2017

POSTBANK GROUP

INTERIM REPORT AS OF JUNE 30, 2017

Postbank

POSTBANK GROUP IN FIGURES

		Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Consolidated income statement			
Total income	€m	1,624	1,697
Administrative expenses	€m	–1,338	–1,418
Profit before tax	€m	316	165
Consolidated net profit	€m	301	140
Adjusted profit before tax[1]	€m	368	189
Cost/income ratio	%	80.5	86.2
Return on tangible equity			
before tax	%	12.0	6.4
after tax	%	11.4	5.5
Earnings per share[2]	€	1.38	0.64

		June 30, 2017	Dec. 31, 2016
Consolidated balance sheet			
Total assets	€m	144,829	147,197
Liabilities due to customers	€m	118,051	118,918
Loans and advances to customers	€m	103,799	102,003
Allowance for losses on loans and advances	€m	922	998
Equity	€m	7,369	7,226
Common Equity Tier 1 capital ratio regular phased-in	%	13.7[3]	14.2[4]
Common Equity Tier 1 capital ratio fully phased-in	%	12.8[3]	12.4[4]
Leverage ratio regular phased-in	%	3.9[3]	4.1[4]
Leverage ratio fully phased-in	%	3.6[3]	3.4[4]
Headcount (FTEs)		18,114	18,112
Long-term rating			
Fitch		A– Outlook negative	BBB+ Outlook stable

[1]The adjustments are shown in the Group Management Report in the section entitled "Net assets, financial position, and results of operations."
[2]Based on 218.8 million shares
[3]By factoring in the interim profit subject to supervisory authority approval
[4]Factoring in profit for fiscal year 2016 as approved by the supervisory authority

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DEVELOPMENTS IN H1 2017

Strategic measures impact customer business

In the first half of 2017, Postbank made progress with efforts to reach an equal balance between customer loans and deposits – thanks in particular to a growing loan portfolio. Our securities campaign was also successful, with the positive new business trend leading assets under management in securities and investment accounts to expand to €15.5 billion.

Checking accounts continue success story

The need to reposition our checking accounts model, driven by the low interest rate environment, was generally received with understanding by our customers. As a result, we were able to maintain our book of private checking accounts at just under 5 million as of June 30, 2017. The attractiveness of our checking account product was once again demonstrated by the 170,000 newly opened private checking accounts in the first six months of 2017. Its appeal was also acknowledged by the German financial publication FOCUS MONEY, which named it "best checking account" in its July 2017 edition. This successful repositioning of checking accounts has substantially helped enhance the Bank's earnings power in a persistently challenging market environment.

While Postbank is extraordinarily positioned with its nationwide network of branches, it also enjoys a similar digital positioning beyond that thanks to its end-to-end digital process for opening accounts and a multiple award-winning financial assistant app. Our checking account offer specially designed for users who prefer to do their banking business online, "Giro *direkt*", was utilized by more than 225,000 customers as of the reporting date. While more than 750,000 customers had selected our "Giro extra plus" checking account, the vast majority prefer the "Giro plus" version.

Stable progress in the deposit business

As of June 30, 2017, Postbank had been entrusted with €99.5 billion in deposits (not including home savings deposits). While deposit volumes changed very little compared with the end of the prior year, the trend of declining savings deposits with simultaneously rising demand deposits continued in the first six months of 2017. Volumes attributable to savings products sank by €1.3 billion to €37.3 billion, whereas demand deposits rose by around €2.2 billion or 4.6 % to €49.0 billion due to maintaining a higher level of liquidity in the low interest rate environment. Here the Bank focused on advising customers about investment alternatives given the current low interest rate environment.

Portfolio in consumer credit business expanded despite tough competition

The consumer credit portfolio grew by €0.3 billion or 3.4 % to reach €7.7 billion without a decline in portfolio quality. This positive trend is worth mentioning particularly given the tougher competitive pressure. In the first six months of 2017, new consumer credit business remained stable at the high level of €1.4 billion as compared to the prior-year period. This outcome was driven primarily by branch sales, which rose by €16.3 million or 4.3 % to €398.9 million.

In the area of digitization, Postbank also made a real push in the reporting period to make essential improvements to its process for automated budget accounting. In the future, the Bank will factor in transaction data from checking accounts as a source of information for credit checks. The goal here is to provide faster, more efficient and more customer-friendly self-reporting data and maintain, or further enhance, portfolio quality.

Once again the financial publication FOCUS MONEY (26/2017 edition), in cooperation with the experts of the Deutsches Finanz-Service Institut (DFSI – German Financial Services Institute), named Postbank overall winner in a test of the most cost-effective consumer credits. It won second place for its payment protection insurance, an area in which Postbank attaches the greatest importance to the transparency of its offer. In addition, Postbank also won first place in a recent study conducted by DISQ, the Deutsches Institut für Service-Qualität (German Institute for Service Quality – TEST, April 2017 edition), on behalf of the German television news agency n-tv. In its publication DISQ highlighted Postbank's attractive range of loans with cost-effective terms for customers using the online application process, and fully satisfactory customer service. In addition, the Bank's informative website also received positive recognition.

Mortgage lending trend still positive

New business in private mortgage lending continues to be buoyed by extraordinarily favorable financing terms and conditions as well as dedicated sales activities. New business volumes (including disbursed home savings loans) reached almost €6.2 billion. That figure appreciably surpasses the good level reached in the first half of 2016 once again by €0.7 billion or just over 13 %. As a result, Postbank's new business continued to outperform the market, which featured growth in new business with residential mortgages of 3.0 % for all German banks[1]. Sales volumes from the Group's in-house sales efforts (branches and mobile sales) grew by 7.2 %. We also achieved considerable sales growth of 23.2 % in our brokerage business, which Postbank conducts under the DSL brand.

The private mortgage lending portfolio (excluding home savings loans) experienced slight growth of €0.7 billion compared with the end of 2016 to reach €69.7 billion. The pace of portfolio growth, which was slow despite the rise in new business, can be attributed primarily to two factors: first, to a large proportion of loan commitments that are still in the preparatory phase; and second to our customers' continued heightened willingness to use contractual early loan repayment rights.

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. The good advisory services for mortgage lending offered by Postbank Finanzberatung received positive recognition from the rating website WhoFinance in collaboration with the daily newspaper WELT. In a special publication on June 30, 2017, WELT ranked Postbank Finanzberatung as number one among the best mortgage lending service providers.

The home savings business under the BHW brand is closely linked with the mortgage lending business of Postbank – whether that is through advance savings to fulfill future financing intentions or the integration of home savings products into immediate financing for long-term interest rate hedging. Total home savings written brokered through Postbank sales channels reached volumes of €4.4 billion in the first half of 2017. In the low interest rate environment, our customers continued to use home savings contracts to secure for themselves relatively modest interest rates in the future during the loan phase. As a result, the ratio of tariffs with low deposit and loan interest rates to total revenue also increased. Here, the incentive, in contrast to tariffs with high deposit and loan interest, is based on favorable loan interest instead of credit interest.

In the latest rate comparison conducted by FOCUS-MONEY (3/2017 edition), BHW Bausparkasse was named "the best home savings bank of its kind" and its "BHW FörderBausparen Flex", Postbank's government-supported home savings offer ("Wohn-Riester"), was ranked number one.

Securities and retirement provisions business profit from new advisory approach

At the end of 2016 Postbank launched a new securities strategy aimed at enabling the Bank, even in a low interest rate environment, to provide its customers good advisory services on capital market-oriented products with greater opportunities of returns. Thanks to the new advisory approach in personal channels, new business with funds grew by 39.8 % in 2017's first half to €1.4 billion. New business with investment funds is supported by increasing investments in exchange traded funds (ETFs), which Postbank began offering in its range of securities products for the first time at the start of 2017. By expanding its offer to include ETF savings plans since mid-year, Postbank has been able to offer additional attractive savings and investment products in a low interest environment. Assets under management in nearly 600,000 securities and investment accounts expanded by €0.5 billion or 3.3 % compared with the end of last year to €15.5 billion. Fund volumes in securities accounts rose by €0.4 billion or 5.5 % to €7.5 billion. The gain here was bolstered primarily by strong trends in new business in the first half of 2017 during which branch sales grew by 41.5 % and online channel sales by 25.9 % year-on-year.

The Bank's retirement provision business for 2017 has been restructured with a new product concept and modified sales processes. Owing to the need for concentration on other product fields, the optimizations we implemented are now beginning to slowly have an effect. Accompanying measures will be used to shore up this business area further in the second half of 2017.

Modernization and digitization of product range for business customers

Over the past months the introduction of diverse product innovations has comprehensively modernized and digitized our entire product range for business customers. New components and additional digital services have been specially tailored toward the needs of the target group. The new product offers, processes and systemic improvements take into account business customer requirements in the digital world.

[1] Source: Deutsche Bundesbank. This figure is determined by comparing new business from January to May of 2016 with business from the same period in 2017.

The launch of a market-leading and innovative "Business Assistant" app makes Postbank especially attractive for skilled craftsman with small businesses. The "Business Assistant" connects simple, secure online-banking with project management and correspondence functions. In addition, this exclusive app facilitates administrative and banking business tasks for our business customers. Following the successful "Family & Friends" phase, the app became available in the app store at the end of April 2017.

Thanks to the introduction of an online loan application process for retail customers as of March 2017, preparations for new features in the online application process for business customer loans were successfully concluded in the further course of the first half year. They included a function for uploading documents and a video legitimation process for verifying identities. The new, simple and convenient product version will be launched in the second half of 2017. Other digitization measures for all target groups are currently being implemented.

As part of the comprehensive project "Zukunft Konto GK" (the business customer account of the future), three new business customer checking account models were developed. They feature select innovations and differentiations oriented on the different usage patterns of typical customer groups. The product was successfully launched in May 2017.

Corporate customer loan portfolio continues positive trend

The corporate banking business was enlivened by the long-term strategic orientation of our corporate banking business on German small and medium-sized enterprises (SMEs) in connection with a risk conscious lending policy. New lending business for corporate customers in the reporting period expanded by 8 % year-on-year to reach €1.6 billion. The portfolio of loans to corporate customers grew €1.3 billion or 8 % compared with the end of 2016 to over €17.5 billion. In addition, the Bank has been able to reduce its deposit business by 3 % to €8.5 billion since the end of last year. Portfolio growth alongside a simultaneous reduction of the deposit surplus made an essential contribution toward achieving an equal balance between customer loans and deposits.

The primary driver of the growing corporate customer loan portfolio was among other things commercial real estate finance. Here, Postbank continues to adhere to a conservative lending policy that focuses on financing existing properties for professional real estate investors. Income in this area grew by a very satisfying 26 % compared with the first half of 2016. The loan portfolio expanded by 6 %, from €7.7 billion at the end of 2016 to more than €8.1 billion. New business is currently focused on risk-averse financing.

PB Factoring GmbH defended its leading market position with portfolio volumes of just under €3.0 billion.

Financial Markets secures customer business margins

The Financial Markets business division conducts the Postbank Group's money market and capital market activities. Its primary responsibilities include hedging net interest margin contributions from the customer business by managing interest rate risk and market risk. One special challenge in the first half of 2017 arose from efforts to secure margins of the forward loans portfolio, which has grown considerably.

Financial Markets also manages the liquidity position and, on the path toward reaching an equal balance between customer loans and deposits, places a particular focus on the disposal of short-term money market investments in a negative interest rate environment.

In the first half of 2017, the Bank was able to reduce its money market assets by another €1.2 billion. Postbank also experienced remarkable success with additional efforts to reduce investment securities thanks to the favorable market environment. This volume of investment securities sank by €2.3 billion to €24.5 billion. The reduction of investment securities is aimed primarily at improving the leverage ratio.

Discontinuation of the Non-Core Operating Unit as of August 1, 2017, following successful reduction of positions
Since its establishment in 2012, the NCOU has experienced great success, reducing more than €41 billion in assets (87 % of total NCOU assets) and correspondingly €18.7 billion in total capital demand (94 %). As a result, we have now essentially concluded risk reductions of assets not belonging to the core business. The remaining selected investment securities, specific foreign activities, and discontinued products in the customer business have been returned to the operating segments and scaled back even more. This implies no change in the portfolio strategies for the portfolios concerned, which will also be further reduced after the discontinuation of separate reporting. The Non-Core Operating Unit segment is thus formally dissolved as a Group segment of Postbank effective July 31, 2017.

INTERIM MANAGEMENT REPORT AS OF JUNE 30, 2017

REPORT ON ECONOMIC POSITION

OVERALL ECONOMIC PARAMETERS

Macroeconomic environment

The global economy picked up slightly in the first half of the year, although growth remained muted on the whole. Growth in the industrialized countries was nearly constant year-on-year; fluctuations were seen between the individual countries and regions. In the emerging markets, the economic upswing solidified slightly. However, quite a few emerging countries remained well behind their growth potential.

In the United States, the economy softened at the start of the year before signs of recovery began emerging in the second quarter. Growth momentum in private consumption abated somewhat overall in the first half of the year. However, gross capital expenditures were up substantially. Exports also demonstrated a clear trend toward improvement. Since imports were also up significantly, foreign trade did not provide any notable momentum. At the same time, the upswing on the labor market continued. Employment figures continued to rise at a similar pace as in the previous year, and the unemployment rate fell to its lowest level in more than 16 years.

In the eurozone, economic growth accelerated in the first half of the year. First-quarter GDP was up 0.6 % compared with the first quarter of 2016. In the second quarter a similar trend was evident. Sustained momentum came from private consumption, which benefitted from a decrease in unemployment. At the same time, gross capital expenditures began moving upward again. Exports also experienced a revival. Due to the strong growth in imports, however, the foreign trade balance had a negative impact on GDP growth compared with the prior-year period. Inflation was up at the beginning of the year, mainly due to baseline effect ensuing from the trend in oil prices. The inflation rate subsequently fell back, but nonetheless remained well above the level reported in the previous year.

The German economy made strong gains in the first half of the year. The first quarter saw GDP growth of 0.6 % compared with the first quarter of 2016. Similarly robust growth is expected for the second quarter based on the available data. Construction investments provided strong momentum, and investments in machinery and equipment recovered from the prior year's weak level. Sustained growth was seen in both private consumption and government spending, for which reason domestic demand continued to trend solidly upward. Exports were up markedly amid the slight recovery in the global economy, and thanks in particular to stronger economies in the other eurozone countries. All of these trends served to put the economic upturn on an even broader base in the first half, which positively impacted the labor market. Unemployment continued to retreat as companies increased hiring.

The positive climate was reflected in corporate sentiment, with the ifo Business Climate index reaching its highest level since German reunification.

General macroeconomic performance in Germany and the eurozone exceeded the forecasts we made in our 2016 Group Management Report, while the trend in the U.S.A. corresponded more or less with our forecast.

The situation with respect to government bonds issued by European Monetary Union countries became more turbulent in the first half of 2017. The government bond market in the periphery eurozone countries suffered from the general political uncertainty in Europe, due in part to the multitude of upcoming parliamentary and presidential elections. The yield spreads of Italian, Spanish and Portuguese government bonds over German Bunds all broadened, but to greatly varying degrees. Spanish bonds were the least affected as they were only subject to overall rising unease in Europe. Italy additionally experienced the effects of sustained weak growth as well as its banking sector problems, for which reason yield spreads in Italy widened to a greater extent than in Spain. However it was Portuguese bonds that were the most strongly affected, with yield spreads reaching their highest levels since early 2014. The increase in spreads was driven by the sustained high government deficit and ambiguity regarding future government economic policies. A clear turnaround in the government bond market was observed in April as prospects of a Macron victory in France became more likely and the general level of political unrest abated markedly. The turnaround in the trend was also supported by a moderate economic upswing in Italy. Portugal even reported a strong surge in growth and an unexpectedly sharp reduction in the government deficit. As a result, yield spreads over German Bunds fell substantially. Yield spreads for Spanish government bonds dropped until mid-year, falling well below their levels at the start of the year, while Italian government bonds were nearly stagnant. By contrast, yield spreads for Portuguese bonds saw an unusually significant decrease based on the meanwhile much more positive outlook for economic growth and public spending.

In April 2017, the ECB reduced the volume of its bond buying program from €80 billion to €60 billion per month, thereby putting its decision of December 2016 into effect. At its meeting in June 2017, the ECB made a limited adjustment to its forward guidance. It now anticipates leaving its key interest rates at the current levels for an extended period of time, whereas the bank had previously made explicit reference to the possibility of further reductions in key interest rates. The ECB kept its main refinancing rate constant at 0.00 %, and the deposit facility rate and the marginal lending rate were also unchanged at –0.40 % and 0.25 % respectively. The U.S. Federal Reserve pursued a "dovish tightening" of monetary policy in the first half of the year. In two steps, it raised its federal funds rate by a total of 0.50 percentage points to a range of 1.00 % to 1.25 %. The Fed also announced that it would begin reducing its total assets in the second half of 2017 by no longer reinvesting all of the proceeds from maturing U.S. Treasuries and mortgage backed securities.

Money market rates remained largely stable in the eurozone due to the ECB's policy of holding key interest rates constant. By mid-2017, the three-month Euribor was at –0.33 %, or 0.01 percentage points below the year-end 2016 figure.

Capital market interest rates were subject to sharp fluctuation during the first half of the year. Yields moved up and down in quick succession. The fluctuations were initially triggered by alternating forecasts regarding the direction the new U.S. administration would take in its economic policies, which correlated with the changing expectations regarding the pace of future increases in the Fed's federal funds rate. Political uncertainty in Europe was also a crucial factor. Yields dropped back in the wake of the UK government's petition to leave the European Union along with rising concerns regarding the outcome of the French presidential election. As the prospects for a Macron victory improved, investors began exercising less caution. Yields went back up, only to fall back again in light of rising expectations of a slow increase in the U.S. federal funds rate. At the end of June, yields experienced another strong boost fueled by eurozone economic data in combination with statements made by the ECB president that were interpreted as preparation for a reversal in monetary policy. At mid-year, yields for ten-year German Bunds were at 0.47 %, or 0.26 percentage points higher than the year-end 2016 level.

We had anticipated that the ECB would leave its monetary policy unchanged at the time of our 2016 Annual Report. With respect to long-term yields, we had expected a somewhat slighter increase.

Sector situation

The issues dominating the European banking sector in the first half of 2017 were the European Central Bank's continuation of its low interest rate policy, regulatory demands, and the solution found to the problem of non-performing loans of Italian banks and one Spanish institution.

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

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

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

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

In analyzing the business performance of German banks, we considered the banks listed in the industry index – Deutsche Börse's Prime Standard – and Postbank, as we have done in the past. We compared the banks' results for the period from January through March 2017 with those of the previous year. All five banks generated profits both before and after tax. However, both before-tax and after-tax profits were lower than in the prior-year period for two of the five banks. The continuing low interest rate environment left its mark on the balance sheets of all financial institutions, as can be seen from the changes in the individual line items on their income statements. Four banks reported a decline in net interest income before accounting for the allowance for losses on loans and advances, as did all five banks thereafter. The banks experienced varying degrees of success in dealing with the volatile market in the first quarter. While three institutions were able to improve net trading income, two of the banks saw declines. All five institutions were able to improve net fee and commission income compared with the prior year. The trend in administrative expenses revealed that the majority of financial institutions continue to focus on cost control. Four of the banks reduced their administrative expenses in the period under review. Three banks were able to reduce their cost/income ratio, and four registered an increase in return on equity after taxes.

The DAX was up by 7.4 % in the first half of 2017. The two banks listed in Germany's blue-chip index reported opposing trends. While share prices of one of the banks were up, the second institution's stock trended downwards.

SIGNIFICANT EVENTS AT POSTBANK IN THE FIRST HALF OF 2017

On March 5, 2017, Deutsche Bank released news of a modified strategy. A series of measures will now be undertaken with the intent in the mid-term of merging Postbank with Deutsche Bank's Private & Commercial Clients business and business with high-net-worth (HNW) customers. The decision is a reversal of an earlier plan for Postbank's disposal. Deutsche Bank's new strategic positioning and clear dedication to its home market is aimed at forming a market-leading retail and corporate banking presence in Germany that benefits from greater efficiency through scale.

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

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

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

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

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

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

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

Postbank's investment focuses in the first half of 2017
Investment activities in the first half of 2017 focused on improving Postbank's future viability.

As part of its digitization strategy, Postbank aims at enhancing its competitiveness by strengthening its earnings power and/or cutting costs. Investments in competitiveness include measures to intensify the linkage of "digitally & personally" supported advisory, sales and services processes both in the areas of overdraft facilities/installment loans and securities advisory services. In the first half of 2017, Postbank was able to fully digitize the process for setting up, increasing or reducing an overdraft facility, an achievement that will allow it to offer customers a markedly faster service in the future. At the same time, the Bank significantly reduced internal processing costs and times. In the area of installment loans, the Bank automated budget accounting as an integral part of its credit standing and solvency check. The digital budget accounting process utilizes information from Postbank checking account transactions and in this way provides faster, more efficient and more customer-friendly self-reporting data.

In line with the "digital & personal" strategic orientation, additional investments were made in a modern branch infrastructure with more customer-friendly, automated self-service offerings for Postbank's customers. At the same time, sales centers were expanded and new branch concepts piloted. Alongside these investments in digitization and infrastructure, the Bank continued to spend on measures to comply with regulatory standards. These efforts included meeting the requirements of IFRS 9, the recently revised EU Markets in Financial Instruments Directive (MiFID II), the Payment Accounts Directive and the Payment Services Directive (PAD/PSD), the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), Basel III/IV, as well as the specifications of the ECB and BaFin.

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 refer to comparisons of the results with the adjusted figures for the first half of 2016. The adjustments made can be found in Note 2 to the Consolidated Interim Financial Statements. Unless otherwise noted, the comments on balance sheet items refer to comparisons with the items as of December 31, 2016.

Net assets, financial position, and results of operations
In a persistently challenging market environment in the first half of 2017, Postbank managed to improve all financial key performance indicators relevant to management.

At €316 million, profit before tax in the first half of 2017 was up by a significant €151 million, or 91.5 %. This positive trend was supported considerably by the strategic measures launched at the end of 2016 which had a particularly positive effect on net fee and commission income in the first half of 2017. Thus despite the negative effects on net interest income resulting from the low interest rate environment, Postbank has improved total income slightly – adjusted for the extraordinary income from the sale of the strategic investment in Visa Europe Ltd. (€104 million). Stringent cost discipline in connection with capacity adjustments and the increased efficiency achieved through digitization initiatives, among other things, have also paid off. A significantly lower allowance for losses on loans and advances, which benefited from an ongoing advantageous macroeconomic trend and an adjusting event relating to the assumption of loan collateral, also had a positive impact on profit before tax.

Postbank generated an adjusted profit before tax[1] of €368 million. The significant improvement in profit before tax was the driver for the growth of €179 million, or 94.7 %. In the first half of 2017, adjustments for expenses for strategic initiatives amounted to €52 million. In comparison, profit before tax in the prior-year period had been adjusted for expenses for strategic initiatives (€72 million) as well as for extraordinary expenses to cover legal risks (€56 million) and the sale of the strategic investment in Visa Europe Ltd. (€–104 million).

Return on tangible equity (RoTE) after tax improved significantly in the first half of 2017 to reach 11.4 % following 5.5 % in the prior-year period.

The cost/income ratio (CIR) improved by 5.7 percentage points to 80.5 % as a result of stringent cost discipline and the measures introduced to improve long-term viability. In particular, the progress achieved on the cost side contributed greatly to the optimization of the cost/income ratio. The cost base was successfully reduced in the first half of 2017, with administrative expenses decreased by €80 million, or 5.6 %, and other expenses significantly down by €75 million, or 83.3 %. The positive development of the CIR is attributable primarily to the reduction in administrative expenses achieved mainly through savings in non-staff operating expenses and lower expenses for strategic initiatives. The decline in extraordinary expenses for legal risks from the prior-year period also benefited the CIR.

As a result of the significantly improved profit before tax, both the Common Equity Tier 1 capital ratio and the fully phased-in leverage ratio, subject to supervisory authority approval for the inclusion of interim profit, rose to 12.8 % (December 31, 2016: 12.4 %[2]) and 3.6 % (December 31, 2016: 3.4 %[2]), respectively.

RESULTS OF OPERATIONS

Total income

Total income declined by €73 million, or 4.3 %, to €1,624 million. The decrease is due mainly to the extraordinarily high net income from investment securities in the prior-year period, which had benefited in particular from the sale of the strategic investment in Visa Europe Ltd., at €104 million.

Excluding the income generated from the aforementioned sale of the strategic investment in Visa Europe Ltd. in the prior-year period, Postbank would have achieved growth in total income despite the persistently challenging market environment. In particular, the implementation of numerous measures aimed at increasing net fee and commission income along with continued strong growth of the customer loan portfolio, factors which had a positive impact on total income in the first half of 2017, made a significant contribution to this positive development. In an interest rate environment that is particularly unfavorable for net interest income, Postbank thus managed to hold its own and develop its total income positively on an adjusted basis.

Net interest income

Due to high volumes in its demand and savings deposits compared to the current lending business, the Bank has a deposit surplus. In times of negative money market interest rates that coincide with a conservative investment strategy, that surplus negatively affects net interest income. Due to the currently negative interest rates on the money market and of the ECB and continued declining interest income, net interest income decreased moderately by €68 million, or 6.2 %, to €1,027 million. An encouraging trend was apparent in interest expense which declined noticeably due primarily to high-interest liabilities reaching maturity. Yet this effect, along with the continued satisfactory performance of the new lending business and the resulting net increase in the Bank's portfolio of loans and advances to customers, did not completely offset the continuing pressure on net interest income.

Net fee and commission income

As a result of the implementation of numerous strategic measures, net fee and commission income increased by €68 million, or 16.2 %, to €487 million.

Major elements of these strategic measures were the introduction of a new checking account model for retail customers at the end of 2016. The introduction of the new securities strategy based on an improved advisory process also proved successful. New business with funds increased significantly in the first half of 2017, by 39.8 %. Assets under management in securities and investment accounts expanded by €0.5 billion, or 3.3 %, to €15.5 billion, thanks to improved sales activities. Additional positive effects on net fee and commission income were already evident from the inclusion of ETF savings plans in the Bank's range of products.

At €135 million, net fee and commission income generated through business with postal services and payment transaction services remained on a level with the prior-year period.

[1] Postbank regularly adjusts its profit before tax for material issues with an impact of greater than €10 million on profit before tax. In addition to effects from the sale and acquisition of companies in connection with initial consolidation and/or deconsolidation, these also include expenses for strategic initiatives (ESI) incurred outside of normal line activities in projects of limited duration and with separate governance structures, and expenses to cover legal risks in connection with consumer protection rulings. In the first half of 2017, expenses were incurred for legal risk in conjunction with consumer protection rulings that were below the materiality threshold of €10 million for each individual case.
[2] Factoring in profit for fiscal year 2016 as approved by the supervisory authority

Net trading income
At €52 million in the first half of 2017, net trading income was up €43 million, or 477.8 %, year-on-year. In particular, the increase is due to a rise of €24 million in measurement gains relating to the mortgage loan portfolio to which the fair value option is applied.

Net income from investment securities
At €58 million, net income from investment securities was down by €116 million, or 66.7 %, as against the prior-year period which had benefited from the sale of the strategic investment in Visa Europe Ltd. in the amount of €104 million. Ongoing reductions of a strategic equity investment based on a sales cooperation made a positive impact of €11 million (prior-year period: €22 million) to net income from investment securities. In addition, successful government bond transactions contributed positively to earnings.

Allowance for losses on loans and advances
After a historically low level of €76 million in the previous year, the allowance for losses on loans and advances declined by a further €64 million, or 84.2 %, to €12 million in the first half of 2017. This positive trend is mainly attributable to income (€52 million) from the reversal of the allowance for losses on loans and advances in connection with an adjusting event relating to the assumption of loan collateral. The reduced need for an allowance for losses on loans and advances underscores Postbank's continued high level of credit quality – measured by its loan-to-value (LtV).

The annualized net additions ratio – the allowance for losses on loans and advances for the customer loan portfolio – fell to a historically low level. At 2 basis points, it was once again significantly below the prior-year period by 13 basis points. In addition to Postbank's conservative business model, the unchanged positive macroeconomic environment, continued favorable conditions on the German labor market, and an adjusting event relating to the assumption of loan collateral that occurred in the first half of 2017 had a positive effect on the net additions ratio.

Administrative expenses
Postbank continued to meet the challenges of the low interest rate environment in the first half of 2017 with stringent cost management. By successfully implementing the strategic measures and the ongoing capacity adjustments, administrative expenses decreased by €80 million, or 5.6 %, to €1,338 million. In addition to the slight decrease in staff costs by €13 million, or 1.9 %, to €679 million, it was particularly the successful management of other administrative expenses, which fell noticeably by €66 million, or 9.7 %, to €611 million, that contributed significantly to reducing the cost base. In combination with the strategic measures to increase income, this more than offset the ongoing negative effects on net interest income and increased overall profitability.

Postbank continues to invest in measures to increase efficiency, in automation, and in the further digitization of the business model in order to continue both its progress and its leading role in digitization. Expenses for strategic initiatives attributable to administrative expenses were significantly down on the previous year, declining by €20 million, or 27.8 %, to €52 million, due in particular to the significantly lower expenses from deconsolidation projects.

Other income and expenses
Net other income and expenses amounted to €42 million, up significantly by €80 million on the negative prior-year figure, which had, however, been weighed down by extraordinary expenses to cover legal risks amounting to €56 million. In the first half of 2017, other income was positively affected by compensation of €15 million for Postbank's participation in the TLTRO group headed by Deutsche Bank as the lead institution. In contrast, negative effects resulted from provisions for legal risk in connection with consumer protection rulings in the upper one-digit million euro range.

Profit before tax and consolidated net profit
In a persistently challenging market environment, Postbank was able to increase profit before tax by €151 million, or 91.5 %, to €316 million. In addition to the positive trend in the allowance for losses on loans and advances, this success is mainly attributable to the strategic measures taken on both the income and cost sides. Among other things, successful reorganization of the account models and establishment of a new advisory approach in the securities business had a positive impact on net fee and commission income. Together with disciplined cost management and the growth achieved in the lending business, Postbank succeeded in nearly doubling profit before tax.

After factoring in income taxes of €15 million, consolidated net profit increased by €161 million, or 115.0 %, to €301 million.

Earnings per share
Earnings per share were €1.38 and thus more than double that of the prior-year period (€0.64).

SEGMENT REPORTING

Unless otherwise stated, the following comments on the individual segments represent a comparison with the retroactively adjusted figures for the first half of 2016 (see Note 1 to the Consolidated Interim Financial Statements).

Retail Banking
Profit before tax in the Retail Banking segment increased by €60 million, or 20.8 %, to €349 million. Here, too, the positive earnings trend is based on stringent cost discipline and the implementation of numerous measures aimed at increasing net fee and commission income.

Total income declined by €70 million, or 4.5 %, to €1,476 million. The decrease is due mainly to the extraordinarily high net income from investment securities in the prior-year period which had benefited significantly from the cash component received from the sale of the strategic investment in Visa Europe Ltd. (€90 million).

Net interest income declined by €68 million, or 6.0 %, to €1,065 million as a result of the ongoing negative effects of the low interest rate environment. Among the steps it took to address an interest rate environment particularly disadvantageous to net interest income, Postbank implemented numerous measures aimed at increasing net fee and commission income that had an effect in the first half of 2017. Thus Postbank succeeded in increasing net fee and commission income by €61 million, or 19.1 %, to €381 million, in particular by reorganizing its checking account models and launching the securities campaign at the end of 2016.

Net trading income amounted to €30 million, an increase of €27 million, or 900.0 %, compared with the prior-year figure. The segment's net trading income benefited mainly from substantial measurement gains in the mortgage loan portfolio, to which the fair value option is applied, and which were up €24 million on the previous year.

Net income from investment securities amounted to €0 million and was thus €90 million below the prior-year period, which had been positively impacted by the cash component received from the sale of the strategic investment in Visa Europe Ltd.

The allowance for losses on loans and advances increased by €6 million, or 12.2 %, to €55 million in the first half of 2017 due to the continued expansion of the lending business. Despite an increase in the allowance for losses on loans and advances, Postbank continued to benefit overall from a high level of credit quality in the entire retail banking business, the ongoing stable development of the German labor market, and healthy proceeds from collateral realization.

By adhering to stringent cost discipline, effective efficiency measures, and ongoing capacity adjustments, administrative expenses were successfully reduced by €30 million, or 4.8 %, to €591 million. Net other income and expenses also increased significantly by €53 million to €8 million. The improvement from operations was somewhat lower, however, as extraordinarily high charges relating to provisions for legal risks of €56 million had negatively affected the prior-year period.

In addition, the decrease in cost allocations by €53 million, or 9.8 %, to €– 489 million had a positive effect on earnings.

The cost/income ratio for the segment improved from 79.3 % to 74.2 %. The return on equity before tax increased to 20.7 %, following 16.7 % in the prior-year period due to an improvement in earnings.

Corporate Banking

Profit before tax in the Corporate Banking segment increased by €67 million, or 64.4 %, to €171 million. In addition to higher net interest income, this improvement in earnings was due in particular to a significantly lower allowance for losses on loans and advances alongside a stable development in costs.

Total income was €243 million compared with €241 million in the first half of 2016. Given the stabilization of the new lending business at a high level and the growth of loan portfolios, net interest income increased by a satisfactory €7 million, or 4.1 %, to €178 million.

At €66 million, net fee and commission income was 4.8 % above the level of the first half of 2016 (€63 million). The reorganization of the product world for business customers undertaken in the middle of 2017 created an additional opportunity to positively impact net fee and commission income in the second half of the year.

Net trading income was €–1 million, down €8 million, or 114.3 %, year-on-year, while net income from investment securities amounted to €0 million, as in the prior-year period.

The allowance for losses on loans and advances improved significantly by €68 million and, at €46 million, contributed to an increased profit before tax. This positive trend is mainly attributable to income (€52 million) generated from the reversal of the allowance for losses on loans and advances in connection with an adjusting event relating to the assumption of loan collateral. This made a substantial contribution to the positive trend in profit before tax in the Corporate Banking segment.

Administrative expenses increased by €3 million, or 6.0 %, to €53 million due to the increase in staff costs related to the ongoing expansion of the sales centers. In contrast, non-staff operating expenses decreased slightly.

Allocated items amounted to €–66 million and were thus €1 million, or 1.5 %, lower than the prior-year level.

Because the trend in the allowance for losses on loans and advances is not factored into the calculation of the cost/income ratio, this changed only slightly from 50.3 % to 50.9 % while the return on equity before tax increased significantly to 46.2 % (39.7 %).

Financial Markets

Loss before tax generated by the Financial Markets segment amounted to €19 million, narrowing by €12 million, or 38.7 %, year-on-year. The main driver of this trend was lower cost allocations, while income and expenses – including other income and expenses – remained nearly unchanged.

Total income declined by €1 million to €15 million and thus remained almost on a level with the prior-year period.

Net interest income fell by €22 million to €–54 million as a result of continued negative money market interest rates and higher interest expenses due to hedging transactions entered into for the forward portfolio that had grown more rapidly than anticipated. In contrast, the exercise of the first opportunity to terminate a hybrid bond (€11 million) that would have no longer been eligible for inclusion in the Bank's regulatory capital had a positive impact on net interest income.

At €–12 million, net fee and commission income remained on a level with the prior-year period.

Net trading income significantly exceeded the result of the prior-year period by €24 million and amounted to €23 million. The increase in net trading income resulted mainly from interest rate hedging transactions.

Net income from investment securities was sustained primarily by successful government bond transactions and the ongoing reduction of a strategic equity investment based on a sales cooperation. It fell by €3 million, or 4.9 %, to €58 million, moderately below the level of the prior-year period.

Administrative expenses remained stable at €4 million.

Net other income and expenses broke even, as had been the case in the comparable prior-year period.

Cost allocations fell significantly by €13 million, or 30.2 %, to €–30 million.

The return on equity before tax improved from –4.0 % to –2.0 % although it remained in negative territory. The cost/income ratio also exhibited a positive trend falling to 170.4 % (312.2 %).

Non-Core Operating Unit (NCOU)

The Non-Core Operating Unit (NCOU) segment performed better than in the prior-year period, gaining €26 million, or 12.3 %, to record a loss before tax of €185 million. The positive trend is attributable mainly to improved net interest income and lower other expenses.

Net interest income increased noticeably by €19 million, or 10.5 %, to €162 million due to positive effects from the ongoing reduction of high-interest liabilities reaching maturity. Interest expense was again significantly higher than the interest income generated by the NCOU segment since the remaining assets not belonging to the core business are contrasted by a significantly larger share of high-interest liabilities.

At €0 million, net fee and commission income and net trading income were unchanged as against the previous year.

While the sale of peripheral eurozone bonds had positively impacted net income from investment securities in the prior-year period, net income from investment securities was €0 million in the first half of 2017 due to the absence of such sales.

The allowance for losses on loans and advances negatively impacted the segment's profit before tax by €3 million following a negative effect of €5 million in the first half of 2016.

Administrative expenses decreased further by €1 million, or 16.7 %, to €5 million.

Significantly lower expenses were recorded in other expenses for negative effects from products that are no longer sold and for compounding interest on provisions. As a result, net other income and expenses improved by €8 million to €3 million.

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

Cost Centers

The Cost Centers segment includes the profit/loss of the infrastructure functions of Deutsche Postbank AG, BHW Bausparkasse AG, BHW Holding AG, PB Firmenkunden AG, Deutsche Postbank AG Luxembourg Branch, Postbank Direkt GmbH, Postbank Filialvertrieb AG, Postbank Finanzberatung AG, and Postbank Immobilien GmbH. The segment also includes the profit/loss of the subsidiaries allocated to the cost centers, i.e., Postbank Systems AG, Postbank Immobilien und Baumanagement GmbH, Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Deutsche Postbank Finance Center Objekt GmbH, DSL Portfolio GmbH & Co. KG, DSL Portfolio Verwaltungs GmbH, Postbank Service GmbH, BHW Kreditservice GmbH, Betriebs-Center für Banken AG, VÖB-ZVD Processing GmbH, and Postbank Beteiligungen GmbH.

Since the share-based purchase price component in the amount of €14 million from the Visa Europe Ltd. transaction had been recognized in the Cost Centers segment in the prior-year period and no non-recurring effects occurred in the first half of 2017, profit before tax fell by €14 million, or 100 %, to €0 million.

Overall, net interest income remained at a low level and amounted to €0 million (prior-year period: €4 million).

Net fee and commission income, which originates mainly from processing payment transaction services in this segment, increased moderately by €4 million, or 8.3 %, to €52 million.

Net trading income was unchanged at €0 million.

Net income from investment securities amounted to €0 million after €14 million in the prior-year period due to the aforementioned non-recurring effect from the recognition of the share-based purchase price component of the Visa Europe Ltd. transaction.

Administrative expenses were successfully reduced by €52 million, or 7.1 %, to €685 million. This was driven primarily by disciplined cost management of cross-divisional functions and effective efficiency measures.

Due to the allocation of fully absorbed costs, costs totaling €603 million were allocated to the other segments. Corresponding charges were incurred in those segments, totaling €–603 million.

Net other income and expenses amounted to €30 million, up €18 million on the prior-year figure. This positive development is primarily attributable to the income of €15 million generated in the first half of 2017 from participation in the TLTRO group.

NET ASSETS AND FINANCIAL POSITION

Balance sheet

As of June 30, 2017, Postbank's total assets decreased by €2.4 billion, or 1.6 %, to €144.8 billion compared with December 31, 2016. The ongoing reduction of total assets is attributable mainly to maturities of long-term liabilities which allowed non-customer related business to be reduced on the assets side.

Assets

On the assets side of the balance sheet, the share of the lending business with retail, business and corporate customers as a proportion of total assets increased. This was supported mainly by the continued growth of loans and advances to customers by €1.8 billion, or 1.8 %, to €103.8 billion, since new lending business continued to grow at a high level. In addition to an increase in private mortgage lending of €0.7 billion and a rise in installment loans of €0.3 billion, the Bank was also able to expand its portfolio of commercial loans by €0.7 billion. With customer deposits nearly unchanged, this allowed the Bank to take a further step in the pursuit of an equal balance between customer loans and deposits.

The continued reduction in short-term loans and advances to other banks by €1.2 billion, or 9.3 %, to €11.9 billion is evidence of success in reducing the deposit surplus, since it is primarily invested in the money market in line with a conservative investment strategy. In combination with the noticeable drop in investment securities by €2.3 billion, or 8.5 %, to €24.5 billion, this reduction in the lending business promoted a greater balance sheet orientation toward business with retail, business and corporate customers.

Trading assets decreased by €0.1 billion, or 17.9 %, to €0.4 billion compared with December 31, 2016.

Equity and Liabilities

On the liabilities side of the balance sheet, amounts due to customers declined by €0.9 billion, or 0.7 %, to €118.1 billion as of June 30, 2017. Continuing low interest rates promote a greater preference of consumers for spending over saving. This is reflected in the trend of savings deposits and home savings deposits from retail customers, which decreased by a total of €1.5 billion since the beginning of the year. In sum, other liabilities remained nearly level at €62.2 billion in the first half of 2017. The individual elements of other liabilities, however, recorded relatively significant developments. Demand deposits increased by €2.2 billion, or 4.6 %, to €49.0 billion, while the liabilities with agreed maturity, some of which are high-interest, fell by €1.5 billion, or 10.3 %, to €13.2 billion due to reaching maturity.

Deposits from other banks, at €12.4 billion, were down €0.8 billion, or 5.8 %, compared with the 2016 year-end.

As of June 30, 2017, the holdings of debt securities in issue amounted to €3.3 billion. There were no significant changes compared with the year-end.

Trading liabilities decreased by €0.1 billion to €0.3 billion compared with December 31, 2016.

Subordinated debt fell significantly by €0.6 billion, or 23.5 %, to €2.0 billion mainly due to the termination of a hybrid bond with a volume of €0.5 billion and lower-volume long-term liabilities reaching maturity.

Driven by the positive earnings trend, recognized capital was up slightly against year-end 2016 by €143 million, or 2.0 %, increasing to just under €7.4 billion.

Financial and non-financial key performance indicators

Profit before tax improved significantly by €151 million, or 91.5 %, to €316 million in the first half 2017. The strategic measures introduced to reduce Postbank's historically strong dependence on net interest income are significant drivers of this increase in profitability. These measures had a particularly positive impact on net fee and commission income, which increased by €68 million, and on administrative expenses, which were successfully reduced by €80 million. The reorganization of checking accounts, the securities campaign, the reduction of the deposit surplus through growth in the lending business, adjusting capacities, and the ambitious management of non-staff operating expenses more than offset the negative impact of low interest rates and – together with a significantly lower allowance for losses on loans and advances – nearly doubled profit before tax.

Primarily due to the growth in profit before tax, the adjusted profit before tax improved significantly year-on-year, increasing by €179 million, or 94.7 %, to €368 million. The prior-year period had been negatively affected in particular by the adjustment of the sale of the strategic investment in Visa Europe Ltd. in the amount of €104 million. In contrast, the effect of extraordinary expenses for legal risk (€56 million) incurred in the prior-year period was neutralized. Adjustments of €52 million relating to expenses for strategic initiatives were made in the first half of 2017, while an adjustment of €72 million had been made in the prior-year period.

Return on tangible equity after tax benefited from the improvement in earnings, increasing significantly to 11.4 % (5.5 %).

The cost/income ratio decreased to 80.5 % (86.2 %) as a result of stringent cost discipline. The main driver for this positive trend was the progress achieved in reducing total expenses, which benefited from the reduction in other administrative expenses as much as from the decline in extraordinary expenses for legal risks and lower expenses for strategic initiatives.

The fully phased-in Common Equity Tier 1 capital ratio, subject to supervisory authority approval for the inclusion of interim profit, rose once more from 12.4 %[1] at the 2016 year-end to 12.8 %. The Common Equity Tier 1 capital ratio was thus above our expectations. Higher profit and the successful reduction of risk-weighted assets were significant drivers of the improved equity.

As of June 30, 2017, the fully phased-in leverage ratio, subject to supervisory authority approval for the inclusion of interim profit, increased to 3.6 % and was thus 0.2 percentage points above the 2016 year-end. The calculations were based on the regulatory requirements as laid out in Article 429 of the CRR.

[1] Factoring in profit for fiscal year 2016 as approved by the supervisory authority.

In accordance with our plan, Postbank did not conduct a people survey during the year and consequently did not measure employee satisfaction. Customer satisfaction was also not surveyed; thus, we are not in a position to draw any conclusions on the development of the non-financial key performance indicators at the half-year point of 2017.

Overall assessment of business performance in the first half of 2017

Through the successful implementation of strategic measures on the earnings and cost sides, Postbank succeeded in more than offsetting the negative effects of low interest rates and in raising overall profitability significantly.

Excluding the extraordinary income from the sale of a strategic investment in the prior-year period, results of operations improved in a challenging market environment. In addition to the reorganization of the account models, this was due primarily to the successful strengthening of the securities and lending business with retail customers, and to improved net trading income. In light of the expansion of loans and advances to retail, business and corporate customers, the lending business takes up a growing share of Postbank's net assets and financial position.

The successful reduction of administrative expenses also made a significant contribution to the distinct increase in earnings, profitability, and efficiency.

Equity and capital ratios

Recognized capital in the period under review was up €143 million, or 2.0 %, compared to the prior-year figure, to reach €7,369 million.

The fully phased-in Common Equity Tier 1 (CET1) capital ratio, subject to supervisory authority approval for the inclusion of the interim profit for the first half of 2017, increased to 12.8 % as of June 30, 2017, following 12.4 %[1] at year-end. This positive development was mainly driven by the increase in consolidated net profit.

The regular phased-in Common Equity Tier 1 (CET1) capital ratio, subject to supervisory authority approval for the inclusion of interim profit, amounted to 13.7 % as of June 30, 2017. The slight deterioration compared to the prior year-end figure of 14.2 %[1] is essentially attributable to a regulatory rise in capital deductions.

As of June 30, 2017, the fully phased-in leverage ratio, subject to supervisory authority approval for the inclusion of interim profit, increased to 3.6 % (December 31, 2016: 3.4 %[1]). Due to the regulatory increase in capital deductions, the regular phased-in leverage ratio, subject to supervisory authority approval for the inclusion of interim profit, amounted to 3.9 % and was thus 0.2 percentage points below the prior year-end level[1].

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

OPPORTUNITY REPORT

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

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

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

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

[1] Factoring in profit for fiscal year 2016 as approved by the supervisory authority.

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

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

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

The short-term opportunities for improved income and expenses at Postbank from these possible developments may be hindered by mid- and long-term risks that could arise in the areas of credit, interest rate and liquidity risk 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 the first half of 2017 focused on strengthening the regulatory and economic capital base while maintaining our risk profile. This was against the background of the low interest rate policy still being maintained by the European Central Bank (ECB) as well as political uncertainty in Great Britain (Brexit) and France (elections).

Postbank continues to operate in a solid economic environment. In addition, economic growth accelerated in the eurozone and in Germany, in particular, in the first half of the year. 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.

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 the first half of 2017. The Group's risk-bearing capacity was ensured at all times. No risks that could impair the development of Postbank and its subsidiaries, or that could even jeopardize its existence as a going concern, are discernible at present. The key operationally managed risks for the Postbank Group are addressed in the following.

Credit risk

In the first half of 2017, the allowance for losses on loans and advances was well below the prior-year level due to the ongoing positive trend in Postbank's customer business. This was also attributable to the persistently favorable macroeconomic environment in which the Bank operates, strong proceeds from collateral realization, and systematic risk management.

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

Market risk

Postbank's market risk is influenced in particular by interest rate and credit spread trends in the European capital market. Money market interest rates were nearly unchanged in negative territory throughout the first half of 2017 and remained at a historically low level. In contrast, interest rates on the capital market increased across all maturities. Operational value at risk (VaR) in the banking book was down slightly on the prior year-end level as of the reporting date following a slight increase in the open interest rate risk position and a reduction in credit spread risk.

The market risk capital requirement, which is calculated on the basis of a stressed value at risk approach, declined significantly compared with the prior year-end. This was due on the one hand to a reduction in the credit spread exposure and to an adjustment in the modeling of the relevant risk parameters on the other. Looking ahead, we expect risk capital requirements to remain at the current level in the second half of 2017. However, the political uncertainty that continues to dominate could also result in a return to increased market volatility and thus to corresponding fluctuations in present value.

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

Liquidity risk

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

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

Operational risk

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

In addition, recent years saw 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 first half of 2017, although the distribution of closed-end funds was discontinued in 2012.

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.

There has been no major change in the assessment of business risk as against the description given in the 2016 Group Management Report.

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 in the second half of 2017.

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

In the first half of 2017, Postbank pushed ahead with the implementation of comprehensive regulatory changes. The particular focus was on measures aimed at improving IT security and ensuring business continuity during IT outages, as well as the further strengthening of the IT infrastructure for the aggregation of risk data and risk reporting.

Postbank also continued its measures for implementing 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).

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

Risk management within the Deutsche Bank Group

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

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

As the owner of Postbank, Deutsche Bank announced the merger of Postbank with Deutsche Bank's Private & Commercial Clients business.

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 33 to the Consolidated Interim Financial Statements.

Postbank distinguishes between the following risk types:

Market risk, credit risk, liquidity risk, operational risk, and business risk.

For a detailed presentation of the individual risk types, please see the 2016 Group Management Report. There have been no major changes as against the description given therein.

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.

Postbank's risk management focuses have not changed materially as against the description given in the 2016 Group Management Report. The methods, systems, and processes discussed in the 2016 Group Management Report, and the reporting system that builds on them, are subject to continuous review and enhancement in order to meet market, business and regulatory requirements.

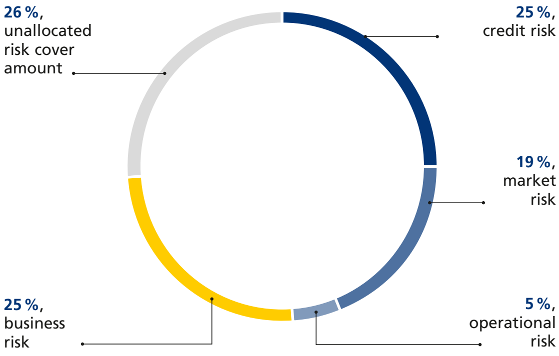
Risk capital and risk limitation

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 the first half of fiscal year 2017 (calculated as of June 30, 2017):

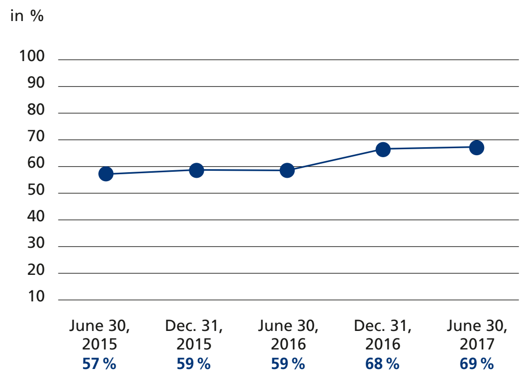
Breakdown of Postbank's "economic creditor protection" risk cover amount by risk type (approved risk capital)



The absolute amount of economic creditor protection risk cover and a breakdown of the absolute amount of risk capital by risk type (as of June 30, 2017, and the prior-year closing date) are given in Note 33 to the Consolidated Interim Financial Statements.

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



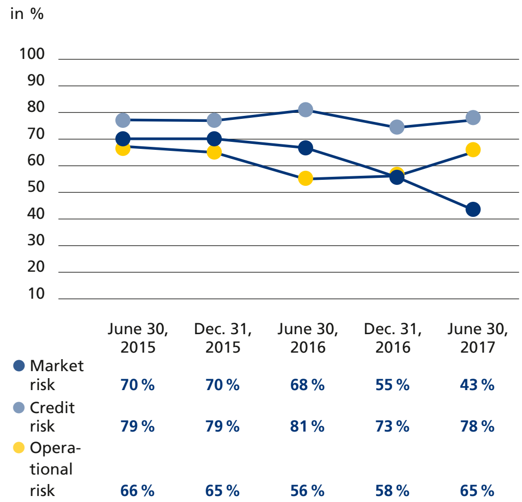
Risk cover utilization (in economic creditor protection), measured in terms of the allocated risk capital after diversification, amounted to 69 % as of the reporting date. Overall, in the first half of 2017, there was a slight decline in the aggregate allocated risk capital compared with the 2016 year-end. The risk cover amount decreased as against December 31, 2016, and utilization therefore increased by 1 % year-on-year. The main reason for the decline in the risk cover amount is a reduction in subordinated debt (in particular due to the termination of a hybrid bond). From a going concern perspective as well, the available risk cover amount provides sufficient cover for the risk potential calculated.

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

Market risk is managed by allocating VaR and loss limits both at Group level and for the relevant portfolios. A stressed value at risk (sVaR) concept is used for market risk. Under this concept, capital requirements for market risk are calculated assuming a period of stress. The period used to determine the stressed VaR at the end of the first half of 2017 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



As of June 30, 2017, utilization of the authorized risk capital for market risk in the narrower sense of the term amounted to 43 %, a significant decline compared with the prior year-end (December 31, 2016: 55 %). This decrease is attributable to the reduction in the credit spread exposure and to the adjusted modeling of the relevant risk inputs. Credit risk limit utilization amounted to 78 % as of June 30, 2017 (December 31, 2016: 73 %). Higher business volumes in the strategic business areas of the Retail Banking and Corporate Banking segments were offset by rating upgrades. The increase in risk was due to a recalibration of the credit risk model.

Utilization of the authorized risk capital limit for operational risk increased noticeably, from 58 % as of the 2016 year-end to 65 % as of June 30, 2017. This is due to a change in the structure of the data on both internal and external losses obtained from the ORX consortium (Operational Riskdata eXchange Association).

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

Risk concentrations

For information on the identification, reporting, and monitoring of risk concentrations as well as projects to improve credit portfolio management, please see the 2016 Group Management Report.

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.

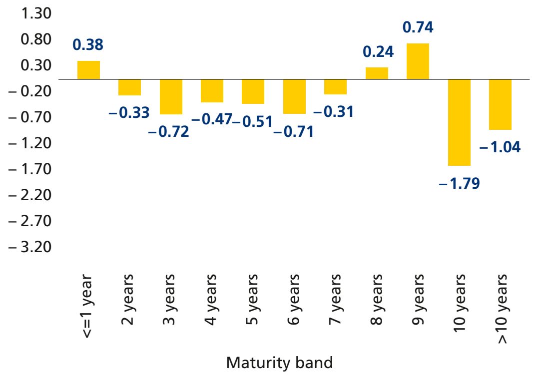
A strategy designed to prevent regional specific concentration risks is being pursued for the commercial mortgage portfolio. The focus is mainly on Germany and Europe.

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.

Interest rate risk – a significant component of market risk – is the term used to denote the risk of a decline in the fair value of interest-sensitive financial instruments resulting from a change in the market rate of interest or a deterioration in net interest income for the period due to changes in the general market rate of interest. Interest rate risk analysis is an integral part of daily market risk measurement. The following chart presents the profile of Postbank's open interest rate positions as of June 30, 2017, 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 June 30, 2017.

The Postbank Group's interest rate positions (bpv) as of June 30, 2017



The graphic shows that the long interest rate positions open as of the reporting date of June 30, 2017, are distributed across almost all maturity ranges. Only in the maturity range of less than one year and in the maturity band of eight to nine years are the majority of interest rate risk overhangs on the short side. The total bpv as of June 30, 2017, amounted to €–4.5 million, compared with €–3.6 million as of December 31, 2016. Interest rate sensitivity is primarily the result of positions in euros; interest rate sensitivities in other currencies are immaterial. Postbank mainly uses interest rate swaps to actively manage interest rate risk. Those elements of capital made available to the Bank indefinitely are excluded when determining interest rate risk.

Monitoring market 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 June 30, 2017 (one-sided binomial test in accordance with the Basel traffic light approach) produced four outliers at Group level and were thus in the green zone, thereby confirming the general adequacy of the market risk model.

For more detailed descriptions of the methods used to measure and limit market risk, please see the "Monitoring and managing market risk" section of the Risk Report contained in the 2016 Group Management Report.

Stress testing

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

Risk indicators

The following VaR figures were calculated for the first half of 2017 and the second half of 2016, respectively:

Postbank Group VaR relating to market risk

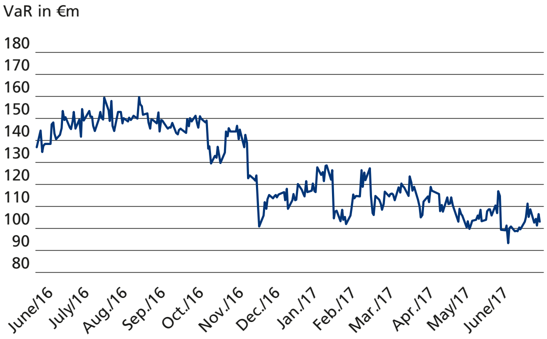
Group VaR (10 days, 99 %)	VaR at end of half-year		Maximum VaR		Minimum VaR		Average VaR	
	H1 2017 €m	H2 2016 €m	H1 2017 €m	H2 2016 €m	H1 2017 €m	H2 2016 €m	H1 2017 €m	H2 2016 €m
Interest rate risk	67.4	58.5	82.0	87.8	51.3	45.5	63.5	74.5
Equity/stock index risk	5.5	6.3	6.7	8.1	5.3	6.1	6.1	7.0
Currency risk	5.8	7.2	8.2	8.0	3.6	3.7	5.0	4.7
Other market risk (spread)	56.9	73.2	78.3	99.7	55.4	71.3	68.3	89.8
Diversification effects	−33.0	−36.9	−39.1	−44.5	−24.6	−26.5	−32.0	−35.3
Total	**102.6**	**108.3**	**128.1**	**159.1**	**92.8**	**100.4**	**110.8**	**140.6**

The VaR for market risk (confidence level of 99 %, holding period of 10 days) amounted to a total of €103 million as of June 30, 2017 (for comparative purposes: €108 million as of December 31, 2016).

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

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

Postbank Group VaR (99 %, 10 days) for the period from July 1, 2016, to June 30, 2017



The VaR trend in Postbank's banking book is driven mainly by the development of two risk factors: interest rate spread and credit spread. Following a significant decline in operational VaR figures at the end of the second half of 2016, which was primarily driven by a reduction in the interest rate and credit spread risk positions on the assets side, the VaR stabilized in the first half of 2017 at a level of approximately €100 million to €120 million.

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

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. For a detailed presentation, please see the "Monitoring and managing credit risk" section of the 2016 Group Management Report.

The following table provides an overview of material credit risk indicators for the various segments as of June 30, 2017, compared with the end of 2016 (volumes: IFRS carrying amounts).

Credit risk	Volume		Expected loss		Economic capital (EC)[1]	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Retail Banking	77,114	76,737	313	318	574	569
Corporate Banking	17,391	16,336	47	56	494	392
Financial Markets	40,024	42,977	5	5	449	379
Non-Core Operating Unit	6,120	6,414	6	6	542	582
Pension funds	n/a	n/a	1	1	55	49
Total	**140,649**	**142,464**	**373**	**386**	**2,114**	**1,971**

[1]The underlying confidence level is 99.93 %.

The economic capital (EC) increased compared with the prior year-end while the expected loss (EL) decreased. Rating upgrades and higher volumes in the strategic business areas of the Retail Banking and Corporate Banking segments led to a decline in the EL. The increase in EC was attributable to a model recalibration, i.e., the time series for estimating the correlation coefficients relating to the non-retail portfolio have been updated. This resulted in higher correlation coefficients on average and in an increase in EC in the Corporate Banking and Financial Markets segments as well as in the pension funds.

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

Maximum counterparty credit risk

Risk-bearing financial instruments	Maximum counterparty credit risk exposure		Allowance for losses on loans and advances		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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Trading assets	**390**	**475**	**–**	**–**	**390**	**475**	**46**	**51**	**–**	**–**	**344**	**424**
Held for trading	390	475	–	–	390	475	46	51	–	–	344	424
Derivatives	343	422	–	–	343	422	–	–	–	–	343	422
Loans	47	53	–	–	47	53	46	51	–	–	1	2
Hedging derivatives	**69**	**112**	**–**	**–**	**69**	**112**	**–**	**–**	**–**	**–**	**69**	**112**
Loans and advances to other banks	**11,887**	**13,108**	**–**	**–**	**11,887**	**13,108**	**1,716**	**5,832**	**–**	**–**	**10,171**	**7,276**
Loans and receivables	11,887	13,108	–	–	11,887	13,108	1,716	5,832	–	–	10,171	7,276
Securities repurchase agreements	1,716	5,832	–	–	1,716	5,832	1,716	5,832	–	–	–	–
Overnight money	9,009	6,381	–	–	9,009	6,381	–	–	–	–	9,009	6,381
Loans	63	92	–	–	63	92	–	–	–	–	63	92
Registered bonds	99	300	–	–	99	300	–	–	–	–	99	300
Term deposits	1,000	500	–	–	1,000	500	–	–	–	–	1,000	500
Other loans and advances	–	3	–	–	–	3	–	–	–	–	–	3
Loans and advances to customers	**103,799**	**102,003**	**922**	**998**	**102,877**	**101,005**	**75,817**	**74,808**	**587**	**645**	**26,473**	**25,552**
Loans and receivables	100,596	98,358	922	998	99,674	97,360	72,680	71,256	587	645	26,407	25,459
Private mortgage lending	66,529	65,384	261	292	66,268	65,092	63,134	61,873	–	–	3,134	3,219
Home savings loans	2,875	2,992	6	5	2,869	2,987	2,765	2,912	–	–	104	75
Commercial loans	14,412	13,677	112	153	14,300	13,524	6,781	6,471	587	645	6,932	6,408
Public-sector receivables	5,039	5,205	3	4	5,036	5,201	–	–	–	–	5,036	5,201
Installment loans	7,688	7,438	388	389	7,300	7,049	–	–	–	–	7,300	7,049
Overdraft facilities	2,413	2,085	152	155	2,261	1,930	–	–	–	–	2,261	1,930
Promissory note loans	1,599	1,537	–	–	1,599	1,537	–	–	–	–	1,599	1,537
Other loans and advances	41	40	–	–	41	40	–	–	–	–	41	40
Fair value option	3,203	3,645	–	–	3,203	3,645	3,137	3,552	–	–	66	93
Private mortgage lending	3,203	3,645	–	–	3,203	3,645	3,137	3,552	–	–	66	93
Investment securities	**24,504**	**26,766**	**–**	**–**	**24,504**	**26,766**	**–**	**–**	**–**	**–**	**24,504**	**26,766**
Loans and receivables	9,902	12,196	–	–	9,902	12,196	–	–	–	–	9,902	12,196
Bonds and other fixed-income securities	9,902	12,196	–	–	9,902	12,196	–	–	–	–	9,902	12,196
Available for sale	14,602	14,570	–	–	14,602	14,570	–	–	–	–	14,602	14,570
Bonds and other fixed-income securities	14,301	14,252	–	–	14,301	14,252	–	–	–	–	14,301	14,252
Investment fund shares	265	270	–	–	265	270	–	–	–	–	265	270
Equity investments	35	43	–	–	35	43	–	–	–	–	35	43
Investments in unconsolidated subsidiaries	1	5	–	–	1	5	–	–	–	–	1	5
Subtotal	**140,649**	**142,464**	**922**	**998**	**139,727**	**141,466**	**77,579**	**80,691**	**587**	**645**	**61,561**	**60,130**
Contingent liabilities from guarantees	**390**	**379**	**11**	**18**	**379**	**361**	**–**	**–**	**1**	**0**	**378**	**361**
Revocable and irrevocable loan commitments	**21,222**	**20,861**	**19**	**27**	**21,203**	**20,834**	**–**	**–**	**50**	**13**	**21,153**	**20,821**
Revocable loan commitments[1]	12,863	13,095	9	13	12,854	13,082	–	–	–	–	12,854	13,082
Irrevocable loan commitments	8,359	7,766	10	14	8,349	7,752	–	–	50	13	8,299	7,739
Total	**162,261**	**163,704**	**952**	**1,043**	**161,309**	**162,661**	**77,579**	**80,691**	**638**	**658**	**83,092**	**81,312**

[1]Item includes irrevocable payment obligations (deposit protection fund and cash collateral relating to bank levy; see Note 28)

The table contains netting effects relating to trading assets and hedging derivatives (June 30, 2017: €6.3 billion; December 31, 2016: €7.1 billion) in the amount disclosed for the maximum counterparty credit risk exposure before collateral.

€3.6 billion of the amount disclosed in the “Investment securities” balance sheet item as of the reporting date relates to covered bonds (December 31, 2016: €4.1 billion).

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

Sector structure of the loan portfolio

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

Risk concentrations by sector and borrower group

Risk-bearing financial instruments	Retail customers		Banks/ insurers/ financial services		Countries		Commercial real estate finance		Services/ wholesale and retail		Industry		Other sectors		Total	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Trading assets	**47**	**53**	**148**	**211**	**0**	**–**	**81**	**97**	**33**	**26**	**24**	**23**	**57**	**65**	**390**	**475**
Held for trading	47	53	148	211	0	–	81	97	33	26	24	23	57	65	390	475
Derivatives	–	0	148	211	0	–	81	97	33	26	24	23	57	65	343	422
Loans	47	53	–	–	–	–	–	–	–	–	–	–	–	–	47	53
Hedging derivatives	**–**	**–**	**69**	**112**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**69**	**112**
Loans and advances to other banks	**–**	**–**	**11,887**	**13,078**	**–**	**–**	**–**	**30**	**–**	**–**	**–**	**–**	**–**	**–**	**11,887**	**13,108**
Loans and receivables	–	–	11,887	13,078	–	–	–	30	–	–	–	–	–	–	11,887	13,108
Securities repurchase agreements	–	–	1,716	5,832	–	–	–	–	–	–	–	–	–	–	1,716	5,832
Overnight money	–	–	9,009	6,381	–	–	–	–	–	–	–	–	–	–	9,009	6,381
Loans	–	–	63	62	–	–	–	30	–	–	–	–	–	–	63	92
Registered bonds	–	–	99	300	–	–	–	–	–	–	–	–	–	–	99	300
Term deposits	–	–	1,000	500	–	–	–	–	–	–	–	–	–	–	1,000	500
Other loans and advances	–	–	–	3	–	–	–	–	–	–	–	–	–	–	–	3
Loans and advances to customers	**81,756**	**80,723**	**452**	**342**	**5,536**	**5,693**	**8,128**	**7,669**	**4,168**	**4,030**	**2,775**	**2,573**	**984**	**973**	**103,799**	**102,003**
Loans and receivables	78,556	77,081	452	342	5,536	5,693	8,128	7,669	4,167	4,029	2,775	2,573	982	971	100,59	98,358
Private mortgage lending	66,427	65,271	0	0	1	1	–	–	17	20	0	0	84	92	66,529	65,384
Home savings loans	2,872	2,988	–	–	0	0	–	–	0	0	0	0	3	4	2,875	2,992
Commercial loans	459	336	361	299	24	20	8,128	7,669	2,909	2,992	1,982	1,861	549	500	14,412	13,677
Public-sector receivables	–	–	–	–	4,974	5,135	–	–	1	1	–	–	64	69	5,039	5,205
Installment loans	7,688	7,437	–	0	–	–	–	–	0	1	0	0	0	0	7,688	7,438
Overdraft facilities	1,110	1,049	16	12	0	0	–	–	802	567	406	329	79	128	2,413	2,085
Promissory note loans	–	–	51	31	533	533	–	–	437	446	387	383	191	144	1,599	1,537
Other loans and advances	–	–	24	0	4	4	–	–	1	2	–	–	12	34	41	40
Fair value option	3,200	3,642	–	–	0	0	–	–	1	1	–	–	2	2	3,203	3,645
Private mortgage lending	3,200	3,642	–	–	0	0	–	–	1	1	–	–	2	2	3,203	3,645
Investment securities	**–**	**–**	**7,736**	**8,963**	**14,248**	**15,319**	**–**	**–**	**1,200**	**1,284**	**696**	**675**	**624**	**525**	**24,504**	**26,766**
Loans and receivables	–	–	3,242	4,171	5,575	6,860	–	–	596	669	280	279	209	217	9,902	12,196
Bonds and other fixed-income securities	–	–	3,242	4,171	5,575	6,860	–	–	596	669	280	279	209	217	9,902	12,196
Available for sale	–	–	4,494	4,792	8,673	8,459	–	–	604	615	416	396	415	308	14,602	14,570
Bonds and other fixed-income securities	–	–	4,203	4,484	8,673	8,459	–	–	604	611	416	396	405	302	14,301	14,252
Investment fund shares	–	–	265	270	–	–	–	–	–	–	–	–	–	–	265	270
Equity investments	–	–	26	38	–	–	–	–	0	0	–	–	9	5	35	43
Investments in unconsolidated subsidiaries	–	–	–0	–	–	–	–	–	0	4	–	–	1	1	1	5
Subtotal	**81,803**	**80,776**	**20,292**	**22,706**	**19,784**	**21,012**	**8,209**	**7,796**	**5,401**	**5,340**	**3,495**	**3,271**	**1,665**	**1,563**	**140,649**	**142,464**
Contingent liabilities from guarantees	**5**	**6**	**10**	**13**	**–**	**–**	**11**	**9**	**176**	**199**	**109**	**84**	**79**	**68**	**390**	**379**
Revocable and irrevocable loan commitments	**18,034**	**17,778**	**101**	**136**	**140**	**140**	**426**	**233**	**1,393**	**1,458**	**749**	**766**	**379**	**350**	**21,222**	**20,861**
Revocable loan commitments[1]	11,649	11,624	51	12	20	20	–	–	575	748	347	450	221	241	12,863	13,095
Irrevocable loan commitments	6,385	6,154	50	124	120	120	426	233	818	710	402	316	158	109	8,359	7,766
Total	**99,842**	**98,560**	**20,403**	**22,855**	**19,924**	**21,152**	**8,646**	**8,038**	**6,970**	**6,997**	**4,353**	**4,121**	**2,123**	**1,981**	**162,261**	**163,704**

[1]Item includes irrevocable payment obligations (deposit protection fund and cash collateral relating to bank levy; see Note 28)

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

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Trading assets	**342**	**377**	**47**	**95**	**1**	**3**	**390**	**475**
Held for trading	342	377	47	95	1	3	390	475
Derivatives	295	324	47	95	1	3	343	422
Loans	47	53	–	–	–	–	47	53
Hedging derivatives	**3**	**5**	**49**	**70**	**17**	**37**	**69**	**112**
Loans and advances to other banks	**11,495**	**12,301**	**385**	**779**	**7**	**28**	**11,887**	**13,108**
Loans and receivables	11,495	12,301	385	779	7	28	11,887	13,108
Securities repurchase agreements	1,699	5,832	17	–	–	–	1,716	5,832
Overnight money	8,733	5,774	269	579	7	28	9,009	6,381
Loans	63	92	0	–	–	–	63	92
Registered bonds	–	100	99	200	–	–	99	300
Term deposits	1,000	500	–	–	–	–	1,000	500
Other loans and advances	–	3	–	–	–	–	–	3
Loans and advances to customers	**95,152**	**93,950**	**7,692**	**7,331**	**955**	**722**	**103,799**	**102,003**
Loans and receivables	91,960	90,316	7,683	7,322	953	720	100,596	98,358
Private mortgage lending	63,815	62,546	2,670	2,793	44	45	66,529	65,384
Home savings loans	2,573	2,695	300	296	2	1	2,875	2,992
Commercial loans	9,062	9,016	4,459	3,996	891	665	14,412	13,677
Public-sector receivables	5,032	5,198	7	7	–	–	5,039	5,205
Installment loans	7,652	7,409	22	21	14	8	7,688	7,438
Overdraft facilities	2,399	2,077	12	7	2	1	2,413	2,085
Promissory note loans	1,386	1,336	213	201	–	–	1,599	1,537
Other loans and advances	41	39	0	1	–	–	41	40
Fair value option	3,192	3,634	9	9	2	2	3,203	3,645
Private mortgage lending	3,192	3,634	9	9	2	2	3,203	3,645
Investment securities	**8,010**	**9,312**	**16,244**	**16,961**	**250**	**493**	**24,504**	**26,766**
Loans and receivables	4,279	5,170	5,565	6,728	58	298	9,902	12,196
Bonds and other fixed-income securities	4,279	5,170	5,565	6,728	58	298	9,902	12,196
Available for sale	3,731	4,142	10,679	10,233	192	195	14,602	14,570
Bonds and other fixed-income securities	3,447	3,843	10,679	10,229	175	180	14,301	14,252
Investment fund shares	265	270	–	–	–	–	265	270
Equity investments	18	28	0	0	17	15	35	43
Investments in unconsolidated subsidiaries	1	1	0	4	–	–	1	5
Subtotal	**115,002**	**115,945**	**24,417**	**25,236**	**1,230**	**1,283**	**140,649**	**142,464**
Contingent liabilities from guarantees	**349**	**341**	**41**	**38**	**–**	**–**	**390**	**379**
Revocable and irrevocable loan commitments	**20,903**	**20,558**	**297**	**290**	**22**	**13**	**21,222**	**20,861**
Revocable loan commitments[1]	12,755	12,983	96	101	12	11	12,863	13,095
Irrevocable loan commitments	8,148	7,575	201	189	10	2	8,359	7,766
Total	**136,254**	**136,844**	**24,755**	**25,564**	**1,252**	**1,296**	**162,261**	**163,704**

[1]Item includes irrevocable payment obligations (deposit protection fund and cash collateral relating to bank levy; see Note 28)

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Greece	0.0	0.0	0.0	0.0	1.1	1.1	0.0	0.0	0.0	0.0	1.1	1.1
Ireland	576.5	593.9	40.7	29.2	2.2	2.2	56.6	49.4	14.3	15.9	690.2	690.6
Italy	3,212.9	2,795.5	74.8	178.6	1,557.6	1,703.7	373.2	330.9	0.0	0.0	5,218.5	5,008.7
Portugal	0.0	0.0	2.1	0.0	3.1	3.0	14.5	12.9	0.0	0.0	19.8	15.9
Spain	778.3	600.8	263.2	234.4	25.0	25.7	194.6	186.5	0.0	0.0	1,261.1	1,047.4
Total	**4,567.6**	**3,990.2**	**380.9**	**442.1**	**1,589.0**	**1,735.7**	**639.0**	**579.8**	**14.3**	**15.9**	**7,190.8**	**6,763.7**

[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 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 June 30, 2017 (excluding "contingent liabilities" and "other liabilities").

In principle, Postbank uses the same rating for risk management as for capital requirements; this is normally the issuer rating rather than the rating given to a specific issue. Postbank has a large portfolio of *Pfandbriefe* and similarly collateralized issues that are relatively low-risk in nature. For this reason, the issue ratings are shown in the following table. The distribution of ratings in the Group loan portfolio reflects Postbank's conservative approach. The good rating categories predominate: 67 % 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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Trading assets	**–**	**–**	**5**	**18**	**41**	**74**	**236**	**211**	**24**	**75**	**37**	**44**	**343**	**422**
Held for trading	–	–	5	18	41	74	236	211	24	75	37	44	343	422
Derivatives	–	–	5	18	41	74	236	211	24	75	37	44	343	422
Hedging derivatives	**–**	**–**	**–**	**–**	**69**	**112**	**–**	**–**	**–**	**–**	**–**	**–**	**69**	**112**
Held for trading	–	–	–	–	69	112	–	–	–	–	–	–	69	112
Loans and advances to other banks	**8,689**	**5,600**	**47**	**44**	**1,960**	**4,970**	**1,131**	**2,414**	**14**	**21**	**46**	**59**	**11,887**	**13,108**
Loans and receivables	8,689	5,600	47	44	1,960	4,970	1,131	2,414	14	21	46	59	11,887	13,108
Securities repurchase agreements	–	–	17	–	1,699	4,284	–	1,548	–	–	–	–	1,716	5,832
Overnight money	8,573	5,482	30	44	260	685	131	135	11	18	4	17	9,009	6,381
Loans	17	17	–	–	1	–	–	30	3	3	42	42	63	92
Registered bonds	99	99	–	–	–	–	–	201	–	–	–	–	99	300
Term deposits	–	–	–	–	–	–	1,000	500	–	–	–	–	1,000	500
Other loans and advances	–	2	–	–	0	1	0	0	0	0	0	0	0	3
Available for sale	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances to customers[1]	**4,834**	**4,666**	**2,616**	**2,450**	**2,201**	**1,948**	**7,868**	**7,301**	**3,827**	**4,117**	**331**	**445**	**21,677**	**20,927**
Loans and receivables[1]	4,834	4,666	2,616	2,450	2,201	1,948	7,866	7,301	3,826	4,117	331	442	21,674	20,924
Private mortgage lending	1	1	–	–	5	6	37	29	53	52	4	20	100	108
Home savings loans	–	–	–	–	–	–	2	–	1	–	–	4	3	4
Commercial loans	887	818	896	580	2,107	1,874	6,412	5,958	3,140	3,540	249	344	13,691	13,114
Public-sector receivables	3,915	3,815	1,077	1,344	–	–	–	–	–	–	40	39	5,032	5,198
Installment loans	–	–	–	–	–	–	–	–	–	–	–	–	0	–
Overdraft facilities	–	–	124	–	6	1	628	500	449	422	1	–	1,208	923
Promissory note loans	31	32	515	522	83	67	787	813	183	103	–	–	1,599	1,537
Other loans and advances[1]	–	–	4	4	–	–	–	1	–	–	37	35	41	40
Fair value option	–	–	–	–	–	–	2	–	1	–	–	3	3	3
Private mortgage lending	–	–	–	–	–	–	2	–	1	–	–	3	3	3
Investment securities	**9,552**	**10,674**	**7,432**	**8,308**	**5,889**	**6,174**	**1,542**	**1,423**	**71**	**135**	**11**	**45**	**24,497**	**26,759**
Loans and receivables	3,438	4,109	2,421	3,668	3,208	3,488	788	808	40	116	–	–	9,895	12,189
Bonds and other fixed-income securities	3,438	4,109	2,421	3,668	3,208	3,488	788	808	40	116	–	–	9,895	12,189
Available for sale	6,114	6,565	5,011	4,640	2,681	2,686	754	615	31	19	11	45	14,602	14,570
Bonds and other fixed-income securities	6,114	6,565	5,011	4,639	2,401	2,416	753	613	18	19	4	–	14,301	14,252
Investment fund shares	–	–	–	–	265	270	–	–	–	–	–	–	265	270
Equity investments	–	–	–	1	15	–	–	1	13	–	7	41	35	43
Investments in unconsolidated subsidiaries	–	–	–	–	–	–	1	1	–	–	–	4	1	5
Total	**23,075**	**20,940**	**10,100**	**10,820**	**10,160**	**13,278**	**10,777**	**11,349**	**3,936**	**4,348**	**425**	**593**	**58,473**	**61,328**

[1]Rating distribution for commercial loans between "A" and "Not Rated" adjusted for 2016

Similarly, the following table shows the credit quality of the risk-bearing financial instruments for Postbank's retail banking business that were neither past due nor individually impaired as of the June 30, 2017, reporting date (excluding "contingent liabilities" and "other liabilities"). Postbank's retail banking 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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Trading assets	**–**	**–**	**0**	**0**	**4**	**5**	**24**	**27**	**19**	**21**	**–**	**–**	**47**	**53**
Held for trading	–	–	0	0	4	5	24	27	19	21	–	–	47	53
Loans	–	–	0	0	4	5	24	27	19	21	–	–	47	53
Loans and advances to customers	**0**	**0**	**284**	**490**	**5,094**	**4,807**	**33,345**	**32,662**	**38,319**	**37,828**	**3,072**	**3,197**	**80,114**	**78,984**
Loans and receivables	0	0	267	470	4,798	4,469	31,640	30,737	37,181	36,522	3,048	3,168	76,934	75,366
Private mortgage lending	0	0	168	173	3,797	3,775	29,240	28,351	30,235	29,754	2,064	2,196	65,504	64,249
Home savings loans	0	0	69	73	568	597	1,448	1,509	670	688	86	86	2,841	2,953
Commercial loans	0	0	16	214	315	4	70	61	38	31	19	25	458	335
Installment loans	0	–	3	3	60	53	640	593	5,625	5,431	789	787	7,117	6,867
Overdraft facilities	0	0	11	7	58	40	242	223	613	618	90	74	1,014	962
Fair value option	0	0	17	20	296	338	1,705	1,925	1,138	1,306	24	29	3,180	3,618
Private mortgage lending	0	0	17	20	296	338	1,705	1,925	1,138	1,306	24	29	3,180	3,618
Total	**0**	**0**	**284**	**490**	**5,098**	**4,812**	**33,369**	**32,689**	**38,338**	**37,849**	**3,072**	**3,197**	**80,161**	**79,037**

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

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

Disbursed credit exposures relating to loans and advances in the private mortgage lending portfolio are included into the calculation of loan to value if there is real estate collateral. Disbursed credit exposures that are backed by home savings deposits (5.0 % of the portfolio; December 31, 2016: 5.3 %) or secured by substitute collateral and negative pledge agreements (7.9 % of the portfolio; December 31, 2016: 7.9 %) are not included in the LtV calculation.

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

Loan-to-value class	June 30, 2017 in %	Dec. 31, 2016 in %
< = 50 %	28.7 %	29.9 %
> 50 %, <= 70 %	25.7 %	27.1 %
> 70 %, <= 90 %	26.3 %	25.5 %
> 90 %, <= 100 %	10.8 %	9.9 %
> 100 %, <= 110 %	6.2 %	5.5 %
> 110 %, <= 130 %	2.0 %	1.7 %
> 130 %	0.3 %	0.4 %
Total	**100.0 %**	**100.0 %**

As of June 30, 2017, 54.4 % of the private mortgage lending portfolio had a loan-to-value ratio of less than or equal to 70 % (December 31, 2016: 57.0 %).

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

Loans past due but not impaired

The following table shows those risk-bearing financial instruments that were past due but not impaired as of June 30, 2017:

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 collateral for financial instruments past due but not impaired	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Loans and advances to customers	**162**	**169**	**16**	**17**	**29**	**32**	**115**	**127**	**322**	**345**	**266**	**313**
Loans and receivables	162	168	14	16	26	28	110	121	312	333	256	302
Private mortgage lending	147	154	11	13	23	23	102	112	283	302	239	276
Home savings loans	4	4	3	3	3	5	7	8	17	20	16	18
Commercial loans	0	0	–	–	–	0	0	0	0	0	1	8
Public-sector receivables	–	–	–	–	–	–	–	–	–	–	–	–
Installment loans	2	1	0	–	0	0	0	0	2	1	–	–
Overdraft facilities	9	9	0	0	0	0	1	1	10	10	–	–
Other loans and advances	–	–	–	–	–	–	–	–	–	–	0	0
Fair value option	0	1	2	1	3	4	5	6	10	12	10	11
Private mortgage lending	0	1	2	1	3	4	5	6	10	12	10	11
Total	**162**	**169**	**16**	**17**	**29**	**32**	**115**	**127**	**322**	**345**	**266**	**313**

Impaired loans

The following table shows all impaired financial assets as of June 30, 2017, and December 31, 2016, broken down into individually impaired loans and advances to customers, and investment securities for which impairment losses have been recognized; no impairment losses have been recognized for loans and advances to other banks. The carrying amount after recognition of impairment losses is shown in the table as the difference between the carrying amount before impairment and the amount of the impairment loss.

Impaired financial instruments

Impaired risk-bearing financial instruments and collateral	Carrying amount before impairment		Amount of impairment loss		Carrying amount after impairment		Fair value of collateral for impaired instruments	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Loans and advances to customers	**1,686**	**1,747**	**735**	**798**	**951**	**949**	**572**	**702**
Loans and receivables	1,676	1,735	735	798	941	937	563	691
Private mortgage lending	642	725	183	209	459	516	431	569
Home savings loans	14	15	6	5	8	10	13	14
Commercial loans	263	228	93	127	170	101	119	108
Public-sector receivables	7	7	3	4	4	3	–	–
Installment loans	569	570	313	313	256	257	–	–
Overdraft facilities	181	190	137	140	44	50	–	–
Promissory note loans	–	–	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–	–
Fair value option	10	12	–	–	10	12	9	11
Private mortgage lending	10	12	–	–	10	12	9	11
Investment securities	**65**	**70**	**58**	**63**	**7**	**7**	**–**	**–**
Loans and receivables	65	70	58	63	7	7	–	–
Bonds and other fixed-income securities	65	70	58	63	7	7	–	–
Total	**1,751**	**1,817**	**793**	**861**	**958**	**956**	**572**	**702**

Overall, the moderate decrease in impaired financial instruments in the first half of 2017 was due to a noticeable decline in private mortgage lending which was partially offset by a marked increase in commercial loans. 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 44 % as of June 30, 2017 (December 31, 2016: 46 %).

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

Forborne and non-performing exposures to customers

Financial instruments within the "Loans and advances to customers" balance sheet item	Performing loans		Non-performing loans						Total	
	Not impaired		Impaired		Not impaired		Total			
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2015 €m
Forborne	**390**	**375**	**370**	**401**	**114**	**99**	**484**	**500**	**874**	**875**
Loans and receivables	388	373	370	401	112	98	482	499	870	872
Private mortgage lending	65	52	21	23	47	51	68	74	133	126
Home savings loans	0	0	0	0	0	0	0	0	0	0
Commercial loans	29	37	144	159	0	0	144	159	173	196
Public-sector receivables	0	0	7	7	0	0	7	7	7	7
Installment loans	226	218	157	152	50	42	207	194	433	412
Overdraft facilities	63	61	41	60	15	5	56	65	119	126
Promissory note loans	5	5	0	0	0	0	0	0	5	5
Other loans and advances	0	0	0	0	0	0	0	0	0	0
Fair value option	2	2	0	0	2	1	2	1	4	3
Private mortgage lending	2	2	0	0	2	1	2	1	4	3
Non-forborne	**100,899**	**99,044**	**1,316**	**1,346**	**710**	**738**	**2,026**	**2,084**	**102,925**	**101,128**
Loans and receivables	97,771	95,481	1,306	1,334	650	671	1,956	2,005	99,727	97,486
Private mortgage lending	65,212	63,974	621	702	564	582	1,185	1,284	66,397	65,258
Home savings loans	2,823	2,935	14	15	38	42	52	57	2,875	2,992
Commercial loans	14,092	13,383	119	69	28	29	147	98	14,239	13,481
Public-sector receivables	5,032	5,198	0	0	0	0	0	0	5,032	5,198
Installment loans	6,829	6,595	412	418	14	13	426	431	7,255	7,026
Overdraft facilities	2,148	1,824	140	130	6	5	146	135	2,294	1,959
Promissory note loans	1,594	1,532	0	0	0	0	0	0	1,594	1,532
Other loans and advances	41	40	0	0	0	0	0	0	41	40
Fair value option	3,128	3,563	10	12	60	67	70	79	3,198	3,642
Private mortgage lending	3,128	3,563	10	12	60	67	70	79	3,198	3,642
Total	**101,289**	**99,419**	**1,686**	**1,747**	**824**	**837**	**2,510**	**2,584**	**103,799**	**102,003**

Forborne exposures within the "Loans and advances to customers" balance sheet item totaled €874 million as of June 30, 2017 (December 31, 2016: €875 million); the increase in private mortgage lending and installment loans was offset by the decline in commercial loans and overdraft facilities.

Non-performing exposures amounted to €2,510 million as of the reporting date (December 31, 2016: €2,584 million). The decline is primarily the result of a decrease in private mortgage lending and an increase in commercial loans.

In addition to the exposures presented in the table above, as of June 30, 2017, 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 2.2 % of the total volume of higher-risk loans (NPL ratio) which are defined as loans and advances to customers plus loans and advances to other banks excluding securities lending agreements (December 31, 2016: 2.4 %).

Securitization positions

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

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

Provide Blue 2005-1	€7.6 million (€9.0 million)	(BHW Bausparkasse AG)
Provide Blue 2005-2	€23.4 million (€25.6 million)	(BHW Bausparkasse AG)
PB Domicilio 2007-1	€34.4 million (€37.8 million)	(BHW Bausparkasse AG)
PB Domicile 2006-1	€17.2 million (€18.4 million)	(Deutsche Postbank AG)

Postbank has limited investments in redeemed residential mortgage-backed securities. The portfolio had a carrying amount of €14 million as of June 30, 2017 (December 31, 2016: €17 million), having fallen due to repayments. The portfolio is valued periodically using arranger quotes or an internal valuation model.

Monitoring and managing liquidity risk

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

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.

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 regular 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 June 30, 2017.

The following table shows the financial liabilities as of June 30, 2017, and December 31, 2016, broken down into residual maturity bands:

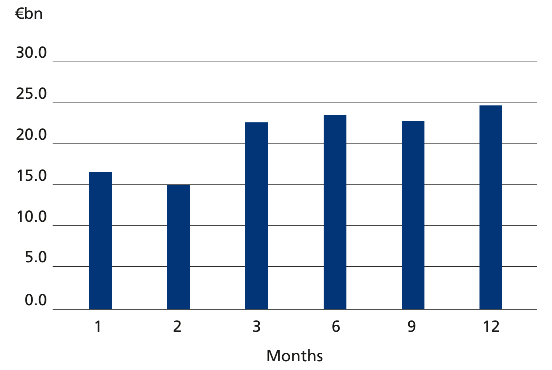
Liabilities by residual maturity

Liabilities	Payable on demand		≤ 3 months		> 3 months and ≤ 1 year		> 1 year and ≤ 5 years		> 5 years		Total	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Non-derivative liabilities	**69,561**	**67,281**	**42,671**	**43,753**	**21,066**	**21,878**	**14,209**	**15,742**	**12,483**	**14,033**	**159,990**	**162,687**
Deposits from other banks	71	369	3,324	3,334	1,201	1,439	4,849	5,325	4,577	4,784	14,022	15,251
Due to customers	47,878	45,672	38,621	39,787	19,408	20,163	6,405	7,019	4,715	5,275	117,027	117,916
Debt securities in issue	–	–	90	72	84	103	2,540	2,611	1,095	1,094	3,809	3,880
Subordinated debt	–	–	71	19	373	173	415	787	2,096	2,880	2,955	3,859
Other liabilities	–	–	565	541	–	–	–	–	–	–	565	541
Contingent liabilities from guarantees	390	379	–	–	–	–	–	–	–	–	390	379
Revocable and irrevocable loan commitments	21,222	20,861	–	–	–	–	–	–	–	–	21,222	20,861
Revocable loan commitments	12,863	13,095	–	–	–	–	–	–	–	–	12,863	13,095
Irrevocable loan commitments	8,356	7,766	–	–	–	–	–	–	–	–	8,359	7,766
Derivative liabilities	**–**	**–**	**36**	**63**	**100**	**91**	**54**	**113**	**150**	**182**	**340**	**449**
Hedging derivatives	–	–	4	7	2	–	12	16	13	18	31	41
Trading liabilities	–	–	32	56	98	91	42	97	137	164	309	408
Total	**69,561**	**67,281**	**42,707**	**43,816**	**21,166**	**21,969**	**14,263**	**15,855**	**12,633**	**14,215**	**160,330**	**163,136**

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 June 30, 2017, presents the expected cash inflows/outflows for the coming twelve months on a cumulative basis under normal conditions, in accordance with the principles of internal liquidity management:

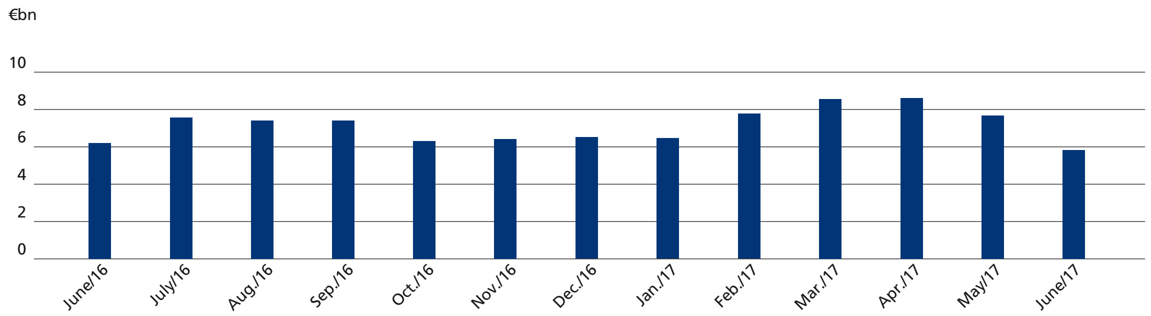
Liquidity status of the Postbank Group as of June 30, 2017



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

The results of the daily stress tests in the first half of 2017 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 June 30, 2016, to June 30, 2017. In the first half of 2017, surplus liquidity was always above the €5.9 billion mark.

Surplus liquidity of the Postbank Group from June 30, 2016, to June 30, 2017[1]



[1]Figures for June/16 until Dec./16 differ from the presentation in the 2016 Annual Report due to the consideration of an adjusted method to determine the liquidity buffer

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

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

Monitoring and managing operational risk

The economic capital requirements for operational risk for the Bank as a whole and for the individual business divisions are determined using the AMOR (Advanced Measurement of Operational Risk) operational risk capital model. Postbank's EC capital model is based on a loss distribution approach (LDA) that uses internal and external loss events, supplemented by scenario analyses, in its calculations.

The VaR limit for operational risk at overall bank level was unchanged at €700 million as of the reporting date. In the case of limit exceedances, the limit for operational risk is increased (including during the course of the year) at the expense of other risk types or of the unallocated risk cover amount.

At approximately €31 million, operational risk losses declined year-on-year in the first half of 2017 (first half of 2016: €53 million).

The main drivers of the trend in loss events in the first half of 2017 were the number of legal actions and complaints by customers – still high compared with the long-term average – in connection with closed-end funds, the distribution of which has been discontinued. Losses from cases of fraud, which were mainly caused externally, were down significantly year-on-year at approximately €5 million in the first half of 2017 (first half of 2016: €10 million). Other losses from cases of external fraud, which individually are only minor but that occur repeatedly during a year (high frequency/low impact losses), were at the previous year's low level of approximately €4 million. The focus in the fight against fraud remains on using the FRAUD Committee to communicate all material cases of fraud promptly throughout the Bank, as well as on raising the awareness of the employees involved in the relevant processes in order to ensure the systematic and widespread early identification of cases of fraud. The technical and organizational measures taken in previous years continued to prove their worth.

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)	
	June 30, 2017 €m	Dec. 31, 2016 €m
Retail Banking	310	268
Corporate Banking	49	41
Financial Markets	95	97
Postbank total	**454**	**407**

Postbank's strategic focus on retail banking can clearly be seen from the operational value at risk figures for the individual divisions. The Retail Banking business division had by far the highest capital requirement as of the reporting date, at €310 million (December 31, 2016: €268 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 €124 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.

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

Trends in overall economic parameters

Prospects for growth of the world economy improved slightly during the first half. The International Monetary Fund (IMF) now expects global economic output to grow by 3.5 % and global trade by 4.0 % in 2017 based on continued expectations of a slight increase in the upward trend in the industrialized countries. Growth rates in the emerging markets are also expected to be higher than in the previous year. However, this forecast could be put at risk by high debt levels in a number of emerging economies as well as by sustained high current account imbalances.

The economy in the United States is expected to accelerate in 2017. Private consumption and residential construction are likely to continue growing at a solid pace. Corporate investments are also anticipated to increase significantly. However, no stimulus is expected to come from fiscal policy for the remainder of the year as the tax cuts and infrastructure investments announced by the new U.S. president will at least be delayed. Foreign trade will likely put a slight brake on growth. All in all, we anticipate GDP growth to accelerate to 2.2 % in 2017.

The economic recovery in the eurozone is expected to continue, albeit at a somewhat slower pace in the second half of the year. Private consumption is expected to continue to drive momentum. In addition, a significant increase is anticipated for gross capital expenditures. Growth in exports will likely pick up compared with the previous year. As the increase in imports is projected to be even greater, foreign trade as a whole will likely put a brake on growth. For the year as a whole, we anticipate constant GDP growth of 1.8 % year-on-year.

Economic outlook for Germany

Early indicators such as the ifo Business Climate Index suggest that the economic upturn in Germany will continue for the rest of the year. Domestic demand is likely to continue generating positive growth momentum. Employment and income will likely rise notably, resulting in a significant increase in real income despite the higher inflation compared with the previous year. As a result, private consumption is expected to pick up again, albeit with somewhat less momentum. By contrast, gross capital expenditures are expected to accelerate in growth. Construction investments are also expected to provide strong momentum over the year as a whole. Exports and imports are likely to increase to a similar extent, meaning that foreign trade is unlikely to continue to put a brake on economic growth. All in all, we expect a decline in German GDP growth from 1.9 % in 2016 to 1.5 % in 2017. However, the decrease is nearly entirely attributable to the lower number of working days in the current year compared with the previous one. The sustained good economy is expected to result in a decrease in the unemployment rate from 6.1 % to 5.8 %.

We have raised our 2017 growth forecast for Germany slightly and our forecast for the EMU significantly in comparison with the figures stated in our 2016 Annual Report. The outlook for the U.S.A. has not changed.

We anticipate that the ECB will keep all key interest rates constant until the end of 2017. The central bank is also expected to continue its bond buying program in a monthly volume of €60 billion until the end of the year, as announced. However, we believe that the ECB will decide in the second half of the year to reduce its monthly purchase volumes to take effect in January 2018. The U.S. Federal Reserve will likely continue its cautious tightening of monetary policy during the remainder of the year. We anticipate that the Fed will activate its communicated program to gradually reduce its total assets in the fall. Toward the end of the year, we expect to see another increase of 25 basis points in the federal funds rate. Although the Fed is proceeding cautiously, its sustained tightening of U.S. monetary policy in combination with increasing signs that the ECB will finally reverse its monetary policy point to a slight increase in capital market interest rates. With respect to yields on ten-year German Bunds, we anticipate a very minimal rise to 0.6 % by the end of 2017. Based on its current position, the long end of the yield curve is likely to become slightly steeper by the end of the year.

All in all, we are forecasting slightly higher yield levels at the end of 2017 than the levels forecast in our 2016 Annual Report.

Some of the risk factors that have led to unrest on the European capital markets so far this year are no longer of concern, such as the uncertainty arising from the many parliamentary and presidential elections. The official Brexit notification has not had a lasting effect either. A number of other uncertainties are still in play, however. For instance, the outcome of the Brexit negotiations, which have meanwhile been initiated, cannot yet be predicted. The risk also remains that the U.S. will exhibit protectionist tendencies. In addition, it is extremely difficult to predict how the markets will react to the ECB announcement we anticipate that it will reduce the volume of its bond buying program. Government bonds will remain fundamentally susceptible to setbacks given that in addition to the aforementioned factors, the economic recovery in some eurozone countries does not yet appear particularly stable. Risk premiums for government bonds from the EMU periphery could widen further. On the other hand, the current levels leave very little room for further tightening.

Sector situation

The sustained low level of interest rates in the eurozone will likely continue to make it quite difficult for German banks to improve their operating business. We still do not expect a significant rise in interest rates by the end of 2017. This will make it difficult for most banks to widen their margins, especially since tough competition in the German retail and corporate banking segments continues to push down net interest income and impede increases in net fee and commission income. Low financing costs, however, could have a positive effect on the equity and debt capital markets business issues as well as stimulate the mergers and acquisitions activities (M&A) of companies. This should have a positive effect on investment banking income. Due to the persistently difficult conditions on the income side, many banks are likely to have additional cost optimizations on their agendas in 2017 as well. The fact that banks are required to utilize financial resources for the implementation of new regulatory requirements will also negatively impact their income statements. In addition, many banks are investing in digitizing numerous processes. While such projects admittedly tie up resources, digitization appears necessary for strengthening customer relationships and responding to new competitors in the digital world.

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

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

Similar to the first six months of 2017, Postbank will continue to invest in ways to improve its competitiveness in the second half of the year as well. In addition it will focus on strategic measures to improve its future viability, boost new business transacted over digital channels and enhance digital efficiency in front/back offices and central areas. Measures to expand digitization and optimize digitally supported advisory, sales and service processes will remain geared toward customer needs.

Postbank will also maintain efforts to adapt its capacities to the challenging banking environment. At the same time it will invest in a modern infrastructure with even more self-service options for private and business customers and in expansion to its network of sales centers. The announced merger of Postbank with the Private & Commercial Clients business of Deutsche Bank also means that merger-related investments are expected in the second half of 2017, following clarification of strategic considerations.

The financial resources of our investment portfolio will also remain dedicated to preparing an efficient response to the altered regulatory requirements arising for example from the finalization, introduction and/or revision of Basel III/IV, IFRS 9, BCBS consultation document 239, TRIM, ICAAP, and ILAAP.

Non-financial key performance indicators

In light of fundamental changes in the strategic orientation of Deutsche Bank that now foresee a merger of Postbank with Deutsche Bank's Private & Commercial Clients business, forecasts regarding employee satisfaction trends can only be made with increased uncertainty. Given the high initial values of the prior year and our previous experience with at least similar conditions, we do not expect another rise in employee satisfaction.

It is still expected – given current estimates – that customer satisfaction in the retail customer segment will stabilize at the average level recorded for 2016.

Expected development of the earnings situation

In the remaining months of the current year, Postbank's business with retail, business and corporate customers will remain the foundation of its earnings performance. Postbank will continue to give great attention to monitoring costs, reducing the deposit surplus by improving the lending business, and pursuing its digital transformation.

In light of expected business developments at the Postbank Group in fiscal year 2017, as of June 30, 2017, we continue to expect profit before tax to rise markedly. Such expectations are consistent with those expressed in the Group Management Report of December 31, 2016. We likewise still foresee a moderate improvement in the cost/income ratio.

Compared with fiscal year 2016, we expect adjusted profit before tax to perform better in fiscal year 2017 than was forecast – despite the persistently challenging environment. Instead of a gain in the middle two-digit euro million range we now anticipate an even higher one in the low three-digit millions.

The forecasted growth in profit leads us to anticipate a more positive development for the capital ratios despite the strategic expansion in the lending business and the resultant increase in risk-weighted assets:

For the fully phased-in Common Equity Tier 1 capital ratio we now expect a moderate rise instead of a mild decline. For the fully phased-in leverage ratio, our forecast has increased from a moderate to a noticeable improvement as of the end of 2017.

Return on tangible equity after tax should rise considerably above the level it reached in fiscal year 2016, in contrast to our expectations at the start of the year of a steady trend.

The forecast for net interest income has been revised from our previous anticipation of a mild gain to a moderate drop. This development can be attributed first to the persistence of a deposit surplus that unexpectedly high customer deposit volumes did not allow us to reduce at the intended rate as of June 30, 2017; and second to adverse effects from hedging transactions for Postbank's forward portfolio, which grew more than was expected.

For net trading income, instead of a decrease in the one-digit million euros, we are now anticipating a rise in that same range.

We are also revising our previous forecast for the allowance for losses on loans and advances from growth in the low two-digit million euro range to a more positive direction. The revision was made because we now assume as of June 30, 2017, that this metric will decline appreciably in fiscal 2017. The reasons for this new assumption are the unchanged positive macroeconomic environment and, in particular, a more positive expectation regarding achievable contributions resulting from the reversal of the allowance for losses on loans and advances. In the first half of 2017, the contributions turned out higher than our forecast as a result of an adjusting event relating to assumed loan collateral.

The planned merger of Postbank with Deutsche Bank's Private & Commercial Clients business and measures to be undertaken for the purpose of generating synergies may cause short and mid-term negative effects that are not reflected in this forecast.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD JANUARY 1 TO JUNE 30, 2017

Consolidated Income Statement	Note	Jan. 1–June 30, 2017 €m	Jan. 1–June 30, 2016[1] €m
Interest income	(4)	1,798	1,996
Positive interest on financial liabilities	(4)	22	13
Interest expense	(4)	–755	–891
Negative interest on financial assets	(4)	–38	–23
Net interest income	(4)	1,027	1,095
Allowance for losses on loans and advances	(5)	–12	–76
Net interest income after allowance for losses on loans and advances		1,015	1,019
Fee and commission income	(6)	596	548
Fee and commission expense	(6)	–109	–129
Net fee and commission income	(6)	487	419
Net trading income	(7)	52	9
Net income from investment securities	(8)	58	174
Administrative expenses	(9)	–1,338	–1,418
Other income	(10)	57	52
Other expenses	(11)	–15	–90
Profit before tax		**316**	**165**
Income tax		–15	–25
Consolidated net profit		**301**	**140**

	Jan. 1–June 30, 2017 €m	Jan. 1–June 30, 2016[2] €m
Basic/diluted earnings per share (€)[2]	1.38	0.64

[1]Figures adjusted (see Note 2)
[2]The earnings per share are based on 218.8 million shares in both reporting periods.

Other comprehensive income	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m
Profit from ordinary activities after tax	301	140
Other comprehensive income after tax	**–81**	**–9**
Items that will not be reclassified to profit or loss	–16	–93
Remeasurement gains/losses (–) on defined benefit plans	–16	–93
Income tax on items not reclassified to profit or loss	1	12
Items that will be/may be reclassified to profit or loss, before tax	–66	72
Change in revaluation reserve	–66	72
Unrealized gains/losses (–) for the period, before tax	–70	152
Gains (–)/losses reclassified to profit or loss, before tax	4	–80
Total comprehensive income	**220**	**131**

[1]Figures adjusted (see Note 2)

CONSOLIDATED INCOME STATEMENT – QUARTERLY OVERVIEW

	2017		2016[1]			
	Q2 €m	Q1 €m	Q4 €m	Q3 €m	Q2 €m	Q1 €m
Interest income	897	901	975	956	1,004	992
Positive interest on financial liabilities	11	11	8	8	7	6
Interest expense	–369	–386	–434	–408	–455	–436
Negative interest on financial assets	–18	–20	–16	–15	–13	–10
Net interest income	521	506	533	541	543	552
Allowance for losses on loans and advances	21	–33	–63	–45	–35	–41
Net interest income after allowance for losses on loans and advances	542	473	470	496	508	511
Fee and commission income	291	305	288	263	266	282
Fee and commission expense	–53	–56	–62	–65	–63	–66
Net fee and commission income	238	249	226	198	203	216
Net trading income	41	11	30	11	0	9
Net income from investment securities	19	39	66	18	130	44
Administrative expenses	–664	–674	–751	–684	–711	–707
Other income	30	27	69	20	23	29
Other expenses	–14	–1	–15	–12	–63	–27
Profit before tax	192	124	95	47	90	75
Income tax	–9	–6	44	–9	–16	–9
Consolidated net profit	**183**	**118**	**139**	**38**	**74**	**66**
Basic/undiluted earnings per share (€)	0.84	0.54	0.64	0.17	0.34	0.30

[1]2016 quarters adjusted (see Note 2)

OTHER COMPREHENSIVE INCOME – QUARTERLY OVERVIEW

	2017		2016			
	Q2 €m	Q1 €m	Q4 €m	Q3 €m	Q2 €m	Q1 €m
Profit from ordinary activities after tax	183	118	139	38	74	66
Other comprehensive income after tax	**40**	**–121**	**–125**	**–24**	**–79**	**70**
Items that will not be reclassified to profit or loss	50	–66	–39	–93	–60	–33
Remeasurement gains/losses (–) on defined benefit plans	50	–66	–39	–93	–60	–33
Income tax on items not reclassified to profit or loss	–3	4	19	4	2	10
Items that will be/may be reclassified to profit or loss, before tax	–7	–59	–106	65	–21	93
Change in revaluation reserve	–7	–59	–106	65	–21	93
Unrealized gains/losses (–) for the period, before tax	–22	–48	–121	32	61	91
Gains (–)/losses reclassified to profit or loss, before tax	15	–11	15	33	–82	2
Income tax on items that will be/may be reclassified to profit or loss	0	0	1	0	0	0
Total comprehensive income	**223**	**–3**	**14**	**14**	**–5**	**136**

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2017

Assets	Note	June 30, 2017 €m	Dec. 31, 2016 €m
Cash reserve		1,604	2,291
Loans and advances to other banks	(12)	11,887	13,108
Loans and advances to customers	(13)	103,799	102,003
Allowance for losses on loans and advances	(14)	–922	–998
Trading assets	(15)	390	475
Hedging derivatives		69	112
Investment securities	(16)	24,504	26,767
thereof transferred as collateral	(16)	2,580	2,918
Intangible assets	(17)	1,984	1,963
Property and equipment	(18)	709	699
Current tax assets		110	144
Deferred tax assets		186	198
Other assets	(19)	495	388
Assets held for sale	(20)	14	47
Total assets		**144,829**	**147,197**

Equity and Liabilities	Note	June 30, 2017 €m	Dec. 31, 2016 €m
Deposits from other banks	(21)	12,368	13,133
Due to customers	(22)	118,051	118,918
Debt securities in issue	(23)	3,289	3,339
Trading liabilities	(24)	309	409
Hedging derivatives		31	42
Provisions	(25)	800	907
a) Provisions for pensions and other employee benefits		255	254
b) Other provisions		545	653
Current tax liabilities		80	98
Deferred tax liabilities		4	17
Other liabilities	(26)	565	541
Subordinated debt	(27)	1,963	2,567
Equity		7,369	7,226
a) Issued capital		547	547
b) Share premium		2,191	2,191
c) Retained earnings		4,330	4,171
d) Consolidated net profit		301	317
Total equity and liabilities		**144,829**	**147,197**

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 Jan. 1, 2016	**547**	**2,010**	**3,664**	**327**	**610**	**7,158**	**6**	**7,164**
Changes in retained earnings	–	–	610	–	–610	–	–	–
Initial consolidation effect – service companies	–	–	–263	–	–	–263	–	–263
Capital increase	–	181	–	–	–	181	–	181
Profit from ordinary activities after tax Jan. 1 – June 30, 2016	–	–	–	–	140	140	–	140
Other comprehensive income	–	–	–81	72	–	–9	–	–9
Treasury shares	–	–	–	–	–	–	–	–
Other changes	–	–	–125	–	–	–125	–	–125
Balance at June 30, 2016	**547**	**2,191**	**3,805[1]**	**399**	**140[4]**	**7,082**	**6**	**7,088[1]**
Profit from ordinary activities after tax July 1 – Dec. 31, 2016	–	–	–	–	177	177	–	177
Other comprehensive income	–	–	–109	–40	–	–149	–	–149
Treasury shares	–	–	–	–	–	–	–	–
Other changes	–	–	116	–	–	116	–	116
Change in recognition for non-controlling interests (debt instruments)	–	–	–	–	–	–	–6[5]	–6
Balance at Dec. 31, 2016	**547**	**2,191**	**3,812**	**359[2]**	**317**	**7,226**	**–**	**7,226**
Changes in retained earnings	–	–	317	–	–317	–	–	–
Capital increase	–	–	–	–	–	–	–	–
Profit from ordinary activities after tax Jan. 1 – June 30, 2017	–	–	–	–	301	301	–	301
Other comprehensive income	–	–	–15	–66	–	–81	–	–81
Treasury shares	–	–	–	–	–	–	–	–
Other changes	–	–	–77	–	–	–77	–	–77
Balance at June 30, 2017	**547**	**2,191**	**4,037**	**293[3]**	**301**	**7,369**	**–**	**7,369**

[1] Figures adjusted (see consolidated financial statements as of December 31, 2016)
[2] Of this prior-year figure, €14 million related to an investment held for sale.
[3] Of this figure, €14 million relates to two investments held for sale (see Note 20).
[4] Figures adjusted (see Note 2)
[5] In the previous year, Postbank decided to present non-controlling interests (debt instruments) under other liabilities rather than under equity in accordance with the applicable accounting standards.

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

CONDENSED CASH FLOW STATEMENT

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Cash and cash equivalents at start of period	**2,291**	**1,357**
Net cash used in/from operating activities	−2,078	145
Net cash from investing activities	1,917	441
Net cash used in financing activities	−526	−824
Cash and cash equivalents at end of period	**1,604**	**1,119**

Reported cash and cash equivalents correspond to the cash reserve.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

BASIS OF PREPARATION

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

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

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

(1) Segment reporting

Segment reporting by business division

	Retail Banking		Corporate Banking		Financial Markets		Non-Core Operating Unit		Cost Centers		Total	
	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Net interest income	1,065	1,133	178	171	–54	–32	–162	–181	0	4	1,027	1,095
Net trading income	30	3	–1	7	23	–1	0	0	0	0	52	9
Net income from investment securities	0	90	0	0	58	61	0	9	0	14	58	174
Net fee and commission income	381	320	66	63	–12	–12	0	0	52	48	487	419
Total income	**1,476**	**1,546**	**243**	**241**	**15**	**16**	**–162**	**–172**	**52**	**66**	**1,624**	**1,697**
Administrative expenses	–591	–621	–53	–50	–4	–4	–5	–6	–685	–737	–1,338	–1,418
Allowance for losses on loans and advances	–55	–49	46	–22	0	0	–3	–5	0	0	–12	–76
Other income	18	7	1	1	0	0	0	1	38	43	57	52
Other expenses	–10	–52	0	–1	0	0	3	–6	–8	–31	–15	–90
Allocations	–489	–542	–66	–65	–30	–43	–18	–23	603	673	0	0
thereof income	69	83	10	13	11	1	0	0	–90	–97	0	0
thereof expenses	–558	–625	–76	–78	–41	–44	–18	–23	693	770	0	0
Profit/loss before tax	**349**	**289**	**171**	**104**	**–19**	**–31**	**–185**	**–211**	**0**	**14**	**316**	**165**
Revenues from external customers[2]	1,476	1,546	243	241	15	16	–162	–172	52	66	1,624	1,697
Intersegmental revenues[2]	0	0	0	0	0	0	0	0	0	0	0	0
Impairment losses	–10	–9	–1	–1	0	0	0	0	–37	–39	–48	–49
Reversal of impaiment losses	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	–10	–9	–1	–1	0	0	0	0	–37	–39	–48	–49
Cost/income ratio (CIR)[3]	**74.2%**	**79.3%**	**50.9%**	**50.3%**	**170.4%**	**312.2%**	**–12.5%**	**–20.3%**	**–**	**–**	**80.5%**	**86.2%**
Return on equity before taxes (RoE)	**20.7%**	**16.7%**	**46.2%**	**39.7%**	**–2.0%**	**–4.0%**	**–28.7%**	**–28.5%**	**–**	**–**	**8.7%**	**4.7%**

[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. Intersegmental revenues have been eliminated due to a methodological improvement (see the explanations in this Note).

[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 the first half of 2017:

- The adjustments made to prior-year figures (see Note 2) in the reporting period were included in segment reporting. In Retail Banking this resulted in a decrease of €82 million in net interest income for the first half of 2016. Fee and commission income rose by €21 million, while administrative expenses declined by €66 million. Net interest income decreased by €2 million in the Non-Core Operating Unit (NCOU) segment and by €4 million in the Financial Markets segment.

- 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 the first half of 2016 (€30 million) but a negative impact on the Retail Banking (€28 million) and Corporate Banking (€2 million) segments.

- In addition, the method used to allocate components of earnings to the individual segments was refined:

  - Prioritization of functional allocation by board department over segment allocation as in the past. In particular, costs incurred by the infrastructure functions of subsidiaries that, depending on the core business of the company, could previously also be allocated to the Retail Banking, Corporate Banking and Financial Markets segments, are now allocated to the Cost Centers segment together with the other infrastructure functions of the Postbank Group.

  - Presentation of the external impact of a transaction in the segment concerned. In the past, this was presented at segment level including the intragroup earnings components and by eliminating these earnings in the Cost Centers segment. This means that intersegmental income is no longer disclosed.

  - Overall, the methodological change led to the following adjustments to the segment figures for the prior-year period:

    - Net interest income declined by €4 million in the Retail Banking segment and €1 million in the Cost Centers segment. Net interest income rose by €2 million in the Corporate Banking segment, €2 million in the Financial Markets segment, and €1 million in the NCOU segment.

    - Net trading income generated by the Financial Markets segment decreased by €2 million and increased by the same amount in the Cost Centers segment.

    - Net fee and commission income in the Retail Banking segment declined by €26 million, while the figures for the Financial Markets and Cost Centers segments rose by €1 million and €25 million, respectively.

    - Administrative expenses decreased by €85 million in the Retail Banking segment and €11 million in the Financial Markets segment, and increased by €2 million in the Corporate Banking segment and €94 million in the Cost Centers segment.

    - Other income improved by €11 million in the Cost Centers segment and declined by the same amount in the Retail Banking segment.

    - Other expenses in the Retail Banking and Financial Markets segments decreased by €56 million and €1 million, respectively. This line item rose by €1 million in the Corporate Banking segment and €56 million in the Cost Centers segment.

    - Allocations rose by €115 million in the Retail Banking segment and €15 million in the Financial Markets segment, and declined by €15 million in the Corporate Banking segment, €2 million in the Non-Core Operating Unit segment and €113 million in the Cost Centers segment.

    - Overall, profit before tax increased by €14 million in the Corporate Banking segment and €3 million in the Non-Core Operating Unit segment. Profit before tax decreased by €15 million in the Retail Banking segment and €2 million in the Financial Markets segment.

In the Retail Banking business division, Postbank offers a broad spectrum of postal, banking and financial services. This encompasses checking and savings products, credit and debit cards, mortgage lending, installment loans, the home savings business, securities and securities accounts, and investment funds. Income from brokerage activities is also reported in this segment.

The segment result comprises the results of business with Deutsche Postbank AG's retail customers, BHW Bausparkasse AG's domestic retail banking business, as well as the customer business of other subsidiaries, in particular BHW Holding AG, Postbank Filialvertrieb AG, Postbank Finanzberatung AG, Postbank Immobilien GmbH, BHW Gesellschaft für Wohnungswirtschaft GmbH, and Postbank Direkt GmbH. In addition, the result of the projected effects of purchase price allocation from the acquisition of BHW Bausparkasse AG has been allocated to the Retail Banking segment.

Postbank's Corporate Banking business division provides payment transaction services for business and corporate customers. Commercial finance, especially regarding real estate, constitutes the second important pillar of the corporate banking business in national and international terms. Factoring and leasing is another business area of the division. In addition, the investment banking and other lending business with business and corporate customers is reported in this segment.

The segment result comprises the results of services for business and corporate customers of PB Firmenkunden AG, Postbank Leasing GmbH, PB Factoring GmbH, transactions with Deutsche Postbank AG's business and corporate customers (excluding selected individual exposures in commercial real estate finance), and a portion of the results of the Luxembourg branch.

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 segment includes results of the infrastructure functions of Deutsche Postbank AG, BHW Bausparkasse AG, BHW Holding AG, PB Firmenkunden AG, Deutsche Postbank AG's Luxembourg branch, Postbank Direkt GmbH, Postbank Filialvertrieb AG, Postbank Finanzberatung AG, and Postbank Immobilien GmbH. The segment also includes the profit/loss of the subsidiaries allocated to cost centers, namely Postbank Systems AG, Postbank Immobilien und Baumanagement GmbH, Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Deutsche Postbank Finance Center Objekt GmbH, DSL Portfolio GmbH & Co. KG, DSL Portfolio Verwaltungs GmbH, Postbank Service GmbH, BHW Kreditservice GmbH, Betriebs-Center für Banken AG, VÖB-ZVD Processing GmbH, and Postbank Beteiligungen GmbH.

In addition to the profit/loss in the income statement of the business units allocated to the business divisions, imputation procedures are applied to ensure correct allocation of the segment profit/loss to their originators. In accordance with IFRS 8.23, we report net interest income (net interest revenue) instead of interest income and interest expense. The allocation of net interest income from customer products to the segments uses the market rate method, under which the customer interest rate is compared with imputed money and capital market rates for matching terms. The administrative expenses and other expenses of the units included in the segment results are primarily based on the results of cost center accounting. Income taxes are not calculated at segment level.

Reversals of impairment losses and impairment losses relate to intangible assets and property and equipment. Both amortization/depreciation and impairments are taken into account.

Equity is allocated to the segments according to their risk capital requirements. Risk capital requirements are derived from Postbank's risk cover amount and define the extent of the permitted exposures to market risk, credit risk, operational risk, business risk, investment and real estate risk, and collective risk. The average IFRS equity is allocated to the segments according to their respective responsibility for the risk capital positions within the individual risk types.

Company-level disclosures

The following table contains information about income per product or service:

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m
Deposits and loans for Retail and Corporate Banking customers	1,280	1,346
Payment transaction services for Retail and Corporate Banking customers	230	181
Retail and Corporate Banking fee and commission income	169	162
Transaction Banking insourcing	38	39
Other	−93	−31
Total	**1,624**	**1,697**

[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 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 and Financial Markets segments 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 including all consolidation adjustments. The U.S.A. region comprises Deutsche Postbank Funding LLC I–IV and Deutsche Postbank Funding Trust I–IV subsidiaries, Wilmington, Delaware.

	Income		Profit before tax		Non-current assets	
	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m	June 30, 2017 €m	Dec. 31, 2016 €m
Germany	1,593	1,661	301	148	2,677	2,645
Europe	31	36	15	17	16	17
U.S.A.	0	0	0	0	0	0
Total	**1,624**	**1,697**	**316**	**165**	**2,693**	**2,662**

[1]Figures adjusted (see explanation in this Note)

Non-current assets comprise intangible assets and property and equipment.

(2) Basis of accounting

The condensed interim financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs), as adopted by the EU, and the additional requirements of German commercial law under section 315e(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code), insofar as these were applicable at the balance sheet date. In particular, the interim financial statements comply with the International Accounting Standard (IAS) 34 requirements for interim financial reports. In accordance with section 37w of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), Postbank prepares a half-yearly financial report, which also comprises an interim management report in addition to the condensed financial statements presented here. There were no significant events after the balance sheet date that were not included in the interim financial statements.

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. When determining the intention to hold financial instruments, business strategy and current market conditions are also taken into account.

Derivatives are entered into primarily as microhedges (fair value hedges) to hedge 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.

If there are no effective microhedges, the changes in value of the derivatives are reported in net trading income, 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.

The same accounting policies used in preparing the consolidated financial statements for the year ended December 31, 2016 were applied in preparing the condensed interim financial statements for the period ended June 30, 2017.

The adjustments made as of December 31, 2016 to the treatment of commissions paid for the brokerage of mortgages and installment loans and expenses for property value appraisals as well as the amended treatment of commitment interest received from mortgage lending (see Note 6 to the consolidated financial statements as of December 31, 2016) have required the retrospective adjustment of prior-year comparative figures. The retrospective application resulted in a reduction of €88 million in interest income, of €21 million in fee and commission expense, and of €66 million in administrative expenses for the first half of 2016. Consolidated profit for the period declined by €1 million, while earnings per share remained unchanged.

Changes resulting from material accounting standards applicable as from January 1, 2018

IFRS 9

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement"; it comprises updated requirements on the classification and measurement of financial instruments, impairment, and general hedge accounting (not including macrohedge accounting). In addition, it adds to the disclosures required on financial instruments.

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

Postbank has determined the existing business models at portfolio level and analyzed the respective contractual cash flow criteria. On the basis of current assumptions, the analysis shows that there will be reclassifications of individual financial instruments between the fair value through profit or loss, fair value through other comprehensive income, and amortized cost categories. However, the exact impact the initial application of the new IFRS 9 will have, will depend on the business models and characteristics of the respective financial assets at the time of initial application.

With regard to impairment, the previous incurred loss impairment model has been replaced by an expected credit loss model, which allows default risk to be accounted for in a more timely manner. These regulations will apply in future to assets carried at amortized cost and assets carried at fair value through other comprehensive income. 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 rules on impairment.

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

Recognized capital is expected to be negatively impacted by an amount in the mid three-digit million range as a result of the introduction of IFRS 9. This effect is attributable firstly to the new classification requirements and the resulting shift between the fair value through profit or loss, fair value through other comprehensive income, and amortized cost categories. Secondly, a large part of the decrease in capital is attributable to the increase in the allowance for losses on loans and advances. Moreover, when applying IFRS 9 for the first time, Postbank will opt retrospectively not to apply the IAS 39 fair value option to the mortgage loan portfolio, and this will also have a negative impact on capital. The expected 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. Postbank has decided to exercise the option for the initial application method, which allows it not to restate comparative periods in accordance with IFRS 9 for the periods prior to initial application.

IFRS 15

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

As a general rule, the standard applies to all contracts with customers that agree on the sale of goods and services from the company's normal business activities. The IASB published "Clarifications to IFRS 15 – Revenue from Contract with Customers" in April 2016. This document contains clarifications on the identification of performance obligations, principal versus agent relations, licensing agreements, and transitional provisions for modified and completed contracts. Application is likewise mandatory.

At Postbank, IFRS 15 applies in particular to the fees and charges reported under "Fee and commission income" in the Bank's income statement. The introduction of the standard 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. Based on the information gathered so far, the Bank expects the effects to be minor.

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. Postbank has decided to exercise the option for the initial application method, which allows it not to restate comparative periods in accordance with IFRS 15 for the periods prior to initial application.

(3) Basis of consolidation

In addition to the parent company Deutsche Postbank AG, 31 (December 31, 2016: 32) subsidiaries that are presented in the following overview are included in the condensed consolidated financial statements as of June 30, 2017.

Consolidated companies

Name and domicile	Equity (%) interest direct	Equity (%) interest indirect
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	
BHW Holding AG, Hameln	100.0	
BHW Kreditservice GmbH, Hameln	100.0	
Deutsche Postbank Funding LLC I, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding LLC II, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding LLC III, Wilmington, Delaware, U.S.A.	100.0	
Deutsche Postbank Funding 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 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[1]	

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

In accordance with IFRS 10, eight subpools of assets are included in the consolidation basis (December 31, 2016: eight). All of the subpools of assets are structured entities in accordance with IFRS 12.

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

There were no other changes in the basis of consolidation in the reporting period as against December 31, 2016.

INCOME STATEMENT DISCLOSURES

(4) Net interest income

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m
Interest and current income		
Interest income from:		
Lending and money market transactions	1,614	1,746
Fixed-income and book-entry securities	191	246
Net gains/losses on hedges	–8	0
	1,797	**1,992**
Current income from:		
Equities and other non-fixed-income securities	0	0
Equity investments	1	4
	1	**4**
	1,798	**1,996**
Positive interest on financial liabilities	22	13
Interest expense on:		
Deposits	607	679
Debt securities in issue	27	48
Subordinated debt	61	91
Swaps	60	73
	755	**891**
Negative interest on financial assets	38	23
Total	**1,027**	**1,095**

[1]Figures adjusted (see Note 2)

€1,736 million of the interest income (previous year: €1,905 million) relates to financial instruments classified as loans and receivables and €92 million (previous year: €105 million[2]) to financial instruments classified as available for sale.

Interest income from the lending business and from money market transactions includes €6 million (previous year: €7 million) of interest income accrued on impaired assets (unwinding in accordance with IAS 39).

[2]Prior-year figure adjusted by €4 million due to inclusion of net income from equity investments.

Net gains/losses on hedges are composed of the following items:

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Gains/losses on the fair value remeasurement of hedged items	–56	227
Gains/losses on the fair value remeasurement of hedging instruments	48	–227
Total	**–8**	**0**

(5) Allowance for losses on loans and advances

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Cost of additions to allowance for losses on loans and advances		
Specific valuation allowances	175	183
Portfolio-based valuation allowances	67	87
Cost of additions to provisions for credit risks	8	10
Direct loan write-offs	15	12
Income from reversals of the allowance for losses on loans and advances		
Specific valuation allowances	140	97
Portfolio-based valuation allowances	80	88
Income from the reversal of provisions for credit risks	21	17
Recoveries on loans previously written off	12	14
Total	**12**	**76**

€25 million (previous year: €83 million) of the allowance for losses on loans and advances relates to receivables classified as loans and receivables. The allowance for losses on loans and advances for guarantees, warranties, and irrevocable loan commitments was reduced by €13 million (net) due to reversals (previous year: €7 million).

The cost of additions to and the income from reversals of the allowance for losses on loans and advances to customers can be broken down by product group as follows:

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Additions		
Private mortgage lending	48	61
Home savings loans	1	1
Commercial loans	20	18
Installment loans	84	77
Overdrafts	22	26
Portfolio-based valuation allowances	67	87
Total	**242**	**270**

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Reversal		
Private mortgage lending	46	53
Home savings loans	1	1
Commercial loans	51	9
Installment loans	28	21
Overdrafts	14	13
Portfolio-based valuation allowances	80	88
Total	**220**	**185**

(6) Net fee and commission income

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m
Checking account business	227	175
Securities business	46	30
Lending and guarantee business	28	25
Branch business	93	98
Other fee and commission income	93	91
Total	**487**	**419**

[1]Figures adjusted (see Note 2)

(7) Net trading income

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Net income from interest rate products	0	1
Net gains/losses on derivatives carried in the trading portfolio and the banking book	21	3
Net gains/losses from application of the fair value option	25	1
Foreign exchange gain/loss	6	4
Net fee and commission income carried in the trading portfolio	0	0
Total	**52**	**9**

(8) Net income from investment securities

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Net income from loans and receivables investment securities	8	38
thereof net income from sale	8	38
Gains on sale	10	41
Losses on sale	2	3
thereof impairment losses (net)	0	0
Net income from available-for-sale investment securities and other equity investments	50	136
thereof net income from sale	51	136
Gains on sale	52	136
Losses on sale	1	0
thereof impairment losses (net)	–1	0
Total	**58**	**174**

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Net income from bonds and promissory note loans	47	48
Net income from equity investments	12	127
Impairment	–1	–1
Total	**58**	**174**

Net income from equity investments primarily includes the income from the reduction of a strategic equity investment based on a sales cooperation (€11 million).

As in the previous year, €1 million of the net impairment loss on investment securities relates to closed-end funds.

(9) Administrative expenses

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m
Staff costs	679	692
Other administrative expenses	611	677
Amortization of intangible assets	20	22
Depreciation and writedowns of property and equipment	28	27
Total	**1,338**	**1,418**

[1]Figures adjusted (see Note 2)

(10) Other income

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Remuneration for participation in an ECB's refinancing program	15	–
Interest income in acc. with section 233a of the *Abgabenordnung* (AO – Fiscal Code)	10	1
Income from property and equipment	7	10
Miscellaneous	25	41
Total	**57**	**52**

Income from the remuneration for Postbank's participation in a refinancing program is another component of the revenue that can now be reliably estimated in accordance with IAS 18.20 since the uncertainties as of December 31, 2016, no longer exist.

(11) Other expenses

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016 €m
Expenses for the Federal Posts and Telecommunications Agency (BAnstPT)	5	5
Expenses for other taxes	3	2
Expenses from property and equipment	1	9
Miscellaneous	6	74
Total	**15**	**90**

BALANCE SHEET DISCLOSURES

(12) Loans and advances to other banks

	June 30, 2017 €m	Dec. 31, 2016 €m
Payable on demand	9,026	6,383
Other loans and advances	2,861	6,725
Total	**11,887**	**13,108**

Loans and advances to other banks consist solely of financial instruments classified as loans and receivables.

€1,372 million (December 31, 2016: €2,045 million) of loans and advances to other banks is due after more than 12 months.

The loans and advances to other banks can be broken down by product group as follows:

	June 30, 2017 €m	Dec. 31, 2016 €m
Securities repurchase agreements	1,716	5,832
Overnight money	9,009	6,381
Loans	63	92
Registered bonds	99	300
Term deposits	1,000	500
Other loans and advances	0	3
Total	**11,887**	**13,108**

Collateral received that can be unconditionally liquidated or unconditionally sold:

	Fair value of collateral that can be unconditionally liquidated or can be unconditionally sold		Fair value of collateral that was sold or repledged and is subject to an obligation to return	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Financial collateral	1,485	5,123	318	1,008
Non-financial collateral	–	–	–	–
Total	**1,485**	**5,123**	**318**	**1,008**

(13) Loans and advances to customers

	June 30, 2017 €m	Dec. 31, 2016 €m
Private mortgage lending	69,732	69,029
Home savings loans	2,875	2,992
Commercial loans	14,412	13,677
Public sector	5,039	5,205
Installment loans	7,688	7,438
Overdrafts	2,413	2,085
Promissory note loans	1,599	1,537
Other loans and advances	41	40
Total	**103,799**	**102,003**

Loans and advances to customers can be broken down as follows in accordance with the categories of financial instruments defined in IAS 39:

	June 30, 2017 €m	Dec. 31, 2016 €m
Loans and receivables	100,596	98,358
Fair value option	3,203	3,645
Total	**103,799**	**102,003**

€82,929 million (December 31, 2016: €81,762 million) of loans and advances to customers is due after more than 12 months.

(14) Allowance for losses on loans and advances

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

	June 30, 2017 €m	Dec. 31, 2016 €m
Specific valuation allowances	735	798
Portfolio-based valuation allowances	187	200
Allowance for losses on loans and advances carried under assets	**922**	**998**
Provisions for credit risks	29	45
Total	**951**	**1,043**

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

The allowance for losses on loans and advances reported on the assets side of the balance sheet changed as follows:

	Specific valuation allowances		Portfolio-based valuation allowances		Total	
	2017 €m	2016 €m	2017 €m	2016 €m	2017 €m	2016 €m
Balance at Jan. 1	**798**	**725**	**200**	**198**	**998**	**923**
Reclassification due to IFRS 5	–	–	–	–	–	–
Additions						
Allowance charged to the income statement	175	183	67	87	242	270
Disposals						
Utilization	92	39	–	–	92	39
Allowance reversed to the income statement	140	97	80	88	220	185
Unwinding	6	7	–	–	6	7
Currency translation differences	–	–	–	–1	–	–1
Balance at June 30	**735**	**765**	**187**	**196**	**922**	**961**

The allowance for losses on loans and advances to customers can be broken down by product group as follows:

	June 30, 2017 €m	Dec. 31, 2016 €m
Specific valuation allowances		
Private mortgage lending	183	209
Home savings loans	6	5
Commercial loans	93	127
Public-sector receivables	3	4
Installment loans	313	313
Overdrafts	137	140
Portfolio-based valuation allowances	187	200
Total	**922**	**998**

(15) Trading assets

	June 30, 2017 €m	Dec. 31, 2016 €m
Building loans held for trading	47	53
Positive fair values of derivatives carried as trading assets	0	1
Positive fair values of banking book derivatives	343	421
Positive fair values from derivatives relating to hedged items accounted for under the fair value option	0	0
Total	**390**	**475**

€344 million (December 31, 2016: €409 million) is due after more than 12 months.

(16) Investment securities

	June 30, 2017 €m	Dec. 31, 2016 €m
Bonds and other fixed-income securities		
Loans and receivables	9,902	12,196
Available for sale	14,301	14,252
	24,203	**26,448**
Equities and other non-fixed-income securities		
Available for sale	265	271
	265	**271**
Equity investments (available for sale)	35	43
Investments in unconsolidated subsidiaries (available for sale)	1	5
Total	**24,504**	**26,767**

Holdings of €19,246 (December 31, 2016: €22,266 million) are due after more than 12 months.

Investment securities were furnished as collateral for the following liabilities:

	June 30, 2017 €m	Dec. 31, 2016 €m
Liabilities	6,779	7,625
Contingent liabilities	22	21
Total	**6,801**	**7,646**

Investment securities still carried in the balance sheet in the amount of €3,151 million (previous year: €2,956 million) were transferred as collateral. Of this figure, the transferee could resell or pledge investment securities in the amount of €2,580 million (previous year: €2,918 million) on the basis of contractual or customary rights (IAS 39.37(a)).

Collateral taking the form of investment securities in the amount of €2,580 million (previous year: €2,918 million) was transferred for liabilities relating to securities repurchase transactions amounting to €2,755 million (previous year: €3,147 million).

Investment securities are pledged as collateral in accordance with standard market conditions.

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 June 30, 2017, the total volume of securities reclassified in accordance with IAS 39.50E had a fair value of €4.4 billion and a carrying amount of €4.3 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 €102 million in the period up to June 30, 2017 (December 31, 2016: €167 million).

Given a nominal weighting of the reclassified securities, the effective interest rate calculated on the basis of their restated cost as of the date of the reclassifications was 4.4 % (range of effective interest rates: 1.8 % to 34.5 %). The estimated cash flows that Postbank expected as of the date of the reclassifications amount to €45.4 billion. Impairments of €621 million (previous year: €621 million) were charged for all reclassified securities in the period up to June 30, 2017; net disposal gains on reclassified securities amounted to €93 million (previous year: €88 million).

Interest income amounting to €49 million (previous year: €65 million) accrued for the reclassified securities in the period up to June 30, 2017.

(17) Intangible assets

	June 30, 2017 €m	Dec. 31, 2016 €m
Acquired goodwill	1,581	1,581
Acquired software, concessions, industrial rights	244	253
Internally generated intangible assets and software	51	54
Advance payments on intangible assets and in-process intangible assets	108	75
Total	**1,984**	**1,963**

The "Acquired software, concessions, industrial rights" item includes the capitalized BHW brand in the unchanged amount of €139 million.

The capitalized amounts for customer relationships amounted to €52 million (December 31, 2016: €54 million), while those for beneficial contracts amounted to €7 million (December 31, 2016: €8 million).

(18) Property and equipment

	June 30, 2017 €m	Dec. 31, 2016 €m
Land and buildings	479	480
Operating and office equipment	183	176
Advance payments and assets under development	47	43
Total	**709**	**699**

(19) Other assets

	June 30, 2017 €m	Dec. 31, 2016 €m
Prepaid expenses	127	65
Receivables from subsidiaries	96	55
Trade receivables	180	171
Receivables from tax authorities	7	32
Advances to members of the mobile sales force	9	7
Miscellaneous	76	58
Total	**495**	**388**

€83 million (December 31, 2016: €107 million) of other assets has a maturity of more than 12 months.

(20) Assets held for sale

In the fourth quarter of 2016, the Bank resolved to sell an investment with a carrying amount of €13 million. The purchase agreement was signed in January 2017 subject to conditions precedent. The sale was completed in July 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 segment in segment reporting.

In July 2017, Postbank initiated a sales process for the disposal of "Loans and advances to other banks," "Other assets," and "Other liabilities." Loans and advances, other assets, and other liabilities are allocated to the Cost Centers segment. The disposal is expected to be completed in the second half of 2017.

In addition, the Bank had classified parts of another investment in the amount of €1 million as held for sale as of the balance sheet date. This was also sold in July 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 Financial Markets segment in segment reporting.

The property reported under "Assets held for sale" in the 2016 Annual Report was sold at its carrying amount of €20 million in the reporting period.

(21) Deposits from other banks

	June 30, 2017 €m	Dec. 31, 2016 €m
Payable on demand	255	508
With an agreed maturity or withdrawal notice	12,113	12,625
Total	**12,368**	**13,133**

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

€8,114 million (December 31, 2016: €8,425 million) is due after more than 12 months.

(22) Due to customers

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

	June 30, 2017 €m	Dec. 31, 2016 €m
Savings deposits	37,310	38,585
Home savings deposits	18,575	18,809
Other amounts due		
Payable on demand	48,993	46,841
With an agreed maturity or withdrawal notice	13,173	14,683
	62,166	**61,524**
Total	**118,051**	**118,918**

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

€21,161 million (December 31, 2016: €22,424 million) is due after more than 12 months.

(23) Debt securities in issue

	June 30, 2017 €m	Dec. 31, 2016 €m
Public-sector *Pfandbriefe*	56	56
Mortgage *Pfandbriefe*	2,336	2,405
Other debt instruments	897	878
Total	**3,289**	**3,339**

"Debt securities in issue" only include financial instruments classified as liabilities at amortized cost.

€3,160 million (December 31, 2016: €3,195 million) is due after more than 12 months.

(24) Trading liabilities

	June 30, 2017 €m	Dec. 31, 2016 €m
Negative fair values of trading derivatives	79	81
Negative fair values of banking book derivatives	210	300
Negative fair values from derivatives relating to hedged items accounted for under the fair value option	20	28
Total	**309**	**409**

€179 million (December 31, 2016: €262 million) is due after more than 12 months.

(25) Provisions

	June 30, 2017 €m	Dec. 31, 2016 €m
Provisions for pensions and other employee benefits	255	254
Staff-related provisions	165	194
Ligitation and customer redress	141	163
Provisions for credit risks	29	45
Miscellaneous	210	251
Total	**800**	**907**

€494 million (December 31, 2016: €586 million) of the recognized provisions is due after more than 12 months.

(26) Other liabilities

	June 30, 2017 €m	Dec. 31, 2016 €m
Obligation to DB Beteiligungs-Holding GmbH (formerly: DB Finanz-Holding GmbH) from control and profit and loss transfer agreement	77	9
Trade payables	87	100
Liabilities from expenses for outstanding invoices	112	111
Liabilities from expenses for outstanding vacation entitlements and other compensated absences	43	44
Non-controlling interests (debt instruments)	6	6
Liabilities from other taxes	38	55
Liabilities from expenses for commissions and premiums	39	39
Deferred income	18	21
Liabilities from expenses for management bonuses	35	49
Miscellaneous liabilities	110	107
Total	**565**	**541**

€31 million (December 31, 2016: €36 million) is due after more than 12 months.

(27) Subordinated debt

	June 30, 2017 €m	Dec. 31, 2016 €m
Hybrid capital instruments	882	1,447
Subordinated liabilities	897	909
Profit participation certificates outstanding	163	189
Contributions by typical silent partners	21	22
Total	**1,963**	**2,567**

A total of €985 million of the regular phased-in subordinated debt recognized (December 31, 2016: €1,090 million) is eligible as Tier 2 capital for regulatory purposes.

"Subordinated debt" consists solely of financial instruments classified as liabilities at amortized cost.

One trust preferred securities issue in the amount of €0.5 billion, which is reported under hybrid capital instruments, was paid back in June 2017.

The decline in profit participation certificates is due to certificates reaching maturity.

€1,544 million (December 31, 2016: €2,430 million) is due after more than 12 months.

OTHER DISCLOSURES

(28) Contingencies and other obligations

	June 30, 2017 €m	Dec. 31, 2016 €m
Contingent liabilities		
on guarantees and warranties	379	362
Other obligations		
Irrevocable loan commitments	8,349	7,752
thereof building loans provided	5,913	5,325
Other liabilities		
Irrevocable payment obligations – deposit protection fund	22	22
Irrevocable payment obligations – cash collateral for bank levy	16	13
Other liabilities	12,829	13,061
Total	**21,595**	**21,210**

Miscellaneous obligations mainly relate to credit lines that can be called in by Postbank at any time.

(29) 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.

The following tables show the allocation of the individual categories of financial instruments to the corresponding levels in the fair value hierarchy:

Assets measured at fair value

Classes	June 30, 2017 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial assets at fair value through profit or loss (FVtPL)				
Trading assets	390	0	390	0
Loans held for trading	47	0	47	0
Derivatives	343	0	343	0
Hedging derivatives	69	0	69	0
Loans and advances to customers	3,203	0	3,203	0
thereof private mortgage lending	3,203	0	3,203[1]	0
Available-for-sale financial assets				
Investment securities	14,602	11,967	2,599	36
Bonds and other fixed-income securities	14,301	11,960	2,327	14
Equities and other non-fixed-income securities	265	0	265	0
Equity investments	36	7	7	22
Other assets	161	0	0	161
Trade receivables	161	0	0	161
Total	**18,425**	**11,967**	**6,261**	**197**

Liabilities measured at fair value

Classes	June 30, 2017 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial liabilities at fair value through profit or loss (FVtPL)				
Trading liabilities	309	0	309	0
Derivatives	309	0	309	0
Hedging derivatives	31	0	31	0
Total	**340**	**0**	**340**	**0**

[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.

Assets measured at fair value

Classes	Dec. 31, 2016 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial assets at fair value through profit or loss (FVtPL)				
Trading assets	475	0	475	0
Loans held for trading	53	0	53	0
Derivatives	422	0	422	0
Hedging derivatives	112	0	112	0
Loans and advances to customers	3,645	0	3,645	0
thereof private mortgage lending	3,645	0	3,645[1]	0
Available-for-sale financial assets				
Investment securities	14,571	12,078	2,454	39
Bonds and other fixed-income securities	14,252	12,064	2,171	17
Equities and other non-fixed-income securities	271	0	271	0
Equity investments	48	14	12	22
Other assets	140	0	0	140
Trade receivables	140	0	0	140
Total	**18,943**	**12,078**	**6,686**	**179**

Liabilities measured at fair value

Classes	Dec. 31, 2016 €m	Fair value reported in: Level 1 €m	Level 2 €m	Level 3 €m
Financial liabilities at fair value through profit or loss (FVtPL)				
Trading liabilities	409	0	409	0
Derivatives	409	0	409	0
Hedging derivatives	42	0	42	0
Total	**451**	**0**	**451**	**0**

[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.

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.

The moderate decline in Level 1 instruments as against the 2016 year-end is mainly due to maturities and disposals, which more than offset additions to Level 1. The additions to Level 1 also comprise shifts from Level 2 to Level 1 in the amount of €73 million. These shifts result from the fact that the underlying prices are directly observable in the market. The decrease in Level 2 instruments compared with December 31, 2016, is primarily attributable to maturities in the private mortgage lending portfolio.

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 June 30, 2017						
	Financial assets at FVtPL			AfS financial assets			Total
	Trading assets €m	Hedging derivatives €m	Loans and advances to other banks/ customers €m	Investment securities €m	Loans and advances to other banks/ customers €m	Other assets €m	€m
Opening balance	0	0	0	39	0	140	179
Total gains or losses	0	0	0	–1	0	0	–1
in profit or loss	0	0	0	–1	0	0	–1
in revaluation reserve	0	0	0	0	0	0	0
Purchases	0	0	0	0	0	55	55
Disposals	0	0	0	0	0	0	0
Issues	0	0	0	0	0	0	0
Settlements	0	0	0	–2	0	–34	–36
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**	**36**	**0**	**161**	**197**
Total remeasurement gains/losses for assets held at the end of the reporting period	0	0	0	–1	0	0	–1

Level 3 financial assets changed as follows as of December 31, 2016:

Assets measured at fair value based on Level 3

	Assets measured at fair value in Level 3 as of Dec. 31, 2016						
	Financial assets at FVtPL			AfS financial assets			Total
	Trading assets €m	Hedging derivatives €m	Loans and advances to other banks/ customers €m	Investment securities €m	Loans and advances to other banks/ customers €m	Other assets €m	€m
Opening balance	1	0	0	34	0	105	140
Total gains or losses	–1	0	0	1	0	0	0
in profit or loss	–1	0	0	–1	0	0	–2
in revaluation reserve	0	0	0	2	0	0	2
Purchases	0	0	0	26	0	96	122
Disposals	0	0	0	–11	0	0	–11
Issues	0	0	0	0	0	0	0
Settlements	0	0	0	–11	0	–61	–72
Exchange rate effects	0	0	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0	0	0
Transfers to Level 3	0	0	0	0	0	0	0
Closing balance	**0**	**0**	**0**	**39**	**0**	**140**	**179**
Total remeasurement gains/losses for assets held at the end of the reporting period	–1	0	0	1	0	0	0

The fair value of the structured credit products within investment securities allocated to Level 3 is measured at present using arranger/dealer quotes which are validated by means of an internal valuation technique. The internal valuation technique also takes the illiquidity of the markets for structured products into account in addition to the impact of default on expected cash flows. This is done by adding a premium to the “risk-free” interest rate for the same maturity when discounting the previously calculated cash flows. Assuming a change in arranger/dealer quotes by +/– 100 basis points, the fair value would change by +/– €0.2 million.

The shares in closed-end funds allocated to Level 3 are measured using cash flow models, which take account of the risk-adjusted planning assumptions of the respective funds. If the planning assumptions deviate by +/– 10 % from the assumptions made when calculating the fair value, this would result in a fair value change of +/– €0.4 million.

The preferred shares in Visa Inc. are presented as equity investments under Level 3. When measuring the fair value, assumptions with respect to the conversion rate (common share conversion ratio) and the liquidity of the shares are taken into account. Any change in the assumptions with respect to the conversion rate and the liquidity of the shares of +/– 10 % would lead to a change in the fair value of +/– €1 million.

The trade receivables also allocated to Level 3 relate to fee and commission receivables in connection with insurance brokerage and receivables for services rendered attributable to affiliated companies. The fair values of the acquisition commissions to be paid for insurance brokerage are determined by taking future cancellations/anticipated premature terminations into account. The reliable determination of the fair values of the above commissions is based on the reporting system of the product provider and contains assumptions as to the cancellation rate/anticipated premature termination of concluded insurances. Assuming a change in cancellation rates of +/– 5 %, this would lead to a change in the fair value of +/– €8 million which, as a change in cash flows, would be recognized through profit or loss.

The fair value of the receivable from the services rendered in connection with the ECB’s refinancing program is calculated on the basis of the expected term and amount of the refinancing advantage and the related future payments to Postbank. The amount of the receivable rose by €15 million as against December 31, 2016, after uncertainties arising from the refinancing program were eliminated. 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, further remuneration in the high two-digit million euro range that may arise in the future was not recognized. This will be recognized in the coming periods once the criteria in IAS 18.20 have been satisfied.

Since the liabilities allocated to Level 3 had a carrying amount and a fair value of €0 million as of June 30, 2017 and as of December 31, 2016, these are not presented in table form.

There were no non-recurring fair value measurements of financial instruments in the reporting period.

Fair value of financial instruments carried at amortized cost or hedge fair value

The fair values of financial instruments carried at amortized cost or hedge fair value on the balance sheet are compared with their carrying amounts in the following table:

	June 30, 2017		Dec. 31, 2016	
	Carrying amount €m	Full fair value €m	Carrying amount €m	Full fair value €m
Assets				
Cash reserve	**1,604**	**1,604**	**2,291**	**2,291**
Loans and advances to other banks (loans and receivables)	**11,887**	**11,891**	**13,108**	**13,117**
Securities repurchase agreements	1,716	1,716	5,832	5,834
Amounts payable on demand	9,009	9,009	6,381	6,381
Loans	63	64	92	94
Registered bonds	99	101	300	306
Term deposits	1,000	1,001	500	499
Other loans and advances	0	0	3	3
Loans and advances to customers (loans and receivables)	**100,596**	**105,486**	**98,358**	**102,222**
Private mortgage lending	66,529	70,915	65,384	68,890
Home savings loans	2,875	2,875	2,992	2,992
Commercial loans	14,412	14,544	13,677	13,717
Public-sector receivables	5,039	5,102	5,205	5,234
Installment loans	7,688	7,978	7,438	7,704
Overdrafts	2,413	2,413	2,085	2,085
Promissory note loans	1,599	1,618	1,537	1,560
Other loans and advances	41	41	40	40
Allowance for losses on loans and advances (loans and receivables)	**−922**	**−922**	**−998**	**−998**
Private mortgage lending	−261	−261	−292	−292
Home savings loans	−6	−6	−5	−5
Commercial loans	−113	−113	−153	−153
Public-sector receivables	−3	−3	−4	−4
Installment loans	−388	−388	−389	−389
Overdrafts	−151	−151	−155	−155
Promissory note loans	0	0	0	0
Other loans and advances	0	0	0	0
Investment securities (loans and receivables)	**9,902**	**10,173**	**12,196**	**12,573**
Bonds and other fixed-income securities	9,902	10,173	12,196	12,573
Other assets (loans and receivables)	**156**	**156**	**147**	**147**
	123,223	**128,388**	**125,102**	**129,352**
Liabilities				
Deposits from other banks (liabilities at amortized cost)	**12,368**	**12,729**	**13,133**	**13,539**
Due to customers (liabilities at amortized cost)	**118,051**	**119,507**	**118,918**	**120,616**
Savings deposits	37,310	37,310	38,585	38,585
Home savings	18,575	18,575	18,809	18,809
Other liabilities	62,166	63,622	61,524	63,222
Debt securities in issue and subordinated debt	**3,289**	**3,674**	**3,339**	**3,767**
Public-sector *Pfandbriefe*	56	61	56	62
Mortgage *Pfandbriefe*	2,336	2,392	2,405	2,467
Other debt instruments	897	1,221	878	1,238
Subordinated debt (liabilities at amortized cost)	**1,963**	**2,218**	**2,567**	**2,598**
Hybrid capital instruments	881	1,019	1,447	1,385
Subordinated liabilities	897	1,002	909	989
Profit participation certificates outstanding	163	176	189	202
Contributions by typical silent partners	21	21	22	22
Other liabilities (liabilities at amortized cost)	**359**	**359**	**318**	**318**
	136,030	**138,487**	**138,275**	**140,838**

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. For these, the carrying amount is used as the estimated fair value.

(30) 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.

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Trading derivatives	137,449	138,822	343	421	309	408
Hedging derivatives	23,614	21,785	69	112	31	42
Total	**161,063**	**160,607**	**412**	**533**	**340**	**450**

The following table presents the Postbank Group's conditional and unconditional forward transactions open at the balance sheet date.

			Fair Value			
	Notional amount		Positive fair values		Negative fair values	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Trading derivatives						
Foreign currency derivatives	6,577	5,885	38	53	42	49
Interest rate derivatives	130,862	132,924	305	368	267	359
Equity/index derivatives	0	0	–	0	–	–
Credit derivatives	10	13	0	0	0	0
Total holdings of trading derivatives	**137,449**	**138,822**	**343**	**421**	**309**	**408**
Hedging derivatives						
Fair value hedges	23,614	21,785	69	112	31	42
Total holdings of hedging derivatives	**23,614**	**21,785**	**69**	**112**	**31**	**42**
Total holdings of derivatives	**161,063**	**160,607**	**412**	**533**	**340**	**450**

Risks relating to the financial instruments are presented in the Risk Report contained in the Interim Management Report.

(31) 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 June 30, 2017, on the effects of offsetting on the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are covered by a legally enforceable master netting arrangement or similar agreement.

	Financial assets (gross) €m	Offset recognized amounts (gross) €m	Recognized financial assets (net) €m	Effects of master netting arrangements €m	Cash collateral €m	Collateral taking the form of financial instruments €m	Net amount €m
Assets							
Loans and advances to other banks	12,061	–174	11,887	–	–	–1,717	10,170
Trading assets	5,833	–5,443	390	–140	–52	–	198
Hedging derivatives	925	–856	69	0	–11	–	58
Total	**18,819**	**–6,473**	**12,346**	**–140**	**–63**	**–1,717**	**10,426**

	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	2,755	0	2,755	–	0	–2,606	149
Trading liabilities	6,208	–5,899	309	–140	–118	–	51
Hedging derivatives	604	–573	31	0	–12	–	19
Total	**9,567**	**–6,472**	**3,095**	**–140**	**–130**	**–2,606**	**219**

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" 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 pledged for negative fair values of derivatives is reported under the "Deposits from other banks" and "Loans and advances to other banks" line items.

The following tables contain the comparative figures as of December 31, 2016.

	Financial assets (gross) €m	Offset recognized amounts (gross) €m	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	–	–	–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**

(32) Capital management, risk-weighted assets, and capital ratio

Postbank satisfies the requirements of Basel III, which took effect on January 1, 2014, in the form of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV) as well as related German regulations. Numerous transitional provisions continue to apply in 2017.

Postbank's processes for calculating and managing capital resources and leverage ratio comply with all legislation, regulations, and European Banking Authority (EBA) standards in the most recently amended versions. Internal calculations are always performed on a regulatory phased-in basis, as well as on a fully phased-in basis. The Bank's performance relating to own funds is monitored and managed in accordance with both views.

Postbank was subject to additional 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 in the *Kreditwesengesetz* (KWG – German Banking Act) or are defined and communicated by the competent supervisory authorities for individual banks and/or countries.

The amount of the capital conservation buffer has already been defined by CRD IV and is equal to 1.25 % of risk-weighted assets in 2017. The maximum capital conservation buffer requirement of 2.5 % will be reached in 2019. At present, BaFin has set the counter-cyclical buffer for Germany to 0 %. Based on the relevant foreign exposures, this gives an average-weighted countercyclical capital buffer requirement of 0.007 % of RWA for Postbank. 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.

In this connection Postbank complies with all minimum capital requirements including capital buffer requirements made of it.

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" of the 2016 Annual Report.

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 test.

3. Medium-term target ratio for CET1 redefined each year by the Management Board as part of its risk strategy.

There is no regulatory minimum requirement for the leverage ratio. However, the Bank has defined thresholds and internal target ratios for internal management purposes as well. These are integrated in general capital management via the risk strategy. The general capital management process contains various monitoring and forecasting processes for the defined indicators. As part of the multi-year planning process, a preview of expected capital and leverage ratios is conducted once a year over a period of the following three years on the basis of volume, migration, and profit/loss planning and dedicated assumptions. The planning process also comprises a downside scenario.

The current capital and leverage ratios are calculated on a monthly basis. The current ratios and stress-testing results are submitted to the Management Board and the Supervisory Board on a quarterly basis in the overall bank risk report.

The risk strategy defines the corresponding internal thresholds which, if fallen below, trigger countermeasures and recommendations. In addition, a capital ratio forecast with a view to the end of the fiscal year is prepared during the year to review the necessity of any countermeasures.

The Asset and 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:

	June 30, 2017[1] €m	Dec. 31, 2016[2] €m
Credit and counterparty risk (including CVA)	36,259	36,108
Market risk positions	89	62
Operational risk	5,373	5,827
Total risk-weighted assets	41,721	41,997
Regular phased-in:		
Common Equity Tier 1 capital (CET 1)	5,733	5,952
Additional Tier 1 capital (AT 1)	139	228
Tier 1 capital	5,872	6,180
Tier 2 capital	965	1,052
Own funds	6,837	7,232
	%	%
CET 1 capital ratio	13.7	14.2
Tier 1 capital ratio	14.1	14.7
Total capital ratio	16.4	17.2
Fully phased-in:		
CET 1 capital ratio	12.8	12.4
Tier 1 capital ratio	12.8	12.4
Total capital ratio	16.2	15.9

[1]By factoring in the interim profit as of June 30, 2017 subject to supervisory authority approval

[2]The regular-phased-in CET1 capital ratio as reported on December 31, 2016 was 13.4 % (by factoring in the interim profit as of September 30, 2016).

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.

(33) Risk-bearing capacity, risk cover amount, and risk capital

The following table shows the Postbank Group's authorized risk capital, broken down by risk types, before and after factoring in correlation effects, and the risk cover amount. The figures are given as of June 30, 2017, compared with December 31, 2016.

Risk capital by risk types

Capital and risk components	Allocated risk capital	
	June 30, 2017 €m	Dec. 31, 2016 €m
Credit risk	2,700	2,700
Market risk	2,120	2,180
Operational risk	700	700
Business risk	2,670	2,670
Total before diversification	**8,190**	**8,250**
Diversification effects	1,452	1,460
Total after diversification	**6,738**	**6,790**
Unallocated risk cover amount	3,051	3,128
Total risk cover amount	**9,789**	**9,918**

Other disclosures relating to capital management can be found in the Risk Report section of the Interim Management Report.

(34) Related party disclosures

Related party receivables

	June 30, 2017 €m	Dec. 31, 2016 €m
Loans and advances to other banks		
Deutsche Bank AG	1,137	2,288
Other related parties	5	4
	1,142	**2,292**
Loans and advances to customers		
Other related parties	42	42
	42	**42**
Trading assets		
Deutsche Bank AG	109	125
	109	**125**
Investment securities		
Deutsche Bank AG	1,020	1,118
	1,020	**1,118**
Other assets		
Deutsche Bank AG	87	90
Other related parties	9	5
	96	**95**

The loans and advances to other banks primarily relate to money market transactions with Deutsche Bank AG. The decline in loans and advances to Deutsche Bank AG is primarily the result of fewer securities repurchase transactions being entered into compared with the previous year.

The decrease in trading assets is mainly attributable to measurement effects.

The investment securities relate to Deutsche Bank AG bonds.

Related party payables

	June 30, 2017 €m	Dec. 31, 2016 €m
Deposits from other banks		
Deutsche Bank AG	2,819	3,004
	2,819	**3,004**
Due to customers		
Subsidiaries	3	8
Other related parties	2	5
	5	**13**
Trading liabilities		
Deutsche Bank AG	221	237
	221	**237**
Hedging derivatives		
Deutsche Bank AG	1	1
	1	**1**
Other liabilities		
Deutsche Bank AG	39	35
DB Beteiligungs-Holding GmbH (formerly: DB Finanz-Holding GmbH)	77	9
Other related parties	4	1
	120	**45**

The liabilities to Deutsche Bank AG primarily comprise securities repurchase transactions.

The other liabilities to DB Beteiligungs-Holding GmbH relate to effects of the control and profit and loss transfer agreement that were recognized in retained earnings.

Income and expenses from related parties

	Jan. 1 – June 30, 2017 €m	Jan. 1 – June 30, 2016[1] €m
Interest income		
Deutsche Bank AG	6	7
Other related parties	–6	–5
	0	**2**
Interest expense		
Deutsche Bank AG	2	2
Other related parties	0	0
	2	**2**
Fee and commission income		
Deutsche Bank AG	13	15
Other related parties	11	15
	24	**30**
Fee and commission expense		
Deutsche Bank AG	1	1
Other related parties	0	0
	1	**1**
Net trading income		
Deutsche Bank AG	12	2
	12	**2**
Net income from investment securities		
Other related parties	0	0
	0	**0**
Administrative expenses		
Deutsche Bank AG	7	14
Subsidiaries	5	5
Other related parties	7	6
	19	**25**
Other income		
Deutsche Bank AG	2	18
Subsidiaries	1	1
Other related parties	5	3
	8	**22**
Other expenses		
Other related parties	0	0
	0	**0**

[1]Figures adjusted (see Note 2)

Interest income attributable to 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. Retroactive application of the change in presentation reduced interest income and thus administrative expenses by €6 million in the previous-year period.

(35) Members of executive bodies
Management Board

The members of the Management Board are:

Frank Strauss, Bad Nauheim (Chairman)	
Marc Hess, Bonn	
Susanne Klöss-Braekler, Munich	
Philip Laucks, Goldbach	since June 1, 2017
Ralph Müller, Bonn	
Ralf Stemmer, Königswinter	until May 31, 2017
Hanns-Peter Storr, Bonn	
Lars Stoy, Bonn	since June 1, 2017

The members of the Supervisory Board of Deutsche Postbank AG are:

1. Shareholder representatives

Werner Steinmüller (Chairman) Member of the Management Board of Deutsche Bank AG, Dreieich-Buchschlag
Edgar Ernst President of the Financial Reporting Enforcement Panel, DPR e.V., Bonn
Stefanie Heberling Regional Manager, Retail Customers, central Ruhr region Deutsche Bank Privat- und Geschäftskunden AG, Wuppertal
Tessen von Heydebreck Chairman of the Board of Trustees of Deutsche Bank Foundation, Berlin
Katja Langenbucher-Adolff Professor for Private Law, Corporate and Financial Law, Goethe University Frankfurt am Main, Frankfurt am Main
Karen Meyer Global HR Business Partner PWCC&AM, Deutsche Bank AG, Frankfurt am Main
Christiana Riley CFO Corporate & Investment Banking, Deutsche Bank AG, Bad Homburg v.d.Höhe
Karl von Rohr Member of the Management Board of Deutsche Bank AG, Oberursel
Christian Sewing Member of the Management Board of Deutsche Bank AG, Osnabrück
Michael Spiegel 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	
Susanne Bleidt Member of Postbank Filialvertrieb AG's General Works Council, Bell	
Frank Fuss Chairman of the General Works Council of Deutsche Postbank AG, Elsdorf	since March 22, 2017
Timo Heider Chairman of the General Works Council of BHW Bausparkasse Aktiengesellschaft and Postbank Finanzberatung, Emmerthal	
Jens Isselmann Executive employee of Deutsche Postbank AG, Bornheim	
Hans-Jürgen Kummetat Civil servant, Cologne	until March 22, 2017
Bernd Rose Chairman of the General Works Council of Postbank Filialvertrieb AG/Postbank Filial GmbH, Menden (Sauerland)	
Martina Scholze Trade union secretary of the ver.di Trade Union, Munich	
Eric Stadler Chairman of Betriebs-Center für Banken AG's Works Council, Markt Schwaben	
Gerd Tausendfreund Trade union secretary of the ver.di Trade Union, Nidderau	
Renate Treis Deputy Chair of Deutsche Postbank AG's General Works Council, Brühl	until February 28, 2017
Anna Lisa Trompa Chair of the representative body for young workers and trainees, Deutsche Postbank AG, Lehrte	since March 22, 2017

RESPONSIBILITY STATEMENT

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

Bonn, August 2, 2017

Deutsche Postbank Aktiengesellschaft

The Management Board

Frank Strauss

Marc Hess

Susanne Klöss-Braekler

Philip Laucks

Ralph Müller

Hanns-Peter Storr

Lars Stoy

REVIEW REPORT

To Deutsche Postbank AG, Bonn

We have reviewed the condensed consolidated interim financial statements - comprising the statement of financial position, statement of comprehensive income, condensed statement of cash flows, statement of changes in equity and selected explanatory notes - and the interim group management report of Deutsche Postbank AG, Bonn, for the period from January 1 to June 30, 2017 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review 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 review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed concolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Düsseldorf, August 2, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	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 lists the section of the Interim Report and, in terms of qualitative disclosures, 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 Interim Report and 2016 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 June 30, 2017, 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). The Bank plans to transfer the rating system applied to overdrafts for retail customers to the A-IRB Approach in the second half of 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 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 3 to the 2017 Interim 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 (EAD – expected amount of the exposure at the time of possible default) 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 €2,280 million as of the reporting date (December 31, 2016: €2,912 million). In addition, the exposure for contributions to the default fund of a central counterparty (CCP) amounted to €88 million as of the reporting date (December 31, 2016: €121 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	
	July 1, 2016 – June 30, 2017 €m	Jan. 1, 2016 – Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
IRBA governments and central banks	214	171	391	169
IRBA institutions	6,472	7,837	5,443	6,124
IRBA corporates	23,553	22,875	24,292	23,323
IRBA retail exposures	83,180	81,298	85,027	83,097
IRBA equity exposures	34	106	34	38
IRBA securitization positions	182	253	50	55
CRSA governments and central banks	17,446	13,603	20,435	17,890
CRSA regional governments and local authorities	8,518	8,886	7,736	8,612
CRSA other public-sector entities	1,696	1,931	1,492	1,633
CRSA multilateral development banks	738	836	634	794
CRSA international organizations	1,282	1,339	1,182	1,292
CRSA institutions	1,868	1,948	1,483	2,330
CRSA corporates	832	944	807	783
CRSA retail exposures	2,126	2,187	2,191	2,199
CRSA exposures secured by real estate property	1,210	1,464	1,223	1,194
CRSA exposures in default	96	135	82	100
CRSA covered bonds	–	–	–	–
CRSA securitization positions	–	75	–	–
CRSA UCITS	–	–	–	–
CRSA equity exposures	230	228	226	233
CRSA other items	–	–	–	–
Total	**149,677**	**146,116**	**152,728**	**149,866**

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
IRBA governments and central banks	–	–	–	–	391	169	–	–	–	–	–	–	–	–	391	169
IRBA institutions	–	–	5,443	5,968	0	126	–	30	0	0	–	–	0	0	5,443	6,124
IRBA corporates	284	288	2,004	2,135	0	0	8,320	7,741	7,170	7,058	4,698	4,443	1,816	1,658	24,292	23,323
IRBA retail exposures	85,027	83,097	–	–	–	–	–	–	–	–	–	–	–	–	85,027	83,097
IRBA equity exposures	–	–	28	29	–	–	–	–	1	9	–	–	5	0	34	38
IRBA securitization positions	–	–	50	55	–	–	–	–	–	–	–	–	–	–	50	55
CRSA governments and central banks	–	–	9,226	6,282	10,791	11,190	–	–	418	418	–	–	–	–	20,435	17,890
CRSA regional governments and local authorities	–	–	–	–	7,721	8,596	15	16	0	0	–	–	–	–	7,736	8,612
CRSA other public-sector entities	–	–	1,179	1,317	241	231	–	–	42	49	–	–	30	36	1,492	1,633
CRSA multilateral development banks	–	–	634	794	–	–	–	–	–	–	–	–	–	–	634	794
CRSA international organizations	–	–	681	787	501	505	–	–	–	–	–	–	–	–	1,182	1,292
CRSA institutions	–	–	1,483	2,330	–	–	–	–	–	–	–	–	–	–	1,483	2,330
CRSA corporates	3	3	41	51	–	–	195	166	300	321	176	149	92	93	807	783
CRSA retail exposures	2,191	2,199	–	–	–	–	–	–	–	–	–	–	–	–	2,191	2,199
CRSA exposures secured by real estate property	1,174	1,144	0	0	–	–	45	45	2	3	0	0	2	2	1,223	1,194
CRSA exposures in default	49	58	0	0	0	0	7	14	18	19	0	0	8	9	82	100
CRSA covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
CRSA securitization positions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
CRSA UCITS	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
CRSA equity exposures	–	–	221	223	–	–	–	–	0	5	–	–	5	5	226	233
CRSA other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	**88,728**	**86,789**	**20,990**	**19,971**	**19,645**	**20,817**	**8,582**	**8,012**	**7,951**	**7,882**	**4,874**	**4,592**	**1,958**	**1,803**	**152,728**	**149,866**

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
IRBA retail exposures	400	342	–	–	–	–	–	–	–	–	–	–	–	–	400	342
IRBA corporates	0	0	17	22	–	–	–	–	616	610	288	332	73	120	994	1,084
CRSA corporates	–	–	8	17	–	–	4	4	26	24	24	40	20	23	82	108
CRSA retail exposures	50	47	–	–	–	–	–	–	–	–	–	–	–	–	50	47
CRSA exposures secured by real estate property	–	–	–	–	–	–	6	7	0	0	–	–	–	–	6	7
Total	**450**	**389**	**25**	**39**	**–**	**–**	**10**	**11**	**642**	**634**	**312**	**372**	**93**	**143**	**1,532**	**1,588**

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
IRBA governments and central banks	125	–	236	138	–	–	30	31	391	169
IRBA institutions	3,668	3,986	1,713	1,995	57	138	5	5	5,443	6,124
IRBA corporates	15,058	14,857	8,185	7,432	496	537	553	497	24,292	23,323
IRBA retail exposures	83,157	81,090	1,789	1,935	23	22	58	50	85,027	83,097
IRBA equity exposures	34	23	–	–	–	15	–	–	34	38
IRBA securitization positions	–	–	50	55	–	–	–	–	50	55
CRSA governments and central banks	10,464	7,548	9,857	10,225	–	–	114	117	20,435	17,890
CRSA regional governments and local authorities	7,736	8,612	–	–	–	–	–	–	7,736	8,612
CRSA other public-sector entities	1,425	1,565	67	68	–	–	–	–	1,492	1,633
CRSA multilateral development banks	–	–	634	794	–	–	–	–	634	794
CRSA international organizations	–	–	1,182	1,292	–	–	–	–	1,182	1,292
CRSA institutions	376	1,266	1,106	1,062	1	2	–	–	1,483	2,330
CRSA corporates	660	678	65	48	0	0	82	57	807	783
CRSA retail exposures	2,117	2,127	71	69	1	1	2	2	2,191	2,199
CRSA exposures secured by real estate property	178	183	1,045	1,010	0	0	0	1	1,223	1,194
CRSA exposures in default	70	85	12	15	0	0	0	0	82	100
CRSA covered bonds	–	–	–	–	–	–	–	–	–	–
CRSA securitization positions	–	–	–	–	–	–	–	–	–	–
CRSA UCITS	–	–	–	–	–	–	–	–	–	–
CRSA equity exposures	226	228	0	5	–	–	–	–	226	233
CRSA other items	–	–	–	–	–	–	–	–	–	–
Total	**125,294**	**122,248**	**26,012**	**26,143**	**578**	**715**	**844**	**760**	**152,728**	**149,866**

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
IRBA governments and central banks	27	7	105	83	259	79	391	169
IRBA institutions	1,090	1,458	2,555	2,773	1,798	1,893	5,443	6,124
IRBA corporates	4,990	4,742	7,904	7,637	11,398	10,944	24,292	23,323
IRBA retail exposures	3,663	3,902	6,477	6,620	74,887	72,575	85,027	83,097
IRBA equity exposures	–	–	–	–	34	38	34	38
IRBA securitization positions	50	55	–	–	–	–	50	55
CRSA governments and central banks	12,721	8,111	5,155	7,332	2,559	2,447	20,435	17,890
CRSA regional governments and local authorities	1,128	1,438	3,600	3,710	3,008	3,464	7,736	8,612
CRSA other public-sector entities	354	233	829	1,052	309	348	1,492	1,633
CRSA multilateral development banks	38	175	522	544	74	75	634	794
CRSA international organizations	370	219	464	682	348	391	1,182	1,292
CRSA institutions	44	916	–	–	1,439	1,414	1,483	2,330
CRSA corporates	135	74	313	324	359	385	807	783
CRSA retail exposures	1,017	978	359	373	815	848	2,191	2,199
CRSA exposures secured by real estate property	501	541	134	169	588	484	1,223	1,194
CRSA exposures in default	82	100	–	–	–	–	82	100
CRSA covered bonds	–	–	–	–	–	–	–	–
CRSA securitization positions	–	–	–	–	–	–	–	–
CRSA UCITS	–	–	–	–	–	–	–	–
CRSA equity exposures	–	–	–	–	226	233	226	233
CRSA other items	–	–	–	–	–	–	–	–
Total	**26,210**	**22,949**	**28,417**	**31,299**	**98,101**	**95,618**	**152,728**	**149,866**

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.

Exposure values for IRBA specialized lending

	Dec. 31, 2017 €m	Dec. 31, 2016 €m
Risk weight 1 (strong)	1,020	1,088
Risk weight 2 (good)	371	401
Risk weight 3 (satisfactory)	55	81
Risk weight 4 (weak)	17	37
Risk weight 5 (defaulted)	41	29
Total	**1,504**	**1,636**

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. In addition to these equity exposure values, Postbank, as of the reporting date, had further exposures amounting to €226 million (as of December 31, 2016: €233 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

	June 30, 2017 €m	Dec. 31, 2016 €m
Private equity exposures in sufficiently diversified portfolios (risk weight 190 %)	–	–
Exchange-traded equity exposures (risk weight 290 %)	–	–
Other equity exposures (risk weight 370 %)	34	38
Total	34	38

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 2016 Group Management Report entitled "Monitoring and managing credit risk."

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
IRBA governments and central banks	391	169	–	–	–	–	–	–	–	–
IRBA institutions	5,443	6,124	–	–	0	0	–	–	0	0
IRBA corporates	24,292	23,323	–	–	550	630	6,611	6,233	7,160	6,863
IRBA retail exposures	85,027	83,097	–	–	35	25	70,749	69,278	70,784	69,303
IRBA equity exposures	34	38	–	–	–	–	–	–	–	–
IRBA securitization positions	50	55	–	–	–	–	–	–	–	–
Total	**115,237**	**112,806**	**–**	**–**	**585**	**655**	**77,359**	**75,511**	**77,944**	**76,166**

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	
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
CRSA governments and central banks	20,435	17,890	–	–	–	–	–	–
CRSA regional governments and local authorities	7,736	8,612	–	–	–	–	–	–
CRSA other public-sector entities	1,492	1,633	–	–	–	–	–	–
CRSA multilateral development banks	634	794	–	–	–	–	–	–
CRSA international organizations	1,182	1,292	–	–	–	–	–	–
CRSA institutions	1,483	2,330	–	–	–	–	–	–
CRSA corporates	807	783	–	–	31	33	31	33
CRSA retail exposures	2,191	2,199	–	–	–	–	–	–
CRSA exposures secured by real estate property	1,223	1,194	–	–	–	–	–	–
CRSA exposures in default	82	100	–	–	–	–	–	–
CRSA covered bonds	–	–	–	–	–	–	–	–
CRSA securitization positions	–	–	–	–	–	–	–	–
CRSA UCITS	–	–	–	–	–	–	–	–
CRSA equity exposures	226	233	–	–	–	–	–	–
CRSA other items	–	–	–	–	–	–	–	–
Total	**37,491**	**37,060**	**–**	**–**	**31**	**33**	**31**	**33**

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 Risk Report entitled "Monitoring and managing credit risk."

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 8 to the 2017 Interim Financial Statements).

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 June 30, 2017, and the prior-year closing date, 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 differences 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

		Retail customers		Banks/ insurers/ financial services providers		Governments		Commercial real estate finance		Service providers/ wholesale and retail		Industry		Other sectors		Total	
		June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Exposures	Impaired exposures	1,688	1,732	49	54	7	7	226	201	80	88	88	90	36	35	2,174	2207
	Past due exposures	129	134	0	0	–	–	0	4	0	2	0	3	0	0	129	143
Portfolios	Specific valuation allowances	565	593	–	–	3	4	46	79	34	35	54	56	32	31	734	798
	Portfolio-based valuation allowances	168	174	–	–	–	–	7	11	–	–	10	12	3	3	188	200
	Provisions	11	14	–	–	–	–	9	15	–	–	9	16	–	–	29	45
Period expense	Specific valuation allowances	71	162	–	–	–	–	–32	–5	–	7	–4	–	2	11	37	175
	Portfolio-based valuation allowances	–6	–5	–	–	–	–	–4	5	–	–	–3	2	–	–	–13	2
	Provisions	–2	–8	–	–	–	–	–6	9	–	–	–5	5	–	–	–13	6

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	
		June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m
Exposures	Impaired exposures	1,760	1,813	403	382	11	12	2,174	2,207
	Past due exposures	122	137	7	6	0	0	129	143
Portfolios	Specific valuation allowances	673	695	61	103	–	–	734	798
	Portfolio-based valuation allowances	184	196	4	4	–	–	188	200
	Provisions	29	45	–	–	–	–	29	45

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 5 to the 2017 Interim 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 capital adequacy of the banking group as consolidated for the purposes of bank supervisory reporting in accordance with Article 11 ff. of the CRR and with the KWG and serves to disclose the elements of own funds during the transitional period in accordance with Article 492(3) and Article 437(1)d) and e) of the CRR, and 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 funds items.

Presentation of the balance sheet by financial reporting consolidation and regulatory scope of consolidation

	IFRS balance sheet		Regulatory balance sheet		Delta		Reference
	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m	
Assets							
Cash reserve	1,604	2,291	1,604	2,291	0	0	
Loans and advances to other banks	11,887	13,108	11,887	13,108	0	0	
Loans and advances to customers	103,799	102,003	103,792	101,996	–8	–7	
Allowance for losses on loans and advances	–922	–998	–922	–998	–	–	
Trading assets	390	475	390	475	–	–	
Hedging derivatives	69	112	69	112	–	–	
Investment securities	24,504	26,767	24,712	26,975	207	208	
Intangible assets	1,984	1,963	1,555	1,534	–429	–429	f
Goodwill	1,581	1,581	1,152	1,152	–429	–429	
Other intangible assets	403	382	403	382	0	0	
Property and equipment	709	699	707	698	–1	–1	
Current tax assets	110	144	110	143	0	–1	
Deferred tax assets	186	198	161	171	–25	–27	
Other assets	495	388	483	379	–12	–9	
Assets held for sale	14	47	14	47	–	–	
Total assets	**144,829**	**147,197**	**144,562**	**146,931**	**–266**	**–266**	
Equity and liabilities							
Deposits from other banks	12,368	13,133	12,368	13,133	–	–	
Due to customers	118,051	118,918	118,138	119,002	87	84	
Debt securities in issue	3,289	3,339	3,289	3,339	–	–	
Trading liabilities	309	409	309	409	–	–	
Hedging derivatives	31	42	31	42	–	–	
Provisions	800	907	752	858	–48	–49	
Current tax liabilities	80	98	77	97	–3	–1	
Deferred tax liabilities	4	17	4	17	0	0	
Other liabilities	565	541	525	496	–40	–45	
Subordinated debt	1,963	2,567	1,963	2,567	–	–	g
Equity	7,369	7,226	7,106	6,971	–263	–255	
a) Issued capital	547	547	547	547	–	–	a
b) Share premium	2,191	2,191	2,191	2,191	–	–	b
c) Other reserves	4,330	4,171	4,075	3,922	–255	–249	
Retained earnings	4,621	4,381	4,345	4,110	–276	–271	c
AOCI	–291	–210	–270	–189	21	21	d
d) Consolidated net profit	301	317	293	311	–8	–6	e
Total equity and liabilities	**144,829**	**147,197**	**144,562**	**146,931**	**–266**	**–266**	

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 "CRR reference" column lists the applicable provisions of the CRR. 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 last column contains references to the balance sheet items used to calculate the own funds.

The information provided in the following table as of June 30, 2017, is subject to supervisory authority approval for the inclusion of interim profit; the comparative figures from the disclosure as of December 31, 2016, includes the interim profit as of September 30, 2016.

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
		June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m		
Common Equity Tier 1 (CET1): instruments and reserves							
1	Capital instruments and related share premium accounts	2,738	2,738			a+b	26 (1), 27, 28, 29
	thereof: issued capital	547	547			a	
	thereof: share premium	2,191	2,191			b	
2	Retained earnings	4,324	3,980			c	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	–270	–71			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	293	174			e	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**7,085**	**6,821**				
Common Equity Tier 1 (CET1): regulatory adjustments							
7	Additional value adjustments (negative amount)	–46	–71				34, 105
8	Intangible assets (net of related tax liability) (negative amount)	–1,194	–888	–298	–592	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)	–3	–18	–1	–12		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	–161	–156	–40	–104		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[2]	–2	–3	0	–2		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) bis (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 bis 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] 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
		June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m		
	Common Equity Tier 1 (CET1): regulatory adjustments						
25a	Losses for the current fiscal year (negative amount)	–	–71		–47		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	54	28				
	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	–	–				
	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	54	28				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)	–	–				36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**–1,352**	**–1,179**				
29	**Common Equity Tier 1 (CET1) capital**	**5,733**	**5,642**				
	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	457	853			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**	**457**	**853**			**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)	–318	–644				
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	–318	–644				472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	thereof: intangible assets	–298	–592				
	thereof: negative amounts resulting from the calculation of expected loss amounts	–20	–52				
	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.

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
		June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €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**	**–318**	**–644**				
44	**Additional Tier 1 (AT1) capital**	**139**	**209**				
45	**Total Tier 1 capital (T1 = CET1 + AT1)**	**5,872**	**5,851**				
Tier 2 (T2) capital: instruments and reserves							
46	Capital instruments and the related share premium accounts	499	563[2]			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	2	125			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 row 5 or 34) issued by subsidiaries and held by third parties	484	402[2]		–16	g	87, 88, 480
49	thereof: instruments issued by subsidiaries subject to phase out	–	–				486 (4)
50	Credit risk adjustments	–	–				62 (c) und (d)
51	**Tier 2 capital (T2) before regulatory adjustments**	**985**	**1,090**			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)	–20	–52				
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	–20	–52				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	–20	–52				
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**	**–20**	**–52**				
58	**Tier 2 (T2) capital**	**965**	**1,038**				
59	**Total capital (TC = T1 + T2)**	**6,837**	**6,889**				
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)	617	616				
	thereof: deferred tax assets that rely on future profitability, resulting from temporary differences	617	616				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	0	0				475, 475 (2) (b), 475 (2) (c), 475 (4) (b)
60	**Total risk-weighted assets**	**41,721**	**41,997**				

[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] Disclosure adjusted. Prior to June 30, 2017, the trust preferred securities of Deutsche Postbank Funding Trusts I-III were included in the Tier 2 capital disclosed in row 46.

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
		June 30, 2017 €m	Dec. 31, 2016 €m	June 30, 2017 €m	Dec. 31, 2016 €m		
Capital ratios and buffers							
61	Common Equity Tier 1 capital ratio (as a percentage of total risk exposure amount)	13,74 %	13,43 %				92 (2) (a), 465
62	Tier 1 capital ratio (as a percentage of total risk exposure amount)	14,07 %	13,93 %				92 (2) (b), 465
63	Total capital ratio (as a percentage of total risk exposure amount)	16,39 %	16,40 %				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))	8,26 %	5,13 %				CRD 128, 129, 130
65	thereof: capital conservation buffer requirement	1,25 %	0,63 %				
66	thereof: counter-cyclical buffer requirement	0,01 %	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)	5,57 %	7,93 %				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)	33	32				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)	247	246				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	41				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	196	195				62
Capital instruments subject to phase-out arrangements (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) und (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	–				484 (3), 486 (2) und (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	457	853				484 (4), 486 (3) und (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	10	214				484 (4), 486 (3) und (5)
84	Current cap on T2 instruments subject to phase-out arrangements	2	125				484 (5), 486 (4) und (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	9	88				484 (5), 486 (4) und (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.

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–III (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. Contributions by typical silent partners will cease to qualify as Additional Tier 1 capital, owing to their 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 and subordinated liabilities (row 46). The qualification of contributions by typical silent partners as Tier 2 capital is subject to transitional provisions as laid down in Article 486(4) of the CRR (row 47). 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, and capital instruments issued by Postbank's subsidiary BHW Bausparkasse AG also qualify as Tier 2 capital (row 48). 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, 2016: €2,738 million) correspond to the issued capital in the amount of €547 million (December 31, 2016: €547 million) plus the share premium in the amount of €2,191 million (December 31, 2016: €2,191 million).

- (c) The difference between the retained earnings of €4,324 million (December 31, 2016: €3,980 million) and the retained earnings in the regulatory balance sheet in the amount of €4,345 million (December 31, 2016: €4,110 million) is due to the requirement to deduct the fund for home loans and savings protection, which amounted to €+21 million (December 31, 2016: €+21 million).

- (d) The accumulated other comprehensive income in the amount of €–270 million (December 31, 2016: €–71 million) corresponds to the amount of €–270 million (December 31, 2016: €–189 million) disclosed in the regulatory balance sheet.

- (e) Consolidated net profit of €293 million as of June 30, 2017, was included in the disclosure, subject to supervisory authority approval for the inclusion of interim profit (as of December 31, 2016, the interim profit of €174 million as of September 30, 2016, had been included in the disclosure).

- (f) The difference between the amount for intangible assets of €1,492 million (December 31, 2016: €1,480 million) as presented in the overview of own funds and the carrying amount of €1,555 million (December 31, 2016: €1,534 million) as disclosed in the regulatory balance sheet is attributable to the inclusion of deferred tax liabilities of €+63 million (December 31, 2016: €+64 million).

- (g) A total of €1,442 million of the €1,963 million (December 31, 2016: €2,567 million) of subordinated debt on the balance sheet is eligible for inclusion in own funds, before deductions. Of this amount, €457 million (December 31, 2016: €853 million) counts toward Additional Tier 1 capital and €985 million (December 31, 2016: €1,090 million) toward Tier 2 capital.

The Tier 2 capital in the amount of €985 million (December 31, 2016: €1,090 million) that qualifies for regulatory purposes comprises the following items:

- €499 million (December 31, 2016: €563 million) of eligible Tier 2 capital instruments of Deutsche Postbank AG (amortization in the last five years of their duration) (see row 46)

- €447million (December 31, 2016: €479 million) of the trust preferred securities of Deutsche Postbank Funding Trusts I–III eligible as Tier 2 capital under the transitional provisions (see rows 47 and 48)

- €2 million (December 31, 2016: €2 million) of the contributions by typical silent partners of Deutsche Postbank AG eligible as Tier 2 capital under the transitional provisions (row 47)

- €37 million (December 31, 2016: €47 million) of the instruments issued by BHW Bausparkasse AG allocated to consolidated Tier 2 capital (see row 48).

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 1.25 % 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's relevant credit exposures are located. This buffer is also subject to a transitional period from 2016 to 2019. The countercyclical capital buffer rate for Postbank as of June 30, 2017, was 0.007 %.

The amount of the institution-specific countercyclical capital buffer can be found in the table below.

Amount of institution-specific countercyclical capital buffer

		010	010
		June 30, 2017	Dec. 31, 2016
010	Total risk exposure amount	€41,721 million	€41,977 million
020	Institution-specific countercyclical buffer rate	0.01 %	0.00 %
030	Institution-specific countercyclical buffer requirement	€3 million	€2 million

The tables below show the geographical distribution of Postbank's credit exposures relevant for calculating the countercyclical capital buffer as of the reporting date and as of December 31, 2016:

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 (SA)	Exposure value (IRB)	Sum of long and short trading book positions	Value of trading book exposure (internal models)	Exposure value (SA)	Exposure value (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
June 30, 2017	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%
Austria	3	582	–	–	–	–	11	–	–	11	0	0.00
Belgium	93	397	–	–	–	–	11	–	–	11	0	0.00
Czech Republic	5	39	–	–	–	–	2	–	–	2	0	0.50
Denmark	1	44	–	–	–	–	2	–	–	2	0	0.00
Finland	0	366	–	–	–	–	5	–	–	5	0	0.00
France	28	2,239	–	–	–	–	54	–	–	54	2	0.00
Germany	3,264	103,285	–	–	–	–	2,453	–	–	2,453	87	0.00
Ireland	0	120	–	–	–	–	5	–	–	5	0	0.00
Italy	2	2,049	–	–	–	–	45	–	–	45	2	0.00
Luxembourg	1,019	525	–	–	–	–	51	–	–	51	2	0.00
Netherlands	1	1,656	–	–	–	–	57	–	–	57	2	0.00
Poland	13	226	–	–	–	–	10	–	–	10	0	0.00
Portugal	0	89	–	–	–	–	1	–	–	1	0	0.00
Slovakia	1	6	–	–	–	–	0	–	–	0	0	0.00
Spain	3	557	–	–	–	–	15	–	–	15	1	0.00
Sweden	0	400	–	–	–	–	7	–	–	7	0	2.00
United Kingdom	1	1,852	–	–	–	–	48	–	–	48	2	0.00
Other EU countries	0	89	–	–	–	–	2	–	–	2	0	0.00
EU – Total	**4,434**	**114,521**	**–**	**–**	**–**	**–**	**2,779**	**–**	**–**	**2,779**	**99**	
Hong Kong	0	3	–	–	–	–	0	–	–	0	0	1.25
Iceland	0		–	–	–	–	0	–	–	0	0	1.00
India	12	17	–	–	–	–	1	–	–	1	0	0.00
Norway	0	115	–	–	–	–	2	–	–	2	0	1.50
Russian Federation	18	5	–	–	–	–	2	–	–	2	0	0.00
Switzerland	28	182	–	–	–	–	6	–	–	6	0	0.00
Turkey	0	41	–	–	–	–	2	–	–	2	0	0.00
U.S.A.	1	371	–	–	–	50	5	–	0	5	0	0.00
Other non-EU countries	32	154	–	–	–	–	8	–	–	8	0	0.00
Non-EU countries – total	**91**	**888**	**–**	**–**	**–**	**50**	**26**	**–**	**0**	**26**	**1**	
Total	**4,525**	**115,409**	**–**	**–**	**–**	**50**	**2,805**	**–**	**0**	**2,805**	**100**	

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 (SA)	Exposure value (IRB)	Sum of long and short trading book positions	Value of trading book exposure (internal models)	Exposure value (SA)	Exposure value (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
Dec. 31, 2016	€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 1.26 %. 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. In this context, Postbank meets all minimum capital requirements applicable to it.

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 risk-weighted exposure amounts required to be included, multiplied by 8 % in each case. Total capital backing as of June 30, 2017, amounted to €3,338 million (December 31, 2016: €3,360 million).

Capital backing by type of risk and approach

	June 30, 2017 €m	Dec. 31, 2016 €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	4
Multilateral development banks	–	–
International organizations	–	–
Institutions	3	5
Corporates	61	60
Retail exposures	131	131
Exposures secured by real estate property	35	34
Exposures in default	9	10
Covered bonds	–	–
UCITS	–	–
Total Standardized Approach	**243**	**244**
Total credit risk exposure, calculated on the basis of internal ratings		
Foundation IRB Approach		
Governments and central banks	–	–
Institutions	21	31
Corporates	296	318
Total Foundation IRB Approach	**317**	**349**
Advanced IRB Approach		
Governments and central banks	1	1
Institutions	89	81
Corporates	554	543
Retail exposures to SMEs, secured by real estate property	0	0
Retail exposures, other than to SMEs, secured by real estate property	1,076	1,062
Qualifying revolving retail exposures	7	7
Other retail exposures to SMEs	7	7
Other retail exposures, other than to SMEs	401	389
Total Advanced IRB Approach	**2,135**	**2,090**
Other non-credit obligation assets	**154**	**145**
Total IRB Approaches	**2,606**	**2,584**
Total risk exposure for securitization positions		
Securitization positions (IRBA)	0	0
Securitization positions (Standardized Approach)	–	–
Total risks from securitization positions	**0**	**0**
Total risk exposure for equity exposures		
Equity exposures – retention of existing calculation/grandfathering	18	19
Equity exposures (simple risk weight approach under the IRBA)	10	11
Exchange-traded	–	–
Private equity exposures in sufficiently diversified portfolios	–	–
Other equity exposures	10	11
Equity exposures with regulatory risk weighting in accordance with Article 48 of the CRR	0	0
Total risks from equity exposures	**28**	**30**
Other total risk exposure amounts		
Exchange-traded debt instruments (calculated using the Standardized Approach)	–	–
Foreign exchange positions (calculated using the Standardized Approach)	7	5
Other market risk exposures (calculated using the Standardized Approach)	–	–
Total risk exposure amount for operational risk (calculated using the Standardized Approach)	430	466
Total risk exposure amount due to credit valuation adjustments (CVAs, calculated using the Standardized Approach)	12	20
Exposure amount for contributions to the default fund of a central counterparty (CCP)	12	11
Other total risk exposure amounts	–	–
Total	**3,338**	**3,360**

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 when the CRR II reform package enters into force. 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 as 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

		June 30, 2017 €m	Dec. 31, 2016 €m
1	Total assets as per published financial statements	144,829	147,197
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–266	–266
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	440	366
5	Adjustment for securities financing transactions (SFTs)	22	300
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	6,039	5,623
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	–1,579	–1,090
8	**Leverage ratio total exposure measure**	**149,485**	**152,130**

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

		June 30, 2017 €m	Dec. 31, 2016 €m
On-balance sheet exposures (excluding derivates and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	142,479	141,105
2	(Asset amounts deducted in determining Tier 1 capital)	– 1,624	– 1,629
3	**Total on-balance sheet exposures (excluding derivatives, SFTs, and fiduciary assets) (sum of rows 1 and 2)**	140,855	139,476
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	283	332
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	569	567
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)**	852	899
Securities financing transaction (SFT) exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,716	9,852
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	– 4,020
14	Counterparty credit risk exposure for SFT assets	22	300
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)**	1,738	6,132
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	24,666	24,206
18	(Adjustments for conversion to credit equivalent amounts)	– 18,627	– 18,583
19	**Other off-balance sheet exposures (sum of rows 17 and 18)**	6,039	5,623
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**	5,872	5,851
21	**Leverage ratio total exposure measure (sum of rows 3, 11, 16, 19, EU-19a, and EU-19b)**	149,485	152,130
Leverage ratio			
22	**Leverage ratio**	3,93 %	3,85 %
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	–	–

Postbank's leverage ratio improved during the period under review. The leverage ratio was 3.93 % as of the reporting date, compared with 3.85 % as of December 31, 2016. The main drivers of this development were an increase in Tier 1 capital (see "Composition and reconciliation of Postbank's own funds") and the scheduled reduction in total assets.

The total exposure measure was reduced to €149,485 million (as of December 31, 2016: €152,130 million) by optimizing total assets. The €4,394 million decline in securities financing transactions to €1,738 million (as of December 31, 2016: €6,132 million) was offset by a €1,379 million increase in other on-balance sheet exposures to €140,855 million (as of December 31, 2016: €139,476). Off-balance sheet exposures increased by €416 million to €6,039 million in the reporting period, while the qualifying amount for derivatives declined by €47 million to €852 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)

		June 30, 2017 €m	Dec. 31,2016 €m
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), thereof:**	142,479	141,105
EU-2	Trading book exposures	–	–
EU-3	Banking book exposures	142,479	141,105
	thereof:		
EU-4	covered bonds	3,505	3,910
EU-5	exposures treated as sovereigns	31,897	30,671
EU-6	exposures to regional governments, multilateral development banks, international organizations, and public-sector entities not treated as sovereigns	232	255
EU-7	institutions	2,123	3,048
EU-8	secured by mortgages of immovable properties	74,395	75,706
EU-9	retail exposures	10,981	10,637
EU-10	corporates	14,643	11,139
EU-11	exposures in default	1,686	1,393
EU-12	other exposures (e.g., equities, securitizations, and other non-credit obligation assets)	3,017	4,346

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 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 eight 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, Mediation Committee, and Digital Transformation 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. 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.

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

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

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