and financial services designed to meet typical needs. The focal point is placed on the traditional checking account and savings deposit business, home savings and mortgage lending products as well as personal loans. The product range is complemented by Postbank serving as securities account provider, adviser and broker in the areas of securities, investment funds and insurance.

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

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

- The NCOU division manages those portfolios and activities at Postbank that are no longer part of its core strategic direction going forward. To manage these activities in a target-oriented manner and to reduce high-interest liabilities internally, they have been transferred from their original segments into the NCOU segment with its own management responsibility.

Details can be found in the section entitled “Segment reporting.”

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Key locations

The head office of Postbank is located in Bonn. In addition, Postbank operates a national network of branches that had 1,043 Finance Centers in Germany at the end of 2016, as well as a branch in Luxembourg.

The subsidiary BHW Bausparkasse Aktiengesellschaft is domiciled in Hameln.

Fundamental sales markets and competitive position

In retail banking, Postbank conducts its business almost exclusively in Germany and is one of the largest financial service providers in the country. The Bank wants to position itself as a fair and reliable partner in financial questions and excels in the savings and deposit business owing primarily to a demand-actuated offer of checking accounts as well as home savings and investment products. With some 6.4 million retail and business customers who have the option of banking online, Postbank is one of the largest direct banks in Germany. In the lending business with private mortgage loans, Postbank with its DSL Bank and BHW brands is one of the largest mortgage lenders in Germany based on balance-sheet volumes. In its business with private mortgage lending and consumer loans, Postbank continues to grow faster than the German market when it comes to new business volumes. Private retirement provision solutions, diverse insurance products, and the securities business round out the product range for retail customers. In all these areas, Postbank offers some products and services as part of partnerships with fund companies, banks, and insurance companies. The Bank also wants to offer its customers prudent guidance on investments in a low interest rate environment that go above and beyond savings and checking products, and has recently introduced a new securities strategy in connection with a new integrated advisory concept for that purpose.

In its own 1,043 Finance Centers, including the recently established sales centers, Postbank offers both comprehensive banking and financial services as well as Deutsche Post AG services. In addition, the Bank has more than 4,300 Deutsche Post AG partner retail outlets, where customers can access select Postbank financial services, as well as some 700 Postbank Finanzberatung AG advisory centers. Postbank's major competitors in the retail banking business in Germany are providers from the sector of savings banks and cooperative banks as well as several major banks.

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

Group management at Postbank

Non-financial key performance indicators at Postbank

In its Group management, Postbank makes use of financial as well as non-financial key performance indicators. The essential non-financial key performance indicators are measures of employee and customer satisfaction. Both are Group targets within the target system and as such were relevant to the remuneration of all Management Board members in 2016.

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

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

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

Financial key performance indicators

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

[1]In fiscal year 2016, these included projects conducted in the "deconsolidation" and "management agenda" steering committees.

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

The central profitability target for the capital market-oriented management of Postbank is equity costs in the form of a hurdle rate that is derived from return expectations of the capital market. The achievement of this return on equity in accordance with IFRSs is measured for the first time since the start of fiscal year 2016 by return on tangible equity (RoTE) after tax. Postbank's efficiency is measured by the cost/income ratio (CIR), which is the central metric for income and productivity management.

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

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

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

The variable remuneration of Management Board members, executives, and employees at Postbank is closely linked to this management system. It is based on individual targets, divisional targets, and Postbank Group targets measured against an adjusted profit before tax and the associated CIR. As a result of regulatory requirements and the company goal of sustainable success, a sustainability factor is used to calculate the long-term portion of the variable remuneration of the Management Board, risk takers (persons with substantial influence on the Bank's overall risk profile), and our other executives (long-term component). Additional details are provided in the section "Remuneration of the Management Board and the Supervisory Board" and in Note 55 (Related party disclosures) to the Consolidated Financial Statements.

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Management process

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 performed much the way it is on the Postbank Group level, with the exception of the metric for capital resources (CET1 ratio) and the leverage ratio. The latter two metrics are managed exclusively at the Group level. The allocation of equity to the segments is based on their economic risk capital requirements.

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

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

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

DISCLOSURES IN ACCORDANCE WITH SECTION 315(4) OF THE *HANDELSGESETZBUCH* (HGB – GERMAN COMMERCIAL CODE) AND EXPLANATORY REPORT

At the start of 2016, the trading of Deutsche Postbank AG shares was halted on all stock exchanges. Deutsche Postbank AG, as a result, has not been listed since January 14, 2016. Furthermore, as of December 31, 2016, the shares of Deutsche Postbank AG could not be traded on the Company's own initiative on a multilateral trading system – with the result that the following statements are voluntary.

Composition of issued capital

Postbank's share capital amounted to €547,000,000 as of December 31, 2016, 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.

Restrictions that affect voting rights or the transfer of shares

Article 17 of the Articles of Association determines the requirements that must be met to attend the Annual General Meeting and exercise the right to vote as a shareholder. The Company only regards as shareholders those persons entered as such in the share register. Voting rights that arise from the shares in question are excluded by law in those cases described in section 136 of the *Aktiengesetz* (AktG – German Stock Corporation Act). According to section 71b of the AktG, companies derive no rights that may be exercised from the holding of own shares. 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 % of voting rights
On December 31, 2016, Deutsche Bank AG, Frankfurt am Main, held directly and indirectly 100 % of Postbank shares. 79.09 % is held indirectly through DB Beteiligungs-Holding GmbH, which for its part holds Postbank shares indirectly through DB-Finanz Holding GmbH.

Shareholders with special rights
No shares with special rights conveying powers of control were issued.

Type of voting rights control when employees with equity interests do not exercise their control rights directly
If an employee holds shares of Deutsche Postbank AG, he or she will exercise his or her rights of control in the future in the same manner as other shareholders, i.e., in accordance with statutory provisions and the Articles of Association.

Provisions concerning the appointment and dismissal of Management Board members and amendments to the Articles of Association
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). According to statutory provisions, members may be reappointed or their term extended for a maximum of five years in either case. Under Article 5 of the Company's Articles of Association, the Management Board consists of at least two members. In addition, the Supervisory Board determines the number of members of the Management Board and can also appoint a chairperson of the Management Board and a deputy chairperson of the Management Board as well as deputy members.

Under sections 24(1) no. 1 and 25c(1) of the *Kreditwesengesetz* (KWG – German Banking Act), the Bank must demonstrate to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) and the Deutsche Bundesbank in advance of any purposed Management Board appointments that the proposed members are trustworthy, professionally qualified, and will devote adequate time to the performance of board duties. To be considered professionally qualified, such candidates must have managerial experience and sufficient theoretical and practical knowledge of the relevant business areas of the Bank. The national supervisory authority forwards the information with regard to the professional qualifications and the appointment of Management Board members to the European Central Bank (ECB) so that it may perform its duties.

The Supervisory Board, under section 84(3) of the AktG, is entitled to revoke the appointment of Management Board members or the appointment of a chairperson of the Management Board if there is good cause. Good cause includes in particular gross breach of duties, inability to manage the company properly or a vote of no confidence by the Annual General Meeting, unless such a vote of no confidence was made for manifestly arbitrary reasons.

Pursuant to section 45c(1) to (3) of the KWG, BaFin may appoint a special representative and entrust him/her with the tasks and powers of one or more members of the Management Board if such members are untrustworthy or lack the requisite professional expertise or if the institution no longer has the requisite number of Management Board members. If members of the Management Board are not trustworthy or lack the requisite knowledge, or if violations of the principles of the proper conduct of business remain concealed from them or if they have failed to eliminate the ascertained infringements, BaFin can also transfer the tasks and powers of the Management Board as a whole to the special representative. In all these cases, the tasks and powers of the Management Board or the Management Board members concerned are suspended.

If an institution is in danger of failing to discharge its obligations to its creditors or there are grounds for suspecting that effective supervision of the bank is not possible, BaFin can take temporary measures to avert the danger pursuant to section 46(1) of the KWG. In the exercise of this duty, it can also prohibit or limit Management Board members from performing their office. In this case, their function can be fulfilled by the special representative pursuant to section 45c of the KWG.

The Articles of Association of Deutsche Postbank AG 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 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 shareholding majority in addition to a voting majority, resolutions are passed by a simple majority of the share capital represented during the vote. Amendments to the Articles of Association enter into force upon entry into the commercial register (section 181(3) of the AktG).

Powers of the Management Board to issue or repurchase shares
The Management Board is authorized, with the consent of the Supervisory Board, to increase the Bank's share capital on one or more occasions in whole or in part by up to a total of €218.8 million up to May 27, 2018, by issuing new no-par value registered shares against cash and/or non-cash contributions, including mixed non-cash contributions (Authorized Capital I). The shareholders are generally granted preemptive rights. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

The Management Board is also authorized, with the consent of the Supervisory Board, to increase the share capital on one or more occasions in whole or in part by up to a total of €54.7 million in the period up to May 27, 2018, by issuing new no-par value registered shares against cash contributions (Authorized Capital II).

The shareholders are generally granted preemptive rights. The resolution also provides the opportunity for simplified disapplication of preemptive rights in accordance with section 186(3) sentence 4 of the AktG. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

More details on Authorized Capital I and II can be found in Article 4(6) and (7) of the Articles of Association.

Pursuant to a resolution of the Annual General Meeting on July 9, 2014, the Management Board is authorized under agenda item 9a and the conditions described in detail therein to issue profit participation certificates, hybrid bonds, bonds with warrants, and convertible bonds, on one or more occasions, in the period up to July 8, 2019. The aggregate principal amount may not exceed a total of €3 billion. Options or conversion rights may only be issued for shares of the Company with a notional interest in the share capital of up to €273.5 million.

The share capital has been contingently increased by up to €273.5 million by the issue of up to 109.4 million new no-par value registered shares (Contingent Capital). The purpose of the contingent capital increase is to grant rights to the holders of profit participation certificates with warrants or convertible profit participation certificates, bonds with warrants and convertible bonds attached to profit participation certificates, convertible bonds, or bonds with warrants to be issued under agenda item 9a by the Company or by its affiliated companies, on the basis of the authorization granted to the Management Board by resolution of the Annual General Meeting on July 9, 2014. The contingent capital increase can be carried out until July 8, 2019, to the degree that use is made of these rights or that holders with a conversion obligation fulfill that obligation. The new shares shall be issued at the option or conversion prices to be calculated in each case in accordance with the aforementioned authorization. The new registered shares shall carry dividend rights from the beginning of the fiscal year in which they are created as a result of conversion or option rights being exercised or conversion obligations being fulfilled. The Management Board is authorized to determine the further details of the implementation of the contingent capital increase. More details on Contingent Capital can be found in Article 4(8) of the Articles of Association.

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

No material agreements that take effect in the event of a change of control following a takeover bid have been concluded.

Compensation agreements in cases of a change of control

No company compensation agreements in the case of a takeover bid have been concluded with members of the Management Board or employees.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Deutsche Postbank AG (Postbank) hereby publishes the principles used to determine the remuneration of the Management Board and the Supervisory Board. The report also explains the amount of remuneration and structure of the remuneration in accordance with the statutory provisions, German Accounting Standard (GAS) 17 "Reporting on the Remuneration of Members of Governing Bodies," and the recommendations of the German Corporate Governance Code.

Remuneration system for members of the Management Board

Responsibility

The full Supervisory Board is responsible for designing the remuneration system and for setting the remuneration of the individual members of the Management Board. It has been supported in these matters by the Compensation Control Committee. The Committee is primarily responsible for monitoring the appropriate design of the remuneration systems for senior managers and employees, and in particular for the heads of the Risk Control and Compliance units, as well as employees who have a material influence on the Bank's overall risk profile. The Compensation Control Committee assesses the impact of the remuneration systems on risk, capital and liquidity management, prepares the Supervisory Board resolutions on the remuneration of the senior managers, and assists the Supervisory Board in monitoring the proper integration of the internal control functions and all other relevant functions in the design of the remuneration systems.

Structure of the remuneration of the Management Board in fiscal year 2016

The overall structure of the remuneration of the Management Board and the principal components of Management Board contracts are stipulated and regularly reviewed by Postbank's Supervisory Board. This review focuses in particular on the appropriateness of the system's design and on changes that become necessary in response to new legislative and regulatory requirements.

The main goal for the design of the remuneration system and the amount of Management Board remuneration is to remunerate Management Board members appropriately in line with the market and competitors and in accordance with all statutory and regulatory requirements, taking into account members' areas of activity and responsibility, Postbank's overall long-term performance, and the collective and individual performance of the members of the Management Board. The appropriateness of the remuneration of the Management Board in both market terms and within the Postbank Group was confirmed for fiscal year 2014 in a horizontal and vertical remuneration comparison. A vertical remuneration comparison was performed within the Postbank Group for fiscal year 2016, which likewise confirmed the appropriateness of the remuneration; pursuant to a resolution of the Supervisory Board, horizontal remuneration comparisons are conducted at three-year intervals, so that the next comparison is planned for fiscal year 2017.

The aim is for the system to be designed in a way that generates incentive for the members of the Management Board to meet the Bank's objectives, to permanently promote positive corporate development, and to avoid disproportionately high risks. To this extent, the Supervisory Board had already capped the ratio of variable remuneration to fixed remuneration before the statutory maximum ratio was introduced. Postbank's Annual General Meeting approved a ratio for fixed to variable remuneration of 1:2 for the members of the Management Board in the light of the requirements prescribed by section 25a(5) of the *Kreditwesengesetz* (KWG – German Banking Act).

The total remuneration awarded to the members of the Management Board is accordingly broken down into non-performance-related and performance-related components.

a) Non-performance-related components

The non-performance-related components are the base pay (fixed remuneration) and incidental benefits. The base pay is paid out monthly in twelve equal installments. Incidental benefits mainly comprise non-cash benefits in the form of company cars, the payment of insurance premiums, and the reimbursement of business-related expenses including any taxes on these items. Incidental benefits are available to all members of the Management Board equally; however, the amount may vary depending on their individual personal circumstances.

b) Performance-related component (variable remuneration)

The performance-related component is the variable remuneration. The amount of the variable remuneration awarded to the members of the Management Board is dependent on the achievement of quantitative and qualitative Postbank Group, board department and individual goals defined as an agreed target for variable remuneration and is determined on the basis of key performance indicators. For this purpose, uniform Postbank Group goals have been given a weighting of 50 % in the performance measurement. The goals are laid down in a target agreement entered into at the start of each fiscal year (base year). The maximum variable remuneration is capped in individual contracts at 150 % of the agreed target.

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant[1] of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board once again with effect from fiscal year 2015. The purpose of these modifications was to position Postbank as a banking institution independent of the Deutsche Bank Group in the future and, in this connection, to establish the right incentives in the structure of the deferral system. This has been agreed with the individual members of the Management Board by amending their employment contracts accordingly.

Variable remuneration for 2016: grant, performance, deferral and forfeiture provisions

The award arrangements for the variable remuneration fixed were modified with effect on the variable remuneration for 2014 and modified again for 2015 due to Deutsche Bank's changed strategic plans with respect to Postbank's positioning. It was therefore not necessary to change the award arrangements again for fiscal year 2016.

Variable remuneration is largely granted in deferred form and spread over several years in accordance with the regulatory and bank-specific requirements applicable in each case. This ensures a long-term incentive effect over a period of several years.

In accordance with the requirements of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions), at least 60 % of the total variable remuneration is granted on a deferred basis. Furthermore, the deferral matrix established in the Deutsche Bank Group, which may lead to a higher percentage of deferred remuneration depending on the amount of the variable remuneration, is applied. In line with this, the upfront portion of the variable remuneration is capped at a total of €225,000 for each member of the Management Board.

Half of the upfront portion of the variable remuneration is awarded in the form of a share-based remuneration component (equity upfront award) and the other half is paid out directly (cash bonus). Half of the deferred portion of the variable remuneration comprises share-based remuneration components (restricted equity award), while the remaining half is granted as a deferred cash payment (restricted incentive award). The value of the share-based remuneration components depends on the performance of Deutsche Bank's shares during the deferral and holding periods. In connection with the share-based remuneration components to be granted for fiscal year 2016, contracts have already been signed providing for the Deutsche Bank share awards which have not yet been allocated as of that date to be converted into Postbank share awards or another value-based remuneration component in case Postbank is deconsolidated from the Deutsche Bank Group. In this way, the performance of the deferred remuneration components remains linked to the performance contributions made by the members of the Management Board.

Equity upfront award

The non-deferred component of the share-based remuneration is awarded to members of the Management Board in the form of an equity upfront award (EUA). The EUA vests immediately but is subject to a further holding period during which the performance, deferral and forfeiture provisions outlined below apply. The holding period for the EUA granted for fiscal year 2016 is twelve months. At time of publication, the EUA is granted as Deutsche Bank shares on the expiry of the holding period.

Restricted equity award

The deferred component of the share-based remuneration takes the form of a restricted equity award (REA). The REA is subject to a three-year holding period and vests in a single tranche ("cliff vesting").

Following the above deferral period, there is a twelve-month holding period for all members of the Management Board before the share-based remuneration components at time of publication are granted as Deutsche Bank shares. Special performance, deferral and forfeiture provisions, which are described separately below, apply during the deferral period and, where applicable, the holding period.

For fiscal year 2016 this means that, in light of the performance, deferral and forfeiture provisions, none of the

[1]In this connection, "grant" refers to the splitting of the variable remuneration defined for the year under review into separate remuneration components and the prospect of the defined variable remuneration in these remuneration components.

members of the Management Board may realize the value of the REA granted for 2016 until 2021 at the earliest (four years after it was defined).

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of EUA and REA will be calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017.

Restricted incentive award

The non-share-based component of the deferred remuneration is granted as a deferred cash payment (restricted incentive award – RIA); this vests in three equal tranches over a period of three years. Special performance, deferral and forfeiture provisions apply during the deferral period. The final tranche of the RIA awarded to members of the Management Board for 2016 will be paid out in 2020 at the earliest.

The above-mentioned awards do not entail entitlements to interest or dividend payments.

Performance, deferral and forfeiture provisions

The EUA, RIA, and REA remuneration components are subject to certain performance, deferral and forfeiture provisions during the deferral and holding periods. These provisions and periods form a core element of the structure of deferred remuneration. They ensure that the awards are aligned with future behavior and performance, and that certain events are also accounted for appropriately in remuneration over the long term. The REA and RIA remuneration components granted on a deferred basis are subject to performance conditions, i.e., clawback provisions linked to the performance of the Postbank Group or the Deutsche Bank Group. Under these provisions, up to 100 % of the outstanding RIA and REA tranches may be forfeited if the Postbank Group and/or the Deutsche Bank Group fail to satisfy the performance conditions relating to profit before tax. This means that up to one-third of the REA granted for 2016 can be forfeited for each year of the deferral period in which the performance conditions are not met. A further performance condition is the Common Equity Tier 1 provision, under which up to 100 % of the REA which has not yet vested is forfeited if at the end of any given quarter prior to the expiry of the deferral period the Common Equity Tier 1 ratio of the Deutsche Bank Group and of the Postbank Group drops below the applicable regulatory minimum capital (including an additional risk buffer of 200 basis points). Reflecting the plans to deconsolidate Postbank from the Deutsche Bank Group, the measurement of compliance with the performance conditions relating to Deutsche Bank's performance is no longer intended from 2017. Postbank's profit and the performance of the members of its Management Board will no longer have any (notable) effect on Deutsche Bank's profit after it has been deconsolidated from the Deutsche Bank Group.

In addition, all remuneration components granted on a deferred basis (REA, RIA) as well as EUA and REA during their holding period are subject to a (partial) clawback, for example if the member of the Management Board breaches internal guidelines or regulatory requirements, or if the conditions for performance are no longer met.

Variable remuneration for 2014 and 2015: grant, performance, deferral and forfeiture provisions

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board again with effect from fiscal year 2015, although no changes were made to the underlying structures. Accordingly, the explanations provided for fiscal year 2016 largely also apply to the conditions for the grant, performance, deferral and forfeiture of variable remuneration entitlement for fiscal years 2014 and 2015. This applies above all to the division of the variable remuneration into the remuneration components cash bonus, equity upfront award (EUA), restricted incentive award (RIA), and restricted equity award (REA). The following specifics must be taken into account.

a) Fiscal year 2015

The number of share awards granted to members of the Management Board in 2016 for fiscal year 2015 in the form of EUA and REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2016 (€15.4705).

The above-mentioned remuneration components for fiscal year 2015 do not entail entitlements to interest or dividend payments.

b) Fiscal year 2014

The number of share awards granted to members of the Management Board in 2015 for fiscal year 2014 in the form of REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the first ten trading days of February 2015 (€27.1080).

Reflecting the responsibilities within the Group structure, different deferral periods apply to the deferred share-based remuneration (REA). As a general rule, the REA granted for fiscal year 2014 vested ratably in three equal tranches over a period of three years. Special rules applied to the members of the Management Board who were also members of Deutsche Bank Group's Senior Management Group in fiscal year 2014 (i.e., Susanne Klöss-Braekler, Frank Strauss, Marc Hess, and Hanns-Peter Storr); contrary to the above, a 4.5-year deferral period applies, after which the awards vest in a single tranche ("cliff vesting"). REA is subject to a uniform holding period of six months following the deferral period. For fiscal year 2014 this means that, in light of the performance, deferral and forfeiture provisions, members of the Management Board who were members of the Senior Management Group cannot realize the value of the REA granted for 2014 until 2020 at the earliest (i.e., five years after it was granted). For the remaining members of the Management Board, the value of the final tranche of the REA can be realized in 2018 at the earliest (i.e., 3.5 years after the REA was granted).

The following (interest) premiums were added to the remuneration components for fiscal year 2014:

- Equity upfront award:
  A dividend equivalent is granted during the holding period.

- Restricted equity award:
  A one-time premium of 5 % is added when the award is granted. Members of the so-called Senior Management Group receive a dividend equivalent.

- Restricted incentive award:
  A one-time premium of 2 % is added when the award is granted.

The forfeiture conditions for the RIA and REA deferred remuneration components provide for benchmarking against the consolidated profit of both the Postbank Group and the Deutsche Bank Group.

Granting and payment of variable remuneration until the end of 2013

Under the remuneration system valid until the end of 2013, the variable remuneration was split into a short-term component (40 %) and a long-term component (60 %). It was not fully paid out in cash, even if the agreed targets were met. There were still outstanding long-term components in 2016 for the remuneration years 2011 to 2013; payment is and/or was due on the agreed dates in accordance with the contractual provisions applicable at the time the components were granted.

The entire long-term component was granted conditionally in accordance with the Postbank Group's sustainable performance, which was determined subject to a sustainability criterion being satisfied during the subsequent three-year assessment period (three calendar years following the base year). This is still to be assessed for the year 2013. In the year immediately following the fiscal year for which the remuneration was to be granted, the Supervisory Board examined and determined whether the targets had been met for that year, and stipulated the sustainability criterion for the assessment period. In the case of the variable remuneration until 2013, this was defined as the adjusted profit after cost of capital (APACC). Sustainable Group performance and the sustainability criterion will have been achieved if the value of the APACC is equal to, or exceeds, or at the end of the sustainability phase cumulatively exceeds on average, the value of the APACC in the base year.

In line with the three-year sustainability phase, the long-term component was divided into three equal tranches. In turn, half of each tranche was paid out in cash and half was converted into phantom shares, or is still to be converted for the year 2013.

If, at the end of each of the years in the three-year assessment period for the remuneration components still outstanding, the Supervisory Board determines that the sustainability criterion has been met, the proportionate cash component is paid out immediately, and the remainder converted into phantom shares, which are converted into a euro amount after the expiry of the twelve-month lock-up period.

If the sustainability criterion is not met for a particular year in the assessment period, payment of the corresponding tranches of the long-term component is deferred to the following year for a renewed examination based on the sustainability criterion. If the sustainability criterion has not been met at the end of the assessment period, the payment of all deferred long-term components lapses without compensation. In this way, remuneration of the Management Board is affected by any negative Company performance during the entire measurement period (negative bonus system). Under an additional negative bonus system, payment for outstanding components can be retroactively reduced or canceled completely based on the overall performance of the Management Board member concerned during the assessment period.

These remuneration mechanisms still affect the deferred remuneration components granted in the years 2011 to 2013 and continue to apply to this extent.

The converted phantom share amounts of the long-term component for base years 2011 (Tranche 3), 2012 (Tranche 2), and 2013 (Tranche 1) were paid out in 2016 after the expiry of the lock-up period. For this purpose, the remuneration components that had been converted into phantom shares of Deutsche Bank AG in 2015 were multiplied by the average Xetra closing price of Deutsche Bank shares on the last ten trading days up to the end of the lock-up period (€17.41). In addition, one tranche of the cash component of the long-term component for each of the base years 2012 (Tranche 3) and 2013 (Tranche 2) was paid out in 2016 upon the sustainability criteria being satisfied. The other halves of the above tranches were converted into phantom shares of Deutsche Bank AG on the basis of the average share price (Xetra closing price) on the last ten trading days preceding March 23, 2016 (€17.47) and are due for payment in 2017 upon expiry of the lock-up period.

No dividend equivalent was calculated for the phantom shares that were blocked on the date of the Annual General Meeting of Deutsche Bank AG in 2016, because Deutsche Bank did not distribute any dividend for 2015.

Other benefits for Management Board members leaving the Company prematurely

Postbank will provide compensation for no more than the remaining term of the contract in cases in which the contract of a member of the Management Board is terminated prematurely other than for good cause, and will limit the payment to a maximum of two annual salaries (severance payment cap).

If the contract of a Management Board member is terminated prematurely as a result of permanent incapacity to work or death, the remuneration (basic remuneration plus variable remuneration) is paid pro rata up to the end of the agreed term of the contract, for a maximum of six months.

In 2016, one Management Board member, Hans-Peter Schmid, left the Management Board prematurely, effective as of the end of September 30, 2016. A severance payment of €625,000 was agreed on the basis of the termination agreement. The severance payment was paid out in October 2016. In addition, the exact amounts of the benefits already set out in the employment contract for this case of termination were specified and the payment dates were determined.

Other provisions

The members of the Management Board are not permitted to use hedging transactions or other countermeasures to mitigate or offset the risk orientation of deferred remuneration components.

The Supervisory Board may award an appropriate special bonus in recognition of exceptional performance, the amount of which is capped by the maximum variable remuneration (150 % of the agreed target).

Remuneration of the Supervisory Board

The remuneration system is laid down in Article 15 of the Articles of Association of Deutsche Postbank AG. In accordance with this article, the annual remuneration of members of the Supervisory Board comprises fixed, non-performance-related remuneration only. The positions of Chairman and Deputy Chairman as well as the membership of committees are reflected in the remuneration.

The fixed annual remuneration (base pay) for each member of the Supervisory Board is €40,000. The Chairman of the Supervisory Board receives double, and the Deputy Chairman receives one-and-a-half times the base pay.

The base pay increases by the following fixed additional annual remuneration for members and chairs of Supervisory Board committees:

Members of the Audit Committee and the Risk Committee receive an additional €30,000 each; the chairs of these committees receive an additional €60,000 in each case. Members of the Executive Committee, the Human Resources Committee, the Compensation Control Committee, and the Nomination Committee each receive an additional €20,000; the chairs of these committees receive an additional €40,000 in each case. No additional fixed remuneration is granted to the members and the chair of the Mediation Committee.

The members of the Supervisory Board are entitled to claim out-of-pocket expenses and any value-added tax expenses incurred in the exercise of their office. In addition, the members of the Supervisory Board receive an attendance allowance of €500 for each meeting of the Supervisory Board and its committees that they attend.

The members of the Supervisory Board receive remuneration and the attendance allowance after the Annual General Meeting to which the consolidated financial statements for the fiscal year concerned are submitted, or that decides on their approval.

Persons who are members of the Supervisory Board and/or its committees for only part of a fiscal year receive the corresponding pro rata amount of remuneration. Remuneration is rounded up or down to full months. Pro rata remuneration for committee positions requires the committee concerned to have met during the corresponding period of time in order to perform its duties.

In line with Deutsche Bank AG's internal policies, Deutsche Bank Group employees do not receive any remuneration for supervisory board positions held at Group companies. The remuneration of employee representatives for their work on the supervisory boards of Deutsche Bank Group companies remains unaffected by this.

For further information on and explanations of the remuneration of both the Management Board and the Supervisory Board, please see Note 55 to the Consolidated Financial Statements.

CORPORATE GOVERNANCE STATEMENT

Setting target values for the percentage of women on the Supervisory Board, Management Board, and management levels

In compliance with the G*esetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst* (German Act on the Equal Participation of Women and Men in Management Positions in the Private Sector and Civil Service), women are given the appropriate consideration when decisions are made to fill managerial positions, make appointments to the Management Board, and compose the Supervisory Board.

Of Supervisory Board members 30 % must be women. Since the Supervisory Board elections in 2003, between 15 % and 35 % of the members of our Supervisory Board have been women. Seven women served on the Supervisory Board during the reporting period, which corresponds to 35 %. As a result, the Supervisory Board has met the set quota.

On September 9, 2015, the Supervisory Board resolved that the Management Board must continue to have at least one woman among its members. The first deadline set for achieving that target is June 30, 2017.

In addition, on August 18, 2015, the Management Board resolved binding target values and deadlines for the percentage of women in the first two management levels below the Management Board: 20 % for each level by June 30, 2017, and 25 % for 2020.

Target values were also set for subsidiaries subject to the law.

EMPLOYEES

At the end of 2016, Postbank employed 18,112 full-time equivalents, 3,354 more than the 14,758 employed as of December 31, 2015. This gain in staff numbers was mainly driven by the expansion of the basis of consolidation to include the service companies, to which 3,901 full-time equivalents were assigned at the end of the prior-year period. Of the total 18,112 employees, 74 civil servants on a full-time equivalent basis have been delegated to the Bundesamt für Migration und Flüchtlinge (German Federal Office for Migration and Refugees – BAMF) in Saarbrücken and are not actively involved in operations at the Postbank Group.

The workforce included 4,495 civil servants on a full-time equivalent basis, which equals some 25 % of the headcount. About 24 % of our employees work part time.

Our external turnover rate – calculated as a departure rate in relation to the number of full-time equivalents at the start of the year – was around 7 % in 2016. The reasons for that figure can primarily be found in early retirement agreements, the start of legal retirement, and the year-end expiration of fixed term employment contracts.

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

SIGNIFICANT EVENTS AT POSTBANK IN 2016

Executive bodies

On February 1, 2016, pursuant to a resolution of the Annual General Meeting, Karen Meyer and Michael Spiegel were elected as shareholder representatives to the Supervisory Board with immediate effect until the close of the Annual General Meeting which resolves upon the approval of actions for fiscal year 2020. Karen Meyer succeeded Christian Ricken, who resigned from office as of the end of January 31, 2016. The designated deputy, Roland Manfred Folz, had decided to resign from his office as deputy and not join the Supervisory Board. Michael Spiegel was appointed as a new member of the Supervisory Board by the Bonn Local Court (Amtsgericht Bonn) on November 17, 2015, pursuant to section 104(2) in conjunction with 104(3) no. 2 of the AktG. He replaces Stefan Krause, who resigned as a shareholder representative from the Supervisory Board. Martina Scholze was appointed to the Supervisory Board as an employee representative by the Bonn Local Court (Amtsgericht Bonn) on April 21, 2016, with her appointment effective from that date. She succeeded Rolf Bauermeister, who resigned from his office as of March 31, 2016. Jens Isselmann joined the Supervisory Board effective December 31, 2016, as a representative of executive staff. He was the designated deputy of Wolfgang Zimny, who resigned from the Supervisory Board as of the end of December 30, 2016, owing to his retirement.

Hans-Peter Schmid stepped down as a member of the Management Board of Deutsche Postbank AG and as Chairman of the Management Board of Postbank Filialvertrieb AG as of September 30, 2016. Frank Strauss has been serving as acting successor for the Board member responsible for branch sales in addition to performing his office as CEO of Postbank.

Changes in the Group

As of January 1, 2016, the following five service companies once again belong to the Postbank Group: Postbank Direkt GmbH, Postbank Service GmbH, Betriebs-Center für Banken AG, VÖB-ZVD Processing GmbH, and BHW Kreditservice GmbH. In organizational terms, these companies – with the exception of Postbank Direkt GmbH – have been assigned to the Cost Centers/Consolidation business division. The activities of Postbank Direkt GmbH are reported in the Retail Banking segment.

REPORT ON ECONOMIC POSITION

OVERALL ECONOMIC PARAMETERS IN 2016

Macroeconomic environment

Global economic growth remains weak

Global economic growth slowed slightly in 2016. This was attributable to weakening economic momentum in the industrialized countries, with average growth in their gross domestic product (GDP) falling to 1.6 %. In contrast, growth in emerging markets remained relatively stable at 4.1 %, although this is still restrained in long-term comparison. At the same time, recessions in several of the large emerging economies eased, due in part to stabilization of raw material prices. Overall, global economic activity rose by just 3.1 % in 2016 as compared to 3.2 % in the previous year. The International Monetary Fund (IMF) had predicted growth of 3.4 % at the start of the year.

The economic upswing in the United States slowed significantly in 2016 in large part as a result of a clear downturn in corporate investments. The very low oil price at the start of the year and the consequently low level of investments in the energy sector played a major role here. Adding to the strain on the economy was a sharp decline in inventory investments. Private consumption, on the other hand, once again grew markedly. Although it lost some momentum, it remained the most important driver of growth. Both exports and imports experienced only minimal growth. All in all, foreign trade did not have a significant impact on growth. In total, GDP growth slowed from 2.6 % in the previous year to 1.6 %. Accordingly, growth remained below the 2.0 % we had anticipated at the beginning of the year. Despite weaker growth momentum, employment in the United States continued to rise, although at a slower pace. The unemployment rate fell moderately at the same time.

The emerging countries of Asia remained the leading economic powerhouses. At 6.3 %, however, GDP growth lagged slightly behind the 6.7 % seen in the previous year. The economy in China continued to slow, with exports falling sharply by 7.7 % year-on-year. Industrial production growth stabilized at the same time, however, although at a moderate level by Chinese standards. GDP growth fell to 6.7 %, the lowest level since the early 1990s. The Japanese economy continued to experience moderate growth. Private consumption and gross capital expenditures both increased moderately. As a result of weak global demand and the strengthening of the yen in the first nine months, growth in exports was very moderate. Overall, this led to a weakening of GDP growth to 1.0 % as compared to the 0.9 % growth we had anticipated.

The economic recovery in the eurozone continued in 2016, driven by domestic demand. According to the available data, private consumption rose 1.7 % while government spending climbed 1.9 %. Gross capital expenditures rose by approximately 2.8 %. In contrast, growth momentum in foreign trade slowed significantly. Exports were more strongly affected by this than imports, leading to a slight negative impact on the economy. Ultimately, this led to a weakening of GDP growth to 1.7 % following growth of 2.0 % in the previous year. The individual countries continued to develop very differently, but did achieve generally positive growth rates. As a result, the annual average unemployment rate fell to 10.0 %, a high level nonetheless.

Europe's economic performance thus largely lived up to our expectations, although the GDP rose more moderately than we had projected at the beginning of the year.

Solid upturn in Germany

The German economy grew continuously in 2016, even through stronger fluctuations. Domestic demand generated strong momentum. As in the previous year, private consumption again increased by 2.0 %, continuing to benefit from a noticeable increase in disposable income. At the same time, the inflation rate remained very low, although it did rise minimally from 0.3 % to 0.5 %. The consequent strong growth in real income enabled private households to keep their savings rate relatively constant, despite growth in consumption. Government spending rose exceptionally sharply by 4.2 %, propelled among other things by additional expenditures associated with caring for and integrating refugees. Growth in gross capital expenditures rose to 2.5 %. Investments in machinery and equipment expanded at a disproportionately low rate of 1.7 %, thus noticeably slower than in the previous year. Uncertainty among companies regarding the British vote to leave the European Union (EU) likely played a role here. In contrast, investments in construction grew strongly by 3.1 %, attributable in particular to a strong 4.3 % increase in residential construction. Exports, on the other hand, grew only moderately by 2.5 % as a result of overall weak global demand. Because of the somewhat stronger growth in imports, foreign trade put a moderate brake on growth. Overall GDP growth of 1.9 % in 2016 was somewhat stronger than in the previous year. The robust upswing had a positive impact on the German labor market. On average, the number of unemployed persons fell by 104,000 to 2.69 million, causing the unemployment rate to drop from 6.4 % to 6.1 %. At the same time, the number of people in the workforce increased by 429,000 to 43.49 million.

In summary, macroeconomic performance in 2016 was largely in line with our expectations at the time of our last Annual Report, although GDP growth was somewhat weaker than we had projected.

Market developments

In 2016, the global financial markets were shaped by political events such as in particular the outcome of the referendum in the UK to leave the EU, changing assessments of global growth prospects, and the different monetary policies pursued by the European Central Bank (ECB) and the U.S. Federal Reserve (Fed). While the ECB continued to pursue a more expansionary monetary policy, the Fed once again slightly raised its federal funds rate.

Prices on the German stock market came under downward pressure at the start of the year. This was caused in particular by concerns regarding the state of the Chinese economy, leading to fear of a noticeable global slowdown in growth. The DAX slipped, tumbling at maximum nearly 19 % between the end of 2015 and February 2016. Following a recovery phase, the outcome of the referendum in the UK triggered yet another setback. This was quickly overcome, however, when the growth concerns associated with the vote initially proved unfounded. Toward the end of the year, share price levels rose sharply buoyed by a marked rise in economic optimism. All in all, the DAX climbed 6.9 % above its year-end level for 2015. The EURO STOXX 50, on the other hand, generated a gain of just 0.7 %. Stock price performance in the United States was substantially better, due in good part to the fact that U.S. markets suffered only a brief negative effect from the outcome of the referendum in the UK. The S&P 500 rose by 9.5 %. The generally positive trend was also reflected in the corporate bond market. Risk premiums for bonds with weak ratings benefited greatly from increasing economic optimism, falling markedly year-on-year, while premiums for highly rated bonds decreased only slightly.

Yield spreads for government bonds from the member states of the European Monetary Union (EMU) once again rose noticeably in 2016, but generally remained at a moderate level by historical standards. The yield spreads of Italian, Spanish and Portuguese government bonds over German Bunds all broadened, but to greatly varying degrees. Portuguese government bonds were most strongly affected, with risk premiums reaching their highest levels since early 2014. This development was driven by the country's continued weak growth in combination with a still high government deficit and ambiguity regarding the government's future economic policy. Italian government bonds meanwhile saw a much more moderate but nonetheless strong rise in risk premiums due to the weak economic recovery in that country and problems in its banking sector. At the end of the year, this situation was further compounded by the uncertainty regarding the referendum for senate reform in Italy, which ultimately failed, and the resulting resignation of the government. Spanish government bonds meanwhile performed much better, although their yield spreads also rose moderately in the first half of the year. Uncertainty was caused both by general factors, such as global economic uncertainty at the start of the year and the British vote within the scope of the referendum in the UK in June on exiting the EU, as well as difficulties associated with forming a new government and sustainable reduction of excessive new debt. At the same time, however, the Spanish capital market profited from the strong continued economic recovery in that country, which extended into the second half of the year as well. Additionally, the political stalemate was overcome in fall and a new government formed. Yield spreads dropped again in this environment. By late 2016 they were only minimally above their closing level for 2015.

The ECB continued to follow an expansionary monetary policy in 2016. In March it put together an extensive package of measures to stimulate lending and bring the inflation rate back to the target value of just below 2 %. The interest rate on the deposit facility was decreased by 0.10 percentage points to –0.40 %, the interest rate on the main refinancing operations by 0.05 percentage points to 0.00 %, and the marginal lending rate by 0.05 percentage points to 0.25 %. The monthly volumes of the ECB's bond purchasing program were increased by €20 billion to €80 billion as of April 2016. At the same time, the minimum term of the program was extended from September 2016 to March 2017. In June, the ECB also for the first time began acquiring bonds issued by corporations outside the banking sector as part of this program. In addition, the ECB decided to launch four new targeted longer-term refinancing operations (TLTRO-2) on a quarterly basis, each with a four-year maturity. The first of these operations took place in June 2016. The interest rate to be paid will initially correspond to the main refinancing rate applicable at the time of allotment. This rate can be reduced to the respective deposit facility rate prevailing at the time if certain criteria are met. In December, the ECB decided to extend the minimum term of its bond-buying program to the end of 2017. Starting in April 2017, however, the monthly purchasing volume will be reduced from €80 billion to €60 billion. As a result of an even more expansionary monetary policy, money market interest rates dropped even further. At the end of 2016, the three-month Euribor was –0.32 %, 0.19 percentage points lower than at the prior year-end.

The U.S. Federal Reserve continued cautiously raising the interest rate in light of the robust upswing on the U.S. labor market and the gradually increasing inflation rate. In December 2016, it raised its federal funds rate by 0.25 percentage points to a range of 0.50 % to 0.75 %.

Capital market interest rates decreased sharply well into the second half of the year, attributable primarily to the most recent expansionary measures by the ECB. The decline was also facilitated by the reluctant stance of the U.S. Federal Reserve, which repeatedly delayed the envisaged and anticipated tightening of its monetary policy due to the uncertain economic situation. At the end of the first half of the year, the situation was further compounded by the outcome of the referendum in the UK to leave the EU. This made German Bunds all the more attractive as a safe haven for investment. Accordingly, the yields of ten-year German Bunds tumbled from 0.63 % in late 2015 to a historic low of –0.19 % on July 8, 2016. Yields subsequently rose again somewhat. The economic fears associated with the outcome of the referendum in the UK were not initially confirmed. In fact, a sense of increasing economic optimism pervaded at toward the end of the year. In addition, the U.S. Federal Reserve raised its federal funds rate, a move felt in European markets as well. By the end of 2016, the yields of ten-year German Bunds were nonetheless 0.42 percentage points below the close of 2015, at 0.21 %. Money market interest rates fell less markedly, leading to a flatter yield curve in Germany. In the United States, the yield of ten-year Treasuries rose slightly. Money market interest rates climbed somewhat more sharply at the same time, leading to a marginally flatter U.S. yield curve.

Despite the further expansionary monetary policy of the ECB, the euro was able to stage a recovery against the U.S. dollar in the first several months of the year: Starting at US$1.09 in late 2015, it rose to US$1.15 by May. Subsequently it came under downward pressure, however, attributable among other things to the outcome of the referendum in the UK. This trend was further strengthened at the end of the year by a significant increase in expectations regarding the U.S. economy as well as by the hike in the federal funds rate from the U.S. Federal Reserve. In late 2016, the euro was trading at about US$1.05, down 2.9 % year-on-year.

The market developments did not reflect our expectations at the time of our last Annual Report. We expected the yields of ten-year German Bunds to end 2016 at a somewhat higher level than they began it. At the same time, we also assumed that ECB key interest rates would remain constant and that the yield curve would steepen moderately.

Sector situation

Further expansion of the low interest rate policy of the European Central Bank, increasing regulatory demands, and growing pressure to find a solution to non-performing loans of Italian banks were the predominant issues in the European banking sector in 2016.

At the beginning of March 2016, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) informed the 15 national systemically important German banks of their individual CET1 ratio add-ons. This add-on varies between 50 and 150 basis points for each institution. The global systemically important banks are informed of their CET1 ratio add-ons by the Financial Stability Board. As part of its annual Supervisory Review and Evaluation Process (SREP), the ECB defines the individual add-ons for the banks it directly supervises. BaFin intends to gradually introduce the SREP to the approximately 1,600 German banks not under direct ECB supervision.

In the first quarter of 2016, the European Banking Authority (EBA) informed the banks that would have to submit to its stress test in 2016. All nine of the German institutes tested by the EBA satisfied the minimum common equity capital ratio, even for a crisis scenario. One bank fell moderately short of the minimum requirement for the leverage ratio in this extreme scenario.

In the third quarter, the EBA carried out a transparency exercise at over 100 European banks. The average Tier 1 capital ratio at the banks examined improved from 12.1 % in late June 2015 to 13.2 % in late June 2016. However, the EBA feels that the share of non-performing loans in the overall loan portfolio is still too high at 5.4 %, in particular since this share is over 10 % in more than one-third of EU countries.

Additional new developments in 2016 included the introduction of the Mortgage Credit Directive in March and the EU General Data Protection Regulation in May. Furthermore, every German citizen has had the right to a basic account since June. In October, the finance ministers of the ten euro countries that want to introduce a financial transaction tax agreed on the core points for such a tax.

The volume of loans issued to domestic companies and private individuals in Germany increased by 2.3 % to €2,497 billion in the first three quarters of 2016. Lending growth thus rose slightly above the prior-year period. Growth in lending volumes to companies was stronger than in the previous year, increasing by 2.3 % to €940 billion. Loans to self-employed private individuals rose by 1.4 % to €401 billion, slightly up over the same period in 2015. Loans issued to non-self-employed persons and other private individuals rose by 2.7 % to €1,142 billion in the first three quarters of 2016. Growth here was thus also stronger than in 2015. In this category, residential construction loans climbed by 2.6 % to €910 billion. New business with residential construction loans for private individuals fell by 4.7 % in the first eleven months of 2016. The overall moderate improvement of the lending business was primarily fueled by the continuation of the economic upswing. The decline in new business with residential construction loans should be viewed against the backdrop of a massive increase in 2015 and thus classified more as stabilization at a high level rather than a slowdown.

Between January and October of 2016, the number of bankruptcies in Germany fell noticeably by 3.8 % year-on-year. The number of business bankruptcies dropped sharply by 6.6 %. Accordingly, the positive trend seen in previous years continued. The economic upswing and the very low level of interest rates likely contributed to this development. The number of consumer bankruptcies (including the bankruptcies of formerly self-employed individuals and other bankruptcies) dropped by a further 3.1 % after falling even more sharply in recent years. The continued improvement of employment may have had a positive impact here once again.

The German banking landscape continues to feature a three-pillar structure consisting of private, public and cooperative banks. In 2016, there were no significant developments between the individual pillars to report. The merge of the two leading banks in the cooperative sector was legally concluded on July 29, 2016, with the entry into the commercial register. In the public sector, Nord/LB took over all the shares in the Bremer Landesbank owned by the state of Bremen and the Sparkassenverband Niedersachsen (savings banks association of Lower Saxony). Additional mergers of smaller institutions, both in the public and the cooperative sector, were also reported. Increasing regulatory demands and the continuing low interest rate levels were likely key drivers of this trend.

In analyzing the business performance of German banks, we considered the banks listed in the industry index – Deutsche Börse's Prime Standard – and Postbank, as we have done in the past. We compared the banks' results for the period of January through September 2016 with the previous year's results. All five banks generated profit both before and after tax. However, profit in both parameters was lower than in the prior-year period for three of the five banks. Continuing low interest rates, tough competition in Germany, and the volatile market environment in the first nine months of 2016 left a clear mark on the balance sheets of the banks. This was also evident in the development of individual items on their income statements. All five banks reported a decline in net interest income. Both net fee and commission income as well as net trading income decreased at four of the banks. Many banks responded to these declines in operating business by enforcing heightened cost control measures. Three of the banks reduced their administrative expenses in the period under review. Three banks were able to reduce their cost/income ratio. Only four of the banks published their return on equity after tax. Of these, two reported an increase and two a decrease in this metric.

The DAX climbed 6.9 % in 2016. In contrast, both banks listed in Germany's blue-chip index saw stock price drops in the period under review.

Comparability of statements

Effective January 1, 2016, the service companies (Betriebs-Center für Banken AG, VÖB-ZVD Processing GmbH – 25 % of the share capital of VÖB-ZVD Processing GmbH is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of the Bank –, Postbank Direkt GmbH, Postbank Service GmbH, and BHW Kreditservice GmbH) bundled in PBC Banking Services GmbH from April 1, 2014, until December 31, 2015, were fully reacquired by Postbank. In consequence of the extended basis of consolidation resulting from the reacquisition, other expenses previously incurred outside the Group for the procurement of services from the service companies as well as other income from the transfer of staff to the service companies in fiscal year 2016 are no longer included in the corresponding items in the consolidated income statement given the extended basis of consolidation as of January 1, 2016. Instead, the consolidated income statement for fiscal year 2016 now reports the original administrative expenses and the income generated by the service companies primarily from non-Group services under net fee and commission income.

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COURSE OF BUSINESS

The individual income and balance sheet items are explained in detail as follows. Unless otherwise stated, the comments on individual income statement items relate to the comparison of the results with the adjusted figures for fiscal year 2015. The adjustments made can be found in Note 6 to the Consolidated Financial Statements.

Results of operations, financial position, and net assets

Postbank generated a profit before tax of €307 million in fiscal year 2016 (previous year: €584 million) despite persistently difficult market conditions.

Adjusted for significant non-recurring effects, profit before tax amounted to €468 million (previous year: €523 million). The year-on-year decline in the mid two-digit million euro range was due to the ongoing negative effects of the low interest rate environment, which were not fully offset by applying stringent cost management and expanding the lending business.

The adjustments made in fiscal year 2016, related to expenses for strategic initiatives (€–209 million), extraordinary expenses to cover legal risks in connection with consumer protection rulings (€–56 million), and one-time income from the sale of the strategic investment in Visa Europe Ltd. (€104 million). For comparative purposes, the prior-year profit before tax was adjusted for the following items: gains from the initial measurement of Deutsche Postbank Funding Trust I, Deutsche Postbank Funding Trust II, Deutsche Postbank Funding Trust III, and Deutsche Postbank Funding Trust IV – referred to collectively as "Deutsche Postbank Funding Trusts I–IV" – (€280 million), compensation payments received and associated expenditure arising from the termination of the IT cooperation agreement with Deutsche Bank (€124 million), expenses for strategic initiatives (€–204 million), expenses due to the non-scheduled adjustment of extrapolated hidden reserves on loans and advances to customers and an impairment on beneficial contracts arising from the acquisition of BHW Bausparkasse AG (€–62 million), measurement effects related to PBC Banking Services GmbH (€–40 million), and expenses incurred to cover legal risks related to consumer protection rulings (€–39 million).

Profit after tax decreased in line with profit before tax and was down €294 million or 48.1 % on the prior-year figure at €317 million as of December 31, 2016. Postbank generated tax income of €10 million (previous year: €27 million) in the year under review, which resulted firstly from Deutsche Postbank AG's membership of the tax group with Deutsche Bank AG and secondly from tax refunds for previous years and the decline in valuation allowances for deferred tax items.

Postbank's results of operations, financial position, and net assets continue to be significantly influenced by its focus on business with retail, business and corporate customers. Given the continuing low level of interest rates, and negative interest rates in some cases, net interest income at €2,169 million was moderately below the previous year's level (€2,238 million). Adjusted for the non-scheduled adjustment of extrapolated hidden reserves on loans and advances to customers implemented in fiscal year 2015, net interest income would have been €59 million higher. At €843 million, net fee and commission income was up €21 million or 2.6 % on the prior year. However, this figure was lifted by €92 million from the extended basis of consolidation. Factoring in the additional income of €58 million generated in fiscal year 2015 due to the change in recognition of fee and commission income from insurance brokerage and the modified assumptions relating to cancelation rates for brokered life insurance, which had a positive effect of €6 million in the year under review, net fee and commission income was down €19 million year-on-year on an underlying basis.

The total of net trading income and net income from investment securities improved by a substantial €225 million as against the previous year to €308 million in 2016. This was primarily driven by the positive effect on earnings from the sale of the strategic investment in Visa Europe Ltd. (€104 million). By contrast, the prior-year figure was negatively impacted by measurement effects in relation to PBC Banking Services GmbH (€40 million).

The allowance for losses on loans and advances amounted to €184 million, an appreciable decrease of €25 million or 12.0 % as against the already very low level in the previous year (€209 million). This result testifies to the high quality of our loan portfolio, the continued good health of the German real estate market, and the ongoing positive labor market situation in the country. In addition to the decline in the allowance for losses on loans and advances, the reduction achieved in the net additions ratio by 4 basis points to 18 basis points was driven by the expansion of loans and advances to customers generated in the year under review.

Given the continued low and partly negative interest rates, Postbank places particular emphasis on stringent cost management. Administrative expenses rose by €260 million or 10.0 %, to €2,853 million, primarily due to the extended basis of consolidation. After deduction of the additional administrative expenses attributable to the extended basis of consolidation, administrative expenses saw a net decrease of €30 million, or 1.0 %, despite higher expenses for the bank levy and deposit guarantee schemes (€+11 million) as well as additional costs relating to deconsolidation from the Deutsche Bank Group.

RESULTS OF OPERATIONS

Net interest income

Since interest rates were significantly lower than forecast, net interest income of €2,169 million failed to meet our expectations and was moderately down on the prior-year figure of €2,238 million, which had been weighed down by a non-scheduled adjustment of extrapolated hidden reserves on loans and advances to customers of €59 million. The interest rate environment remained difficult in the course of the year, and the very low interest rates continued to represent a challenge for Postbank in terms of generating interest income, as for all banks with high deposit volumes.

The continuing encouraging trend in new lending business, which recorded a year-on-year increase of €2.3 billion, or 13.6 %, to €19.4 billion, and the resulting growth in the portfolio of loans and advances to customers could not yet bring their full effect to bear on net interest income and only partially offset the negative effects of the persistently low interest rate environment. This was due on the one hand to a large proportion of loan commitments that were still in the commitment phase and on the other to the fact that interest income from loans disbursed in the reporting period will only take full effect in net interest income in the following periods.

The interest rate environment did however have a positive impact on interest expenses, which declined by €190 million or 9.9 % as against the previous year, although they were unable to fully offset the negative impact on the income side. The decrease in debt securities in issue and maturing profit participation certificates, as well as the ongoing reduction of high-interest liabilities in the NCOU segment had an appreciably positive effect here. This positive effect was, however, offset by higher charges resulting from negative interest paid on financial assets in an amount of €54 million (previous year: €19 million). This was mainly attributable to the investment of the existing deposit surplus at negative interest rates on the money market or with the ECB.

Net trading income

Net trading income amounted to €50 million in the year under review, down slightly on the prior-year figure of €56 million. The decline is primarily due to the €5 million decrease in measurement gains relating to the mortgage loan portfolio, to which the fair value option is applied, and related interest rate derivatives.

Net income from investment securities

Net income from investment securities rose significantly year-on-year by €231 million to €258 million in 2016, driven in particular by the sale of the strategic investment in Visa Europe Ltd. for an amount of €104 million. In addition, another positive impact on earnings amounting to €22 million was realized in the first half of 2016 by reducing an equity investment based on a sales cooperation. Other gains in net income from investment securities realized by selling corporate bonds had a positive effect on earnings amounting to €58 million and led to a reduction in risk-weighted assets. In 2015, measurement effects relating to PBC Banking Services GmbH in the amount of €40 million had negatively impacted net income from investment securities.

Net fee and commission income

Due to the reconsolidation of the service companies, net fee and commission income rose – more slowly than expected – from €822 million in the previous year to €843 million, up €21 million or 2.6 % on the prior-year figure. Taking into account the additional net fee and commission income of €92 million generated by the service companies as well as the positive effect from the change in the recognition of commissions for brokering payment protection insurance in the previous year (€58 million), it is clear that fee and commission income is also affected by the continued pressure on earnings. Postbank responded to still challenging market conditions and the ongoing low-interest environment by introducing a new price model for checking accounts at the beginning of November 2016 and a new securities strategy based on an improved consulting process at the end of the year. The full effect of both measures on net fee and commission income will only be felt in 2017.

Total income

Postbank's total income rose by €177 million or 5.6 % to €3,320 million in the year under review. This increase was mainly driven by the integration of the service companies, which contributed non-Group income of €96 million to total income, as well as by the sale of the strategic investment in Visa Europe Ltd. (€104 million).

Allowance for losses on loans and advances

After a historically low level of €209 million in the previous year, the allowance for losses on loans and advances declined by a further 12.0 % to €184 million in 2016, contrary to expectations at the beginning of the year. This was supported by the continued stable economic environment in Germany and persistently good conditions on the German labor market.

The annualized net additions ratio – the allowance for losses on loans and advances for the customer loan portfolio – was an encouragingly low 18 basis points. In addition to the decline in the allowance for losses on loans and advances, the 4 basis point reduction achieved in the net additions ratio was driven by the expansion of loans and advances to customers generated in the year under review. This underscores the unchanged high credit quality and the conservative nature of Postbank's business model which is characterized by a significant proportion of highly collateralized German real estate loans in the retail banking business measured based on loan-to-value (LtV).

Administrative expenses

Postbank continued to meet the challenges of the low interest rate environment with stringent cost management. Administrative expenses rose by €260 million or 10.0% to €2,853 million. This was primarily due to the extended basis of consolidation. The increase should be considered in connection with the decline in other expenses incurred outside the Group for the procurement of services from the service companies as well as with the decrease in other income, for example from the transfer of staff to the service companies. To ensure comparability, the administrative expenses for the prior-year period must be adjusted by factoring in additional expenses of €290 million that would have been attributable to the service companies. In view of this adjustment, costs declined by €30 million or 1.0 % in 2016 despite the rise in expenses for the bank levy and deposit guarantee schemes (€+11 million), and additional costs relating to deconsolidation from the Deutsche Bank Group. This underscores

Postbank's strict cost management, achieved mainly through the successful implementation of strategic and operational measures.

Staff costs rose from €1,191 million to €1,395 million – up €204 million or 17.1 % on the prior-year figure – due to the extended basis of consolidation. Other administrative expenses rose by €97 million or 7.7 % to €1,360 million, while writedowns decreased by €41 million or 29.5 % to €98 million. However, the prior-year period had been impacted by writedowns of €31 million, €21 million of which had been recognized in connection with the termination of the IT cooperation agreement with Deutsche Bank.

Expenses for strategic initiatives attributable to administrative expenses were only slightly down on the previous year, declining by €5 million or 2.1 %. This shows that despite its stringent cost discipline, Postbank continues to invest in measures to increase efficiency, in automation, and in the further digitization of the business model to make the Bank fit for the future.

Other income and expenses

Net other income and expenses amounted to €24 million in fiscal year 2016, down by a significant €219 million on the prior-year figure of €243 million. However, the prior-year figure had been impacted by positive non-recurring effects from the initial measurement of Deutsche Postbank Funding Trusts I–IV (€280 million), as well as from compensation payments received and associated expenses in connection with the termination of the IT cooperation agreement with Deutsche Bank (€145 million). In contrast, other income was positively affected in 2016 by compensation for participation in the TLTRO group (€40 million). Due to the reconsolidation of the service companies effective January 1, 2016, no other expenses were incurred outside the Group for the procurement of services from the service companies or other income generated from the transfer of staff to the service companies in fiscal year 2016. Instead, the consolidated income statement for fiscal year 2016 now reports the original administrative expenses and the income generated by the service companies from non-Group services under net fee and commission income.

Profit before tax and consolidated net profit

Postbank generated profit before tax of €307 million. This corresponds to a year-on-year decline of €277 million or 47.4 %, mainly due to non-recurring effects and the continued negative impact of the low interest rate environment.

Non-recurring effects in fiscal year 2016 included expenses for strategic initiatives (€–209 million), extraordinary expenses to cover legal risks in connection with consumer protection rulings (€–56 million), and one-time income from the sale of the strategic investment in Visa Europe Ltd. (€104 million). Non-recurring effects in fiscal year 2015 included the following: gains from the initial measurement of Deutsche Postbank Funding Trusts I–IV (€280 million), compensation payments received and associated expenditure arising from the termination of the IT cooperation agreement with Deutsche Bank (€124 million), expenses for strategic initiatives (€–204 million), expenses due to the non-scheduled adjustment of extrapolated hidden reserves on loans and advances to customers, and an impairment on beneficial contracts arising from the acquisition of BHW Bausparkasse AG (€–62 million), measurement effects related to PBC Banking Services GmbH (€–40 million), and expenses incurred to cover legal risks related to consumer protection rulings (€–39 million).

The €177 million rise in total income was offset by a €260 million increase in administrative expenses, which was only compensated for to a small extent by a €25 million reduction in the charge arising from the allowance for losses on loans and advances. The main reason for the decrease in profit before tax is the significant decline, by €219 million, in net other income and expenses, which in the previous year had benefited to an exceptional extent from the preparations to arrange for the Bank's operational and technical deconsolidation from Deutsche Bank.

Consolidated net profit for fiscal year 2016 declined by €293 million or 48.0 % compared with the previous year, to €317 million. Consolidated net profit exceeded profit before tax in fiscal year 2016 due to the tax income of €10 million, which resulted firstly from Deutsche Postbank AG's membership of the tax group with Deutsche Bank AG and secondly from tax refunds for previous years and the decline in valuation allowances for deferred tax items.

Postbank's total comprehensive income, including changes in valuation reserves, declined by €541 million or 77.3 % year-on-year to €159 million in 2016. In addition to the decline in profit before tax, the key driver here was the sharp drop in other comprehensive income recognized in equity, which was adversely affected mainly by the reduction of the discount factor for pension obligations.

The return on tangible equity (RoTE) after tax was 6.2 % in 2016 (previous year: 13.1 %).

Earnings per share

Earnings per share were €1.45, down on the prior-year figure of €2.79.

SEGMENT REPORTING

As a result of changed responsibilities on Postbank's Management Board, the results of the business with business customers, which had previously been reported in the Retail Banking segment, were allocated to the Corporate Banking segment in the year under review. The resulting adjustments made retroactively can be found in Note 40 to the Consolidated Financial Statements.

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Retail Banking

Profit before tax in the Retail Banking segment amounted to €494 million in fiscal year 2016, after €521 million in the previous year. This was attributable to the slight decline of €50 million or 1.6 % in total income as well as the €22 million increase in administrative expenses due to the extended basis of consolidation. A reduction in the allowance for losses on loans and advances and in cost allocations had an offsetting effect.

Net interest income declined by €81 million or 3.5 % to €2,222 million. The low interest rate environment continues to represent a particular challenge in terms of investing customer deposits. Even the new lending business, which is still at a record level, could not fully compensate for this effect.

Net trading income was down €9 million or 40.9 % year-on-year at €13 million. The segment's net trading income was mainly attributable to substantial measurement gains relating to the mortgage loan portfolio, to which the fair value option is applied, and related interest rate derivatives which were down €5 million on the previous year.

Net income from investment securities benefited from the sale of the strategic investment in Visa Europe Ltd. Whereas the cash component received from the Visa Europe Ltd. transaction had a positive effect totaling €90 million on the Retail Banking segment, the positive effect on earnings from the share-based purchase price component was recognized in the Cost Centers/Consolidation segment. Net income from investment securities thus exceeded the prior-year figure by the same amount (€90 million).

Net fee and commission income declined moderately by €50 million or 6.8 % to €681 million, contrary to expectations. The decline resulted primarily from a positive effect related to the change in the treatment of commissions for brokering payment protection insurance in the previous year in the amount of €58 million; in contrast, a positive effect amounting to only €6 million was seen in the year under review.

Contrary to our forecasts, the allowance for losses on loans and advances decreased from €172 million to €128 million in 2016. This is due to the ongoing stable development of the German labor market and to the persistently high level of credit quality throughout the entire retail banking business, which continues to be dominated by our highly collateralized retail mortgage lending business. Contrary to our expectations, administrative expenses increased slightly by €22 million or 1.5 % to €1,456 million because of the extension of the basis of consolidation to include the service companies. One of them, Postbank Direkt GmbH, has been allocated to the Retail Banking segment since January 1, 2016.

Net other income and expenses in fiscal year 2016 was negatively impacted by extraordinarily high charges relating to provisions for legal risks in the amount of €56 million and was therefore down €40 million on the prior-year figure, at €– 137 million.

The cost/income ratio for the segment deteriorated from 79.7 % to 81.3 %. The return on equity before tax amounted to 14.1 %, following 17.2 % in the previous year.

Corporate Banking

Profit before tax in the Corporate Banking segment declined by €33 million or 15.9 % – more than expected – to €175 million. This was driven in particular by the rise in administrative expenses, which increased by €17 million or 18.7 %, and a slight decline in total income by €8 million or 1.7 %.

The strong growth in new lending business and the resulting increase in the volume of the lending portfolio brought Postbank closer to its aim of reaching an equal balance between customer loans and deposits. Despite that, the increase in the portfolio did not yet bring its full effect to bear on net interest income, which declined by €16 million or 4.5 % to €342 million; the prior-year period had benefited from one-time income. Net fee and commission income failed to rise significantly, as had been expected, but remained stable at €126 million.

The total of net income from investment securities and net trading income rose by €9 million, driven primarily by higher margins from interest rate and currency management, and contract amendments in connection with hedging the interest rates paid by customers with variable rate loans.

The increase in the allowance for losses on loans and advances by €6 million or 16.7 % is mainly attributable to non-recurring effects in the previous year, such as sales of receivables and the associated reversal of the allowance for losses on loans and advances in the prior-year period.

One-time structural expenses led to an increase in administrative expenses by €17 million or 18.7 % to €108 million.

Allocated items amounted to €152 million, only €3 million more than in the previous year, despite an €8 million rise in one-time expenses for strategic initiatives.

Because of the above-mentioned non-recurring effects from the previous and the current year as well as higher investments in improving Postbank's future viability, the cost/income ratio rose from 53.2 % to 58.0 %, thus remaining at a very good level despite these factors. The return on equity before tax amounted to 32.1 %, following 42.3 % in the previous year.

Financial Markets

The profit before tax generated by the Financial Markets segment improved significantly by €77 million to €39 million. Profit before tax was therefore not below the 2015 level, as we had anticipated.

The main driver was net income from investment securities, which increased by €114 million or 393.1 % to €143 million because of the restructuring of the asset allocation to reduce spread risks in the banking book.

Net interest income was negative at €– 41 million due to the lower money market interest rates resulting from the ECB's expansionary monetary policy, and therefore decreased more sharply than expected.

Net trading income almost matched the positive prior-year figure and was down marginally year-on-year at €31 million. As in the previous year, this was influenced by derivative interest rate and currency management and credit valuation adjustments, as well as foreign exchange gains.

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Net fee and commission income declined from €–21 million in the previous year to €–25 million.

Administrative expenses, by contrast, decreased by €14 million or 31.8 % to €30 million, mainly as a result of a change in the cost allocation of the bank levy. In 2015, the bank levy had still been reported under administrative expenses, while in fiscal year 2016 it was allocated to the segments in cost allocations.

Net other income and expenses broke even in the reporting year following a slightly better result in the comparable prior-year period.

Allocated items decreased by €3 million or 7.1 % to €39 million despite the first-time allocation of the portion of the bank levy attributable to the Financial Markets segment.

Driven by the positive performance, both the cost/income ratio and the return on equity before tax improved to 70.8 % (previous year: 178.9 %) and 2.4 % (previous year: –2.6 %), respectively.

Non-Core Operating Unit (NCOU)

The Non-Core Operating Unit (NCOU) segment fell short of our expectations, recording a loss before tax of €415 million in 2016, roughly on a level with the previous year. This was mainly due to a higher allowance for losses on loans and advances.

As expected, net interest income rose only moderately by €12 million or 3.3 % to €–357 million due to a small number of maturing high-interest liabilities. Interest expense was again significantly higher than the interest income generated by the NCOU as the segment’s portfolio continues to be dominated by high-interest liabilities.

At €0 million, net trading income was unchanged as against the previous year.

On account of gains realized on the sale of peripheral eurozone bonds in fiscal year 2016, net income from investment securities remained virtually unchanged at €11 million. This shows that the Bank’s risk reduction efforts continued systematically. Compared with the previous year (€–13 million), there were no negative effects from closed-end funds.

Administrative expenses decreased further by €4 million or 30.8 % to €9 million.

The allowance for losses on loans and advances increased to €14 million, compared with €2 million in the previous year, due to higher additions to valuation allowances, mainly because of modifications to Italian foreclosure law (amendment).

Significantly lower expenses were recorded in other expenses for negative effects from products that are no longer sold and for the repurchase of liabilities. As a result, net other income and expenses improved by €8 million to €–4 million.

The cost/income ratio improved by 3.8 percentage points, although it remained negative at –16.0 %. Return on equity before tax amounted to –30.1 %, following –25.7 % in the previous year.

Cost Centers/Consolidation

This segment comprises Group consolidation adjustments, the profit/loss of the cost centers, the profit/loss of the subsidiaries allocated to this segment (see Note 40 to the Consolidated Financial Statements), and the other reconciliations to consolidated profit. In principle, all income and expenses are allocated to the operating segments. Both profits and losses are primarily due to non-recurring effects. Since the share-based purchase price component in the amount of €14 million from the Visa Europe Ltd. transaction was recognized in the Cost Centers/Consolidation segment in fiscal year 2016, profit before tax was correspondingly also €14 million.

Net interest income increased by €62 million year-on-year to €3 million. This increase was mainly due to the nonscheduled adjustment of extrapolated hidden reserves on loans and receivables from customers arising from the acquisition of BHW Bausparkasse AG in fiscal year 2015.

As a result of the extension of the basis of consolidation, net fee and commission income was up €82 million to reach €62 million. This was largely attributable to the recognition of external income generated from payment transaction services in net fee and commission income.

Net income from investment securities amounted to €14 million, following €–13 million in the previous year. The prior-year figure had been negatively impacted by measurement effects in relation to PBC Banking Services GmbH (€40 million). By contrast, the positive result in 2016 was attributable to the recognition of the share-based purchase price component from the Visa Europe Ltd. transaction.

Administrative expenses increased significantly by €239 million or 23.6 % to €1,250 million. This is due to the extension of the basis of consolidation to include the service companies, and the additional expenses to be borne for the first time in 2016 in connection with statutory deposit guarantee schemes, which were based on an amended contribution calculation method.

At €1,023 million, the allocated items from the other segments, which are included at fully absorbed cost, had a positive impact. This figure equates to the negative effect of the items allocated to the other segments, i.e., €–1,023 million.

Net other income and expenses amounted to €163 million, down €187 million on the prior-year figure. The change is primarily attributable to the extension of the basis of consolidation to include the service companies in fiscal year 2016, the absence of the gains from the initial measurement of Deutsche Postbank Funding Trusts I–IV in the amount of €280 million reported in the previous year, and compensation payments received and associated expenditure arising from the termination of the IT cooperation agreement with Deutsche Bank in the amount of €145 million.

NET ASSETS AND FINANCIAL POSITION

Total assets

Postbank's total assets amounted to €147.2 billion as of the 2016 year-end, down €3.3 billion or 2.2 % on the prior-year figure (€150.5 billion). This decline is primarily due to further efforts to reduce risk positions in line with the ongoing measures to focus the business, in relation to long-term liabilities reaching maturity. On the assets side of the balance sheet, another step was taken toward reaching an equal balance between customer loans and deposits, which involved reducing the existing deposit surplus by successfully expanding the portfolio of loans and advances to customers. In addition, the share of the lending business with retail, business and corporate customers as a proportion of total assets increased, firstly as a result of a significant reduction in short-term exposures to banks and secondly because of a reduction in investment securities. The decline in loans and advances to other banks was offset by a corresponding adjustment of an equivalent amount to deposits from other banks. Other significant changes on the liabilities side of the balance sheet were recorded in the "Provisions" (€+0.2 billion) and "Subordinated debt" (€–0.7 billion) items.

Loans and advances to customers

Loans and advances to customers, which also include securitized assets such as promissory note loans, increased by €3.1 billion or 3.1 % as against year-end 2015, to €102.0 billion. The successful expansion of the portfolio of loans and advances to customers makes a significant contribution toward reaching the goal of an equal balance between customer loans and deposits. It is mainly attributable to Postbank's new lending business, which remains strong.

Private mortgage lending rose to €69.0 billion (previous year: €68.7 billion), despite a persistently high proportion of existing customers wanting to repay principal. This success is based on sustained high new business volumes in private mortgage lending, mainly driven by the exceptionally favorable financing conditions resulting from general interest rate levels in the market. Postbank achieved significant growth in the installment loan business, expanding the portfolio by an appreciable €0.8 billion or 12.9 % to approximately €7.4 billion. This was buoyed by higher consumer spending in Germany. Especially in the corporate banking business, the growth achieved in the commercial loans portfolio, which increased by €1.6 billion or 13.3 %, made a substantial contribution to changing the balance sheet away from low-interest money and capital market investments toward the customer loans business.

Money and capital market investments

Money and capital market investments, comprising investment securities, trading assets, and loans and advances to other banks, declined by €6.9 billion to €40.4 billion in fiscal year 2016.

In line with the strategic aim of increasing the share of the lending business with retail, business and corporate customers as a proportion of total assets, Postbank again significantly reduced holdings of investment securities by €4.0 billion or 13.0 % to €26.8 billion as of the 2016 year-end. The gains realized on the disposals had a positive impact on net income from investment securities.

Loans and advances to other banks decreased by €2.8 billion or 17.4 % to €13.1 billion due to a further reduction in securities repurchase transactions.

Trading assets attributable to the positive fair values of derivatives in the trading portfolio decreased from the previous year's €647 million to €475 million, in particular due to maturities of derivatives in the trading portfolio amounting to €80 million and of BHW Bausparkasse AG's private mortgage loans (€38 million).

Amounts due to customers

On the liabilities side of the balance sheet, amounts due to customers, at €118.9 billion, were down €0.2 billion or 0.2 % compared with 2015. Savings deposits declined by 7.8 %, from €41.8 billion in the previous year to €38.6 billion, while demand deposits rose by €3.7 billion or 8.5 % to €46.8 billion. Other liabilities increased overall from €58.0 billion to €61.5 billion. The decrease in savings deposits is mainly due to the historically low level of interest rates and the resulting preference of consumers for spending over saving. Home savings deposits declined moderately by €0.5 billion or 2.8 % to approximately €18.8 billion as of the 2016 year-end.

Money and capital market liabilities

Money and capital market liabilities, comprising deposits from other banks, debt securities in issue, and trading liabilities, declined by 13.2 % or €2.6 billion in fiscal year 2016, to approximately €16.9 billion.

Deposits from other banks, including earmarked refinancing funds provided by development banks, decreased by €2.2 billion year-on-year to €13.1 billion. The decline is primarily attributable to a lower volume of securities repurchase transactions.

Holdings of debt securities in issue declined by €0.1 billion or 3.1 % to €3.3 billion in fiscal year 2016 due to maturing positions.

Trading liabilities decreased from €665 million as of December 31, 2015, to €409 million, largely in line with trading assets.

Subordinated debt was reduced by €0.7 billion or 20.7 % compared with the 2015 year-end to €2.6 billion, mainly due to profit participation certificates reaching maturity.

Equity

Recognized capital in the year under review was up €62 million or 0.9 % compared to the prior-year figure, to reach €7,226 million. The consolidated net profit of €317 million generated in fiscal year 2016, together with the contribution to Postbank's share premium received from DB Finanz-Holding GmbH and Deutsche Bank (€181 million), offset the reduction in retained earnings (€–263 million) made at the beginning of the year in connection with the consolidation of the service companies and the steep year-on-year decline in other comprehensive income, which was negatively affected primarily by the reduction of the discount factor for pension obligations.

As of the 2016 year-end, the fully phased-in Common Equity Tier 1 (CET1) capital ratio, including the profit for fiscal year 2016, rose significantly to 12.4 %, following 11.5 % recorded in the previous year. This positive change was mainly driven by the successful reduction in risk-weighted assets.

The regular phased-in CET1 (Common Equity Tier 1) capital ratio was 14.2 %, including the profit for fiscal year 2016, compared with a prior-year figure of 13.7 %. The successful reduction in risk-weighted assets helped to more than offset the regulatory rise in capital deductions.

At 4.1 %, the regular phased-in leverage ratio as of December 31, 2016, including profit, was on a level with the prior year-end figure of 4.1 %. The fully phased-in leverage ratio, including profit, remained stable at 3.4 % as of the end of 2016.

The calculations are based on the regulatory requirements as laid out in Article 429 of the CRR. For information on the financial position, please see the "Monitoring and managing liquidity risk" section of the Risk Report.

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Postbank's investment focuses in 2016

After investments in the first half of 2016 focused on establishing operational deconsolidation from Deutsche Bank, the emphasis in the second half of the year was on improving Postbank's future viability.

Efforts to strengthen competitiveness included in particular investments to improve digital efficiency and to increase new business entered into via digital channels. To this end, Postbank continued to invest in the development of holistic digital process models (end-to-end optimization). Our customers have already been able to experience this since August 2016 with the option to open an account based on a fully digital process. In line with the "digital & personal" strategic orientation, a modern branch infrastructure was created with additional customer-friendly, automated self-service offerings for Postbank's customers, while simultaneously expanding sales centers and piloting new branch concepts. This now includes 13 sales centers in major cities in which all Postbank customer groups – among them SME customers – are served. "Compact branches" were piloted in summer 2016 in addition to the sales centers. These are intended chiefly for regions with a comparatively low customer frequency.

In addition to investments in digitally supported consulting, sales and service processes (video legitimation for verifying identities, digital signatures, combination of digital and personal securities advice), we continued to invest in measures to comply with regulatory requirements. These included meeting the requirements of IFRS 9, the recently drafted EU Markets in Financial Instruments Directive, (MiFID II), the Payment Accounts Directive and the Payment Services Directive (PAD/PSD), the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), Basel III/IV, as well as the specifications of the ECB and BaFin.

Overall assessment of business performance in 2016

Results of operations declined due to the persistently challenging market environment and low interest rate levels. In 2016, Postbank addressed these challenges by implementing a variety of measures that will not fully impact earnings until subsequent periods. Postbank's net assets and financial position in 2016 were shaped by the ongoing focus on growing the loan portfolio in our business with retail, business and corporate customers, which remains relatively immune to fluctuation, with the aim of reaching an equal balance between customer loans and deposits. The lending business – which has a significant proportion of highly collateralized German real estate loans – continued to have the greatest influence on net assets. Whereas the holdings of investment securities and debt securities in issue were further reduced, the lending business with retail and corporate customers was expanded. Active management of holdings of investment securities in particular led to a decline in risk-weighted assets, which again appreciably increased the fully phased-in Common Equity Tier 1 capital ratio, including profit, from 11.5 % to 12.4 %.

Financial and non-financial key performance indicators

Profit before tax declined by €277 million or 47.4 % year-on-year to €307 million in fiscal year 2016. Profit was therefore down on the previous year by an amount in the low three-digit million euro range, as we had anticipated. The prior-year figure had benefited from various positive non-recurring effects associated with establishing operational independence, particularly the income of €280 million from the initial measurement of Deutsche Postbank Funding Trusts I–IV.

At €468 million, adjusted profit before tax – which is used to assess operational performance – was down year-on-year as forecast at the beginning of the reporting year. The income streams generated by Postbank's business with retail, business and corporate customers were again the foundation of its earnings performance. Postbank counteracts the continued high dependency on interest income with stringent cost discipline and various measures to increase net fee and commission income.

At just under 6.2 %, return on tangible equity after tax was down significantly on the previous year's figure (13.1 %), which had been particularly high due to special factors, because of the lowest interest rates seen to date and despite persistently high expenses of €209 million for strategic initiatives to improve Postbank's future viability.

At 85.8 %, the cost/income ratio was up on the prior-year level of 80.3 %, as had been anticipated. This increase was mainly driven by the significant change in net other income and expenses, which had been much higher in fiscal year 2015 as a result of various non-recurring effects in connection with the preparations for the Bank's operational and technical deconsolidation from Deutsche Bank.

The fully phased-in Common Equity Tier 1 capital ratio, including the profit for fiscal year 2016, improved from 11.5 % at the 2015 year-end to 12.4 %, a figure that is significantly above our expectations. This positive development was largely due to the successful management of risk-weighted assets, which were significantly reduced by scaling back investment securities.

As forecast, the fully phased-in leverage ratio, including the profit for fiscal year 2016, remained stable at 3.4 % as of December 31, 2016. The calculations were based on the regulatory requirements as laid out in Article 429 of the CRR.

The development of key non-financial indicators year-on-year is reported in the following.

The results of the people survey carried out in 2016 confirm the good prior-year score in the "identification" category (formerly "commitment"). This sends a positive message despite the challenging environment in which Postbank currently operates. Employee satisfaction was therefore at a consistently high level compared with the previous year. Employees' willingness to adapt to the changing banking environment was illustrated by the "ability to change" category, which again achieved the highest approval ratings. This positive trend can be attributed especially to the range of measures put in place to improve Postbank's leadership culture, realize its mission statement, and implement the Postbank Agenda in 2016.

By introducing the new checking account world in the second half of 2016, Postbank has implemented a measure for its retail customers that will have a significant impact on the relationship between customers and the Bank. The introduction of the new account models was followed by a decline in satisfaction ratings for key aspects covered in regular satisfaction surveys. A turnaround was observed in the fourth quarter, when the trend became positive again.

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

OPPORTUNITY REPORT

Postbank has a broadly diversified business with retail, business and corporate customers and operates primarily in Germany. Due to high volumes in its demand and savings deposits, the Bank has a deposit surplus compared to the current lending business. In times of negative money market interest rates that coincide with a conservative investment strategy, that surplus has a negative impact on net interest income. The interest rates, still historically low, are also spurring demand for private residential mortgages. In 2016, Postbank profited from these trends thanks to its new residential mortgages business, which remained brisk (€10.4 billion). It also benefited from the German population's increased willingness to spend, a trend driving its new business with consumer loans up to €2.7 billion. If the Bank is able to reduce its current deposit surplus more rapidly than anticipated, it would have a positive impact on Postbank's profit.

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

A better than anticipated development in economic conditions in Germany, in the interest rate environment and in competitive conditions in the financial services industry could lead to higher income that would only be partially eroded by additional costs. Overall, it could lead to improvements in profit before tax and the cost/income ratio.

A reversal of European monetary policy, acting as an altered macroeconomic scenario, in addition to rising interest income could contribute to private investors rethinking their positioning in terms of asset allocation going forward. This, in turn, would fuel commission business. Broader understanding among banking customers for the revision of fee models in light of the low interest rate environment could likewise benefit the commission business more than is expected.

The changed demands of today's banking customers – which have evolved from the desire for personal advisory sessions to a need for multi-channel advisory and other services – have not only noticeably altered the banking business, they also present opportunities for growth. Should the acceptance and use of both digital opportunities to approach customers for advisory services and of fully digitized end-to-end processes proceed faster than forecast, they too could positively influence the generation of additional income and in equal measure make cost cuts possible. In its own pursuit of the digitization trend, Postbank has positioned itself as a bank available to customers both "digitally & personally," and now continues to invest in the digitization of its business with such things as video advisory calls and opportunities to obtain savings and credit products fully online. The creation of a "Digital Factory" with interdisciplinary teams and the goal of continually evolving its digital products and services have made Postbank confident that it is well-equipped to compete for customers who increasingly prefer digitally available offers.

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

RISK REPORT

Summary overview of risk exposure

The focus of Postbank's risk profile is on lending and deposit business with retail, business and corporate customers. Risk management at Postbank in 2016 focused on strengthening the regulatory and economic capital base while maintaining our risk profile. This was against the background of the low interest rate policy still being maintained by the European Central Bank (ECB) and at times historically low yields in the bond market. Long-term interest rates only rose again in the fourth quarter. In addition, the year under review was characterized by growing regulatory demands on the banking sector. Postbank continues to operate in a solid economic environment. The healthy state of the labor market at present, as documented by falling unemployment coupled with a rise in the number of people in work, and the upward trend in both real estate prices and German industry spawn opportunities for expanding lending to retail and business customers. At the same time, the macroeconomic environment in Germany is having a positive effect on credit risk for our existing business. The measures taken by the Bank to permanently reduce risk also contributed to a positive trend in the allowance for losses on loans and advances. The allowance for losses on loans and advances and the economic capital requirement for credit risk declined as against the previous year and the 2015 year-end.

Postbank's market risk capital requirement as of December 31, 2016, was down on the prior year-end. Postbank is exposed to market risk solely from banking book positions; as was the case throughout the previous year, there were no trading book activities in the year under review. The Bank's asset side-focused strategic interest rate risk position in the banking book decreased slightly compared with the prior year-end. Credit spread sensitivity in the portfolio also declined.

Postbank's operational risk profile is largely defined by its strategic positioning as a multi-channel bank with a comprehensive branch and service network and online banking in the German retail market.

No risks that could impair the development of Postbank and its subsidiaries, or that could even jeopardize its existence as a going concern, are discernible at present. However, downside variance in our current assumptions with regard to the development of European sovereign debt or a prolonged low level of interest rates, coupled with a tangible downturn in macroeconomic conditions, could negatively impact the performance of the banking sector as a whole, and hence Postbank's performance as well.

Overall bank risk

Taking risks in order to generate earnings is a core function of Postbank's business activities. Risks entered into are regularly identified, measured, monitored, and allocated limits using the ICAAP (Internal Capital Adequacy Assessment Process), and are incorporated in the overall management of the Bank via the assessment of the Bank's risk-bearing capacity. Group limits, in particular the limits for market, credit and operational risks, were consistently complied with throughout 2016. The Group's risk-bearing capacity was ensured at all times. The key operationally managed risks for the Postbank Group are addressed in the following.

Credit risk

In 2016, the allowance for losses on loans and advances was moderately down on the prior-year level due to the ongoing positive trend in Postbank's customer business. This was also attributable to the persistently favorable macroeconomic environment in which the Bank operates, strong proceeds from collateral realization in the mortgage lending area, and systematic risk management.

For 2017, we are expecting the risk situation to continue on a positive footing with a solid economic environment, supported by a stable trend in economic growth and the labor market.

Market risk

Postbank's market risk is influenced in particular by interest rate and credit spread trends in the European capital market. In the first three quarters of the year under review, interest rates in the money and capital markets dropped to a historically low level, with yields negative in some cases. This trend reflected the expansionary monetary policy stance still being maintained by the European Central Bank (ECB). Longer-term interest rates only picked up again in the fourth quarter. Operational value at risk (VaR) in the banking book had declined significantly as of the reporting date due to a reduction in the open interest rate and credit spread risk positions.

The market risk capital requirement, which is calculated on the basis of a stressed value at risk approach, also declined significantly compared with the prior year-end. This was likewise due to the reduction in the interest rate and credit spread exposures described above. Looking to the future, the uncertainty that continues to dominate the markets and the resulting higher volatility may again cause market risk utilization to increase from the present level in 2017.

Liquidity risk

Adequate liquidity buffers were maintained at all times in 2016 to ensure solvency and compliance with the regulatory liquidity requirements. Postbank's liquidity position continues to be solid thanks to its stable refinancing base in the form of customer deposits and its extensive holdings of highly liquid securities.

The high level of surplus liquidity was consciously reduced in the year under review.

Based on our liquidity forecasts and planning, we will continue to reduce surplus liquidity and expect the liquidity position to remain adequate in the foreseeable future.

Operational risk

Postbank's operational risk loss profile primarily reflects its strategic focus as a retail bank. One consistent focus over recent years has been on high frequency/low impact losses, i.e., loss events that individually are only minor but that occur repeatedly during a year.

In addition, recent years have seen an increase in litigation and complaints about investment advice. Most of these relate to advice provided and transactions entered into in the area of closed-end funds. This trend continued in the year under review, although the distribution of closed-end funds was discontinued in 2012. The number of legal actions relating to consumer protection rulings also increased in the year under review.

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

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

Developments in risk management

In addition to using the Foundation IRB Approach and the IRB Approach to calculate the capital requirements for its retail business, Postbank uses the Advanced IRB Approach (A-IRBA) to calculate the capital requirements for its corporates, banks and domestic and UK commercial real estate finance portfolios. The Bank plans to transfer the rating model for its portfolio of overdraft facilities for retail customers to the A-IRBA, which is expected to be approved in 2017.

Since year-end 2015, Postbank has continued to calculate its regulatory capital requirements for operational risk using the Standardized Approach.

Postbank implemented a number of new banking regulatory requirements during the reporting period, in particular the extended requirements with regard to reporting risk-bearing capacity, the additional liquidity monitoring metrics in accordance with Commission Implementing Regulation (EU) 2016/313, and the leverage ratio.

In addition, Postbank faced extensive further regulatory changes in 2016 and is currently pushing ahead with the projects to implement these. These changes include the principles for effective risk data aggregation and risk reporting issued by the Basel Committee on Banking Supervision (BCBS; consultative document 239), the Analytical Credit Dataset (AnaCredit) project launched by the ECB, and various new regulatory proposals submitted by the Basel Committee on Banking Supervision to complete and reform the Basel III framework and its implementation in European law (CRR II – Capital Requirements Regulation II/CRD V – Capital Requirements Directive V).

Postbank has been continuously implementing liquidity risk management projects designed to meet new/more specific regulatory requirements since 2011. In 2016, the emphasis was on enhancing the data basis, systems, and processes for implementing the additional liquidity monitoring metrics and the changes to the liquidity coverage ratio (LCR) in line with the Commission Delegated Regulation. The main focus in 2016 was the initial reporting of the additional liquidity monitoring metrics, as well as the establishment of an ongoing reporting process. In addition, first steps to measure and monitor intraday liquidity risk based on the requirements of BCBS 248 were taken in 2016.

As part of the deconsolidation, the Postbank Group successfully implemented the measures required for it to take on independent risk management functions as of June 30, 2016. For the purposes of group risk management, Postbank is nevertheless integrated with Deutsche Bank's risk management activities by way of the established structural links between the relevant bodies and the functional reporting lines between Postbank and Deutsche Bank. Postbank submits regular risk reports to Deutsche Bank, ensuring that risks are comprehensively captured and managed. A joint reporting system has been drawn up for the key management reports and core ratios.

Risk management within the Deutsche Bank Group

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

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

Due to the announcement by Deutsche Bank as Postbank's owner of its strategy to preferably place Postbank on the stock market or sell it, Postbank successfully implemented the measures required for it to take on independent risk management functions as of June 30, 2016, as part of the deconsolidation. To this end, the necessary technical requirements were put in place and a number of activities in the various disciplines further developed.

Regardless of this, group risk management functions shared with Deutsche Bank will continue to be performed in full and in parallel.

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

The risk inventory, which is performed at least annually, reviews the materiality of the risk types and the existence of additional, previously untracked risks. When performing the risk inventory, Postbank uses instruments that, in the aggregate, cover all material organizational units and risk areas within the Bank. The risk types identified as material in the risk inventory are quantified during the risk-bearing capacity assessment and – with the exception of liquidity risk – are backed by risk capital. They are monitored on a regular basis. For details of the quantification procedure, please see Note 49 to the Consolidated Financial Statements.

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The risk types were reviewed and some of the definitions of risk types were refined in the risk inventory performed in the fourth quarter of 2016.

Postbank distinguishes between the following risk types:

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

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

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

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

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

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

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

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

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

Real estate and investment risks were identified as immaterial for Postbank in the risk inventory but are still backed by risk capital.

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

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

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

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

- Liquidity risk

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

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

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

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

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

- Operational risk

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

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

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

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

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

- Business risk

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

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

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

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

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

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

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

Organization of risk management

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

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

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

Responsibilities and risk strategy

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

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

As required by the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), the Group's risk strategy is consistent with its business strategy and takes into account all significant areas of business and types of risk. With the purpose of implementing the SREP Guidelines, the 2017 risk strategy defined an internal capital adequacy assessment process (ICAAP) as well as an internal liquidity adequacy assessment process (ILAAP).

The nature and extent of the risks taken, as well as the strategy for managing such risks, depend on the strategies defined by the individual business divisions in line with Postbank's risk appetite, risk profile, and target returns. They are defined and documented as part of the risk strategy that is adopted each year on the basis of the divisions' business strategies.

The objective of risk management is to safeguard earnings and optimize the risk-return profile by improving capital allocation and by ensuring operational excellence. As part of this process, the integrated risk management function strengthens the future viability of Postbank and enhances the risk culture and risk discipline.

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

Risk committees

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

Tasks of the Bank Risk Committee and its subordinate risk committees

	Bank Risk Committee (BRC)	Credit Risk Committee (CRC)	Market Risk Committee (MRC)	Operational Risk Committee (ORC)	Cover Business Committee (CBC)	Model and Validation Committee (MVC)	Outsourcing Committee (OutCo)	Data Quality Committee (DQC)	Regulatory RADAR Committee (RRC)
Frequency of meetings	Monthly	Quarterly	Monthly	Half-yearly	Monthly	Monthly	Quarterly	Quarterly	Monthly, as required
Tasks	Advise the Management Board with respect to: • Risk appetite (economic, regulatory) • Risk strategies and risk profile • Allocation of risk capital • Measures to limit and manage Bank-wide risk positions	Allocate credit risk limits Define limit system Analyze and evaluate credit risk Issue credit risk management guidelines	Allocate market risk limits Define liquidity risk profile Analyze and evaluate collective risk and savings and checking account risk Manage strategic focus of the banking book Discuss the Bank's earnings and risk positions	Define minimum requirements for Group units Define operational risk parameters Allocate risk capital amounts to the business divisions	Address issues relating to the cover business register Implement regulatory requirements relating to the *Pfandbrief* business Ensure conformity with targets relating to strategic orientation and ability to access the capital markets	Monitor and validate all rating systems and risk classification procedures Validate all models annually Modify rating systems, risk classification procedures, and internal models	Manage cover business Ensure compliance with all regulatory requirements relating to the *Pfandbrief* business Establish and maintain (risk) management information system for the *Pfandbrief* business Develop cover business strategy	Establish and develop DQ framework along established guidelines Monitor and analyze data quality Develop DQ framework and procure budgets and ressources	Ensure due compliance of the Postbank Group Structure regulatory agenda Escalation authority

The Bank Risk Committee is an overarching risk committee in which the Chief Risk Officer is represented. It aggregates all risk issues and submits them to the Group Management Board. The Credit Risk Committee (CRC), the Market Risk Committee (MRC), the Operational Risk Committee (ORC), the Cover Business Committee (CBC), and the Model and Validation Committee (MVC) are headed by members of the Bank's senior management. The Cover Business Committee develops management triggers for Postbank's cover business. The Model and Validation Committee is responsible for modifications to and extensions of risk models and risk classification procedures, as well as for approving the validation reports. Other bodies are the Data Quality Committee (DQC), the Outsourcing Committee (OC), and the Regulatory RADAR Committee (RRC). These committees perform their duties in close cooperation with the Bank Risk Committee and the operational management units.

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

Centralized risk monitoring and management

Risk Control function

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

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

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

The Pfandbrief Management unit, which includes the Trusteeship unit, is also allocated to the CRO board department. The Trusteeship unit monitors the required cover for Postbank's *Pfandbriefe* and maintains the cover register. The unit thus works together closely with the Cover Business Management unit, which is allocated to the Products board department.

The following overview explains the roles of the individual CRO functions.

Risk management units and tasks

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

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

Risk management by risk type

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

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

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

The Credit Risk Control Risk Models unit is responsible for developing, validating, and calibrating the rating models, whereas the Credit Risk Control Credit Risk Management unit performs credit risk limit monitoring, reporting and management. The Chief Operating Office Risk Standards unit is responsible for issuing standards on the treatment of credit risk exposure.

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

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

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

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

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

Overarching risk management

Risk-bearing capacity

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

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

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

Postbank is actively following the current supervisory discussion on changes to methods within the Bank regarding the calculation of the risk-bearing capacity and the ICAAP. Once adopted, these may also lead to changes in existing procedures at Postbank.

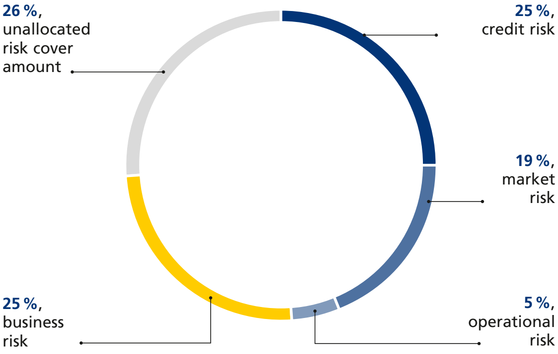
Risk capital and risk limitation

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

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

The percentage allocation of Postbank's "economic creditor protection" risk cover amount by risk type, after factoring in correlation effects, is as follows for fiscal year 2016 (calculated as of December 31, 2016):

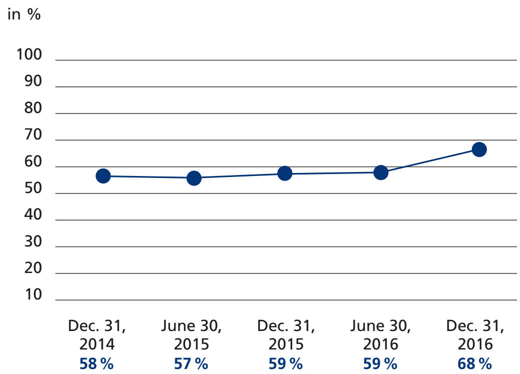
Breakdown of Postbank's "economic creditor protection" risk cover amount by risk type (approved risk capital)



The absolute amount of economic creditor protection risk cover and a breakdown of the absolute amount of risk capital by risk type (as of December 31, 2016, and the prior-year closing date) are given in Note 49 to the Consolidated Financial Statements. 138

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

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



Risk cover utilization (in economic creditor protection), measured in terms of the allocated risk capital after diversification, amounted to 68 % as of the reporting date. Overall, in the year under review, there was a small decline in the aggregate allocated capital regarding the credit risk compared with the 2015 year-end. The risk cover amount decreased as against December 31, 2015, and utilization therefore increased by 9 % year-on-year. The main reason for the decline in the risk cover amount is a reduction in the hidden reserves and liabilities item through the exchange of other assets (see Note 6) as well as the increase in deductions for model uncertainties in the case of credit risk. 98

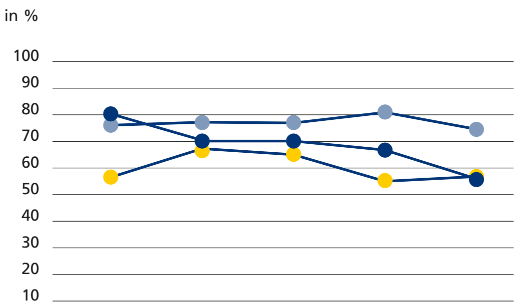
From a going concern perspective as well, the available risk cover amount provides sufficient cover for the risk potential calculated.

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

Market risk is managed by allocating VaR and loss limits both at Group level and for the relevant portfolios. A stressed value at risk (sVaR) concept is used for market risk – a method of calculating capital requirements for market risk assuming a period of stress. The period used to determine the stressed VaR at year-end was the period from August 4, 2011, to July 26, 2012, since this historical period represented a period of significant stress by comparison with the Bank's positioning as of the reporting date. For loans to banks, corporates, and countries (central and regional governments and local authorities), credit risk is primarily managed by allocating limits at portfolio level and by defining a target portfolio. The retail business volume is managed using variance analyses. In the case of operational risk, limits are defined both for the Bank as a whole and for each segment. The other risk types are managed using Group-wide limits.

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

Development of the limit utilization for operationally managed risk types



	Dec. 31, 2014	June 30, 2015	Dec. 31, 2015	June 30, 2016	Dec. 31, 2016
Market risk	80 %	70%	70 %	68 %	55 %
Credit risk	77 %	79 %	79 %	81 %	73 %
Operational risk	57 %	66 %	65%	56 %	58 %

As of December 31, 2016, utilization of the authorized risk capital for market risk in the narrower sense of the term amounted to 55 %, a significant decline compared with the prior year-end (December 31, 2015: 70 %). Both the reduction in credit spread sensitivity in the portfolio in the reporting year, which also resulted in lowered risk concentrations, and the reduction in the interest rate risk position contributed to this development. Credit risk limit utilization amounted to 73 % as of December 31, 2016 (December 31, 2015: 79 %). Higher business volumes in the strategic business areas of the Retail Banking and Corporate Banking segments led to increased risk. This was more than offset by the scaling back of portfolios in the Non-Core Operating Unit segment as well as the updated inputs for the retail portfolio (reduction of correlation coefficients in the portfolio model and simultaneous introduction of a capital deduction due to model inaccuracies). Utilization of the authorized risk capital limit for operational risk decreased from 65 % at the end of 2015 to 58 % as of December 31, 2016, due among other things to an adjustment to the operational risk capital model that moved the boundary of the tail of the loss distribution in the Retail Banking business division from €6 million to €10 million. This adjustment needed to be made because the structure of the data on external losses obtained from the ORX consortium (Operational Riskdata eXchange Association) has changed significantly.

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

Risk concentrations and stress testing

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

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

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

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

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

In the Non-Core Operating Unit segment, Postbank further reduced concentration risk due to its holdings of investment securities reaching maturity.

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

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

New products process

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

Group-wide risk reporting

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

Group-wide reporting

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

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

Monitoring and managing market risk

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

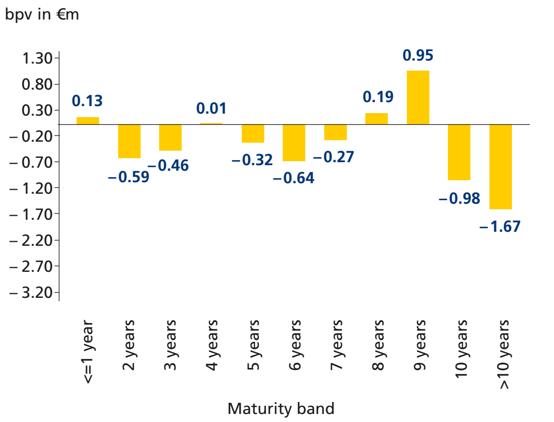
Escalation mechanisms have been defined for critical management parameters and for exogenous events so as to account for the relative significance of market risk to Postbank. These mechanisms ensure a prompt reaction to situations in which limits are approached or exceeded, or to extreme market movements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

Interest rate risk management

Interest rate risk – a significant component of market risk – is the term used to denote the risk of a decline in the fair value of interest-sensitive financial instruments resulting from a change in the market rate of interest or a deterioration in net interest income for the period due to changes in the general market rate of interest. 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 Deutsche Postbank AG's variable-interest customer deposits, the exposures in BHW Bausparkasse AG's home savings collective, as well as the customer loans business. The assumptions and inputs used in interest rate risk modeling and management are reviewed for appropriateness on an ongoing basis.

At Postbank, interest rate risk is primarily measured and managed on a present value basis as part of the ICAAP. Interest rate risk analysis is an integral part of daily market risk measurement. The following chart presents the profile of Postbank's open interest rate positions as of December 31, 2016, 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. Overall, Postbank continued to have a long interest rate position as of December 31, 2016.

The Postbank Group's interest rate positions (bpv) as of December 31, 2016



The graphic shows that the long interest rate positions open as of the reporting date of December 31, 2016, are distributed across almost all maturity ranges. Only in the maturity range of less than one year and in the maturity band of eight to nine years are the majority of interest rate risk overhangs on the short side. The total bpv as of December 31, 2016, amounted to €–3.6 million, compared with €–4.0 million as of December 31, 2015. Interest rate sensitivity is primarily the result of positions in euros; interest rate sensitivities in other currencies are immaterial. Postbank mainly uses interest rate swaps to actively manage interest rate risk. Those elements of capital made available to the Bank indefinitely are excluded when determining interest rate risk.

Value at risk measurement, limit setting, and backtesting

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

VaR is calculated uniformly throughout Postbank using a Monte Carlo simulation. Operational management is based on a confidence level of 99 % and a holding period appropriate to day-to-day risk management of ten days. The material risk factors taken into account when calculating VaR are interest rates and credit spread curves, share prices, exchange rates, and volatilities. During the first half of 2016, the VaR model used to quantify market risk was fully adapted in relation to interest rate risk modeling so as to reflect the current low interest rate environment.

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

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

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

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

The methods used to compute VaR are regularly validated and tested for reliability. The predictive accuracy of the calculated VaR is tested by comparing it with the hypothetical gains and losses arising from actual changes in fair value for the same portfolio (clean mark-to-market backtesting), among other things. The backtesting results as of December 31, 2016 (one-sided binomial test in accordance with the Basel traffic light approach) produced three outliers at Group level and were thus in the green zone, thereby confirming the general adequacy of the market risk model.

Stress testing

In addition to VaR calculations, scenario analyses and stress tests are performed at regular intervals to permit the specific analysis of the impact of extreme market movements and to identify risk concentrations. These analyses quantify the effects of extraordinary events and extreme market conditions on the relevant Postbank exposures.

Scenario analyses and stress tests are performed for all material risk factors within market risk. The assumptions and inputs underlying the stress tests are regularly reviewed for appropriateness. Stress tests comprise both scenarios derived from historical changes in risk factors and hypothetical extreme scenarios. The Group Management Board, the members of the BRC and the MRC, and the Supervisory Board are kept regularly informed of the key results of the scenario analyses. The greatest risks that emerge from the regularly performed internal stress tests for market risk continue to be those in connection with interest rates and spreads due to the Bank's positioning. Sensitivities to changes in equity prices, currency rates, and volatilities are significantly less pronounced due to the small number of exposures.

In fiscal year 2016, the risk capital available for market risk was sufficient at all times to cover the fair value losses arising in even the most adverse of the historical and hypothetical stress scenarios examined.

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

Appropriate market terms

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

Risk indicators

The following VaR figures were calculated for fiscal year 2016 and fiscal year 2015:

Postbank Group VaR relating to market risk

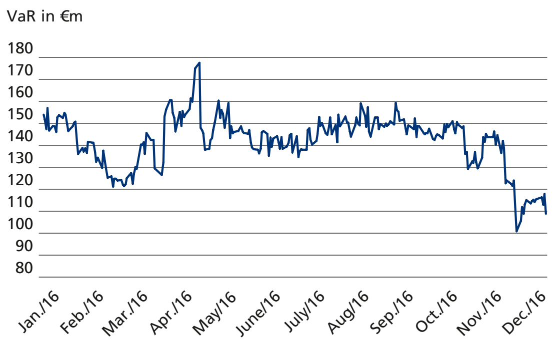
Group VaR (10 days, 99 %)	Year-end VaR		Maximum VaR		Minimum VaR		Average VaR	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	2016 €m	2015 €m	2016 €m	2015 €m	2016 €m	2015 €m
Interest rate risk	58.5	87.9	87.8	102.8	39.7	38.2	69.0	62.0
Equity/stock index risk	6.3	8.6	9.9	9.3	6.1	3.5	8.0	6.2
Currency risk	7.2	3.4	8.6	7.1	3.2	0.3	4.5	3.8
Other market risk (spread)	73.2	105.2	120.3	120.0	71.3	93.6	96.4	105.1
Diversification effects	–36.9	–43.7	–55.9	–56.7	–0.5	–30.0	–36.1	–42.5
Total	**108.3**	**161.3**	**177.3**	**170.3**	**100.4**	**109.0**	**141.8**	**134.6**

The VaR for market risk (confidence level of 99 %, holding period of 10 days) amounted to a total of €108 million as of December 31, 2016 (for comparative purposes: €161 million as of December 31, 2015).

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

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

Postbank Group VaR (99 %, 10 days) for the period from January 1, 2016, to December 31, 2016



The VaR trend in Postbank's banking book is driven mainly by the development of two risk factors: interest rate spread and credit spread. Following a significant rise in operational VaR figures in the first half of the year, which was primarily driven by model and market parameters such as increased interest rate volatility, the VaR stabilized in the third quarter of 2016 at a level of approximately €140 million to €150 million. Toward the end of the year under review, VaR declined to €108 million (the most recent figure) as a result of a reduction in the interest rate and credit spread exposures.

Postbank's trading book has not contained any active positions since May 2014. There was no trading book business in the year under review and no new business is planned in this area for strategic reasons.

Real estate risk management

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

Investment risk management

Equity investments are defined as all equity interests recognized in the annual financial statements of Deutsche Postbank AG under "equity investments" and "investments in affiliated companies," and investments in companies pursuant to section 16(2) and (4) of the *Aktiengesetz* (AktG – German Stock Corporation Act). As of the reporting date of December 31, 2016, Deutsche Postbank AG held a total of 45 (previous year-end: 42) direct and a large number of indirect equity investments.

These holdings are predominantly strategic investments that reflect Postbank's product and service lines, and that provide internal services for Postbank. As of December 31, 2016, Postbank held equity investments classified as held for sale in accordance with IFRS 5 in the amount of €14 million (see Note 28). 112

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

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

Monitoring and managing credit risk

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

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

Managing individual risks

Credit approval procedures

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

Scoring and rating

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

The Credit Risk Control Risk Models unit is responsible for the design, methodological supervision, and calibration of all rating procedures used, as well as for implementing the internal rating procedures that have been transposed into internal IT routines. Since 2016, the Model Risk and Validation function established in November 2015 has gradually assumed responsibility for designing and maintaining a superordinate validation process that will govern all the Bank's (relevant) models. In addition, all internal rating processes will be validated by the newly established unit on a regular and as-needed basis from 2017 onward. A Model and Validation Committee (MVC), which was established to provide process support, is responsible together with its subordinate Model Change Policy Committee (MCPC) for ensuring that the results of the monitoring of internal rating processes are incorporated into the internal reporting system and the Bank's management processes. Postbank's Management Board is provided with regular information on the operability of the rating systems, as well as on the results of the ratings performed as part of the management reporting process, by the bodies responsible (BRC, CRC, MVC). The Risk Standards unit, which is attached to the Chief Operating Office of the CRO function, is responsible for monitoring the processes. In addition to ongoing deconsolidation projects, the work performed by the Bank's Credit Risk Control function in the past year focused among other things on the enhancement, ongoing validation, and, where necessary, recalibration of the scoring and rating systems. Internal Audit audits the appropriateness of the internal rating systems, including adherence to the minimum requirements for use of the rating systems, on an annual basis.

In Retail Banking, loans are approved, decisions to extend them are made, and terms are defined using the results of statistical scoring models and approval policies. The scoring models utilized at Postbank make use of internal and external information about the borrower and employ statistical methods to individually estimate the probability of default for borrowers or loans (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. The credit conversion factor (CCF) is calculated to estimate the degree of utilization of open credit lines at the time of default.

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

All internal ratings and scorings are presented using a uniform master scale, which assigns each rating or scoring result a rating class, as well as the default probability determined for that class. Postbank uses the terminology of the Standard & Poor's rating agency here. In 2016, the CCC rating category was expanded to include the ratings CCC+ and CCC–.

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

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

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

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

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

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

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

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

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

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

Loan collateral in the Corporate Banking 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 concepts produced by vdpResearch GmbH (the real estate market research company belonging to the Verband deutscher Pfandbriefbanken e.V.) and, in the case of hotel properties, by Deutsche Kreditwirtschaft, while the front office and back office units perform qualitative monitoring of the relevant sectors and real estate markets on an ongoing basis. In the case of loans and property values with volumes in excess of €3 million, valuations are always reviewed at the latest after three years by independent, qualified collateral specialists or a new appraisal is performed by real estate experts, as appropriate.

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

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

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

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

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

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

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

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

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

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

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

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

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

The portfolio-based valuation allowances account for all loan losses that have occurred but that Postbank has yet to identify; this may be because the respective customer is still currently meeting his or her payment obligations, for example. Postbank factors in expected default probabilities, loss rates, and the estimated time between when the default occurs and when this is identified (loss identification period, LIP), depending on the type of product and customer group concerned in each case. The default probabilities and the loss rates for defaults at the portfolio level are calculated at portfolio level and updated where necessary on the basis of the results of the annual validation and recalibration of the IRBA rating systems; LIP factors are estimated on an individual basis, reviewed on an annual basis, and adjusted where necessary in line with the relevant risk monitoring processes.

Uncollectible loans are written off directly through profit or loss.

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

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

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

Managing credit risk at portfolio level

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

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

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

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

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

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

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

Portfolio structure
The following table provides an overview of material credit risk indicators for the various segments as of December 31, 2016, compared with the end of 2015 (volumes: IFRS carrying amounts).

Credit risk	Volume		Expected loss		Economic capital (EC)[1]	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Retail Banking[2]	76,737	75,486	318	318	569	877
Corporate Banking	16,336	14,495	56	41	392	354
Financial Markets	42,977	47,336	5	5	379	382
Non-Core Operating Unit	6,414	8,989	6	8	582	581
Pension funds	n/a	n/a	1	0	49	11
Total[2]	**142,464**	**146,306**	**386**	**373**	**1,971**	**2,205**

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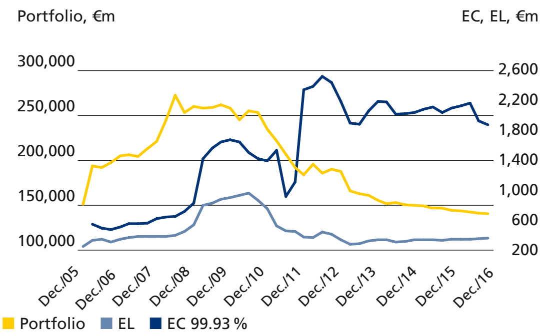
[1]The underlying confidence level is 99.93%.
[2]2015 figures adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")

The economic capital (EC) decreased compared with the prior year-end while the expected loss (EL) increased. The increase in the EL is due to higher volumes in the strategic business areas of the Retail Banking and Corporate Banking segments (installment loans, commercial mortgages, corporate customer business) as well as to individual rating downgrades.

The change in EC was influenced by the updated model inputs for the retail portfolio, which led to lower EC in the overall portfolio and in the Retail Banking segment. The rise in EC in the Corporate Banking segment was the result of higher volumes, individual rating downgrades, and the business customer portfolio being moved from the Retail Banking segment to Corporate Banking. In the Non-Core Operating Unit, a rating downgrade means that EC remained stable despite the scaling back of portfolios. In the pension funds, the shift from government bonds to corporate bonds increased EC.

The following graphic shows the portfolio, EC, and EL over time. The increase as of the 2011 closing date was due to the introduction of a new credit portfolio model and the resulting improvements in the model methodology. The change in 2016 is attributable to the factors described in the paragraph above. The rise in EC in the first half of the year under review is attributable to volume growth, while the decline in EC in the second half of the year is due to the updating of the inputs described above.

Overall bank portfolio and risk development over time



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

Maximum counterparty credit risk[1]

Risk-bearing financial instruments	Maximum counterparty credit risk exposure		Allowance for losses on loans and advances[1]		Maximum counterparty credit risk exposure after allowance for losses on loans and advances		Collateral		Guarantees/ credit derivatives		Maximum counterparty credit risk exposure after allowance for losses on loans and advances and after credit risk mitigation	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trading assets	**475**	**647**	**–**	**–**	**475**	**647**	**51**	**88**	**–**	**–**	**424**	**559**
Held for trading	475	647	–	–	475	647	51	88	–	–	424	559
Derivatives	422	556	–	–	422	556	–	–	–	–	422	556
Loans	53	91	–	–	53	91	51	88	–	–	2	3
Hedging derivatives	**112**	**78**	**–**	**–**	**112**	**78**	**–**	**–**	**–**	**–**	**112**	**78**
Loans and advances to other banks	**13,108**	**15,876**	**–**	**–**	**13,108**	**15,876**	**5,832**	**13,094**	**–**	**–**	**7,276**	**2,782**
Loans and receivables	13,108	15,876	–	–	13,108	15,876	5,832	13,094	–	–	7,276	2,782
Securities repurchase agreements	5,832	13,144	–	–	5,832	13,144	5,832	13,094	–	–	–	50
Overnight money	6,381	837	–	–	6,381	837	–	–	–	–	6,381	837
Loans	92	68	–	–	92	68	–	–	–	–	92	68
Registered bonds	300	425	–	–	300	425	–	–	–	–	300	425
Term deposits	500	1,100	–	–	500	1,100	–	–	–	–	500	1,100
Other loans and advances	3	302	–	–	3	302	–	–	–	–	3	302
Loans and advances to customers[2]	**102,003**	**98,936**	**998**	**923**	**101,005**	**98,013**	**74,808**	**74,549**	**645**	**814**	**25,552**	**22,650**
Loans and receivables[2]	98,358	94,527	998	923	97,360	93,604	71,256	70,279	645	814	25,459	22,511
Private mortgage lending[2, 3]	65,384	64,305	292	351	65,092	63,954	61,873	61,664	–	–	3,219	2,290
Home savings loans[3]	2,992	3,243	5	5	2,987	3,238	2,912	3,142	–	–	75	96
Commercial loans[2]	13,677	12,073	153	159	13,524	11,914	6,471	5,473	645	814	6,408	5,627
Public-sector receivables	5,205	4,621	4	4	5,201	4,617	–	–	–	–	5,201	4,617
Installment loans[2]	7,438	6,589	389	268	7,049	6,321	–	–	–	–	7,049	6,321
Overdraft facilities	2,085	2,176	155	134	1,930	2,042	–	–	–	–	1,930	2,042
Promissory note loans	1,537	1,485	–	–	1,537	1,485	–	–	–	–	1,537	1,485
Other loans and advances	40	35	–	2	40	33	–	–	–	–	40	33
Fair value option	3,645	4,409	–	–	3,645	4,409	3,552	4,270	–	–	93	139
Private mortgage lending	3,645	4,409	–	–	3,645	4,409	3,552	4,270	–	–	93	139
Investment securities	**26,766**	**30,769**	**–**	**–**	**26,766**	**30,769**	**–**	**–**	**–**	**–**	**26,766**	**30,769**
Loans and receivables	12,196	17,408	–	–	12,196	17,408	–	–	–	–	12,196	17,408
Bonds and other fixed-income securities	12,196	17,408	–	–	12,196	17,408	–	–	–	–	12,196	17,408
Available for sale	14,570	13,361	–	–	14,570	13,361	–	–	–	–	14,570	13,361
Bonds and other fixed-income securities	14,252	13,035	–	–	14,252	13,035	–	–	–	–	14,252	13,035
Investment fund shares	270	261	–	–	270	261	–	–	–	–	270	261
Equity investments	43	60	–	–	43	60	–	–	–	–	43	60
Investments in unconsolidated subsidiaries	5	5	–	–	5	5	–	–	–	–	5	5
Subtotal	**142,464**	**146,306**	**998**	**923**	**141,466**	**145,383**	**80,691**	**87,731**	**645**	**814**	**60,130**	**56,838**
Contingent liabilities from guarantees	**379**	**426**	**18**	**22**	**361**	**404**	**–**	**–**	**0**	**–**	**361**	**404**
Revocable and irrevocable loan commitments[2]	**20,861**	**19,702**	**27**	**21**	**20,834**	**19,681**	**–**	**–**	**13**	**34**	**20,821**	**19,647**
Revocable loan commitments[2, 4]	13,095	13,902	13	9	13,082	13,893	–	–	–	–	13,082	13,893
Irrevocable loan commitments[2]	7,766	5,800	14	12	7,752	5,788	–	–	13	34	7,739	5,754
Total	**163,704**	**166,434**	**1,043**	**966**	**162,661**	**165,468**	**80,691**	**87,731**	**658**	**848**	**81,312**	**76,889**

[1]The table was expanded compared to the prior-year table to include the allowance for losses on loans and advances.
[2]2015 figures disclosed in the "maximum counterparty credit risk exposure" and "collateral" columns adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")
[3]Breakdown of figures between private mortgage lending and home savings loans adjusted for 2015
[4]Item includes irrevocable payment obligations (deposit protection fund and cash collateral relating to bank levy; see Note 40)

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The table contains netting effects relating to trading assets and hedging derivatives (December 31, 2016: € 7.1 billion; December 31, 2015: €8.0 billion) and to securities repurchase agreements (December 31, 2016: €4.0 billion; December 31, 2015: €5.1 billion) in the amount disclosed for the maximum counterparty credit risk exposure before collateral.

€4.1 billion of the amount disclosed in the "investment securities" balance sheet item as of the reporting date relates to covered bonds (December 31, 2015: €4.9 billion).

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

Sector structure of the loan portfolio

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

Risk concentrations by sector and borrower group

Risk-bearing financial instruments	Retail customers		Banks/ insurers/ financial services		Countries		Commercial real estate finance		Services/ wholesale and retail		Industry		Other sectors		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trading assets	**53**	**91**	**211**	**319**	**–**	**–**	**97**	**97**	**26**	**35**	**23**	**22**	**65**	**83**	**475**	**647**
Held for trading	53	91	211	319	–	–	97	97	26	35	23	22	65	83	475	647
Derivatives	0	0	211	319	–	–	97	97	26	35	23	22	65	83	422	556
Loans	53	91	–	–	–	–	–	–	–	–	–	–	–	–	53	91
Hedging derivatives	**–**	**–**	**112**	**78**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**112**	**78**
Loans and advances to other banks	**–**	**–**	**13,078**	**15,876**	**–**	**–**	**30**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13,108**	**15,876**
Loans and receivables	–	–	13,078	15,876	–	–	30	–	–	–	–	–	–	–	13,108	15,876
Securities repurchase agreements	–	–	5,832	13,144	–	–	–	–	–	–	–	–	–	–	5,832	13,144
Overnight money	–	–	6,381	837	–	–	–	–	–	–	–	–	–	–	6,381	837
Loans	–	–	62	68	–	–	30	–	–	–	–	–	–	–	92	68
Registered bonds	–	–	300	425	–	–	–	–	–	–	–	–	–	–	300	425
Term deposits	–	–	500	1,100	–	–	–	–	–	–	–	–	–	–	500	1,100
Other loans and advances	–	–	3	302	–	–	–	–	–	–	–	–	–	–	3	302
Loans and advances to customers[1]	**80,723**	**80,165**	**342**	**443**	**5,693**	**5,052**	**7,669**	**6,719**	**4,030**	**3,258**	**2,573**	**2,261**	**973**	**1,038**	**102,003**	**98,936**
Loans and receivables[1]	77,081	75,759	342	443	5,693	5,052	7,669	6,719	4,029	3,257	2,573	2,261	971	1,036	98,358	94,527
Private mortgage lending[1, 2]	65,271	64,178	0	0	1	1	–	–	20	23	0	0	92	103	65,384	64,305
Home savings loans[2]	2,988	3,239	–	–	0	–	–	–	0	–	0	–	4	4	2,992	3,243
Commercial loans[1]	336	673	299	347	20	6	7,669	6,719	2,992	2,182	1,861	1,587	500	559	13,677	12,073
Public-sector receivables	–	–	–	–	5,135	4,544	–	–	1	1	–	–	69	76	5,205	4,621
Installment loans[1]	7,437	6,588	0	0	–	–	–	–	1	1	0	0	0	0	7,438	6,589
Overdraft facilities	1,049	1,081	12	69	0	0	–	–	567	574	329	352	128	100	2,085	2,176
Promissory note loans	–	–	31	27	533	501	–	–	446	470	383	322	144	165	1,537	1,485
Other loans and advances	–	–	0	–	4	–	–	–	2	6	–	–	34	29	40	35
Fair value option	3,642	4,406	–	–	0	0	–	–	1	1	–	–	2	2	3,645	4,409
Private mortgage lending	3,642	4,406	–	–	0	0	–	–	1	1	–	–	2	2	3,645	4,409
Investment securities	**–**	**–**	**8,963**	**12,632**	**15,319**	**15,658**	**–**	**–**	**1,284**	**1,140**	**675**	**685**	**525**	**654**	**26,766**	**30,769**
Loans and receivables	–	–	4,171	7,537	6,860	8,869	–	–	669	405	279	302	217	295	12,196	17,408
Bonds and other fixed-income securities	–	–	4,171	7,537	6,860	8,869	–	–	669	405	279	302	217	295	12,196	17,408
Available for sale	–	–	4,792	5,095	8,459	6,789	–	–	615	735	396	383	308	359	14,570	13,361
Bonds and other fixed-income securities	–	–	4,484	4,778	8,459	6,789	–	–	611	735	396	383	302	350	14,252	13,035
Investment fund shares	–	–	270	261	–	–	–	–	–	–	–	–	–	–	270	261
Equity investments	–	–	38	56	–	–	–	–	0	0	–	–	5	4	43	60
Investments in unconsolidated subsidiaries	–	–	–	0	–	–	–	–	4	0	–	–	1	5	5	5
Subtotal	**80,776**	**80,256**	**22,706**	**29,348**	**21,012**	**20,710**	**7,796**	**6,816**	**5,340**	**4,433**	**3,271**	**2,968**	**1,563**	**1,775**	**142,464**	**146,306**
Contingent liabilities from guarantees	**6**	**26**	**13**	**6**	**–**	**–**	**9**	**7**	**199**	**227**	**84**	**102**	**68**	**58**	**379**	**426**
Revocable and irrevocable loan commitments[1]	**17,778**	**17,061**	**136**	**64**	**140**	**29**	**233**	**140**	**1,458**	**1,345**	**766**	**696**	**350**	**367**	**20,861**	**19,702**
Revocable loan commitments[1]	11,624	12,620	12	32	20	–	–	–	748	671	450	415	241	164	13,095	13,902
Irrevocable loan commitments[1]	6,154	4,441	124	32	120	29	233	140	710	674	316	281	109	203	7,766	5,800
Total	**98,560**	**97,343**	**22,855**	**29,418**	**21,152**	**20,739**	**8,038**	**6,963**	**6,997**	**6,005**	**4,121**	**3,766**	**1,981**	**2,200**	**163,704**	**166,434**

[1]2015 figures adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")
[2]Breakdown of figures between private mortgage lending and home savings loans adjusted for 2015

Overall, the sector distribution of the instruments subject to credit risk, measured in terms of volume, displays a balanced structure except for the concentrations with respect to banks and countries. The Group's 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 domestic and international commercial real estate finance. The holdings of investment securities consist for the most part of a portfolio of mainly German and European government bonds as well as bonds issued by banks (including covered bonds and *Pfandbriefe*), insurers, and other financial services providers.

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

Regional distribution of the loan portfolio
Postbank has established country-specific limits for credit approvals in order to manage country risk. The country limits are largely determined by internal and external ratings, and by the economic strength of the particular country as measured by its gross domestic product. A Group-wide database keeps track of the limits established for each country and their current utilization, as well as the economic data used in allocating countries to risk categories. Postbank also uses an early warning system to monitor country limits.

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

Risk concentrations by geographic region

Risk-bearing financial instruments	Germany		Western Europe		Other regions		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trading assets	**377**	**439**	**95**	**206**	**3**	**2**	**475**	**647**
Held for trading	377	439	95	206	3	2	475	647
Derivatives	324	348	95	206	3	2	422	556
Loans	53	91	–	–	–	–	53	91
Hedging derivatives	**5**	**5**	**70**	**51**	**37**	**22**	**112**	**78**
Loans and advances to other banks	**12,301**	**6,104**	**779**	**9,751**	**28**	**21**	**13,108**	**15,876**
Loans and receivables	12,301	6,104	779	9,751	28	21	13,108	15,876
Securities repurchase agreements	5,832	4,122	–	9,022	–	–	5,832	13,144
Overnight money	5,774	288	579	528	28	21	6,381	837
Loans	92	66	–	2	–	–	92	68
Registered bonds	100	227	200	198	–	–	300	425
Term deposits	500	1,100	–	–	–	–	500	1,100
Other loans and advances	3	301	–	1	–	0	3	302
Loans and advances to customers[1]	**93,950**	**91,624**	**7,331**	**6,603**	**722**	**709**	**102,003**	**98,936**
Loans and receivables[1]	90,316	87,229	7,322	6,592	720	706	98,358	94,527
Private mortgage lending[1, 2]	62,546	61,116	2,793	3,139	45	50	65,384	64,305
Home savings loans[2]	2,695	2,943	296	298	1	2	2,992	3,243
Commercial loans[1]	9,016	8,493	3,996	2,933	665	647	13,677	12,073
Public-sector receivables	5,198	4,613	7	8	–	–	5,205	4,621
Installment loans[1]	7,409	6,565	21	19	8	5	7,438	6,589
Overdraft facilities	2,077	2,167	7	7	1	2	2,085	2,176
Promissory note loans	1,336	1,303	201	182	–	–	1,537	1,485
Other loans and advances	39	29	1	6	–	–	40	35
Fair value option	3,634	4,395	9	11	2	3	3,645	4,409
Private mortgage lending	3,634	4,395	9	11	2	3	3,645	4,409
Investment securities	**9,312**	**11,542**	**16,961**	**18,737**	**493**	**490**	**26,766**	**30,769**
Loans and receivables	5,170	6,835	6,728	10,247	298	326	12,196	17,408
Bonds and other fixed-income securities	5,170	6,835	6,728	10,247	298	326	12,196	17,408
Available for sale	4,142	4,707	10,233	8,490	195	164	14,570	13,361
Bonds and other fixed-income securities	3,843	4,383	10,229	8,488	180	164	14,252	13,035
Investment fund shares	270	261	–	–	–	–	270	261
Equity investments	28	59	0	1	15	–	43	60
Investments in unconsolidated subsidiaries	1	4	4	1	–	–	5	5
Subtotal	**115,945**	**109,714**	**25,236**	**35,348**	**1,283**	**1,244**	**142,464**	**146,306**
Contingent liabilities from guarantees	**341**	**375**	**38**	**51**	**–**	**–**	**379**	**426**
Revocable and irrevocable loan commitments[1]	**20,558**	**19,431**	**290**	**254**	**13**	**17**	**20,861**	**19,702**
Revocable loan commitments[1]	12,983	13,823	101	67	11	12	13,095	13,902
Irrevocable loan commitments[1]	7,575	5,608	189	187	2	5	7,766	5,800
Total	**136,844**	**129,520**	**25,564**	**35,653**	**1,296**	**1,261**	**163,704**	**166,434**

[1]2015 figures adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")
[2]Breakdown of figures between private mortgage lending and home savings loans adjusted for 2015

The following table “Exposures to debtors in selected European countries” comprises exposures to debtors in the “GIIPS” countries (Greece, Ireland, Italy, Portugal, Spain). The amounts disclosed are the IFRS carrying amounts.

Exposures to debtors in selected European countries[1]

	Countries		Banks/insurers/ financial services		Retail		Corporates[2]		Other[3]		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Greece	0.0	0.0	0.0	0.0	1.1	1.5	0.0	0.0	0.0	0.0	1.1	1.5
Ireland	593.9	362.1	29.2	47.2	2.2	2.6	49.4	47.7	15.9	27.6	690.6	487.2
Italy	2,795.5	3,268.6	178.6	840.7	1,703.7	2,087.1	330.9	371.8	0.0	0.0	5,008.7	6,568.2
Portugal	0.0	60.0	0.0	93.6	3.0	5.1	12.9	0.9	0.0	0.0	15.9	159.6
Spain	600.8	64.1	234.4	604.3	25.7	34.3	186.5	127.4	0.0	0.0	1,047.4	830.1
Total	**3,990.2**	**3,754.8**	**442.1**	**1,585.8**	**1,735.7**	**2,130.6**	**579.8**	**547.8**	**15.9**	**27.6**	**6,763.7**	**8,046.6**

[1]Based on IFRS carrying amounts. For holdings categorized as available for sale this is the fair value.
[2]Including commercial real estate
[3]Including investor securitization positions

As of December 31, 2016, Postbank no longer held any securities accepted as collateral in securities repurchase transactions entered into with Deutsche Bank branches in Spain and Italy in 2014 (December 31, 2015: €6.0 billion).

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

Rating structure of the loan portfolio

The following table shows the credit quality of the risk-bearing financial instruments for Postbank’s non-retail business that were neither past due nor individually impaired as of December 31, 2016 (excluding “contingent liabilities” and “other liabilities”).

In principle, Postbank uses the same rating for risk management as for capital requirements; this is normally the issuer rating rather than the rating given to a specific issue. Postbank has a large portfolio of *Pfandbriefe* and similarly collateralized issues that are relatively low-risk in nature. For this reason, the issue ratings are shown in the following table. The distribution of ratings in the Group loan portfolio reflects Postbank’s conservative approach. The good rating categories predominate: 93 % of the rated portfolio is classified as investment grade (rating of “BBB” or better).

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

Risk-bearing financial instruments	AAA		AA		A		BBB		< BBB		Not rated		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trading assets	**–**	**–**	**18**	**37**	**74**	**297**	**211**	**74**	**75**	**108**	**44**	**40**	**422**	**556**
Held for trading	–	–	18	37	74	297	211	74	75	108	44	40	422	556
Derivatives	–	–	18	37	74	297	211	74	75	108	44	40	422	556
Hedging derivatives	**–**	**–**	**–**	**–**	**112**	**78**	**–**	**–**	**–**	**–**	**–**	**–**	**112**	**78**
Held for trading	–	–	–	–	112	78	–	–	–	–	–	–	112	78
Loans and advances to other banks	**5,600**	**121**	**44**	**350**	**4,970**	**15,112**	**2,414**	**157**	**21**	**59**	**59**	**77**	**13,108**	**15,876**
Loans and receivables	5,600	121	44	350	4,970	15,112	2,414	157	21	59	59	77	13,108	15,876
Securities repurchase agreements	–	–	–	300	4,284	12,778	1,548	66	–	–	–	–	5,832	13,144
Overnight money	5,482	–	44	43	685	730	135	12	18	18	17	34	6,381	837
Loans	17	19	–	–	–	4	30	–	3	2	42	43	92	68
Registered bonds	99	97	–	–	–	250	201	78	–	–	–	–	300	425
Term deposits	–	3	–	–	–	1,097	500	–	–	–	–	–	500	1,100
Other loans and advances	2	2	–	7	1	253	0	1	0	39	0	0	3	302
Available for sale	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances to customers[1]	**4,666**	**5,232**	**2,450**	**2,657**	**1,971**	**1,530**	**7,301**	**4,884**	**4,117**	**3,226**	**422**	**707**	**20,927**	**18,236**
Loans and receivables[1]	4,666	5,232	2,450	2,657	1,971	1,530	7,301	4,884	4,117	3,226	419	704	20,924	18,233
Private mortgage lending	1	13	–	13	6	20	29	32	52	8	20	19	108	105
Home savings loans	–	–	–	–	–	–	–	–	–	–	4	–	4	–
Commercial loans[1]	818	1,848	580	967	1,874	1,356	5,958	3,649	3,540	2,646	344	543	13,114	11,009
Public-sector receivables	3,815	3,371	1,344	1,168	–	–	–	–	–	2	39	72	5,198	4,613
Overdraft facilities	–	–	–	–	1	58	500	511	422	385	–	35	923	989
Promissory note loans	32	–	522	509	67	96	813	692	103	185	–	–	1,537	1,482
Other loans and advances	–	–	4	–	23	–	1	–	–	–	12	35	40	35
Fair value option	–	–	–	–	–	–	–	–	–	–	3	3	3	3
Private mortgage lending	–	–	–	–	–	–	–	–	–	–	3	3	3	3
Investment securities	**10,674**	**12,100**	**8,308**	**8,691**	**6,174**	**7,650**	**1,423**	**1,828**	**135**	**365**	**45**	**128**	**26,759**	**30,762**
Loans and receivables	4,109	5,659	3,668	4,735	3,488	5,851	808	870	116	286	–	–	12,189	17,401
Bonds and other fixed-income securities	4,109	5,659	3,668	4,735	3,488	5,851	808	870	116	286	–	–	12,189	17,401
Available for sale	6,565	6,441	4,640	3,956	2,686	1,799	615	958	19	79	45	128	14,570	13,361
Bonds and other fixed-income securities	6,565	6,441	4,639	3,955	2,416	1,602	613	958	19	79	–	–	14,252	13,035
Investment fund shares	–	–	–	–	270	197	–	–	–	–	–	64	270	261
Equity investments	–	–	1	1	–	–	1	–	–	–	41	59	43	60
Investments in unconsolidated subsidiaries	–	–	–	–	–	–	1	–	–	–	4	5	5	5
Total	**20,940**	**17,453**	**10,820**	**11,735**	**13,301**	**24,667**	**11,349**	**6,943**	**4,348**	**3,758**	**570**	**952**	**61,328**	**65,508**

[1]2015 figures adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")

Similarly, the following table shows the credit quality of the risk-bearing financial instruments for Postbank's retail business that were neither past due nor individually impaired as of the December 31, 2016, reporting date (excluding "contingent liabilities" and "other liabilities"). Postbank's retail business continued to exhibit a stable rating performance.

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

Risk-bearing financial instruments	AAA		AA		A		BBB		< BBB		Basel II pool rating/ not rated		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trading assets	**–**	**–**	**0**	**0**	**5**	**8**	**27**	**42**	**21**	**41**	**–**	**–**	**53**	**91**
Held for trading	–	–	0	0	5	8	27	42	21	41	–	–	53	91
Loans	–	–	0	0	5	8	27	42	21	41	–	–	53	91
Loans and advances to customers[1]	**0**	**2**	**490**	**468**	**4,807**	**4,287**	**32,662**	**29,964**	**37,828**	**41,345**	**3,197**	**2,461**	**78,984**	**78,527**
Loans and receivables[1]	0	2	470	453	4,469	3,983	30,737	27,779	36,522	39,470	3,168	2,461	75,366	74,148
Private mortgage lending[1, 2]	0	0	173	115	3,775	3,309	28,351	24,980	29,754	32,796	2,196	1,858	64,249	63,058
Home savings loans[2]	0	0	73	52	597	538	1,509	1,700	688	822	86	98	2,953	3,210
Commercial loans	0	2	214	277	4	31	61	291	31	146	25	28	335	775
Installment loans[1]	–	0	3	6	53	60	593	570	5,431	5,100	787	407	6,867	6,143
Overdraft facilities	0	0	7	3	40	45	223	238	618	606	74	70	962	962
Fair value option	0	–	20	15	338	304	1,925	2,185	1,306	1,875	29	0	3,618	4,379
Private mortgage lending	0	–	20	15	338	304	1,925	2,185	1,306	1,875	29	0	3,618	4,379
Total	**0**	**2**	**490**	**468**	**4,812**	**4,295**	**32,689**	**30,006**	**37,849**	**41,386**	**3,197**	**2,461**	**79,037**	**78,618**

[1]2015 figures adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")
[2]Breakdown of figures between private mortgage lending and home savings loans adjusted for 2015

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

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

Disbursed credit exposures relating to loans and advances in the private mortgage lending portfolio are included into the calculation of loan to value if there is real estate collateral. Disbursed credit exposures that are backed by home savings deposits (5.3 % of the portfolio; December 31, 2015: 6.4 %) or secured by substitute collateral and negative pledge agreements (7.9 % of the portfolio; December 31, 2015: 4.2 %) are not included in the LtV calculation.

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

Loan-to-value class	Dec. 31, 2016 in %	Dec. 31, 2015 in %
< = 50 %	29.9	30.8
> 50 %, <= 70 %	27.1	28.4
> 70 %, <= 90 %	25.5	25.2
> 90 %, <= 100 %	9.9	9.3
> 100 %, <= 110 %	5.5	4.8
> 110 %, <= 130 %	1.7	1.3
> 130 %	0.4	0.2
Total	**100.0**	**100.0**

As of December 31, 2016, 57.0 % of the private mortgage lending portfolio had a loan-to-value ratio of less than or equal to 70 % (December 31, 2015: 59.2 %).

7.6 % of total exposures are represented in the LtV classes of greater than 100 % (December 31, 2015: 6.3 %). These are exposures that are backed by real estate collateral and, in addition, regularly secured by highly liquid additional collateral.

Loans past due but not impaired

The following table shows those risk-bearing financial instruments that were past due but not impaired as of December 31, 2016.

Time bands for financial instruments past due but not impaired

Risk-bearing financial instruments and collateral	Financial instruments past due but not impaired: Past due ≤ 3 months		Past due > 3 months, ≤ 6 months		Past due > 6 months, ≤ 1 year		Past due > 1 year		Total		Fair value of the collateral for financial instruments past due but not impaired	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Loans and advances to customers	**169**	**248**	**17**	**31**	**32**	**55**	**127**	**129**	**345**	**463**	**313**	**361**
Loans and receivables	168	247	16	31	28	51	121	122	333	451	302	351
Private mortgage lending	154	182	13	26	23	36	112	111	302	355	276	329
Home savings loans	4	4	3	3	5	4	8	8	20	19	18	17
Commercial loans	0	7	–	–	0	11	0	0	0	18	8	5
Public-sector receivables	–	0	–	–	–	–	–	–	–	0	–	–
Installment loans	1	3	–	0	0	0	0	0	1	3	–	–
Overdraft facilities	9	51	0	2	0	0	1	3	10	56	–	–
Other loans and advances	–	–	–	–	–	–	–	–	–	–	0	0
Fair value option	1	1	1	0	4	4	6	7	12	12	11	10
Private mortgage lending	1	1	1	0	4	4	6	7	12	12	11	10
Total	**169**	**248**	**17**	**31**	**32**	**55**	**127**	**129**	**345**	**463**	**313**	**361**

Impaired loans

The following table shows all impaired financial assets as of December 31, 2016, and December 31, 2015, broken down into individually impaired loans and advances to customers, and investment securities for which impairment losses have been recognized; no impairment losses have been recognized for loans and advances to other banks. The carrying amount after recognition of impairment losses is shown in the table as the difference between the carrying amount before impairment and the amount of the impairment loss.

Impaired financial instruments

Impaired risk-bearing financial instruments and collateral	Carrying amount before impairment		Amount of impairment loss		Carrying amount after impairment		Fair value of collateral for impaired instruments	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Loans and advances to customers	**1,747**	**1,710**	**798**	**725**	**949**	**985**	**702**	**796**
Loans and receivables	1,735	1,695	798	725	937	970	691	782
Private mortgage lending[1]	725	787	209	263	516	524	569	660
Home savings loans[1]	15	14	5	3	10	11	14	13
Commercial loans[2]	228	271	127	140	101	131	108	109
Public-sector receivables[2]	7	8	4	4	3	4	–	–
Installment loans	570	443	313	193	257	250	–	–
Overdraft facilities	190	169	140	122	50	47	–	–
Promissory note loans	–	3	–	–	–	3	–	–
Other loans and advances	–	–	–	–	–	–	–	–
Fair value option	12	15	–	–	12	15	11	14
Private mortgage lending	12	15	–	–	12	15	11	14
Investment securities	**70**	**69**	**63**	**62**	**7**	**7**	**–**	**–**
Loans and receivables	70	69	63	62	7	7	–	–
Bonds and other fixed-income securities	70	69	63	62	7	7	–	–
Total	**1,817**	**1,779**	**861**	**787**	**956**	**992**	**702**	**796**

[1]Breakdown of figures between private mortgage lending and home savings loans adjusted for 2015
[2]Breakdown of figures between commercial loans and public-sector receivables adjusted for 2015

Overall, the slight increase in impaired financial instruments in fiscal year 2016 is due to a significant increase in the installment loan portfolio which was partially offset by a decline in the areas of mortgage lending and commercial loans in particular. Within the "loans and advances to customers" balance sheet item, the ratio of specific valuation allowances to the carrying amount of impaired financial instruments (coverage ratio) was 46 % at the end of the year (December 31, 2015: 42 %).

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

Forborne and non-performing exposures to customers

Financial instruments within the "Loans and advances to customers" balance sheet item	Performing loans		Non-performing loans						Total	
	Not impaired		Impaired		Not impaired		Total			
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Forborne	**375**	**323**	**401**	**395**	**99**	**94**	**500**	**489**	**875**	**812**
Loans and receivables	373	320	401	395	98	94	499	489	872	809
Private mortgage lending	52	54	23	20	51	50	74	70	126	124
Home savings loans	0	0	0	0	0	0	0	0	0	0
Commercial loans[1]	37	35	159	195	0	3	159	198	196	233
Public-sector receivables[1]	0	0	7	8	0	0	7	8	7	8
Installment loans	218	185	152	111	42	38	194	149	412	334
Overdraft facilities	61	46	60	58	5	3	65	61	126	107
Promissory note loans	5	0	0	3	0	0	0	3	5	3
Other loans and advances	0	0	0	0	0	0	0	0	0	0
Fair value option	2	3	0	0	1	0	1	0	3	3
Private mortgage lending	2	3	0	0	1	0	1	0	3	3
Non-forborne	**99,044**	**95,988**	**1,346**	**1,315**	**738**	**821**	**2,084**	**2,136**	**101,128**	**98,124**
Loans and receivables[2]	95,481	91,671	1,334	1,300	671	747	2,005	2,047	97,486	93,718
Private mortgage lending[2]	63,974	62,844	702	767	582	570	1,284	1,337	65,258	64,181
Home savings loans	2,935	3,141	15	14	42	88	57	102	2,992	3,243
Commercial loans[2]	13,383	11,694	69	76	29	70	98	146	13,481	11,840
Public-sector receivables	5,198	4,613	0	0	0	0	0	0	5,198	4,613
Installment loans[2]	6,595	5,912	418	332	13	11	431	343	7,026	6,255
Overdraft facilities	1,824	1,950	130	111	5	8	135	119	1,959	2,069
Promissory note loans	1,532	1,482	0	0	0	0	0	0	1,532	1,482
Other loans and advances	40	35	0	0	0	0	0	0	40	35
Fair value option	3,563	4,317	12	15	67	74	79	89	3,642	4,406
Private mortgage lending	3,563	4,317	12	15	67	74	79	89	3,642	4,406
Total	**99,419**	**96,311**	**1,747**	**1,710**	**837**	**915**	**2,584**	**2,625**	**102,003**	**98,936**

[1]Breakdown of figures between commercial loans and public-sector receivables adjusted for 2015
[2]2015 figures adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")

Forborne exposures within the "loans and advances to customers" balance sheet item totaled €875 million as of December 31, 2016 (December 31, 2015: €812 million), the main reason for the noticeable increase being the significant rise in installment loans and overdraft facilities which has been partially offset by a significant decline in commercial loans. Non-performing exposures amounted to €2,584 million as of the reporting date (December 31, 2015: €2,625 million). The decline primarily relates to mortgage lending and commercial loans.

In addition to the exposures presented in the table above, as of December 31, 2016, Postbank recorded a non-performing exposure for trading assets in the amount of €2 million, and one of €7 million for investment securities (€7 million of which were forborne exposures).

Non-performing exposures thus accounted for 2.4 % of the total volume of higher-risk loans (NPL ratio) which are defined as loans and advances to customers plus loans and advances to other banks excluding securities lending agreements (December 31, 2015: 2.6 %).

Securitization positions

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

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

Provide Blue 2005-1	€9.0 million	(BHW Bausparkasse AG)
Provide Blue 2005-2	€25.6 million	(BHW Bausparkasse AG)
PB Domicilio 2007-1	€37.8 million	(BHW Bausparkasse AG)
PB Domicile 2006-1	€18.4 million	(Deutsche Postbank AG)

Postbank has limited investments in redeemed residential mortgage-backed securities. As a result of repayments, the portfolio carrying amount had fallen to €17 million as of December 31, 2016 (December 31, 2015: €28 million). The portfolio is valued periodically using arranger quotes or an internal valuation model.

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 toward 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

The primary goal of liquidity risk management is to ensure Postbank's solvency at all times, including in certain stress situations.

To achieve this, Postbank has laid down the principles for handling liquidity risk, among other things, in its overarching risk strategy. The definition of liquidity risk was revised following the 2016 risk inventory, taking into account the requirements for the new ILAAP. Effective 2017, the definition of illiquidity risk was refined and the definition of financing risk was expanded. Based on the new definitions of risk types, measures were drawn up for 2016 and 2017 to implement the full process.

The liquidity risk management process is based on several pillars and is generally performed on a stress basis. The scenarios cover both institution-specific and general market issues and, in the MaRisk scenario, the combination of the two. This permits changes in a variety of market factors, panic reactions by customers, and structural changes in funding resources (e.g., due to a decline in market liquidity) to be reflected. The MaRisk scenario simulates severe outflows of savings, demand and corporate customer deposits, restricted access to the uncollateralized money market, and increased haircuts on central bank-eligible securities. The internally defined survival period is two months, longer than the minimum required under supervisory law. A requirement for all stress scenarios was to maintain customer loans at existing levels at least, even in times of stress. In the event of unexpected cash outflows, cash holdings, central bank balances, and an extensive portfolio of unencumbered, highly liquid, central bank-eligible securities can be used to obtain liquidity rapidly, including on (private) repo markets.

The Liquidity Risk Management unit determines Postbank's liquidity status under both normal conditions and the stress conditions described above on each business day using funding matrices and cash flow forecasts. This is also managed using a monthly forecast, taking into account the expected product volumes based on the measures adopted. Surplus liquidity, which likewise reflects the MaRisk scenario, is calculated on a monthly basis for each of the coming 12 months. As an early warning indicator, the minimum for a 12-month horizon is limited under the risk strategy and monitored by the Liquidity Risk Management team.

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

Since 2016, Liquidity Risk Management has also modelled the business planning adopted by the Management Board, including refinancing measures, in the EBA funding plan for the Postbank Group and reports this to the supervisory authority.

Due to its strategic focus as a bank for retail, business and corporate customers, Postbank enjoys a broad and stable refinancing base from its customer business and is therefore largely independent of the money and capital markets.

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

Data on the stability of the refinancing structure is regularly reviewed and evaluated in internal analyses. The net stable funding ratio (NSFR) is also used to assess this. Since 2016, the NSFR for the Postbank Group has been calculated on a quarterly basis in accordance with the requirements of the Quantitative Impact Study (QIS) of the Basel Committee on Banking Supervision and made available to the supervisory authority as part of the short term exercise. The NSFR was 130 % as of December 31, 2016.

The following table shows the financial liabilities as of December 31, 2016, and December 31, 2015, broken down into residual maturity bands:

Liabilities by residual maturity

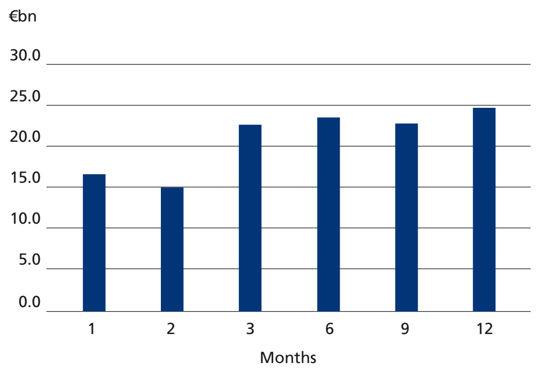
Liabilities	Payable on demand		≤ 3 months		> 3 months and ≤ 1 year		> 1 year and ≤ 5 years		> 5 years		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Non-derivative liabilities[1]	**67,281**	**61,732**	**43,753**	**48,508**	**21,878**	**20,804**	**15,742**	**15,885**	**14,033**	**17,317**	**162,687**	**164,246**
Deposits from other banks	369	64	3,334	5,574	1,439	661	5,325	5,453	4,784	4,898	15,251	16,650
Due to customers	45,672	41,540	39,787	42,372	20,163	19,192	7,019	7,796	5,275	7,168	117,916	118,068
Debt securities in issue	–	–	72	82	103	121	2,611	1,711	1,094	2,181	3,880	4,095
Subordinated debt	–	–	19	14	173	830	787	925	2,880	3,070	3,859	4,839
Other liabilities	–	–	541	466	–	–	–	–	–	–	541	466
Contingent liabilities from guarantees	379	426	–	–	–	–	–	–	–	–	379	426
Revocable and irrevocable loan commitments[1]	20,861	19,702	–	–	–	–	–	–	–	–	20,861	19,702
Revocable loan commitments[1]	13,095	13,902	–	–	–	–	–	–	–	–	13,095	13,902
Irrevocable loan commitments[1]	7,766	5,800	–	–	–	–	–	–	–	–	7,766	5,800
Derivative liabilities	**–**	**–**	**63**	**131**	**91**	**82**	**113**	**310**	**182**	**349**	**449**	**872**
Hedging derivatives	–	–	7	46	–	18	16	75	18	69	41	208
Trading liabilities	–	–	56	85	91	64	97	235	164	280	408	664
Total	**67,281**	**61,732**	**43,816**	**48,639**	**21,969**	**20,886**	**15,855**	**16,195**	**14,215**	**17,666**	**163,136**	**165,118**

[1]2015 figures adjusted (see Note 6 to the Consolidated Financial Statements: "Adjustments of prior-year figures")

The contractual cash flows from on- and off-balance sheet liabilities have been assigned to the respective categories. In conformity with the requirements, the contractual cash flows of the financial liabilities are presented in accordance with the worst-case scenario, meaning that if the financial liabilities involve options or termination rights that could affect their maturity date, the most unfavorable case from a liquidity perspective is assumed. This is particularly relevant for demand deposits and savings deposits that are held at call or that have a short maturity of usually three months but that are available to the Bank for a significantly longer period of time, statistically speaking.

In contrast to the presentation of the contractual cash flows of the financial liabilities, the following overview of Postbank's liquidity status as of December 31, 2016, presents the expected cash inflows/outflows for the coming twelve months on a cumulative basis under normal conditions, in accordance with the principles of internal liquidity management:

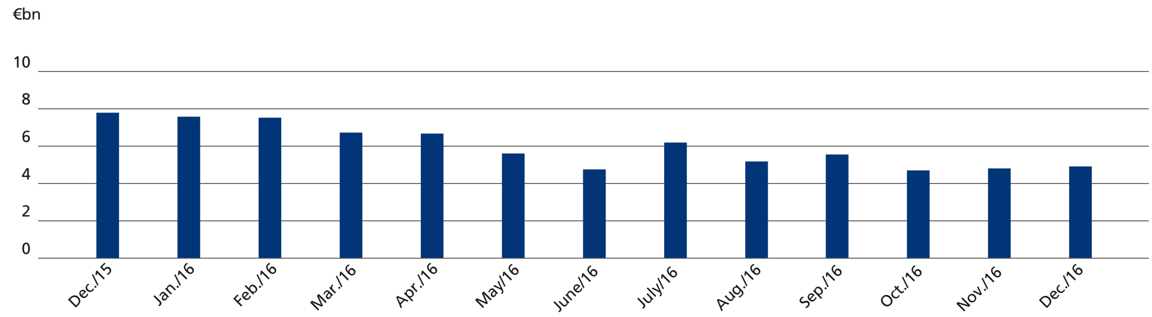
Liquidity status of the Postbank Group as of December 31, 2016



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

The results of the daily stress tests in 2016 also confirm Postbank's solid liquidity position. Even after the combined stress effects in the MaRisk scenario were taken into account, comfortable surpluses existed in the net liquidity position at all times, both during and beyond the survival period. The surplus liquidity in the MaRisk scenario, which already includes the Bank's risk appetite, also bears testimony to the comfortable liquidity position. The following graphic shows the lowest levels of surplus liquidity for each month in the period from December 31, 2015, to December 31, 2016. In fiscal 2016, surplus liquidity was always above the €4.6 billion mark.

Surplus liquidity of the Postbank Group in 2016



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

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

Monitoring and managing operational risk

The economic capital requirements for operational risk for the Bank as a whole and for the individual business divisions are determined using the AMOR (Advanced Measurement of Operational Risk) operational risk capital model. Postbank's EC capital model is based on a loss distribution approach (LDA) that uses internal and external loss events, supplemented by scenario analyses, in its calculations. The results of the scenario analysis are used in two ways. On the one hand, the estimates are used as inputs in risk capital modeling and therefore complement the loss data collected with risk estimates for losses that are extremely uncommon but that could have a significant impact. On the other, the results also provide a starting point for specific control measures and thus serve to improve the risk situation.

The VaR limit for operational risk at overall bank level was unchanged at €700 million as of the 2016 closing date. In the case of limit exceedances, the limit for operational risk is increased (including during the course of the year) at the expense of other risk types or of the unallocated risk cover amount. Postbank's business divisions have been allocated specific risk capital amounts, utilization of which is also monitored each quarter.

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

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

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

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

At approximately €117 million, operational risk losses declined slightly year-on-year (2015: €124 million).

The main drivers of the trend in loss events in 2016 were the number of legal actions and complaints by customers – still high compared with the long-term average – in connection with closed-end funds, the distribution of which has been discontinued, as well as legal actions and complaints relating to consumer protection rulings. Losses from cases of fraud, which were mainly caused externally, were up year-on-year at €27 million in the year under review (2015: €19 million). These were mainly attributable to two cases of fraud in the corporate banking business that were uncovered in 2016. Other losses from cases of external fraud, which individually are only minor but that occur repeatedly during a year (high frequency/low impact losses), were at the previous year's low level. The focus in the fight against fraud remains on using the FRAUD Committee to communicate all material cases of fraud promptly throughout the Bank, as well as on raising the awareness of the employees involved in the relevant processes in order to ensure the systematic and widespread early identification of cases of fraud. The technical and organizational measures taken in previous years continued to prove their worth.

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

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

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

Business division	Operational value at risk (OpVaR)	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Retail Banking	268	308
Corporate Banking	41	36
Financial Markets	97	110
Postbank total	**407**	**454**

Postbank's strategic focus on retail banking can clearly be seen from the operational value at risk figures for the individual divisions. The Retail Banking business division had by far the highest capital requirement as of the 2016 year-end, at €268 million (December 31, 2015: €308 million). The portfolios of the Non-Core Operating Unit (NCOU), which are relevant for operational risk capital modeling and which are allocated in full to Retail Banking, accounted for €107 million.

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

Monitoring and managing business risk

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

Managing savings and checking account risk

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

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

Managing collective risk

BHW Bausparkasse AG uses a collective simulation model to quantify collective risk. The model captures planned new contracts and expected home savings customer behavior, such as savings habits, terminations, the financing of existing housing stock, home loan maturity dates, and principal repayments. Building on the individual contracts, the simulation model uses a broad range of behavioral parameters to calculate the statistically expected total cash flow and income statement/balance sheet data at the overall collective level on a quarterly basis for use in planning.

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

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

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

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

Reputational risk management

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

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

Managing residual business risk

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

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

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

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

Internal control and risk management system for the financial reporting process

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

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

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

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

Postbank's internal control system performs the following tasks:

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

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

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

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

Postbank prepares its consolidated financial statements in compliance with IFRSs as endorsed by the European Union. Its financial statements are supplemented by the disclosures required by the German commercial law pursuant to section 340i of the HGB in conjunction with section 315a(1) of the HGB, the German Accounting Standards (GASs), as well as the sector-specific requirements for credit institutions and the legal form requirements for German stock corporations (sections 150–161 of the AktG).

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

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

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

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

- Provision of certain disclosures relating to the notes.

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

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

The Chief Risk Office performs the following tasks:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal Audit

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

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

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

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

Remuneration systems

The *Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten* (InstitutsVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions) dated December 16, 2013, sets out specific requirements for the remuneration systems of banks. Accordingly, Postbank has established both a Compensation Control Committee (Supervisory Board committee) and the function of a compensation control officer. Postbank also implemented the remaining changes to the InstitutsVergV.

Postbank's remuneration systems comply with the general and specific requirements of the InstitutsVergV. They 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.

With respect to the specific requirements to be met by the remuneration systems for senior managers and employees whose activities have a material influence on the overall risk profile, the remuneration systems were designed in such a way as to provide support for sustainability-oriented enterprise goals. The remuneration systems comply with the requirements of the InstitutsVergV, in particular with respect to the amount of variable remuneration to be deferred and the deferral periods. Following a review in accordance with section 14 of the InstitutsVergV, the necessary changes were implemented in the relevant employment contracts in a timely manner insofar as this was possible under civil, employment and company laws.

Pending litigation

The actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 28, 2015, on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement are still pending. However, Deutsche Postbank AG considers these actions to be unfounded.

OUTLOOK

Overall economic parameters

Macroeconomic environment

Global economy

Global growth will likely accelerate moderately in 2017. The upswing in the industrialized countries is expected to strengthen slightly, prospectively driven by continued low interest rates. Furthermore, stronger expansionary momentum will likely be generated by the fiscal policy in several large countries. Political events such as the UK's anticipated request to leave the EU and the large number of upcoming elections in eurozone member countries are expected to create uncertainty. This could have a negative impact on the economy at times. Growth rates in the emerging markets are expected to be higher than in the previous year, propelled in particular by the easing of the in some cases severe recessions in several of the large emerging economies. As a result of recovery of raw material prices, improvement tendencies are evident in particular for those countries with economies dependent on the export of raw materials. At the same time, however, there are still a number of political and structural risks which could brake growth in the emerging economies. For 2017, the IMF expects world economic output to grow by 3.4 %, compared with 3.1 % in 2016.

The economic upswing in the United States will likely accelerate in 2017. Spurred on by high levels of employment and rising income, private consumption should continue to generate growth momentum. Corporate investments are expected to pick up again as well after having declined in 2016 due to the continued slump in oil prices and downward adjustment in inventory investments. A shift in fiscal policy trends could have a stimulating effect. During his campaign, the new president of the United States announced that he intends to lower taxes and increase investments in infrastructure. However, it will likely take some time to formulate and implement the corresponding resolutions, meaning that slightly positive impulses from such a development can be expected at the earliest in the second half of the year. We anticipate GDP growth reaching 2.2 % in 2017.

The Japanese economy should continue to experience moderate growth, with private consumption and gross capital expenditures rising slightly. Export growth will likely accelerate due to the most recent weakening of the yen and somewhat more brisk increase in global demand. Overall, GDP growth should again be moderate at 1.1 %.

The economic recovery in the eurozone is expected to continue, but the pace of growth will likely slow slightly. Political risks from the UK’s anticipated request to exit the EU and the numerous upcoming elections in member countries of the eurozone could dampen companies’ willingness to invest. At the same time, growth in private consumption is expected to slow slightly because it will no longer be supported by falling energy prices. Exports and imports will likely strengthen at approximately the same rate, meaning that no noticeable growth effects can be expected from foreign trade. Overall, GDP growth will likely slow to 1.4 %.

Economic outlook for Germany

The German economy was in a solid upswing at the end of last year. Early indicators such as the ifo Business Climate Index have improved over the last several months, which signalize an acceleration of the growth trend. We anticipate, however, that political risks will exert a somewhat negative influence on growth of corporate investments and exports. Residential construction, on the other hand, is expected to generate strong momentum once again. At the same time, growth in real consumption will likely decline moderately, with a prospectively noticeably increasing inflation rate putting a brake on real income. Significantly slower growth is evident in government consumption spending as the driving effect from the rising costs of caring for and integrating refugees in 2016 is largely disappearing. All in all, we expect a noticeable decrease in GDP growth to 1.4 % in 2017, also attributable in part to the lower number of working days in this year in comparison to the previous one. Despite the growth slowdown, the average annual employment rate is expected to rise again. At the same time, however, there is likely to be a moderate increase in the number of unemployed persons as a result of a growing labor force.

Markets

The ECB’s monetary course for 2017 appears generally well sketched-out based on decisions made by its Governing Council in December 2016. Pursuant to these decisions, the ECB will extend its bond-buying program until at least December 2017. However, starting in April 2017, the monthly purchasing volume of this program will be reduced from €80 billion to €60 billion. Further, the ECB announced that its key interest rates will remain at the current or an even lower level for some time after termination of the purchasing program. We therefore believe that the ECB will carry out its bond-buying program as planned and leave its key interest rates for all of 2017 on a par with the level at the end of 2016. Later in the year, however, the ECB will likely decide to reduce the monthly purchasing volume even further but not make the change effective until the following year. Nonetheless, it is impossible to exclude that ECB may deviate from the path laid out. If inflation in the eurozone increases more significantly than currently expected while the economy grows robustly at the same time, the central bank could lower the monthly purchasing volume below the presently defined level during the course of 2017. If the economy slows considerably, however, and the inflation rate decreases once again, the ECB could lower the deposit facility rate again or further expand the monthly volume of its bond purchases.

The U.S. Federal Reserve will likely raise its federal funds rate over the course of 2017. In light of a prospective significantly rising inflation rate and continued robust labor market, we expect two interest rate increases of 0.25 percentage points each. By the end of the year, we anticipate a fed funds target rate of between 1.00 % and 1.25 %.

As a result of sustained expansionary ECB monetary policy, capital market interest rates in the eurozone are likely to remain low, although some factors point toward a rise in yields over the course of the year. These include an anticipated clear increase in the inflation rate should the economic recovery in the eurozone continue. Moreover, as a result of the slightly tighter monetary policy in the United States, returns on U.S. Treasuries may tend to rise – a situation that commonly impacts the German market. The upward momentum this will generate for the yield level could be mostly offset by continued extensive ECB bond purchases. We expect to see a marginal increase in yields of ten-year German Bunds by the end of 2017. With key interest rates remaining constantly low, the yield curve may become minimally steeper.

Prospects for corporate bonds are restrainedly positive in our opinion. However, the continued economic upswing that we anticipate in the industrialized countries points to a slight decrease in risk premiums. Impending unknowns, in particular in the political arena, could nonetheless create uncertainty regarding economic prospects, both for individual sectors and companies, and thus have a negative impact on corporate bonds. All in all, we expect to see a slight decrease in risk premiums for European bonds in the investment-grade category.

In light of the risk premiums demanded for the government bonds of the so-called peripheral eurozone countries, we expect to see differentiated, country-specific developments rather than one uniform tendency. We see narrowing potential for bonds issued by countries able to noticeably reduce their new debt as well as adopt and implement sustainable reforms that promote growth. In contrast, countries weak on growth and reform and with a high level of new debt will face a rise in risk premiums for their bonds. Government bonds will remain fundamentally susceptible to setbacks in the case of economic or political crises.

Sector situation

The sustained low level of interest rates in the eurozone will likely continue to make improvements in the operating business of German banks considerably difficult. We do not expect a significant rise in interest rates by the end of 2017. This will make interest margin increases difficult for most banks, especially since tough competition in the German retail and corporate banking segments continues to put a strain on both net interest income and net fee and commission income. In addition, only moderate growth is to be expected for the lending business with these customer groups. Substantial increases in net fee and commission income and net interest income should therefore be quite difficult to achieve. High volatility on the capital markets and the ECB's bond-buying program are curbing trading business as well. Low financing costs, however, could have a positive effect on the equity and debt capital markets business issues as well as stimulate the mergers and acquisitions activities (M&A) of companies. This should have a positive impact on income from investment banking. Due to the persistently difficult conditions on the income side, many banks are likely to have additional cost optimization measures on their agendas in 2017 as well. The financial resources that banks must employ to implement new regulatory requirements also have a negative impact on income statements. In addition, many banks are investing in digitizing numerous processes. While such projects tie up resources, digitization appears necessary for strengthening customer relationships and responding to new competitors in the digital world.

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

We believe that the three-pillar structure of private, public and cooperative banks is unlikely to change in 2017. Mergers and/or acquisitions will likely take place primarily within the respective sectors and for the most part involve smaller institutions.

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

Together with BaFin, the Deutsche Bundesbank will subject some 1,500 small and mid-sized German banks to a stress test in 2017. Test results will be announced in the second half of 2017 and be incorporated into the Supervisory Review and Evaluation Process (SREP) of the Bundesbank and BaFin.

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

Outlook for the Postbank Group

Postbank's investment focuses

In mid-2016 Postbank markedly shifted the focus of its investments to growth and efficiency for the purpose of improving its competitiveness and will adhere to this same investment strategy in fiscal year 2017. In that vein, Postbank plans to invest increasingly in strategic measures to intensify the linkage of "digitally & personally" supported advisory, sales and services processes for installment loans and securities advisory services. Since new marketing processes such as the online acquisition of mortgage lending customers have already proven popular with our customers, investments in expanded digitization will continue to be oriented on customer needs to ensure a "digitally & personally"-linked customer experience.

To improve efficiency in the front/back offices and central areas Postbank will also maintain efforts to adapt its capacities to the challenging banking environment and invest in a modern infrastructure.

The Bank's investment portfolio in 2017 will remain committed to developing a modern branch infrastructure with additional self-service options for retail and business customers and to further expanding the sales centers. In fiscal year 2017, Postbank will once again find it necessary to use its investments to ensure an efficient response to pending regulatory requirements. This will include meeting requirements from international financial reporting standards (IFRS 9) as well as from the finalization and/or implementation of Basel III/IV, BCBS consultative document 239, TRIM, ICAAP, and ILAAP.

Non-financial key performance indicators

It is to be expected that customer and employee satisfaction, given their recent assessment, will reach the same level as last year. In the retail customer segment the Bank will seek to stabilize satisfaction at least at the average level of 2016. This expectation, however, does not imply any fundamental changes in the strategic orientation of Postbank.

Expected development of the earnings situation of the Postbank Group

The following assessment of the presumed direction of business at Postbank in 2017 is based on expectations concerning overall economic parameters. Unforeseen events such as a new flare up of the sovereign debt crisis in Europe, an unexpected change in the monetary policy framework, political risks and/or possible setbacks or disruptions in international capital and real estate markets could have a negative impact on the expected earnings situation. Even the continuing discussion about additional, unexpected and markedly stricter regulation of the banking industry could have a significant effect on the financial position, net assets, and results of operations at Postbank that is not taken into consideration in the following base scenario.

Our expectations for 2017 are based on our forecast for interest rates, which are nearly unchanged in the negative range for maturities up to three months. However, for maturities of more than three months, those rates are expected to rise slightly above the market level reached at the end of 2016.

The income streams generated by Postbank's business with retail, business and corporate customers remain the foundation of its future earnings performance. Here the Bank will focus on stabilizing net interest income, expanding net fee and commission income, and reducing the cost base.

More specifically, given portfolio expansions in the lending business, we expect net interest income overall in 2017 to rise slightly above the level of last year despite the sustained low and/or negative level of interest rates.

For net fee and commission income, we are planning growth in the low three-digit million euro range owing to the introduction of a new price model for checking accounts in November 2016 – a move whose full impact on the consolidated income statement will unfold in 2017 – and a new securities strategy with an integrated advisory approach.

Net income from investment securities is expected to decline appreciably compared with the prior-year period, since we do not anticipate any positive non-recurring effects comparable to those from the sale of a strategic investment in Visa Europe Ltd. in the first half of 2016.

For net trading income in 2017, we should see a decline in the one-digit million euro range year-on-year.

With regard to the allowance for losses on loans and advances in 2017, we foresee a marked volume-related rise in the low two-digit million euro range owing to growth planned for our core business, in contrast to the historic prior-year low.

Administrative expenses are expected to experience a moderate improvement in 2017 thanks to strict cost management and capacity adaptations that we are pursuing. In this context, a modest drop in the number of full-time equivalents in our headcount is anticipated.

Profit before tax should rise significantly year-on-year thanks to the expected developments in the above-mentioned areas of the consolidated income statement.

Profit before tax adjusted for non-recurring effects in 2017 is expected to climb in the mid two-digit millions compared with 2016. Adjustments include the anticipated costs for deconsolidation from Deutsche Bank as well as for projects that invest in increasing the Bank's long-term viability.

In light of the expectations described above, we foresee a moderate improvement in the cost/income ratio. Return on tangible equity after tax should stay at approximately the same level as it reached in fiscal year 2016.

In relation to regulatory metrics, the strategic expansion in the lending business and the resultant increase in risk-weighted assets lead us to anticipate a slight downward development for the fully phased-in Common Equity Tier 1 capital ratio despite the forecasted profit gains. For the fully phased-in leverage ratio we foresee a moderate improvement from the expected reduction of leverage exposure in 2017.

Expected developments in the segments

Retail Banking

In light of the expected economic trend, we expect our retail banking business in Germany to remain stable in 2017. Retail banking is a comparatively less volatile business activity and low-risk compared with other areas. But we believe that competition will intensify. Thanks to our current positioning, we also believe that we are well prepared for such a challenge.

For 2017, we think net interest income will decline moderately owing to continuing negative effects from the interest rate environment on the savings and checking account business in particular. A positive development in net interest income in the lending business – particularly in the area of installment loans and mortgage lending – should have a compensating impact. Given the reorganization of our checking account model at the end of 2016 and the introduction of a new securities strategy with a new integrated advisory concept, which will be reflected fully in net fee and commission income starting in 2017, we anticipate growth in the low three-digit million euro range for net fee and commission income. Owing to the planned portfolio growth in the lending business, we expect a marked rise in the allowance for losses on loans and advances. Our continuing strict cost-discipline, effective efficiency measures, and further adaptations of our capacities should cause profit before tax in the Retail Banking segment to be in a mid to high two-digit million euro range higher than was reported in the year under review.

Corporate Banking
We expect profit before tax in the Corporate Banking segment in 2017 to rise markedly above its level in the period under review. This expectation is fueled primarily by the business growth we have planned in corporate loans, which should have a noticeably positive effect on net interest income. The new lending business that is intended and the continued expansion of the sales centers will require greater expenditures in 2017 as well, including for sales. Nevertheless, owing to a decline in non-staff costs, we still expect additional increases in efficiency to improve administrative expenses moderately overall in the Corporate Banking segment.

Financial Markets
In the Financial Markets segment, we anticipate a decline in profit before tax in the mid to high two-digit million euro range, which should essentially be attributable to markedly lower realized gains in net income from investment securities.

Non-Core Operating Unit
In the Non-Core Operating Unit segment (NCOU) – which continues to be characterized by high-interest liabilities – we expect to see an improvement in profit before tax in the mid two-digit million euro range in 2017. The persistent loss reported by this segment will improve over the course of 2017 primarily as a result of a marked reduction in interest expenses that will be spurred by maturities in the amount of€3 billion that focus on covered bonds. When opportunities arise, we will examine the option of an unscheduled reduction of positions, which could lead to positive or negative earnings effects not foreseen in this outlook.

Cost Centers/Consolidation
For this segment in fiscal year 2017, we expect the complete allocation of costs to the remaining segments to lead to a balanced result. Because of the recognition of share-based compensation from the Visa Europe Ltd. transaction in the amount of €14 million in 2016, that result will be markedly below the one in the reporting period.

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

Bonn, February 21, 2017

Deutsche Postbank AG

The Management Board

Frank Strauss

Marc Hess

Susanne Klöss-Braekler

Ralph Müller

Ralf Stemmer

Hanns-Peter Storr

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2016

Consolidated Income Statement	Note	2016 €m	2015[1] €m
Interest income	(7)	3,927	4,165
Positive interest on financial liabilities	(7)	29	15
Interest expense	(7)	–1,733	–1,923
Negative interest on financial assets	(7)	–54	–19
Net interest income	(7)	2,169	2,238
Allowance for losses on loans and advances	(8)	–184	–209
Net interest income after allowance for losses on loans and advances		1,985	2,029
Fee and commission income	(9)	1,099	1,074
Fee and commission expense	(9)	–256	–252
Net fee and commission income	(9)	843	822
Net trading income	(10)	50	56
Net income from investment securities	(11)	258	27
Administrative expenses	(12)	–2,853	–2,593
Other income	(13)	141	889
Other expenses	(14)	–117	–646
Profit before tax		**307**	**584**
Income tax		10	27
Profit from ordinary activities after tax		**317**	**611**
Non-controlling interests		0	–1
Consolidated net profit		**317**	**610**

	2016	2015[1]
Basic/diluted earnings per share (€)	1.45	2.79

[1]Figures adjusted (see Note 6)

Condensed Statement of Comprehensive Income	2016 €m	2015[1] €m
Profit from ordinary activities after tax	317	611
Other comprehensive income after tax	**–158**	**90**
Items that will not be reclassified to profit or loss	–225	108
Remeasurement gains/losses (–) on defined benefit plans	–225	108
Income tax on items not reclassified to profit or loss	35	–8
Items that will be/may be reclassified to profit or loss, before tax	31	–10
Change in revaluation reserve	31	–10
Unrealized gains/losses (–) for the period, before tax	63	–28
Gains (–)/losses reclassified to profit or loss, before tax	–32	18
Income tax on items that will be/may be reclassified to profit or loss	1	0
Total comprehensive income for the period attributable to non-controlling interests	0	–1
Total comprehensive income	**159**	**700**

[1]Figures adjusted (see Note 6)

Earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares outstanding during the fiscal year. The average number of shares outstanding in fiscal year 2016 was unchanged, at 218,800,000.

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

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2016

Assets	Note	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m	Jan. 1, 2015[1] €m
Cash reserve	(16)	2,291	1,357	1,230
Loans and advances to other banks	(17)	13,108	15,876	19,602
Loans and advances to customers	(18)	102,003	98,937	98,340
Allowance for losses on loans and advances	(20)	–998	–923	–1,361
Trading assets	(21)	475	647	697
Hedging derivatives	(22)	112	78	119
Investment securities	(23)	26,767	30,768	33,477
thereof transferred as collateral	(23)	2,918	5,971	6,344
Intangible assets	(24)	1,963	1,902	1,952
Property and equipment	(25)	699	678	683
Current tax assets	(26)	144	101	148
Deferred tax assets	(26)	198	77	73
Other assets	(27)	388	514	283
Assets held for sale	(28)	47	489	–
Total assets		**147,197**	**150,501**	**155,243**

Equity and Liabilities	Note	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m	Jan. 1, 2015[1] €m
Deposits from other banks	(29)	13,133	15,341	17,425
Due to customers	(30)	118,918	119,150	120,493
Debt securities in issue	(31)	3,339	3,446	4,571
Trading liabilities	(32)	409	665	767
Hedging derivatives	(33)	42	208	298
Provisions		907	703	854
a) Provisions for pensions and other employee benefits	(34)	254	56	155
b) Other provisions	(35)	653	647	699
Current tax liabilities	(36)	98	110	104
Deferred tax liabilities	(36)	17	9	41
Other liabilities	(37)	541	466	526
Subordinated debt	(38)	2,567	3,239	3,699
Equity	(39)	7,226	7,164	6,465
a) Issued capital		547	547	547
b) Share premium		2,191	2,010	2,010
c) Retained earnings		4,171	3,991	3,644
d) Consolidated net profit		317	610	259
Non-controlling interests		–	6	5
Total equity and liabilities		**147,197**	**150,501**	**155,243**

[1]Figures adjusted (see Note 6)

STATEMENT OF CHANGES IN EQUITY

	Issued capital €m	Share premium €m	Retained earnings €m	Revaluation reserve €m	Consolidated net profit €m	Equity before non-controlling interests €m	Non-controlling interests €m	Total €m
Balance at Dec. 31, 2014	**547**	**2,010**	**3,303**	**337**	**259**	**6,456**	**5**	**6,461**
Restatement	–	–	4	–	–	4	–	4
Balance at Jan. 1, 2015	**547**	**2,010**	**3,307**	**337**	**259**	**6,460**	**5**	**6,465**
Dividend payment	–	–	–	–	–	–	–	–
Changes in retained earnings	–	–	259	–	–259	–	–	–
Profit from ordinary activities after tax	–	–	–	–	610	610	1	611
Other comprehensive income	–	–	100	–10	–	90	–	90
Treasury shares	–	–	–	–	–	–	–	–
Other changes	–	–	–2	–	–	–2	–	–2
Balance at Dec. 31, 2015	**547**	**2,010**	**3,664**	**327**[2]	**610**	**7,158**	**6**	**7,164**
Dividend payment	–	–	–	–	–	–	–	–
Changes in retained earnings	–	–	610	–	–610	–	–	–
Initial consolidation effect – service companies[1]	–	–	–263	–	–	–263	–	–263
Capital increase	–	181	–	–	–	181	–	181
Profit from ordinary activities after tax	–	–	–	–	317	317	–	317
Other comprehensive income	–	–	–190	32	–	–158	–	–158
Treasury shares	–	–	–	–	–	–	–	–
Other changes	–	–	–9	–	–	–9	–	–9
Change in recognition for non-controlling interests (debt instruments)	–	–	–	–	–	–	–6[4]	–6
Balance at Dec. 31, 2016	**547**	**2,191**	**3,812**	**359**[3]	**317**	**7,226**	**–**	**7,226**

[1]See Note 2
[2]Of this prior-year figure, €78 million relates to an investment held for sale.
[3]Of this figure, €14 million relates to an investment held for sale (see Note 28).
[4]For details see Note 39, Equity

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

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More detailed disclosures on the changes in the revaluation reserve can be found in Note 39.

Postbank did not hold any treasury shares as of December 31, 2016.

In March 2016, DB Finanz-Holding GmbH paid €143 million and Deutsche Bank AG paid €38 million into the share premium of Postbank.

The "Other changes" item comprises in particular the effects of the control and profit and loss transfer agreement with DB Finanz-Holding GmbH.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2016 €m	2015[1] €m
Consolidated net profit		**317**	**610**
Non-cash items in consolidated net profit and reconciliation to cash flow from operating activities			
Depreciation and writedowns of property and equipment, writedowns of investment securities, loans and advances and reversals of impairment losses on these items		239	721
Changes in provisions	(34), (35), (36)	–70	–77
Changes in other non-cash items		–51	–31
Gains on disposal of property and equipment and investment securities		–258	–47
Initial measurement of trust refinancing structure		0	–280
Other adjustments (net, primarily net interest income)		–2,079	–2,332
Subtotal		**–1,902**	**–1,436**
Changes in working capital after adjustment for non-cash components			
Loans and advances to other banks		2,951	3,666
Loans and advances to customers		–3,142	–1,241
Trading assets		235	136
Hedging derivatives with positive fair values		–133	37
Assets held for sale		13	–489
Other assets		99	–188
Deposits from other banks		–2,273	–2,077
Due to customers		–298	–1,284
Debt securities in issue		–312	–1,060
Trading liabilities		–256	–102
Hedging derivatives with negative fair values		72	–106
Other liabilities		–37	–61
Interest received		3,862	4,365
Interest paid		–1,686	–1,921
Other cash inflows		5	3
Dividends received		0	0
Income taxes paid		–42	17
Net cash used in operating activities		**–2,844**	**–1,741**

[1]Figures adjusted (see Note 6)

	Note	2016 €m	2015[1] €m
Proceeds from the disposal of			
Investment securities		6,709	4,713
Investments in subsidiaries		0	7
Investments in associates	(2)	393	0
Property and equipment		10	2
Intangible assets		0	0
Payments to acquire			
Investment securities		–2,208	–2,583
Investments in subsidiaries	(2)	–357	0
Property and equipment		–96	–55
Intangible assets		–108	–49
Net cash from investing activities		**4,343**	**2,035**
Dividends paid		**0**	**0**
Payments into share premium		181	0
Net change in cash and cash equivalents from other financing activities		–746	–167
Net cash used in financing activities		**–565**	**–167**
Cash and cash equivalents at start of period	(16)	**1,357**	**1,230**
Net cash used in operating activities		–2,844	–1,741
Net cash from investing activities		4,343	2,035
Net cash used in financing activities		–565	–167
Effects of exchange rate differences		0	0
Cash and cash equivalents at end of period	(16)	**2,291**	**1,357**

[1]Figures adjusted (see Note 6)

Reported cash and cash equivalents correspond to the cash reserve.

Net cash flow used in operating activities is calculated using the indirect method, i.e., on the basis of consolidated net profit plus non-cash expenses and less non-cash income in the fiscal year.

In addition, all income and expenses that are cash transactions but are not attributable to operating activities are reclassified. These payments are recognized in the cash flows used in/from investing activities or financing activities.

NOTES

BASIS OF PREPARATION

The parent company of Deutsche Postbank AG, Bonn, is DB Finanz-Holding GmbH, Frankfurt am Main, since December 2016 a wholly-owned subsidiary of DB Beteiligungs-Holding GmbH, Frankfurt am Main, which is in turn a wholly-owned subsidiary of Deutsche Bank AG, Frankfurt am Main. The Postbank subgroup companies are included in Deutsche Bank AG's consolidated financial statements.

(1) Basis of accounting

As a capital market-oriented company, Deutsche Postbank AG, Bonn (registered with the commercial register of the local court (Amtsgericht) Bonn under HRB 6793) has prepared its consolidated financial statements for the year ended December 31, 2016, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of German commercial law under section 315a(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code). The annual report contains the components of an annual financial report within the meaning of section 37v of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act).

200 The annex to the Annual Report provides an overview of the financial reporting standards applied (as of December 31, 2016).

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

The consolidated financial statements comprise the statement of comprehensive income (comprising the income statement and the condensed statement of comprehensive income), the balance sheet, the statement of changes in equity, the cash flow statement, and the notes.

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

All assumptions, estimates, and assessments required for recognition and measurement in accordance with the IFRSs are in conformity with the respective standards, are regularly reassessed, and are based on past experience as well as other factors, including expectations as to future events that appear reasonable under the given circumstances. The assumptions and estimates refer primarily to the fair value measurement of certain financial instruments, including the assessment of whether an active or inactive market exists, the recognition and measurement of the allowance for losses on loans and advances, of intangible assets and of provisions, and the ability to realize deferred taxes. Among other things, the estimation uncertainty associated with 125 measurement models for financial instruments is addressed in Note 42, Fair value of financial instruments. When determining the intention to hold financial instruments, business strategy and current market conditions are also taken into account. Where significant estimates were required, the assumptions made are explained in detail in the following Notes to the corresponding item. In individual cases, the actual values may differ from the assumptions and estimates made.

The fair value of securities holdings in the form of government bonds, *Pfandbriefe*, and bank and corporate bonds is determined using observable market prices or inputs that are observable in the market.

The management of market risk, counterparty credit risk, and liquidity risk is described in the Risk Report section of the Group Management Report (subsections "Monitoring and managing market risk," "Monitoring and managing credit risk," and "Monitoring and managing liquidity risk"). 49 51 68

The management of the individual risk types and the disclosures on risks from financial instruments (in accordance with IFRS 7) are explained in the Risk Report contained in the Group Management Report. 39

(2) Basis of consolidation

In addition to the parent company Deutsche Postbank AG, 32 (December 31, 2015: 28) subsidiaries that are presented in the following overview are included in the consolidated financial statements as of December 31, 2016.

Consolidated companies

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

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

In the context of its deconsolidation from Deutsche Bank AG, Postbank repurchased 100 % of the shares in its service companies Betriebs-Center für Banken AG, Postbank Direkt GmbH, Postbank Service GmbH, and BHW Kreditservice GmbH, as well as 75 % of the equity interests in VÖB-ZVD Processing GmbH from PBC Banking Services GmbH with effect from January 1, 2016. 25 % of the share capital of VÖB-ZVD Processing GmbH is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of the Bank. The service companies are to be fully consolidated in the Postbank Group as subsidiaries in accordance with IFRS 10 as of that date.

The acquisition of shares in the service companies constitutes a business combination under common control as the Postbank service companies and Postbank itself will be managed by Deutsche Bank AG both before and after the transaction. The difference arisen from the repurchase of the service companies between the consideration of €409 million granted (including subsequent payment of the purchase price of €2 million in the period under review) and the net assets and liabilities of the service companies transferred and measured at the consolidated carrying amounts of Deutsche Bank AG reduced the Postbank Group's retained earnings by €263 million.

The purchase price (including the subsequent purchase price payment) for the shares in the service companies was paid exclusively in cash. As of the date of acquisition, the companies' assets amounted to €391 million and the liabilities amounted to €245 million. The assets acquired relate primarily to cash (€52 million), loans and advances (€188 million), income tax assets (€77 million), and other assets (€60 million). The liabilities assumed consist primarily of other liabilities (€94 million), provisions (€80 million), and liabilities (€66 million). The service companies contributed income of €109 million, primarily fee and commission income, to the income reported in the consolidated income statement in the fiscal year. Their share in consolidated profit for the period under review was €–275 million.

At the same time, Postbank sold 49.9975 % of its shares in PBC Banking Services GmbH to Deutsche Bank Privat- und Geschäftskunden AG with effect from January 1, 2016. As the investment in PBC Banking Services GmbH and the claims to the corresponding compensation payment had already been measured at its fair value less costs to sell in accordance with IFRS 5 as of December 31, 2015, the sale of the shares in 2016 did not have any further effect on earnings.

On April 8, 2016, upon entry in the commercial register, Postbank Filial GmbH was merged with Postbank Filialvertrieb AG, with retroactive effect as of January 1, 2016.

There were no other changes in the basis of consolidation.

To reduce the complexity of the Group structure, BHW Gesellschaft für Vorsorge mbH will be merged with BHW – Gesellschaft für Wohnungswirtschaft mbH in the first quarter of 2017 with retroactive effect as of January 1, 2017.

(3) Consolidation methods

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

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

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

Interests in the equity of subsidiaries not attributable to the parent that are puttable financial instruments within the meaning of IAS 32 are reported under other liabilities as "non-controlling interests" from 2016 onward.

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

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

(4) Accounting policies

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

(a) Fair value and active market

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

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

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

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

- The Bank has access to the defined principal market.

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

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

(b) Loans and advances

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

Postbank applies the fair value option in accordance with IAS 39 exclusively to specific loan portfolios in the mortgage lending business that are hedged by interest rate derivatives. In accordance with this, financial assets may be designated at fair value through profit or loss if this leads – among other things – to the elimination or significant reduction of inconsistencies in measurement or recognition (accounting mismatches). In accordance with IFRS 13.61ff. in conjunction with IFRS 13.B12ff., receivables are measured on the basis of discounted cash flow analysis using a current swap yield curve and loan-specific risk or cost premiums.

125 A detailed description of the valuation technique used can be found in Note 42. Receivables are presented in the balance sheet under the "loans and advances to customers" item. Changes in fair value are reported in net trading income. The interest on portfolios allocated to the fair value option and the related interest rate swaps are reported in net interest income.

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

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

Premiums and discounts including transaction costs as well as hedge premiums and commitment interest (if the utilization of the loan commitment is presumable) are recognized in net interest income over the term of the loans and advances using the effective interest method. Deferred interest on loans and advances, as well as premiums and discounts, are carried together under the relevant items of loans and advances.

The fair value of financial instruments measured at amortized cost or at the hedge fair value is determined using observable market prices or discounted cash flow analysis using swap yield curves and credit spreads currently observable in the market. Additional information on the fair 125 value of financial instruments is given in Note 42, Fair value of financial instruments.

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

(c) Leases

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

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

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

Where Postbank is the lessor of a finance lease, it discloses the receivable at its net investment value under loans and advances to other banks or loans and advances to customers. The lease installments due are broken down into the interest component, which is recognized as interest income in profit or loss, and the principal redemption component, which is deducted from the receivables reported in other comprehensive income. Postbank has not entered into any finance leases relating to real estate either as a lessor or as a lessee.

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

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

(d) Allowances and provisions for losses on loans and advances, writedowns, and impairments

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

A potential need to recognize impairment losses is assumed in the case of defined qualitative and rating-related trigger events such as delinquency over a certain period, the initiation of enforcement measures, imminent insolvency or over-indebtedness, the application for or opening of insolvency proceedings, or the failure of restructuring measures.

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

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

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

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

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

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

(e) Trading assets

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

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

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

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

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The measurement methods used are described in detail in Note 42, Fair value of financial instruments.

(f) Securities lending and repurchase agreements

Postbank enters into genuine securities repurchase agreements. Securities sold under securities repurchase transactions (repos) are carried as securities in the consolidated balance sheet. Cash inflows from such transactions are carried in the balance sheet as deposits from other banks based on the respective counterparty. These cash inflows are disclosed in the amount of the purchase price received (net); prepaid expenses are recognized ratably for the repo rate to be paid. Interest payments are recognized as interest expenses or positive interest on financial liabilities.

Reverse repos are carried as loans and advances to other banks or loans and advances to customers. The securities purchased are not carried in the balance sheet; interest arising from such transactions is carried under interest income or negative interest on financial assets.

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

(g) Hedging derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

LaR instruments are subsequently measured at amortized cost using the effective interest method and AfS investment securities at their fair value provided that this can be determined reliably. Changes in the fair values of available-for-sale investment securities are recognized directly in the revaluation reserve in equity and are not recognized in income until the gain or loss is realized or impairment is identified.

Fluctuations in the fair values of LaR investment securities are not recognized on the balance sheet but allocated to hidden reserves and liabilities.

If hedge accounting is used for these investment securities, gains and losses from changes in fair value attributable to the hedged risk are recognized directly in income.

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

For debt instruments, impairment losses are charged only in the event of permanent impairment. The existence of permanent impairment is determined by certain objective evidence. In the case of LaR portfolios, the difference between the current carrying amount and the recoverable amount is recognized as an impairment loss in the income statement.

In the case of AfS portfolios, the negative amount from the revaluation reserve must be reversed to the income statement.

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

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

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

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

The measurement methods used are described in Note 42, Fair value of financial instruments.

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

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

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

(j) Intangible assets

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

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

Intangible assets are recognized at amortized cost.

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

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

Purchased goodwill and other intangible assets with indefinite useful lives are tested for possible impairment annually (impairment test in accordance with IAS 36). To conduct the impairment test, the recognized goodwill is allocated to the corresponding cash-generating units as required by IAS 36. For this purpose, pursuant to IAS 36.80, the operating segments in accordance with IFRS 8 are used as cash-generating units. The impairment test of goodwill subsequently determines whether the recoverable amount exceeds the respective carrying amount of the cash-generating unit. The recoverable amount is the higher of the value in use and the fair value less costs to sell. As a result of changed responsibilities on the Management Board of Postbank, the results of the business with business customers, which had previously been reported in the Retail Banking segment, were reallocated to the Corporate Banking segment in the period under review. The purchased goodwill allocated to the two segments was also reallocated accordingly in relation to the relative value in use. The impairment test of goodwill is now performed based on the respective figures following reallocation of the segments.

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

Value in use is determined based on the corresponding cash flows of the cash-generating unit. Fair value less costs to sell is only determined if calculating value in use would result in identification of an impairment. Value in use is calculated based on appropriate projections (management approach). The planning period covers five years. Following the detailed planning period, a projection using a 1 % growth rate (previous year: 1 %) – so-called perpetual annuity – was used. A discount rate of 7.24 % (previous year: 7.48 %) was used to calculate the value in use of the Retail Banking cash-generating unit, while the discount rate for the Corporate Banking cash-generating unit was 7.11 % (previous year: 7.48 %). The discount rate consists of a risk-free interest rate plus a company-specific risk premium, which is calculated on the basis of the systematic market risk (beta factor) and the current market risk premium.

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

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

With regard to the macroeconomic fundamentals in Germany, average growth in gross domestic product (GDP) of 1.3 % is assumed for the 2017 to 2021 planning period. At the same time, the unemployment rate is expected to increase slightly in the years 2017 to 2021, but remain at a very low level up to the end of the planning period. Private households' disposable income is likely to rise at an above-average rate over the entire planning period. After the very moderate inflation of 0.5 % in 2016, a rapid increase toward 1.5 % is projected for 2017. Inflation is expected to stabilize at just under 2 % in the following years. Consumer spending should grow at an average rate over the entire planning period, while the savings rate should stabilize at a low level. At the same time, management predicts that the lending business will profit from the low interest rates and that the portfolio of loans to retail customers will be expanded moderately. Despite the increase in political uncertainty, the probability of the sovereign debt crisis worsening again in 2017 is quite low thanks to the measures adopted by politicians and the ECB. Management sees the UK's planned exit from the European Union as well as a changed economic and trade policy under the new U.S. president as the main risks to the development of macroeconomic fundamentals in the planning period.

The forecast changes in the relevant market parameters for savings products, installment loans, and home savings products in the Bank's core German market, which were derived from the above-mentioned macroeconomic environment, will result in slight overall growth in Postbank's business activities.

Calculation of the fair value less costs to sell of the brands is based on forecasted growth in new business. The long-term projection is based on a growth rate of 1 % (previous year: 1 %). A discount rate of 7.25 % is used (previous year: 7.48 %).

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

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

	Useful life (years)
Buildings	40–60
IT systems	4–5
Other operating and office equipment	5–20

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

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

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

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

The carrying amount of liabilities that are part of a hedging relationship is adjusted for the changes in fair value attributable to the hedged risk.

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

Liabilities covering reimbursements of arrangement fees, and for interest premiums payable retroactively in the case of unutilized loans, or of changes in interest rates or tariffs, are recognized for the home savings business in line with the different tariffs and contract terms. The amount of the liabilities is calculated on the basis of predefined rational customer decision patterns. An estimate is made for each individual customer as to whether utilization of the home loan and, hence, the waiver of a reimbursement of the arrangement fees and the retroactive receipt of interest premiums is economically advantageous for the customer. In addition, past experience of actual customer behavior, which does not always meet expectations, is taken into account in the form of a separate add-on amount.
As it is not usually possible to predict customer behavior solely on the basis of rational decision-making patterns and past actions do not always indicate future customer behavior, there is an inherent uncertainty in the amount of the liabilities recognized. In the year under review, the estimated average remaining maturity of the relevant home savings deposits was reduced by 0.5 years on the basis of current analyses.

(m) Trading liabilities

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

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

(n) Provisions

Provisions for pensions and other employee benefits

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

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

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

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

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

- modular pension plans, where the future pension increases every year depending on the salary received;
- final salary-based commitments, where the future pension is linked to the length of service and the salaries received before the insured event;
- (indexed) fixed pensions, where the amount of the future pension is fixed but in some cases is indexed by a set percentage amount every year.

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

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

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

The amount of the liability is determined annually by independent actuaries using the projected unit credit method required under IAS 19. The discount rate applicable for the pension obligations is set at the reporting date by reference to the yield on high quality long-term corporate bonds and has been commercially rounded to two decimal places since 2016. The assumptions regarding the salary trend reflect Postbank's expectations as to how this will develop over the long term. The nominal rate of expected salary increases is determined based on inflation plus the expected long-term real salary trend ("building block approach"). The inflation rates implied by inflation swaps denominated in euros on the balance sheet date are used as a reference for long-term inflation.

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

The following overview shows the input parameters used:

	2016	2015
Discount rate	1.75 %	2.4 %
Salary growth	2.0 %	2.1 %
Inflation rate	1.8 %	1.6 %
Mortality	Heubeck tables 2005G	Heubeck tables 2005G

Other provisions

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

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

(o) Currency translation

In accordance with IAS 21.23, all foreign currency monetary items and equities denominated in foreign currencies that are classified as non-monetary items in accordance with IAS 21.8 are translated into euros at the middle spot rate at the balance sheet date.

There were no material non-monetary items at the balance sheet date measured at (amortized) cost (in particular property and equipment, prepaid expenses, and deferred income) and translated at the historical rate in accordance with IAS 21.23 (b). Foreign currency income and expenses are generally translated at the closing rate of the relevant month of the business transaction.

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

(p) Recognition of income

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

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

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

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

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

The Bank receives, in particular, acquisition commissions for brokering life insurance. The entitlement to the acquisition commission arises upon payment of the first premium by the customer. The acquisition commission is therefore recognized in the amount of its expected present value immediately upon the provision of the service with due regard to future cancellations. The Bank recognizes the commission for brokering payment protection insurance payable to it over the term of such insurance on the basis of a reliable estimate of the expected present value directly after the provision of the service. In the year under review, the Bank changed the basis of estimation from internal calculations to insurance assessments. This had a positive effect on net fee and commission income.

Postbank participates in the ECB's refinancing program – Targeted Longer-Term Refinancing Operations II (TLTROII) – as a member of the TLTRO group headed by Deutsche Bank as the lead institution. Postbank does not receive any refinancing funds from Deutsche Bank. Postbank receives remuneration for services rendered, the amount of which depends on the refinancing advantage achieved (depending on the collateral given) and its term, for its participation in this TLTRO group on the basis of an agreement with Deutsche Bank. As of December 31, 2016, Postbank reported the income from the agreement that could be reliably estimated in accordance with IAS 18.20 under "Other income."

(q) Income taxes

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

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

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

Deferred taxes are recognized for all temporary differences between the carrying amounts in the IFRS financial statements and the carrying amounts in the tax accounts (tax base). Deferred tax assets are recognized for tax loss carryforwards and temporary differences in the amount of their probable future utilization. Deferred tax assets are recognized for tax loss carryforwards based on future taxable income within a planning period that generally covers five years.

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

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

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

(r) Assets held for sale

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

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

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

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

(5) New developments in international accounting under IFRSs

New developments in fiscal year 2016

The following standards were required to be applied for the first time in the reporting period:

IAS 1 "Disclosure Initiative"
Postbank applied the amendments to IAS 1 "Disclosure Initiative" for the first time in the reporting period. The amendments are intended to provide clarification regarding the structure and content of the income statement, the condensed statement of comprehensive income, and the balance sheet. The amendments refer to the application of the principle of materiality, the disaggregation of items in financial statements, and the presentation of subtotals, as well as to the structure of the disclosures in the notes.

IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"
The amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" were also applied for the first time. According to the amendments, revenue-based methods for calculating the depreciation of property and equipment are not admissible, whereas in the case of intangible assets, there is merely a rebuttable presumption that such methods are inappropriate.

Annual Improvements 2012–2014
In addition, the Bank applied the clarifications, amendments, and additions made to existing IFRSs as part of the Annual Improvements 2012–2014 cycle for the first time.

The adoption of the above-mentioned amended standards did not have any significant effect on the net assets, financial position, and results of operations of the Bank.

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

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

IAS 7 "Disclosure Initiative"
The amendments to IAS 7 relate to the disclosures on changes in financial liabilities for which cash flows are presented in the statement of cash flows as cash flows used in financing activities. Disclosures on the associated financial assets are also required. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank. The disclosures on cash flows used in financing activities will be expanded accordingly.

The amendments take effect for fiscal years beginning on or after January 1, 2017. Not yet endorsed by the EU.

IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"
The amendment clarifies that unrealized losses on debt instruments measured at fair value resulting from a change in the market interest level give rise to deductible temporary differences. The amendments also contain clarifications on testing deferred tax assets for impairment, according to which the deductible temporary differences are recoverable if sufficient taxable income is expected before the effects of deductible temporary differences. Tax loss carryforwards are based on taxable income. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

The amendments take effect for fiscal years beginning on or after January 1, 2017. Not yet endorsed by the EU.

IFRS 2 "Classification and Measurement of Share-based Payment Transactions"
The revision clarifies that when measuring cash-settled share-based payments, the fair value must reflect market and non-vesting conditions, and the quantity structure must take into account service conditions and other performance conditions. With respect to equity-settled share-based payments, it also clarifies that shares withheld by a company to meet beneficiaries' tax obligations are to be treated in the same way as repurchased equity instruments. The standard also governs the recognition of a change in terms, if the payment is originally to be settled in cash but is subsequently settled using equity instruments. Accordingly, the equity-settled payment must be recognized as an increase in equity at the pro rata fair value on the date of the change and any difference arising from the derecognition of the liability reported in income. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

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

IFRS 9 "Financial Instruments"
IFRS 9 "Financial Instruments" in particular includes updated requirements on the classification and measurement of financial instruments, impairment, and general hedge accounting (not including macrohedge accounting). Financial instruments are classified in accordance with the two criteria of "business model" and "solely payments of principal and interest". How these two criteria are interpreted determines whether the instruments are subsequently accounted for at amortized cost or at fair value (either recognized in profit and loss or directly in equity).

With regard to impairment, the former incurred loss impairment model is replaced by an expected credit loss (ECL) model that allows default risk to be accounted for in a more timely manner. The new general hedge accounting requirements are now largely aligned with internal risk management.

Ceteris paribus, Postbank is anticipating an increase in the allowance for losses on loans and advances, mainly due to the switch to a 12-month or lifetime ECL, as a result of the new regulations on impairment.

Recognized capital is expected to be negatively impacted by an amount in the mid three-digit million euro range as a result of the introduction of IFRS 9. Due to the new classification requirements, Postbank is expecting a certain shift to occur between the measurements at fair value through profit or loss, at fair value through other comprehensive income, and at amortized cost. In addition, a large part of the decrease in capital is attributable to the increase in the allowance for losses on loans and advances. The anticipated effect of initial application of IFRS 9 may differ from the current estimate since material assumptions relating for example to a significant deterioration in the credit rating have not yet been finalized, the development of the models to calculate the allowance for losses on loans and advances is not yet complete, and changes in business volumes or in macroeconomic conditions could have an effect.

IFRS 9 takes effect for fiscal years beginning on or after January 1, 2018. The standard was translated into European law by Commission Regulation 2016/2067 of November 22, 2016.

IFRS 15 "Revenue from Contracts with Customers"

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

As a general rule, the standard applies to all contracts with customers that agree on the sale of goods and services from the company's normal business activities. The IASB published "Clarifications to IFRS 15 – Revenue from Contract with Customers" in April 2016. This contains clarifications on the identification of performance obligations, principal versus agent considerations, licensing agreements, and transitional provisions for modified and completed contracts. Application is likewise mandatory.

At Postbank, IFRS 15 applies in particular to the fees and charges reported under fee and commission income in the Bank's income statement. The introduction of the standard is not expected to have any significant qualitative effects on the presentation of Postbank's net assets, financial position, and results of operations. The effects of the new provisions governing the recognition of income are currently in the final stages of review as part of a project to implement IFRS 15. However, it is not possible to reliably quantify the potential effects as of the reporting date for the period under review.

IFRS 15 takes effect for fiscal years beginning on or after January 1, 2018. The standard was translated into European law by Commission Regulation 2016/1905 of September 22, 2016. The clarifications to IFRS 15 must be applied together with IFRS 15. However, these have not yet been endorsed by the EU.

Annual Improvements 2014–2016

The IASB has implemented clarifications, amendments, and additions to existing standards as part of its Annual Improvements 2014-2016 project. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

The amendments take effect for fiscal years beginning on or after January 1, 2017 or January 1, 2018. Not yet endorsed by the EU.

IFRS 16 "Leases"

IFRS 16 governs the recognition, measurement, presentation and disclosure obligations with respect to leases, and replaces the current IAS 17 "Leases." The new accounting model requires the lessee to recognize all assets and liabilities relating to leasing arrangements. This means that the distinction between financing and operating leases (previously the case with IAS 17) no longer applies at all to the lessee. With regard to the lessor, the regulations of IFRS 16 do not differ significantly from those contained in the current IAS 17 accounting model. Postbank is currently examining the potential effects on its consolidated financial statements.

IFRS 16 takes effect for fiscal years beginning on or after January 1, 2019. Not yet endorsed by the EU.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IFRIC 22 is a new interpretation of IAS 21 "The Effects of Changes in Foreign Exchange Rates." This clarifies when to determine the exchange rate for translating transactions in foreign currency that include the receipt or payment of advance consideration. The exchange rate of the underlying asset, income, or expense is calculated based on the date of initial recognition of the asset or liability resulting from the advance consideration. The amendments are not expected to have a material effect on the net assets, financial position, and results of operations at Postbank.

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

(6) Adjustments of prior-year figures

In the reporting period, the Bank adjusted the previously inconsistent treatment of commissions paid for the brokerage of mortgages and installment loans, as well as expenses for property value appraisals.

As a result, expenses incurred in connection with loan brokerage or for property value appraisals are included in effective interest. The relevant items were also adjusted retroactively to ensure proper presentation of the product results. In addition, commitment interest received from mortgage lending is also included in the effective interest of loans granted, instead of recognizing it directly in income.

The retrospective application of the above adjustments as of January 1, 2015 led to an increase of €526 million in loans and advances to customers and a decrease of €527 million in other assets. Deferred tax assets rose by €5 million and retained earnings by €4 million. Retroactive application as of December 31, 2015 increased loans and advances to customers by €642 million and deferred tax assets by €5 million. At the same time, other assets decreased by €641 million.

In fiscal year 2015, interest income declined by €165 million, the fee and commission expense decreased by €36 million and administrative expenses by €131 million.

This lifted consolidated profit for 2015 by €2 million, resulting in an increase of €0.01 in earnings per share. The changes affect the Retail Banking and Non-Core Operating Unit segments.

Furthermore, in the reporting period, the Bank determined that a previously recognized credit portfolio relates to risk-free pass-through transactions. The resulting retroactive adjustment reduced both the "Loans and advances to customers" and "Deposits from other banks" items by €158 million as of January 1, 2015 and by €102 million as of December 31, 2015. These changes affect the Retail Banking segment.

All of the adjustments made are included in the cash flow statement in accordance with the composition of cash flows used in operating activities. Overall, there were no effects on net cash flow used in operating activities.

INCOME STATEMENT DISCLOSURES

(7) Net interest income

	2016 €m	2015[1] €m
Interest and current income		
Interest income from:		
Lending and money market transactions	3,453	3,607
Fixed-income and book-entry securities	474	557
Net gains/losses on hedges	–5	–2
	3,922	**4,162**
Current income from:		
Equities and other non-fixed-income securities	0	0
Equity investments	5	3
	5	**3**
	3,927	**4,165**
Positive interest on financial liabilities	29	15
Interest expense on:		
Deposits	1,343	1,467
Debt securities in issue	75	130
Subordinated debt	165	173
Swaps	150	153
	1,733	**1,923**
Negative interest on financial assets	54	19
Total	**2,169**	**2,238**

[1]Figures adjusted (see Note 6)

Interest income from the lending business and from money market transactions includes €14 million (previous year: €18 million) of interest income accrued on impaired assets (unwinding in accordance with IAS 39).

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

In addition, net interest income includes interest of €185 million (previous year: €197 million) from derivatives used to hedge loans and advances designated under the fair value option.

Interest income and expenses of €–35 million (previous year: €–44 million) on swaps used in hedging relationships are reported as net expense. The underlying transactions are hedging instruments that meet the qualification criteria for hedge accounting in accordance with IAS 39.

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

	2016 €m	2015 €m
Gains/losses on the fair value remeasurement of hedged items	104	–36
Gains/losses on the fair value remeasurement of hedging instruments	–109	34
Total	**–5**	**–2**

(8) Allowance for losses on loans and advances

	2016 €m	2015 €m
Cost of additions to allowance for losses on loans and advances		
Specific valuation allowances	316	367
Portfolio-based valuation allowances	79	90
Cost of additions to provisions for credit risks	27	25
Direct loan write-offs	30	51
Income from reversals of the allowance for losses on loans and advances		
Specific valuation allowances	140	228
Portfolio-based valuation allowances	77	45
Income from the reversal of provisions for credit risks	21	24
Recoveries on loans previously written off	30	27
Total	**184**	**209**

As in the previous year, the allowance for losses on loans and advances did not include any loans and advances to other banks.

€178 million (previous year: €208 million) of the allowance for losses on loans and advances relates to customer receivables classified as loans and receivables; €6 million (previous year: €1 million) of the allowance for losses on loans and advances relates to guarantees, warranties, and loan commitments.

The cost of additions to and the income from reversals of the allowance for losses on loans and advances to customers can be broken down by product group as follows:

	2016 €m	2015 €m
Additions		
Private mortgage lending	98	115
Home savings loans	2	2
Commercial loans	20	40
Installment loans	145	146
Overdrafts	51	64
Portfolio-based valuation allowances	79	90
Total	**395**	**457**

	2016 €m	2015 €m
Reversal		
Private mortgage lending	75	93
Home savings loans	1	1
Commercial loans	17	26
Installment loans	26	65
Overdrafts	21	43
Portfolio-based valuation allowances	77	45
Total	**217**	**273**

(9) Net fee and commission income

	2016 €m	2015[1] €m
Checking account business	367	336
Securities business	56	60
Lending and guarantee business	48	39
Branch business	196	209
Other fee and commission income	176	178
Total	**843**	**822**

[1]Figures adjusted (see Note 6)

Net fee and commission income from trust activities amounts to €4 million (previous year: €5 million) and is reported in “Other fee and commission income.”

The Bank receives acquisition commissions for brokering life insurance. In the year under review, the Bank changed the basis of estimation for acquisition commissions from internal calculations to insurance assessments. This led to a positive effect of €6 million.

Fee and commission income includes €555 million (previous year: €533 million) and fee and commission expense of €154 million (previous year: €172 million) which result from transactions with financial instruments not designated at fair value through profit or loss.

(10) Net trading income

	2016 €m	2015 €m
Net income from sale of securities and loans	0	0
Net gains/losses on remeasurement of securities and loans		
Bonds and other fixed-income securities	0	0
Loans (held for trading)	1	–4
	1	**–4**
Net gains/losses on derivatives carried in the trading portfolio and the banking book		
Gain on derivatives	2,316	1,900
Loss on derivatives	–2,286	–1,871
	30	**29**
Net gains/losses from application of the fair value option		
thereof loans and advances to customers	–120	–158
thereof derivatives substantively linked to the fair value option	132	175
	12	**17**
Foreign exchange gain/loss	7	14
Net fee and commission income carried in the trading portfolio	0	0
Total	**50**	**56**

The net gains/losses on derivatives carried in the trading portfolio and the banking book include expenses from interest on swaps of €49 million (previous year: €53 million). The underlying swap holdings are not part of a hedging relationship as defined by IAS 39.

(11) Net income from investment securities

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

	2016 €m	2015 €m
Net income from loans and receivables investment securities	84	16
thereof net income from sale	84	18
Gains on sale	92	19
Losses on sale	8	1
thereof impairment losses (net)	0	–2
Net income from available-for-sale investment securities and other equity investments	174	29
thereof net income from sale	176	30
Gains on sale	181	31
Losses on sale	5	1
thereof current profit/loss	0	0
thereof impairment losses (net)	–2	–1
Net income from equity investments	0	–18
thereof current profit/loss	0	20
thereof net remeasurement gains/losses	0	–38
Total	**258**	**27**

	2016 €m	2015 €m
Net income from bonds and promissory note loans	131	39
Net income from equities and other non-fixed-income securities	0	0
Net income from equity investments	129	–9
Impairment	–2	–3
Total	**258**	**27**

Net income from equity investments primarily includes the income from the sale of the shares in Visa Europe Ltd. (€104 million) as well as from the reduction in an equity investment (€22 million) held on the basis of a sales alliance. Income from fixed-income securities includes gains of €58 million from the sale of corporate bonds to the assets of the contractual trust arrangement (CTA) qualified as plan assets.

€1 million (previous year: €0 million) of the net impairment loss on investment securities relates to closed-end funds. In the previous year, a net impairment loss of €3 million was recognized on other debt instruments.

(12) Administrative expenses

Consolidated administrative expenses are composed of staff costs, non-staff operating expenses, and amortization, depreciation, and writedowns of intangible assets and property and equipment. These expenses are composed of the following items:

	2016 €m	2015[1] €m
Staff costs		
Wages and salaries	1,106	932
Social security contributions	130	94
Expenses for pensions and other benefits	159	165
	1,395	**1,191**
Other administrative expenses	1,360	1,263
Amortization of intangible assets	44	82
Depreciation and writedowns of property and equipment	54	57
Total	**2,853**	**2,593**

[1]Figures adjusted (see Note 6)

Expenses for pensions and other benefits primarily include expenses for defined contribution plans of €96 million (previous year: €95 million) and expenses for defined benefit plans of €37 million (previous year: €46 million). In addition, administrative expenses also include the employer contributions of €64 million (previous year: €46 million) for statutory pension insurance.

Deutsche Postbank AG seconded civil servants to the Bundesamt für Migration und Flüchtlinge (German Federal Office for Migration and Refugees - BAMF) as of May 1, 2016. Benefits accrued to the civil servants since then are reimbursed by the BAMF. The reimbursements in the amount of €2 million are offset against staff costs.

Other administrative expenses relate primarily to IT costs of €452 million (previous year: €413 million), expenses for intragroup services received from Deutsche Post AG of €88 million (previous year: €91 million), operating building and premises expenses of €171 million (previous year: €158 million), market communication costs of €88 million (previous year: €85 million), legal, consulting, and audit costs of €75 million (previous year: €69 million), as well as expenses for the bank levy of €23 million (previous year: €20 million).

Other administrative expenses include lease expenses of €147 million (previous year: €134 million), which are composed of expenses for leased intangible assets, land and buildings, and operating and office equipment under operating leases.

In the year under review, no impairment losses were recognized on property and equipment (previous year: €7 million) or on intangible assets (previous year: €24 million).

(13) Other income

	2016 €m	2015 €m
Remuneration for participation in ECB's refinancing program	40	–
Income from property and equipment	18	41
Reimbursements from internal welfare institutions	11	11
Income from uncollectable transactions	4	10
Expenses for relationships to service companies	–	302
Miscellaneous	68	525
Total	**141**	**889**

Income from property and equipment mainly comprises rental income of €15 million (previous year: €35 million).

In addition, the miscellaneous item includes a large number of individual items.

(14) Other expenses

	2016 €m	2015 €m
Expenses from litigation and customer redress	58	53
Expenses from property and equipment	12	19
Expenses for the Federal Posts and Telecommunications Agency (BAnstPT and StiftPT)	12	11
Expenses for claims settlement and ex gratia payments	10	12
Expenses for other taxes	3	6
Expenses for relationships to service companies	–	521
Miscellaneous	22	24
Total	**117**	**646**

Expenses for other taxes mainly relate to land taxes amounting to €3 million, unchanged as against the previous year.

In addition, the miscellaneous item includes a large number of individual items.

(15) Income taxes

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

	2016 €m	2015 €m
Effective income tax expense		
Current income tax expense		
Corporate income tax and solidarity surcharge	15	16
Trade income tax	12	6
	27	**22**
Prior-period income tax	–22	–3
	5	**19**
Deferred income tax		
Temporary differences	–22	–40
Reversal of tax loss carryforwards	7	–6
	–15	**–46**
Total	**–10**	**–27**

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

	2016 €m	2015[1] €m
Profit from ordinary activities after tax	317	611
Income tax expense	–10	–27
Profit before tax	307	584
Applicable tax rate	31.04 %	30.63 %
Expected income taxes	95	179
Tax effects		
Effect of changes in tax rate	0	–1
Effect of difference between applicable tax rates in Germany and abroad	0	0
Effect of non-deductible expenses	18	24
Effect of tax-free income	–45	–10
Effect of additions/reductions for local income tax purposes	3	2
Effect of consolidated tax group	–65	–224
Effect of changes in valuation allowances on deferred tax	–5	0
Effect of prior-period taxes	–11	3
Other	0	0
	–105	**–206**
Income tax expense (+)/ income tax income (–)	**–10**	**–27**

[1]Figures adjusted (see Note 6)

Due to the formal legal perspective, the weighted average tax rate is used for the applicable tax rate.

BALANCE SHEET DISCLOSURES

(16) Cash reserve

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Cash	1,485	963
Balances with central banks	806	394
Total	**2,291**	**1,357**

€803 million (previous year: €390 million) of the balances with central banks relates to balances with the Deutsche Bundesbank.

The minimum reserve requirement at the end of December 2016 was €872 million (previous year: €852 million).

(17) Loans and advances to other banks

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Domestic banks		
Payable on demand	4,908	1,270
Other loans and advances	6,000	9,463
	10,908	**10,733**
Foreign banks		
Payable on demand	1,475	264
Other loans and advances	725	4,879
	2,200	**5,143**
Total	**13,108**	**15,876**

€2,045 million (previous year: €3,225 million) of loans and advances to other banks is due after more than 12 months.

Loans and advances to other banks can be broken down as follows in accordance with the categories of financial instruments defined in IAS 39:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Loans and advances to other banks (loans and receivables)	13,108	15,876
thereof fair value hedges	–	78
Total	**13,108**	**15,876**

The loans and advances to other banks can be broken down by product group as follows:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Securities repurchase agreements	5,832	13,144
Overnight money	6,381	837
Loans	92	68
Registered bonds	300	425
Term deposits	500	1,100
Other loans and advances	3	302
Total	**13,108**	**15,876**

Collateral received that can be unconditionally liquidated or unconditionally sold:

	Fair value of collateral that can be unconditionally liquidated or can be unconditionally sold		Fair value of collateral that was sold or repledged and is subject to an obligation to return	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Financial collateral	5,123	14,038	1,008	1,006
Non-financial collateral	–	–	–	–
Total	**5,123**	**14,038**	**1,008**	**1,006**

Collateral is utilized at standard market conditions.

As of December 31, 2016, receivables under genuine repurchase agreements amounted to €5,832 million (previous year: €13,144 million). Postbank is the lender in such transactions. Securities purchased under agreements to resell relate to listed bonds of public sector issuers, issuances by German and foreign banks, and corporate bonds.

Loans and advances to other banks include fixed-interest loans in the amount of €12.6 billion (previous year: €9.1 billion) and variable-interest loans in the amount of €0.5 billion (previous year: €6.8 billion).

(18) Loans and advances to customers

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Private mortgage lending	69,029	68,715[2]
Home savings loans	2,992	3,243[2]
Commercial loans	13,677	12,073
Public sector	5,205	4,621
Installment loans	7,438	6,589
Overdrafts	2,085	2,176
Promissory note loans	1,537	1,485
Other loans and advances	40	35
Total	**102,003**	**98,937**
thereof:		
Domestic customers	93,634	92,203
Foreign customers	8,369	6,734
Total	**102,003**	**98,937**

[1]Figures adjusted (see Note 6)
[2]Allocation of values between private mortgage lending and home savings loans adjusted for 2015

Loans and advances to customers without a fixed maturity amount to 1.7% of total assets (previous year: 1.6%). These loans and advances have been allocated to the shortest maturity band in the maturity structure (see Note 50).

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Loans and advances to customers include public-sector loans with a residual capital of €5,050 million (previous year: €4,118 million) and loans and advances secured by real estate liens with a residual capital of € 43,869 million (previous year: €42,564 million).

€81,762 million (previous year: €76,343 million) of loans and advances to customers is due after more than 12 months.

Loans and advances to customers include fixed-interest loans in the amount of €89.4 billion (previous year: €87.3 billion) and variable-interest loans in the amount of €12.6 billion (previous year: €11.6 billion).

The carrying amount of loans and advances to customers can be broken down as follows in accordance with the categories of financial instruments defined in IAS 39:

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Loans and receivables	98,358	94,528
thereof fair value hedges	2,482	1,535
Fair value option	3,645	4,409
Total	**102,003**	**98,937**

[1]Figures adjusted (see Note 6)

The maximum credit risk on the loan portfolios allocated to the fair value option corresponds to the carrying amount of €3.6 billion (previous year: €4.4 billion). The change in fair value attributable to changes in the default risk on financial assets was €4.2 million in the year under review (previous year: €8.8 million).

Loans and advances to customers include amounts due under finance leases.

Total outstanding minimum lease payments amount to €295 million (previous year: €259 million) and have the following maturity structure:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
in the first year after the balance sheet date	113	67
in the second year after the balance sheet date	59	94
in the third year after the balance sheet date	52	40
in the fourth year after the balance sheet date	35	32
in the fifth year after the balance sheet date	20	17
more than five years after the balance sheet date	16	9
Total	**295**	**259**

The reconciliation to the present value of the outstanding minimum lease payments is as follows:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Outstanding minimum lease payments	295	259
Unguaranteed residual values	3	3
Total gross investment	**298**	**262**
Unearned finance income	13	14
Net investment	**285**	**248**
Present value of unguaranteed residual values	2	3
Present value of minimum lease payments	**283**	**245**

The accumulated allowance for uncollectible outstanding minimum lease payments amounts to €3 million (previous year: €3 million).

(19) Total credit extended

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Loans and advances to other banks	13,108	15,876
Loans and advances to customers	102,003	98,937
Guarantees	362	404
Total	**115,473**	**115,217**

[1]Figures adjusted (see Note 6)

(20) Allowance for losses on loans and advances

The allowance for losses on loans and advances covers all identifiable credit risks. Portfolio-based valuation allowances were recognized for risks that have arisen but not yet been identified.

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

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

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Allowance for losses on loans and advances to customers	998	923
Provisions for credit risks	45	43
Total	**1,043**	**966**

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

	Specific valuation allowances		Portfolio-based valuation allowances		Total	
	2016 €m	2015 €m	2016 €m	2015 €m	2016 €m	2015 €m
Balance at Jan. 1	**725**	**1,208**	**198**	**153**	**923**	**1,361**
Reclassification due to IFRS 5	–1	–196	–	–	–1	–196
Additions						
Allowance charged to the income statement	316	367	79	90	395	457
Disposals						
Utilization	88	412	–	–	88	412
Allowance reversed to the income statement	140	228	77	45	217	273
Unwinding	14	18	–	–	14	18
Currency translation differences	–	4	–	–	–	4
Balance at Dec, 31	**798**	**725**	**200**	**198**	**998**	**923**

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

CONSOLIDATED FINANCIAL STATEMENTS

The allowance for losses on loans and advances to customers can be broken down by product group as follows:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Specific valuation allowances		
Private mortgage lending	209	263
Home savings loans	5	3
Commercial loans	127	140
Public-sector receivables	4	4
Installment loans	313	193
Overdrafts	140	122
Portfolio-based valuation allowances	200	198
Total	**998**	**923**

Specific valuation allowances were recognized for loans with a total volume of €1,747 million (previous year: €1,710 million).

Loans and advances amounting to €30 million were written off directly in fiscal year 2016 (previous year: €51 million). Recoveries on loans written off amounted to €30 million (previous year: €27 million).

(21) Trading assets

In fiscal year 2016, trading assets were mainly comprised of derivatives. All trading assets are carried at their fair values.

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Building loans held for trading	53	91
Positive fair values of derivatives carried as trading assets	1	81
Positive fair values of banking book derivatives	421	475
Positive fair values from derivatives relating to hedged items accounted for under the fair value option	0	0
Total	**475**	**647**

€409 million (previous year: €473 million) is due after more than 12 months.

(22) Hedging derivatives

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

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Assets		
Hedging derivatives on loans to customer		
Loans and receivables	0	0
	0	**0**
Liabilities		
Deposits from other banks	3	3
Due to customers	15	12
Debt securities in issue	9	8
Subordinated debt	85	55
	112	**78**
Total	**112**	**78**

Holdings of €102 million (previous year: €68 million) are due after more than 12 months.

(23) Investment securities

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

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Bonds and other fixed-income securities		
Public-sector issuers	16,042	16,462
Other issuers	10,406	13,980
	26,448	**30,442**
Equities and other non-fixed-income securities		
Investment fund shares	271	261
	271	**261**
Equity investments	43	60
Investments in unconsolidated subsidiaries	5	5
Investments in associates	0	0
Total	**26,767**	**30,768**

As in the previous year, bonds and other fixed-income securities do not contain any securities and interest coupons due on the balance sheet date.

Holdings of €22,266 million (previous year: €26,179 million) are due after more than 12 months.

€24.9 billion (previous year: €28 billion) of the bonds and other fixed-income securities have a fixed rate of interest over the entire term, while €1.5 billion (previous year: €2.4 billion) have a variable rate of interest (floaters).

Postbank's portfolio of structured credit products has a total volume of €72 million (previous year: €83 million).

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

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Bonds and other fixed-income securities		
Loans and receivables investment securities	12,196	17,408
thereof fair value hedges	2,090	4,614
Available for sale	14,252	13,034
thereof fair value hedges	8,870	6,457
	26,448	**30,442**
Equities and other non-fixed-income securities		
Available for sale	271	261
	271	**261**
Equity investments (available for sale)	43	60
Investments in unconsolidated subsidiaries (available for sale)	5	5
Total	**26,767**	**30,768**

The following amounts of investment securities are negotiable and listed:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Bonds and other fixed-income securities	26,436	30,428
Equities and other non-fixed-income securities	0	0
Equity investments	14	48

Investment securities were furnished as collateral for the following liabilities:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Liabilities	7,625	11,924
Contingent liabilities	21	0
Total	**7,646**	**11,924**

Investment securities still carried in the balance sheet in the amount of €2,956 million (previous year: €6,009 million) were transferred as collateral. Of this figure, the transferee could resell or pledge investment securities in the amount of €2,918 million (previous year: €5,971 million) on the basis of contractual or customary rights (IAS 39.37(a)).

Collateral taking the form of investment securities in the amount of €3,147 million (previous year: €5,335 million) was transferred for liabilities relating to securities repurchase transactions amounting to €2,918 million (previous year: €5,971 million).

Investment securities are pledged as collateral in accordance with standard market conditions.

Changes in the fair value of available-for-sale securities in the amount of €–63 million that are not hedged were recognized in the revaluation reserve (previous year: €–39 million). A total of €111 million (previous year: €12 million) reported in the revaluation reserve was reversed to income in the period under review as a result of the disposal of investment securities and the recognition of impairment losses.

Impairment losses of €2 million (previous year: €3 million) were recognized in fiscal year 2016 to reflect the performance of the financial instruments.

In fiscal years 2008 and 2009, Postbank reclassified securities from the "available-for-sale" category to the "loans and receivables" category due to a change in its intention to hold the securities. The fair value of the securities at the respective reclassification date was reported as the new carrying amount.

As of December 31, 2016, the total volume of securities reclassified in accordance with IAS 39.50E had a fair value of €5.6 billion and a carrying amount of €5.4 billion.

Prior to the above-mentioned reclassification dates, the changes in fair value that had been recognized in the revaluation reserve for the reclassified securities amounted to €468 million before tax. Had Postbank not changed its intention to hold the securities, the loss recognized in the revaluation reserve would have decreased by a further €167 million in the period up to December 31, 2016 (previous year: decrease of €367 million).

Given a nominal weighting of the reclassified securities, the effective interest rate calculated on the basis of their restated cost as of the date of the reclassifications was 4.4 % (range of effective interest rates: 1.8 % to 34.5 %). The estimated cash flows that Postbank expected as of the date of the reclassifications amount to €45.4 billion. Impairments of €621 million (previous year: €621 million) were charged for all reclassified securities in the period up to December 31, 2016; net disposal gains on reclassified securities amounted to €88 million (previous year: €21 million).

In the year under review, interest income amounting to €124 million (previous year: €170 million) was recognized for the reclassified securities.

(24) Intangible assets

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Acquired goodwill	1,581	1,581
Acquired software, concessions, industrial rights	253	248
Internally generated intangible assets and software	54	46
Advance payments on intangible assets and in-process intangible assets	75	27
Total	**1,963**	**1,902**

92
122

€1,424 million of purchased goodwill (previous year: €1,568 million) is attributable to the Retail Banking segment, while €157 million (previous year: €13 million) is attributable to the Corporate Banking segment (see Note 4(j) and Note 40).

The "acquired software, concessions, industrial rights" item includes the "BHW" brand in the amount of €139 million. The "BHW" brand is allocated to the Retail Banking segment. The capitalized amounts for customer relationships amounted to €54 million (previous year: €58 million), while those for beneficial contracts amounted to €8 million (previous year: €10 million).

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

	Acquired goodwill €m	Acquired software, concessions, industrial rights €m	Internally generated intangible assets and software €m	Advance payments on intangible assets and in-process intangible assets €m	Total €m
Historical cost					
Opening balance at Jan. 1, 2015	**1,603**	**1,050**	**217**	**31**	**2,901**
Changes in the basis of consolidation	0	0	0	–	0
Additions	0	9	15	25	49
Reclassifications	–	0	16	–16	0
Disposals	0	0	4	13	17
Closing balance at Dec. 31, 2015	**1,603**	**1,059**	**244**	**27**	**2,933**
Changes in the basis of consolidation	–	35	–	–	35
Additions	–	34	20	60	114
Reclassifications	–	0	11	–11	0
Disposals	0	17	37	1	55
Closing balance at Dec. 31, 2016	**1,603**	**1,111**	**238**	**75**	**3,027**

	Acquired goodwill €m	Acquired software, concessions, industrial rights €m	Internally generated intangible assets and software €m	Advance payments on intangible assets and in-process intangible assets €m	Total €m
Amortization					
Opening balance at Jan. 1, 2015	**22**	**773**	**154**	**0**	**949**
Changes in the basis of consolidation	0	0	0	–	0
Amortization	0	38	44	–	82
Additions	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	0	0	0	–	0
Closing balance at Dec. 31, 2015	**22**	**811**	**198**	**0**	**1,031**
Changes in the basis of consolidation	–	32	–	–	32
Amortization	–	27	17	–	44
Additions	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	12	31	–	43
Closing balance at Dec. 31, 2016	**22**	**858**	**184**	**0**	**1,064**
Carrying amount at Dec. 31, 2015	**1,581**	**248**	**46**	**27**	**1,902**
Carrying amount at Dec. 31, 2016	**1,581**	**253**	**54**	**75**	**1,963**

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

	Carrying amount at Jan. 1, 2016 €m	Changes in basis of con-solidation €m	Additions €m	Disposals €m	Reclassifica-tions €m	Amortization €m	Carrying amount at Dec. 31, 2016 €m
Acquired goodwill	1,581	–	–	0	–	–	1,581
Acquired software, concessions, industrial rights	248	3	46	17	0	27	253
Internally generated intangible assets and software	46	0	51	37	11	17	54
Advance payments on intangible assets and in-process intangible assets	27	–	60	1	–11	–	75
Total	**1,902**	**3**	**157**	**55**	**0**	**44**	**1,963**

As in the previous year, no borrowing costs for qualifying assets (software under development) were capitalized in accordance with IAS 23 in fiscal year 2016.

The carrying amount as of December 31, 2016, of advance payments on intangible assets was €16 million (previous year: €4 million); the carrying amount of in-process intangible assets was €59 million (previous year: €23 million).

(25) Property and equipment

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Land and buildings	480	513
Operating and office equipment	176	143
Advance payments and assets under development	43	22
Total	**699**	**678**

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

	Land and buildings €m	Oper-ating and office equip-ment €m	Advance pay-ments and assets under develop-ment €m	Total €m
Historical cost				
Opening balance at Jan. 1, 2015	**925**	**437**	**9**	**1,371**
Additions	0	41	14	55
Reclassifications	0	1	–1	0
Disposals	5	3	0	8
Closing balance at Dec. 31, 2015	**920**	**476**	**22**	**1,418**
Changes in the basis of consolidation	–	19	–	19
Reclassification due to IFRS 5	–27	0	–	–27
Additions	0	72	24	96
Reclassifications	16	3	–3	16
Disposals	0	59	0	59
Closing balance at Dec. 31, 2016	**909**	**511**	**43**	**1,463**

	Land and buildings €m	Operating and office equipment €m	Advance payments and assets under development €m	Total €m
Depreciation				
Opening balance at Jan. 1, 2015	**393**	**295**	**–**	**688**
Depreciation	19	38	–	57
Reversals of impairment losses	–	–	–	–
Reclassifications	–5	–	–	–5
Disposals	0	0	–	0
Closing balance at Dec. 31, 2015	**407**	**333**	**–**	**740**
Changes in basis of consolidation	–	16	–	16
Reclassification due to IFRS 5	–6	–	–	–6
Depreciation	12	42	–	54
Reversals of impairment losses	–	–	–	–
Reclassifications	16	0	–	16
Disposals	0	56	–	56
Closing balance at Dec. 31, 2016	**429**	**335**	**–**	**764**
Carrying amount at Dec. 31, 2015	**513**	**143**	**22**	**678**
Carrying amount at Dec. 31, 2016	**480**	**176**	**43**	**699**

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

	Carrying amount at Jan. 1, 2016 €m	Changes in basis of consolidation €m	Additions €m	Disposals €m	Reclassifications €m	Reclassification due to IFRS 5 €m	Reversals of impairment losses €m	Depreciation €m	Carrying amount at Dec. 31, 2016 €m
Land and buildings	513	0	0	1	–	–20	–	12	480
Operating and office equipment	143	3	72	3	3	0	–	42	176
Advance payments and assets under development	22	0	24	–	–3	0	–	–	43
Total	**678**	**3**	**96**	**4**	**0**	**–20**	**0**	**54**	**699**

At the balance sheet date, assets under development amounted to €43 million (previous year: €22 million).

(26) Current and deferred tax assets

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Current tax assets	144	101
Deferred tax assets		
from temporary differences	194	66
from tax loss carryforwards	4	11
domestic	4	11
foreign	0	0
	198	**77**
Total	**342**	**178**

[1]Figures adjusted (see Note 6)

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

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Assets		
Loans and advances	0	5
Allowance for losses on loans and advances	2	2
Trading assets	176	118
Investment securities	3	9
Property and equipment	6	7
Other assets	28	0
Liabilities		
Amounts due to other banks and customers	90	86
Trading liabilities	148	221
Hedging derivatives	1	9
Provisions for pensions and other employee benefits	160	81
Other provisions	22	7
Other liabilities	4	2
	640	**547**
Tax loss carryforwards	4	11
Netted against deferred tax liabilities	446	481
Total	**198**	**77**

[1]Figures adjusted (see Note 6)

In the year under review, deferred tax assets for temporary differences amounting to €34 million and for tax loss carryforwards not limited in time of €11 million were not recognized.

The deferred tax assets for tax loss carryforwards are primarily attributable to the German subsidiaries of Deutsche Postbank AG.

(27) Other assets

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Prepaid expenses	65	46
Receivables from subsidiaries	55	210
Trade receivables	171	175
Receivables from tax authorities	32	30
Advances to members of the mobile sales force	7	7
Miscellaneous	58	46
Total	**388**	**514**

[1]Figures adjusted (see Note 6)

Other assets amounting to €107 million (previous year: €70 million) have a maturity of more than 12 months.

Realized but not yet received amounts from insurance brokerage are recognized under trade receivables (see Note 4(p)).

(28) Assets held for sale

In the fourth quarter of 2016, the Bank resolved to sell an investment with a carrying amount of €14 million. The purchase agreement was signed in January 2017 subject to conditions precedent. The sale is expected to be completed by the end of the third quarter of 2017. The investment is allocated to the available-for-sale measurement category and Level 2 of the fair value hierarchy. It is presented in the Cost Centers/Consolidation segment in segment reporting.

The Bank also intends to sell a property with a carrying amount of €20 million in the first half of 2017. Classification of this property as a held-for-sale asset in the first quarter of 2016 did not result in any impairment. The property is allocated to the Cost Centers/ Consolidation segment.

Furthermore, the Bank initiated a sales process to dispose of commercial real estate financing in the fourth quarter of 2016. The receivable had a carrying amount of €14 million as of December 31, 2016, while the allowance for losses on loans and advances recognized for the receivable was €1 million. The receivable is classified in the loans and receivables measurement category and allocated to Level 3 of the fair value hierarchy. The fair value is the same as the carrying amount as of December 31, 2016. The receivable is allocated to the Corporate Banking segment. The disposal is expected to be completed in the course of the first half of 2017.

(29) Deposits from other banks

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Domestic banks		
Payable on demand	383	156
With an agreed maturity or withdrawal notice	12,616	15,079
	12,999	**15,235**
Foreign banks		
Payable on demand	125	97
With an agreed maturity or withdrawal notice	9	9
	134	**106**
Total	**13,133**	**15,341**

[1]Figures adjusted (see Note 6)

€654 million of the deposits from other banks is covered by fair value hedges (previous year: €670 million).

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

€8,425 million (previous year: €8,961 million) is due after more than 12 months.

Deposits from other banks include fixed-interest deposits in the amount of €12.9 billion (previous year: €15.2 billion) and variable-interest deposits in the amount of €0.2 billion (previous year: €0.1 billion).

As of December 31, 2016, liabilities relating to genuine securities repurchase agreements amounted to €3.1 billion (previous year: €5.3 billion).

(30) Due to customers

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

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Savings deposits		
With an agreed withdrawal notice of three months	38,482	41,728
With an agreed withdrawal notice of more than three months	103	113
	38,585	**41,841**
Home savings deposits	18,809	19,341
thereof: interest premiums payable	968	1,026
thereof: arrangement fees to be reimbursed	50	58
thereof: on terminated contracts	91	104
thereof: on allotted contracts	2	3
Other amounts due		
Payable on demand	46,841	43,185
With an agreed maturity or withdrawal notice	14,683	14,783
	61,524	**57,968**
Total	**118,918**	**119,150**
Domestic customers	116,977	117,207
Foreign customers	1,941	1,943
Total	**118,918**	**119,150**

€6,827 million of the amounts due to customers is covered by fair value hedges (previous year: €7,499 million).

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

€22,424 million (previous year: €25,130 million) is due after more than 12 months.

Amounts due to customers contain fixed-interest deposits of €75.4 billion (previous year: €72.1 billion) and variable-interest deposits of €43.5 billion (previous year: €47.1 billion).

The home savings deposits include interest bonus liabilities of €968 million (previous year: €1,026 million) which must be paid to the home savings customers in the case of unutilized loans. Furthermore, arrangement fees to be reimbursed (in the case of unutilized loans with respect to legacy tariffs) of €50 million (previous year: €58 million) were recognized.

(31) Debt securities in issue

Amounts reported as debt securities in issue relate to bonds, including mortgage *Pfandbriefe* and public-sector *Pfandbriefe*, and money market instruments (e.g., certificates of deposit and euro notes).

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Public-sector *Pfandbriefe*	56	67
Mortgage *Pfandbriefe*	2,405	2,471
Other debt instruments	878	908
Total	**3,339**	**3,446**

€76 million of the debt securities in issue is covered by fair value hedges (previous year: €2,370 million).

Debt securities in issue consist solely of financial instruments classified as liabilities at amortized cost.

€3,195 million (previous year: €3,285 million) is due after more than 12 months.

Debt securities in issue include fixed-interest liabilities in the amount of €3.1 billion (previous year: €3.2 billion) and variable-interest liabilities in the amount of €0.2 billion (previous year: €0.2 billion).

Of the debt securities in issue, repurchased own bonds amounting to €1 million (previous year: €1 million) were derecognized.

(32) Trading liabilities

Trading liabilities consist of the negative fair values of derivatives carried in the trading portfolio and in the banking book.

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Negative fair values of trading derivatives	81	99
Negative fair values of banking book derivatives	300	501
Negative fair values from derivatives relating to hedged items accounted for under the fair value option	28	65
Total	**409**	**665**

€262 million (previous year: €516 million) is due after more than 12 months.

(33) Hedging derivatives

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

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	0	2
	0	**2**
Hedging derivatives on loans to customers		
Loans and receivables	3	30
	3	**30**
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	39	176
	39	**176**
Liabilities		
Due to customers	0	0
Subordinated debt	0	0
	0	**0**
Total	**42**	**208**

€35 million (previous year: €144 million) is due after more than 12 months.

(34) Provisions for pensions and other employee benefits

The provisions for pensions and other employee benefits under defined benefit pension commitments are calculated as follows:

	2016 €m	2015 €m
Present value of pension obligations	2,837	2,249
Fair value of plan assets	–2,583	–2,193
Net pension provisions	**254**	**56**

Net pension provisions changed as follows:

	2016 €m	2015 €m
Balance at January 1	**56**	**155**
Service cost	35	43
Net interest expense	2	3
Actuarial gains (–)/losses (+) from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) from changes in financial assumptions	330	–144
Actuarial gains (–)/losses (+) from experience adjustments	2	15
Return on plan assets less amount recognized in profit or loss	–140	28
Employer contributions to plan assets	–70	–45
Pension benefits paid	0	0
Transfers and mergers	39	1
Balance at December 31	**254**	**56**

The following expenses were recognized in fiscal year 2016 in connection with defined benefit pension plans:

	2016 €m	2015 €m
Service cost	35	43
Net interest expense	2	3
Total	**37**	**46**

The following tables show the changes in the present value of the pension obligations and in the fair value of the plan assets:

	2016 €m	2015 €m
Total present value of obligations at January 1	**2,249**	**2,362**
Components recognized in profit or loss	**95**	**90**
Service cost	48	43
Interest expense	60	47
Past service cost and gains (–)/losses (+) on plan settlements	–13	0
Components recognized in other comprehensive income	**332**	**–129**
Actuarial gains (–)/losses (+)	332	–129
from changes in demographic assumptions	0	0
from changes in financial assumptions	330	–144
from experience adjustments	2	15
Payments and other changes	**161**	**–74**
Employee contributions	3	3
Pension benefits paid	–85	–78
Payments for plan settlements	0	0
Transfers and mergers	243	1
Total present value of pension obligation at December 31	**2,837**	**2,249**

The past service cost was incurred by a subsidiary, mainly due to the introduction of a career average plan, which includes a lump-sum capital payment option, and the change in the process for granting a special disability pension.

	2016 €m	2015 €m
Fair value of plan assets at January 1	**2,193**	**2,207**
Components recognized in profit or loss	**58**	**44**
Interest income	58	44
Components recognized in other comprehensive income	**140**	**–28**
Return on plan assets less amount recognized in profit or loss	140	–28
Payments and other changes	**192**	**–30**
Employee contributions	3	3
Employer contributions	70	45
Payments for plan settlements	0	0
Pension benefits paid	–85	–78
Transfers and mergers	204	0
Fair value of the plan assets at December 31	**2,583**	**2,193**

There are no reimbursement rights for the pension obligations.

Contributions of €77 million (previous year: €73 million) to plan assets (including direct benefit payments) are expected in the following fiscal year.

The allocation of the present value of the pension obligations to the different beneficiary groups and the weighted duration of the obligations are shown in the following table:

	2016 €m	2015 €m
Future beneficiaries still working for the company	1,051	765
Future beneficiaries no longer working for the company with vested benefits	496	377
Pensioners	1,290	1,107
Present value of pension obligations	**2,837**	**2,249**
Weighted duration of obligations in years	**18.2**	**17.6**

The fair value of the plan assets is allocated to the asset classes as follows:

	2016 €m	2016 in %	2015 €m	2015 in %
Plan assets traded in an active market	**509**	**19.7**	**1,578**	**72.0**
Cash	45	1.7	19	0.9
Equities	26	1.0	0	0.0
Government bonds	438	17.0	1,559	71.1
Fixed-income securities with investment grade	0	0.0	0	0.0
Other fixed-income securities	0	0.0	0	0.0
Structured products	0	0.0	0	0.0
Investment funds	0	0.0	0	0.0
Alternative investments	0	0.0	0	0.0
Derivatives	0	0.0	0	0.0
Plan assets not traded in an active market	**2,074**	**80.3**	**615**	**27.9**
Cash	0	0.0	0	0.0
Equities	0	0.0	0	0.0
Government bonds	182	7.0	43	2.0
Fixed-income securities with investment grade	1,583	61.3	388	17.7
Other fixed-income securities	6	0.2	0	0.0
Structured products	36	1.4	33	1.5
Investment funds	0	0.0	0	0.0
Alternative investments	159	6.2	98	4.4
Derivatives	108	4.2	53	2.4
Fair value of plan assets at December 31	**2,583**	**100**	**2,193**	**100**

Plan assets include financial instruments of €15 million (previous year: €15 million) issued by BHW Bausparkasse AG.

The investment and risk management of the assets, with the exception of the pension fund assets of BHW Bausparkasse AG, is based on Deutsche Bank's strategy in the light of Postbank's specific requirements.

The purpose of risk management is to minimize the fluctuations between the present value of the pension obligations and the value of the plan assets caused by capital market fluctuations. An investment strategy that closely reflects the risk profile of the pension commitments with regard to market risk factors, such as interest rates and credit risk, is pursued to achieve this goal.

The investment strategy for the pension fund assets of BHW Bausparkasse AG is determined by the Pensionskasse's management board, taking into account all supervisory law requirements (VAG in conjunction with the *Anlageverordnung* (AnlV - Investment Regulation)). The appropriateness of the investment strategy is reviewed on a regular basis.

The pension obligations are sensitive to changes in market conditions and measurement assumptions. Following the adoption by the Group of an obligation-oriented investment strategy, changes in the obligations due to variation in the measurement assumptions relating to the capital market – predominantly interest rates and inflation rate – also cause changes in the plan assets. To enhance the transparency of the Group's overall risk profile relating to significant changes in the capital market, net changes in pension obligations and plan assets are shown; in the case of assumptions which do not have any influence on the assets, only the change in the obligations is reported.

Asset-related sensitivities are determined by Market Risk Management using risk-sensitive factors. These sensitivity calculations are based on data provided by the plan asset managers.

The sensitivities reflect plausible changes over time with respect to capital market movements and material assumptions. The Group is not able to provide estimates on the probability of such changes in the capital market or in the assumptions.

While these sensitivities reveal the overall change to the funding level, the impact and the range of reasonable alternative assumptions may vary from plan to plan. Although the plan assets and obligations are sensitive with respect to similar risk factors, the actual changes in plan assets and obligations may not be fully compensated due to the insufficient correlation between market risk factors and actuarial assumptions. These sensitivity calculations do not factor in possible measures taken by management to reduce the associated risks in the pension plans.

Sensitivity to changes in the capital market and the main assumptions are set out in the table below. Each market risk factor and assumption is changed in isolation.

	2016 €m	2015 €m
Discount rate (–50 bp)		
Increase in pension obligations	268	202
Expected increase in plan assets	191	152
Expected net effect on carrying amount	**77**	**50**
Discount rate (+50 bp)		
Decrease in pension obligations	–239	–179
Expected decrease in plan assets	–191	–152
Expected net effect on carrying amount	**–48**	**–27**
Inflation rate (–50 bp)		
Decrease in pension obligations	–119	–83
Expected decrease in plan assets	0	0
Expected net effect on carrying amount	**–119**	**–83**
Inflation rate (+50 bp)		
Increase in pension obligations	129	87
Expected increase in plan assets	0	0
Expected net effect on carrying amount	**129**	**87**
Salary growth (–50 bp)		
Decrease in pension obligations = decrease in net carrying amount	–23	–14
Salary growth (+50 bp)		
Increase in pension obligations = increase in net carrying amount	25	15
10 % decline in mortality		
Increase in pension obligations = increase in net carrying amount	103	79

The following table shows the expected pension payments under the defined benefit plans. The payments shown include both the benefit payments to be made from plan assets and those to be paid directly by Postbank.

	€m
Expected payments in 2017	90
Expected payments in 2018	92
Expected payments in 2019	94
Expected payments in 2020	96
Expected payments in 2021	97
Expected payments from 2022 to 2026	516

BVV is expected to receive contributions in the amount of €2.9 million from member companies and Postbank Group employees in 2017. Around 2,400 of the Postbank Group's employees are insured by BVV, which corresponds to 0.68 % of the BVV's total insurees. The approximately 1,100 pensioners allocated to this category account for 0.98 % of BVV's total pensioners.

(35) Other provisions

The other provisions changed as follows in the reporting period:

	Balance at Dec. 31, 2015/ Jan.1, 2016 €m	Changes in basis of con-solidation €m	Utilization €m	Reversal €m	Reclassifi-cation €m	Additions €m	Balance at Dec. 31, 2016 €m
Staff-related provisions	218	35	98	5	–	44	194
Litigation and customer redress	138	0	34	28	4	83	163
Provisions for credit risks	43	0	4	21	–	27	45
Miscellaneous	248	6	109	11	–	117	251
Total	**647**	**41**	**245**	**65**	**4**	**271**	**653**

€345 million (previous year: €447 million) of the recognized provisions is due after more than 12 months.

The majority of the provisions is expected to be utilized in the years 2017 to 2019.

Staff-related provisions primarily relate to obligations
86 arising from early retirement, partial retirement, and similar programs. Please see Note 2 for additions to the basis of consolidation.

The provisions for litigation and customer redress are primarily intended for risks in connection with revoked loan agreements and for legal actions and complaints about investment advice. Most of these latter legal actions and complaints relate to advice provided and transactions entered into in the area of closed-end funds, the distribution
124 of which was discontinued in 2012. In this context there are also contingent liabilities (see Note 41). The amount also includes provisions for numerous claims brought by customers in relation to various matters. Since the legal proceedings are similar in nature, they have been grouped together. The cash outflows estimated for each of these proceedings, where a reliable estimate is possible, are not reported separately. Postbank considers that the disclosure of further information regarding these proceedings could have a serious impact on the course of these proceedings.

The provisions for credit risks relate primarily to the risks arising from contingent liabilities and from loan commitments.

Miscellaneous other provisions include provisions for variable remuneration components of €45 million (previous year: €44 million), for interest on payments of tax arrears of €36 million (previous year: €23 million), for risks arising from the sale of products of €39 million (previous year: €36 million), for commission payments of €19 million (previous year: €20 million), for jubilee benefits payments of €5 million (previous year: €5 million), and for various other issues requiring the recognition of provisions.

The provisions for variable remuneration components include the total carrying amount of the liabilities from share-based remuneration in the form of share awards and phantom shares of €17.6 million (previous year: €15.2 million). Postbank awards share-based remuneration to members of the Management Board, managing directors who are not members of Postbank's Management Board, and risk takers. Risk takers are awarded the share-based remuneration in the form of phantom shares, based on the Deutsche Bank share price. Members of the Management Board are issued with Deutsche Bank share awards and phantom shares from the years 2011 to 2013. The nature
of and conditions governing the agreements concerned are 143
described in detail in Note 55. However, the remuneration system does not provide for cliff vesting for other risk takers. Tranches are granted on a pro rata basis.

The increase compared with 2015 is chiefly due to the rise in the number of individuals in the group of risk takers. Of the total carrying amount of the liabilities from share-based remuneration, €6.8 million (previous year: €6.7 million) was attributable to members of the Management Board. The fair value of the liability in the amount of €17.6 million was determined on the basis of the expected future target achievement and, in the case of phantom shares already granted, on the basis of the last traded Xetra closing prices as of the reporting date and expected price fluctuations until the end of the lock-up period. In both cases, the calculation takes into account the time value of money until the expected payment date.

A total expense of €6.4 million was recorded for share-based remuneration in the fiscal year 2016 (previous year: €5.1 million).

As of December 31, 2016, 225 thousand (previous year: 123 thousand) vested phantom shares of Deutsche Bank AG had been granted by way of conversion in March 2016 (previous year: March 2015). The conversion was based on the Xetra closing price in the amount of €17.47 (previous year: €24.19). €3.3 million (previous year: €3.2 million) was recognized for the reconversion and payment of the granted and vested phantom shares after the expiry of the one-year lock-up period in March 2017 (previous year: March 2016). In 2016, 123 thousand shares of Deutsche Bank AG (previous year: 109 thousand) granted in 2015 were reconverted and paid out at a price of €17.41 (previous year: €30.89). After Deutsche Postbank AG was delisted at the end of 2015, the last phantom shares of Deutsche Postbank AG (previous year: 3 thousand) were converted to phantom shares of Deutsche Bank AG and paid out at a price of €17.41.

(36) Current and deferred tax liabilities

	Balance at Jan. 1, 2016 €m	Changes in basis of consolidation €m	Utilization €m	Reversal €m	Additions €m	Balance at Dec. 31, 2016 €m
Current taxes	110	5	53	23	59	98
Deferred taxes	9	–	–	4	12	17
Total	**119**	**5**	**53**	**27**	**71**	**115**

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

Deferred tax liabilities relate to the following balance sheet items:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Assets		
Loans and advances	137	173
Trading assets	215	208
Investment securities	3	2
Property and equipment	5	6
Other assets	64	66
Liabilities		
Amounts due to other banks and customers	4	0
Hedging derivatives	1	0
Provisions for pensions and other employee benefits	28	28
Other provisions	6	6
Other liabilities	0	1
	463	**490**
Netted against deferred tax assets	446	481
Total	**17**	**9**

(37) Other liabilities

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trade payables	100	80
Liabilities from other taxes	55	63
Liabilities from expenses for outstanding invoices	111	85
Liabilities from expenses for outstanding vacation entitlements and other compensated absences	44	38
Liabilities from expenses for management bonuses	49	39
Liabilities from expenses for commissions and premiums	39	40
Deferred income	21	8
Non-controlling interests (debt instruments)	6	0
Miscellaneous liabilities	116	113
Total	**541**	**466**

€36 million (previous year: €23 million) is due after more than 12 months.

(38) Subordinated debt

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Hybrid capital instruments	1,447	1,405
Subordinated liabilities	909	928
Profit participation certificates outstanding	189	884
Contributions by typical silent partners	22	22
Total	**2,567**	**3,239**

A total of €1,090 million[1] of the regular phased-in subordinated debt recognized (previous year: €1,175 million) is eligible as Tier 2 capital for regulatory purposes.

Subordinated debt consists solely of financial instruments classified as liabilities at amortized cost.

€2,430 million (previous year: €2,461 million) is due after more than 12 months.

The interest expense on hybrid capital instruments amounts to €92 million (previous year: €5 million). Deferred interest not yet due on capital instruments amounts to €17 million (previous year: €18 million) and is reported under hybrid capital instruments.

The interest expense on subordinated liabilities amounts to €47 million (previous year: €121 million). Deferred interest not yet due amounting to €24 million (previous year: €24 million) is carried as subordinated debt under subordinated liabilities.

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

The interest expense for 2016 on profit participation certificates outstanding totals €25 million (previous year: €46 million). Deferred interest not yet due amounting to €9 million (previous year: €29 million) is allocated directly to the profit participation certificates outstanding item.

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

A total of €1,508 million of the subordinated debt (previous year: €1,466 million) is hedged against interest-driven changes of the fair value.

€1.4 billion of subordinated debt (previous year: €2.1 billion)[2] is fixed-interest, while €1.2 billion (previous year: €1.1 billion)[3] is variable-interest.

[1]Based on the consolidated financial statements as of December 31, 2016, subject to approval

[2]Prior-year figure adjusted by €1.5 billion due to incorrect allocation

[3]Prior-year figure adjusted by €–1.5 billion due to incorrect allocation

(39) Equity

	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Issued capital	547	547
Share premium	2,191	2,010
Retained earnings	3,812	3,664
Revaluation reserve	359[2]	327[3]
Other reserves	4,171	3,991
Consolidated net profit	317	610
Non-controlling interests	–[4]	6
Total	**7,226**	**7,164**

[1]Figures adjusted (see Note 6)

[2]Of this figure, €14 million relates to an investment held for sale (see Note 28).

[3]Of this prior-year figure, €78 million related to an investment held for sale.

[4]In the year under review, Postbank decided to present non-controlling interests (debt instruments) under other liabilities rather than under equity in accordance with the applicable accounting standards.

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

Premiums from the issue of shares as well as payments into the share premium by shareholders in the amount of €181 million are reported in the share premium.

Undistributed profits from previous years and remeasurement gains/losses from defined benefit plans are generally reported under retained earnings with due regard to deferred taxes. In addition, the initial consolidation in connection with the reacquisition of the five service companies reduced the Postbank Group's retained earnings by €263 million (see Note 2).

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The profit or loss from the measurement of investment securities at fair value after deduction of deferred taxes is reported in the revaluation reserve. Any profit or loss is not recognized in the income statement until the asset has been sold or impairment has been identified.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the Bank's share capital on one or more occasions in whole or in part by up to a total of €218.8 million up to May 27, 2018, by issuing new no-par value registered shares against cash and non-cash contributions, including mixed non-cash contributions (Authorized Capital I). The shareholders are generally granted preemptive rights. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

The Management Board is further authorized, with the consent of the Supervisory Board, to increase the share capital on one or more occasions in whole or in part by up to a total of €54.7 million in the period up to May 27, 2018, by issuing new no-par value registered shares against cash contributions (Authorized Capital II). The shareholders are generally granted preemptive rights. The resolution also provides the opportunity for simplified disapplication of preemptive rights in accordance with section 186(3) sentence 4 of the AktG. The Management Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation.

Additional details on Authorized Capital I and II can be found in Article 4(6) and (7) of the Articles of Association.

The Management Board is authorized, by resolution of the Annual General Meeting on July 9, 2014, under the conditions specified in more detail under agenda item 9a, to issue on one or more occasions profit participation certificates, hybrid bonds, and convertible bonds or bonds with warrants in the period up to July 8, 2019. The aggregate principal amount may not exceed a total of €3 billion. The options or conversion rights may only be issued for shares of the Company with a notional interest in the share capital of up to €273.5 million.

The share capital has been contingently increased by up to €273.5 million by issuing up to 109.4 million new no-par value registered shares (Contingent Capital). The purpose of the contingent capital increase is to grant rights to the holders of profit participation certificates with warrants or convertible profit participation certificates, convertible bonds, and bonds with warrants attached to the profit participation certificates and/or convertible bonds and bonds with warrants to be issued under agenda item 9a by the Company or by its affiliated companies, on the basis of the authorization granted to the Management Board by resolution of the Annual General Meeting on July 9, 2014. The contingent capital increase may only be implemented in the period up to July 8, 2019 to the extent that these rights are exercised or that the holders fulfill their conversion obligation. The new shares are issued at the option or conversion price to be calculated in each case in accordance with the aforementioned authorization. The new registered shares shall carry dividend rights from the beginning of the fiscal year in which they are created as a result of conversion or option rights being exercised or conversion obligations being fulfilled. The Management Board is authorized to determine the further details of the implementation of the contingent capital increase. Additional details on the contingent capital can be found in Article 4(8) of the Articles of Association.

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

Available-for-sale financial instruments

	2016 €m	2015 €m
Balance at January 1	**327**	**337**
Remeasurement gains/losses	**63**	**–28**
Available for sale, hedged (risk not hedged)	126	11
Available for sale, unhedged	–63	–39
Disposals and impairment	**–32**	**18**
Impairment	2	1
thereof available for sale	2	1
thereof loans and receivables	0	0
Disposal/hedge termination	–113	–13
thereof available for sale	–174	–21
thereof loans and receivables	61	8
Writedown effect in net interest income	79	30
thereof available for sale	80	31
thereof loans and receivables	–1	–1
Income tax recognized directly in equity	**1**	**0**
Balance at December 31	**359[1]**	**327[2]**

[1]Of this figure, €14 million relates to an investment held for sale (see Note 28).
[2]Of this prior-year figure, €78 million related to an investment held for sale.

€111 million (previous year: €12 million) of the revaluation reserve was reversed to income from disposals of and impairment losses on available-for-sale financial instruments and financial instruments reclassified out of the "available-for-sale" category to the "loans and receivables" category in the year under review. The effect of the writedown of these financial instruments led to a reversal of €79 million from the revaluation reserve to income (previous year: €30 million). In addition, the revaluation reserve increased by €63 million (previous year: decrease of €28 million) due to the remeasurement of available-for-sale financial instruments. Income tax recognized directly in equity changed by €1 million in the fiscal year under review (previous year: €0 million), resulting in a closing balance of €–1 million (previous year: €–2 million).

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OTHER DISCLOSURES

(40) Segment reporting

Segment reporting by business division

	Retail Banking		Corporate Banking		Financial Markets		Non-Core Operating Unit		Cost Centers/ Consolidation		Total	
	2016 €m	2015[1] €m	2016 €m	2015[1] €m	2016 €m	2015[1] €m	2016 €m	2015[1] €m	2016 €m	2015 €m	2016 €m	2015[1] €m
Net interest income	2,222	2,303	342	358	–41	5	–357	–369	3	–59	2,169	2,238
Net trading income	13	22	7	1	31	33	0	0	–1	0	50	56
Net income from investment securities	90	0	0	–2	143	29	11	13	14	–13	258	27
Net fee and commission income	681	731	126	126	–25	–21	–1	6	62	–20	843	822
Total income	**3,006**	**3,056**	**475**	**483**	**108**	**46**	**–347**	**–350**	**78**	**–92**	**3,320**	**3,143**
Administrative expenses	–1,456	–1,434	–108	–91	–30	–44	–9	–13	–1,250	–1,011	–2,853	–2,593
Allowance for losses on loans and advances	–128	–172	–42	–36	0	1	–14	–2	0	0	–184	–209
Other income	34	49	2	2	1	1	1	4	103	833	141	889
Other expenses	–171	–146	0	–1	–1	0	–5	–16	60	–483	–117	–646
Allocations	–791	–832	–152	–149	–39	–42	–41	–38	1,023	1,061	0	0
thereof income	300	310	37	36	26	2	0	0	–363	–348	0	0
thereof expenses	–1,091	–1,142	–189	–185	–65	–44	–41	–38	1,386	1,409	0	0
Profit/loss before tax	**494**	**521**	**175**	**208**	**39**	**–38**	**–415**	**–415**	**14**	**308**	**307**	**584**
Revenues from external customers[2]	3,002	3,052	473	481	108	46	–347	–350	84	–86	3,320	3,143
Intersegmental revenues	4	4	2	2	0	0	0	0	–6	–6	0	0
Impairment losses	–25	–27	–1	–1	–1	–1	0	0	–71	–110	–98	–139
Reversal of impairment losses	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	–25	–26	–1	–1	–1	–1	0	0	–71	–80	–98	–108
Cost/income ratio (CIR)[3]	**81.3 %**	**79.7 %**	**58.0 %**	**53.2 %**	**70.8 %**	**178.9 %**	**–16.0 %**	**–19.8 %**	**–**	**–**	**85.8 %**	**80.3 %**
Return on equity before taxes (RoE)	**14.1 %**	**17.2 %**	**32.1 %**	**42.3 %**	**2.4 %**	**–2.6 %**	**–30.1 %**	**–25.7 %**	**–**	**–**	**4.3 %**	**8.8 %**

[1]Figures adjusted (see explanation in this Note)
[2]The "Revenues from external customers" item is the net amount of the external portions of the interest income, interest expense, fee and commission income, fee and commission expense, net income from investment securities, and net trading income items.
[3]For the segments the metric was calculated using exact amounts which come from the management information system. When rounded figures are used for calculation this might lead to minor differences.

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

Accounting by business division was impacted by the following changes and special issues in fiscal year 2016:

- As a result of changed responsibilities on the Management Board of Postbank, the results of the business with business customers, which had previously been reported in the Retail Banking segment, were reallocated to the Corporate Banking segment in the year under review. The prior-year figures have been adjusted accordingly. Profit before tax increased by €52 million in the Corporate Banking segment and decreased by the same amount in the Retail Banking segment. Specifically, net interest income increased by €99 million and net fee and commission income by €46 million in the Corporate Banking segment. The segment was negatively impacted by the changes, which increased the allowance for losses on loans and advances by €2 million, administrative expenses by €32 million and allocation expenses by €59 million.

- As of January 1, 2016, five companies were transferred from PBC Banking Services GmbH back to Postbank. With the exception of Postbank Direkt GmbH, these companies have been assigned to the Cost Centers/Consolidation business division. The activities of Postbank Direkt GmbH are reported in the Retail Banking business division.

- The strategic investment in Visa Europe Ltd., which was allocated to the Cost Centers/Consolidation segment, was sold in June 2016. The resulting income (a total of €104 million) was allocated to the Retail Banking (€90 million) and Cost Centers/Consolidation (€14 million) business divisions. The cash component was allocated to the Retail Banking business division since this income was based on the transaction volumes mainly generated by retail customers.

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- The adjustments made to prior-year figures (see Note 6) in the reporting period were included in segment reporting. This resulted in a decrease of €161 million in net interest income for fiscal year 2015. Fee and commission income rose by €36 million, while administrative expenses declined by €127 million. In the Non-Core Operating Unit (NCOU) segment, net interest income decreased by €4 million, while administrative expenses improved by €4 million.

- In addition, net present value losses from premature loan terminations were allocated to the segments based on cause, in line with the revised method. The prior-year figures were also adjusted to ensure comparability of reporting over time. The change had a positive impact on net interest income in the Financial Markets business division for 2015 (€53 million) but a negative impact on the Retail Banking (€45 million) and Corporate Banking (€8 million) segments.

- In addition, the bank levy charged to the Financial Markets and NCOU business divisions in the prior-year period was allocated to the Retail Banking (€3 million), Corporate Banking (€3 million), Financial Market (€8 million), and NCOU (€9 million) business divisions in 2016. The prior-year figure presented was not adjusted.

In the Retail Banking business division, Postbank offers retail customers a broad spectrum of postal, banking, and financial services. This encompasses checking and savings products, credit and debit cards, mortgage lending, installment loans, the home savings business, securities and securities accounts, and investment funds. Income from brokerage activities is also reported in this segment.

The segment result comprises the operating results of Deutsche Postbank AG's Retail Banking operations, BHW Bausparkasse AG's domestic retail business as well as other subsidiaries, in particular BHW Holding AG, Postbank Filialvertrieb AG, Postbank Filial GmbH (merged with Postbank Filialvertrieb AG as of January 1, 2016), Postbank Direkt GmbH (from January 1, 2016), and Postbank P.O.S. Transact GmbH (until July 31, 2015). In addition, the result of the projected effects of purchase price allocation from the acquisition of BHW Bausparkasse AG has been allocated to the Retail Banking segment.

Postbank's Corporate Banking business division provides payment transaction services for business and corporate customers. Commercial finance, especially regarding real estate, constitutes the second important pillar of the corporate banking business in national and international terms. Factoring and leasing is another business area of the division. In addition, the investment banking and other lending business with business and corporate customers is reported in this segment.

The segment result comprises the results of PB Firmenkunden AG, Postbank Leasing GmbH, PB Factoring GmbH, transactions with Deutsche Postbank AG's business and corporate customers, and a portion of the results of the Luxembourg branch (in each case minus selected individual exposures), as well as some commercial real estate finance transactions.

The results of the Group's Financial Markets transactions (banking and trading books) and of the subpools of assets of PB Spezial-Investmentaktiengesellschaft have been assigned to the Financial Markets business division.

The segment result comprises the banking and trading books of Deutsche Postbank AG and BHW Bausparkasse AG, as well as the profit/loss of the PB International S.A. subsidiary and the Luxembourg branch (excluding the corporate banking business), as well as the profit/loss of the subpools of assets, Deutsche Postbank Funding Trust I, Deutsche Postbank Funding Trust II, Deutsche Postbank Funding Trust III, Deutsche Postbank Funding Trust IV, Deutsche Postbank Funding LLC I, Deutsche Postbank Funding LLC II, Deutsche Postbank Funding LLC III, and Deutsche Postbank Funding LLC IV.

The NCOU business division comprises portfolios and activities that are no longer part of the Bank's core business in line with the Bank's current strategy. Besides further increase in transparency, the main goals of the segment are to continue reducing the risks and the risk-weighted assets.

The segment result comprises investment securities from issuers of GIIPS countries, some international commercial real estate finance transactions and selected corporate customer loans, certain foreign retail business transactions, and selected retail products that have been discontinued. In addition, certain secured and unsecured issues are allocated to the segment.

The Cost Centers/Consolidation segment comprises Group consolidation adjustments – less intra-segment consolidation adjustments – plus the profit/loss of the cost centers of Deutsche Postbank AG. The segment also includes the profit/loss of the subsidiaries allocated to cost centers, namely Postbank Systems AG, Postbank Immobilien und Baumanagement GmbH, Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Postbank Service GmbH (from January 1, 2016), BHW Kreditservice GmbH (from January 1, 2016), Betriebs-Center für Banken AG (from January 1, 2016), VÖB-ZVD Processing GmbH (from January 1, 2016), and the compensation claim for the stake in PBC Banking Services GmbH under section 304 of the *Aktiengesetz* (AktG – German Stock Corporation Act) (until December 2015).

In addition to the profit/loss in the income statement of the business units allocated to the business divisions, imputation procedures are applied to ensure correct allocation of the segment profit/loss to their originators.
In accordance with IFRS 8.23, we report net interest income (net interest revenue) instead of interest income and interest expense. The allocation of net interest income from customer products to the segments uses the market

rate method, under which the customer interest rate is compared with imputed money and capital market rates for matching terms. The administrative expenses of the Deutsche Postbank AG units included in the segment results are primarily based on the results of cost center accounting. Income taxes are not calculated at segment level.

Reversals of impairment losses and impairment losses relate to intangible assets and property and equipment. Both amortization/depreciation and impairments are taken into account.

Equity is allocated to the segments according to their risk capital requirements. Risk capital requirements are derived from Postbank's risk cover amount and define the extent of the permitted exposures to market risk, credit risk, operational risk, business risk, investment and real estate risk, and collective risk. The average IFRS equity is allocated to the segments according to their respective responsibility for the risk capital positions within the individual risk types.

Company-level disclosures

The following table contains information about income per product or service:

	2016 €m	2015[1] €m
Deposits and loans for Retail and Corporate Banking customers	2,632	2,707
Payment transaction services for Retail and Corporate Banking customers	380	370
Retail and Corporate Banking fee and commission income	314	310
Transaction Banking insourcing	79	0
Other	–85	–244
Total	**3,320**	**3,143**

[1]Figures adjusted (see explanation in this Note)

The total comprises the Postbank Group's net interest income, net fee and commission income, net trading income, and net income from investment securities. Net interest income and net fee and commission income of the subsidiaries attributable to the Corporate Banking segment are reported under the "Deposits and loans for Retail and Corporate Banking customers" item. The "Other" item includes the Group's net trading income and net income from investment securities, among other things. The income for the NCOU segment is reported under the "Other" item.

The results of the geographical areas are calculated using the profit and loss as reported in the income statements of the legal entities and branches attributable to the areas.

The Europe region contains the Luxembourg entities PB International S.A., the Luxembourg branch, Deutsche Postbank Finance Center Objekt GmbH, plus the branches of BHW in Italy and Luxembourg. The Germany region comprises all domestic business units, including all consolidation adjustments.

	Income		Profit before tax		Non-current assets	
	2016 €m	2015[1] €m	2016 €m	2015[1] €m	2016 €m	2015 €m
Germany	3,251	3,078	276	539	2,645	2,563
Europe	69	65	31	45	17	17
Total	**3,320**	**3,143**	**307**	**584**	**2,662**	**2,580**

[1]Figures adjusted (see explanation in this Note)

Non-current assets comprise intangible assets and property and equipment.

(41) Contingencies and other obligations

Contingent liabilities arise from past events that will lead to possible future obligations. These obligations arise from the occurrence of uncertain future events whose settlement amount cannot be estimated with sufficient reliability.

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Contingent liabilities		
on guarantees and warranties	362	404
Other obligations		
irrevocable loan commitments	7,752	5,788
thereof building loans provided	5,325	4,019
miscellaneous obligations		
irrevocable payment obligations – deposit protection fund	22	0
irrevocable payment obligations – cash collateral for bank levy	13	9[1]
miscellaneous obligations	13,061	13,905
Total	**21,210**	**20,106[1]**

[1]Prior-year figure adjusted by €9 million

Miscellaneous obligations mainly relate to credit lines that can be called in by Postbank at any time. This figure also includes a contingent liability for complaints relating to advice provided and transactions entered into in the area of closed-end funds. Further information regarding this issue is not disclosed separately, as this could have serious impact on the situation of the Bank.

The actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 18, 2015, on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement are still pending. However, Deutsche Postbank AG considers these actions to be unfounded.

Contingencies and other obligations were reduced by the allowance for losses on loans and advances recognized.

The amount and timing of utilization are often variable, particularly in the case of credit lines, guarantees, and warranties.

(42) Fair values of financial instruments

Fair value hierarchy

The following presents the allocation of financial instruments measured at fair value to the three-level fair value hierarchy in accordance with IFRS 13.72ff. In line with this, Postbank assigns the assets and liabilities to the respective level:

Level 1:
Quoted market prices for the identical asset or the identical liability exist for the instruments classified as Level 1. In other words, Level 1 fair value measurement is based solely on quoted market prices in an active market for an identical financial instrument. Level 1 therefore mainly consists of highly liquid securities and exchange-traded derivatives.

Level 2:
Level 2 fair values are measured either with the help of quoted prices in active markets for similar instruments or using techniques whose inputs are based solely on directly or indirectly observable market data. This includes non-exchange-traded derivatives (e.g., swaps, caps, and floors) as well as bonds and promissory note loans that are valued using yield and spread curves and/or volatilities.

Level 3:
Level 3 fair values are determined using measurement models whose significant inputs are not observable in the market. Such valuation techniques are used in particular to measure structured credit products.

The following tables show the allocation of the individual categories of financial instruments to the corresponding levels in the fair value hierarchy:

As of December 31, 2016

Assets measured at fair value

		Fair value reported in:		
Classes	Dec. 31, 2016 €m	Level 1 €m	Level 2 €m	Level 3 €m
Financial assets at fair value through profit or loss (FVtPL)				
Trading assets	475	0	475	0
Loans held for trading	53	0	53	0
Derivatives	422	0	422	0
Hedging derivatives	112	0	112	0
Loans and advances to customers	3,645	0	3,645	0
thereof private mortgage lending	3,645	0	3,645[1]	0
Available-for-sale financial assets				
Investment securities	14,571	12,078	2,454	39
Bonds and other fixed-income securities	14,252	12,064	2,171	17
Equities and other non-fixed-income securities	271	0	271	0
Equity investments	48	14	12	22
Other assets	140	0	0	140
Trade receivables	140	0	0	140
Total	**18,943**	**12,078**	**6,686**	**179**

[1]Due to the trend in interest rates, the discount rate used to measure loans under the fair value option has contained a greater share of inputs not observable in the market since the beginning of 2014. These continue to be allocated to Level 2 given their relatively low expected volatility and their insignificance for the fair value as a whole.

Liabilities measured at fair value

		Fair value reported in:		
Classes	Dec. 31, 2016 €m	Level 1 €m	Level 2 €m	Level 3 €m
Financial liabilities at fair value through profit or loss (FVtPL)				
Trading liabilities	409	0	409	0
Derivatives	409	0	409	0
Hedging derivatives	42	0	42	0
Total	**451**	**0**	**451**	**0**

As of December 31, 2015

Assets measured at fair value

Classes	Dec. 31, 2015 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial assets at fair value through profit or loss (FVtPL)				
Trading assets	647	0	646	1
Loans held for trading	91	0	91	0
Derivatives	556	0	555	1
Hedging derivatives	78	0	78	0
Loans and advances to customers	4,409	0	4,409	0
thereof private mortgage lending	4,409	0	4,409[1]	0
Available-for-sale financial assets				
Investment securities	13,360	10,666	2,660	34
Bonds and other fixed-income securities	13,034	10,618	2,388	28
Equities and other non-fixed-income securities	261	0	261	0
Equity investments	65	48	11	6
Other assets	105	0	0	105
Trade receivables	105	0	0	105
Total	**18,599**	**10,666**	**7,793**	**140**

[1]Due to the trend in interest rates, the discount rate used to measure loans under the fair value option has contained a greater share of inputs not observable in the market since the beginning of 2014. These continue to be allocated to Level 2 given their relatively low expected volatility and their insignificance for the fair value as a whole.

Liabilities measured at fair value

Classes	Dec. 31, 2015 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial liabilities at fair value through profit or loss (FVtPL)				
Trading liabilities	665	0	665	0
Derivatives	665	0	665	0
Hedging derivatives	208	0	208	0
Total	**873**	**0**	**873**	**0**

Postbank uses discounted cash flow models to measure financial instruments allocated to Level 2, if they cannot be measured using transactions in identical financial instruments at the measurement date or using transactions in similar financial instruments at the measurement date. Most of the above-mentioned financial instruments (derivatives, bonds, promissory note loans) are measured using yield and spread curves (credit spreads, basis spreads) as inputs. In addition, CDS spreads and hazard rates are used to value credit derivatives. Option pricing models also use share prices, index prices, and volatilities as inputs.

The Postbank Group applies the fair value option exclusively to specific loan portfolios in the mortgage lending business. The current swap yield curve and loan-specific risk and cost premiums are used as inputs. The risk premiums are calculated on the basis of the estimated loss rates and probabilities of default; these are sourced from the Bank's internal rating model, which has been approved by the supervisory authority.

As compared to the previous year, the increase in Level 1 instruments results from a higher volume in investment securities with quoted market prices in active markets. The disposals (largely involving maturities) of Level 1 and Level 2 holdings of investment securities were more than offset by additions during the reporting period so that the holdings of Level 1 investment securities in particular increased.

Valuation techniques whose inputs mean they are allocable to Level 3 are used for both assets and liabilities. Embedded derivatives (CDSs) from the synthetic, structured credit products are allocated to Level 3.

Financial assets allocable to Level 3 changed as follows in the reporting period:

Assets measured at fair value based on Level 3

	Assets measured at fair value in Level 3 as of Dec. 31, 2016						
	Financial assets at FVtPL			AfS financial assets			Total
	Trading assets €m	Hedging derivatives €m	Loans and advances to other banks/ customers €m	Investment securities €m	Loans and advances to other banks/ customers €m	Other assets €m	€m
Opening balance	1	0	0	34	0	105	140
Total gains or losses	–1	0	0	1	0	0	0
in profit or loss	–1	0	0	–1	0	0	–2
in revaluation reserve	0	0	0	2	0	0	2
Purchases	0	0	0	26	0	96	122
Disposals	0	0	0	–11	0	0	–11
Issues	0	0	0	0	0	0	0
Settlements	0	0	0	–11	0	–61	–72
Exchange rate effects	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Transfers to Level 3	0	0	0	0	0	0	0
Closing balance	**0**	**0**	**0**	**39**	**0**	**140**	**179**
Total remeasurement gains/losses for assets held at the end of the reporting period	–1	0	0	1	0	0	0

Level 3 financial assets changed as follows as of December 31, 2015:

Assets measured at fair value based on Level 3

	Assets measured at fair value in Level 3 as of Dec. 31, 2015						
	Financial assets at FVtPL			AfS financial assets			Total
	Trading assets €m	Hedging derivatives €m	Loans and advances to other banks/ customers €m	Investment securities €m	Loans and advances to other banks/ customers €m	Other assets €m	€m
Opening balance	1	0	0	74	0	27	102
Total gains or losses	0	0	0	–1	0	0	–1
in profit or loss	0	0	0	0	0	0	0
in revaluation reserve	0	0	0	–1	0	0	–1
Purchases	0	0	0	0	0	78	78
Disposals	0	0	0	0	0	0	0
Issues	0	0	0	0	0	0	0
Settlements	0	0	0	–45	0	0	–45
Exchange rate effects	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Transfers to Level 3	0	0	0	6	0	0	6
Closing balance	**1**	**0**	**0**	**34**	**0**	**105**	**140**
Total remeasurement gains/losses for assets held at the end of the reporting period	0	0	0	–1	0	0	–1

Level 3 financial liabilities changed as follows in fiscal year 2016:

Liabilities measured at fair value based on Level 3

	Fair value reported in Level 3 as of Dec. 31, 2016		
Financial liabilities at FVtPL	Trading liabilities €m	Hedging derivatives €m	Total €m
Opening balance	0	0	0
Total gains or losses	0	0	0
in profit or loss	0	0	0
Purchases	0	0	0
Disposals	0	0	0
Issues	0	0	0
Settlements	0	0	0
Exchange rate effects	0	0	0
Transfers out of Level 3	0	0	0
Transfers to Level 3	0	0	0
Closing balance	**0**	**0**	**0**
Total remeasurement gains/losses for liabilities held at the end of the reporting period	0	0	0

Level 3 financial liabilities changed as follows in the prior-year period:

Liabilities measured at fair value based on Level 3

	Fair value reported in Level 3 as of Dec. 31, 2015		
Financial liabilities at FVtPL	Trading liabilities €m	Hedging derivatives €m	Total €m
Opening balance	2	0	2
Total gains or losses	–2	0	–2
in profit or loss	–2	0	–2
Purchases	0	0	0
Disposals	0	0	0
Issues	0	0	0
Settlements	0	0	0
Exchange rate effects	0	0	0
Transfers out of Level 3	0	0	0
Transfers to Level 3	0	0	0
Closing balance	**0**	**0**	**0**
Total remeasurement gains/losses for liabilities held at the end of the reporting period	–2	0	–2

The fair value of the structured credit products within investment securities allocated to Level 3 is measured at present using arranger/dealer quotes which are validated by means of an internal valuation technique. The internal valuation technique also takes the illiquidity of the markets for structured products into account in addition to the impact of default on expected cash flows. This is done by adding a premium to the risk-free interest rate for the same maturity when discounting the above-mentioned cash flows. Assuming a change in arranger/dealer quotes by +/–100 basis points, the fair value would change by +/–€0.2 million.

The holdings in closed-end funds are recognized with cash flow models which take the risk adjusted planning assumptions of the individual funds into account. If the planning assumptions deviate by +/–10 % from the assumptions made when calculating the fair value, this would result in a fair value change of +/–€1 million.

The trade receivables allocated to Level 3 relate to fee and commission receivables in connection with insurance brokerage and receivables from affiliated companies for services rendered. Future cancellations/anticipated premature terminations are taken into account when calculating the fair values of the acquisition commissions to be paid for insurance brokerage. The reliable determination of the fair values of the above commissions is based on the reporting system of the product provider and contains assumptions as to the cancellation rate/anticipated premature termination of concluded insurance contracts. Assuming a change in cancellation rates of +/–5 %, this would lead to a change in the fair value of +/–€8 million which, as a change in cash flows, would be recognized through profit or loss. The fair value of the receivable from the services rendered in connection with the ECB's refinancing program is calculated on the basis of the expected term and amount of the refinancing advantage and the related future payments to Postbank. Due to the high level of uncertainty surrounding the above parameters and the resulting inability to make a reliable estimation in accordance with IAS 18.20, remuneration in the low three-digit million euro range that may arise in the future was not recognized as of December 31, 2016. This will be recognized in the coming years once the criteria in IAS 18.20 have been satisfied.

There were no non-recurring fair value measurements of financial instruments in the reporting period.

Fair value of financial instruments carried at amortized cost or hedge fair value

The fair values of financial instruments carried at amortized cost or hedge fair value on the balance sheet are compared with their carrying amounts in the following table:

	Dec. 31, 2016					Dec. 31, 2015[1]	
	Carrying amount €m	Full fair value €m	Level 1 €m	Level 2 €m	Level 3 €m	Carrying amount €m	Full fair value €m
Assets							
Cash reserve	**2,291**	**2,291**	**2,291**	**0**	**0**	**1,357**	**1,357**
Loans and advances to other banks (loans and receivables)	**13,108**	**13,117**	**6,381**	**6,733**	**3**	**15,876**	**15,899**
Securities repurchase agreements	5,832	5,834	0	5,834	0	13,144	13,149
Amounts payable on demand	6,381	6,381	6,381	0	0	837	837
Loans	92	94	0	94	0	68	70
Registered bonds	300	306	0	306	0	425	440
Term deposits	500	499	0	499	0	1,100	1,101
Other loans and advances	3	3	0	0	3	302	302
Loans and advances to customers (loans and receivables)	**98,358**	**102,222**	**0**	**0**	**102,222**	**94,528**	**99,400**
Private mortgage lending	65,384	68,890	0	0	68,890	64,306	68,798
Home savings loans	2,992	2,992	0	0	2,992	3,243	3,243
Commercial loans	13,677	13,717	0	0	13,717	12,073	12,156
Public-sector receivables	5,205	5,234	0	0	5,234	4,621	4,549
Installment loans	7,438	7,704	0	0	7,704	6,589	6,937
Overdrafts	2,085	2,085	0	0	2,085	2,176	2,176
Promissory note loans	1,537	1,560	0	0	1,560	1,485	1,506
Other loans and advances	40	40	0	0	40	35	35
Allowance for losses on loans and advances (loans and receivables)	**–998**	**–998**	**0**	**0**	**–998**	**–923**	**–923**
Private mortgage lending	–292	–292	0	0	–292	–351	–351
Home savings loans	–5	–5	0	0	–5	–5	–5
Commercial loans	–153	–153	0	0	–153	–159	–159
Public-sector receivables	–4	–4	0	0	–4	–4	–4
Installment loans	–389	–389	0	0	–389	–268	–268
Overdrafts	–155	–155	0	0	–155	–134	–134
Promissory note loans	0	0	0	0	0	0	0
Other loans and advances	0	0	0	0	0	–2	–2
Investment securities (loans and receivables)	**12,196**	**12,573**	**7,702**	**4,864**	**7**	**17,408**	**17,998**
Bonds and other fixed-income securities	12,196	12,573	7,702	4,864	7	17,408	17,998
Other assets (loans and receivables)	**147**	**147**	**0**	**0**	**147**	**318**	**318**
	125,102	**129,352**	**16,374**	**11,597**	**101,381**	**128,564**	**134,049**
Liabilities							
Deposits from other banks (liabilities at amortized cost)	**13,133**	**13,539**	**122**	**3,149**	**10,268**	**15,341**	**15,818**
Due to customers (liabilities at amortized cost)	**118,918**	**120,616**	**0**	**0**	**120,616**	**119,150**	**121,184**
Savings deposits	38,585	38,585	0	0	38,585	41,841	41,841
Home savings	18,809	18,809	0	0	18,809	19,341	19,341
Other liabilities	61,524	63,222	0	0	63,222	57,968	60,002
Debt securities in issue (liabilities at amortized cost)	**3,339**	**3,767**	**62**	**0**	**3,705**	**3,446**	**3,898**
Public-sector *Pfandbriefe*	56	62	62	0	0	67	74
Mortgage *Pfandbriefe*	2,405	2,467	0	0	2,467	2,471	2,551
Other debt instruments	878	1,238	0	0	1,238	908	1,273
Subordinated debt (liabilities at amortized cost)	**2,567**	**2,598**	**0**	**0**	**2,598**	**3,239**	**3,497**
Hybrid capital instruments	1,447	1,385	0	0	1,385	1,405	1,398
Subordinated liabilities	909	989	0	0	989	928	1,169
Profit participation certificates outstanding	189	202	0	0	202	884	908
Contributions by typical silent partners	22	22	0	0	22	22	22
Other liabilities (liabilities at amortized cost)	**318**	**318**	**0**	**0**	**318**	**296**	**296**
	138,275	**140,838**	**184**	**3,149**	**137,505**	**141,472**	**144,693**

[1]Figures adjusted (see Note 6)

In general, fair value is calculated for all financial instruments. The only exceptions are items payable on demand and savings deposits with an agreed withdrawal notice of one year or less.

(43) Revenue and expense items, gains and losses as defined by IFRS 7, and financial instruments in accordance with the measurement categories as defined by IAS 39

	Note	2016 €m	2015[1] €m
Net interest income	(7)		
Loans and receivables		3,671	3,966
Available for sale		206	215
Held for trading		–155	–154
Liabilities at amortized cost		–1,553	–1,789
Net gains or losses	(10), (11)		
Held for trading		38	39
Designated as at fair value		12	17
Loans and receivables		84	16
Available for sale		174	29[2]

[1]Figures adjusted (see Note 6)
[2]Prior-year figure adjusted by €9 million due to inclusion of net income from equity investments.

	Fair value hedges/option		Unhedged		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
Assets	**17,199**	**17,171**	**125,553**	**129,558**	**142,752**	**146,729**
Loans and receivables	4,572	6,227	119,237	121,903	123,809	128,130
Loans to other banks	0	78	13,108	15,798	13,108	15,876
Loans to customers	2,482	1,535	95,876	92,993	98,358	94,528
Investment securities	2,090	4,614	10,106	12,794	12,196	17,408
Other assets	–	–	147	318	147	318
Available for sale	8,870	6,457	5,841	7,008	14,711	13,465
Investment securities	8,870	6,457	5,701	6,903	14,571	13,360
Other assets	–	–	140	105	140	105
Held for trading	–	–	475	647	475	647
Trading assets	–	–	475	647	475	647
Fair value option	3,645	4,409	–	–	3,645	4,409
Loans to customers	3,645	4,409	–	–	3,645	4,409
Hedging derivatives	112	78	–	–	112	78
Liabilities	**9,135**	**12,278**	**129,591**	**130,067**	**138,726**	**142,345**
Liabilities at amortized cost	9,065	12,005	129,210	129,467	138,275	141,472
Deposits from other banks	654	670	12,479	14,671	13,133	15,341
Due to customers	6,827	7,499	112,091	111,651	118,918	119,150
Debt securities in issue	76	2,370	3,263	1,076	3,339	3,446
Subordinated debt	1,508	1,466	1,059	1,773	2,567	3,239
Other liabilities	–	–	318	296	318	296
Held for trading	28	65	381	600	409	665
Trading liabilities	28	65	381	600	409	665
Hedging derivatives	42	208	–	–	42	208

[1]Figures adjusted (see Note 6)

(44) Derivatives

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

Postbank's foreign currency financial derivatives consist for the most part of forward exchange transactions, currency swaps, cross currency swaps, and currency options. Interest rate derivatives primarily comprise interest rate swaps and interest rate options. Credit derivatives (credit default swaps) are separated derivatives of synthetic CDOs.

The notional amounts represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

The fair values of the individual contracts were calculated using recognized valuation techniques. Postbank utilizes the available netting opportunities when derivative transactions are settled via a central counterparty. Holdings of derivatives are composed of the following items:

	Notional amount		Positive fair values		Negative fair values	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trading derivatives	138,822	146,926	422	556	409	665
Hedging derivatives	21,785	22,167	112	78	42	208
Total	**160,607**	**169,093**	**534**	**634**	**451**	**873**

The following table presents the Postbank Group's interest rate, credit, and foreign currency, conditional and unconditional forward transactions open at the balance sheet date.

			Fair Value			
	Notional amount		Positive fair values		Negative fair values	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trading derivatives						
Foreign currency derivatives						
OTC products						
Currency forwards	1,124	1,661	29	67	32	72
Currency swaps	3,877	4,587	15	11	7	19
Currency options[1]	884	1,124	10	13	10	13
Total holdings of foreign currency derivatives	**5,885**	**7,372**	**54**	**91**	**49**	**104**
Interest rate derivatives						
OTC products						
Interest rate swaps	129,738	136,532	228	348	323	505
Cross currency swaps	866	904	137	111	33	47
Forward rate agreements	–	–	–	–	–	–
OTC interest rate options	46	116	0	0	0	0
Other interest rate contracts	2,274	1,926	3	5	4	8
Total holdings of interest	**132,924**	**139,478**	**368**	**464**	**360**	**560**

[1]Including gold options

	Notional amount		Fair value: Positive fair values		Fair value: Negative fair values	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Equity/index derivatives						
OTC products						
Equity options (long/short)	–	2	–	0	–	–
Total holdings of equity/ index derivatives	**–**	**2**	**–**	**0**	**–**	**–**
Credit derivatives						
Credit default swaps	13	74	0	1	0	1
Total holdings of credit derivatives	**13**	**74**	**0**	**1**	**0**	**1**
Total holdings of trading derivatives	**138,822**	**146,926**	**422**	**556**	**409**	**665**
thereof banking book derivatives	57,497	51,808	421	475	300	501
thereof derivatives relating to hedged items accounted for under the fair value option	11,180	14,733	0	0	28	65
Hedging derivatives						
Fair value hedges						
Interest rate swaps	21,779	22,160	112	78	40	206
Cross currency swaps	6	7	0	0	2	2
Credit default swaps	–	–	–	–	–	–
Total holdings of hedging derivatives	**21,785**	**22,167**	**112**	**78**	**42**	**208**
Total holdings of derivatives	**160,607**	**169,093**	**534**	**634**	**451**	**873**

Total holdings of recognized derivative assets and liabilities:

	Hedging derivatives: Positive fair values		Hedging derivatives: Negative fair values	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Remaining maturity				
less than 3 months	10	10	7	46
3 months to 1 year	0	0	0	18
from 1 to 2 years	0	0	5	9
from 2 to 3 years	2	0	8	33
from 3 to 4 years	1	2	3	16
from 4 to 5 years	0	1	1	17
more than 5 years	99	65	18	69
	112	**78**	**42**	**208**

	Trading and banking book derivatives			
	Positive fair values		Negative fair values	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Remaining maturity				
less than 3 months	30	45	56	85
3 months to 1 year	25	58	91	64
from 1 to 2 years	15	15	31	97
from 2 to 3 years	20	14	11	45
from 3 to 4 years	35	41	26	52
from 4 to 5 years	28	53	30	41
more than 5 years	269	330	164	281
	422	**556**	**409**	**665**

The remaining maturity is the period between the balance sheet date and the contractual maturity of the asset or liability.

The following table presents the positive and negative fair values of derivatives by counterparty.

	Positive fair values		Negative fair values	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Counterparties				
Banks in OECD countries	320	396	397	791
Other counterparties in OECD countries	214	238	54	82
Non-OECD	0	–	0	0
	534	**634**	**451**	**873**

(45) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities that meet the conditions for offsetting set out in IAS 32.42ff. are presented on a net basis in the balance sheet.

The following tables contain the disclosures as of December 31, 2016, on the effects of offsetting on the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are covered by a legally enforceable master netting arrangement or similar agreement.

	Financial assets (gross) €m	Offset recognized amounts (gross) €m	Recognized financial assets (net) €m	Effects of master netting arrangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Assets							
Loans and advances to other banks	17,714	–4,606	13,108	–	–	–5,839	7,269
Trading assets	6,632	–6,157	475	–191	–73	–	211
Hedging derivatives	1,042	–930	112	–1	–19	–	92
Total	**25,388**	**–11,693**	**13,695**	**–192**	**–92**	**–5,839**	**7,572**

	Financial liabilities (gross) €m	Offset recognized amounts (gross) €m	Recognized financial liabilities (net) €m	Effects of master netting arrangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Equity and Liabilities							
Deposits from other banks	7,167	–4,020	3,147	–	0	–2,881	266
Trading liabilities	7,271	–6,862	409	–191	–289	–	–71
Hedging derivatives	853	–811	42	–1	–30	–	11
Total	**15,291**	**–11,693**	**3,598**	**–192**	**–319**	**–2,881**	**206**

The column headed "Offset recognized amounts (gross)" contains the amounts set off in accordance with the provisions of IAS 32.42ff. The column entitled "Effects of master netting arrangements" contains the amounts that are covered by master netting arrangements but that have not been set off because the conditions of IAS 32.42ff. have not been met. The "Cash collateral" and "Collateral taking the form of financial instruments" columns show the fair values concerned. The right to set off collateral taking the form of financial instruments and cash collateral is contingent upon the prior default of the counterparty concerned.

Offset financial assets and financial liabilities from securities repurchase agreements (reverse repos/repos) are included in the "Loans and advances to other banks (including allowance for losses on loans and advances)" and "Deposits from other banks" balance sheet items.

Offset derivatives are included in the "Trading assets," "Trading liabilities," and "Hedging derivatives" line items. The cash collateral received as security for positive fair values of derivatives and transferred for negative fair values of derivatives is reported under the "Deposits from other banks" and "Loans and advances to other banks" line items.

The following tables contain the comparative figures as of December 31, 2015:

	Financial assets (gross) €m	Offset recognized amounts (gross) €m	Recognized financial assets (net) €m	Effects of master netting arrangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Assets							
Loans and advances to other banks (including allowance for losses on loans and advances)	21,115	–5,239	15,876	–	–	–13,095	2,781
Trading assets	7,276	–6,629	647	–241	–62	–	344
Hedging derivatives	1,414	–1,336	78	–8	–9	–	61
Total	**29,805**	**–13,204**	**16,601**	**–249**	**–71**	**–13,095**	**3,186**

	Financial liabilities (gross) €m	Offset recognized amounts (gross) €m	Recognized financial liabilities (net) €m	Effects of master netting arrangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Equity and Liabilities							
Deposits from other banks	10,470	–5,135	5,335	–	–	–4,982	353
Trading liabilities	8,108	–7,443	665	–241	–368	–	56
Hedging derivatives	834	–626	208	–8	–115	–	85
Total	**19,412**	**–13,204**	**6,208**	**–249**	**–483**	**–4,982**	**494**

(46) Foreclosures and compulsory administration

	Dec. 31, 2016 Number	Dec. 31, 2015 Number
Foreclosures pending	385	491
Compulsory administration proceedings	72	32
Foreclosures completed	377	514

(47) Foreign currency volume

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Foreign currency assets	3,245	3,369
Foreign currency liabilities	3,236	3,359

(48) Capital management, risk-weighted assets, and capital ratio

Postbank satisfies the requirements of Basel III, which took effect on January 1, 2014, in the form of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV), which in turn have been implemented in the *Kreditwesengesetz* (KWG – German Banking Act) and related German regulations. Numerous transitional provisions continued to apply in 2016.

Postbank's processes for calculating and managing capital resources and leverage ratio comply with all legislation, regulations and European Banking Authority (EBA) standards in the most recently amended versions. Internal calculations are always performed on a regulatory phased-in basis, as well as on a fully phased-in basis. The Bank's performance relating to own funds is monitored and managed in accordance with both views.

Postbank was subject to additional buffer requirements for the first time in 2016. All of these buffers must be covered by Common Equity Tier 1 capital (CET1) which in terms of risk-weighted assets must be held available in addition to the existing minimum requirements. The CRR defines transitional periods during which the buffer requirements are increased step by step between 2016 and 2019. Depending on their type, the buffer requirements are defined either directly in CRD IV and/or the KWG or are defined and communicated by the competent supervisory authorities for individual banks and/or countries.

The amount of the capital conservation buffer has already been defined by CRD IV and was equal to 0.625 % of risk-weighted assets in 2016. The maximum capital conservation buffer of 2.5 % will be reached in 2019. BaFin has set the countercyclical capital buffer for Germany to 0 %. Based on the relevant foreign exposures, this gives a countercyclical capital buffer requirement of 0.004 % of RWA for Postbank. As part of the Deutsche Bank Group, Postbank has not received any notification of any further systemic buffer requirements for 2016.

Postbank satisfied all applicable capital requirements, including the capital buffer requirements, at all times in 2016.

The external regulatory capital requirements constitute an absolute lower limit for Postbank's strategic management. They are embedded in the risk-appetite framework. The corresponding indicators are identified and managed at the level of the Postbank Group as well as the individual institutions within the Group which fall within the scope of the CRR.

The management of capital requirements is integrated in the general capital management process, which comprises a regulatory and an economic view. For further information on economic capital management, reference should be made to our explanations in Note 49, Risk-bearing capacity, risk cover amount, and risk capital.

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Regulatory capital management focuses on requirements with respect to Common Equity Tier 1 (CET1) capital and additionally takes account of Tier 1 capital and own funds. In this way, the Pillar I requirements are addressed. The capital management system comprises the following three levels:

1. Observance of regulatory minimum ratios in accordance with CRR/CRD IV or those fixed by BaFin/ECB.

2. Monitoring and observation of the internally defined thresholds which, if fallen below, trigger capital-management measures. Thresholds have been defined for the actual capital ratios in each case, the ratios calculated in the forecast, as well as for the results of the stress tests.

3. Medium-term target ratio for CET1 redefined each year by the Management Board as part of its risk strategy.

There is no regulatory minimum requirement for the leverage ratio. Here, too, the Bank has however defined thresholds and internal target ratios for internal management purposes. These are integrated in general capital management via the risk strategy. The general capital management process contains various monitoring and forecasting processes for the defined indicators. As part of the multi-year planning process, a preview of expected capital and leverage ratios is conducted once a year over a period of the following three years on the basis of volume, migration, and profit/loss planning and dedicated assumptions. This planning also includes a downside scenario.

The current capital and leverage ratios are calculated on a monthly basis. The current ratios and stress-testing results are submitted to the Management Board and the Supervisory Board on a quarterly basis in the overall bank risk report.

The risk strategy defines the corresponding internal thresholds which, if fallen below, trigger countermeasures and recommendations. In addition, a forecast of the end-of-year capital ratios is prepared during the year to review the necessity of any countermeasures.

The Asset & Liability Committee is the central body responsible for monitoring and managing capital ratios as well as the leverage ratio. It develops, evaluates and decides on suggestions for control measures and monitors their effectiveness.

The Bank's regulatory own funds calculated in accordance with the CRR/CRD IV rules (regular phased-in) were as follows:

	Dec. 31, 2016[1] €m	Dec. 31, 2015[2] €m
Credit and counterparty risk (including CVA)	36,108	39,016
Market risk positions	62	32
Operational risk	5,827	6,125
Total risk-weighted assets	41,997	45,173
Regular phased-in:		
Common Equity Tier 1 capital (CET 1)	5,952	6,209
Additional Tier 1 capital (AT 1)	228	75
Tier 1 capital	6,180	6,284
Tier 2 capital	1,052	1,102
Own funds	7,232	7,386
	%	%
CET 1 capital ratio	14.2	13.7
Tier 1 capital ratio	14.7	13.9
Total capital ratio	17.2	16.4
Fully phased-in:		
CET 1 capital ratio	12.4	11.5
Tier 1 capital ratio	12.4	11.5
Total capital ratio	15.9	15.1

[1]Based on the consolidated financial statements as of December 31, 2016, subject to approval
[2]Based on the consolidated financial statements as of December 31, 2015, figures adjusted (see Note 6)

The regular phased-in Common Equity Tier 1 capital ratio as reported on December 31, 2016, amounts to 13.4%.

The key components of Postbank's Tier 1 capital are the share capital and recognized reserves. Tier 2 capital is composed of long-term subordinated liabilities and profit participation certificates outstanding.

(49) Risk-bearing capacity, risk cover amount, and risk capital

Postbank considers its risk-bearing capacity to be adequate if the risk cover amount exceeds the allocated risk capital and the current level of overall risk (VaR). The risk cover amount available for covering all risks consists of the Bank's capital in accordance with IFRSs (less goodwill and deferred tax assets) and its subordinated debt in accordance with IFRSs as well as other reserves and liabilities associated with financial instruments including customer transactions, less net cost. Other reserves include additional reserves that are not reported in the IFRS balance sheet or the notes. These are prorated checking and savings-related reserves as well as those of the BHW home savings collective as determined by replication models. Conservative discounts and limit buffers are used when calculating the risk cover amount in order to account for estimating uncertainties. The capital from the risk cover amount that is allocated to the various units and risk types is known as risk capital.

The regulatory capital requirements (regulatory capital adequacy in accordance with the CRR, the KWG, the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation), and the *Groß- und Millionenkreditverordnung* (GroMiKV – German Large Exposures Regulation)) are additional conditions that must be strictly observed when managing economic risk capital.

In accordance with the requirements of the MaRisk, the risk strategy is consistent with the business strategy and takes into account all significant areas of business and types of risk.

The following table shows the allocation of the Postbank Group's risk cover amount, broken down by risk types on the basis of the authorized risk capital, for fiscal years 2016 and 2015 before and after factoring in correlation effects and the unallocated risk cover amount (calculated as of December 31 for each year):

Risk capital by risk types (economic creditor protection)

Capital and risk components	Allocated risk capital	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Credit risk	2,700	2,800
Market risk	2,180	2,180
Operational risk	700	700
Business risk	2,670	2,670
Total before diversification	**8,250**	**8,350**
Diversification effects	1,460	1,490
Total after diversification	**6,790**	**6,860**
Unallocated risk cover amount	3,128	4,830
Total risk cover amount	**9,918**	**11,690**

More detailed disclosures relating to the management of economic risk capital can be found in the Risk Report section of the Group Management Report.

(50) Maturity structure

As of December 31, 2016:

	Payable on demand €m	Less than 3 months €m	3 months to 1 year €m	1 to 2 years €m	2 to 3 years €m	3 to 4 years €m	4 to 5 years €m	More than 5 years €m	Total €m
Loans and advances to other banks	6,383	2,853	1,827	1,422	92	0	236	295	13,108
Loans and advances to customers	5,034	6,453	8,754	9,953	9,351	8,572	8,625	45,261	102,003
Trading assets	–	39	27	17	21	43	34	294	475
Hedging derivatives	–	10	–	–	2	1	0	99	112
Investment securities	–	2,267	2,234	6,126	4,557	2,222	1,882	7,479	26,767
Current tax assets	0	0	81	53	0	10	–	–	144
Deferred tax assets	0	0	37	16	3	2	59	81	198
Other assets	169	34	78	67	16	8	4	12	388
Total	**11,586**	**11,656**	**13,038**	**17,654**	**14,042**	**10,858**	**10,840**	**53,521**	**143,195**
Deposits from other banks	508	3,214	986	1,171	1,073	869	1,123	4,189	13,133
Due to customers	47,029	39,740	9,725	4,815	2,866	2,114	2,967	9,662	118,918
Debt securities in issue	83	0	61	10	123	1,141	1,115	806	3,339
Trading liabilities	–	56	91	31	11	26	30	164	409
Hedging derivatives	–	7	0	5	8	3	1	18	42
Provisions	14	36	271	180	119	53	28	206	907
Provisions for pensions	–	3	10	13	12	12	12	192	254
Other provisions	14	33	261	167	107	41	16	14	653
Current tax liabilities	0	–	62	15	–	21	–	–	98
Deferred tax liabilities	–	0	0	11	0	0	4	2	17
Other liabilities	179	172	154	11	7	7	4	7	541
Subordinated debt	0	9	128	401	133	14	25	1,857	2,567
Total	**47,813**	**43,234**	**11,478**	**6,650**	**4,340**	**4,248**	**5,297**	**16,911**	**139,971**
Contingent liabilities	362	0	0	0	0	0	0	0	362
Irrevocable loan commitments	7,752	0	0	0	0	0	0	0	7,752

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The remaining maturities of derivatives are presented separately in a table in Note 44.

As of December 31, 2015:

	Payable on demand €m	Less than 3 months €m	3 months to 1 year €m	1 to 2 years €m	2 to 3 years €m	3 to 4 years €m	4 to 5 years €m	More than 5 years €m	Total €m
Loans and advances to other banks	1,534	7,124	3,993	1,092	1,143	85	598	307	15,876
Loans and advances to customers[1]	4,495	9,415	8,684	9,222	9,162	8,174	7,934	41,851	98,937
Trading assets	–	92	82	16	15	41	58	343	647
Hedging derivatives	–	10	0	0	0	2	1	65	78
Investment securities	–	1,517	3,072	4,972	6,234	3,743	2,372	8,858	30,768
Current tax assets	0	15	82	4	0	0	–	–	101
Deferred tax assets[1]	0	0	24	8	10	6	5	24	77
Other assets[1]	189	179	76	44	10	5	2	9	514
Total	**6,218**	**18,352**	**16,013**	**15,358**	**16,574**	**12,056**	**10,970**	**51,457**	**146,998**
Deposits from other banks[1]	253	5,565	562	1,423	1,178	1,033	880	4,447	15,341
Due to customers	43,417	42,437	8,166	5,373	3,261	2,840	2,061	11,595	119,150
Debt securities in issue	84	10	67	61	10	123	1,154	1,937	3,446
Trading liabilities	–	85	64	97	45	52	41	281	665
Hedging-Derivate	–	46	18	9	33	16	17	69	208
Provisions	9	25	169	273	117	47	12	51	703
Provisions for pensions	–	1	2	2	2	2	2	45	56
Other provisions	9	24	167	271	115	45	10	6	647
Current tax liabilities	0	14	51	20	8	–	17	–	110
Deferred tax liabilities	–	0	2	0	0	0	3	4	9
Other liabilities	189	155	99	4	4	6	5	4	466
Subordinated debt	50	4	724	86	402	134	14	1,825	3,239
Total	**44,002**	**48,341**	**9,922**	**7,346**	**5,058**	**4,251**	**4,204**	**20,213**	**143,337**
Contingent liabilities	404	0	0	0	0	0	0	0	404
Irrevocable loan commitments	5,788	0	0	0	0	0	0	0	5,788

[1]Figures adjusted (see Note 6)

(51) Other financial obligations

In accordance with section 16 of the *Postpersonalrechtsgesetz* (Deutsche Bundespost Former Employees Act), Deutsche Postbank AG pays an annual contribution for civil servant pensions to the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (BanstPT), Postbeamtenversorgungskasse (PVK) in the amount of 33 % of the gross compensation of its active civil servants and of the notional gross compensation of its civil servants on leave of absence who are eligible for pensions. Postbank has no further obligations for benefits paid by the pension fund.

Postbank ensures that, with the exception of political risk, its PB Factoring GmbH (Bonn), and BHW Bausparkasse AG (Hameln) subsidiaries will be able to meet their obligations. The comfort letter in favor of Deutsche Postbank International S.A. (now: PB International S.A.), Luxembourg, became ineffective as of July 1, 2014, and was therefore terminated in respect of new obligations from that date, after Deutsche Postbank AG, Luxembourg branch, took over the business operations of Deutsche Postbank International S.A., Luxembourg, by acquiring almost all of the assets and liabilities of Deutsche Postbank International S.A., Luxembourg, as of July 1, 2014.

The comfort letters issued in favor of creditors of subsidiaries of Deutsche Postbank AG primarily lead to benefits for the subsidiaries in the form of improved terms and conditions for business and finance. Deutsche Postbank AG profits from these benefits since they have a positive impact on the enterprise value of the subsidiaries concerned. Conversely, there is the possibility of the creditors having recourse against Postbank.

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

Financial obligations under Postbank's operating leases involving non-cancelable leasing agreements relate to land and buildings and have the following maturity structures:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
in the first year after the balance sheet date	59	49
in the second year after the balance sheet date	51	40
in the third year after the balance sheet date	43	30
in the fourth year after the balance sheet date	35	22
in the fifth year after the balance sheet date	24	16
more than five years after the balance sheet date	66	37
Total	**278**	**194**

(52) Trust activities

Trust activities are composed of the following items:

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Trust assets		
Loans and advances to other banks	1	1
Loans and advances to customers	380	440
	381	**441**
Trust liabilities		
Due to customers	381	441
	381	**441**

(53) Employees

The average number of employees in the Group in the period under review was as follows:

	Total 2016	Total 2015
Full-time		
Civil servants	4,278	4,479
Salaried employees	12,301	9,077
	16,579	**13,556**
Part-time		
Civil servants	1,050	1,079
Salaried employees	4,564	3,232
	5,614	**4,311**
	22,193	**17,867**

The employees are employed almost exclusively in Germany.

(54) Relationships with unconsolidated structured entities

This Note is focused on relationships with structured entities which are not controlled by Postbank and thus are not consolidated.

Relationships with structured entities include contractual and non-contractual business relationships that expose the Bank to variable positive and/or negative returns from the performance of the structured entity.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. A structured entity often has the following features: restricted activities, a narrow and well-defined objective, insufficient equity, and financing that creates concentrations of credit or other risks.

In the area of commercial real estate finance, Postbank has, among other things, lending relationships with real estate investment vehicles, whose purpose is the holding and rental of commercial real estate primarily in Germany and Europe, and with national and international real estate funds ("Commercial Real Estate Finance" category). The real estate is equity and debt-financed. Usually real estate investment vehicles use a higher proportion of debt capital.

Relationships with structured entities also include the securities that have been issued by structured entities (e.g., securitization vehicles) ("Other" category) and fund certificates/shares ("Funds" category) held by the Group.

The maximum exposure to loss shown is the highest potential loss to which the Bank could be exposed as a result of its relationships with structured entities. The maximum exposure to loss from transactions measured at cost comprises the carrying amount and the value of the Bank's off-balance sheet liabilities from its relationships with structured entities. The maximum exposure to loss is shown without taking account of collateral received.

The size of the structured entities is determined based on the following measures:

- Commercial real estate finance and funds: total assets of the structured entity
- Other: notional amounts of the notes issued.

	Commercial real estate finance	Funds	Other	Total
	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m	Dec. 31, 2016 €m
Assets				
Loans and advances to customers	5,089	–	11	5,100
Trading assets	–	–	–	–
Investment securities	3	270	–	273
Allowance for losses on loans and advances	–80	–	–	–80
Maximum exposure to loss	**5,139**	**270**	**11**	**5,420**
Loans and advances to customers	5,089	–	11	5,100
Trading assets	–	–	–	–
Investment securities	3	270	–	273
Allowance for losses on loans and advances	–80	–	–	–80
Off-balance sheet liabilities	127	–	–	127
Size of structured entities	**5,633**	**5,660**	**11**	**11,304**

The following table contains the comparative figures as of December 31, 2015.

	Commercial real estate finance	Funds	Other	Total
	Dec. 31, 2015 €m	Dec. 31, 2015 €m	Dec. 31, 2015 €m	Dec. 31, 2015 €m
Assets				
Loans and advances to customers	4,268	–	11	4,279
Trading assets	1	–	–	1
Investment securities	3	261	–	264
Allowance for losses on loans and advances	–88	–	–	–88
Maximum exposure to loss	**4,365**	**261**	**11**	**4,637**
Loans and advances to customers	4,268	–	11	4,279
Trading assets	1	–	–	1
Investment securities	3	261	–	264
Allowance for losses on loans and advances	–88	–	–	–88
Off-balance sheet liabilities	181	–	–	181
Size of structured entities	**5,590**	**5,571**	**500**	**11,661**

The off-balance sheet liabilities represent contractual obligations on the part of the Bank to financially support the structured entities. In the period under review, the Bank did not render any non-contractual financial support to the structured entities nor does it intend to do so.

(55) Related party disclosures

In addition to the companies included in the consolidated financial statements, in the course of its ordinary business activities, Postbank has direct or indirect relationships with Deutsche Bank AG, which controls Postbank, and with a relatively small number of subsidiaries, associates, and joint ventures not included in Postbank's consolidated financial statements. Other related parties are Deutsche Bank AG's subsidiaries, the associates and joint ventures of Postbank and Deutsche Bank, and their subsidiaries. Related parties are defined as key management personnel (Management Board and Supervisory Board) of Deutsche Postbank AG and of Deutsche Bank AG, and the close members of their families. In the course of business activities, all transactions for the provision of goods and services entered into with the aforementioned companies and persons were conducted at standard market terms and conditions.

Business relationships with related parties

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All related parties that are controlled by Deutsche Postbank AG are presented in the list of shareholdings (Note 60).

Related party transactions also include Deutsche Postbank AG's membership of a defined contribution pension plan, the expenses for which relate mainly to payments made to BanstPT, PVK (formerly Bundes-Pensions-Service für Post und Telekommunikation e.V.) in the amount of €96 million (previous year: €95 million). Furthermore, administrative expenses incurred by BAnstPT in the amount of €12 million (previous year: €11 million) were reimbursed on a pro rata basis.

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With effect from January 1, 2016, Postbank reacquired its five service companies and included them in the consolidated financial statements as of this date (further information on the transaction can be found in Note 2, Basis of consolidation). As a result, the relationships with these companies are no longer disclosed in this Note from the changeover date as they are eliminated in the consolidated financial statements in accordance with IFRS 10.

Control and Profit and Loss Transfer Agreement

Since the beginning of 2012 a control and profit and loss transfer agreement has been in existence between Deutsche Postbank AG, as the dependent company, and DB Finanz-Holding GmbH, Frankfurt am Main (an indirect wholly-owned subsidiary of Deutsche Bank AG), as the controlling company.

Related party receivables

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Loans and advances to other banks		
Deutsche Bank AG	2,288	1,330
Other related parties	4	6,022
Loans and advances to customers	**2,292**	**7,352**
Subsidiaries	0	0
Other related parties	42	98
	42	**98**
Trading assets		
Deutsche Bank AG	125	111
	125	**111**
Investment securities		
Deutsche Bank AG	1,118	1,066
	1,118	**1,066**
Other assets		
Deutsche Bank AG	90	198
Other related parties	5	12
	95	**210**

The loans and advances to other banks primarily relate to money market transactions with Deutsche Bank AG and its subsidiaries. The increase in loans and advances to Deutsche Bank AG is mainly attributable to new securities repurchase transactions. Loans and advances to other related parties declined due to the maturation of securities repurchase transactions (€6 billion).

The change in loans and advances to customers relating to other related parties is attributable to the expanded basis of consolidation to include the five service companies (see Note 2). 86

The increase in trading assets is mainly attributable to measurement effects.

The investment securities relate to Deutsche Bank AG bonds.

The change in other assets relating to Deutsche Bank AG is largely attributable to the settlement of claims arising from the termination of the IT cooperation and changes to contractual arrangements with regard to software utilization rights in the amount of €162 million. Since 2016, other assets have also contained one loan to Deutsche Bank AG in the amount of €40 million resulting from Postbank's participation in the ECB's refinancing program as a member of the TLTRO group headed by Deutsche Bank as the lead institution. The payment of the same amount received by Postbank is reported in other income.

Related party payables

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Deposits from other banks		
Deutsche Bank AG	3,004	5,383
	3,004	**5,383**
Due to customers		
Subsidiaries	8	8
Other related parties	5	184
	13	**192**
Trading liabilities		
Deutsche Bank AG	237	220
	237	**220**
Hedging derivatives		
Deutsche Bank AG	1	3
	1	**3**
Other liabilities		
Deutsche Bank AG	35	39
DB Finanz-Holding GmbH	9	2
Other related parties	1	30
	45	**71**

The liabilities to Deutsche Bank AG primarily comprise securities repurchase transactions, the holdings of which declined considerably as of December 31, 2015, due to maturing positions.

The change in amounts due to customers and other liabilities relating to other related parties is attributable to the expanded basis of consolidation to include the five service companies (see Note 2).

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The increase in trading liabilities is mainly attributable to measurement effects.

The other liabilities to DB Finanz-Holding GmbH relate to effects attributable to the control and profit and loss transfer agreement that were recognized in retained earnings.

Contingent liabilities from warranty obligations to Deutsche Bank AG amounted to €41 million at the balance sheet date (December 31, 2015: €68 million).

Income and expenses from related parties

	2016 €m	2015[1] €m
Interest income		
Deutsche Bank AG	12	17
Other related parties	–11	–1
	1	**16**
Interest expense		
Deutsche Bank AG	4	3
Other related parties	0	53
	4	**56**
Fee and commission income		
Deutsche Bank AG	30	0
Other related parties	27	22
	57	**22**
Fee and commission expense		
Deutsche Bank AG	2	2
Other related parties	0	2
	2	**4**
Net trading income		
Deutsche Bank AG	6	13
	6	**13**
Net income from investment securities		
Other related parties	0	–18
	0	**–18**
Administrative expenses		
Deutsche Bank AG	24	28
Subsidiaries	16	17
Other related parties	16	14
	56	**59**
Other income		
Deutsche Bank AG	61	202
Subsidiaries	3	3
Other related parties	5	334
	69	**539**
Other expenses		
Other related parties	0	521
	0	**521**

[1]Figures adjusted (see Note 6)

Interest income from other related parties mainly relates to expenses incurred in connection with loan brokerage, which are included in effective interest. These expenses were previously reported under administrative expenses (see Note 6). Retroactive application of the change in presentation reduced interest income and thus administrative expenses by €8 million in the previous year.

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The decline in interest expense relating to other related parties is attributable to the expanded basis of consolidation to include the eight funding companies (four LLC and four Trust companies).

The change in other income relating to Deutsche Bank is largely attributable to income of €162 million from the termination of the IT cooperation in 2015 and changes to the contractual arrangements with regard to software utilization rights. The change in other income and other expenses relating to related parties is attributable to the expanded basis of consolidation to include the five service companies (see Note 2).

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Key management personnel

As of the balance sheet date, loans of €891 thousand (previous year: €127 thousand) had been granted to key management personnel and deposits of €2,198 thousand (previous year: €1,530 thousand) received from key management personnel.

The following table contains the staff costs incurred, in the period under review, in connection with remuneration of the members of the Management Board of Deutsche Postbank AG in accordance with IAS 24.17.

	2016 € thousand	2015 € thousand
Short-term employee benefits	5,024.3	5,160.8
Post-employment benefits	2,478.8	2,816.7
Other long-term benefits	2,097.4	1,892.0
Termination benefits	625.0	0.0
Share-based payment	2,097.6	1,927.5
Total remuneration in accordance with IAS 24.17	12,323.1	11,797.0

The short-term employee benefits also include, along with the basic remuneration and the variable remuneration component to be directly remunerated in cash, the incidental benefits, mainly comprising non-cash benefits in the form of company cars, the payment of insurance premiums, and the reimbursement of business-related expenses including any taxes on these items. The benefits after the termination of the employment relationship mirror the service cost of the period under review. Other long-term benefits due include the expenses for the period in relation to the cash granted with a long-term incentive effect.

The total carrying amount of the obligation arising from the benefits granted to members of the Management Board amounted to €11,347.1 thousand (previous year: €11,402 thousand) as of the balance sheet date.

The defined benefit obligation (DBO) for current pensions and entitlements attributable to active members of the Management Board amounted to €24,876 thousand (previous year: €21,659 thousand) as of the end of this year.

The total remuneration paid to members of the Supervisory Board for the period under review of €1,137.7 thousand (previous year: €1,541.3 thousand) is classified as a short-term benefit in accordance with IAS 24.17.

For a detailed description of the main features of the remuneration system, please see the following section "Remuneration of the Management Board and the Supervisory Board" and the remuneration report in the Group Management Report.

Remuneration of the Management Board and the Supervisory Board

Deutsche Postbank AG (Postbank) hereby publishes the principles used to determine the remuneration of the Management Board and the Supervisory Board. The report also explains the amount of remuneration and structure of the remuneration in accordance with the statutory provisions, German Accounting Standard (GAS) 17 "Reporting on the Remuneration of Members of Governing Bodies," and the recommendations of the German Corporate Governance Code.

Remuneration system for members of the Management Board

Responsibility

The full Supervisory Board is responsible for designing the remuneration system and for setting the remuneration of the individual members of the Management Board. It has been supported in these matters by the Compensation Control Committee. The Committee is primarily responsible for monitoring the appropriate design of the remuneration systems for senior managers and employees, and in particular for the heads of the Risk Control and Compliance units, as well as employees who have a material influence on the Bank's overall risk profile. The Compensation Control Committee assesses the impact of the remuneration systems on risk, capital and liquidity management, prepares the Supervisory Board resolutions on the remuneration of the senior managers, and assists the Supervisory Board in monitoring the proper integration of the internal control functions and all other relevant functions in the design of the remuneration systems.

Structure of the remuneration of the Management Board in fiscal year 2016

The overall structure of the remuneration of the Management Board and the principal components of Management Board contracts are stipulated and regularly reviewed by Postbank's Supervisory Board. This review focuses in particular on the appropriateness of the system's design and on changes that become necessary in response to new legislative and regulatory requirements.

The main goal for the design of the remuneration system and the amount of Management Board remuneration is to remunerate Management Board members appropriately in line with the market and competitors and in accordance with all statutory and regulatory requirements, taking into account members' areas of activity and responsibility, Postbank's overall long-term performance, and the collective and individual performance of the members of the Management Board. The appropriateness of the remuneration of the Management Board in both market terms and within the Postbank Group was confirmed for fiscal year 2014 in a horizontal and vertical remuneration comparison. A vertical remuneration comparison was performed within the Postbank Group for fiscal year 2016, which likewise confirmed the appropriateness of the remuneration; pursuant to a resolution of the Supervisory Board, horizontal remuneration comparisons are conducted at three-year intervals, so that the next comparison is planned for fiscal year 2017.

The aim is for the system to be designed in a way that generates incentive for the members of the Management Board to meet the Bank's objectives, to permanently promote positive corporate development, and to avoid disproportionately high risks. To this extent, the Supervisory Board had already capped the ratio of variable remuneration to fixed remuneration before the statutory maximum ratio was introduced. Postbank's Annual General Meeting approved a ratio for fixed to variable remuneration of 1:2 for the members of the Management Board in the light of the requirements prescribed by section 25a(5) of the *Kreditwesengesetz* (KWG – German Banking Act).

The total remuneration awarded to the members of the Management Board is accordingly broken down into non-performance-related and performance-related components.

a) Non-performance-related components

The non-performance-related components are the base pay (fixed remuneration) and incidental benefits. The base pay is paid out monthly in twelve equal installments. Incidental benefits mainly comprise non-cash benefits in the form of company cars, the payment of insurance premiums, and the reimbursement of business-related expenses including any taxes on these items. Incidental benefits are available to all members of the Management Board equally; however, the amount may vary depending on their individual personal circumstances.

b) Performance-related component (variable remuneration)

The performance-related component is the variable remuneration. The amount of the variable remuneration awarded to the members of the Management Board is dependent on the achievement of quantitative and qualitative Postbank Group, board department and individual goals defined as an agreed target for variable remuneration and is determined on the basis of key performance indicators. For this purpose, uniform Postbank Group goals have been given a weighting of 50 % in the performance measurement. The goals are laid down in a target agreement entered into at the start of each fiscal year (base year). The maximum variable remuneration is capped in individual contracts at 150 % of the agreed target.

In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant[1] of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board once again with effect from fiscal year 2015. The purpose of these modifications was to position Postbank as a banking institution independent of the Deutsche Bank Group in the future and, in this connection, to establish the right incentives in the structure of the deferral system. This has been agreed with the individual members of the Management Board by amending their employment contracts accordingly.

Variable remuneration for 2016: grant, performance, deferral and forfeiture provisions

The award arrangements for the variable remuneration fixed were modified with effect on the variable remuneration for 2014 and modified again for 2015 due to Deutsche Bank's changed strategic plans with respect to Postbank's positioning. It was therefore not necessary to change the award arrangements again for fiscal year 2016.

Variable remuneration is largely granted in deferred form and spread over several years in accordance with the regulatory and bank-specific requirements applicable in each case. This ensures a long-term incentive effect over a period of several years.

In accordance with the requirements of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions), at least 60 % of the total variable remuneration is granted on a deferred basis. Furthermore, the deferral matrix established in the Deutsche Bank Group, which may lead to a higher percentage of deferred remuneration depending on the amount of the variable remuneration, is applied. In line with this, the upfront portion of the variable remuneration is capped at a total of €225,000 for each member of the Management Board.

Half of the upfront portion of the variable remuneration is awarded in the form of a share-based remuneration component (equity upfront award) and the other half is paid out directly (cash bonus). Half of the deferred portion of the variable remuneration comprises share-based remuneration components (restricted equity award), while the remaining half is granted as a deferred cash payment (restricted incentive award). The value of the share-based remuneration components depends on the performance of Deutsche Bank's shares during the deferral and holding periods. In connection with the share-based remuneration components to be granted for fiscal year 2016, contracts have already been signed providing for the Deutsche Bank share awards which have not yet been allocated as of that date to be converted into Postbank share awards or another value-based remuneration component in case Postbank is deconsolidated from the Deutsche Bank Group. In this way, the performance of the deferred remuneration components remains linked to the performance contributions made by the members of the Management Board.

Equity upfront award

The non-deferred component of the share-based remuneration is awarded to members of the Management Board in the form of an equity upfront award (EUA). The EUA vests immediately but is subject to a further holding period during which the performance, deferral and forfeiture provisions outlined below apply. The holding period for the EUA granted for fiscal year 2016 is twelve months. At time of publication, the EUA is granted as Deutsche Bank shares on the expiry of the holding period.

[1] In this connection, "grant" refers to the splitting of the variable remuneration defined for the year under review into separate remuneration components and the prospect of the defined variable remuneration in these remuneration components.

Restricted equity award
The deferred component of the share-based remuneration takes the form of a restricted equity award (REA). The REA is subject to a three-year holding period and vests in a single tranche ("cliff vesting").

Following the above deferral period, there is a twelve-month holding period for all members of the Management Board before the share-based remuneration components at time of publication are granted as Deutsche Bank shares. Special performance, deferral and forfeiture provisions, which are described separately below, apply during the deferral period and, where applicable, the holding period.

For fiscal year 2016 this means that, in light of the performance, deferral and forfeiture provisions, none of the members of the Management Board may realize the value of the REA granted for 2016 until 2021 at the earliest (four years after it was defined).

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of EUA and REA will be calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017.

Restricted incentive award
The non-share-based component of the deferred remuneration is granted as a deferred cash payment (restricted incentive award – RIA); this vests in three equal tranches over a period of three years. Special performance, deferral and forfeiture provisions apply during the deferral period. The final tranche of the RIA awarded to members of the Management Board for 2016 will be paid out in 2020 at the earliest.

The above-mentioned awards do not entail entitlements to interest or dividend payments.

Performance, deferral, and forfeiture provisions
The EUA, RIA, and REA remuneration components are subject to certain performance, deferral and forfeiture provisions during the deferral and holding periods. These provisions and periods form a core element of the structure of deferred remuneration. They ensure that the awards are aligned with future behavior and performance, and that certain events are also accounted for appropriately in remuneration over the long term. The REA and RIA remuneration components granted on a deferred basis are subject to performance conditions, i.e., clawback provisions linked to the performance of the Postbank Group or the Deutsche Bank Group. Under these provisions, up to 100 % of the outstanding RIA and REA tranches may be forfeited if the Postbank Group and/or the Deutsche Bank Group fail to satisfy the performance conditions relating to profit before tax. This means that up to one-third of the REA granted for 2016 can be forfeited for each year of the deferral period in which the performance conditions are not met. A further performance condition is the Common Equity Tier 1 provision, under which up to 100 % of the REA which has not yet vested is forfeited if at the end of any given quarter prior to the expiry of the deferral period the Common Equity Tier 1 ratio of the Deutsche Bank Group and of the Postbank Group drops below the applicable regulatory minimum capital (including an additional risk buffer of 200 basis points). Reflecting the plans to deconsolidate Postbank from the Deutsche Bank Group, the measurement of compliance with the performance conditions relating to Deutsche Bank's performance is no longer intended from 2017. Postbank's profit and the performance of the members of its Management Board will no longer have any (notable) effect on Deutsche Bank's profit after it has been deconsolidated from the Deutsche Bank Group.

In addition, all remuneration components granted on a deferred basis (REA, RIA) as well as EUA and REA during their holding period are subject to a (partial) clawback, for example if the member of the Management Board breaches internal guidelines or regulatory requirements, or if the conditions for performance are no longer met.

Variable remuneration for 2014 and 2015: grant, performance, deferral and forfeiture provisions
In line with the recommendation of the Compensation Control Committee, the Supervisory Board had passed a resolution to adjust the grant of the variable remuneration calculated and to bring it into line with the rules applicable within the Deutsche Bank Group effective January 1, 2014. After the announcement by Deutsche Bank AG of its Strategy 2020 and related plans to deconsolidate Postbank from the Deutsche Bank Group, the rules governing the grant of variable remuneration were modified by the Supervisory Board again with effect from fiscal year 2015, although no changes were made to the underlying structures. Accordingly, the explanations provided for fiscal year 2016 largely also apply to the conditions for the grant, performance, deferral and forfeiture of variable remuneration entitlement for fiscal years 2014 and 2015. This applies above all to the division of the variable remuneration into the remuneration components cash bonus, equity upfront award (EUA), restricted incentive award (RIA), and restricted equity award (REA). The following specifics must be taken into account.

a) Fiscal year 2015
The number of share awards granted to members of the Management Board in 2016 for fiscal year 2015 in the form of EUA and REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2016 (€15.4705).

The above-mentioned remuneration components for fiscal year 2015 do not entail entitlements to interest or dividend payments.

b) Fiscal year 2014
The number of share awards granted to members of the Management Board in 2015 for fiscal year 2014 in the form of REA was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the first ten trading days of February 2015 (€27.1080).

Reflecting the responsibilities within the Group structure, different deferral periods apply to the deferred share-based remuneration (REA). As a general rule, the REA granted for fiscal year 2014 vested ratably in three equal tranches over a period of three years. Special rules applied to the members of the Management Board who were also members of Deutsche Bank Group's Senior Management Group in fiscal year 2014 (i.e., Susanne Klöss-Braekler, Frank Strauss, Marc Hess, and Hanns-Peter Storr); contrary to the above, a 4.5-year deferral period applies, after which the awards vest in a single tranche ("cliff vesting"). REA is subject to a uniform holding period of six months following the deferral period. For fiscal year 2014 this means that, in light of the performance, deferral and forfeiture provisions, members of the Management Board who were members of the Senior Management Group cannot realize the value of the REA granted for 2014 until 2020 at the earliest (i.e., five years after it was granted). For the remaining members of the Management Board, the value of the final tranche of the REA can be realized in 2018 at the earliest (i.e., 3.5 years after the REA was granted).

The following (interest) premiums were added to the remuneration components for fiscal year 2014:

- Equity upfront award:
  A dividend equivalent is granted during the holding period.

- Restricted equity award:
  A one-time premium of 5 % is added when the award is granted. Members of the so-called Senior Management Group receive a dividend equivalent.

- Restricted incentive award:
  A one-time premium of 2 % is added when the award is granted.

The forfeiture conditions for the RIA and REA deferred remuneration components provide for benchmarking against the consolidated profit of both the Postbank Group and the Deutsche Bank Group.

Granting and payment of variable remuneration until the end of 2013

Under the remuneration system valid until the end of 2013, the variable remuneration was split into a short-term component (40 %) and a long-term component (60 %). It was not fully paid out in cash, even if the agreed targets were met. There were still outstanding long-term components in 2016 for the remuneration years 2011 to 2013; payment is and/or was due on the agreed dates in accordance with the contractual provisions applicable at the time the components were granted.

The entire long-term component was granted conditionally in accordance with the Postbank Group's sustainable performance, which was determined subject to a sustainability criterion being satisfied during the subsequent three-year assessment period (three calendar years following the base year). This is still to be assessed for the year 2013. In the year immediately following the fiscal year for which the remuneration was to be granted, the Supervisory Board examined and determined whether the targets had been met for that year, and stipulated the sustainability criterion for the assessment period. In the case of the variable remuneration until 2013, this was defined as the adjusted profit after cost of capital (APACC). Sustainable Group performance and the sustainability criterion will have been achieved if the value of the APACC is equal to, or exceeds, or at the end of the sustainability phase cumulatively exceeds on average, the value of the APACC in the base year.

In line with the three-year sustainability phase, the long-term component was divided into three equal tranches. In turn, half of each tranche was paid out in cash and half was converted into phantom shares, or is still to be converted for the year 2013.

If, at the end of each of the years in the three-year assessment period for the remuneration components still outstanding, the Supervisory Board determines that the sustainability criterion has been met, the proportionate cash component is paid out immediately, and the remainder converted into phantom shares, which are converted into a euro amount after the expiry of the twelve-month lock-up period.

If the sustainability criterion is not met for a particular year in the assessment period, payment of the corresponding tranches of the long-term component is deferred to the following year for a renewed examination based on the sustainability criterion. If the sustainability criterion has not been met at the end of the assessment period, the payment of all deferred long-term components lapses without compensation. In this way, remuneration of the Management Board is affected by any negative Company performance during the entire measurement period (negative bonus system). Under an additional negative bonus system, payment for outstanding components can be retroactively reduced or canceled completely based on the overall performance of the Management Board member concerned during the assessment period.

These remuneration mechanisms still affect the deferred remuneration components granted in the years 2011 to 2013 and continue to apply to this extent.

The converted phantom share amounts of the long-term component for base years 2011 (Tranche 3), 2012 (Tranche 2), and 2013 (Tranche 1) were paid out in 2016 after the expiry of the lock-up period. For this purpose, the remuneration components that had been converted into phantom shares of Deutsche Bank AG in 2015 were multiplied by the average Xetra closing price of Deutsche Bank shares on the last ten trading days up to the end of the lock-up period (€17.41). In addition, one tranche of the cash component of the long-term component for each of the base years 2012 (Tranche 3) and 2013 (Tranche 2) was paid out in 2016 upon the sustainability criteria being satisfied. The other halves of the above tranches were converted into phantom shares of Deutsche Bank AG on the basis of the average share price (Xetra closing price) on the last ten trading days preceding March 23, 2016 (€17.47) and are due for payment in 2017 upon expiry of the lock-up period.

No dividend equivalent was calculated for the phantom shares that were blocked on the date of the Annual General Meeting of Deutsche Bank AG in 2016, because Deutsche Bank did not distribute any dividend for 2015.

Other benefits for Management Board members leaving the Company prematurely

Postbank will provide compensation for no more than the remaining term of the contract in cases in which the contract of a member of the Management Board is terminated prematurely other than for good cause, and will limit the payment to a maximum of two annual salaries (severance payment cap).

If the contract of a Management Board member is terminated prematurely as a result of permanent incapacity to work or death, the remuneration (basic remuneration plus variable remuneration) is paid pro rata up to the end of the agreed term of the contract, for a maximum of six months.

In 2016, one Management Board member, Hans-Peter Schmid, left the Management Board prematurely, effective as of the end of September 30, 2016. A severance payment of €625,000 was agreed on the basis of the termination agreement. The severance payment was paid out in October 2016. In addition, the exact amounts of the benefits already set out in the employment contract for this case of termination were specified and the payment dates were determined.

Other provisions

The members of the Management Board are not permitted to use hedging transactions or other countermeasures to mitigate or offset the risk orientation of deferred remuneration components.

The Supervisory Board may award an appropriate special bonus in recognition of exceptional performance, the amount of which is capped by the maximum variable remuneration (150 % of the agreed target).

Remuneration of members of the Management Board

The Supervisory Board resolutions establishing the variable remuneration for the members of the Management Board were discussed in depth at the end of January 2017 by the Compensation Control Committee, which prepared these for the full Supervisory Board. The Supervisory Board established the variable remuneration for the members of the Management Board for fiscal year 2016 on the basis of the recommendation made by the Compensation Control Committee.

The total remuneration defined for the seven members of the Management Board for their work on the Management Board in 2016 amounted to €7,872.2 thousand (previous year: €8,231.1 thousand), excluding incidental benefits and pension expense. Of this figure, €4,150.0 thousand (previous year: €4,250.0 thousand) related to fixed (non-performance-related) remuneration and €3,722.2 thousand (previous year: €3,981.1 thousand) to performance-related components.

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

Postbank does not currently have a separate share-based remuneration program.

Benefits granted and received

The following tables present the benefits granted to each individual member of the Management Board for the fiscal year, as well as the benefits received in/for the fiscal year and the pension expense in/for the year under review in accordance with the recommendations contained in section 4.2.5(3) of the German Corporate Governance Code, which is implemented on a voluntary basis.

The following table shows the benefits granted for fiscal year 2016 (2015):

Benefits granted	Frank Strauss[2] Chairman of the Management Board						Marc Hess CFO					
	Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015		Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target	defined	target	min	max	defined	target
	€ thousand						€ thousand					
Fixed remuneration	750.0	750.0	750.0	750.0	750.0	750.0	660.0	660.0	660.0	660.0	660.0	660.0
Incidental benefits	27.2	27.2	27.2	27.2	22.5	22.5	31.6	31.6	31.6	31.6	35.1	35.1
Total (fixed remuneration components)	**777.2**	**777.2**	**777.2**	**777.2**	**772.5**	**772.5**	**691.6**	**691.6**	**691.6**	**691.6**	**695.1**	**695.1**
One-year variable remuneration	**112.5**	**112.5**	**0**	**112.5**	**112.5**	**112.5**	**112.5**	**112.5**	**0**	**112.5**	**112.5**	**112.5**
thereof paid out immediately	112.5	112.5	0	112.5	112.5	112.5	112.5	112.5	0	112.5	112.5	112.5
Multi-year variable remuneration	**563.5**	**537.5**	**0**	**862.5**	**589.5**	**537.5**	**465.0**	**465.0**	**0**	**753.7**	**511.2**	**465.0**
thereof equity upfront award	112.5	112.5	0	112.5	112.5	112.5	112.5	112.5	0	112.5	112.5	112.5
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	225.5	212.5	0	375.0	238.5	212.5	176.2	176.2	0	320.6	199.3	176.2
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	225.5	212.5	0	375.0	238.5	212.5	176.3	176.3	0	320.6	199.4	176.3
Total (variable remuneration components)	**676.0**	**650.0**	**0**	**975.0**	**702.0**	**650.0**	**577.5**	**577.5**	**0**	**866.2**	**623.7**	**577.5**
Total (variable and fixed remuneration components)	**1,453.2**	**1,427.2**	**777.2**	**1,752.2**	**1,474.5**	**1,422.5**	**1,269.1**	**1,269.1**	**691.6**	**1,557.8**	**1,318.8**	**1,272.6**
Pension expense	534.9	534.9	534.9	534.9	617.4	617.4	519.6	519.6	519.6	519.6	592.5	592.5
Total remuneration (German Corporate Governance Code)	**1,988.1**	**1,962.1**	**1,312.1**	**2,287.1**	**2,091.9**	**2,039.9**	**1,788.7**	**1,788.7**	**1,211.2**	**2,077.4**	**1,911.3**	**1,865.1**
Total remuneration[1]	1,426.0	1,400.0	750.0	1,725.0	1,452.0	1,400.0	1,237.5	1,237.5	660	1,526.2	1,283.7	1,237.5

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1]Excluding incidental benefits and pension expense

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

Benefits granted	Susanne Klöss-Braekler[3] Products						Ralph Müller Corporates and Markets					
	Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015		Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target	defined	target	min	max	defined	target
	€ thousand						€ thousand					
Fixed remuneration	480.0	480.0	480.0	480.0	480.0	480.0	550.0	550.0	550.0	550.0	500.0	500.0
Incidental benefits	24.4	24.4	24.4	24.4	24.1	24.1	16.0	16.0	16.0	16.0	15.2	15.2
Total (fixed remuneration components)	**504.4**	**504.4**	**504.4**	**504.4**	**504.1**	**504.1**	**566.0**	**566.0**	**566.0**	**566.0**	**515.2**	**515.2**
One-year variable remuneration	**88.0**	**88.0**	**0**	**112.5**	**88.9**	**88.0**	**105.0**	**105.0**	**0**	**112.5**	**105.0**	**100.0**
thereof paid out immediately	88.0	88.0	0	112.5	88.9	88.0	105.0	105.0	0	112.5	105.0	100.0
Multi-year variable remuneration	**352.0**	**352.0**	**0**	**547.5**	**355.5**	**352.0**	**420.0**	**420.0**	**0**	**675.0**	**420.0**	**400.0**
thereof equity upfront award	88.0	88.0	0	112.5	88.9	88.0	105.0	105.0	0	112.5	105.0	100.0
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	132.0	132.0	0	217.5	133.3	132.0	157.5	157.5	0	281.2	157.5	150.0
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	132.0	132.0	0	217.5	133.3	132.0	157.5	157.5	0	281.3	157.5	150.0
Total (variable remuneration components)	**440.0**	**440.0**	**0**	**660.0**	**444.4**	**440.0**	**525.0**	**525.0**	**0**	**787.5**	**525.0**	**500.0**
Total (variable and fixed remuneration components)	**944.4**	**944.4**	**504.4**	**1,164.4**	**948.5**	**944.1**	**1,091.0**	**1,091.0**	**566.0**	**1,353.4**	**1,040.2**	**1,015.2**
Pension expense	251.2	251.2	251.2	251.2	278.7	278.7	359.4	359.4	359.4	359.4	415.7	415.7
Total remuneration (German Corporate Governance Code)	**1,195.6**	**1,195.6**	**755.6**	**1,415.6**	**1,227.2**	**1,222.8**	**1,450.4**	**1,450.4**	**925.4**	**1,712.9**	**1,455.9**	**1,430.9**
Total remuneration[1]	920.0	920.0	480.0	1,140.0	924.4	920.0	1,075.0	1,075.0	550.0	1,337.5	1,025.0	1,000.0

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1]Excluding incidental benefits and pension expense

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

Benefits granted	Hans-Peter Schmid[4] Branch Sales						Ralf Stemmer Resources					
	Jan. 1–Sept. 30, 2016				Jan. 1–Dec. 31, 2015		Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target	defined	target	min	max	defined	target
	€ thousand						€ thousand					
Fixed remuneration	450.0	450.0	450.0	450.0	600.0	600.0	660.0	660.0	660.0	660.0	660.0	660.0
Incidental benefits	17.6	17.6	17.6	17.6	23.3	23.3	28.1	28.1	28.1	28.1	23.7	23.7
Total (fixed remuneration components)	**467.6**	**467.6**	**467.6**	**467.6**	**623.3**	**623.3**	**688.1**	**688.1**	**688.1**	**688.1**	**683.7**	**683.7**
One-year variable remuneration	**77.2**	**78.8**	**0**	**112.5**	**105.5**	**105.0**	**112.5**	**112.5**	**0**	**112.5**	**112.5**	**112.5**
thereof paid out immediately	77.2	78.8	0	112.5	105.5	105.0	112.5	112.5	0	112.5	112.5	112.5
Multi-year variable remuneration	**308.7**	**315.0**	**0**	**478.1**	**422.2**	**420.0**	**459.3**	**465.0**	**0**	**753.7**	**485.3**	**465.0**
thereof equity upfront award	77.2	78.8	0	112.5	105.5	105.0	112.5	112.5	0	112.5	112.5	112.5
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	115.8	118.1	0	182.8	158.3	157.5	173.4	176.2	0	320.6	186.4	176.2
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	115.7	118.1	0	182.8	158.4	157.5	173.4	176.3	0	320.6	186.4	176.3
Total (variable remuneration components)	**385.9**	**393.8**	**0**	**590.6**	**527.7**	**525.0**	**571.8**	**577.5**	**0**	**866.2**	**597.8**	**577.5**
Total (variable and fixed remuneration components)	**853.5**	**861.4**	**467.6**	**1,058.2**	**1,151.0**	**1,148.3**	**1,259.9**	**1,265.6**	**688.1**	**1,554.3**	**1,281.5**	**1,261.2**
Pension expense	373.3	373.3	373.3	373.3	424.0	424.0	147.9	147.9	147.9	147.9	163.0	163.0
Total remuneration (German Corporate Governance Code)	**1,226.8**	**1,234.7**	**840.9**	**1,431.5**	**1,575.0**	**1,572.3**	**1,407.8**	**1,413.5**	**836.0**	**1,702.2**	**1,444.5**	**1,424.2**
Total remuneration[1]	835.9	843.8	450.0	1,040.6	1,127.7	1,125.0	1,231.8	1,237.5	660.0	1,526.2	1,257.8	1,237.5

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1]Excluding incidental benefits and pension expense

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

Benefits granted	Hanns-Peter Storr Risk Management					
	Jan. 1–Dec. 31, 2016				Jan. 1–Dec. 31, 2015	
	defined	target	min	max	defined	target
	€ thousand					
Fixed remuneration	600.0	600.0	600.0	600.0	600.0	600.0
Incidental benefits	12.5	12.5	12.5	12.5	17.9	17.9
Total (fixed remuneration components)	**612.5**	**612.5**	**612.5**	**612.5**	**617.9**	**617.9**
One-year variable remuneration	**109.2**	**105.0**	**0**	**112.5**	**112.1**	**105.0**
thereof paid out immediately	109.2	105.0	0	112.5	112.1	105.0
Multi-year variable remuneration	**436.8**	**420.0**	**0**	**675.0**	**448.4**	**420.0**
thereof equity upfront award	109.2	105.0	0	112.5	112.1	105.0
thereof restricted incentive awards for 2015 (until 2019) and for 2016 (until 2020)	163.8	157.5	0	281.2	168.1	157.5
thereof restricted equity awards for 2015 (until 2020) and for 2016 (until 2021)	163.8	157.5	0	281.3	168.2	157.5
Total (variable remuneration components)	**546.0**	**525.0**	**0**	**787.5**	**560.5**	**525.0**
Total (variable and fixed remuneration components)	**1,158.5**	**1,137.5**	**612.5**	**1,400.0**	**1,178.4**	**1,142.9**
Pension expense	292.5	292.5	292.5	292.5	325.4	325.4
Total remuneration (German Corporate Governance Code)	**1,451.0**	**1,430.0**	**905.0**	**1,692.5**	**1,503.8**	**1,468.3**
Total remuneration[1]	1,146.0	1,125.0	600.0	1,387.5	1,160.5	1,125.0

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted or contractually agreed, in particular in the totals provided.

[1]Excluding incidental benefits and pension expense

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

The following table shows the benefits received in/for fiscal year 2016 (2015):

Benefits received	Frank Strauss[3]		Marc Hess		Susanne Klöss-Braekler[4]		Ralph Müller		Hans-Peter Schmid[5]		Ralf Stemmer		Hanns-Peter Storr	
	Chairman of the Management Board		CFO		Products		Corporates and Markets		Branch Sales		Resources		Risk Management	
	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Sept. 30, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015
	€ thousand													
Fixed remuneration	750.0	750.0	660.0	660.0	480.0	480.0	550.0	500.0	450.0	600.0	660.0	660.0	600.0	600.0
Incidental benefits	27.2	22.5	31.6	35.1	24.4	24.1	16.0	15.2	17.6	23.3	28.1	23.7	12.5	17.9
Total (fixed remuneration components)	**777.2**	**772.5**	**691.6**	**695.1**	**504.4**	**504.1**	**566.0**	**515.2**	**467.6**	**623.3**	**688.1**	**683.7**	**612.5**	**617.9**
One-year variable remuneration	**112.5**	**267.0**	**112.5**	**221.7**	**88.0**	**88.9**	**105.0**	**105.0**	**77.2**	**219.1**	**112.5**	**243.3**	**109.2**	**236.8**
thereof paid out immediately[1]	112.5	112.5	112.5	112.5	88.0	88.9	105.0	105.0	77.2	105.5	112.5	112.5	109.2	112.1
thereof short-term component II[2]	0	154.5	0	109.2	0	0	0	0	0	113.6	0	130.8	0	124.7
Multi-year variable remuneration	**305.2**	**382.9**	**245.8**	**446.0**	**7.5**	**16.8**	**12.3**	**19.1**	**268.6**	**439.1**	**298.7**	**474.1**	**257.8**	**372.0**
thereof long-term component I														
long-term component I for 2011 (until 2015), (Tranche 3 in 2015)	0	26.5	0	54.0	0	0	0	0	0	47.5	0	50.0	0	41.7
long-term component I for 2012 (until 2016), (Tranche 2 in 2015 and Tranche 3 in 2016)	61.7	61.7	52.0	52.0	0	0	0	0	49.9	49.9	54.9	54.9	52.5	52.5
long-term component I for 2013 (until 2017), (Tranche 1 in 2015 and Tranche 2 in 2016)	75.0	75.0	53.0	53.0	0	0	0	0	55.1	55.1	63.5	63.5	60.5	60.5
restricted incentive award paid out (RIA granted in previous years)	72.3	0	47.1	0	7.5	0	8.5	0	50.9	0	56.0	0	53.6	0
thereof long-term component II														
long-term component II for 2010 (until 2015), (Tranche 3 in 2015)	0	0	0	72.1	0	0	0	0	0	72.1	0	72.1	0	0
long-term component II for 2011 (until 2016), (Tranche 2 in 2015 and Tranche 3 in 2016)	15.6	27.3	31.8	55.6	0	0	0	0	28.0	48.9	29.5	51.5	24.6	43.0
long-term component II for 2012 (until 2017), (Tranche 1 in 2015 and Tranche 2 in 2016)	36.4	63.6	30.6	53.5	0	0	0	0	29.4	51.4	32.3	56.5	30.9	54.1
long-term component II for 2013 (until 2018), (Tranche 1 in 2016)	44.2	0	31.2	0	0	0	0	0	32.5	0	37.4	0	35.7	0
thereof equity upfront award[6]	0	128.8	0	105.8	0	16.8	0	19.1	0	114.2	0	125.6	0	120.2
restricted equity award paid out (from previous years)	0	0	0	0	0	0	3.8	0	22.8	0	25.1	0	0	0
Total (variable remuneration components)	**417.7**	**649.9**	**358.3**	**667.7**	**95.5**	**105.7**	**117.3**	**124.1**	**345.7**	**658.2**	**411.2**	**717.4**	**367.0**	**608.8**
Total (variable and fixed remuneration components)	**1,194.8**	**1,422.4**	**1,050.0**	**1,362.8**	**599.9**	**609.8**	**683.3**	**639.3**	**813.4**	**1,281.5**	**1,099.2**	**1,401.1**	**979.5**	**1,226.7**
Pension expense	534.9	617.4	519.6	592.5	251.2	278.7	359.4	415.7	373.3	424.0	147.9	163.0	292.5	325.4
Total remuneration (German Corporate Governance Code (DCGK))	**1,729.7**	**2,039.8**	**1,569.6**	**1,955.3**	**851.0**	**888.5**	**1,042.7**	**1 ,055.0**	**1,186.7**	**1,705.5**	**1,247.1**	**1,564.1**	**1,272.0**	**1,552.1**

Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually received, in particular in the totals provided.
[1]The amount comprises the cash component of the variable remuneration for 2015 and/or 2016 that is paid out immediately.
[2]The amount comprises the amounts received under this component for the year 2013.
[3]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.
[4]Due to Susanne Klöss-Braekler's additional activities for the entire Private and Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and her performance-related remuneration was reduced by 20 %.
[5]Member of the Management Board until September 30, 2016.
[6]No benefits received for 2016 due to the extended holding period (increased from 6 to 12 months).

Benefits in accordance with the requirements of German Accounting Standard 17 (GAS 17)

Based on the requirements of German Accounting Standard 17, the benefits granted to the members of the Management Board in fiscal year 2016 for their work on the Management Board amounted to a total of €7,759.2 thousand (previous year: €7,949.2 thousand). Of this amount, €4,307.4 thousand (previous year: €4,411.8 thousand) related to non-performance-related remuneration, €2,734.9 thousand (previous year: €2,788.4 thousand) to performance-related components with a long-term incentive effect, and €716.9 thousand (previous year: €749.0 thousand) to performance-related components without a long-term incentive effect.

The long-term component I and/or the restricted incentive awards are deferred, non-share-based remuneration and are subject to certain (forfeiture) provisions. In accordance with GAS 17, these are only included in the total benefits in the fiscal year in which they are paid out (i.e., the fiscal year in which unconditional payment is made), and not in the fiscal year in which the commitment, or the award, was originally granted. Accordingly, the individual members of the Management Board received the following benefits for/in the years 2016 and 2015 for their work on the Management Board, including incidental benefits.

GAS 17	Frank Strauss[2]		Marc Hess		Susanne Klöss-Braekler[3]		Ralph Müller		Hans-Peter Schmid[4]		Ralf Stemmer		Hanns-Peter Storr		Total	
	Chairman of the Management Board		CFO		Products		Corporates and Markets		Branch Sales		Resources		Risk Management			
	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Sept. 30, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015	Jan. 1.– Dec. 31, 2016	Jan. 1.– Dec. 31, 2015
	€ thousand															
Remuneration																
Performance-related components																
Without long-term incentive effect																
paid out immediately	112.5	112.5	112.5	112.5	88.0	88.9	105.0	105.0	77.2	105.5	112.5	112.5	109.2	112.1	716.9	749.0
With long-term incentive effect																
Cash																
long-term component I[1]	136.7	163.2	105.0	159.0	0	0	0	0	105.0	152.5	118.4	168.4	113.0	154.7	578.0	797.8
restricted incentive award paid out[5]	72.3	–	47.1	–	7.5	–	8.5	–	50.9	–	55.9	–	53.6	–	295.8	–
Share-based																
equity upfront award	112.5	112.5	112.5	112.5	88.0	88.9	105.0	105.0	77.2	105.5	112.5	112.5	109.2	112.1	716.9	749.0
restricted equity award	225.5	238.5	176.3	199.4	132.0	133.3	157.5	157.5	115.7	158.3	173.4	186.4	163.8	168.2	1,144.2	1,241.6
Total of performance-related components	**659.5**	**626.7**	**553.4**	**583.4**	**315.5**	**311.1**	**376.0**	**367.5**	**426.0**	**521.8**	**572.7**	**579.8**	**548.8**	**547.1**	**3,451.8**	**3,537.4**
Non-performance related components																
Fixed remuneration	750.0	750.0	660.0	660.0	480.0	480.0	550.0	500.0	450.0	600.0	660.0	660.0	600.0	600.0	4,150.0	4,250.0
Incidental benefits	27.2	22.5	31.6	35.1	24.4	24.1	16.0	15.2	17.6	23.3	28.1	23.7	12.5	17.9	157.4	161.8
Total	**1,436.7**	**1,399.2**	**1,245.0**	**1,278.5**	**819.9**	**815.2**	**942.0**	**882.7**	**893.6**	**1,145.1**	**1,260.8**	**1,263.5**	**1,161.3**	**1,165.0**	**7,759.2**	**7,949.2**

Figures Figures have been rounded to the nearest hundred; this may result in minimal deviations to the amounts actually granted, in particular in the totals provided.

[1]Benefit received from the long-term component I granted in the previous years (details see benefits received table).

[2]Responsibility for Branch Sales was transferred from Hans-Peter Schmid to Frank Strauss on an acting basis effective October 1, 2016.

[3]Due to Susanne Klöss-Braekler's additional activities for the entire Private & Business Clients (PBC) corporate division in the Deutsche Bank Group, her fixed and performance-related remuneration was reduced by 20%.

[4]Member of the Management Board until September 30, 2016.

[5]Benefit received from restricted incentive awards granted in previous years.

Share awards

The number of share awards granted to members of the Management Board in 2016 for fiscal year 2015 in the form of equity upfront awards (EUA) and restricted equity awards (REA) was calculated by dividing the respective euro amounts by the average of the Xetra closing prices for Deutsche Bank shares on the first ten trading days of February 2016 (€15.4705). This resulted in the following number of share awards (rounded):

Member of the Management Board	Year	Equity upfront award(s) (with holding period)	Restricted equity award(s) (deferred with additional holding period)
Frank Strauss	2015	7,271.90	15,416.44
Marc Hess	2015	7,271.90	12,885.81
Susanne Klöss-Braekler	2015	5,745.19	8,617.69
Ralph Müller	2015	6,787.11	10,180.67
Hans-Peter Schmid[1]	2015	6,822.02	10,233.02
Ralf Stemmer	2015	7,271.90	12,048.74
Hanns-Peter Storr	2015	7,246.05	10,869.07

[1]Member of the Management Board until September 30, 2016

The number of share awards granted to members of the Management Board in 2017 for fiscal year 2016 in the form of equity upfront awards (EUA) and restricted equity awards (REA) will be calculated by dividing the respective euro amounts (see "Defined figures" in the grant table) by the average of the Xetra closing prices for Deutsche Bank shares on the last ten trading days of February 2017. As this price was not available at the time of preparation of the consolidated annual financial statements, details of the share awards will be disclosed in the Notes for the following year.

Retirement benefits

The members of the Management Board have individually agreed direct retirement benefits. Because each Board member has a different career history, the precise arrangements differ.

Benefits are paid if the member of the Management Board leaves the Company's 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 retirement benefits 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 the pensionable benefits. Only the fixed income component (fixed remuneration) is pensionable. A cap on the pensionable fixed remuneration has been specified in the cases of Management Board members Hans-Peter Schmid (until September 30, 2016) and Ralf Stemmer. The basic rule is that pension benefits of 50% of their final salary accrue to members of the Management Board after five years of service. Benefits regularly accrue at a rate of 2% for each eligible year of service. The maximum level of pension benefits (60%) is generally reached after ten years of service.

In addition, the retirement benefits 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 Hans-Peter Schmid and Ralf Stemmer be terminated by Postbank prior to the expiration of their regular contract terms, their pensions are calculated as if their contracts had been fulfilled until their regular expiration. This does not apply if Postbank terminates the employment relationship for good cause.

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 Postbank'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 retirement benefits for the members of the Management Board appointed after that date – Frank Strauss, Marc Hess, Susanne Klöss-Braekler, Ralph Müller, and Hanns-Peter Storr – are therefore based on the following basic system: A benefit contribution in the amount of 25% of the pensionable fixed remuneration 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 retirement benefits from the time of the grant until the insured event. 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 retirement benefits vest immediately. The pensions have a 1% p.a. adjustment rate.

These retirement benefits provide for a right to choose between regular pension payments and a lump-sum capital payment.

Retirement benefits for individual members of the Management Board

Occupational pension plan	Frank Strauss		Marc Hess		Susanne Klöss-Braekler		Ralph Müller		Hanns-Peter Storr	
	Chairman of the Management Board		CFO		Products		Corporates and Markets		Risk Management	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	€ thousand									
Pension component	187.5	187.5	165.0	165.0	120.0	120.0	137.5	125.0	150.0	150.0
Interest	66.4	52.1	151.2	133.3	28.7	21.0	28.0	18.6	60.7	48.7
Pension capital at end of fiscal year	1,173.6	919.6	2,671.6	2,355.4	521.2	371.6	494.1	328.7	1,071.9	861.3
Service cost (IFRSs) in fiscal year	534.9	617.4	519.6	592.5	251.2	278.7	359.4	415.7	292.5	325.4
Defined benefit obligation (DBO) in acc. with IFRSs at the end of the fiscal year	3,976.3	2,550.6	10,029.3	7,220.2	1,364.4	845.2	1,701.4	918.5	2,284.7	1,648.3

Occupational pension plan	Hans-Peter Schmid[1]		Ralf Stemmer	
	Branch Sales		Resources	
	2016	2015	2016	2015
	€ thousand			
Pension benefit at end of fiscal year	60.00 %	60.00 %	60.00 %	60.00 %
Maximum level of pension benefits	60.00 %	60.00 %	60.00 %	60.00 %
Service cost (IFRSs) in fiscal year	373.3	424.0	147.9	163.0
Defined benefit obligation (DBO) in acc. with IFRSs at the end of the fiscal year	6,455.5	3,822.1	5,519.9	4,654.2

[1]Member of the Management Board until September 30, 2016

The benefits paid to former members of the Management Board and their surviving dependents amounted to €3.74 million (previous year: €4.34 million). The benefits comprise the retirement benefits and remuneration components accruing in the year concerned, as well as remuneration components from active service on the Management Board.

The defined benefit obligation (DBO) for current pensions and entitlements attributable to former members of the Management Board calculated in accordance with the International Financial Reporting Standards amounts to €101.04 million (previous year: €85.05 million).

Remuneration of the Supervisory Board

The remuneration system is laid down in Article 15 of the Articles of Association of Deutsche Postbank AG. In accordance with this article, the annual remuneration of members of the Supervisory Board comprises fixed, non-performance-related remuneration only. The positions of Chairman and Deputy Chairman as well as the membership of committees are reflected in the remuneration.

The fixed annual remuneration (base pay) for each member of the Supervisory Board is €40,000. The Chairman of the Supervisory Board receives double, and the Deputy Chairman receives one-and-a-half times the base pay.

The base pay increases by the following fixed additional annual remuneration for members and chairs of Supervisory Board committees:

Members of the Audit Committee and the Risk Committee receive an additional €30,000 each; the chairs of these committees receive an additional €60,000 in each case. Members of the Executive Committee, the Human Resources Committee, the Compensation Control Committee, and the Nomination Committee each receive an additional €20,000; the chairs of these committees receive an additional €40,000 in each case. No additional fixed remuneration is granted to the members and the chair of the Mediation Committee.

The members of the Supervisory Board are entitled to claim out-of-pocket expenses and any value-added tax expenses incurred in the exercise of their office. In addition, the members of the Supervisory Board receive an attendance allowance of €500 for each meeting of the Supervisory Board and its committees that they attend.

The members of the Supervisory Board receive remuneration and the attendance allowance after the Annual General Meeting to which the consolidated financial statements for the fiscal year concerned are submitted, or that decides on their approval.

Persons who are members of the Supervisory Board and/or its committees for only part of a fiscal year receive the corresponding pro rata amount of remuneration. Remuneration is rounded up or down to full months. Pro rata remuneration for committee positions requires the committee concerned to have met during the corresponding period of time in order to perform its duties.

In line with Deutsche Bank AG's internal policies, Deutsche Bank Group employees do not receive any remuneration for supervisory board positions held at Group companies. The remuneration of employee representatives for their work on the supervisory boards of Deutsche Bank Group companies remains unaffected by this.

The total remuneration paid to members of the Supervisory Board for fiscal year 2016 amounted to €1,137.7 thousand including attendance allowances (previous year: €1,541.3 thousand).

The total remuneration paid to the individual members of the Supervisory Board in fiscal year 2016 was as follows:

Members of the Supervisory Board	Fiscal year 2016			Fiscal year 2015		
	Fixed remuneration	Variable remu-neration[1a]	Total	Fixed remuneration	Variable remu-neration[1b]	Total
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Rainer Neske[2, 4]	–	–	–	–	–	–
Stefan Krause[2, 4]	–	–	–	–	–	–
Werner Steinmüller[2]	–	–	–	–	–	–
Frank Bsirske	160.0	11.0	171.0	160.0	58.0	218.0
Rolf Bauermeister	10.0	1.0	11.0	40.0	19.5	59.5
Susanne Bleidt	60.0	3.5	63.5	60.0	29.0	89.0
Wilfried Boysen[5]	–	–	–	–	7.6	7.6
Edgar Ernst	100.0	8.5	108.5	100.0	41.0	141.0
Stefanie Heberling[2]	–	–	–	–	–	–
Timo Heider	70.0	6.0	76.0	70.0	30.5	100.5
Tessen von Heydebreck	120.0	11.0	131.0	120.0	40.5	160.5
Peter Hoch[5]	–	–	–	–	15.2	15.2
Jens Isselmann[3]	–	–	–	–	–	–
Hans-Jürgen Kummetat	40.0	2.0	42.0	40.0	19.5	59.5
Katja Langenbucher-Adolff	40.0	2.5	42.5	40.0	4.5	44.5
Karen Meyer[2]	–	–	–	–	–	–
Christian Ricken[2]	–	–	–	–	–	–
Christiana Riley[2]	–	–	–	–	–	–
Karl von Rohr[2]	–	–	–	–	–	–
Bernd Rose	100.0	8.5	108.5	100.0	41.0	141.0
Lawrence Rosen[4]	–	–	–	26.7	14.8	41.5
Martina Scholze	26.7	1.5	28.2	–	–	–
Christian Sewing[2]	–	–	–	–	–	–
Michael Spiegel[2]	–	–	–	–	–	–
Eric Stadler	100.0	10.0	110.0	100.0	35.5	135.5
Gerd Tausendfreund	70.0	6.0	76.0	70.0	30.5	100.5
Renate Treis	90.0	4.5	94.5	90.0	38.0	128.0
Wolfgang Zimny	70.0	5.0	75.0	70.0	29.5	99.5
Total	**1,056.7**	**81.0**	**1,137.7**	**1,086.7**	**454.6**	**1,541.3**

[1a]There are no longer any entitlements to performance-related remuneration from fiscal year 2016 onward due to a change to the remuneration rules valid until December 31, 2013. Variable remuneration therefore only comprises the attendance allowance.

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

[a2]Remuneration not paid because of Deutsche Bank AG's internal Group policies.

[a3]Jens Isselmann has been a member of the Supervisory Board since December 31, 2016. He is therefore not entitled to remuneration for 2016 in accordance with Article 15(5) of the Articles of Association.

[a4]Stepped down from Supervisory Board in 2015

[a5]Stepped down from Supervisory Board in 2014

Timo Heider received remuneration of €11.9 thousand in consideration of his services on the Supervisory Board of BHW Holding AG and BHW Bausparkasse AG.

The employee representatives received remuneration of €719 thousand in fiscal year 2016 as set out in their respective employment contracts.

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

Shareholdings of the members of the Management Board and Supervisory Board

As of December 31, 2016, no shares issued by Deutsche Postbank AG were held by members of the Management Board or the Supervisory Board.

As of the balance sheet date, loans of €0 thousand (previous year: €0 thousand) had been granted to members of the Management Board and €48.5 thousand (previous year: €58.2 thousand) to members of the Supervisory Board. No other contingent liabilities were entered into.

D&O insurance

The members of the Management Board and the members of the Supervisory Board are covered by D&O insurance in line with international standards. If a claim is brought, the individual Management Board and Supervisory Board members are required to pay a deductible.

(56) Other disclosures

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

Postbank has furnished BHW Bausparkasse AG, Luxembourg, a guarantee in the amount of €12 million which will cover the first loss piece of a retail credit portfolio of the BHW branch in Luxembourg.

Significant restrictions on the transfer of assets within the Postbank Group

The transfer of assets and liabilities within a group can be restricted by legal, regulatory, or contractual provisions. Within the Postbank Group, this affects assets of €18,177 million (previous year: €19,515 million) that are used to cover collateralized issues (*Pfandbriefe*), assets of €2,918 million (previous year: €5,971 million) that are used as collateral in securities repurchase agreements, and assets of €38 million (previous year: €38 million) that are furnished for clearing margins. In addition, assets in the amount of €21 million also serve to cover irrevocable payment obligations for the first time.

In addition, some Group companies are subject to legal restrictions on the distribution of profits in particular in accordance with section 268(8) and section 253(6) of the HGB and with respect to minimum capital requirements. However, the Group considers these restrictions to be insignificant.

(57) Members of executive bodies

Management Board

The members of the Management Board are:

Frank Strauss, Bad Nauheim (Chairman)	
Marc Hess, Bonn	
Susanne Klöss-Braekler, Munich	
Ralph Müller, Bonn	
Hans-Peter Schmid, Baldham	until September 30, 2016
Ralf Stemmer, Königswinter	
Hanns-Peter Storr, Bonn	

Offices held by members of the Management Board of Deutsche Postbank AG as of December 31, 2016, on supervisory boards or other supervisory bodies:

Frank Strauss
Chairman of the Management Board

Function	Company
Chairman of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Chairman of the Supervisory Board (until January 31, 2016)	PB Firmenkunden AG, Bonn
Chairman of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Chairman of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Chairman of the Supervisory Board (until February 12, 2016)	Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main
Chairman of the Supervisory Board (until February 29, 2016)	norisbank GmbH, Bonn

Marc Hess

Function	Company
Chairman of the Supervisory Board	BHW Holding AG, Hameln
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln

Susanne Klöss-Braekler

Function	Company
Chairperson of the Supervisory Board (since December 1, 2016) Member of the Supervisory Board (since July 1, 2016)	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board (until February 12, 2016)	Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main
Member of the Supervisory Board	Eurex Frankfurt AG, Frankfurt am Main
Member of the Board of Directors	Eurex Zürich AG, Zurich (Switzerland)

Ralph Müller

Function	Company
Chairman of the Supervisory Board (since February 1, 2016)	PB Firmenkunden AG, Bonn
Member of the Supervisory Board Deputy Chairman of the Supervisory Board (until April 14, 2016)	Postbank Systems AG, Bonn
Member of the Supervisory Board (until May 31, 2016)	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Board of Directors (until May 24, 2016)	MyMoneyPark AG, Zurich (Switzerland)

Hans-Peter Schmid
Member of the Management Board until September 30, 2016

Function	Company
Chairman of the Supervisory Board (until September 30, 2016)	Bayerische Börse AG, Munich
Deputy Chairman of the Supervisory Board (until September 30, 2016)	Postbank Akademie und Service GmbH, Hameln
Member of the Supervisory Board (until September 30, 2016)	PB Lebensversicherung AG, Hilden
Member of the Supervisory Board (until September 30, 2016)	PB Versicherung AG, Hilden

Ralf Stemmer

Function	Company
Chairman of the Supervisory Board	Postbank Akademie und Service GmbH, Hameln
Chairman of the Board of Directors	PB International S.A., Luxembourg
Deputy Chairman of the Supervisory Board	Postbank Direkt GmbH, Bonn
Deputy Chairman of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Deputy Chairman of the Supervisory Board (since April 14, 2016) Member of the Supervisory Board	Postbank Systems AG, Bonn
Deputy Chairman of the Supervisory Board	PB Pensionsfonds AG, Hilden
Member of the Supervisory Board	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Administrative Board	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Hanns-Peter Storr

Function	Company
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board (since February 8, 2016)	Postbank Systems AG, Bonn
Member of the Supervisory Board (until March 17, 2016)	norisbank GmbH, Bonn

The members of the Supervisory Board of Deutsche Postbank AG are:

1. Shareholder representatives

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

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

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

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

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

Karen Meyer — since February 1, 2016
Global HR Business Partner PWCC&AM,
Deutsche Bank AG,
Frankfurt am Main

Christian Ricken — until January 31, 2016
Chief Operating Officer PBC, Deutsche Bank AG,
Bad Homburg v.d.Höhe

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

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

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

Michael Spiegel
Global Head of Trade Finance and
Cash Management Corporates
Deutsche Bank AG, London

2. Employee representatives

Frank Bsirske, (Deputy Chairman)
Chairman of the ver.di Trade Union, Berlin

Rolf Bauermeister — until March 31, 2016
Head of National Postal Services Group,
at ver.di Trade Union (national administration),
Berlin

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

Timo Heider
Chairman of the Group Works Council of
Deutsche Postbank AG and Chairman of the
General Works Council of BHW Kreditservice
GmbH, Emmerthal

Jens Isselmann — since December 31, 2016
Executive employee of Deutsche Postbank AG,
Bornheim

Hans-Jürgen Kummetat
Civil servant, Cologne

Bernd Rose
Chairman of the General Works Council of
Postbank Filialvertrieb AG/Postbank Filial GmbH,
Menden (Sauerland)

Martina Scholze — since April 21, 2016
Trade union secretary of the ver.di
Trade Union, Munich

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

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

Renate Treis
Deputy Chair of Deutsche Postbank AG's
General Works Council, Brühl

Wolfgang Zimny — until December 30, 2016
Banking lawyer, Head of Department,
Deutsche Postbank AG, Head Office, Bornheim

Offices held by members of the Supervisory Board of Deutsche Postbank AG as of December 31, 2016, on supervisory boards or other supervisory bodies:

Shareholder representatives:

Werner Steinmüller
Chairman of the Supervisory Board

Function	Company
Chairman of the Supervisory Board (until June 30, 2016)	Deutsche Bank Nederland N.V., Amsterdam
Member of the Advisory Board (until October 30, 2016)	True Sale International GmbH, Frankfurt am Main

Edgar Ernst

Function	Company
Member of the Supervisory Board	DMG SEIKI AG, Bielefeld
Member of the Supervisory Board	TUI AG, Hanover
Member of the Supervisory Board	VONOVIA SE, Düsseldorf
Member of the Supervisory Board (until January 3, 2016)	Wincor Nixdorf AG, Paderborn

Tessen von Heydebreck

Function	Company
Chairman of the Advisory Board	IFA Rotorion Holding GmbH, Haldensleben
Member of the Board of Trustees	Dussmann Stiftung & Co. KGaA, Berlin
Member of the Supervisory Board	Vattenfall GmbH, Berlin
Member of the Supervisory Board (until December 31, 2016)	Kommanditgesellschaft CURA Vermögensverwaltung GmbH & Co. KG, Hamburg
Member of the Advisory Board (until December 31, 2016)	DECM Deutsche Einkaufs-Center-Management G.m.b.H., Hamburg

Karen Meyer
Member of the Supervisory Board since February 1, 2016

Function	Company
Member of the Advisory Board	Deutsche Bank HR Solutions GmbH, Frankfurt am Main

Christian Ricken
Member of the Supervisory Board until January 31, 2016

Function	Company
Chairman of the Advisory Board (until January 31, 2016)	PBC Banking Services GmbH, Frankfurt am Main
Deputy Chairman of the Supervisory Board (until January 31, 2016)	norisbank GmbH, Bonn
Member of the Supervisory Board (until January 31, 2016)	Deutsche Bank Europe GmbH, Rotterdam
Member of the Supervisory Board (until January 31, 2016)	Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main
Member of the Board of Directors (until January 31, 2016)	HuaXia Bank Co., Ltd., Beijing

Karl von Rohr

Function	Company
Member of the Supervisory Board (since June 24, 2016)	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board (since June 24, 2016)	BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Member of the Supervisory Board (until March 15, 2016)	Deutsche Bank Luxembourg S.A., Luxembourg

Christian Sewing

Function	Company
Chairman of the Supervisory Board (since June 11, 2016)	Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main

Employee representatives:

Frank Bsirske
Deputy Chairman of the Supervisory Board

Function	Company
Deputy Chairman of the Supervisory Board (since July 1, 2016)	innogy SE, Essen
Deputy Chairman of the Supervisory Board	RWE AG, Essen
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board	IBM Central Holding GmbH, Ehningen
Member of the Board of Supervisory Directors	Kreditanstalt für Wiederaufbau, Frankfurt am Main

Rolf Bauermeister
Member of the Supervisory Board until March 31, 2016

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

Susanne Bleidt

Function	Company
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the General Assembly of Members	Erholungswerk Post, Postbank, Telekom e.V., Stuttgart

Timo Heider

Function	Company
Deputy Chairman of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Deputy Chairman of the Supervisory Board	Pensionskasse der BHW Bausparkasse VVaG, Hameln
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Advisory Board (until December 31, 2015)	PBC Banking Services GmbH, Frankfurt am Main

Bernd Rose

Function	Company
Deputy Chairman of the Supervisory Board	ver.di Vermögensverwaltungs-gesellschaft mbH, Berlin
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Martina Scholze
Member of the Supervisory Board since April 21, 2016

Function	Company
Deputy Chairman of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	ERGO Group AG, Düsseldorf

Eric Stadler

Function	Company
Deputy Chairman of the Advisory Board (until June 30, 2016)	PBC Banking Services GmbH, Frankfurt am Main

Gerd Tausendfreund

Function	Company
Member of the Supervisory Board	Betriebs-Center für Banken AG, Frankfurt am Main

Renate Treis

Function	Company
Member of the General Assembly of Members (until December 31, 2016)	Erholungswerk Post, Postbank, Telekom e.V., Stuttgart

(58) Auditors' fee in accordance with sections 285 no. 17 and 314(1) no. 9 of the HGB

	2016 €m	2015 €m
Audits of the financial statements	4.7	5.5
Other assurance of valuation	2.7	2.1
Tax advisory services	0.1	0.4
Other services rendered to the parent company or subsidiaries	2.5	2.7
Total	**10.0**	**10.7**

The fees for the fiscal year are presented net of value-added tax in compliance with the requirements of IDW AcP HFA 36 “Disclosures on the Auditors' Fee in Accordance with Sections 285 no. 17 and 314(1) no. 9 of the HGB.”

(59) Application of section 264(3) of the HGB

The following consolidated subsidiaries applied the simplification options contained in section 264(3) of the HGB in fiscal year 2016:

- PB Firmenkunden AG
- Postbank Beteiligungen GmbH
- Postbank Filialvertrieb AG
- Postbank Immobilien und Baumanagement GmbH
- Postbank Systems AG.

(60) Disclosures in accordance with section 313(2) of the HGB

List of shareholdings

Name and domicile of the company	Equity interest %	Equity € thousand	Profit/loss for the period1[1] € thousand
a) Subsidiaries			
Included in the consolidated financial statements			
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	190,835	0[3b]
BHW Bausparkasse Aktiengesellschaft, Hameln	100.0	915,274	10,205
BHW Gesellschaft für Vorsorge mbH, Hameln	100.0	242,370	0[3a]
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln	100.0	918,946	0[3a]
BHW Holding AG, Hameln	100.0	727,503	0[3a]
BHW Kreditservice GmbH, Hameln	100.0	2,870	0[3b]
Deutsche Postbank Finance Center Objekt GmbH, Schuttrange (Munsbach), Luxembourg	100.0	2,620	500
Deutsche Postbank Funding LLC I, Wilmington, Delaware, U.S.A.	100.0		[4]
Deutsche Postbank Funding LLC II, Wilmington, Delaware, U.S.A.	100.0		[5]
Deutsche Postbank Funding LLC III, Wilmington, Delaware, U.S.A.	100.0		[6]
Deutsche Postbank Funding LLC IV, Wilmington, Delaware, U.S.A.	100.0		[7]
Deutsche Postbank Funding Trust I, Wilmington, Delaware, U.S.A.	100.0	14	–19[4]
Deutsche Postbank Funding Trust II, Wilmington, Delaware, U.S.A.	100.0	5	–44[5]
Deutsche Postbank Funding Trust III, Wilmington, Delaware, U.S.A.	100.0	35	–13[6]
Deutsche Postbank Funding Trust IV, Wilmington, Delaware, U.S.A.	100.0	225	8[7]
DSL Portfolio GmbH & Co. KG, Bonn	100.0	5,177	33
DSL Portfolio Verwaltungs GmbH, Bonn	100.0	57	1
PB Factoring GmbH, Bonn	100.0	11,546	0[3a]
PB Firmenkunden AG, Bonn	100.0	1,100	0[3a]
PB International S.A., Schuttrange (Munsbach), Luxembourg	100.0	55,389	–361
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn		3,554,867	–47,320[2]
Teilgesellschaftsvermögen PB 02	100.0	499,630	–4,062
Teilgesellschaftsvermögen PB 08	100.0	541,205	–7,542
Teilgesellschaftsvermögen PB 09	100.0	575,202	–6,221
Teilgesellschaftsvermögen PB 11	100.0	658,085	–8,498
Teilgesellschaftsvermögen PB 13	100.0	355,835	–4,092
Teilgesellschaftsvermögen PB 14	100.0	355,849	–5,604
Teilgesellschaftsvermögen PB 21	100.0	218,233	–4,079
Teilgesellschaftsvermögen PB 26	100.0	293,773	–6,828
Postbank Beteiligungen GmbH, Bonn	100.0	310,970	0[3a]
Postbank Direkt GmbH, Bonn	100.0	15,858	0[3b]
Postbank Filialvertrieb AG, Bonn	100.0	31,135	–4,357[3a]
Postbank Finanzberatung AG, Hameln	100.0	65,214	–5,309
Postbank Immobilien GmbH, Hameln	100.0	2,908	0[3a]
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	18,874	0[3a]
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn	90.0	22,566	6,486
Postbank Leasing GmbH, Bonn	100.0	500	0[3a]
Postbank Service GmbH, Essen	100.0	125	0[3b]
Postbank Systems AG, Bonn	100.0	60,172	–1,394[3a]
VÖB-ZVD Processing GmbH, Frankfurt am Main	75,0	15,177	0[3b, 8]

Footnotes see page 166.

Name and domicile of the company	Equity interest %	Equity € thousand	Profit/loss for the period1[1] € thousand
a) Subsidiaries			
Not included in the consolidated financial statements			
BHW Invest, Société à responsabilité limitée, Luxembourg, Luxembourg	100.0	5,020	–62
CREDA Objektanlage- und -verwaltungsgesellschaft mbH, Bonn	100.0	1,000	0[3a]
EC EUROPA IMMOBILIEN FONDS NR. 3 GmbH & CO. KG in Insolvenz, Hamburg	65.2	–10,390	–6,745
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl „Rimbachzentrum" KG, Bad Homburg v. d. Höhe	74.9	0	–63
Postbank Akademie und Service GmbH, Hameln	100.0	1,004	–163
SAB Real Estate Verwaltungs GmbH, Hameln	100.0	33	4
b) Other companies in which an equity interest of at least 20 % is held			
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Dresden „Louisenstraße" KG, Bad Homburg v. d. Höhe	30.6	0	–23
Fünfte SAB Treuhand und Verwaltung GmbH & Co. „Leipzig-Magdeburg" KG, Bad Homburg v. d. Höhe	41.2	0	9
giropay GmbH, Frankfurt am Main	33.3	0	20
Starpool Finanz GmbH, Berlin	49.9	339	12
c) Equity interests in large corporations in which Deutsche Postbank AG holds more than 5 % of the voting rights			
BSQ Bauspar AG, Nuremberg	14.1	29,208	109
Landgesellschaft Mecklenburg-Vorpommern mit beschränkter Haftung, Leezen	11.0	45,611	3,152

[1] The data on equity and profit and loss for the year are based on the most recently adopted annual financial statements of the companies concerned.
[2] The company also includes the shares in Teilgesellschaftsvermögen PB 25 which are not held by a company belonging to the Postbank Group.
[3a] Profit and loss transfer agreement within the Deutsche Postbank Group
[3b] Profit and loss transfer agreement with third parties until December 31, 2015
[4] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust I. These include both Deutsche Postbank Funding Trust I and Deutsche Postbank Funding LLC I.
[5] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust II. These include both Deutsche Postbank Funding Trust II and Deutsche Postbank Funding LLC II.
[6] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust III. These include both Deutsche Postbank Funding Trust III and Deutsche Postbank Funding LLC III.
[7] The data are based on the consolidated financial statements of Deutsche Postbank Funding Trust IV. These include both Deutsche Postbank Funding Trust IV and Deutsche Postbank Funding LLC IV.
[8] 25 % of the share capital is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of Deutsche Postbank AG.

(61) Declaration of Conformity with the German Corporate Governance Code

Deutsche Postbank AG has not been listed since January 14, 2016. Since that date, the Management Board and Supervisory Board of Deutsche Postbank AG are no longer required to make a "Declaration of Conformity" in accordance with section 161 of the AktG. For that reason, the last joint Declaration of Conformity, made by the Management Board and the Supervisory Board on December 17, 2015 and the reasoning it contains are no longer applicable. Postbank has not otherwise undertaken to comply with the recommendations of the German Corporate Governance Code.

RESPONSIBILITY STATEMENT

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

Bonn, February 21, 2017

Deutsche Postbank Aktiengesellschaft

The Management Board

Frank Strauss

Marc Hess

Susanne Klöss-Braekler

Ralph Müller

Ralf Stemmer

Hanns-Peter Storr

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Deutsche Postbank AG, Bonn, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 22, 2017

PricewaterhouseCoopers
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Ralf Schmitz	Christian F. Rabeling
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

REGULATORY DISCLOSURES

Regulatory disclosure

Postbank has been part of the Deutsche Bank banking group since December 2010 and has published all information relevant to regulatory disclosures since then within the framework of the Deutsche Bank Group's Pillar III reports. Since 2014, Article 13 of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) has required significant subsidiaries of EU parent institutions to also publish regulatory disclosures. All information given below relates to the Postbank Group (hereinafter referred to as "Postbank") as a subgroup of the Deutsche Bank banking group.

The following table gives an overview of the information to be provided by Postbank in accordance with Part 8 in conjunction with Article 13 of the CRR and the provisions of the *Kreditwesengesetz* (KWG – German Banking Act) transposing the Capital Requirements Directive (CRD) into national law, and specifies the section of the 2016 Annual Report in which the relevant disclosures are made:

Implementation of regulatory disclosure requirements

Pillar III disclosure topic	Relevant section of annual report
Own funds disclosures in accordance with Article 437 of the CRR and on capital requirements in accordance with Article 438 of the CRR	- Other Information, "Regulatory Disclosures"
Disclosures on capital buffers (Article 440 of the CRR)	- Other Information, "Regulatory Disclosures"
Credit risk adjustment disclosures in accordance with Article 442 of the CRR and on credit risk mitigation techniques in accordance with Article 453 of the CRR, to the extent that these are not already covered by the qualitative disclosures in the 2016 Group Management Report (see below)	- Other Information, "Regulatory Disclosures"
Legal and organizational structure and principles of the proper conduct of business (section 26a of the *Kreditwesengesetz* (KWG – German Banking Act))	- 2016 Group Management Report, "Business and Environment" - 2016 Group Risk Report, "Organization of risk management" - Other Information, "Regulatory Disclosures"
Qualitative disclosures on credit risk adjustments in accordance with Article 442a) and b) of the CRR and on credit risk mitigation techniques in accordance with Article 453a) to e) of the CRR	- 2016 Group Risk Report, „Monitoring and managing credit risk"
Disclosures on remuneration policy (Article 450 of the CRR)	- 2016 Group Management Report, „Remuneration of the Management Board and the Supervisory Board"
Disclosures on leverage (Article 451 of the CRR)	- Other Information, "Regulatory Disclosures"

Information on regulatory approaches

As of the reporting date of December 31, 2016, Postbank calculated the regulatory capital requirements for the following portfolios – grouped by exposure class in accordance with the CRR – on the basis of the rules set out in the Internal Rating Approaches: central governments (countries), institutions (banks), corporates (domestic corporate customers, foreign corporate customers, commercial real estate finance (commercial mortgages)), purchased corporate loans, insurers, retail business (Deutsche Postbank AG mortgage loans, BHW mortgage loans, installment loans, overdraft facilities for self-employed individuals and business customers, purchased retail loans), equity exposures (unless covered by the exception in section 17 of the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation)), securitization positions, and other non-credit obligation assets.

In addition to using the Foundation IRB Approach and the IRB Approach to calculate the capital requirements for its retail business, Postbank calculates the capital requirements for its countries, banks, insurers, corporates and commercial real estate finance (commercial mortgages) portfolios using the Advanced IRB Approach (A-IRBA). Subject to obtaining the necessary approval, the Bank plans to transfer the rating system applied to overdrafts for retail customers to the A-IRB Approach in 2017.

Postbank uses the Credit Risk Standardized Approach (CRSA) for the portfolios not calculated in accordance with the IRB approaches. These primarily relate to the following portfolios: overdrafts and collection activities in the Retail Banking segment, portfolios belonging to the other subsidiaries of Postbank with the exception of BHW mortgage loans and PB Factoring GmbH, business from discontinued operations, and exposures to public-sector counterparties in the European Economic Area.

In the case of securitization positions, the IRB Approach or the CRSA is applied, based on the underlying transactions. Capital backing for securitization positions is generally calculated on the basis of the ratings-based approach using external ratings.

As of the reporting date, the Postbank Group did not hold any originator securitization with regulatory relevance.

Postbank calculates the capital backing for other non-credit obligation assets and equity exposures allocated to the banking book that are not required to be consolidated or deducted from own funds for regulatory purposes using regulatory risk weights. Currently, Postbank does not have any equity exposures for which capital backing has been calculated on the basis of default probabilities and loss rates. Strategic equity exposures held prior to January 1, 2008, have been temporarily excluded from IRBA capital backing and are calculated using the CRSA.

Postbank currently uses the supervisory Standardized Approach to calculate its capital requirements for market risk. Postbank uses the Standardized Approach to quantify its capital requirements for operational risk.

Information on regulatory consolidation

The regulatory scope of consolidation corresponds to the consolidated group for accounting purposes as presented in Note 2 to the 2016 Consolidated Financial Statements with the exception of the following two companies, which are consolidated for accounting but not for regulatory purposes:

- Postbank Finanzberatung AG
- Postbank Immobilien GmbH.

Postbank does not have any subsidiaries required to be consolidated for regulatory but not for accounting purposes.

Overall portfolio disclosures

The following tables present the disclosures for the overall portfolio with average amounts per exposure class over the reporting period, broken down by sector, region, and residual maturity in accordance with Article 442 of the CRR. The tables show the lending volume in each case, broken down by the different types of exposure classes, as of the disclosure date. Exposure values (Exposure at default – EAD) are reported before factoring in credit risk mitigation/substitution effects and after applying credit conversion factors. Derivatives are reported at their positive replacement values plus a regulatory add-on. Exposure classes for which Postbank does not have any exposures are not shown in the tables. These are the "Institutions and corporates with a short-term credit assessment" and "Exposures associated with a particularly high risk" exposure classes. The "Other non-credit obligation assets" exposure class is not reported in the tables below. The total amount of the exposures concerned was €2,912 million as of the reporting date (December 31, 2015: €2,698 million). In addition, the exposure for contributions to the default fund of a central counterparty (CCP) amounted to €121 million as of the reporting date (December 31, 2015: €56 million).

The following table shows the average exposure values during the reporting period before the effects of credit risk mitigation, broken down by the different types of exposure classes:

Total amount of exposure values and average amounts per exposure class

Exposure classes	Average amounts		Total	
	Jan. 1, 2016 – Dec. 31, 2016 €m	Jan. 1, 2015 – Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
IRBA governments and central banks	171	145	169	171
IRBA institutions	7,837	10,808	6,124	9,706
IRBA corporates	22,875	21,486	23,323	22,228
IRBA retail exposures	81,298	77,487	83,097	78,943
IRBA equity exposures	106	422	38	419
IRBA securitization positions	253	1,215	55	53
CRSA governments and central banks	13,603	10,882	17,890	11,107
CRSA regional governments and local authorities	8,886	8,409	8,612	8,682
CRSA other public-sector entities	1,931	2,309	1,633	2,170
CRSA multilateral development banks	836	931	794	937
CRSA international organizations	1,339	1,417	1,292	1,396
CRSA institutions	1,948	1,870	2,330	1,717
CRSA corporates	944	923	783	864
CRSA retail exposures	2,187	2,386	2,199	2,334
CRSA exposures secured by real estate property	1,464	2,568	1,194	2,467
CRSA exposures in default	135	286	100	263
CRSA covered bonds	–	12	–	–
CRSA securitization positions	75	495	–	376
CRSA UCITS	–	1,039	–	–
CRSA equity exposures	228	228	233	227
CRSA other items	–	–	–	–
Total	**146,116**	**145,316**	**149,866**	**144,060**

The following table shows the exposure values broken down by the different types of exposure classes and by the sectors and obligor groups of relevance to Postbank:

Total amount of exposure values by sector and obligor group

Exposure classes	Retail customers		Banks/ insurers/ financial services providers		Governments		Commercial real estate finance		Service providers/ wholesale and retail		Industry		Other sectors		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
IRBA governments and central banks	–	–	–	–	169	171	–	–	–	–	–	–	–	–	169	171
IRBA institutions	–	–	5,968	9,704	126	2	30	0	0	–	–	–	0	–	6,124	9,706
IRBA corporates	288	299	2,135	2,268	0	1	7,741	6,630	7,058	7,236	4,443	4,087	1,658	1,707	23,323	22,228
IRBA retail exposures	83,097	78,943	–	–	–	–	–	–	–	–	–	–	–	–	83,097	78,943
IRBA equity exposures	–	–	29	418	–	–	–	–	9	1	–	–	0	0	38	419
IRBA securitization positions	–	–	55	53	–	–	–	–	–	–	–	–	–	–	55	53
CRSA governments and central banks	–	–	6,282	396	11,190	10,711	–	–	418	–	–	–	–	–	17,890	11,107
CRSA regional governments and local authorities	–	–	–	–	8,596	8,664	16	18	0	0	–	–	–	–	8,612	8,682
CRSA other public-sector entities	–	–	1,317	1,819	231	265	–	–	49	45	–	–	36	41	1,633	2,170
CRSA multilateral development banks	–	–	794	937	–	–	–	–	–	–	–	–	–	–	794	937
CRSA international organizations	–	–	787	863	505	533	–	–	–	–	–	–	–	–	1,292	1,396
CRSA institutions	–	–	2,330	1,676	–	–	–	–	–	–	–	–	–	41	2,330	1,717
CRSA corporates	3	5	51	55	–	0	166	255	321	253	149	155	93	141	783	864
CRSA retail exposures	2,199	2,334	–	–	–	–	–	–	–	–	–	–	–	–	2,199	2,334
CRSA exposures secured by real estate property	1,144	2,349	0	–	–	–	45	111	3	3	0	0	2	4	1,194	2,467
CRSA exposures in default	58	211	0	0	0	0	14	13	19	23	0	3	9	13	100	263
CRSA covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
CRSA securitization positions	–	370	–	6	–	–	–	–	–	–	–	–	–	–	–	376
CRSA UCITS	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
CRSA equity exposures	–	–	223	54	–	–	–	–	5	21	–	–	5	152	233	227
CRSA other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	**86,789**	**84,511**	**19,971**	**18,249**	**20,817**	**20,347**	**8,012**	**7,027**	**7,882**	**7,582**	**4,592**	**4,245**	**1,803**	**2,099**	**149,866**	**144,060**

Of the amounts reported, the following exposures relate to loans to small and medium-sized enterprises (SMEs):

Total amount of exposure values by sector and obligor group for small and medium-sized enterprises (SMEs)

Exposure classes	Retail customers		Banks/ insurers/ financial services providers		Govern-ments		Commercial real estate finance		Service providers/ wholesale and retail		Industry		Other sectors		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
IRBA retail exposures	342	280	–	–	–	–	–	–	–	–	–	–	–	–	342	280
IRBA corporates	0	0	22	11	–	–	–	29	610	600	332	449	120	93	1,084	1,182
CRSA corporates	–	–	17	–	–	–	4	39	24	31	40	42	23	9	108	122
CRSA retail exposures	47	36	–	–	–	–	–	–	–	–	–	–	–	–	47	36
CRSA exposures secured by real estate property	–	–	–	–	–	–	7	5	0	0	–	–	–	1	7	6
Total	**389**	**316**	**39**	**11**	**–**	**–**	**11**	**73**	**634**	**631**	**372**	**491**	**143**	**103**	**1,588**	**1,626**

The following table shows the exposure values broken down by the different types of exposure classes and by Postbank's significant geographic business regions. The exposures are allocated on the basis of the obligor's legal country of domicile.

Total amount of exposure values by geographic region

Exposure classes	Germany		Western Europe		North America		Other regions		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
IRBA governments and central banks	–	–	138	140	–	–	31	31	169	171
IRBA institutions	3,986	6,111	1,995	3,405	138	184	5	6	6,124	9,706
IRBA corporates	14,857	13,906	7,432	7,288	537	578	497	456	23,323	22,228
IRBA retail exposures	81,090	78,580	1,935	286	22	26	50	51	83,097	78,943
IRBA equity exposures	23	419	–	–	15	–	–	–	38	419
IRBA securitization positions	–	–	55	53	–	–	–	–	55	53
CRSA governments and central banks	7,548	865	10,225	10,174	–	–	117	68	17,890	11,107
CRSA regional governments and local authorities	8,612	8,682	–	0	–	–	–	–	8,612	8,682
CRSA other public-sector entities	1,565	2,100	68	70	–	–	–	–	1,633	2,170
CRSA multilateral development banks	–	–	794	937	–	–	–	–	794	937
CRSA international organizations	–	–	1,292	1,396	–	–	–	–	1,292	1,396
CRSA institutions	1,266	1,108	1,062	609	2	–	–	–	2,330	1,717
CRSA corporates	678	764	48	37	0	0	57	63	783	864
CRSA retail exposures	2,127	2,251	69	80	1	1	2	2	2,199	2,334
CRSA exposures secured by real estate property	183	270	1,010	2,196	0	0	1	1	1,194	2,467
CRSA exposures in default	85	122	15	136	0	0	0	5	100	263
CRSA covered bonds	–	–	–	–	–	–	–	–	–	–
CRSA securitization positions	–	–	–	376	–	–	–	–	–	376
CRSA UCITS	–	–	–	–	–	–	–	–	–	–
CRSA equity exposures	228	223	5	4	–	–	–	–	233	227
CRSA other items	–	–	–	–	–	–	–	–	–	–
Total	**122,248**	**115,401**	**26,143**	**27,187**	**715**	**789**	**760**	**683**	**149,866**	**144,060**

The following table presents the regulatory exposure values, broken down by the different types of exposure classes and the residual maturities of relevance to Postbank. Checking accounts, other guarantees, and transactions under settlement are assigned to the "less than one year" maturity band. The amounts assigned to the "more than five years" maturity band largely comprise longer-term bonds, private mortgage lending, and commercial lending.

Total amount of exposure values by residual maturity

Exposure classes	< 1 year		1–5 years		> 5 years		Total	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
IRBA governments and central banks	7	8	83	84	79	79	169	171
IRBA institutions	1,458	4,006	2,773	4,186	1,893	1,514	6,124	9,706
IRBA corporates	4,742	5,092	7,637	6,788	10,944	10,348	23,323	22,228
IRBA retail exposures	3,902	3,686	6,620	6,557	72,575	68,700	83,097	78,943
IRBA equity exposures	–	–	–	–	38	419	38	419
IRBA securitization positions	55	53	–	–	–	–	55	53
CRSA governments and central banks	8,111	614	7,332	7,654	2,447	2,839	17,890	11,107
CRSA regional governments and local authorities	1,438	1,050	3,710	3,612	3,464	4,020	8,612	8,682
CRSA other public-sector entities	233	627	1,052	1,173	348	370	1,633	2,170
CRSA multilateral development banks	175	137	544	636	75	164	794	937
CRSA international organizations	219	102	682	855	391	439	1,292	1,396
CRSA institutions	916	201	–	42	1,414	1,474	2,330	1,717
CRSA corporates	74	101	324	332	385	431	783	864
CRSA retail exposures	978	1,034	373	411	848	889	2,199	2,334
CRSA exposures secured by real estate property	541	974	169	427	484	1,066	1,194	2,467
CRSA exposures in default	100	263	–	–	–	–	100	263
CRSA covered bonds	–	–	–	–	–	–	–	–
CRSA securitization positions	–	–	–	6	–	370	–	376
CRSA UCITS	–	–	–	–	–	–	–	–
CRSA equity exposures	–	–	–	–	233	227	233	227
CRSA other items	–	–	–	–	–	–	–	–
Total	**22,949**	**17,948**	**31,299**	**32,763**	**95,618**	**93,349**	**149,866**	**144,060**

The following table provides an overview of the exposure values for the specialized lending exposures calculated in accordance with Article 153(5) of the CRR, broken down by risk weight category. The exposures relate to commercial real estate finance, loans to property developers, operator models, real estate leasing, and private mortgage finance for properties with more than ten residential units. The deterioration of the risk weight distribution is due to a recalibration of the rating procedure for specialized lending.

Exposure values for IRBA specialized lending

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Risk weight 1 (strong)	1,088	1,398
Risk weight 2 (good)	401	46
Risk weight 3 (satisfactory)	81	22
Risk weight 4 (weak)	37	11
Risk weight 5 (defaulted)	29	40
Total	**1,636**	**1,517**

The following table shows the exposure values for equity exposures calculated using the simple risk weight approach in accordance with Article 155(2) of the CRR. The decline in IRBA equity exposures is due to Postbank's reacquisition of the service companies bundled in PBC Banking Services GmbH and their subsequent reconsolidation. In addition to these equity exposure values, Postbank, as of the reporting date, had further exposures amounting to €233 million (as of December 31, 2015: €227 million) that relate to equity exposures – temporarily excluded from IRBA – held prior to January 1, 2008, that have been assigned a regulatory risk weight of 100 % on the basis of the exception defined in Article 495(1) of the CRR in connection with Article 17 of the SolvV (so-called "grandfathering").

Exposure values for IRBA equity exposures in accordance with simple risk weight approach

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Private equity exposures in sufficiently diversified portfolios (risk weight 190 %)	–	–
Exchange-traded equity exposures (risk weight 290 %)	–	–
Other equity exposures (risk weight 370 %)	38	419
Total	**38**	**419**

Information on credit risk mitigation techniques

The following two tables present the collateralized IRBA and CRSA exposure values. The relevant qualitative information in accordance with Article 453 of the CRR is contained in the "Collateral management and credit risk mitigation techniques" section of the chapter of the Group Management Report entitled "Monitoring and managing credit risk."

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Collateralized exposure values in the internal rating approaches

Exposure classes	Total risk exposure		Financial collateral		Guarantees, indemnities, and credit derivatives		Other collateral		Total collateralized risk exposure	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
IRBA governments and central banks	169	171	–	–	–	–	–	–	–	–
IRBA institutions	6,124	9,706	–	–	0	0	–	–	0	0
IRBA corporates	23,323	22,228	–	–	630	726	6,233	5,239	6,863	5,965
IRBA retail exposures	83,097	78,943	–	–	25	42	69,278	66,717	69,303	66,759
IRBA equity exposures	38	419	–	–	–	–	–	–	–	–
IRBA securitization positions	55	53	–	–	–	–	–	–	–	–
Total	**112,806**	**111,520**	**–**	**–**	**655**	**768**	**75,511**	**71,956**	**76,166**	**72,724**

[1]Figures adjusted (see Note 6)

Financial collateral and, to a limited extent, guarantees, indemnities and credit derivatives can be counted toward the Credit Risk Standardized Approach. The following table does not include any collateral in the form of real estate liens since exposures secured by real estate property are assigned a preferential risk weighting under the Standardized Approach.

Collateralized exposure values in the credit risk standardized approach

Exposure classes	Total risk exposure		Financial collateral		Guarantees, indemnities, and credit derivatives		Total collateralized risk exposure	
	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
CRSA governments and central banks	17,890	11,107	–	–	–	–	–	–
CRSA regional governments and local authorities	8,612	8,682	–	–	–	–	–	–
CRSA other public-sector entities	1,633	2,170	–	–	–	–	–	–
CRSA multilateral development banks	794	937	–	–	–	–	–	–
CRSA international organizations	1,292	1,396	–	–	–	–	–	–
CRSA institutions	2,330	1,717	–	–	–	–	–	–
CRSA corporates	783	864	–	–	33	6	33	6
CRSA retail exposures	2,199	2,334	–	–	–	–	–	–
CRSA exposures secured by real estate property	1,194	2,467	–	–	–	–	–	–
CRSA exposures in default	100	263	–	0	–	–	–	0
CRSA covered bonds	–	–	–	–	–	–	–	–
CRSA securitization positions	–	376	–	–	–	68	–	68
CRSA UCITS	–	–	–	–	–	–	–	–
CRSA equity exposures	233	227	–	–	–	–	–	–
CRSA other items	–	–	–	–	–	–	–	–
Total	**37,060**	**32,540**	**–**	**0**	**33**	**74**	**33**	**74**

Information on the allowance for losses on loans and advances

The figures for the allowance for losses on loans and advances shown in the following tables relate to the entire Postbank Group portfolio; in other words, they cover the portfolios subject both to the IRB approaches and to the CRSA. The relevant qualitative information in accordance with Article 442(a) and (b) of the CRR is contained in the "Past due and impaired exposures" and "Allowance for losses on loans and advances" sections of the chapter of the 2016 Group Management Report entitled "Monitoring and managing credit risk."

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The recognized allowance for losses on loans and advances relates to loans and advances to customers and to other banks. Gains and losses on the sale and remeasurement of investment securities, equity interests, and investments in unconsolidated subsidiaries are not reported below but in net income from investment securities (see Note 12 to the 2016 Consolidated Financial Statements).

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The following table shows the exposure values of impaired and past due exposures, the amounts of and changes in specific valuation allowances, portfolio-based valuation allowances, and provisions as of the reporting date in 2016 and in the previous year, including direct writedowns of and recoveries on loans written off, broken down in each case by the sectors of relevance to Postbank. The net amounts recognized represent the difference between additions to and reversals of the allowances for losses and provisions. The provisions relate primarily to undrawn commitments and guarantees.

Overall, the presentation of the allowance for losses on loans and advances – broken down by the sectors and obligor groups of relevance to Postbank – reflects Postbank's focus on the retail business. The exposure values of impaired exposures also include exposures to customers that have been classified as impaired due to the default of other exposures of that customer.

Allowance for losses on loans and advances, broken down by sector and obligor group

Exposure classes		Retail customers		Banks/ insurers/ financial services providers		Governments		Commercial real estate finance		Service providers/ wholesale and retail		Industry		Other sectors		Total	
		Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Exposures	Impaired exposures	1,732	1,760	54	53	7	8	201	266	88	88	90	99	35	39	2,207	2,313
	Past due exposures	134	168	0	407	–	–	4	7	2	6	3	8	0	2	143	598
Portfolios	Specific valuation allowances	593	514	–	–	4	4	79	95	35	28	56	59	31	25	798	725
	Portfolio-based valuation allowances	174	179	–	0	–	–	11	7	–	–	12	10	3	3	200	199
	Provisions	14	22	–	–	–	–	15	6	–	–	16	15	–	–	45	43
Period expense	Specific valuation allowances	162	137	–	–	–	4	–5	6	7	3	–	4	11	11	175	165
	Portfolio-based valuation allowances	–5	48	–	–	–	–	5	–4	–	–	2	1	–	0	2	45
	Provisions	–8	–5	–	0	–	–	9	6	–	–	5	0	–	–	6	1

Similarly, the following overview gives a breakdown of the allowance for losses on loans and advances by the geographic regions/areas of relevance to Postbank. In line with the CRR, no changes in the allowance for losses on loans and advances are shown in this table. The distribution of the allowance for losses on loans and advances corresponds to the distribution of the exposure values in the underlying loan portfolios.

Allowance for losses on loans and advances, broken down by geographic region

		Germany		Western Europe		Other regions		Total	
		Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Exposures	Impaired exposures	1,813	1,926	382	351	12	36	2,207	2,313
	Past due exposures	137	549	6	42	0	7	143	598
Portfolios	Specific valuation allowances	695	616	103	100	–	9	798	725
	Portfolio-based valuation allowances	196	190	4	9	–	–	200	199
	Provisions	45	43	–	–	–	–	45	43

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For information on changes in the allowance for losses on loans and advances in the course of the reporting period and the disclosures in accordance with Article 442i) of the CRR, please see Note 9 to the Consolidated Financial Statements.

Composition and reconciliation of Postbank's own funds
Postbank's own funds are calculated on the basis of its IFRS consolidated financial statements and in accordance with the requirements laid down in the CRR and SolvV. This section deals with the regulatory capital adequacy of the banking group as consolidated for supervisory reporting purposes in accordance with Article 11 ff. of the CRR and the KWG and serves to disclose the elements of own funds during the transitional period in accordance with Articles 492(3) and 437(1)d) and e) of the CRR as well as to reconcile own funds items with balance sheet items in accordance with Article 437(1)a) of the CRR.

The following table first shows the figures of the IFRS consolidated balance sheet reflecting the accounting basis of consolidation and, second, the figures disclosed in the regulatory balance sheet reflecting the regulatory basis of consolidation. In contrast to the IFRS consolidated balance sheet, the regulatory balance sheet does not include the following subsidiaries: Postbank Finanzberatung AG and Postbank Immobilien GmbH. The delta column shows the difference between the figures in the IFRS consolidated balance sheet and those in the regulatory balance sheet. The references in the last column point to the tables that follow, which present the composition of own funds. These references are explained at the end of this section below the table "Transitional own funds disclosure and balance sheet references" in order to reconcile the balance sheet items, which are relevant for own funds calculation, with regulatory own fund items.

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Presentation of the balance sheet by financial reporting consolidation and regulatory scope of consolidation

	IFRS balance sheet		Regulatory balance sheet		Delta		Reference
	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m	Dec. 31, 2016 €m	Dec. 31, 2015[1] €m	
Assets							
Cash reserve	2,291	1,357	2,291	1,357	0	0	
Loans and advances to other banks	13,108	15,876	13,108	15,876	0	0	
Loans and advances to customers	102,003	98,937	101,996	98,930	–7	–7	
Allowance for losses on loans and advances	–998	–923	–998	–923	–	–	
Trading assets	475	647	475	647	–	–	
Hedging derivatives	112	78	112	78	–	–	
Investment securities	26,767	30,768	26,975	30,976	208	208	
Intangible assets	1,963	1,902	1,534	1,473	–429	–429	f
Goodwill	1,581	1,581	1,152	1,152	–429	–429	
Other intangible assets	382	321	382	321	0	0	
Property and equipment	699	678	698	676	–1	–2	
Current tax assets	144	101	143	99	–1	–2	
Deferred tax assets	198	77	171	67	–27	–10	
Other assets	388	514	379	509	–9	–5	
Assets held for sale	47	489	47	489	–	0	
Total assets	**147,197**	**150,501**	**146,931**	**150,253**	**–266**	**–247**	
Equity and liabilities							
Deposits from other banks	13,133	15,341	13,133	15,341	–	–	
Due to customers	118,918	119,150	119,002	119,232	84	82	
Debt securities in issue	3,339	3,446	3,339	3,446	–	–	
Trading liabilities	409	665	409	665	–	–	
Hedging derivatives	42	208	42	208	–	–	
Provisions	907	703	858	680	–49	–23	
Current tax liabilities	98	110	97	109	–1	–1	
Deferred tax liabilities	17	9	17	3	0	–6	
Other liabilities	541	466	496	422	–45	–44	
Subordinated debt	2,567	3,239	2,567	3,239	0	0	g
Equity	7,226	7,164	6,971	6,908	–255	–256	
a) Issued capital	547	547	547	547	–	–	a
b) Share premium	2,191	2,010	2,191	2,010	–	–	b
c) Other reserves	4,171	3,991	3,922	3,748	–249	–243	
Retained earnings	4,381	4,044	4,110	3,787	–271	–257	c
AOCI	–210	–53	–189	–39	21	14	d
d) Consolidated net profit	317	610	311	597	–6	–13	e
Non-controlling interests	–	6	–	6	–	–	
Total equity and liabilities	**147,197**	**150,501**	**146,931**	**150,253**	**–266**	**–247**	

[1]Figures adjusted (see Note 6)

Regulatory capital is broken down into three categories: Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital. In accordance with the transitional provisions of the CRR, capital instruments that are no longer permitted to be recognized are gradually phased out and the new prudential adjustments are gradually phased in.

The following table provides information in accordance with Articles 492(3) and 437(1)d) and e) of the CRR about Common Equity Tier 1 capital items, Additional Tier 1 capital items, and Tier 2 capital items, as well as about the prudential filters, deductions, and restrictions. The table is based on the "Transitional Own Funds Disclosure Template" contained in Annex VI of Commission Implementing Regulation No. 1423/2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions in accordance with the CRR (CRR IR).

The "Amount of own funds position" column contains the amount used as the basis for calculating Postbank's own funds as of the reporting date and as of the previous year-end. The next column shows the residual amounts resulting from transitional provisions that are deducted from other categories of capital, or not deducted at all, along with amounts that will not contribute toward own funds following full phase-in. The next column contains references to the balance sheet items used to calculate own funds. The "CRR reference" column lists the applicable provisions of the CRR.

The information provided in the following table as of December 31, 2016, includes the interim profit as of September 30, 2016; the comparative figures from the disclosure as of December 31, 2015, do not include consolidated net profit.

Transitional own funds disclosure and balance sheet references

No.	Own funds position in accordance with CRR Impl. Reg. Annex VI	Amount of own funds position		Amount before CRR/residual amount[1]		Refe-rence	CRR reference
		Dec. 31, 2016 €m	Dec. 31, 2015[2] €m	Dec. 31, 2016 €m	Dec. 31, 2015[2] €m		
Common Equity Tier 1 (CET1): instruments and reserves							
1	Capital instruments and related share premium accounts	2,738	2,557			a+b	26(1), 27, 28, 29
	thereof: issued capital	547	547			a	
	thereof: share premium	2,191	2,010			b	
2	Retained earnings	3,980	3,768			c	26(1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	−71	−120			d	26(1)
3a	Funds for general banking risk	–	–				26(1) (f)
4	Amount of qualifying items referred to in Article 484(3) of the CRR and the related share premium accounts subject to phase out from CET1	–	–				486(2)
	Public-sector capital injections grandfathered until January 1, 2018	–	–				483(2)
5	Minority interests (amount allowed in consolidated CET1)	–	–	–	–		84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	174	–			e	26(2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**6,821**	**6,205**				
Common Equity Tier 1 (CET1): regulatory adjustments							
7	Additional value adjustments (negative amount)	−71	−20				34, 105
8	Intangible assets (net of related tax liability) (negative amount)	−888	−596	-592	−895	f	36(1) (b), 37, 472 (4)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	−18	−2	-12	−3		36(1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges	–	–				33(a)
12	Negative amounts resulting from the calculation of expected loss amounts	−156	−170	-104	−255		36(1) (d), 40, 159, 472(6)
13	Any increase in equity that results from securitized assets (negative amount)	–	–				32(1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing[3]	−3	−1	-2	−1		33(b)
15	Defined benefit pension fund assets (negative amount)	–	–	–	–		36(1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–	–	–	–		36(1) (f), 42, 472 (8)
17	Holdings of the CET1 instruments of financial-sector entities where those entities have a reciprocal cross-holding with the institution that has been designed to inflate artificially the own funds of the institution (negative amount)	–	–	–	–		36(1) (g), 44, 472 (9)
18	Direct and indirect holdings by the institution of the CET1 instruments of financial-sector entities where the institution does not have a significant investment in those entities (amount above the 10 % threshold and net of eligible short positions) (negative amount)	–	–	–	–		36(1) (h), 43, 45, 46, 49(2) (3), 79, 472(10)
19	Direct, indirect, and synthetic holdings by the institution of the CET1 instruments of financial-sector entities where the institution has a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	–	–	–	–		36(1) (i), 43, 45, 47, 48(1) (b), 49(1) to (3), 79, 470, 472(11)
20a	Exposure amount of the following items which qualify for a RW of 1,250 %, where the institution opts for the deduction alternative	–	–				36(1) (k)
20b	thereof: qualifying holdings outside the financial sector (negative amount)	–	–				36(1) (k) (i), 89 to 91
20c	thereof: securitization positions (negative amount)	–	–				36(1) (k) (ii), 243 (1) (b), 244(1) (b), 258
20d	thereof: free deliveries (negative amount)	–	–				36(1) (k) (iii), 379 (3)
21	Deferred tax assets that rely on future profitability and arise from temporary differences (amount above 10 % threshold, net of related tax liability, where the conditions in Article 38(3) are met) (negative amount)	–	–	–	–		36(1) (c), 38, 48(1) (a), 470, 472(5)
22	Amount exceeding the 15 % threshold (negative amount)	–	–	–	–		48(1)
23	thereof: direct and indirect holdings by the institution of the CET1 instruments of financial-sector entities where the institution has a significant investment in those entities	–	–	–	–		36(1) (i), 48(1) (b), 470, 472(11)
25	thereof: deferred tax assets that rely on future profitability and arise from temporary differences	–	–	–	–		36(1) (c), 38, 48(1) (a), 470, 472(5)

[1]This column is used to report the residual amounts that were deducted from other categories of capital or not deducted at all on the basis of the transitional provision, and amounts that are subject to phase out.
[2]Figures adjusted (see Note 6)
[3]Also includes fair value gains and losses arising from Postbank's own credit risk related to derivative liabilities in accordance with Article 33c) of the CCR

Transitional own funds disclosure and balance sheet references

No.	Own funds position in accordance with CRR Impl. Reg. Annex VI	Amount of own funds position		Amount before CRR/residual amount[1]		Refe-rence	CRR reference
		Dec. 31, 2016 €m	Dec. 31, 2015[2] €m	Dec. 31, 2016 €m	Dec. 31, 2015[2] €m		
Common Equity Tier 1 (CET1): regulatory adjustments							
25a	Losses for the current fiscal year (negative amount)	–71	–	–47	–	d	36(1) (a), 472(3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	–	–		–		36(1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	–	–				
26a	Regulatory adjustments relating to unrealized gains and losses pursuant to Articles 467 and 468	28	59				
	thereof: filter for unrealized gains on exposures to central governments classified in the “available for sale” category pursuant to the International Accounting Standard (IAS) 39 as adopted by the EU	–	–32				
	thereof: filter for other unrealized gains on equity and debt instruments	–	–				
	thereof: filter for unrealized losses on exposures to central governments classified in the “available for sale” category pursuant to the International Accounting Standard (IAS) 39 as adopted by the EU	–	–				467
	thereof: filter for other unrealized losses on equity and debt instruments	28	91				468
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	–	–				481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–	–30				36(1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**–1,179**	**–759**				
29	**Common Equity Tier 1 (CET1) capital**	**5,642**	**5,446**				
Additional Tier 1 capital (AT1): instruments							
30	Capital instruments and related share premium accounts	–	–				51, 52
31	thereof: classified as equity under applicable accounting standards	–	–				
32	thereof: classified as liabilities under applicable accounting standards	–	–				
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	853	991			g	486(3)
	Public-sector capital injections grandfathered until January 1, 2018	–	–				483(3)
34	Qualifying Tier 1 capital instruments included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	–	–				85, 86, 480
35	thereof: instruments issued by subsidiaries subject to phase out	–	–				486(3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**853**	**991**			g	
Additional Tier 1 capital (AT1): regulatory adjustments							
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–	–				52(1) (b), 56(a), 57, 475(2)
38	Holdings of the AT1 instruments of financial-sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	–				56(b), 58, 475(3)
39	Direct and indirect holdings by the institution of the AT1 instruments of financial-sector entities where the institution does not have a significant investment in those entities (amount above the 10 % threshold and net of eligible short positions) (negative amount)	–	–				56(c), 59, 60, 79, 475(4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial-sector entities where the institution has a significant investment in those entities (amount above the 10 % threshold net of eligible short positions) (negative amount)		–				56(d), 59, 79, 475(4)
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e., CRR residual amounts)	–644	–1,021				
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No. 575/2013	–644	–1,021				472, 472(3) (a), 472 (4), 472(6), 472(8) (a), 472(9), 472(10) (a), 472(11) (a)
	thereof: intangible assets	–592	–894				
	thereof: negative amounts resulting from the calculation of expected loss amounts	–52	–127				
	thereof: own instruments	–	–				
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013	–	–				477, 477(3), 477(4) (a)
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	–	–				467, 468, 481

[1]This column is used to report the residual amounts that were deducted from other categories of capital or not deducted at all on the basis of the transitional provision, and amounts that are subject to phase out.
[2]Figures adjusted (see Note 6)

Transitional own funds disclosure and balance sheet references

No.	Own funds position in accordance with CRR Impl. Reg. Annex VI	Amount of own funds position		Amount before CRR/residual amount[1]		Refe-rence	CRR reference
		Dec. 31, 2016 €m	Dec. 31, 2015[2] €m	Dec. 31, 2016 €m	Dec. 31, 2015[2] €m		
	Additional Tier 1 (AT1) capital: regulatory adjustments						
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	–	–				56(e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**–644**	**–1,021**				
44	**Additional Tier 1 (AT1) capital**	**209**	**0**				
45	**Total Tier 1 capital (T1 = CET1 + AT1)**	**5,851**	**5,446**				
	Tier 2 (T2) capital: instruments and reserves						
46	Capital instruments and the related share premium accounts	918	1,000			g	62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	125	111			g	486(4)
	Public-sector capital injections grandfathered until January 1, 2018	–	–				483(4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 and 34) issued by subsidiaries and held by third parties	47	64	–16	–27	g	87, 88, 480
49	thereof: instruments issued by subsidiaries subject to phase out	–	–				486(4)
50	Credit risk adjustments	–	–				62(c) and (d)
51	**Tier 2 capital (T2) before regulatory adjustments**	**1,090**	**1,175**			g	
	Tier 2 (T2) capital: regulatory adjustments						
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	–				63(b) (i), 66(a), 67, 477(2)
53	Holdings of the T2 instruments and subordinated loans of financial-sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	–				66(b), 68, 477(3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial-sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	–	–				66(c), 69, 70, 79, 477(4)
54a	thereof: new holdings not subject to any transitional arrangements	–	–				
54b	thereof: holdings existing before January 1, 2013, and subject to transitional arrangements	–	–				
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial-sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	–				66(d), 69, 79, 477(4)
56	Regulatory adjustments applied to Tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e., CRR residual amounts)	–52	–127				
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No. 575/2013	–52	–127				472, 472(3) (a), 472 (4), 472(6), 472(8) (a), 472(9), 472(10) (a), 472(11) (a)
	thereof: negative amounts arising from the calculation of expected loss amounts	–52	–127				
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013	–	–				475, 475(2) (a), 475(3), 475(4) (a)
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	–	–				467, 468, 481
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–52**	**–127**				
58	**Tier 2 (T2) capital**	**1,038**	**1,047**				
59	**Total capital (TC = T1 + T2)**	**6,889**	**6,493**				
	Risk-weighted assets						
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e., CRR residual amounts)	616	305				
	thereof: deferred tax assets that rely on future profitability, resulting from temporary differences	616	305				472, 472(5), 472(8) (b), 472(10) (b), 472(11) (b)
	thereof: Common Equity Tier 1 instruments of relevant entities where the institution has a significant investment in those entities	–	–				475, 475(2) (b), 475 (2) (c), 475(4) (b)
60	**Total risk-weighted assets**	**41,997**	**45,173**				

[1]This column is used to report the residual amounts that were deducted from other categories of capital or not deducted at all on the basis of the transitional provision, and amounts that are subject to phase out.

[2]Figures adjusted (see Note 6)

Transitional own funds disclosure and balance sheet references

No.	Own funds position in accordance with CRR Impl. Reg. Annex VI	Amount of own funds position		Amount before CRR/residual amount[1]		Refe-rence	CRR reference
		Dec. 31, 2016 €m	Dec. 31, 2015[2] €m	Dec. 31, 2016 €m	Dec. 31, 2015[2] €m		
Capital ratios and buffers							
61	Common Equity Tier 1 capital ratio (as a percentage of total risk exposure amount)	13.43 %	12.06 %				92(2) (a), 465
62	Tier 1 capital ratio (as a percentage of total risk exposure amount)	13.93 %	12.06 %				92(2) (b), 465
63	Total capital ratio (as a percentage of total risk exposure amount)	16.40 %	14.37 %				92(2) (c)
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92(1) (a), plus capital conservation and counter-cyclical buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount))	5.13 %	4.50 %				CRD 128, 129, 130
65	thereof: capital conservation buffer requirement	0.63 %	–				
66	thereof: counter-cyclical buffer requirement	0.00 %	–				
67	thereof: systemic risk buffer requirement	–	–				
67a	thereof: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	–	–				CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	7.93 %	6.06 %				CRD 128
Deductions from Common Equity Tier 1 capital							
72	Direct and indirect holdings by the institution of the capital instruments of financial-sector entities where the institution does not have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	32	5				36(1) (h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)
73	Direct and indirect holdings by the institution of the CET1 instruments of financial-sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	0	0				36(1) (i), 45, 48, 470, 472(11)
75	Deferred tax assets that rely on future profitability, arising from temporary differences (amount below 10 % threshold, net of related tax liability, where the conditions in Article 38(3) are met)	246	122				36(1) (c), 38, 48, 470, 472(5)
Applicable caps on the inclusion of provisions in Tier 2							
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	–	–				62
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach	41	54				62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	–	–				62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	195	206				62
Equity instruments to which the transitional provisions apply (only applicable from January 1, 2013, to January 1, 2022)							
80	Current cap on CET1 instruments subject to phase out arrangements	–	–				484(3), 486(2) and (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	–				484(3), 486(2) and (5)
82	Current cap on AT1 instruments subject to phase out arrangements	853	991				484(4), 486(3) and (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	214	161				484(4), 486(3) and (5)
84	Current cap on T2 instruments subject to phase out arrangements	125	111				484(5), 486(4) and (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	88	50				484(5), 486(4) and (5)

[1]This column is used to report the residual amounts that were deducted from other categories of capital or not deducted at all on the basis of the transitional provision, and amounts that are subject to phase out.

[2]Figures adjusted (see Note 6)

Common Equity Tier 1 capital (row 29) consists of issued capital and the related share premium (row 1), retained earnings (row 2), accumulated other comprehensive income (row 3), and consolidated net profit (row 5a) after applying the prudential adjustments listed in rows 7 to 27.

Additional Tier 1 capital comprises contributions by typical silent partners and the trust preferred securities of Funding Trusts I–IV (row 33). The qualification of these instruments as Additional Tier 1 capital is also subject to the transitional provisions as set out in Article 486(3) of the CRR. Under these provisions, trust preferred securities of Funding Trusts I–III will cease to qualify as Additional Tier 1 capital on December 31, 2021. Due to the first call date in connection with a step-up provision, trust preferred securities of Funding Trust IV will cease to qualify as Additional Tier 1 capital as of June 29, 2017. Contributions by typical silent partners will cease to qualify as Additional Tier 1 capital at maturity on December 31, 2018. After applying prudential adjustments as listed in rows 37 to 42, Additional Tier 1 capital is disclosed in row 44.

Tier 2 capital (row 58) comprises profit participation rights outstanding, subordinated liabilities, and the pro rata share of the trust preferred securities of Funding Trusts I–III, to the extent that these are not included in Additional Tier 1 capital under the transitional provisions until December 31, 2021 (row 46). The qualification of trust preferred securities of Funding Trust IV and contributions by typical silent partners as Tier 2 capital is also subject to transitional provisions as laid down in Article 486(4) of the CRR (row 47). Capital instruments qualifying as Tier 2 capital that were issued by Postbank's subsidiary BHW Bausparkasse AG and are held by third parties (row 48), and the prudential adjustments listed in rows 52 to 56c also contribute to Tier 2 capital. In line with the previous year-end, the prudential adjustments as of the reporting date consisted solely of deductions resulting from transitional provisions (row 56).

The following additional explanations relate to the individual references:

- (a+b) The Common Equity Tier 1 capital instruments and the related share premium in the amount of €2,738 million (December 31, 2015: €2,557 million) correspond to the issued capital in the amount of €547 million (December 31, 2015: €547 million) plus the share premium in the amount of €2,191 million (December 31, 2015: €2,010 million).

- (c) The difference between the retained earnings of €3,980 million (December 31, 2015: €3,768 million[1]) and the retained earnings in the regulatory balance sheet in the amount of €4,110 million (December 31, 2015: €3,787 million[1]) is due to the requirement to deduct the fund for home loans and savings protection, which amounted to €21 million (December 31, 2015: €21 million). In addition, the increase in retained earnings, which amounted to €109 million in the fourth quarter of 2016, was not included in own funds.

- (d) The accumulated other comprehensive income in the amount of €–71 million (December 31, 2015: €–120 million) differs from the amount of €–189 million (December 31, 2015: €–39 million) disclosed in the regulatory balance sheet. The difference of €–118 million corresponds to the change in this balance sheet item in the fourth quarter and is treated within own funds calculation as a loss for the current fiscal year.

- (e) The interim profit as of September 30, 2016, which amounted to €174 million, was also recognized in own funds as of December 31, 2016. Consolidated profit had not been included in the disclosure as of December 31, 2015.

- (f) The difference between the amount for intangible assets of €1,480 million (December 31, 2015: €1,490 million) as presented in the overview of own funds and the carrying amount of €1,534 million (December 31, 2015: €1,473 million) as disclosed in the regulatory balance sheet is attributable to the inclusion of deferred tax liabilities of €64 million (December 31, 2015: €66 million). In addition, due to the exclusion of the fourth-quarter results, amortization and writedowns of intangible assets amounting to €–10 million were not included in own funds.

- (g) A total of €1,943 million of the €2,567 million (December 31, 2015: €3,239 million) of subordinated debt on the balance sheet is eligible for inclusion in own funds. Of this amount, €853 million (December 31, 2015: €991 million) count toward Additional Tier 1 capital and €1,090 million (December 31, 2015: €1,175 million) toward Tier 2 capital.

The Tier 2 capital in the amount of €1,090 million (December 31, 2015: €1,175 million) eligible for regulatory purposes comprises the following items:

- €562 million (December 31, 2015: €736 million) of eligible Tier 2 capital instruments of Deutsche Postbank AG (amortization in the last five years of their duration) (see row 46)

- €479 million (December 31, 2015: €372 million) of the trust preferred securities of Deutsche Postbank Funding Trusts I–IV eligible as Tier 2 capital under the transitional provisions (see rows 46 and 47)

- €2 million (December 31, 2015: €3 million) of the contributions by typical silent partners of Deutsche Postbank AG eligible as Tier 2 capital under the transitional provisions (see row 47)

- €47 million (December 31, 2015: €64 million) of qualifying own funds issued by BHW Bausparkasse AG that is included in consolidated Tier 2 capital (see row 48).

[1]Figures adjusted (see Note 6)

Composition of Postbank's capital including the total 2016 consolidated net profit
Taking the results of the fourth quarter of 2016 into account, this would, in deviation from the figures to be reported in the table "Transitional own funds disclosure and balance sheet references," have resulted in the following own funds amounts (regular phased-in):

- Common Equity Tier 1 capital: €5,952 million (row 29)
- Total Tier 1 capital: €6,180 million (row 45)
- Total capital: €7,232 million (row 59)

Thus, the regular phased-in Common Equity Tier 1 capital ratio and Tier 1 capital ratio would amount to 14.2 % and 14.7 %, respectively. The total capital ratio would add up to 17.2 %.

Minimum capital requirements and additional capital buffer
Since 2015, the applicable minimum Common Equity Tier 1 capital ratio has been 4.5 % of risk-weighted assets (RWA). The minimum total capital requirement of 8 % can be met with up to 1.5 % Additional Tier 1 capital and up to 2 % Tier 2 capital. In addition to these minimum capital requirements, institutions must maintain the following capital buffers in the form of Common Equity Tier 1 capital: The capital conservation buffer in accordance with section 10c of the KWG will amount to 2.5 % of risk-weighted assets in 2019. Due to transitional provisions, the capital conservation buffer was set at 0.625 % of risk-weighted assets for the reporting period. The institution-specific countercyclical capital buffer rate in accordance with section 10d of the KWG is calculated as the weighted average of the countercyclical capital buffer rates that apply in the jurisdictions where Postbank holds relevant credit exposures. This buffer is also subject to a transitional period from 2016 to 2019. The countercyclical capital buffer rate for Postbank as of December 31, 2016, is 0.004 %.

The amount of the institution-specific countercyclical capital buffer as of December 31, 2016, can be found in the table below.

Amount of institution-specific countercyclical capital buffer

		010
010	Total risk exposure amount	€41,977 million
020	Institution-specific countercyclical buffer rate	0.00 %
030	Institution-specific countercyclical buffer requirement	€2 million

The table below shows the geographical distribution of Postbank's credit exposures relevant for calculating the countercyclical capital buffer as of the reporting date:

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposures		Securitization exposures		Own funds requirements					
	Exposure value for SA	Trading book exposures for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
	010	020	030	040	050	060	070	080	090	100	110	120
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%
Austria	3	484	–	–	–	–	11	–	–	11	0	0.00
Belgium	101	329	–	–	–	–	9	–	–	9	0	0.00
Czech Republic	5	34	–	–	–	–	2	–	–	2	0	0.00
Denmark	0	132	–	–	–	–	7	–	–	7	0	0.00
Finland	0	406	–	–	–	–	8	–	–	8	0	0.00
France	10	2,288	–	–	–	–	56	–	–	56	2	0.00
Germany	3,301	101,469	–	–	–	–	2,425	–	–	2,425	87	0.00
Ireland	0	85	–	–	–	–	4	–	–	4	0	0.00
Italy	4	2,153	–	–	–	–	46	–	–	46	2	0.00
Luxembourg	982	631	–	–	–	–	56	–	–	56	2	0.00
Netherlands	2	1,295	–	–	–	–	42	–	–	42	2	0.00
Poland	5	198	–	–	–	–	9	–	–	9	0	0.00
Portugal	0	85	–	–	–	–	1	–	–	1	0	0.00
Slovakia	0	10					0	–	–	0	0	0.00
Spain	5	507	–	–	–	–	14	–	–	14	1	0.00
Sweden	0	352	–	–	–	–	6	–	–	6	0	1.50
United Kingdom	1	1,903	–	–	–	–	58	–	–	58	2	0.00
Other EU countries	1	58	–	–	–	–	1	–	–	1	0	0.00
EU – Total	**4,420**	**112,419**					**2,755**			**2,755**	**98**	
Hong Kong	0	3	–	–	–	–	0	–	–	0	0	0.63
Norway	0	147	–	–	–	–	2	–	–	2	0	1.50
Russian Federation	22	3	–	–	–	–	2	–	–	2	0	0.00
Switzerland	25	159	–	–	–	–	8	–	–	8	1	0.00
Turkey	0	41	–	–	–	–	2	–	–	2	0	0.00
U.S.A.	1	345	–	–	–	55	10	–	0	10	1	0.00
Other non-EU countries	35	158	–	–	–	–	7	–	–	7	0	0.00
Non-EU countries – total	**83**	**856**				**55**	**31**		**0**	**31**	**2**	
Total	**4,503**	**113,275**				**55**	**2,786**		**0**	**2,786**	**100**	

To date, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) has not set a systemic risk buffer in accordance with section 10e of the KWG. Similarly, Postbank was not classified as a global systemically important institution (section 10f of the KWG) or other systemically important institution (section 10g of the KWG) and is therefore currently not subject to any other capital buffer requirements. As a result, the current combined buffer requirement rate for Postbank in accordance with section 10i of the KWG is 0.629 %. Above and beyond these capital buffer requirements, the responsible supervisory authority can, in accordance with the supervisory review and evaluation process (SREP), impose additional capital requirements on banks that exceed the statutory minimum requirements. The supervisory authorities have not set any such additional capital requirements on Postbank for 2016.

Capital profiles and agreements and prospectuses for capital instruments issued

In accordance with Article 437(1) b) and c) of the CRR, institutions required to apply the CRR must disclose a description of the main features and full terms and conditions of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments. Postbank complies with this obligation by publishing this information on its website. The information provided is updated every quarter and can be accessed via the following link: https://www.postbank.com/postbank/en/ir_capital_instruments_prospectuses.html.

Capital requirements

The following table provides an overview of Postbank's capital backing, calculated with reference to the regulatory bases of assessment, broken down by the type of risk and approach. The capital backing, taking into account the applicable transitional provisions in the CRR and the SolvV, represents the total exposures required to be included, multiplied by 8 % in each case. Total capital backing as of December 31, 2016, amounted to €3,360 million (December 31, 2015: €3,614 million).

Capital backing by type of risk and approach

	Dec. 31, 2016 €m	Dec. 31, 2015 €m
Total credit risk exposure, calculated using the Standardized Approach		
Governments and central banks	–	–
Regional governments and local authorities	0	0
Public-sector entities	4	5
Multilateral development banks	–	–
International organizations	–	–
Institutions	5	14
Corporates	60	68
Retail exposures	131	139
Exposures secured by real estate property	34	70
Exposures in default	10	24
Covered bonds	–	0
UCITS	–	0
Total Standardized Approach	**244**	**320**
Total credit risk exposure, calculated on the basis of internal ratings		
Foundation IRB Approach		
Governments and central banks	–	–
Institutions	31	73
Corporates	318	287
Total Foundation IRB Approach	**349**	**360**
Advanced IRB Approach		
Governments and central banks	1	1
Institutions	81	107
Corporates	543	568
Retail exposures to SMEs, secured by real estate property	0	0
Retail exposures, other than to SMEs, secured by real estate property	1,062	1,067
Qualifying revolving retail exposures	7	6
Other retail exposures to SMEs	7	6
Other retail exposures, other than to SMEs	389	358
Total Advanced IRB Approach	**2,090**	**2,113**
Other non-credit obligation assets	**145**	**149**
Total IRB Approaches	**2,584**	**2,622**
Total risk exposure for securitization positions		
Securitization positions (IRBA)	0	0
Securitization positions (Standardized Approach)	–	7
Total risks from securitization positions	**0**	**7**
Total risk exposure for equity exposures		
Equity exposures – retention of existing calculation/grandfathering	19	18
Equity exposures (simple risk weight approach under the IRBA)	11	124
Exchange-traded	–	–
Private equity exposures in sufficiently diversified portfolios	–	–
Other equity exposures	11	124
Equity exposures with regulatory risk weighting in accordance with Article 48 of the CRR	0	0
Total risks from equity exposures	**30**	**142**
Other total risk exposure amounts		
Exchange-traded debt instruments (calculated using the Standardized Approach)	–	–
Foreign exchange positions (calculated using the Standardized Approach)	5	3
Other market risk exposures (calculated using the Standardized Approach)	–	–
Total risk exposure amount for operational risk (calculated using the Standardized Approach)	466	490
Total risk exposure amount for operational risk (calculated using Advanced Measurement Approaches)	–	–
Total risk exposure amount due to credit valuation adjustments (CVAs, calculated using the Standardized Approach)	20	30
Exposure amount for default fund contributions to central counterparties (CCPs)	11	0
Other total risk exposure amounts	–	–
Total	**3,360**	**3,614**

Leverage ratio

With the implementation of Basel III in European law, a new observation ratio was defined in the form of the leverage ratio. Initial disclosure in accordance with Article 451 of the CRR was required for 2015, with the introduction of a binding minimum ratio as a Pillar 1 requirement expected in 2018. The aim of establishing a leverage ratio is to restrict the build-up of leverage in the banking sector, and to reduce the risk of unscheduled, destabilizing de-leveraging processes during times of economic stress.

The leverage ratio is calculated as an institution's capital measure divided by that institution's total exposure measure. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items. Specific qualification criteria in accordance with Article 429 of the CRR will apply to derivatives, repurchase agreements, and off-balance sheet transactions in particular.

The following information on the leverage ratio reflects the requirements set out in Article 429 of the CRR and the Commission Implementing Regulation (EU) 2016/200 with regard to disclosure of the leverage ratio of February 15, 2016. In accordance with the disclosure of own funds, the regular phased-in Tier 1 capital is reported.

In the following table, Postbank's total assets are reconciled to the total exposure measure. The provisions of the CRR define how assets qualify for the leverage ratio and the adjustment effects listed in the table:

- Adjustment through consolidation: The same basis of regulatory consolidation used to calculate Postbank's own funds must be applied when determining the total exposure measure.
- Adjustments for derivative financial instruments: Derivative exposures are calculated on the basis of their current replacement cost, including netting agreements accepted for regulatory purposes. This amount can be reduced by collateral received. An add-on amount is calculated using the mark-to-market method to cover a potential future rise in replacement costs.
- Adjustments for repurchase transactions: If certain criteria are met, netting of cash payables and cash receivables in repurchase transactions is permitted; an add-on must be calculated to cover counterparty credit risk.
- Adjustments for off-balance sheet transactions: The notional amounts of off-balance sheet exposures are weighted using the conversion factors of the Credit Risk Standardized Approach. A floor of at least 10 % must be observed, and the capital requirement may not be reduced by any allowance for losses on loans and advances.
- Other adjustments: Assets recognized as deduction items when calculating own funds are excluded from the total exposure measure.

Reconciliation of total assets and the leverage ratio total exposure measure

		Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
1	Total assets as per published financial statements	147,197	150,501
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–266	–247
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No. 575/2013	–	–
4	Adjustment for derivative financial instruments	366	369
5	Adjustment for securities financing transactions (SFTs)	300	49
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	5,623	4,634
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No. 575/2013)	–	–
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No. 575/2013)	–	–
7	Other adjustments	–1,090	–1,415
8	**Leverage ratio total exposure measure**	**152,130**	**153,891**

[1]Figures adjusted (see Note 6)

The following table shows subtotals of the total exposure measure for all on- and off-balance sheet exposures, together with possible exceptions in accordance with Article 429 of the CRR, and the regular phased-in Tier 1 capital:

Calculation of the leverage ratio

		Dec. 31, 2016 €m	Dec. 31, 2015[1] €m
On-balance sheet exposures (excluding derivates and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	141,105	136,789
2	(Asset amounts deducted in determining Tier 1 capital)	–1,629	–1,728
3	**Total on-balance sheet exposures (excluding derivatives, SFTs, and fiduciary assets) (sum of rows 1 and 2)**	**139,476**	**135,061**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	332	387
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	567	616
EU-5a	Exposure determined under Original Exposure Method	–	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–	–
8	(Exempted CCP leg of client-cleared trade exposures)	–	–
9	Adjusted effective notional amount of written credit derivatives	–	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
11	**Total derivatives exposures (sum of rows 4 to 10)**	**899**	**1,003**
Securities financing transaction (SFT) exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	9,852	18,279
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–4,020	–5,135
14	Counterparty credit risk exposure for SFT assets	300	49
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No. 575/2013	–	–
15	Agent transaction exposures	–	–
EU-15a	(Exempted CCP leg of client-cleared SFT exposures)	–	–
16	**Total securites financing transaction exposures (sum of rows 12 to 15a)**	**6,132**	**13,193**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	24,206	22,089
18	(Adjustments for conversion to credit equivalent amounts)	–18,583	–17,455
19	**Other off-balance sheet exposures (sum of rows 17 and 18)**	**5,623**	**4,634**
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on- and off-balance sheet)			
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on- and off-balance sheet))	–	–
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No. 575/2013 (on- and off-balance sheet))	–	–
Capital and total exposure measure			
20	**Tier 1 capital**	**5,851**	**5,446**
21	**Leverage ratio total exposure measure (sum of rows 3, 11, 16, 19, EU-19a, and EU-19b)**	**152,130**	**153,891**
Leverage ratio			
22	**Leverage ratio**	**3.85 %**	**3.54 %**
Choice of transitional arrangements and amount of derecognized fiduciary items			
EU-23	Choice of transitional arrangements for the definition of the capital measure	transitional	transitional
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	–	–

[1]Figures adjusted (see Note 6)

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Postbank's leverage ratio improved during the period under review. The leverage ratio was 3.85 % as of the reporting date, compared with 3.54 % at the prior-year reporting date. The main drivers of this development were an increase in Tier 1 capital (see "Composition and reconciliation of Postbank's capital") and the scheduled reduction in total assets.

The total exposure measure was reduced to €152,130 million (as of December 31, 2015: €153,891 million[1]) by optimizing total assets. The €7,061 million decline in securities financing transactions to €6,132 million (as of December 31, 2015: €13,193 million) was offset by a €4,415 million increase in on-balance sheet exposures to €139,476 million (as of December 31, 2015: €135,061 million[1]). Off-balance sheet exposures increased by €989 million to €5,623 million in the reporting period, while the qualifying amount for derivatives declined by €104 million to €899 million.

The table below provides an overview of all on-balance sheet exposures with the exception of derivatives and repurchase agreements, broken down by regulatory trading book and banking book, and by exposure class for counterparty credit risk:

Breakdown of on-balance sheet exposures (excluding derivatives, securities financing transactions (SFTs), and exempted exposures)

		Dec. 31, 2016 €m	Dec. 31,2015[1] €m
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), thereof:**	**141,105**	**136,789**
EU-2	Trading book exposures	–	–
EU-3	Banking book exposures	141,105	136,789
	thereof:		
EU-4	covered bonds	3,910	4,993
EU-5	exposures treated as sovereigns	30,671	24,641
EU-6	exposures to regional governments, multilateral development banks, international organizations, and public-sector entities not treated as sovereigns	255	291
EU-7	institutions	3,048	4,727
EU-8	secured by mortgages of immovable properties	75,706	73,049
EU-9	retail exposures	10,637	11,113
EU-10	corporates	11,139	11,363
EU-11	exposures in default	1,393	1,710
EU-12	other exposures (e.g., equities, securitizations, and other non-credit obligation assets)	4,346	4,902

[1]Figures adjusted (see Note 6)

In the context of Postbank's internal risk management process, the leverage ratio is an important indicator for determining the risk of excessive leverage, and it is for this reason that the Bank has anchored the management of the leverage ratio firmly in its risk management and risk strategy. Every year, the Reporting and Capital Management unit produces mid-term plans (3-year planning horizon) for the Tier 1 capital and the total exposure measure, as well as forecast and scenario computations and deviation analyses. This approach serves to restrict the volume of the lending and deposit products on the balance sheet, and is also the basis for an early warning system. The leverage ratio (including in stress scenarios) is an integral part of quarterly internal risk reporting. The findings with regard to the leverage ratio are submitted to Postbank's Bank Risk Committee, Management Board, and Supervisory Board.

Principles of the proper conduct of business (section 26a of the *Kreditwesengesetz* (KWG – German Banking Act))

Corporate governance practices
To implement corporate governance practices, Postbank has formulated a company vision and mission as well as corporate values that are meant to serve as guiding principles for determining the long-term orientation of company policy. The Bank's vision and mission specify a normative framework for strategic and operational corporate governance and thus serve as a model in equal measure for the Management Board, executives, and employees.

Postbank's values and principles are recorded in the "Postbank Mission Statement" and are meant to guide the business activities of employees throughout the Postbank Group. The statement utilizes vision and mission to put the strategic orientation of Postbank into concrete terms. Six values define the proposed course. The letter and spirit of these values and principles are reflected in the Postbank guidelines and provisions that determine daily work and business life (such as organizational manuals and working instructions). They reflect Postbank's obligation to act responsibly, ethically, and lawfully. The mission statement is binding for all executive employees of the Postbank Group and is reflected in the Bank's target agreements. The status of implementation is reviewed as part of the annual people survey.

The following values of the Postbank Group form the cornerstones of our corporate culture:

- Customer orientation
- Integrity
- Sustainable performance
- Innovation
- Partnership
- Discipline

All employees of the Postbank Group are subject to the Code of Business Conduct and Ethics for Deutsche Bank Group. In addition, the Code of Ethics contains special obligations applying to the senior financial officers of Deutsche Bank, the Chief Financial Officer of Postbank, the heads of the Finance board department of Postbank, and the Chief Financial Officer of the Postbank subsidiary BHW Bausparkasse AG.

Furthermore, Postbank places a high value on the issue of sustainability. In its policy "Principles of Corporate Responsibility for the Postbank Group," the Bank has defined the targets, roles, requirements and responsibilities of sustainable business management. These principles are also binding for Postbank's executive employees.

For Postbank, sustainability involves the responsible use of social, ecologic and economic resources to ensure a lasting worthwhile future for coming generations. As an integral component of the business strategy, the principle of sustainability is put actively into practice in our daily work. In addition, our "Supplier Code of Conduct" also requires the Bank's suppliers to observe these values.

As a company, we are an integral part of the society in which we operate. We are convinced that we can gain long-term competitive advantage by actively managing the direct and indirect impact of our business activities on the environment and society. This approach will allow us to exploit ecologic and social opportunities better, reduce risks in our sphere of influence, and in this way generate sustainable added value for our stakeholders.

We are particularly committed to providing our employees with attractive and safe working conditions as well as to conserving natural resources.

Company management is focused in particular on the sustained creation of value. These efforts are based on clear values and minimum standards for behavior in day-to-day business as well as the structuring of remuneration for employees, managers, and Management and Supervisory Board members in accordance with the required sustainable company-performance standards.

Operating principles of the Management Board and the Supervisory Board
The Management Board and the Supervisory Board work closely together for the collective good of the Company. In keeping with its responsibilities outlined in stock corporation law, the Management Board performs corporate management duties. The Supervisory Board fulfills its supervisory, monitoring and advisory duties. The shareholders – that is, the owners of Postbank – exercise their rights prior to or during the Annual General Meeting.

Management Board
The Management Board heads Deutsche Postbank AG and represents the Bank externally. The Management Board members share joint responsibility for the entirety of corporate management. In addition to their overall responsibility for the Bank, each member of the Management Board assumes individual responsibility for the board department that he or she oversees.

In the collective interest of the Company, the members of the Management Board ensure that uniform objectives are pursued. Coordinating and determining joint plans, goals, and the measures to realize them are a matter of course as are developing and implementing binding Company-wide policies. The Management Board develops the business goals, basic strategic focus, corporate policy, and organizational structure of the Group. It is responsible for the preparation of quarterly and half-yearly reports, and the annual financial statements of Deutsche Postbank AG as well as the consolidated financial statements for the Group, including the management reports. Furthermore, the Management Board ensures that the Company complies with laws and governmental regulations.

The Management Board regularly consults with the Supervisory Board about the Company's strategic direction and business planning as well as informs it about strategy implementation and the progress being made toward achieving these goals.

The Management Board holds regular meetings called by the Board's Chairman, who coordinates the work of the Management Board. The calling of an unscheduled meeting by the Chairman of the Management Board can be done for urgent reasons or upon the request of two Board members. The majorities required for adopting resolutions within the Management Board, the issues whose discussion is the responsibility of the entire Management Board, and the current assignments of board departments to individual Management Board members are governed by the Bylaws of the Management Board. Adequate human and financial resources are made available to the members of the Management Board for facilitating induction and for advanced training.

To promote efficient decision management, the Management Board has established committees that have the power to make their own decisions or the authorization to make preparations for decisions. These committees serve as vehicles for exchanging information on significant issues relevant to management as well as for preparing decisions of the Management Board. The composition of these committees and their areas of responsibility are governed by their own bylaws. Changes to these bylaws require the approval of the entire Group Management Board. The committees are required to report to the Group Management Board.

The Operating Committee's responsibilities comprise cost and resource management as well as the management of envisioned investments and projects.

The work of the Reputation Committee involves developing guidelines and evaluation criteria for products and processes designed to recognize, review, and escalate any potential reputational damage as well as overseeing these guidelines.

The Bank Risk Committee ensures management, planning, and monitoring for all material and immaterial risks in the Postbank Group across the various types of risk. The committee is responsible for strategic overall management of the risk situation and risk profile of the Postbank Group within the context of the framework conditions laid down by the Group Management Board (ICAAP and ILAAP; capital management). In carrying out its responsibilities, the Bank Risk Committee is supported by the Market Risk Committee, the Operational Risk Committee, the Cover Business Committee, the Model and Validation Committee, the Credit Risk Committee, the Data Quality Committee, the BHW Bank Risk Committee, the Regulatory RADAR Committee, the Outsourcing Committee, and the NCOU Committee.

The Consumer Banking Executive Committee assumes an advisory, coordination and decision-preparation role for Postbank's Management Board. It develops the sales strategy and regularly monitors sales channels and product activities, and offers ideas aimed at improving products and creating new ones.

The Investment Committee is responsible for evaluating capital investments and M&A transactions including the restructuring portfolios in investment management.

The Asset/Liability Committee focuses on the dovetailing of the strategic overall management of the Bank with risk and product management as well as the optimization of the balance sheet and capital structure and liquidity management.

Supervisory Board

The Supervisory Board appoints, monitors, and advises the Management Board. Its members meet the personal and professional requirements needed to properly carry out their responsibilities. They also devote sufficient time to those responsibilities. Adequate human and financial resources are made available for the induction and advanced training of the members of the Supervisory Board. The Supervisory Board is directly involved in decisions of fundamental importance for the Company, including matters subject to approval by the Supervisory Board in accordance with the Articles of Association or as set out in the Bylaws of the Supervisory Board. The Chairman of the Supervisory Board coordinates the work of the 20-member Supervisory Board. Ten of them are elected by the Annual General Meeting in individual elections or appointed by the courts as replacements until the next election by the next Annual General Meeting, in accordance with the provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act). Ten further members are elected by the employees in accordance with the provisions of the *Mitbestimmungsgesetz* (MitbestG – Co-Determination Act) of 1976. Seven of these members of the Supervisory Board are employees of the Company, including one executive employee. Three additional members of the Supervisory Board are representatives of unions represented at the Company.

To support it in its duties, the Supervisory Board has established seven committees that report to it on their work at regular intervals. These are the Executive Committee, Audit Committee, Human Resources Committee, Risk Committee, Compensation Control Committee, Nomination Committee, and Mediation Committee.

The Report of the Supervisory Board contains further details on the composition, function, and meeting agendas of the Supervisory Board and its committees.

For the purpose of filling positions on Postbank's Supervisory Board, objectives were formulated to ensure that its members have the requisite knowledge, skills, and professional experience to supervise and advise the Management Board competently. With regard to individuals proposed for election, particular attention is to be paid to their integrity, personality, motivation, professionalism, and independence. The Supervisory Board shall be composed of at least eleven independent members. It is assumed that the circumstance of employee representation and an employment relationship does not cast doubt on the independence as such of employee representatives. In particular, members of the Supervisory Board shall not perform advisory tasks for or exercise directorships with important competitors of the Company. Fundamental conflicts of interest, and not only temporary ones, are to be avoided. A standard age limit of 72 years and a standard membership limit of 20 years exist for Supervisory Board members. With regard to the composition of the Supervisory Board, it is also important that members possess international experience.

When examining potential candidates for new election or appointment of replacements for Supervisory Board positions that have become vacant, qualified women are to be included in the selection process and given appropriate consideration in election proposals. Since the Supervisory Board elections in 2003, between 15 % and 30 % of the members of our Supervisory Board have been women. During the period under review, six women served on the Supervisory Board, which corresponds to 30 %. With that percentage, the Supervisory Board has achieved the target value of 30 %, which was scheduled to be reached by 2017.

The efficacy of the Supervisory Board's work is reviewed on a regular basis and at minimum annually within the scope of an efficiency audit. In 2016, the evaluation once again addressed the structure, size, composition, and performance of the Management Board and the Supervisory Board and the knowledge, skills, and experience of members of both executive bodies as well as the bodies in their totality.

The current structure, size, composition, and performance of the Management Board and the Supervisory Board including their committees, and the cooperation between the Management Board and the Supervisory Board received positive evaluations, while the requirements for establishing a Supervisory Board committee dedicated to digital transformation was a matter of discussion. Members of both bodies have the fundamental knowledge, experience, and skills to effectively perform their managerial and supervisory tasks at Postbank. If replacements need to be appointed, the insights into the knowledge, skills, and experience gained from the examination of efficiency are to be taken into consideration.

Interaction between the Management Board and the Supervisory Board

Effective cooperation between the Management Board and the Supervisory Board rests on the sufficient flow of information about company matters to the Supervisory Board. Ensuring this exchange is the responsibility and common objective of the Management Board and the Supervisory Board.

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

The Management Board's information and reporting duties are laid down in both the Bylaws of the Management Board and those of the Supervisory Board.

To promote good corporate governance and to achieve sustained growth in enterprise value, the Management Board and the Supervisory Board are in regular close communication with regard to relevant questions of planning, business development, risk exposure, the internal control system, risk management, compliance, and strategic measures. The Chairmen of the Supervisory Board and the Management Board in particular are in regular contact.

The members of the Management Board and the Supervisory Board are obliged to act in the Company's interests and may not pursue any personal interests in their decisions. Any conflicts of interest are to be disclosed to the Supervisory Board. Material conflicts of interest, and not only temporary ones, in the person of a Supervisory Board member normally lead to a termination of the mandate. The Supervisory Board reports to the Annual General Meeting on any conflicts of interest that have arisen and how they were addressed.

Ancillary activities pursued by the Management Board members have to be approved by the Supervisory Board and/or the Executive Committee.

CONSOLIDATED FINANCIAL STATEMENTS: QUARTERLY AND MULTI-YEAR OVERVIEWS

CONSOLIDATED INCOME STATEMENT – QUARTERLY OVERVIEW[1]

	2016				2015[1]				2016	2015[1]
	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Jan.–Dec. €m	Jan.–Dec. €m
Interest income	975	956	1,004	992	992	1,043	1,057	1,073	3,927	4,165
Positive interest on financial liabilities	8	8	7	6	4	4	4	3	29	15
Interest expense	–434	–408	–455	–436	–502	–462	–464	–495	–1,733	–1,923
Negative interest on financial assets	–16	–15	–13	–10	–7	–5	–4	–3	–54	–19
Net interest income	533	541	543	552	487	580	593	578	2,169	2,238
Allowance for losses on loans and advances	–63	–45	–35	–41	–64	–64	–27	–54	–184	–209
Net interest income after allowance for losses on loans and advances	470	496	508	511	423	516	566	524	1,985	2,029
Fee and commission income	288	263	266	282	259	278	258	279	1,099	1,074
Fee and commission expense	–62	–65	–63	–66	–65	–59	–72	–56	–256	–252
Net fee and commission income	226	198	203	216	194	219	186	223	843	822
Net trading income	30	11	0	9	21	10	–1	26	50	56
Net income from investment securities	66	18	130	44	–30	13	15	29	258	27
Administrative expenses	–751	–684	–711	–707	–797	–579	–602	–615	–2,853	–2,593
Other income	69	20	23	29	588	111	101	89	141	889
Other expenses	–15	–12	–63	–27	–209	–149	–144	–144	–117	–646
Profit/loss before tax	**95**	**47**	**90**	**75**	**190**	**141**	**121**	**132**	**307**	**584**
Income tax	44	–9	–16	–9	44	–4	–6	–7	10	27
Profit/loss from ordinary activities after tax	**139**	**38**	**74**	**66**	**234**	**137**	**115**	**125**	**317**	**611**
Non-controlling interests	0	0	0	0	–1	0	0	0	0	–1
Consolidated net profit	**139**	**38**	**74**	**66**	**233**	**137**	**115**	**125**	**317**	**610**
Basic/diluted earnings per share €	0.64	0.17	0.34	0.30	1.06	0.63	0.53	0.57	1.45	2.79

[1]Figures adjusted (see Note 6)

CONDENSED STATEMENT OF COMPREHENSIVE INCOME – QUARTERLY OVERVIEW

	2016				2015[1]				2016	2015[1]
	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Q4 €m	Q3 €m	Q2 €m	Q1 €m	Jan.–Dec. €m	Jan.–Dec. €m
Profit/loss from ordinary activities after tax[1]	139	38	74	66	234	137	115	125	317	611
Other comprehensive income after tax	–125	–24	–79	70	72	115	–185	88	–158	90
Items that will not be reclassified to profit or loss	–39	–93	–60	–33	–10	124	6	–12	–225	108
Remeasurement gains/losses (–) on defined benefit plans	–39	–93	–60	–33	–10	124	6	–12	–225	108
Income tax on items not reclassified to profit or loss	19	4	2	10	–5	–4	0	1	35	–8
Items that will be/may be reclassified to profit or loss, before tax	–106	65	–21	93	87	–5	–192	100	31	–10
Change in revaluation reserve	–106	65	–21	93	87	–5	–192	100	31	–10
Unrealized gains/losses (–) for the period, before tax	–121	32	61	91	81	–14	–191	96	63	–28
Gains (–)/losses reclassified to profit or loss, before tax	15	33	–82	2	6	9	–1	4	–32	18
Income tax on items that will be/may be reclassified to profit or loss	1	0	0	0	0	0	1	–1	1	0
Non-controlling interests	0	0	0	0	–1	0	0	0	0	–1
Total comprehensive income	**14**	**14**	**–5**	**136**	**305**	**252**	**–70**	**213**	**159**	**700**

[1]Figures adjusted (see Note 6)

CONSOLIDATED INCOME STATEMENT – MULTI-YEAR OVERVIEW

	2012 €m	2013 €m	2014 €m	2015[1] €m	2016 €m
Interest income	6,100	5,158	4,734	4,180	3,956
Interest expense	–3,397	–2,695	–2,249	–1,942	–1,787
Net interest income	2,703	2,463	2,485	2,238	2,169
Allowance for losses on loans and advances	–384	–319	–265	–209	–184
Net interest income after allowance for losses on loans and advances	2,319	2,144	2,220	2,029	1,985
Fee and commission income	1,423	1,376	1,210	1,074	1,099
Fee and commission expense	–269	–256	–259	–252	–256
Net fee and commission income	1,154	1,120	951	822	843
Net trading income	–103	–53	–6	56	50
Net income from investment securities	–15	274	415	27	258
Administrative expenses	–2,991	–3,177	–2,754	–2,593	–2,853
Other income	148	129	364	889	141
Other expenses	–118	–119	–758	–646	–117
Profit/loss before tax	394	318	432	584	307
Income tax	–106	13	–172	27	10
Profit/loss from ordinary activities after tax	288	331	260	611	317
Non-controlling interests	–1	–1	–1	–1	0
Consolidated net profit	**287**	**330**	**259**	**610**	**317**
Cost/income ratio (CIR)	80.0 %	83.8 %	83.4 %	80.3 %	85.8 %
Return on equity (RoE)					
before tax	6.8 %	5.5 %	6.9 %	8.8 %	4.3 %
after tax	4.8 %	5.7 %	4.2 %	9.2 %	4.5 %

[1]Figures adjusted (see Note 6)

CONSOLIDATED BALANCE SHEET – MULTI-YEAR OVERVIEW

Assets	Dec. 31, 2012[1] €m	Dec. 31, 2013 €m	Dec. 31, 2014[1] €m	Dec. 31, 2015[1] €m	Dec. 31, 2016 €m
Cash reserve	2,054	1,739	1,230	1,357	2,291
Loans and advances to other banks	27,646	20,096	19,602	15,876	13,108
Loans and advances to customers	106,266	101,313	98,340	98,937	102,003
Allowance for losses on loans and advances	–1,745	–1,478	–1,361	–923	–998
Trading assets	5,135	1,824	697	647	475
Hedging derivatives	565	113	119	78	112
Investment securities	37,021	34,015	33,477	30,768	26,767
Intangible assets	2,248	2,028	1,952	1,902	1,963
Property and equipment	768	698	683	678	699
Current tax assets	113	115	148	101	144
Deferred tax assets	127	101	73	77	198
Other assets	719	717	283	514	388
Assets held for sale	7,039	157	–	489	47
Total assets	**187,956**	**161,438**	**155,243**	**150,501**	**147,197**

[1]Figures adjusted

Equity and Liabilities	Dec. 31, 2012[1] €m	Dec. 31, 2013 €m	Dec. 31, 2014[1] €m	Dec. 31, 2015[1] €m	Dec. 31, 2016 €m
Deposits from other banks	17,334	18,282	17,425	15,341	13,133
Due to customers	131,732	121,450	120,493	119,150	118,918
Debt securities in issue	9,436	7,342	4,571	3,446	3,339
Trading liabilities	5,953	1,681	767	665	409
Hedging derivatives	1,002	460	298	208	42
Provisions	3,033	688	854	703	907
a) Provisions for pensions and other employee benefits	1,530	93	155	56	254
b) Other provisions	1,503	595	699	647	653
Current tax liabilities	115	80	104	110	98
Deferred tax liabilities	137	70	41	9	17
Other liabilities	721	833	526	466	541
Subordinated debt	3,196	4,358	3,699	3,239	2,567
Liabilities directly related to assets held for sale	9,382	168	–	–	–
Equity	5,915	6,026	6,465	7,164	7,226
a) Issued capital	547	547	547	547	547
b) Share premium	2,010	2,010	2,010	2,010	2,191
c) Retained earnings	3,067	3,134	3,644	3,991	4,171
d) Consolidated net profit	287	330	259	610	317
Non-controlling interests	4	5	5	6	–
Total equity and liabilities	**187,956**	**161,438**	**155,243**	**150,501**	**147,197**

[1]Figures adjusted

SEGMENT REPORTING – MULTI-YEAR OVERVIEW

	Retail Banking					Corporate Banking					Transaction Banking	Financial Markets				
	2012 €m	2013 €m	2014 €m	2015[1] €m	2016 €m	2012 €m	2013 €m	2014 €m	2015[1] €m	2016 €m	2012 €m	2012 €m	2013 €m	2014 €m	2015[1] €m	2016 €m
Net interest income	2,461	2,485	2,591	2,303	2,222	390	302	277	358	342	1	−44	115	47	5	−41
Net trading income	−29	17	−10	22	13	0	−2	1	1	7	0	−4	−52	3	33	31
Net income from investment securities	0	0	0	0	90	−3	0	−10	−2	0	0	70	22	50	29	143
Net fee and commission income	974	908	877	731	681	89	90	83	126	126	294	−3	−14	−15	−21	−25
Total income	**3,406**	**3,410**	**3,458**	**3,056**	**3,006**	**476**	**390**	**351**	**483**	**475**	**295**	**19**	**71**	**85**	**46**	**108**
Administrative expenses	−1,773	−1,980	−1,707	−1,434	−1.456	−97	−95	−79	−91	−108	−277	−77	−63	−51	−44	−30
Allowance for losses on loans and advances	−242	−210	−221	−172	−128	−48	−38	−37	−36	−42	0	5	−2	1	1	0
Other income	32	31	4	49	34	8	9	16	2	2	11	0	19	1	1	1
Other expenses	−23	−31	−222	−146	−171	0	0	−1	−1	0	0	0	0	−3	0	−1
Allocations	−700	−516	−783	−832	−791	−91	−92	−99	−149	−152	−6	−51	−33	−38	−42	−39
Profit/loss before tax	**700**	**704**	**529**	**521**	**494**	**248**	**174**	**151**	**208**	**175**	**23**	**−104**	**−8**	**−5**	**−38**	**39**
Cost/income ratio (CIR)	**72.6 %**	**75.1 %**	**79.8 %**	**79.7 %**	**81.3 %**	**39.5 %**	**49.8 %**	**51.2 %**	**53.2 %**	**58.0 %**	**95.9 %**	**673.7 %**	**107.5 %**	**107.3 %**	**178.9 %**	**70.8 %**
Return on equity before taxes (RoE)	**28.3 %**	**28.3 %**	**19.9 %**	**17.2 %**	**14.1 %**	**35.1 %**	**27.1 %**	**25.2 %**	**42.3 %**	**32.1 %**	**–**	**−7.6 %**	**−0.7 %**	**−0.5 %**	**−2.6 %**	**2.4 %**

[1]Figures adjusted (see Note 40)

	NCOU					Cost Centers/ Consolidation					Group				
	2012 €m	2013 €m	2014 €m	2015[1] €m	2016 €m	2012 €m	2013 €m	2014 €m	2015[1] €m	2016 €m	2012 €m	2013 €m	2014 €m	2015[1] €m	2016 €m
Net interest income	–109	–416	–430	–369	–357	4	–23	0	–59	3	2,703	2,463	2,485	2,238	2,169
Net trading income	–66	–15	0	0	0	–4	–1	0	0	–1	–103	–53	–6	56	50
Net income from investment securities	–98	–60	–10	13	11	16	312	385	–13	14	–15	274	415	27	258
Net fee and commission income	10	18	6	6	–1	–210	118	0	–20	62	1,154	1,120	951	822	843
Total income	**–263**	**–473**	**–434**	**–350**	**–347**	**–194**	**406**	**385**	**–92**	**78**	**3,739**	**3,804**	**3,845**	**3,143**	**3,320**
Administrative expenses	–61	–27	–25	–13	–9	–706	–1,012	–892	–1,011	–1,250	–2,991	–3,177	–2,754	–2,593	–2,853
Allowance for losses on loans and advances	–99	–69	–8	–2	–14	0	0	0	0	0	–384	–319	–265	–209	–184
Other income	55	1	3	4	1	41	69	340	833	103	147	129	364	889	141
Other expenses	–25	–32	–100	–16	–5	–69	–56	–432	–483	60	–117	–119	–758	–646	–117
Allocations	–102	–53	–40	–38	–41	950	694	960	1,061	1,023	0	0	0	0	0
Profit/loss before tax	**–495**	**–653**	**–604**	**–415**	**–415**	**22**	**101**	**361**	**308**	**14**	**394**	**318**	**432**	**584**	**307**
Cost/income ratio (CIR)	**–62.0 %**	**–23.7 %**	**–38.4 %**	**–19.8 %**	**–16.0 %**	**–**	**–**	**–**	**–**	**–**	**80.0 %**	**83.8 %**	**83.5 %**	**80.3 %**	**85.8 %**
Return on equity before taxes (RoE)	**–36.2 %**	**–44.3 %**	**–31.7 %**	**–25.7 %**	**–30.1 %**	**–**	**–**	**–**	**–**	**–**	**6.8 %**	**5.5 %**	**6.9 %**	**8.8 %**	**4.3 %**

[1]Figures adjusted (see Note 40)

ACCOUNTING STANDARDS APPLIED AS OF DECEMBER 31, 2016

Standard[1]	Status (last revision)[2]	Original Title	German Title	Effective since[3]	Adopted by EU Regulation[4, 7]
1. International Financial Reporting Standards (IFRSs)[5]					
1.1. International Accounting Standards (IASs)					
IAS 1	rev. 2007 (2014)	Presentation of Financial Statements	Darstellung des Abschlusses	Jan. 1, 2007	2015/2406, Dec. 18, 2015
IAS 2	rev. 1993	Inventories	Vorräte	Jan. 1, 2005	1126/2008, Nov. 3, 2008
IAS 7	rev. 1992	Cash Flow Statements	Kapitalflussrechnungen	Jan. 1, 1994	1126/2008, Nov. 3, 2008
IAS 8	rev. 2003	Accounting Policies, Changes in Accounting Estimates and Errors	Bilanzierungs- und Bewertungsmethoden, Änderungen von Schätzungen und Fehler	Jan. 1, 2005	1126/2008, Nov. 3, 2008
IAS 10	rev. 2003	Events after the Balance Sheet Date	Ereignisse nach dem Bilanzstichtag	Jan. 1, 2005	1126/2008, Nov. 3, 2008
IAS 12	rev. 2000	Income Taxes	Ertragsteuern	Jan. 1, 1998	1126/2008, Nov. 3, 2008
IAS 16	rev. 2003	Property, Plant and Equipment	Sachanlagen	Jan. 1, 2005	1126/2008, Nov. 3, 2008
IAS 17	rev. 2003	Leases	Leasingverhältnisse	Jan. 1, 2005	1126/2008, Nov. 3, 2008
IAS 18	rev. 1993	Revenue	Erträge	Jan. 1, 1995	1126/2008, Nov. 3, 2008
IAS 19	rev. 2011	Employee Benefits	Leistungen an Arbeitnehmer	Nov. 1, 2005	475/2012, June 5, 2012
IAS 21	2005	The Effects of Changes in Foreign Exchange Rates	Auswirkungen von Änderungen der Wechselkurse	Jan. 1, 2008	1126/2008, Nov. 3, 2008
IAS 23	rev. 2007	Borrowing Costs	Fremdkapitalkosten	Jan. 1, 2009	1260/2008, Dec. 10, 2008
IAS 24	rev. 2009	Related Party Disclosures	Angaben über Beziehungen zu nahestehenden Unternehmen und Personen	Jan. 1, 2011	632/2010, July 19, 2010
IAS 28	rev. 2012	Investments in Associates and Joint Ventures	Anteile an assoziierten Unternehmen und Gemeinschaftsunternehmen	Jan. 1, 2006	1154/2012, Dec. 11, 2012
IAS 32	rev. 2003 (2008)	Financial Instruments: Disclosure and Presentation	Finanzinstrumente: Angaben und Darstellung	Jan. 1, 2005	1126/2008, Nov. 3, 2008
IAS 33	rev. 2003	Earnings per Share	Ergebnis je Aktie	Jan. 1, 2005	1126/2008, Nov. 3, 2008
IAS 34	1998	Interim Financial Reporting	Zwischenberichterstattung	Jan. 1, 1999	1126/2008, Nov. 3, 2008
IAS 36	rev. 2004	Impairment of Assets	Wertminderung von Vermögenswerten	March 31, 2004	1126/2008, Nov. 3, 2008
IAS 37	1998	Provisions, Contingent Liabilities and Contingent Assets	Rückstellungen, Eventualschulden und Eventualforderungen	July 1, 1999	1126/2008, Nov. 3, 2008
IAS 38	rev. 2004	Intangible Assets	Immaterielle Vermögenswerte	March 31, 2004	1126/2008, Nov. 3, 2008
IAS 39	2005 (2009)	Financial Instruments: Recognition and Measurement	Finanzinstrumente: Ansatz und Bewertung	Jan. 1, 2006	1126/2008, Nov. 3, 2008
1.2. International Financial Reporting Standards (IFRSs)[5]					
IFRS 2	rev. 2009	Share-based payment	Anteilsbasierte Vergütung	Jan. 1, 2011	244/2010, March 23, 2010
IFRS 3	rev. 2008	Business Combinations	Unternehmenszusammenschlüsse	Jan. 1, 2009	495/2009, June 3, 2009
IFRS 4	2005	Insurance Contracts	Versicherungsverträge	Jan. 1, 2006	1126/2008, Nov. 3, 2008
IFRS 5	2004	Non-current Assets Held for Sale and Discontinued Operations	Zur Veräußerung gehaltene langfristige Vermögenswerte und aufgegebene Geschäftsbereiche	Jan. 1, 2005	1126/2008, Nov. 3, 2008

Standard[1]	Status (last revision)[2]	Original Title	German Title	Effective since[3]	Adopted by EU Regulation[4, 7]
1.2. International Financial Reporting Standards (IFRSs)[5]					
IFRS 7	2004 (2009)	Financial Instruments: Disclosures	Finanzinstrumente: Angaben	Jan. 1, 2007	1156/2012, Dec. 13, 2012
IFRS 8	2007	Operating Segments	Geschäftssegmente	Jan. 1, 2009	1358/2007, Nov. 21, 2007
IFRS 10	2012	Consolidated Financial Statements	Konzernabschlüsse	Jan. 1, 2014	1154/2012, Dec. 11, 2012
IFRS 12	2012	Disclosures of Interest in Other Entities	Angaben zu Anteilen an anderen Unternehmen	Jan. 1, 2014	1154/2012, Dec. 11, 2012
IFRS 13	2012	Fair Value Measurement	Bemessung des beizulegenden Zeitwertes	Jan. 1, 2013	1154/2012, Dec. 11, 2012
1.3. International Financial Reporting Interpretation Commitee (IFRIC)					
IFRIC 4	2004	Determining Whether an Arrangement Contains a Lease	Feststellung, ob eine Vereinbarung ein Leasingverhältnis enthält	Jan. 1, 2006	1126/2008, Nov. 3, 2008
IFRIC 9	2006 (2009)	Reassessment of Embedded Derivatives	Neubeurteilung eingebetteter Derivate	Jan. 1, 2007	1126/2008, Nov. 3, 2008
IFRIC 10	2006	Interim Financial Reporting and Impairment	Zwischenberichterstattung und Wertminderung	Jan. 1, 2007	1126/2008, Nov. 3, 2008
IFRIC 21	2013	Levies	Bilanzierung von Abgaben	July 1, 2014	634/2014, June 13, 2014
2. Deutscher Rechnungslegungs Standard (DRS)[6] – German Accounting Standards (GASs)[6]					
DRS 16	2016	n. r.	Halbjahresfinanzberichterstattung	June 21, 2016	n. r.
DRS 17	2016	n. r.	Berichterstattung über die Vergütung der Organmitglieder	June 21, 2016	n. r.
DRS 20	2016	n. r.	Konzernlagebericht	June 21, 2016	n. r.
3. Kapitalmarktorientierte Vorschriften – Capital market-oriented provisions					
WpHG	2016	n. r.	Wertpapierhandelsgesetz; in particular sections 37v to 37z	March 31, 2016	n. r.

[1]Not all pronouncements that exist as of the reporting date are listed, but only those that are relevant to the Postbank Group.

[2]Postbank always applies current standards and amendments.

[3]Date from which the application of the pronouncement in accordance with IFRSs is compulsory; voluntary, earlier application is often possible. Should Postbank voluntarily apply a pronouncement earlier, this is explicitly referred to in the Notes.

[4]In accordance with section 315a (1) HGB in conjunction with the IAS Regulation (EU Regulation 1606/2002), Postbank is obliged to apply the IFRSs adopted by the EU (endorsement). The date shown corresponds to the date of approval by the European Commission (publication in the EU Official Journal follows shortly thereafter). As a rule, the date of application of the IFRSs adopted by the EU is the same date as given in the standards (see “Effective since” column). Should the EU adopt an IFRS in the period after the balance sheet date and before the day that the annual financial statements are signed, this IFRS may be applied in the annual financial statements (clarification by the European Commission at the ARC meeting on November 30, 2005).

[5]IFRSs: a generic term for all financial reporting standards published by the International Accounting Standards Board (IASB). Also the name for new financial reporting standards issued by the IASB since 2003. The pronouncements issued up to 2002 continue to be referred to as International Accounting Standards (IASs). IASs are only renamed IFRSs if fundamental changes are made to standards.

[6]Deutsche Rechnungslegungs Standards (German Accounting Standards – GASs) are applied if they pertain to items that are to be accounted for in accordance with section 315a HGB and are not already governed by IFRSs themselves.

[7]On November 3, 2008, the European Commission adopted the consolidated version of all International Financial Reporting Standards (IFRSs) currently in force in the EU. This version contains all IFRSs that have been adopted to date, including the latest amendments adopted as of October 15, 2008, to ensure that the companies need only draw on a single legal instrument in the future. The consolidated version supersedes eighteen individual regulations to date and replaces Regulation no. 1725/2003 of September 29, 2003 as well as all amendments made up to October 15, 2008.

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