Deutsche Postbank

Disclosure Report in accordance with the Solvency Regulation (Pillar III Report pursuant to Basel II)

as of December 31, 2008

Postbank

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1 Scope of application

The purpose of this report is for Deutsche Postbank AG (referred to in the following as "Postbank"), the parent institution of the Postbank Group for regulatory purposes in accordance with section 10a(1) sentence 1 of the *Kreditwesengesetz* ("KWG" – German Banking Act), to provide quantitative and qualitative information regarding the structure and level of capital, Postbank's risk exposure, and its risk management procedures including the models and credit risk mitigation techniques used as well as information on securitizations. This report fulfills the disclosure requirements contained in sections 319 to 337 of the *Solvabilitätsverordnung* ("SolvV" – German Solvency Regulation) in conjunction with section 26a of the KWG as of December 31, 2008. Section 7.3 of the report (Securitizations) is in compliance with the Good Practice Recommendations of the Bundesverband deutscher Banken e.V. (Association of German Banks) having regard to the disclosure requirements for securitizations pursuant to the Capital Requirements Directive (CRD).

The Solvency Regulation (SolvV) is the transposition into national law of the required European minimum capital standards set out in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC) and of the corresponding equivalent requirements of the Basel Capital Accord recommendations ("Basel II"). It has replaced the former capital ratio according to the German Banking Act (*Grundsatz I*) and provides a concrete framework for the capital adequacy of banks as required by section 10 of the KWG.

Pursuant to section 26a (2) no. 1 of the KWG, this report contains all disclosures of material information relating to Deutsche Postbank AG and its subsidiaries and, therefore, all quantitative data required by sections 319 - 337, SolvV. Where Postbank has no exposure to items for which information is required to be disclosed, a note has been inserted in the text of this report and the item excluded from the tables. The definition of materiality for specific, individual items is given in the relevant sections.

All of the information in this report relates to the regulatory basis of consolidation, which largely corresponds with the basis of consolidation for accounting purposes used for the IFRS consolidated financial statements. As with the report that was published online on August 25, 2008, this third Disclosure Report includes all of Postbank Group's portfolios.

On January 1, 2008, Postbank exceeded the relevant regulatory threshold and, in addition to the Deutsche Postbank AG portfolios calculated using the IRB Approach in 2007 (as reported in the first Disclosure Report as of December 31, 2007), has, since that date, used both the IRB Foundation Approach, which entails the use of internal rating systems based on Postbank's own estimated probabilities of default, and, for retail business, the IRB Advanced Approach, which, in addition, entails internally estimated loss rates and conversion factors for the determination of capital requirements for OTC derivatives, the greatest part of the portfolios of PB Factoring GmbH, Bonn, BHW Bausparkasse AG, Hamelin, Deutsche Postbank International S. A., Luxembourg, Postbank's London branch, PB Capital, Wilmington, Delaware, U.S.A. and PB Realty, New York, N.Y., U.S.A.

Postbank has applied for approval to use internally estimated loss rates in accordance with the IRB Advanced Approach for the calculation of non-retail portfolio counterparty risk regulatory capital requirements for June 30, 2009 (Stage 1) and 31 December 2010 (Stage 2).

Postbank has used the standardized approach to credit risk since January 1, 2008 for the other portfolios not calculated using the IRB approaches (mainly overdrafts and the collection activities in the retail banking segment, the portfolios of the other subsidiaries in the Postbank Group, exposures generated by discontinued operations, and claims on the Federal Republic of Germany, German regional governments, local authorities, and development banks and agencies not engaged in competitive activities).

The Management Board of the Postbank Group has elected to avail itself of the waiver pursuant to section 2a of the KWG from March 31, 2007 for Deutsche Postbank AG, Bonn and from December 31, 2007 for BHW Bausparkasse AG, Hamelin. It is possible for certain organizational and procedural requirements relating to capital adequacy and reporting contained in section 10, KWG, to be waived for single institutions. Deutsche Bundesbank and the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin" – German Federal Financial Supervisory Authority) were notified by letter dated March 27, 2007 that Deutsche Postbank AG, Bonn, had fulfilled the conditions for the waiver pursuant to section 2a(2) sentence 1, KWG, and by letter dated December 8, 2008 that BHW Bausparkasse AG, Hamelin had fulfilled the requirements of section 22a (1), numbers 1 - 5, KWG.

The following table sets out the differences between the individual bases of consolidation, giving the names of all of the consolidated companies and whether they are consolidated on a regulatory or accounting basis. The classification of the companies by type was made in accordance with the definitions contained in section 1 of the KWG and is consistent with the Group regulatory report. All of the companies listed are consolidated on a line by line basis. None of the companies is subject to a regulatory capital deduction. Postbank had no relevant companies that were consolidated proportionately or accounted for using the equity method at the reporting date.

Companies included in Postbank's consolidation, broken down by company type in accordance with Group regulatory reporting			
Type of enterprise	Company	Regulatory consolidation	Accounting consolidation (IFRSs)
Banks	Deutsche Postbank AG, Bonn	X	X
	BHW Bausparkasse AG, Hamelin	X	X
	Deutsche Postbank Home Finance Ltd., New Delhi, India	X	X
	Deutsche Postbank International S. A., Munsbach, Luxembourg	X	X
	PB Capital Corporation, Wilmington, Delaware, USA	X	X
	PB Realty Corporation, New York, New York, USA	X	X
	VÖB-ZVD Bank für Zahlungsverkehrsdienstl. GmbH, Bonn	X	X
Financial service providers	Deutsche Postbank Financial Services GmbH, Frankfurt/Main	X	X
	PB Factoring GmbH, Bonn	X	X
	Postbank Leasing GmbH, Bonn	X	X
Financial holding companies	BHW Holding AG, Berlin/Hamelin	X	X
Finance companies	BHW Eurofinance B. V., Arnhem, Netherlands	X	
	BHW Gesellschaft für Vorsorge mbH, Hamelin	X	X
	BHW Gesellschaft für Wohnungswirtschaft mbH, Hamelin	X	X
	Deutsche Postbank Funding LLC I, Wilmington, Delaware, USA	X	X
	Deutsche Postbank Funding LLC II, Wilmington, Delaware, USA	X	X
	Deutsche Postbank Funding LLC III, Wilmington, Delaware,USA	X	X
	Deutsche Postbank Funding LLC IV, Wilmington, Delaware, USA	X	X
	Deutsche Postbank Funding Trust I, Wilmington, Delaware, USA	X	X
	Deutsche Postbank Funding Trust II, Wilmington, Delaware, USA	X	X
	Deutsche Postbank Funding Trust III, Wilmington, Delaware, USA	X	X
	Deutsche Postbank Funding Trust IV, Wilmington, Delaware, USA	X	X
	DSL Holding AG i. A., Bonn	X	X
	PB Holdings Incorporation, Wilmington, Delaware, USA	X	X
	Postbank Beteiligungen GmbH, Bonn	X	X
Capital investment companies	BHW Invest S. A. R. L., Luxembourg	X	
	Deutsche Postbank Privat Investment Kapitalanlagegesellsch. mbH, Bonn	X	X
	Deutsche Postbank Vermögens-Management S. A., Munsbach, Luxembourg	X	X
Ancilliary services providers	Betriebs-Center für Banken AG, Frankfurt/Main	X	X
	Betriebs-Center für Banken Processing GmbH, Frankfurt/Main	X	
	BHW Gesellschaft für Wohnungswirtschaft mbH & Co Immobilienverwaltung KG, Hamelin	X	X
	Deutsche Postbank Finance Center Objekt GmbH, Munsbach, Luxembourg	X	X
	DPBI Immobilien KgaA, Munsbach, Luxembourg		X
	PB Finance (Delaware) Incorporation, Wilmington, Delaware, USA	X	X
	PB Firmenkunden AG, Bonn	X	X
	Postbank Filialvertrieb AG, Bonn	X	X
	Postbank Immobilien und Baumanagement GmbH, Bonn	X	X
	Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn	X	X
	Postbank P. O. S. Transact GmbH, Eschborn	X	
	Postbank Support GmbH, Cologne	X	X
	Postbank Systems AG, Bonn	X	X
	DSL Portfolio GmbH & Co. KG, Bonn	X	X
	PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt/Main	X	X
Other companies	BHW Immobilien GmbH, Hamelin		X
	PBC Carnegie LLC, Wilmington, Delaware, USA		X
	Postbank Finanzberatung AG, Hamelin		X
	Postbank Versicherungsvermittlung GmbH, Bonn		X
	DSL Portfolio Verwaltungs GmbH, Bonn		X

Table 1

The following changes were made to Postbank's basis of consolidation in 2008: einsnull IT-Support GmbH was renamed Postbank Support GmbH through recording of the new name in the Commercial Register on January 16, 2008. Subsequent to its renaming on June 30, 2008, Betriebs-Center für Banken Verwaltungs GmbH was no longer included in Postbank's basis of consolidation due to its minor significance for the Postbank Group. On July 21, 2008, BHW Bank AG was retroactively merged into Deutsche Postbank AG effective January 2, 2008 . On September 11, 2008, Betriebs-Center für Banken Payments & Services GmbH was retroactively merged into Betriebs-Center für Banken AG effective January 1, 2008. BHW Home Finance Ltd. was renamed on September 26, 2008 to Deutsche Postbank Home Finance Ltd.

On July 11, 2008, as part of a portfolio acquisition, Deutsche Postbank AG acquired the limited partner shares of Ariadne Portfolio GmbH & Co. KG, which was renamed to DSL Portfolio GmbH & Co. KG following recording of the new name in the Commercial Register. Deutsche Postbank AG also acquired Ariadne Verwaltungs GmbH which was renamed DSL Portfolio Verwaltungs GmbH. In the third quarter of 2008, Postbank converted the previously internal special funds into sub-pools of assets of PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt/Main.

The companies shown in Table 1 under "Other companies" and DPBI Immobilien KGaA, Munsbach, Luxembourg, are not included in the regulatory basis of consolidation. The portfolios of these companies are subject to regulatory risk weightings.

Four companies are included in the regulatory basis of consolidation that are not in the accounting basis of consolidation (see 2008 Annual Report, consolidated financial statements, page 115) due to their relative insignificance in financial terms. These are BHW Eurofinance B. V., BHW Invest S. A. R. L., Betriebs-Center für Banken Processing GmbH, and Postbank P. O. S. Transact GmbH.

In a letter dated October 1, 2008, Postbank informed BaFin of the exemption pursuant to section 31(3) of the KWG from inclusion in Group regulatory reporting of the following subordinated companies:

- BHW Direktservice GmbH, Hamelin,
- BHW Financial Srl, Verona,
- CREDA Objektanlage- und -verwaltungsgesellschaft mbH, Bonn,
- easyhyp GmbH, Hamelin,
- easytrade services GmbH, Leipzig,
- RALOS Verwaltung GmbH & Co. Vermietungs KG, Munich.

2 Methods for calculating regulatory capital requirements

The Solvency Regulation permits the use of various methods of calculating regulatory minimum capital requirements for counterparty risk:

- Credit Risk Standardized Approach (CRSA)
- Internal Ratings Based Approaches (IRBA):
  – on the basis of internal calculations of probabilities of default (Foundation IRBA),
  – on the basis of internal calculations of probabilities of default, conversion factors and loss rates (Advanced IRBA),
  – for the retail business.

On December 21, 2006, BaFin approved Postbank's adoption of the Foundation IRB approach for calculating the regulatory capital requirements and the Advanced IRBA for the retail business. The approval for the calculation of other portfolios using internal rating systems commencing January 1, 2008 was given by letter dated December 11, 2007. The following table shows all portfolios which were calculated by Postbank in 2008 using the IRB approach. For the majority of the portfolios, internal rating systems have been applied to all legal entities of the Group. Specific rating models are used by group entities particularly for the corporate banking, commercial lending, purchased loan, and mortgage loan portfolios.

IRBA portfolios broken down by asset class in accordance with the SolvV
Sovereigns: States
Institutions: Banks
Corporates: Domestic corporate customers, foreign corporate customers, domestic commercial lending, foreign commercial lending, purchased corporate loans
Retail business: Postbank mortgage loans, BHW mortgage loans, installment loans, overdraft facilities for self-employed individuals and business customers, purchased retail loans
Equity interests unless excluded pursuant to section 338(4), SolvV
Securitizations
Other non-loan assets

Table 2

Since January 1, 2008, Postbank has been above the relevant regulatory threshold. The coverage ratio for 2008 pursuant to section 67, SolvV, for portfolios calculated on the basis of internal ratings was 90.6 % of the exposure values and 82.8 % of the risk-weighted exposure values (June 30, 2008 calculations). The coverage ratio is the ratio of the total IRBA exposure values or IRBA risk-weighted exposure values to total exposure values or risk-weighted exposure values required by section 67(4), SolvV, to be included in the calculation.

Since January 1, 2008, Postbank has used the Credit Risk Standardized Approach for the portfolios not calculated in accordance with the IRB approach. These primarily relate to the following:

- overdrafts and collection activities in the retail banking business,
- portfolios of other subsidiaries of the Postbank Group,
- business from discontinuing operations,
- exposures to the Federal Republic of Germany, German regional governments, local authorities, and development banks and agencies not engaged in competitive activities.

In order to reach the exit threshold, i.e., a coverage ratio of 92 % of the exposure values and risk-weighted exposure values, measures are underway particularly for the introduction of the IRB approach for the insurers, financial services subsidiaries and foreign local authorities portfolios, as well as the portfolios held by Deutsche Postbank Home Finance Ltd., New Delhi, India. Postbank is aiming to obtain approval to use internally estimated loss rates in accordance with the IRB Advanced Approach for the calculation of regulatory capital requirements for non-retail portfolio counterparty risk for June 30, 2009 (Stage 1) and December 31, 2010 (Stage 2).

Pursuant to section 70 of the SolvV, in addition to business from discontinuing operations, Postbank does not apply the IRB approach, in particular, to counterparty risk arising from the sovereigns asset class, for which settlement is due from the Federal Republic of Germany or domestic local authorities, among others; this policy is not subject to a time limit. It also excludes exposures representing a negligible proportion of the total portfolio from the IRBA on a permanent basis.

Postbank calculates capital requirements for equity interests that are allocated to the banking book and are not required to be consolidated or deducted from own funds for regulatory purposes (see chapter 1) pursuant to section 78, SolvV:

- on the basis of the probability of default for all internally-rated equity interests of the underlying transactions in investment fund shares of Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn, and PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt/Main,
- on the basis of the exception provided by section 338(4), SolvV (grandfathering) for all strategic equity interests held before January 1, 2008, which are temporarily excluded from the IRBA,
- on the basis of simple risk weighting pursuant to section 98, SolvV, for all other equity interests.

Either the advanced IRB or CRS approach is applied to the underlying transactions of securitization positions as required by sections 226 and 227, SolvV. Capital requirements for securitizations in accordance with section 79, SolvV, are generally calculated on the basis of the ratings-based approach pursuant to section 257, SolvV. Exposures for which this results in a risk weight of 1250 % are deducted from capital in accordance with the option granted by section 266, SolvV. In contrast, capital requirements for exposures for which there are no external ratings and for which the conditions pursuant to section 258, SolvV have been fulfilled, are calculated on the basis of the regulatory formula approach.

Postbank uses the standardized methods available under the regulatory framework to calculate the regulatory capital requirements for market risk. Postbank plans to introduce an internal market risk model from the second quarter of 2010 for the measurement and management of market risk as well as for the calculation of regulatory capital requirements.

When calculating regulatory capital requirements for operational risk, banks can choose between the Basic Indicator Approach, the Standardized Approach, and the Advanced Measurement Approach. Postbank uses the Standardized Approach for calculating its regulatory capital requirements in order to prepare for the introduction of the Advanced Measurement Approach. It is for this reason that Postbank developed its own quantification model in 2007 which will now be internally validated and further developed. The objective is to apply for BaFin and the Deutsche Bundesbank approval at the beginning of 2010 and, once approved, to also use the internal model for the calculation of regulatory capital requirements.

3 Capital structure and capital levels

3.1 Capital components

Postbank's capital pursuant to the KWG is calculated on the basis of its IFRS consolidated financial statements prepared in accordance with the requirements of the *Konzernabschlussüberleitungsverordnung* ("KonÜV" - Regulation Governing the Procedure for Calculating the Own Funds of Groups of Institutions and Financial Holding Groups when using consolidated or Interim Financial Statements at Group Level). The amounts shown in the table below correspond to the values reported in Postbank's consolidated financial statements as of December 31, 2008:

Postbank's regulatory capital – an overview	
	€m
Paid-up capital	4,140
Other eligible reserves	2,424
Special reserves for general banking risks pursuant to section 340g HGB	0
Other Tier 1 capital instruments	16
Deduction items from Tier 1 capital pursuant to section 10(2a) section 2 KWG	–1,150
Total amount of Tier 1 capital pursuant to section 10(6) and (6a) KWG	5,430
Total Tier 2 capital before deductions pursuant to section 10(6) and (6a) KWG and eligible Tier 3 capital pursuant to section 10(2c) KWG	3,588
Total amount of capital deduction items, 50 % of which are deducted from Tier 1 and Tier 2 capital	–866
of which: shortfalls in valuation allowances and expected losses in IRBA exposures pursuant to section 10(6a) Nos. 1 and 2 KWG	–221
Total amount of modified capital available pursuant to section 10(1d) KWG and eligible Tier 3 capital pursuant to section 10(2c) KWG	8,152
of which: Tier 1 capital	4,997
of which: Tier 2 capital	3,155
of which: Tier 3 capital	0

Table 3

The Tier 1 capital consists firstly of subscribed capital. A capital increase against cash contributions in November 2008 resulted in an increase in the previous level of subscribed capital of €410 million consisting of 164,000,000 registered no-par value shares by €137 million (54,800,000 no-par value registered shares). In addition, the Management Board is authorized (until March 24, 2009), with the approval by the Supervisory Board, to increase Postbank's share capital by €41 million against non-cash contributions.

Paid-up capital in the form of capital reserves included in the Tier 1 capital also increased by €849 million to €2,010 million as a result of the November 2008 capital increase. After regulatory consolidation adjustments pursuant to section 10a (6) KWG, this was equivalent to a net increase of €1,978 million.

The remaining €1,615 million of paid-up capital comprises a nominal €1,600 million in hybrid capital instruments and € 15 million in silent participations with a residual term to maturity of over two years.

Postbank made four issues of hybrid capital instruments in the form of preferred securities through its subsidiaries Deutsche Postbank Funding Trust I to IV, which were specially established for this purpose. These securities were issued between 2004 and 2007 and bear interest in line with market rates. The change in eligible dormant participations since the last report is due to their pro rata share in losses.

In addition, Tier 1 capital includes other eligible reserves, amounting to €2,424 million. These comprise the reserves containing the undistributed portion of net profits for the year. In 2008, relevant regulatory losses amounted to €875 million whereas relevant revaluation reserves amounted to –€722 million.

Other qualifying Tier 1 capital instruments, amounting to €16 million, represent the positive differences arising on consolidation of subsidiaries that are only consolidated for regulatory purposes pursuant to section 10a(6) of the KWG.

Tier 2 capital comprises eligible profit participation certificates amounting to €1,152 million and eligible longer-term subordinated liabilities (promissory notes and bearer debentures) amounting to €2,445 million, meeting the requirements of sections 10(5) and (5a) of the KWG, less deductions of €9 million.

The profit participation certificates amounting to €1,152 million can be broken down as follows:

- €544 million: Deutsche Postbank, bearer profit participation certificates residual term to maturity 5-10 years, coupon 4.4 – 5.2 %
- €99 million: Deutsche Postbank, registered profit participation certificates, residual term to maturity < 5 years, coupon 5.3 – 6.4 %
- €425 million: Deutsche Postbank, registered profit participation certificates, residual term to maturity 5-10 years, coupon 4.4 – 6.4 %
- €58 million: Deutsche Postbank, registered profit participation certificates, residual term to maturity > 10 years, coupon 4.4 – 6.4 %
- €26 million: DSL Bank, registered profit participation certificates, residual term to maturity < 5 years, coupon 5.3 – 6.4 %

Holders of rights to participate in profits receive an annual fixed distribution regardless of the absolute level of profits earned and rank ahead of shareholders; the right to the distribution is reduced if and to the extent that no distributable profit is available. In 2008, certain holders of participation rights participated in the loss for the year. Holders of profit participation certificates have no right to call the issues. Postbank has a right of termination upon the occurrence of certain contractually defined tax events. In accordance with resolution of the Annual General Meeting of May 8, 2008, the Postbank Management Board is authorized to issue registered and/ or bearer profit participation certificates, without conversion rights for or option rights on shares of the Company, in the aggregate principal amount of up to €2.5 billion on one or more occasions at any time prior to May 7, 2013.

Subordinated liabilities of €2,445 million are made up of €1,149 in promissory note loans, €947 million in Postbank bearer debentures and €349 million in BHW Bausparkasse bearer debentures. The promissory note loans and bearer debentures bear standard market rates of interest. As a rule, the minimum denomination is €5 million.

€645 million of capital deductions totaling €866 million, 50% of which are deducted from Tier 1 or Tier 2 capital, relate to securitization positions (risk weighting of 1250 %) and the following shortfalls in valuation allowances and expected losses:

- the difference between the total expected losses for all IRBA exposures in the sovereigns, institutions, corporates, and retail business asset classes and the valuation allowances and provisions recognized for these exposures in the amount of €219 million, and
- the expected losses for IRBA equity interests of €2 million.

Postbank Group had no Tier 3 capital as of December 31, 2008.

Eligible capital declined by €1,601 million in 2008. This was primarily a result of the reported loss, movements in the revaluation reserve and increased deductions from capital in connection with the securitizations portfolio.

Deutsche Postbank AG has direct and indirect majority shareholdings in those companies included in the regulatory basis of consolidation. Most of those companies are based in Germany, the EU and the United States. Postbank notified BaFin in accordance with section 2a(2) of the KWG that it was unaware of any known or identifiable restrictions currently placed on the transfer of financial or capital resources within the Postbank Group by third parties, companies under private or public law, supranational organizations, or states.

Postbank Group's credit institutions and financial services institutions are not subject to capital deductions and did not report a capital deficit as of December 31, 2008.

3.2 Capital requirements

3.2.1 Regulatory capital requirements

The regulatory capital requirements calculated with reference to carrying amounts are shown below by type of risk and approach with the capital requirements representing the total of the risk exposures required to be included multiplied by 8 %. Total capital requirements as of December 31, 2008, amounted to €6,127 million.

Capital requirements by type of risk and approach

Counterparty risk: portfolios calculated using the IRB approaches	€m
Sovereigns	163
Institutions	837
Corporates	1,282
Retail business	1,159
of which: IRBA exposures secured by mortgage liens in the retail business	839
of which: qualifying revolving IRBA exposures in the retail business	0
of which: other IRBA exposures in the retail business	320
Equity interests managed using probabilities of default	2
Equity interests managed by models	-
Equity interests measured using simple risk weightings	27
of which: exchange-traded	4
of which: non-exchange-traded but forming part of a diversified portfolio of equity interests	3
of which: other equity interests	20
Securitizations	66
Other non-loan assets	246
Total capital requirements for counterparty risk for portfolios calculated using IRBA	3,782
Counterparty risk: portfolios calculated using the CRSA	€m
Sovereigns	0
Regional governments and local authorities	6
Other public-sector bodies	39
Multilateral development banks	0
International organizations	0
Institutions	59
Covered bonds issued by banks	10
Corporates	386
Retail business	171
Exposures secured by property	122
Investments fund units	165
Securitizations	5
Other exposures	0
Exposures past due	26
Total capital requirements for counterparty risk for portfolios calculated using the CRSA	989
Counterparty risk: excluding equity interests	€m
Equity interests temporarily excluded from the IRBA pursuant to section 338 (4), SolvV	112
Market risk (calculated using the standardized method)	€m
Foreign exchange risk (total)	89
Commodity risk (total)	-
Interest rate risk (trading book)	638
Equity position risk (trading book)	1
Other market risks (total)	-
Total capital requirements for market risks	728
Operational risk (calculated using the standardized approach)	€m
Total capital requirements for operational risk	516
Total capital requirement	6,127

Table 4

Pursuant to the transitional provisions under section 339(3)-(5), SolvV, the capital requirements of institutions calculating the capital charge for counterparty risk on the basis of internal rating systems may not be less than 90 % in the second year of application of the minimum capital requirements calculated using the regulatory weighting factors in accordance with the capital ratio according to the German Banking Act (*Grundsatz I*). Calculations are made in compliance with the interpretation issued by BaFin on August 12, 2008. According to this procedure, the transitional provision has no effect on the RWA charge and hence on the capital ratios since it is designed to ensure that minimum capital requirements are maintained.

The first block of the above table shows capital requirements for the portfolios calculated for the retail business using the Foundation and Advanced IRBAs as described in Chapter 2 (Table 2). The substantial volume-driven capital requirements in the retail business asset class underlines Postbank's focus on its retail banking business. The amounts to be recognized for IRBA retail business exposures secured by mortgage liens were €194 million less than at June 30, 2008 despite a steady increase in business as a result of refinements to the model for fair value fluctuations and risk management. The capital requirements reported for the overall very large portfolio in the institutions assets class (see table 12) is relatively low due low risk weights. Compared to June 30, 2008, however, capital requirements have significantly increased due to the market distortions caused by the application of US investment bank Lehman Brothers Holdings Inc. for creditor protection. Capital requirements for equity interests are significantly below the amounts reported on June 30, 2008 due to the measures taken to reduce holdings of capital market instruments and risks. Capital requirements for securitizations are less than on June 30, 2008 due to regulatory requirements (section 268 SolvV) having regard to valuation allowances for specific IRBA securitization exposures and the increase in the capital deductions for securitizations.

The second block in the table relates to portfolios for which the CRSA is used to calculate counterparty risks. The highest of these exposure values relates to claims on the Federal Republic of Germany, German regional governments and local authorities (see table 14). These are mainly zero-risk rated thus resulting in the low amount disclosed in the second block of the table. Capital requirements for the CRSA portfolio is nearly the same as of June 30, 2008. The capital requirements for equity interests temporarily excluded from the IRBA in accordance with section 338(4) SolvV of €112 million are somewhat lower than on June 30, 2008 due to lower positive differences arising on consolidation.

Interest rate risk is the main component of market risk at Postbank. As of December 31, 2008, Postbank had no relevant risks arising from commodity positions or any other risks inherent in exposures to market prices. As a result of the crisis in the financial markets, Postbank consciously reduced market risk exposures (see also information on market risks in the 2008 Annual Report - p. 79 et seq.). Capital requirements for market risks compared to June 30, 2008 have, therefore, declined by €125 million to €728 million.

The capital requirements for operational risk calculated once a year using the Standardized Approach amounted to a capital charge of €516 million.

3.2.2 Total and Tier 1 capital ratio

The following table shows the capital ratios for the Postbank Group and the material subsidiary, Deutsche Postbank International S. A., Luxembourg. Capital ratios for Deutsche Postbank AG and BHW Bausparkasse AG are not reported due to the waiver provided by section 2a, KWG (see Chapter 1 of this report) with respect to the capital floor pursuant to *Grundsatz I*, Postbank applied the transitional provision under section 339(3) - (5), SolvV, in accordance with the interpretation issued by BaFin on August 12, 2008. As of December 31, 2008, the Luxembourg supervisory authorities no longer required Deutsche Postbank S. A., Luxembourg to make additional capital calculations for RWA charges to assure compliance with the floor, although the charges are still required to be separately calculated and reported.

Adjustment for market risk positions calculated using the standardized method would lead to a 0.9 percentage point increase in the Tier 1 capital ratio for the Deutsche Postbank Group shown in Table 5 as of the reporting date. A corresponding reduction in capital requirements and increase in capital ratios is expected upon introduction of an internal model to calculate market risks, which is planned for the medium term. Without exception, the total and Tier 1 capital ratios for the Postbank Group as of December 31, 2008, exceeded the minimum regulatory ratios of 4 % for Tier 1 capital and 8 % for total capital. The institutions within the Postbank Group were in compliance with regulatory capital adequacy requirements at all times throughout the period under review.

Total and Tier 1 capital ratios

	Total capital ratio (%)	Tier 1 capital ratio (%)
Deutsche Postbank Group, Bonn		
including exposure to market risk:	10.6	6.5
excluding exposure to market risk:	-	7.4
Deutsche Postbank International S. A., Luxembourg		
including exposure to market risk:	10.0	10.0
excluding exposure to market risk:	-	10.2

Table 5

3.3 Internal management of capital

Postbank's risk-bearing capacity is assessed from an investor protection standpoint and serves as the foundation for the system used to limit material risks. The total funds available to the Bank to cover its risks are known as the risk cover amount. It primarily consists of re-cognized capital less goodwill, subordinated debt, the revaluation reserve, recognized hidden reserves and liabilities, and expected gains in the planning period, adjusted for projected net trading income, net income from investment securities, and net income from maturity transformation. The Postbank Group considers itself as having adequate risk-bearing capacity if the probability of its servicing its prior-ranking liabilities is in line with its target rating. In this respect, the Postbank Group bases its risk-bearing capacity on a corresponding confidence level of 99.93 %.

To ensure that risk-bearing capacity is sustainable, potential fluctuations in economic capital and stress scenarios are taken into consideration in allocating risk capital. Consistent with this practice, Postbank's Management Board only allocates part of the risk cover amount for risk taking. This amount is designated as risk capital and represents a limit for the Postbank Group's overall risk exposure. Risk capital is determined by the Group Management Board at least on a quarterly basis and is allocated to the following risk categories relevant to Postbank:

- Market risk
- Credit risk
- Operational risk
- Real estate and investment risk
- Collective risk arising from the home savings business
- Business risk

Operational limits are established for market and credit risks that can be directly managed in day-to-day business and which are backed by risk capital. Market risk for both the core business and own-account transactions is managed by allocating limits for the relevant portfolios. Credit risk inherent in exposures to sovereigns, institutions and corporates is managed primarily with reference to risks and returns, by way of limits placed on portfolios in addition to taking correlation effects into account (see Section 5.3.1). Risks are only assumed within limits that are in line with the Bank's risk-bearing capacity in order to ensure that risks that could jeopardize the Bank's status as a going concern are avoided.

The financial market crisis led to high risks in 2008. Overall risk capital utilization compared to last year, therefore, increased by 5.4 percentage points. However, Postbank's risk-bearing capacity was assured at all times, even against the backdrop of the crisis in the financial markets. As of December 31, 2008, the usage of market risk limits was 78 % due to the sharp increase in volatility caused by the crisis in the financial markets whereas utilization of credit risk limits was 74 %.

Other types of risks, that are not managed through the use of operational limits, reduce available risk cover in the amount of their value at risk. Liquidity risk in the sense of illiquidity risk in the Postbank Group is limited principally by the availability of a defined minimum portfolio of highly liquid securities eligible for refinancing with ECB. The liquidity maturity transformation risk is currently limited through risk capital earmarked to cover business risk. It is planned to introduce separate specific liquidity transformation risk limits.

Risk-bearing capacity is guaranteed as long as the limits allocated to the individual risk categories are observed at Group level and the aggregate limits and deductions are lower than the risk cover amount. The regulatory capital requirements (in accordance with the KWG, the SolvV, and the *Groß- und Millionenkreditverordnung* ("GroMiKV" – German Large Exposures Regulation) are additional conditions that must also be strictly observed when managing economic risk capital.

To assure that Postbank's risk-bearing capacity is sustainable, Risk Controlling calculates utilization of the overall Bank limit for market risk exposures on a daily basis. The utilization of the global limit for credit risk is determined on a quarterly basis along with the capital charges for other types of risks.

Postbank also manages regulatory capital through the projection of risk assets and equity for the next twelve months. This entails analysis of the maturities of equity components, business development as per medium term strategic planning, expected deterioration of credit ratings in addition to other parameters. Projections are made of aggregated, material asset classes with detailed projections being made prior to the relevant reporting date. The projections are used by the Management Board as a basis for decisions with respect to risk management.

Further details on the internal management of capital are provided in the Risk Report on page 77 et seq. of the 2008 Annual Report and in Note 49 of the 2008 Annual Report on page 155.

4 Risk management

The management of typical banking risks calls for a high-quality, sophisticated risk management system in which all new developments are promptly and regularly analyzed for their impact on risk. Postbank identifies, analyzes and manages these risks systematically and incorporates the results in its risk-based management of the Bank as a whole. In addition, Postbank has comprehensive documentation for managing bank-specific risks, as well as a proven reporting system.

Postbank defines the risks addressed within the scope of this Report as follows:

- Market risk: Potential losses on financial transactions that may betriggered by changes in interest rates, spreads, volatilities, commodity prices, foreign exchange rates, and equity prices, including
  – Interest rate risk in the banking book: Changes in the value of financial instruments in the banking book due to movements of market interest rates.

- Credit risk (counterparty risk): Potential losses that may be caused by deterioration of the creditworthiness, or insolvency, of a counterparty.

- Liquidity risk:
  – Illiquidity risk: The risk of being unable to meet current or future payment obligations in the full amount due as they fall due.
  – Liquidity maturity transformation risk: Risk of increased refinancing costs due to a change in Postbank's refinancing curve.

- Operational risk: The risk of loss resulting from inadequate or failed internal processes and systems, people, or external events. This also includes legal risk.

Other risks relevant to Postbank (real estate, investment, collective, and business risk) are discussed in the Risk Report in the 2008 Annual Report, and are not required to be disclosed in accordance with the SolvV.

4.1 Strategies, processes, structure and organization

In accordance with the Minimum Requirements for Risk Management in Banks ("MaRisk"), the risk strategy is consistent with business strategy and reflects all key fields of activity and risk categories. In addition to an overarching, Group-wide risk strategy, Postbank's Management Board has resolved specific sub-risk strategies for credit, market, liquidity, and operational risk. The nature and extent of the risks taken, as well as the strategy for managing such risks, depends on the individual business divisions whose actions are prescribed within the scope of business strategy. Interest rate risks are managed by Postbank as a component of market risk. An overview of the content of specific partial strategies for the individual risk categories is shown in the relevant sections of this Disclosure Report.

The Group Management Board is responsible for Postbank's risk strategy, the risk-bearing capacity concept, the appropriate organization of the risk management function, monitoring the risk content of all transactions, and risk management. In conjunction with the Risk Committees, the Group Management Board has defined the underlying strategies for activities on the financial markets and the other business sectors of the Group. The following graphic illustrates

Composition and responsibilities of the Risk Committees

	Credit Risk Committee	Market Risk Committee	Operational Risk Committee
Management Board/ Executive Managers	Lending Financial Markets Product Marketing Services Chief Risk Officer	Financial Markets Lending Product Marketing Finance Chief Risk Officer	IT/Operations Resources Services Branch Sales Chief Risk Officer
Responsibilities	Allocation of credit risk limits Definition of the limit system Decisions on changes to procedures for the classification of risk Determination of standard risk costs	Allocation of market and liquidity risk limits Management of strategic focus of the banking book Discussion of results and risks	Definition of minimum requirements for Group units Definition of operational risk parameters

Table 6

the composition of the Committees and their areas of responsibility: Operational responsibility for risk management is shared by several units within the Group. These primarily include the Financial Markets division, Domestic/Foreign Credit Management, the credit functions within the retail banking segment and, at a decentralized level, the subsidiaries BHW Bausparkasse AG, Deutsche Postbank International S.A., PB Capital Corp. and PB Factoring GmbH, as well as Postbank's London branch.

Risk Controlling is the independent, Group-wide risk monitoring unit. At an organizational level, this department reports to the Chief Risk Officer within the Lending division. Risk Controlling is responsible for determining the methods and models to be applied for the identification, measurement and management of risk. Together with the Risk Controlling units of Postbank Group subsidiaries BHW Bausparkasse AG, Deutsche Postbank International S.A., PB Capital Corp. and Postbank's London branch, the department is responsible for risk control at the operating level and for reporting at Group level.

The Internal Audit unit is another independent component of the Postbank Group's monitoring system. In terms of the Bank's organizational structure, it is assigned to the Chairman of the Management Board and reports independently to the Group Management Board.

As part of the Bank's business monitoring system, Internal Audit audits all areas of Postbank as a matter of principle at least once every three years, in accordance with the MaRisk. Areas that are exposed to a particular risk are audited annually. Internal Audit provides support for the introduction and implementation of key projects and performs special audits as required. Internal Audit's responsibilities also extend, in scaled-down form, to the subsidiaries of the Postbank Group.

In the fourth quarter of 2008, Postbank introduced the position of Chief Risk Officer (CRO) with the aim of strengthening risk management throughout the Group and bundling responsibilities within risk monitoring and management. The Chief Risk Officer will be responsible throughout the Group for risk monitoring and management functions in the back office division. In line with this reorganization, Risk Controlling and the Lending Policy departments have been assigned to the CRO who is a voting member of the Risk Committees (i.e., Market Risk Committee, Credit Risk Committee, and Operational Risk Committee).

Risk management methods, systems and processes are continually reviewed and improved to assure that they meet market, corporate and regulatory requirements. In 2008, in particular, a program was established as planned for the introduction of advanced risk models for market risk, credit risk and operational risk. The aim is to increase convergence between internal risk management and regulatory capital requirements, as well as to optimize the risk management systems and processes. Following regulatory approval, the plan is to also use the results for regulatory capital requirements.

Thanks to Postbank's broadly diversified customer portfolio, the concentration risk in the portfolio of the Postbank Group tends to be low. As part of credit risk monitoring, we have established processes, reporting paths, and escalation mechanisms that enable monitoring of counterparty and issuer risk and categorization of exposure by the various sectors, customer groups, and single borrowers.

The hedging and mitigation of risks and the ongoing monitoring of steps taken in that connection have been developed for individual categories of risk as described in the following sections.

Strategies, processes, structure, and organization are described below under the relevant type of risk in sections 5.1, 8.1, 9.1, and 10.1.

4.2 Group-wide risk reporting

Comprehensive reports are made to Postbank's Management and Supervisory Boards on the risk-bearing capacity, risks and limit utilization on a regular basis.

Risk-bearing capacity is assessed Group-wide on a quarterly basis and presented in a separate report. The risks and utilization of the limits for the specific risk types are presented in a large number of regular and specialized reports. The reports include all subsidiaries of Deutsche Postbank AG that are relevant in terms of risk and are prepared on a daily, weekly, monthly, or quarterly basis, depending on the importance of the respective risk type. Group-wide reports are usually addressed to the Group Management Board, the relevant members of the Risk Committees as well as the operating units. In addition, the Supervisory Board receives summaries of these reports. Recipients are thus kept informed of changes in relevant parameters in a timely and comprehensive manner. The Risk Controlling department is responsible for the methodology and content of risk reporting at Group level.

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

The reporting instruments are detailed according to risk type in sections 5.4, 8.2, 9.2, and 10.2.

5 Management of counterparty risk

5.1 Strategies, processes, structure and organization

Postbank's credit risk strategy is derived from its business strategy and is integrated as part of the risk management system into overall bank management.

Postbank's credit risk strategy is an integral part of the Postbank Group's comprehensive risk strategy (see chapter 4.1). Credit risk strategy deals with the guidelines and instruments for credit risk management as well as the planned development of lending operations in any one planning period, taking account of the economic environment, the original environment for business policy and Postbank's risk-bearing capacity.

The credit risk strategy and the organizational guidelines for lending operations reflect customer and loan product risk profiles that are acceptable to Postbank as well as risk management and mitigation techniques. The master guidelines for lending operations contain statements on the organization and risk reporting to the relevant management bodies within the Bank. Management of the credit portfolio for the whole Bank is subject to risk/return criteria that assure adequate portfolio diversification and collateralization.

Management of the loan portfolios for corporates, institutions as well as sovereigns, regional governments, and local authorities is geared to a target portfolio, which has been constructed to reflect a balanced risk/return profile. The actual loan portfolios are reconciled every quarter to the target portfolio. Any differences identified are used on an ongoing basis for the management of the loan portfolio. The profitability of individual corporate lending exposures is determined by calculating return on equity, i.e., the ratio of the risk-adjusted net margin to allocated equity capital. Due to its greater degree of risk diversification, retail business is not included in the target portfolio but is managed using the expected net margin after deducting expected risk.

Credit risk management has been delegated by the Management Board to the Credit Risk Committee, which is monitored by the Supervisory Board's Loan and Equity Investments Committee. The Credit Risk Committee allocates risk capital available for counterparty risk in accordance with the credit risk strategy to the market divisions, including the Financial Markets division, takes decisions on the introduction of, and material changes to, risk classification procedures, and determines credit management parameters (e. g., standard risk costs).

The Risk Controlling Credit Risk department is responsible for regularly reviewing both the appropriateness of the methods and processes used to manage counterparty risk as well as compliance with statutory and regulatory requirements. It is responsible for developing and implementing new models and making adjustments to existing systems. In addition, the Risk Controlling Credit Risk department continually monitors allowances for losses on loans and advances and, on a quarterly basis, compliance with credit value at risk limits.

A database is maintained of all relevant input factors and the results of ratings performed, enabling a continuous rating history to be kept for each customer and each transaction.

Counterparty risk entailed in individual transactions and the entire portfolio is operationally managed by both the Market and Back Office divisions. Detailed information is provided in section 5.3, "Rating-based credit risk management".

5.2 Rating systems

5.2.1 Overview

The purpose of rating systems is to assess the creditworthiness of borrowers and guarantors and, as defined by section 60(1), SolvV, comprise all methods, processes, management and monitoring procedures as well as data recording and processing systems used to support evaluation of counterparty risk, allocation of IRBA positions to rating classes or risk pools (ratings), and quantification of expected defaults and losses for the IRBA positions. Internal rating systems are suitable if they comply with the minimum requirements for using the IRBA (section 56, SolvV). In addition to meeting methodological and procedural/organizational requirements, the rating systems must have been proven suitable for the classification of existing and new business.

The Risk Controlling Credit Risk department is responsible for designing, implementing and monitoring the functionality of the internal rating systems. The process of monitoring the rating systems includes assessing their predictive quality and the correct application, as well as the calibration and validation of the rating systems and the incorporation of the results of monitoring activities into the internal reporting system.

All rating systems must be authorized by Postbank's Management Board. The Management Board receives regular management reports on the functionality of the rating systems as well as their ratings (see section 5.4).

As of the reporting date, rating systems that have been approved by the regulatory authorities are used to calculate the capital requirements in accordance with the IRBA for the following portfolios, broken down by IRBA asset class.

Overview of rating systems by IRBA asset class	
SolvV asset class	Rating system for:
Sovereigns	Sovereigns: states
Institutions	Institutions: banks
Corporates	Domestic corporate customers Foreign corporate customers Purchased corporate loans
Corporates: specialized lending	Domestic commercial lending Foreign commercial lending
Retail business: IRBA exposures secured by mortgage liens	Postbank mortgage loans to private customers BHW mortgage loans to private customers
Retail business: qualifying overdraft facilities for effectively revolving IRBA exposures, Other retail IRBA exposures	Overdraft facilities for self-employed individuals and commercial customers
Retail business: Other IRBA exposures	Installment loans to private customers Purchased corporate loans
Retail business: Purchased loans	Purchased retail loans
Equity interests	Institutions: banks Domestic corporate customers Foreign corporate customers

Table 7

Each rating system is allocated to an asset class in accordance with with the Solvency Regulation. The relevant rating model is used for the loan application and approval process for initial classifications and assessments of the creditworthiness of borrowers and/or guarantors. Postbank uses rating models comprising a statistical core (statistical financial statement rating or Monte Carlo simulation of expected cash flows) for commercial lending and corporate, institutional and sovereign borrowers and guarantors. The models are supplemented by a qualitative component that permits the incorporation of important information into the risk classification. Relevant collateral is included as part of credit risk mitigation methods (see section 6.2).

Postbank uses statistical scoring methods in its retail business. These scoring methods are based on internal and external information relating to the borrower and use statistical procedures to evaluate the probability of a borrower's default. The recovery rates for the eligible collateral or unsecured loans are included when calculating the LGD (Loss Given Default = loss ratio). The percentage of outstandings under open lines at the time of default is estimated when calculating the CCF (Credit Conversion Factor).

All internal ratings and scores are based on a uniform master scale, which assigns a rating class on the master scale to each rating or score, in addition to the probability of default determined for that class. Postbank uses Standard & Poor's rating agency terminology for these ratings. The rating and scoring methods are validated as part of Postbank's annual model validation procedures and during ongoing monitoring. Model validation is based on standard core analyses comprising the following aspects: stability of the model formula/estimated parameters and the distributions, as well as the accuracy of the rating model, and its predictive power. Validation also entails the incorporation of any changes in the loss history by adjusting the parameters.

In addition, the allocation of the rating classes of Postbank's master scale to default probabilities and the results of the parameter assessment (PD, LGD, CCF) are reviewed by the Risk Controlling Credit Risk department once a year. The incorporation of model validation into Postbank's processes enables business policy and model-specific measures to be derived directly from the results of the core analyses.

Electronic records are maintained of all relevant input factors and ratings, enabling a continuous rating history to be kept for each customer and transaction.

Postbank's Internal Audit unit, as a process-independent entity, performs an annual review of the appropriateness of the internal rating systems, including compliance with the minimum requirements for the use of rating systems.

The ratings of "Standard & Poor's Rating Services", "Moody's Investors Service", and "Fitch Ratings Ltd." are applied to all of Postbank's loans used to calculate capital requirements in accordance with the Credit Risk Standardized Approach. Other external ratings are treated in accordance with sections 44 and 45, SolvV. If external ratings are not available for a loan, a minimum risk weighting of 100 % is applied. External credit ratings of approved agencies are applied as required by sections 42-47, SolvV. Ratings for specific bond issues have not been applied to comparable, equal or higher ranking exposures in any of the CRSA asset class. Similarly, external ratings are applied to securitizations in accordance with sections 235 et seq., SolvV.

The internal rating systems used for calculating regulatory capital requirements in 2008 and their allocation of asset classes are explained in greater detail below.

5.2.2 Sovereigns asset class

The sovereigns rating system is used for the classification of exposures to borrowers allocated to the "sovereigns" IRBA asset class in accordance with section 74 of the SolvV. The expert model employed was developed using internationally comparable economic and political indicators. The data pool maintained by the Economic Intelligence Unit (EIU) serves as the basis for the quantitative indicators. At present, 150 states are regularly classified on a quarterly basis, irrespective of the number of borrowers. Where material information impacting creditworthiness is received, a re-rating is performed before the end of the year.

5.2.3 Institutions asset class

The institutional rating system is used to classify all borrowers allocated to the "Institutional" IRBA asset class in accordance with section 75 of the SolvV. The rating system uses financial statement analysis for the evaluation of institutions referring to the external long-term ratings of the three major rating agencies (Standard & Poor's, Moody's and Fitch Ratings). For foreign banks, the relevant sovereign rating is also incorporated in the assessment. After the initial rating, the banks are re-rated in order to monitor creditworthiness at least once a year. Where material information impacting creditworthiness is received, a re-rating is performed before the end of the year.

5.2.4 Corporates asset class

Rating systems for corporate customers

The "Domestic corporate customers" and "Foreign corporate customers" (Western Europe and North America) rating systems classify borrowers assigned to the "corporates" IRBA asset class in accordance with section 80, SolvV. The systems rate the risk of default of individual companies through the use of statistically calibrated financial statement ratings and sector information. Moreover, additional qualitative factors are included in the rating systems in order to assess the future development of the company. After the initial rating, the companies are re-rated at least once a year to monitor creditworthiness. Where material information impacting creditworthiness is received, a re-rating is performed before the end of the year.

Rating systems for commercial lending

The "Domestic commercial lending" and "Foreign commercial lending" rating systems are used to classify facilities for commercial housing construction, loans to property developers, operator models, real estate and equipment leasing businesses and real estate located abroad which are allocated to the "specialized lending" IRBA asset class in accordance with section 81, SolvV. As a consequence of the nature of these loans, the solvency of the customer or the bearer of the economic risk is taken into consideration along with property-related risk drivers. Different scenarios for the latter are produced using Monte Carlo simulations and they are included in default risk estimates by modeling future cash flows. After the initial rating, borrowers are re-rated at least once a year. Where material information impacting creditworthiness is received, a re-rating is performed before the end of the year. A simple risk weighting for specialized lending transactions in accordance with section 97, SolvV, is allocated to the individual rating classes of the rating systems for commercial lending.

5.2.5 Retail business asset class

Retail customers, mortgage lending

Standardized home construction loans are classified using the "Postbank retail customers, mortgage lending" and "BHW retail customers, mortgage lending" rating systems. They are assigned to the "retail business, exposures secured by mortgage liens" IRBA asset class in accordance with section 77(3), SolvV. Since the causes of loan defaults for owner occupied and rental categories differ, two variations of the rating systems model are used. Residential mortgage loans are subject to application scoring; during validation, the actual default rates for each pool of exposures of the same rating class are compared annually with the probabilities of default allocated according to the Postbank master scale to verify the predictive quality of the scoring process. Separate pool estimates of the probability of default and loss on default are made for the pools of existing unscored portfolios and exposures in the dunning stages.

Overdraft facilities for commercial customers

The "Overdraft facilities" rating system is used to classify overdrafts with no fixed term for self-employed and commercial customers in Germany with maximum outstandings of €250,000. The facilities are assigned to the "retail business, qualifying revolving loans" IRBA asset class in accordance with section 77(2), SolvV. The scoring system distinguishes between new and existing customers with and without limits. Applications for overdraft facilities are initially scored and the facility is subsequently scored once a month through application of an internal behavioral score that shows the specific risk of default based on account management data and certain external information.

Retail customers, installment loans

The "Retail customers, installment loans" rating system is used to classify standardized installment loans to private persons. These are assigned to the "other retail business" IRBA asset class in accordance with section 77(4), SolvV. Decisions on applications for installment loans are based on the results of the scoring model for retail customers, installment loans. The model makes use of long-standing internal histories of default as well as data from external credit reporting agencies. Installment loans are subject to application scoring; during validation, the actual default rates for each pool of exposures of the same rating class are compared once a year with the probabilities of default allocated according to the Postbank master scale, thus verifying the predictive quality of the scoring process. Separate pool estimates of the probability of default and loss on default are made for the pools of existing unscored portfolios and exposures in the dunning stages.

5.2.6 Purchased loans asset class

Purchased retail loans

The "Purchased retail loans" rating system is used to classify mortgage loans purchased under cooperation agreements with banks, building societies and insurers; these account for the largest portion of the purchased loans segment. For purchased loans, Postbank makes use of the option of determining risk at the pool level using the top-down approach. For this purpose, the individual exposures are combined to form homogeneous portfolios with the same median probability of default and the same loss in the event of default. The methodology of the rating system is closely related to the system for classifying mortgage lending transactions.

Purchased corporate loans

The rating system "Purchased corporate loans" relates to the borrower of the purchased loan. The exposures are allocated to the "corporate" or "retail business" IRBA asset class, depending on the limit volume. The borrowers of the "corporate" asset class are separately rated using the "Domestic corporate customers" and "Foreign corporate customers" rating systems. A separate pool estimate of the probability of default and the loss on default is made for each of the borrowers of the "retail business" asset class. Moral hazard in both cases is taken into account through assessment of the quality of the factoring client. After the initial rating, borrowers are re-rated to monitor creditworthiness at least once a year. Where material information impacting creditworthiness is received, a re-rating is performed before the end of the year.

5.2.7 Equity interests asset class

Equity interests

Equity interests forming part of the investment portfolio held by Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn, or PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn, are classified in accordance with section 78(2) no. 1a, SolvV, depending on their asset class (institutions or corporate), using the rating system for institutions, domestic corporate customers or foreign corporate customers. After the initial rating, the borrowers are re-rated to monitor creditworthiness at least once a year. Where material information impacting creditworthiness is received, a re-rating is performed before the end of the year.

5.3 Rating-based credit risk management

The other main areas of application of the risk parameters estimated internally for calculating regulatory capital requirements are shown below, with credit risk management being discussed separately for the individual and portfolio levels.

5.3.1 Management of individual risks

Credit approval procedures

The Postbank Group's credit guidelines contain detailed rules for all lending transactions. Loan approvals are subject to predetermined lending authorities that set out the responsibilities for loan approvals depending on loan amount; additionally, for the sovereign, institutional and corporate asset classes, borrower credit ratings are used, and in the retail business the structure of the facility.

An essential element of the credit approval process is the separation between the front office (sales/trading), back office and, for transactions that are relevant for risk purposes, Risk Controlling in accordance with the regulatory requirements (MaRisk, SolvV). A permissible exception under banking regulations to the strict separation of duties is the standardized credit approval process for transactions that are not relevant for risk purposes, which Postbank defines as private residential mortgage loans up to €1 million, other retail credit products and loans for up to €750,000 in the Corporate Banking division, to which simplified, standardized procedures are applied.

Risk/return key performance indicators

Expected loan losses for the Postbank Group are calculated with reference to average standard risk costs that are factored into the preliminary calculations for specific exposures. This system means that all loans are evaluated through the preliminary calculation. Standard risk costs are priced in as a premium for the expected loss and are included in price and profitability calculations in the form of return on equity (RoE) ratios. The profitability calculation aims to ensure an overall assessment of customer relationships and is made for retail business at product or portfolio level, and for sovereign, institutional and corporate asset classes at the individual level.

Credit monitoring and problem loan procedures

For non-standardized loans, credit risks are monitored by regular credit assessments of borrowers and guarantors. The level and concentration of risk are capped by limiting a specific loan or total exposure to any one borrower. State-of-the-art computer systems are used to record and monitor limits. Limits are controlled by the operational lending units in the back office in accordance with banking regulatory requirements and, additionally for trading transactions, also by Risk Controlling.

The Postbank Group has implemented a credit monitoring process in accordance with banking regulatory requirements for individual loans to corporate customers and mortgage loans in excess of €500,000 per borrower or borrowing entity. This enables higher-risk loans to be identified using qualitative and quantitative risk indicators, as determined for each product. The use of risk indicators for early identification of increasing risk of default permits Postbank to take measures to minimize risk on a timely basis.

Additionally every day, Postbank assesses creditworthiness of loan exposures in the corporate, institutional, sovereign and securitizations asset classes with the help of research (e. g., external ratings, spreads on credit default swaps or asset swaps, Moody's KMV expected default frequencies, or analysts' assessments and other company press releases). This procedure allows the Bank to identify deteriorating trends in credit standing and to take alternative action at a very early stage. These assessments are supported by a software program that draws on large volumes of market data to derive loan default probabilities.

When a corporate loan is identified as having a higher risk, the borrower is placed on a watch list. When there are hard risk indicators, the relevant loan is required to be transferred to the watch list; if, on the other hand, there are only soft risk indicators, the decision is left to the discretion of the credit specialist. The watch list also serves to capture and analyze changes in the quality of these loans. It is constantly updated by the various lending departments and submitted quarterly to the member of the Management Board responsible for lending. The largest individual exposures, loans that have either been written down or which were approved by the Group Management Board, are reported to the Group Management Board, the Credit Risk Committee, and the Loan and Equity Investments Committee of the Supervisory Board as part of the credit risk report.

5.3.2 Management at portfolio level

In addition to monitoring individual risks, Postbank calculates the credit value at risk (CVaR) of all Group loans entailing credit risk. CVaR is the potential negative change in the present value of the total loan portfolio that will not be exceeded within a year at a 99.93 % probability. Under Postbank's Group-wide risk-bearing capacity concept, CVaR, as a measure of the unexpected loss from credit risk, must be backed by risk capital.

In contrast, the expected loss of a loan portfolio is the average default amount expected within a one-year period; this is roughly calculated as the product of the default probability, the size of exposure, and the loss rate. The expected loss is not included in Postbank's overall risk but is factored into margin calculations through inclusion of standard risk costs.

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

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

The updated portfolio and market data are used to compute the CVaR of the Group loan portfolio every quarter. CVaR is also calculated individually for specific products/business divisions. The CVaR in the Group loan portfolio is lower than the sum of the individual CVaRs for the business divisions as a result of diversification. The utilization of the CVaR limits made available to individual profit centers by the Credit Risk Committee and that of the aggregate credit risk limit is monitored on an ongoing basis.

In addition to CVaR calculations, the Group loan portfolio is subject to regular stress testing and sensitivity analyses across all risk classes in order to quantify losses that might arise from extreme events. Stress tests are specifically applied to migration matrices, the master scale, loss rates and the realization value of collateral.

5.4 Reporting

Postbank uses a variety of reporting instruments for counterparty risk.

- The credit risk report, which is submitted quarterly to the Group Management Board and the Loan and Equity Investments Committee of the Supervisory Board, provides information on the development of the Group's current loan portfolio and on the default history for individual business units. In addition to presenting loan portfolio and credit risk data, the report includes details of the largest exposures aggregated by individual obligors and the largest non-performing loans, in addition to the utilization of risk limits. The credit risk report is approved by the Credit Risk Committee.

- The credit monitoring report is prepared quarterly at the same time as the credit risk report and contains additional detailed information at business division and product level regarding the management of credit risk by the operating units.

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

- To monitor the performance of the risk classification procedures for individual loans (rating and scoring models), model monitoring reports are prepared by business unit on a monthly or quarterly basis. Compliance with the model, i.e., its proper application, is also examined.

- The watch list is another instrument used for individual loans to reporting larger exposures and exposures that have been written down.

6 Quantitative information on the type and extent of counterparty risk

6.1 Disclosures on the structure of the IRBA loan portfolio

Postbank's business strategy is for risk policy to be conservative with a focus on retail business with private customers, commercial real estate finance secured by mortgages, and investment securities. The structure of Postbank's overall risk profile, consequently, compares favorably with the rest of the sector. The exposures reported in this chapter generally relate to the portfolio for the entire Postbank Group. The tables in this chapter do not show the non-loan assets.Similarly, the equity interests presented in detail in section 7.2 of this report and Postbank's securitization exposures shown in section 7.3 have also been excluded from the tables in this chapter.

6.1.1 Structure of assets by sector, region and residual term to maturity

Assets are presented below by region, sector and residual term to maturity as required by section 327 (2), SolvV. The tables show loan volumes, broken down by exposure type on the date of this report. Both historic cost and carrying amounts of balance sheet and off-balance sheet transactions are shown before credit risk mitigation and specific valuation allowances. The derivatives are shown at positive replacement cost. Balance sheet transactions essentially include bonds, loans, overdrafts, home construction loans, specialized lending, securities lending, repos and leasing. Off-balance-sheet items primarily consist of unutilized lines.

There has only been a moderate increase in total assets to €237.3 billion from the €236.7 billion shown in the Disclosure Report as of June 30, 2008. Since the amounts at the reporting date do not differ materially from the average assets of past reporting periods, the average amounts are not shown in this report.

The following table presents exposures broken down by the sectors and obligor groups of relevance to Postbank. The sector distribution of the portfolio is almost unchanged compared to the June 30, 2008 Disclosure Report and corresponds to the target portfolio as defined by Postbank's risk strategy. The Group's loan portfolio consists mainly of loans to retail customers with a focus on private mortgage lending, as well as the Financial Markets division's loans and advances to banks, insurers and providers of financial services. A target portfolio has been defined as part of the credit risk strategy and optimized in terms of diversification for the purpose of managing investments in the non-retail area. The securities portfolios in the banking/insurance sector predominantly comprise borrowers with first-class credit ratings.

Exposures before credit risk mitigation, broken down by sector

Exposure type	Retail customers €m	Banks/insurers/ financial services providers €m	Sovereigns €m	Service providers/ wholesale and retail €m	Industry €m	Other sectors €m	Total €m
On-balance sheet transactions	68,645	89,161	29,366	4,331	5,270	5,672	202,445
Off-balance sheet transactions	22,941	3,837	1,197	3,847	919	381	33,122
Derivatives	-	1,597	-	32	17	104	1,750
Total	91,586	94,595	30,563	8,210	6,206	6,157	237,317

Table 8

The following table shows the loan volume by exposure type and Postbank's key geographic business regions. Loan distribution by geographical region is consistent with Postbank's credit risk strategy. Loans are allocated to the country in which the borrower is legally domiciled. The regional distribution of the portfolio is almost identical to that reported on June 30, 2008 and indicates that Postbank is concentrating on the domestic German market in line with its strategy, as well as selected exposures to Western Europe and North America, some of which were entered into by foreign subsidiaries and branches.

Exposures before credit risk mitigation, broken down by geographical region

Exposure type	Germany €m	Western Europe €m	Other regions €m	Total €m
On-balance sheet transactions	123,413	67,595	11,437	202,445
Off-balance sheet transactions	28,482	3,259	1,381	33,122
Derivatives	672	709	369	1,750
Total	152,567	71,563	13,187	237,317

Table 9

Loan volume is shown in the following table broken down by exposure type and the residual maturity bands that are most relevant to Postbank's business. Checking accounts, guarantees and pending transactions are generally assigned to the "on demand" maturity band. The amounts contained in the "more than 5 years" maturity band largely comprise longer-term bonds, private mortgage lending and commercial lending. The changes in maturity bands for all assets compared to June 30, 2008 have only been moderate.

Exposures before credit risk mitigation, broken down by contractual residual maturity

	One day or on demand €m	Up to and including three months €m	More than three months, up to and including one year €m	More than one year, up to and including five years €m	More than five years, or unlimited €m	Total €m
On-balance sheet transactions	6,513	25,030	11,501	65,483	93,918	202,445
Off-balance sheet transactions	18,888	263	1,248	4,185	8,538	33,122
Derivatives	0	750	161	640	199	1,750
Total	25,401	26,043	12,910	70,308	102,655	237,317

Table 10

6.1.2 IRBA specialized lending exposure values

The table "IRBA specialized lending exposure values according to the simple risk weight method" provides an overview of Postbank's commercial lending exposures of €15.6 billion, broken down by the risk weight classes of the simple risk weight method for specialized lending in accordance with section 97, SolvV. The exposures relate to commercial residential construction, loans to property developers, operator models, real estate and equipment leasing, real estate located abroad and private mortgage loans financing the construction of properties with more than ten residential units. The portfolio has increased 11.8 % since June 30, 2008 from €13.9 billion to €15.6 billion. Overall, the risk profile reveals a high proportion of loans (93 %) made to borrowers with good or very good credit ratings. Specialized loans are rated using the "Domestic commercial lending" or "Foreign commercial lending" (UK and USA) rating systems. A simple risk weighting for specialized lending transactions in accordance with section 97, SolvV, is allocated to individual rating classes.

IRBA specialized lending exposure values according to the simple risk weight method

	€m
Risk weight class 1 (excellent)	11,739
Risk weight class 2 (good)	2,725
Risk weight class 3 (acceptable)	517
Risk weight class 4 (poor)	256
Risk weight class 5 (in default)	370
Total	15,607

Table 11

6.1.3 Exposure values by exposure type and risk category

Unlike Tables 8 to 10, the following tables show actual exposures, rather than historic cost or carrying amounts, as the measure of the level of credit risk. The two figures differ in that the exposure values include "conversion factors", which represent expected loan utilization in the event of a default. Under the Foundation IRB approach, the conversion factor for irrevocable loan commitments in the sovereigns, institutions, and corporate asset classes amounts, for instance, to 75 %. Derivatives are shown in this table at their loan equivalent amounts.

In addition to exposures, the table "IRBA exposure values and average risk weights by exposure type and risk category" includes unutilized credit commitments for sovereigns, institutions, and corporates, as well as the average risk weight for each risk and asset class for investment and speculative grade credit ratings, weighted by the relevant exposure value. The investment grade credit rating category is sub-divided into the risk weight bands that dominate Postbank's portfolio, "AAA", "AA", "A" and "BBB", with specialized lending being shown separately. Non-loan assets, equity interests and securitizations have been excluded from the following tables.

IRBA exposure values and average risk weights by exposure type and risk category in the sovereigns, institutions and corporates asset classes

	IRBA asset class	Investment Grade (AAA to BBB–)						Speculative Grade	Total
		AAA (PD < = 0.015%)	AA (PD > 0.015 %, PD < = 0.045 %)	A (PD > 0.045 %, (PD < = 0.125 %)	BBB (PD > 0.125 %, PD < = 0.475 %)	Specialized lending "Excellent"	Total (PD < = 0.475 %)	(BB+ to CCC–) (PD > 0.475%)	
Average risk weights	Sovereigns	7 %	12 %	24 %	50 %	-	12 %	72 %	12 %
	Institutions	-	5 %	15 %	36 %	-	15 %	146 %	15 %
	Corporates	13 %	16 %	31 %	52 %	65 %	53 %	99 %	61 %
	of which: SMEs	-	0 %	26 %	44 %	-	41 %	80 %	52 %
	of which: Specialized lending	-	-	-	-	65 %	65 %	95 %	72 %
	of which: Purchased loans	13 %	16 %	32 %	54 %	-	21 %	97 %	27 %
	Total	8 %	8 %	17 %	43 %	65 %	22 %	99 %	26 %
Total amount of exposure values €m	Sovereigns	4,206	10,808	1,295	98	-	16,407	47	16,454
	Institutions	-	16,553	46,833	5,722	-	69,108	9	69,117
	Corporates	1,142	305	4,141	3,898	11,739	21,225	1,412	26,136
	of which: SMEs	-	-	60	213	-	273	112	385
	of which: Specialized lending	-	-	-	-	11,739	11,739	3,499	15,238
	of which: Purchased loans	1,113	140	248	203	-	1,704	152	1,856
	Total	5,348	27,666	52,269	9,718	11,739	106,740	4,967	111,707
of which: unused loan commitments €m	Sovereigns	-	13	-	-	-	13	-	13
	Institutions	-	2	27	0	-	29	-	29
	Corporates	-	18	1,462	319	710	2,509	801	3,310
	of which: SMEs	-	-	24	43	-	67	31	98
	of which: Specialized lending	-	-	-	-	710	710	716	1,426
	of which: Purchased loans	-	-	-	-	-	-	-	-
	Total	-	33	1,489	319	710	2,551	801	3,352

Table 12

The composition of the sovereigns, institutions, and corporate sub-portfolios is indicative of the focus on investment grade ratings. Most exposures relate to the sovereign and institutions asset classes and have very low risk weightings. The higher average risk weighting for specialized lending, for which the simple risk weight method is used, is due to the risk weights prescribed by the regulatory authorities. As a result of the crisis in the financial markets, exposure to the institutions asset class has decreased since the June 30, 2008 Disclosure Report from €73.2 billion to €69.1 billion which was accompanied by an increase in the average risk weight from 12 % to 15 %. There was also an increase in the corporate loan portfolio from €22.9 billion to €26.1 billion.

The table "IRBA exposure values for the retail business by exposure type and risk category" accordingly shows total exposure for each expected loss band. IRBA exposure values reported for the retail business primarily consist of overdrafts for business customers, which meet the SolvV requirements for retail business. The CRSA, however, is used for overdrafts in the retail banking segment. Loans amounting to €67.4 billion in the retail business sub-portfolio have increased €3 billion since the June 30, 2008 Report and reflect Postbank's strategic positioning as Germany's leading retail bank. The €60.4 billion loan volume shown in the table also illustrates the focus on real estate lending to private customers. The credit quality of Postbank's retail business is very good.

IRBA exposure values for the retail business by exposure type and risk category						
		Expected Loss Band				
	IRBA asset class	0.00 - 5.00 %	5.01 - 20.00 %	20.01 - 50.00 %	50.01 - 100 %	Total
Total amount of exposures	IRBA exposures in the retail business secured by mortgage liens	58,183	1,302	864	29	60,378
€m	Qualifying revolving IRBA exposures in the retail business	21	1	0	0	22
	Other IRBA exposures in the retail business	6,678	230	57	84	7,049
	Total	64,882	1,533	921	113	67,449

Table 13

As required by section 328(2), SolvV, the following table shows the relevant total CRSA exposure values, before and after applying credit mitigation techniques, that have either been allocated to a particular credit rating, in accordance with SolvV sections 26 to 39 and regulatory requirements for the allocation of credit assessments to credit ratings, or deducted from capital. The table shows all portfolios not included in the calculation of the coverage ratio pursuant to section 67, SolvV, but does not include securitizations and equity interests.

The high CRSA exposure values with a 0 % risk weighting primarily relate to claims on the Federal Republic of Germany, German regional governments, local authorities and development banks. The retail business asset class primarily contains outstanding overdrafts in the retail banking segment. In accordance with section 51, SolvV, a conversion factor of 0 % has been applied to unused overdraft facilities for retail customers. The breakdown of shares in investment funds by risk weight class is given in Table 27 (see section 7.2). CRSA exposure values showed by far the greatest increase of all asset classes compared to June 30, 2008.

Total CRSA exposure values before and after credit risk mitigation by risk weight class			
Portfolio	Risk weight class	CRSA exposure value before credit risk mitigation €m	CRSA exposure value after credit risk mitigation €m
Portfolios in accordance with sections 26-31, 33, 38-39 SolvV	0 %	20,426	20,425
(sovereigns, regional governments,	20 %	5,509	5,440
local authorities, other public entities,	50 %	1,163	1,163
international organizations, institutions,	100 %	4,597	4,597
corporates, other exposures, exposures past due)	150 %	119	119
	Total	31,814	31,744
Covered bonds issued by banks	10 %	1,198	1,198
(section 32, SolvV)	Total	1,198	1,198
Exposures collateralized	35 %	358	358
by real estate	50 %	2,797	2,797
(section 35, SolvV)	Total	3,155	3,155
Retail business	75 %	2,850	2,850
(section 34, SolvV)	Total	2,850	2,850
CRSA bonds within the investment fund units	0 %	303	303
(section 36 in conjunction with section 83(4)	11 %	599	599
sentence 2 no. 2, SolvV)	22 %	152	152
	55 %	805	805
	110 %	405	405
	200 %	57	57
	Total	2,321	2,321
Investment fund units with risk weight delivery	< 20 %	1,727	1,727
by third parties (s. 83(5) SolvV)	Total	1,727	1,727
Total		43,065	42,995

Table 14

6.2 Disclosures relating to credit risk mitigation techniques

6.2.1 Fundamentals of risk hedging and mitigation

The risks incurred in the course of day-to-day business operations can be mitigated through, for example, taking collateral, obtaining guarantees or credit derivatives or through netting.

In order to ensure that collateral is eligible for the purposes of capital requirements, Postbank also introduced collateral management procedures in compliance with regulatory requirements when the IRBA was implemented. The strict standards required by the SolvV are applied to the quality (e.g., the legal effectiveness and enforceability) of collateral accepted. As with the underlying transaction with a counterparty, the ongoing value of collateral is assessed at the time of granting the loan and is then continually monitored throughout the term of the loan in accordance with uniform Group standards.

The back office is responsible for collateral management, which comprises recognition, verification and regular measurement, as well as the administration of eligible collateral. Exposure management systems provide electronic support for collateral management. Collateral valuations are reviewed at fixed intervals that vary with the type of collateral but are normally once a year or more frequently for critical exposures.

Mortgage liens securing Corporate Banking exposures are reappraised at least once a year or as and when required. Market developments with respect to German business are monitored using the market volatility approach developed by the Zentraler Kreditausschuss ("ZKA" – German Central Credit Committee), whereas the front and back offices are responsible for the ongoing qualitative monitoring of the relevant sectors and real estate markets for both German and international business. The valuations of loans and property values in excess of €3 million are reviewed at least every three years by independent, qualified loan specialists with property values being reappraised by property appraisers.

For collateral taking the form of real estate liens in the private mortgage lending business, Postbank has developed a market volatility concept for monitoring the value of residential property. The system is based on statistical analyses of market indices and ad hoc analyses in the event of unusual changes in value and is used to verify the value of collateral annually.

A conservative approach is taken to positive correlations between the borrower's counterparty risk and the risk of a deterioration of value of collateral. Postbank's collateral acceptance and monitoring process takes account of risk concentrations when collateral is initially recognized. In particular, Postbank monitors guarantees together with loans granted by guarantors (see section 5.3.1). In addition, risks incurred in connection with guarantees are expressly taken into account as a part of portfolio management (see 5.3.2). Postbank uses a system for commercial real estate finance for the entry and monitoring of mortgages in conjunction with the allocation of risk weightings under the simple risk weight method.

6.2.2 Nature and extent of credit mitigation techniques applied to IRBA portfolios

Hedging instruments pursuant to section 154, SolvV, include financial collateral, guarantees and credit derivatives recognized by the regulatory authorities. In addition, section 158, SolvV, permits other types of collateral, including mortgage liens, the assignment of receivables and physical collateral, to be applied to IRBA portfolios. Furthermore, pursuant to section 206 et seq., credit risks can be mitigated by the use of netting arrangements.

Postbank makes decisions on the recognition and application of hedging instruments for credit risk mitigation purposes in the context of its business and credit risk strategy, based on the requirements of the SolvV with respect to the eligibility of credit risk mitigation instruments.

Credit risk mitigation methods in connection with synthetic securitizations are dealt with separately in section 7.3.

The following two tables distinguish between secured IRBA and CRSA exposure values. Asset classes included in the SolvV that are not separately shown in the two tables are aggregated in "Other asset classes". The tables are followed by detailed comments on collateral recognition.

Collateralized IRBA exposure values

IRBA asset classes	Financial collateral €m	Guarantees and credit derivatives €m	Other collateral €m
Sovereigns	-	7	-
Institutions	17,829	1,079	-
Corporates	-	995	13,340
Other asset classes	-	-	-
Total	17,829	2,081	13,340

Table 15

Collateralized CRSA exposure values		
CRSA asset classes	Financial collateral €m	Guarantees and credit derivatives €m
Sovereigns	-	-
Regional governments and local authorities	-	5
Other public-sector bodies	-	251
Institutions	70	126
Corporates	-	463
Other asset classes	-	-
Total	70	845

Table 16

Financial collateral
Financial collateral in the retail business is integrated directly into the estimate of the LGD and is, therefore, not shown.

The financial collateral recognized in the IRBA portfolios essentially comprises cash collateral, bonds and other securities transactions related to repo lending. The value of collateral has decreased from €22.3 billion on June 30, 2008 to €17.8 billion which is consistent with the development of repo lending business.

Postbank applied CRSA portfolio financial collateral of €70 million on the reporting date as reducing capital requirements (in addition to financial collateral reported in connection with securitizations – see section 7.3).

Guarantees and credit derivatives
Guarantees and credit derivatives must be irrevocable and unconditional in order to qualify as credit mitigation instruments in calculating minimum capital requirements for counterparty risk. Only guarantees issued by sovereigns, other public authorities, banking institutions, supranational organizations and legal entities with a rating of at least A- are recognized. Guarantors and providers of collateral in connection with credit derivatives are subject to the same risk classification, mitigation and monitoring procedures as borrowers. The amount of cover required for guarantees and credit derivatives is calculated in accordance with section 86(1), SolvV.

The amount of guarantees in the IRBA institutions asset class has increased by €1 billion since June 30, 2008 due to one additional guarantee issued by a sovereign.

In the IRBA corporates asset class, the value assigned to the exposures rated using the simple weight method for specialized lending pursuant to section 97, SolvV, is taken into account when calculating the risk weight class. The amount of such collateral significantly increased during the last half year to €612 million.

The value of CRSA asset class guarantees and credit derivatives declined to a total of €845 million.

In total, credit derivatives mitigating risk in the amount of €292 million were recognized in the IRBA portfolio whereas the amount for the CRSA portfolio was €76 million.

Other guarantees
The extent to which other exposures in the retail business are covered by other guarantees is included directly in the estimate of the LGD and is, therefore, not separately reported.

Collateral in the form of mortgage liens
In addition to financial collateral, guarantees and credit derivatives, credit risk can also be mitigated by mortgage liens under the IRBA. No separate mitigation of risk is recognized in the CRSA for mortgage liens due to the fact that exposures collateralized by real estate form a separate asset class with a risk weighting of 35 %.

Postbank uses mortgage liens on home loans as a key means of minimizing the risks associated with this form of finance. The appraisal and monitoring of mortgage liens is based on statutory requirements. Real estate concentration risk for properties rented to third parties when more than ten residential units are financed or when financing is more than €2 million is addressed through the involvement of a centralized decision-making unit. Collateral is monitored at different intervals and to different extents, depending on underlying risk. Collateral is realized when borrowers become permanently insolvent.

In the retail business, mortgage liens are included when calculating LGD and are, therefore, not reported separately. Capital charges differ depending on the type of use (commercial or residential) and, in the case of residential buildings, whether they are owner or tenant occupied. Postbank has developed a market fluctuation model for monitoring residential properties that is based on statistical analyses of market indices and ad hoc analyses in the event of exceptional changes in value.

In the IRBA corporates asset class, the value of real collateral allocated to exposures rated according to the simple risk weight method for specialized lending pursuant to section 97, SolvV, amounts to €13.3 billion, which is then taken into account when calculating the risk weight class. The values are calculated and reviewed as described in section 6.2.1. The internal rating systems for specialized lending conservatively reflect the high correlation between the counterparty risk of the borrower and the value of the collateral. The specialized lending ratings are regularly updated, at least once a year. Property and market values of all commercial real estate are monitored on a regular basis.

Other IRBA collateral
In accordance with sections 160 and 161, SolvV, Postbank does not include other IRBA collateral (e. g., assignment of receivables) in the portfolios calculated under the IRBA when determining capital requirements.

Netting
Banks can also reduce their capital requirements through netting arrangements. This results in the reduction of the underlying exposure either through the elimination of individual offsetting transactions or through the use of netting arrangements.

Postbank uses netting agreements for collateral management solely for derivative financial transactions (see section 7.1). The agreements are concluded on the basis of standard master agreements, with due regard for SolvV requirements. Netting agreements are concluded with the most important trading counterparties. Data processing in accordance with specified standards for collateral management is used to process netting arrangements. The netted positions are integrated into risk management for the relevant counterparties and overall credit risk.

6.3 Disclosures relating to allowances for losses on loans and advances

6.3.1 Definitions and provisioning

All loan exposures are regularly reviewed to ascertain the extent to which financial assets may be partially or fully uncollectible. The Bank also conducts an ad hoc review of an exposure, and the related collateral, when information is received from external or internal sources indicating an adverse change in the risk assessment of the exposure or collateral.

Postbank distinguishes between the following stages of impairment:

Definition of "in arrears"

An exposure is classified as "in arrears" or "past due" in the case of a delay in payment, i.e., the borrower has exceeded a notified external limit or taken credit without prior consent. In contrast to non-performing loans, exposures are categorized as "past due" or "in arrears" rather than non-performing as soon as a payment due date is missed.

Definition of "non-performing"

The classification "non-performing" denotes that Postbank has recognized an allowance for losses on loans and advances or an event of default under a facility has occurred. The "non-performing" category includes all loans and advances in respect of which specific valuation allowances, collective specific valuation allowances, write-downs and provisions in relation to sureties, other guarantees and irrevocable loan commitments have been recognized, or for which borrowers are more than ninety consecutive calendar days in arrears with respect to a substantial portion of overall debt. The regulatory classification of "non-performing" is more comprehensive, e.g., application to all exposures of a customer as a result of a cross default clause, than the accounting concept of „impaired".

Definition of "default" and risk provisioning

Pursuant to section 125, SolvV, an obligor is in default if a substantial portion of total exposure to the customer by the bank is more than 90 consecutive calendar days past due. A borrower may be placed in default prior to the end of the ninety day period, if the bank is of the opinion that the borrower is unlikely to meet all of its payment obligations without the bank having to resort to additional measures to enhance the credit, such as the realization of collateral.

In the retail business, defaults are detected automatically using the data fields specified as relevant for the individual transactions. Defaults of purchased loans are also automatically flagged. Indicators of default for the sovereign, institutions and corporates asset classes, including specialized lending, are recorded manually in a separate default database. Analysis and control of capital market securities, as well as the securities and derivative exposures of the investment funds, are made in conjunction with the daily marking-to-market measurement process.

A monthly watch list is generated based on impaired transactions recorded in the default database. The Risk Controlling unit has methodological responsibility for the database and is also responsible for its ongoing development.

Postbank recognizes specific valuation allowances for non-performing loans or loans in default. The amount of the specific valuation allowance is determined after considering the present value of future cash flows, the fair value of the collateral or the market value of the loan. All loan exposures for which specific valuation allowances have already been made, as well as all exposures on the watch list, are regularly remeasured.

Collective valuation adjustments, if required, are recognized for homogeneous loan portfolios of installment loans and overdraft facilities for which the monitoring of limits and dunning is automated. Valuation allowances are calculated with reference to fixed percentages that are based on historic default rates.

In accordance with IFRSs, portfolio valuation allowances are established for contingencies that Postbank has yet to identify since, for example, the customer is still meeting payment obligations. Internal and external estimates of probabilities of default and loss rates on default are used to calculate the portfolio valuation allowances, with the period of time between the event of loss and detection thereof (LIP or loss incurrence period factors) being estimated as a function of customer group and type of product.

Uncollectible loans are written off directly through profit or loss.

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

6.3.2 Current risk exposures

The amounts of allowances for losses on loans and advances shown in the first three tables in this section relate to the entire portfolio of the Postbank Group; in other words, they comprise the portfolios subject to the IRB approaches and the CRSA. The allowance for losses on loans and advances recognized relates to loans and advances to customers and credit institutions. Gains and losses on the sale and remeasurement of investment securities and investments in unconsolidated subsidiaries are not reported below but in net income from investment securities (see Note 11 of the 2008 Annual Report, page 127).

The following table shows the carrying amounts of non-performing and past due loans, the amounts of specific valuation allowances, portfolio-based valuation allowances and provisions as of the reporting date, or their movements, as well as direct write-downs and recoveries on loans written off in 2008 by each sector of relevance to Postbank. The net charge reported is equal to the difference between additions and reversals of allowances for losses and provisions. Provisions primarily relate to undrawn lines and guarantees.

The adverse effect of the crisis in the financial markets is particularly visible in the following tables: The carrying amounts shown for non-performing and past-due exposures and the net loss have increased since June 30, 2008. Amounts at the reporting date have only slightly increased due to offsetting drawdowns. Postbank's focus on the retail segment can be seen from the breakdown of the allowance for losses on loans and advances that have been broken down by the sectors and obligor groups of relevance for Postbank. The carrying amounts of non-performing exposures also include exposures to customers that have been placed in default due to the operation of cross default clauses. The market value of collateral securing the carrying amounts of non-performing and past due exposures amounts to €1,782 million.

Allowance for losses on loans and advances, broken down by sector

		Retail customers	Banks/insurers/ financial services providers	Sovereigns	Service providers/ wholesale and retail	Industry	Other sectors	Total
		€m	€m	€m	€m	€m	€m	€m
Carrying amounts	non-performing exposures	1,659	459	-	77	156	37	2,388
	past due exposures	828	0	-	1	-	2	831
Amounts	specific valuation allowances	843	173	-	64	17	21	1,118
	portfolio-based valuation allowances	104	1	0	5	4	-	114
	provisions	41	0	-	7	-	-	48
Net period expense	specific valuation allowances	255	47	-	35	2	0	339
	portfolio-based valuation allowances	32	-	-	-	-	-	32
	direct write-downs	39	-	-	-	-	-	39
	provisions	19	-	-	-	-	-	19
Recoveries	loans previously written off	21	-	-	-	0	-	21

Table 17

Similarly, the following overview gives a breakdown of allowances for losses on loans and advances by the geographical regions of relevance to Postbank. Consistent with the SolvV, movements in the allowance for losses on loans and advances are not shown in this table. The distribution of the allowance for losses on loans and advances corresponds to the distribution of assets in the underlying loan portfolios. Unlike the situation on June 30, 2008, the adjustments to values in connection with Icelandic banks and Lehman Brothers Holdings Inc. are reflected in the increased carrying amounts of non-performing and past due exposures as well as the amount of specific allowances for losses having regard to Western Europe and North America.

Allowance for losses on loans and advances, broken down by geographical region

		Germany €m	Western Europe €m	Other regions €m	Total €m
Carrying amounts	non-performing exposures	1,957	286	145	2,388
	past due exposures	363	468	0	831
Amounts	specific valuation allowances	1,039	35	44	1,118
	portfolio-based valuation allowances	109	4	1	114
	provisions	47	1	0	48

Table 18

The following table shows movements in the allowance for losses on loans and advances from the beginning of the fiscal year to December 31, 2008:

Statement of changes in the allowance for losses on loans and advances

	Opening balance €m	Additions €m	Reversals €m	Utili-zations/ unwinding €m	Currency translation and other adjustments €m	Closing balance €m
Specific valuation allowances	1,071	431	–92	–293	1	1,118
Portfolio-based valuation allowances	83	32	0	–1	-	114
Provisions	39	23	–4	–10	-	48
Total	1,193	486	–96	–304	1	1,280

Table 19

The following table shows "actual losses" for the two half years of 2008 for the IRBA portfolios. "Actual losses" are the net difference between total additions and reversals of specific valuation allowances, portfolio-based valuation allowances and provisions as well as the difference between losses recognized directly in net profit or loss and recoveries on loans written off. CRSA portfolio defaults are not shown in the table (see section 1 of this Disclosure Report). The increase in actual losses in the second half of 2008 compared to the previous period is especially due to adjustments to values with respect to institutions.

Actual loan losses

IRBA asset classes	Actual losses July 1 - Dec. 31, 2008 €m	Actual losses Jan. 1 - June 30, 2008 €m
Sovereigns	0	-
Institutions	45	-
Corporates	16	22
IRBA exposures secured by mortgage liens in the retail business	90	62
Qualifying revolving IRBA exposures in the retail business	0	-
Other IRBA exposures in the retail business	51	22
Equity interests	0	-
Total	202	106

Table 20

The following table compares Postbank's estimate of expected losses with the losses actually incurred in both half-years. The expected losses relating to loans not in default or subject to valuation allowances at the beginning of the period under review are determined and then compared with the actual losses for each period. Any recoveries or reversals of valuation allowances or provisions during the period under observation in respect of loans only becoming non-performing during that period are offset against the relevant additions for the period. Collective valuation allowances are not included in the figures. The expected losses reported in the table below relating to six month periods were calculated as of March 31, 2008 for the first six months of 2008 rather than on January 1, 2008.

Estimated and actual loan losses

IRBA asset classes	Expected losses at the beginning of the period (July 1, 2008) €m	Actual losses July 1 – Dec. 31, 2008 €m	Expected losses at the beginning of the period (calculated at March 31) €m	Actual losses Jan. 1 – June 30, 2008 €m
Sovereigns	1	0	1	-
Institutions	5	45	6	-
Corporates	50	16	44	22
IRBA exposures secured by mortgage liens in the retail business	82	90	88	62
Qualifying revolving IRBA exposures in the retail business	0	0	-	-
Other IRBA exposures in the retail business	32	51	29	22
Equity interests	1	0	11	-
Total	172	202	179	106

Table 21

The high percentage of expected losses relating to retail business is a consequence of the Bank's position for this type of business. While there is a good correlation of expected and actual losses in the retail business, given its high degree of granularity, the nonretail business is characterized by a low number of defaults with higher loss amounts. In the institutions portfolio in particular, the defaults of Lehman Brothers and Icelandic banks caused actual losses to clearly exceed expected losses during the second half of 2008. Thanks to the conservative calculation rules governing the application of the Basic Approach for specialized lending, expected losses tend to be exaggerated for the corporates asset class. This effect will only be reduced upon transfer to the Advanced Approach. However, observed data for loss given default within the statistical confidence intervals is quite consistent with the regulatory parameters applicable under the IRB Foundation Approach.

Given the emerging deterioration of the economic environment, Postbank recognized additional portfolio-based valuation allowances during the second half of the year, in particular for the retail business. Specifically, these allowances were recognized for retail exposures secured by mortgage liens (mortgage lending) and for other IRBA exposures in the retail business (installment loans). This is the reason why actual losses exceeded expected losses for the second half of 2008.

7 Special quantitative disclosures on counterparty risk

7.1 Disclosures of derivative counterparty risk exposures

Postbank enters into derivative financial transactions as part of its trading activities and for asset/liability management. Postbank's financial derivatives transactions in foreign currencies are essentially forward exchange transactions, currency swaps, cross currency swaps and currency options. Interest rate derivatives primarily comprise interest rate swaps, forward rate agreements as well as interest rate futures and options; in isolated cases, forwards and futures on fixed-income securities are also entered into. Equity derivatives are entered into particularly in the form of stock options and stock/index futures. Credit derivatives are only concluded to a limited extent.

Compliance with loan approval procedures is a precondition for entering into derivative counterparty default exposures. The risk classification, limitation and monitoring processes used for derivative counterparty risk exposures are analogous to those for classic lending operations (see section 5.3.1). Derivative transactions are deducted from a limit assigned in the system that was previously applied for and approved by the responsible authority. Risk Controlling monitors limit utilization. The amounts to be recognized for derivative exposures are aggregated with the other credit risk-related products when calculating exposures, limiting the amount of risk assumed, calculating risk provisioning, and allocating capital.

The positive replacement cost (plus add-ons) of derivative financial instruments in the trading and banking books is recognized on the date derivatives are valued. They are carried at their fair values, based on publicly quoted market prices. Where market prices are not available, fair value is measured using recognized valuation techniques. See page 118 et seq. of the 2008 Annual Report for information on the recognition and measurement of derivatives.

Counterparty risk consists of the potential replacement cost, defined as the additional expense incurred or reduced income when a new contract must be entered into due to the default of the original counterparty, plus the add-on as a risk premium. Postbank uses the regulatory current exposure method for this purpose. Potential replacement cost is the positive fair value of a derivative (section 19, SolvV) without the add-on that is either an observable market value (marking to market) or a hypothetical derived value (marking to model).

Postbank has entered into bilateral collateral agreements with most of the Financial Markets division's key counterparties. These agreements provide for the daily netting of positions and the cash collateralization of any surpluses. The acceptance and administration of collateral is an independent, system-driven process. In certain cases, Postbank has inserted clauses in the annexes to the master agreements regulating collateralization requiring that collateral should be provided or increased in the event that Postbank's external ratings are downgraded. The effects of a rating downgrade on the amount of collateral to be provided has no effect on Postbank's risk-bearing capacity. There was no change in Postbank's rating in 2008 so that no additional collateral was called under such clauses. As a result of the financial crisis, the collateral agreements with certain counterparties were amended to include a clause requiring adjustments to net positions.

Since contracts with a central counterparty do not entail counterparty risk, the disclosures in the tables below are limited to OTC derivatives and to contracts at stock exchanges which are not recognized as central counterparties by regulatory authorities and those to which Postbank is not admitted and uses the services of brokers to enter into derivative exposures. Positive replacement costs after netting of €1,617 million is, therefore, at variance with the total derivative transactions of €1,750 shown in tables 8 – 10.

The disclosure requirements pursuant to section 326, SolvV, relate solely to derivative counterparty risk exposures. For this reason, neither off-balance sheet counterparty risk nor relevant collateral are included in the following two tables.

The following table shows the values of the derivative counterparty risk exposures, before and after netting, and collateral. The positive replacement costs for derivatives counterparty exposures before netting increased primarily as a result of interest rate movements in the second half year from €10,744 million at June 30, 2008 to €15,673 million. Netting agreements mitigating counterparty risk that were recognized for regulatory purposes as risk-reducing amounted to €14,506 million as of December 31, 2008. No collateral was recognized to offset risk at December 31, 2008.

Measurement of derivative counterparty risk exposures before and after netting and collateral

	Positive replacement costs before netting and collateral €m	Positive replacement costs after netting €m	Recognizable collateral Cash collateral €m	Recognizable collateral Securities collateral €m	Recognizable collateral Other collateral €m	Positive replacement costs after netting and collateral €m
Derivative counterparty risk exposures	15,673	1,617	-	-	-	1,617

Table 22

Capital requirements for derivative counterparty risk exposures are calculated with reference to loan equivalent values. The amount for the IRBA and CRSA portfolios totals € 4,705 million. Postbank uses the current exposure method in all cases.

The following table shows the derivative counterparty risk exposures as defined by section 19, SolvV, before and after netting and before collateralization, broken down by underlying. This risk is of subordinate importance in relation to Postbank's total counterparty risk. Credit derivatives held by Postbank are either recognized as collateral in accordance with the SolvV or treated as off-balance sheet counterparty risk exposures and, therefore, not included in the following table. Holdings of interest rate contracts have decreased since June 30, 2008 whereas currency contracts have increased. As of December 31, 2008 there were no counterparty risk exposures in connection with OTC stock contracts or commodities futures contracts.

Positive replacement costs for derivative counterparty risk exposures

Type of derivative	Current exposure method €m
Interest rate contracts	923
Exchange rate contracts	694
Stock contracts	-
Credit derivatives	-
Commodities contracts	-
Other contracts	-
Total	1,617

Table 23

All of Postbank's credit derivatives are used for its own portfolio. No brokered transactions were outstanding at the reporting date. The following table relates solely to the credit derivatives business. This table now includes both derivatives as well as off-balance sheet exposures. The table breaks down credit derivatives for the Bank's own portfolio into long and short positions. The long positions as of December 31, 2008, totalling € 507 million are all used to hedge loan receivables.

Notional amount of credit derivatives used for the Bank's own portfolio

	Used for own portfolio	
Type of credit derivative	long €m	short €m
Credit default swaps	507	1,501
Total return swaps	-	-
Credit linked notes	-	-
Other credit derivatives	-	-
Total	507	1,501

Table 24

7.2 Disclosures on equities in the banking book

Postbank calculates capital requirements for equity interests allocated to the banking book that are not required to be consolidated or deducted from own funds for regulatory purposes (see chapter 1) pursuant to section 78, SolvV:

- on the basis of the probability of default for all internally-rated equity interests of the underlying transactions in investment fund shares of Deutsche Postbank Privat Investment Kapitalanlage-gesellschaft mbH, Bonn, and PB Spezial-Investmentaktien-gesellschaft mit Teilgesellschaftsvermögen, Frankfurt/Main,
- on the basis of the exception provided by section 338(4), SolvV (grandfathering) for all strategic equity interests held before January 1, 2008, which are temporarily excluded from the IRBA,
- on the basis of simple risk weighting pursuant to section 98, SolvV, for all other equity interests (IRBA).

The value of strategic equity interests in other companies, in the amount of € 1,400 million, which are not consolidated for regulatory purposes, are temporarily excluded from the IRBA in accordance with section 338 (4), SolvV ("grand-fathering") and are somewhat less than the amount on June 30, 2008 (adjusted value as of June 30, 2008: € 1,443 million).

The following table shows IRBA equity interests managed for probability of default (€ 17 million) and measured according to the simple risk weight method (€ 106 million). The greatest portion of this category relates to investment vehicles in the form of investment fund units that are held for investment purposes. € 22 million relates to strategic investments which have been otherwise excluded from the IRBA. The exposures have decreased from the € 1,233 million reported on June 30, 2008 to € 123 million as a result of the steps taken to reduce holdings of capital market instruments and related risks.

Exposure values for IRBA equity interests

	€m
Unlisted equity interests, sufficiently diversified	18
Listed equity interests	36
Other equity interests	69
Total	123

Table 25

The table "Carrying amounts for equity interests, broken down by type and marketability" shows equity interests together with their carrying amounts and fair values. The carrying amount of equity interests on the date of acquisition is the purchase consideration. They are subsequently remeasured at fair value which is determined with reference to income earning capacity, the plausibility of which is verified by referring to stock market prices. Fair value is normally the publicly quoted market price whereas equity interests that are not quoted on an active market are measured at amortized cost. The fair value of equity interests listed on a stock exchange corresponds to the stock exchange value.

Carrying amounts for equity interests, broken down by type and marketability		
Type of equity interest	Carrying amount €m	Fair Value €m
Equity interests in banks and other financial institutions	16	16
of which: listed	13	13
of which: not listed but belonging to the diversified portfolio of equity interests	-	-
of which: other equity interests	3	3
Equity interests in companies and other equity interests	107	97
of which: listed	23	13
of which: not listed but belonging to the diversified portfolio of equity interests	18	18
of which: other equity interests	66	66
Total	123	113

Table 26

The above-mentioned reduction in holdings of capital market instruments is also clearly evidenced by the decrease in the amount of investment shares held by Postbank resulting in a € 1.1 billion reduction in exposure to equity investments. The investment fund shares held by Postbank can be broken down by their treatment for regulatory purposes as shown in the table:

Breakdown of investment fund units by regulatory treatment	
Regulatory treatment	Carrying amount €m
Investment fund units accounted for using the look-through approach (section 83(1) of the SolvV)	7,534
of which: rated bonds (IRBA exposures – disclosed in sections 6.1.1 and 6.1.3)	4,996
of which: equity interest exposures according to the simple weight method (IRBA - disclosed in section 7.2)	43
of which: equity interest exposures managed according to probability of default (IRBA – disclosure in section 7.2)	16
of which: securitization exposures (IRBA exposures – disclosed in section 7.3)	159
of which: unrated bonds (CRSA exposures – disclosed in section 6.1.1 and 6.1.3)	2,321
Investment fund units with risk weight delivery by third parties (section 83(5) of the SolvV)	1,727
Total	9,261

Table 27

The following table shows the gains realized in the current fiscal year for total equity interests as defined in this section in addition to unrealized gains and losses.

Gains and losses on equity interests	
	€m
Realized gains/losses on disposal and settlement in the reporting period	– 603
Unrealized remeasurement gains/losses	0
of which: contained in Tier 1 capital	0
of which: contained in Tier 2 capital	-

Table 28

As a result of the crisis in the financial markets and the reduction of the portfolio of equity interests, Table 28 shows a high level of realized losses on equity interests of € 603 million. For the same reason the balance on the revaluation reserve of –€ 224 million has been reduced to € 0.3 million as of June 30, 2008.

7.3 Disclosures on securitizations

The securitization of financial assets makes it possible to transfer the underlying credit risk to third parties. Entire exposure pools consisting of two or more subclasses of risk (tranches) entailing varying degrees of risk are normally transferred. Postbank acts as an investor or originator on the financial markets but not as a sponsor.

This section on securitizations is oriented to the recommendations on transparency of the Financial Stability Forum for external reporting. Details are contained in the Group Management Report (page 91 of the Annual Report) and Note 4h to the consolidated financial statements (p.119 et seq. of the Annual Report).

The advanced IRB approach or CRSA is applied to the underlying transactions of securitization positions as required by sections 226 and 227, SolvV. Capital requirements for securitizations in accordance with section 79, SolvV, are generally calculated on the basis of the ratings-based approach pursuant to section 257, SolvV. Exposures for which this results in a risk weight of 1250 % are deducted from capital in accordance with the option granted by section 266, SolvV. In contrast, capital requirements for exposures for which there are no external ratings and for which the conditions pursuant to section 258, SolvV, have been fulfilled, are calculated on the basis of the regulatory formula approach.

7.3.1 Investor positions

Postbank predominantly acts as an investor in securitizations within the scope of credit substitution business, the objective of which is income generation and portfolio diversification. In this context, Postbank has invested in instruments such as structured credit products (SCPs). These relate specifically to asset-backed securities (ABSs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), residential mortgage-backed securities (RMBSs) and commercial mortgage-backed securities (CMBSs). Depending on the purpose and structure of the investments, the investor positions in the banking book are allocated to the IFRS "Loans & Receivables" and "Available for Sale" categories and are measured accordingly. (For details on IFRS accounting and SCP measurement, see Note (4) (h) to the 2008 consolidated financial statements).

As a rule, securitization exposures are rated by at least one recognized rating agency (Standard & Poor's, Moody's or Fitch Ratings) (also see the comments at the end of section 5.2.1 regarding the use of external ratings). Securitization exposures normally have a rating of BBB- or higher at the purchase date. There is no internal rating model for these exposures.

The following table separately shows investor position product types and rating class volumes (EAD) that are included in the total amount from Table 32 of € 5,831 million consisting of IRBA positions (€ 5,527 million) and CRSA positions (€ 304 million). The € 6.3 billion difference between the volumes of structured credit products shown here and those shown in the Annual Report (see page 91 of the Annual Report) is primarily due to the definition of nominal volumes (as required under the German Commercial Code) versus regulatory position values.

Investor positions by rating class						
Securitization positions	Volumes by rating class					Total
	AAA	AA	A	BBB	<=BB	
	Dec. 31, 2008 €m	Dec. 31, 2008 €m	Dec. 31, 2008 €m	Dec. 31, 2008 €m	Dec. 31, 2008 €m	Dec. 31, 2008 €m
CMBSs	153	54	42	16	-	265
RMBSs	456	71	70	3	58	658
Corporate CDOs	526	288	189	578	766	2.347
Non-corporate CDOs	173	184	189	252	1,059	1,857
Other ABSs	405	118	6	101	74	704
Total amount as of December 31, 2008	1,713	715	496	950	1,957	5,831
Reference values as of June 30, 2008	*1,782*	*1,335*	*714*	*670*	*484*	*4,985*

Table 29

The table shows that the greatest part of investor positions consists of collateralized debt obligations (72.1 %). 66.4 % of this amount are investor positions with investment grade ratings (BBB or higher). The total volume of structured financings to be disclosed for regulatory purposes have increased by € 873 million since June 30, 2008 due to currency effects for foreign currency positions and primarily through the purchases in connection with position management (reduction of CDO positions which was offset by purchases of ABS/ RMBS issues).

As of December 31, 2008 no regulatory individual exposures in the investor portfolio had been hedged. Postbank, however, holds investor positions that are structured in such a manner that the issuer hedges credit insurance cash flows (monoliners with a nominal value of €41 million). The creditworthiness of such exposures is determined by ratings provided by external credit rating agencies. Capital charges are not made as part of credit risk mitigation techniques. The acceptance and administration of any collateral would, however, be based on the strict standards of the Solvability Regulation and entail the use of electronic processes in accordance with the procedures for credit risk mitigation techniques described in section 6.2. The carrying amounts of each type of collateral on hand are regularly reviewed.

7.3.2 Originator positions

When acting as an originator, Postbank discloses information required by section 26a, KWG, and the Good Practice Recommendations of the Bundesverband deutscher Banken e. V. (Association of German Banks) having regard to the disclosure requirements for securitizations pursuant to the Capital Requirements Directive (CRD). The recommendations were implemented primarily with a view to improving transparency and the comparability of securitization exposures. Comparatives from the last report as of June 30, 2008 are shown in the text and tables below.

On December 31, 2008 Postbank was the originator of the PB Domicile 2006-1, Provide Blue 2005-1, Provide Blue 2005-2, and PB Domicilio 2007-1 transactions. These were all synthetic securitizations of residential real estate assets located in Germany and Italy. The transactions both reduce regulatory capital requirements on the one hand and assist in risk diversification on the other. They were recognized on the reporting date at their repayment amounts. The underlying assets are carried in the assigned IFRS categories. The IRB approach was used for PB Domicile 2006-1, Provide Blue 2005-1 and Provide Blue 2005-2, based on the underlying assets, whereas the CRSA is used for PB Domicilio 2007-1 (financing of residential properties originated by the BHW branch in Italy). As of the reporting date, there were no securitization exposures related to revolving counterparty risk exposures in Postbank's portfolio.

The following table shows a summary of Postbank's individual securitizations thus providing transparency with respect to risk concentrations and the steps taken to mitigate risk.

Total securitized assets						
Transactions	Approach	Country	Total amount of securitized assets €m	Swaps €m	Financial collateral €m	Own risk retained €m
PB-Domicile 2006-1 (Postbank AG)	IRBA	Germany	2,170	0	174	1,996
PB-Domicilio 2007-1 (BHW)	CRSA	Italy	1,197	1,120	67	10
Provide Blue 2005-1 (BHW)	IRBA	Germany	1,024	1,011	0	13
Provide Blue 2005-2 (BHW)	IRBA	Germany	2,509	2,490	0	19
Total amount as of December 31, 2008	-	-	6,899	4,620	240	2,038
Reference value as of June 30, 2008	-	-	*7,337*	*4,964*	*66*	*2,307*

Table 30

As can be seen in the table, total securitized assets as of the reporting date amounted to € 6,889 million (June 30, 2008: € 7,337 million). Securitization transactions are collateralized against defaults in the reference portfolios by swaps totalling € 4,620 million and financial guarantees of € 240 million. There are two swaps eligible for regulatory purposes relating to PB Domicilio 2007-1, i.e. credit default swaps guaranteed by Merrill Lynch whereas there is a credit default swap guaranteed by KfW for each of the Provide Blue securitizations. The financial collateral pertains to the IRBA transaction PB Domicile 2006-1 and the CRSA transaction PB Domicilio 2007-1. Thus, Postbank reserves €2,038 million of its own risk requiring equity backing in supplement to the counterparty risk of the guarantors (see table 31).

The Deutsche Postbank AG PB Domicile 2006-1 transaction has a credit default swap of € 1,987 million with Dresdner Bank acting as a guarantor. Due to the high credit rating of its individual tranches, the securitization was not included in the risk mitigation regulatory calculations for capital requirements. The own risk retained under PB-Domicile 2006-1 primarily falls into the "<10 %" risk weight band (see Table 33).

The CRSA transaction PB Domicilio 2007-1 is rated by Standard & Poor's, whereas the Provide-Blue 2005-1 and 2005-2 are rated by both Standard & Poor's and Fitch Ratings. PB Domicile 2006-1 is rated by Standard & Poor's, Moody's and Fitch Ratings due to the fact that it is included in the published ratings for German RMBSs.

As of 31 December 2008, Deutsche Postbank AG, Bonn, Deutsche Postbank International S. A., Munsbach, Luxembourg, and BHW Bausparkasse AG, Hamelin, only had limited holdings of purchased separate tranches of the originated securitizations shown in Table 30. Notwithstanding this investment, regulatory risk is, nevertheless, reduced.

The transactions underlying the originated securitizations are subject to the requirements of IAS 39 for loans and receivables as well as those for fair value options. Loans and receivables are recognized at amortized cost whereas fair value options are recognized at fair value through profit or loss. The swaps shown in Table 29 are deemed by IAS 39 to be financial guarantees received. Pursuant to IAS 39.9 financial guarantees received are not required to be recognized even though they are to be included in the impairment test for loans and receivables.

In the current fiscal year, Postbank structured and originated PB Consumer 2008-1 as a traditional securitization with an initial total volume of € 1,160 million that had been reduced on December 31, 2008 to a total of € 670 million. No significant risk related to this transaction pursuant to section 232(2), SolvV, has yet been transferred. The transaction is, therefore, not shown in the following tables. The individual assets are shown as separate risks as of the reporting date and relate exclusively to consumer credits disbursed to private individuals resident in Germany.

Due to its structure, another securitization, Provide-Blue 2002-1, of BHW Bausparkasse AG, Hamelin, was not treated for regulatory purposes as a securitization. Each of the underlying positions relate exclusively to residential property in Germany and are treated as separate risks for the purposes of calculating capital requirements.

The following table shows the non-performing and past due securitized loans and advances with respect to the above originated securitizations. The Protected Amount (BHW securitizations) and the outstandings (PB Domicile 2006-1) of € 266 million are far in excess of the overdue payments in connection with those exposures. The arrears for past due loans is generally less than one month. The amount of non-performing securitized assets or past due securitized assets has decreased significantly since June 30, 2008. The table shows realized 2008 losses in addition to the originated exposures.

Non-performing securitized assets, securitized assets past due and losses realized in 2008		
Type of securitized assets	Non-performing/ past due assets €m	Realized losses €m
Residential real estate	266	3
Commercial real estate	-	-
Other assets	-	-
Total amount as of December 31, 2008	266	3
Reference value as of June 30, 2008	*356*	*1*

Table 31

7.3.3 Retained or purchased securitization exposures

The following table shows the exposure value of Postbank's retained or purchased securitization exposures in its function as investor and originator, broken down in each case by the type of underlying asset.

Total amount of retained or purchased securitization exposures				
Exposure values	Investor function		Originator function	
	IRBA €m	CRSA €m	IRBA €m	CRSA €m
Recognized exposures	5,527	304	2,028	10
Assets	-	-	-	-
Credit enhancements	-	-	-	-
Participation in ABS transactions	5,527	304	2,028	10
Other recognized exposures	-	-	-	-
Unrecognized exposures	-	-	-	-
Other unrecognized exposures	-	-	-	-
Total	5,527	304	2,028	10
Reference value as of June 30, 2008	*4,685*	*287*	*2,300*	*7*

Table 32

Table 33 shows the total amount of securitized assets and the capital requirements by risk weighting band. Compared to June 30, 2008 there has been a significant shift to risk bands with higher risk weightings in addition to an increase in capital deductions as a result of the downgrade of external ratings. The calculations for capital adequacy contain negative fair values of embedded derivatives of € 794 million and a revaluation reserve of € 196 million.

Capital requirements for retained or purchased securitization exposures by risk weight band			
Risk weight band	Exposure €m	Capital requirements IRBA €m	Capital requirements CRSA €m
< 10 %	2,912	14	5
≥ 10 % and < 20 %	1,491	5	-
≥ 20 % and < 50 %	518	3	0
≥ 50 % and ≤ 100 %	946	9	0
> 100 % and ≤ 650 %	334	35	-
1250 % or capital deduction	1,668	637	8
Total amount as of December 31, 2008	7,870	703	13
Reference value as of June 30, 2008	*7,279*	*413*	*20*

Table 33

An investor securitization exposure value in the amount of € 67 million is calculated in addition to the exposure values presented in Tables 32 and 33 according to the banking supervisory formula. After adjusting for an embedded derivative the capital requirement for these exposures is € 0.3 million (risk weighting: 1095 %).

8 Management of market risk, including interest rate risk, in the banking book

8.1 Strategies, processes, structure and organization

Market risk is an integral component of the Group's overall risk profile. It is incurred in consequence of business decisions. As a result, the extent of market risk after risk capital allocation reduces all risks incurred to a level that is acceptable for Postbank while still permitting a desirable level of earnings. Unwanted market risk is hedged or reduced where this makes good economic sense and to the extent feasible given the tight market conditions resulting from the crisis in the financial markets.

Market risk strategy, as a component of the overall Group-wide risk strategy, encompasses the risk profile that Postbank is willing to accept in assuming market risk, the manner in which market risk is measured and managed, and the measures taken to avoid undesirable risks. The strategy also addresses the fields of activity and portfolios subject to market risk as well as on the organization of and processes used for risk management and risk reporting to the relevant management bodies at Postbank.

Market risk as defined in the market risk strategy comprises interest rate risk, equity price risk, foreign exchange risk, spread risk, commodity risk, as well as volatility risk. These are incurred directly in the Financial Markets division or in connection with Postbank's business activities in the strategically important divisions of Corporate Banking and Retail Banking and then transferred to either the centralized Financial Markets division or local risk management units where they are managed.

The Management Board has delegated market risk management to the Market Risk Committee (MRC), which is monitored by the Supervisory Board. Operationally, market risk management is, as a rule, provided on a centralized basis in Deutsche Postbank AG's Financial Markets division. BHW Bausparkasse AG and its subsidiaries, the foreign subsidiaries in New York and Luxembourg, and the London branch manage their risks independently with reference to separately defined risk limits.

The Risk Controlling department acts as a Group-wide, independent monitoring unit. Apart from being responsible for the methods and models applied in risk identification, measurement, and management, Risk Controlling is also operationally responsible for limit monitoring and reporting.

Additional information on managing market risk is contained in the 2008 Postbank Group Annual Report (p. 79 et seq.).

Management and measurement of market risk
The key task of market risk management is asset/liability management of the remaining market price-sensitive exposures transferred from the business divisions. In addition to asset/liability management in the banking book, risk is also incurred through trading, as

reported in the trading book. Market risk is actively assumed to generate profits within limits derived from risk-bearing capacity aspects.

All market risk is measured on a value at risk basis. Risks from potential changes in spreads have been fully integrated into risk measurement. Risk measurement and monitoring is performed for the Bank as a whole on an end-of-day basis in addition to intraday monitoring of trading portfolios.

Postbank makes use of a combination of risk, earnings, and other parameters to manage its market risk. Changes in the value of assets due to changes in market prices are determined daily by marking to market regardless of the effect of such changes on financial statements. As a result of the increasing inactivity of certain market segments, the extent to which the market data that is still available is adequate for marking to market purposes is regularly checked. Prices derived from valuation models are, consequently, used for specific portfolios.

Postbank uses a system of risk limits derived from risk-bearing capacity to manage market risk. The total risk capital made available by the Management Board for market risk is allocated by the Market Risk Committee to the banking book and trading book portfolios. Operational limits are allocated to the banking book for periods of ten days. In contrast, operational management of the trading book assumes a holding period of one day. The respective limits are the absolute maximum up to which risk positions may be assumed. These are dynamic outcome-based limits; any losses incurred reduce the limit, while gains replenish it, at a maximum, to the originally defined level. The reductions in fair values in consequence of the crisis in the financial markets together with the significantly increased VaR values have led to multiple limit excesses in certain portfolios. Such limit excesses were promptly escalated and remedied, following analysis of options for action, in accordance with Management Board decisions.

In view of the significance of market risk for the Postbank Group and the volatility of market fluctuations, Postbank has defined escalation mechanisms facilitating a timely response to be applied in the event of extreme market fluctuations that are of relevance to the Postbank Group.

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

Stress testing
Stress tests comprising both sensitivity analyses and macro stress tests are performed to analyze potential losses. These analyses quantify the effects of unusual events and extreme market conditions on the Postbank Group's asset positions. The effects of the scenarios are compared with limits allocated for each risk. The Group Management Board, the members of the Market Risk Committee, and the Supervisory Board are kept regularly informed of the results of the scenario analyses. The scenario analyses performed during the year under review indicated that the Postbank Group's risk-bearing capacity would have been ensured at all times, even in extreme market situations.

8.2 Reporting

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

- The daily report informs the Group Management Board and the position managers on a daily basis, before trading begins, of the positions assumed, the utilization of limits, and the economic profit/loss of the positions.
- The weekly report is addressed to position managers and summarizes the significant changes in the markets and positions. The daily and weekly reports are regularly agreed with position managers and provide the basis for operational management.
- The monthly report provides a comprehensive overview of the change in market risk during the reporting period and is addressed to the Group Management Board. Apart from current events and risk indicators, this report also contains the results of stress testing and backtesting analyses performed on a regular basis. Information is also provided by portfolio and currency on the interest rate risk in the banking book for defined levels of interest rate shock, along with additional interest rate scenarios.
- The monthly MRC report provides the Market Risk Committee with aggregated risk indicators (VaR, interest rate sensitivities, stress test results) as well as present value and/or periodic results by management unit and the impact on profit and loss.
- The quarterly risk report to the Supervisory Board summarizes the key risk indicators and presents the results of the sensitivity and stress test analyses.

8.3 Fundamentals of risk hedging and mitigation

As explained in section 8.1, the Postbank Group has sophisticated processes and methods for managing market risk and monitoring compliance with defined limits. In addition, the stress and back-testing processes described facilitate risk management in terms of reviewing the risk measurement methodology used.

In addition to these processes for limiting market risk, market risk is also mitigated through the use of fair value hedges where active risk assumption is not desired. Both individual transactions and homogeneous subportfolios are hedged. In the case of interest-bearing exposures to securities and long-term loans, interest rate swaps are predominantly used as hedging instruments, while cross-currency swaps and structured swaps are also used for bond issues. Equity portfolios are primarily managed using option-style derivatives. All fair value hedges are tested prospectively for effectiveness through sensitivity analysis of underlyings and hedging transactions, supplemented by testing subportfolios for homogeneity. The actual changes in the fair values of hedged items and hedges are compared regularly and retrospectively for all hedges and are supplemented in certain cases by simulations.

8.4 Specific disclosures on interest rate risk in the banking book

Pursuant to section 24(1) No. 14 of the KWG, financial institutions are required to notify the supervisory authorities of sudden, unexpected changes in interest rates that cause the net present value of the banking book to decline by more than 20 % of regulatory capital ("Outlier Banks"). The regulatory interest rate change to be applied amounts to +130 basis points or -190 basis points, respectively:

Interest rate risk in the banking book		
	Interest rate shock (+130 BP/–190 BP)	
Currency	Change in value +130 BP €m	Change in value –190 BP €m
EUR	142	–378
USD	–133	266
JPY	–43	89
GBP	0	1
CHF	0	0
Other	0	0

Table 34

At the Postbank Group, the change in value determined on a daily basis remained in all cases below the reporting threshold of 20 %.

In accordance with the regulatory parameters, internal management methods and models entail calculating the change in net present value in the banking book, all interest-bearing balance sheet items and interest-sensitive off-balance sheet items.

Assumptions are made in order to quantify the interest rate risk for customer transactions involving significant implied options. Particularly important for the Postbank Group in this connection is Deutsche Postbank AG's variable-interest deposit-taking business, for which the moving averages model is used, the exposures in BHW Bausparkasse AG's home savings collective, as well as the customer loans business. Special modeling rules and deposit base definitions form the basis for a modern risk management concept. Loan prepayments on termination (to the extent that these are material) are taken into account using option models when calculating changes in present value. In the case of deposits without agreed maturities, investor behavior is modeled using the internal models and procedures for managing and monitoring interest rate risk.

Interest rate risk is incurred in all of the forms described in the "Principles for the Management and Supervision of Interest Rate Risk" under Basel II, which are refinancing, structural, basis and option risks. Refinancing and structural risks are incurred through cash flow mismatches that react to changes in interest rates and the yield curve. Basis risk is incurred across market segments, e. g., *Pfandbriefe* (mortgage bonds) versus the swap market, as well as directly between individual counterparties. Option risks also exist, both in customer business and in financial instruments.

The results of the regular reviews of interest rate risk are taken into account in fixing limits. The market risk determined using VaR for the banking book at the 99 % confidence level for a ten day holding period amounted to € 532.0 million as of December 31, 2008.

9 Management of liquidity risk

9.1 Strategies, processes, structure and organization

The Postbank Group distinguishes between two types of risk in liquidity risk management: illiquidity risk and liquidity maturity transformation risk. Illiquidity risk is defined as the risk of being unable to meet its current or future payment obligations, either in the full amount due, or as they fall due. Liquidity maturity transformation risk describes the risk of increased refinancing expenses due to a change in Postbank's own refinancing curve (spread risk) resulting from an imbalance in the liquidity maturity structure within a given period.

The Deutsche Postbank Group considers liquidity risk an integral element of risk strategy for the Bank as a whole. Liquidity risk strategy lays down a binding framework for liquidity risk management and monitoring. The Group Management Board ensures that the rules formulated are implemented and applied throughout the Group. Liquidity risk strategy is implemented on the one hand through regularly reviewing liquidity and taking action to ensure liquidity and, on the other, by authorized decision-makers consciously entering into liquidity exposures within the framework of the limits valid at the time.

Unlike other types of risk, illiquidity risk at Postbank is deliberately not underpinned with risk capital since the risk cover amount is not suitable for covering the risk of illiquidity. In the event of a shortfall in liquidity, obtaining additional liquidity (liquidity reserve in the form of readily marketable securities) is the only effective course of action open to a bank. The liquidity maturity transformation risk is currently limited through risk capital earmarked to cover business risk. It is planned to introduce separate specific liquidity maturity transformation risk limits.

Additional information on managing liquidity risk is contained in the 2008 Postbank Group Annual Report (p. 93 et seq.).

Management and measurement of liquidity risk

The Management Board is responsible for centralized risk management at the Postbank Group. The Management Board has delegated liquidity risk management to the Market Risk Committee (MRC), which is monitored by the Supervisory Board. The Postbank Group has established clear rules with regard to responsibility for liquidity risk management. As a matter of principle, operational liquidity risk management is performed centrally by the Financial Markets division of Deutsche Postbank AG. Within defined risk limits, BHW Bausparkasse AG, the foreign subsidiaries in New York and Luxembourg, and the London branch manage their risks independently using uniform procedures and processes applied throughout the Group. The Liquidity Management unit in the Financial Markets division is responsible for the centralized management of liquidity risk with a focus on ensuring liquidity maturity transformation and continuous solvency in the Group. As a result of the escalating crisis in the financial markets and the consequent challenge for quick and flexible liquidity risk management, coordination within the Group has once again been intensified.

The Risk Controlling department acts as a Group-wide, independent monitoring unit. Apart from being responsible for the methods and models applied in risk identification, measurement, and management, Risk Controlling is also operationally responsible for limit monitoring and reporting.

The Postbank Group has laid down the basis for dealing with liquidity risk, among other things, in its Group-wide risk strategy.

The goal of liquidity management is to ensure that Postbank is solvent at all times – not only under normal conditions, but also in situations of stress. To this end, liquidity exposures are subject to regular stress testing. Severe market developments have meant that the scenarios examined in this context had to be supplemented with additional worst-case scenarios in 2008 in order to take better account of the potential accumulation of adverse liquidity effects. These simulated calculations reflect external changes in a variety of market factors, panic reactions of customers, and structural changes in the funding portfolios. An appropriate portion of marketable securities eligible as collateral with central banks serves as a liquidity reserve in the event of such scenarios occurring.

The project that was started in late 2007 to further develop liquidity risk management based on the Bank of International Settlements' "Sound Practices for Managing Liquidity in Banking Organizations" is proceeding according to plan and will be completed by the end of 2009.

Risk Controlling assesses the liquidity status of the Postbank Group each business day on the basis of funding matrices and cash flow forecasts, and risk management is performed on the basis of the liquidity status. Risk management is focused above all on optimizing liquidity costs and increased diversification of the funding sources. To offset unexpected cash outflows, a portfolio of highly fungible securities with first-class credit ratings is held, which can be sold at short notice or pledged with central banks in order to obtain short-term liquidity.

Deutsche Postbank AG meets the regulatory liquidity requirements pursuant to section 11, KWG, in conjunction with the *Liquiditätsverordnung* (LiqV – German Liquidity Regulation), which entered into force on January 1, 2007. Deutsche Postbank AG calculates its liquidity figures on the basis of the regulatory standardized method pursuant to sections 2 to 8, LiqV.

9.2 Reporting

The Postbank Group issues several regular reports for liquidity risk. The tense market situation in 2008, however, has led us to enhance these instruments and, in some cases, supplement them with ad hoc analyses for individual key items:

- The Group Management Board, members of the Market Risk Committee and units relevant for liquidity management are informed daily on the liquidity status including limit utilization at Group and unit levels.
- The Market Risk Committee receives a monthly report from the Liquidity Management unit on the market situation, liquidity status and refinancing activities.
- In addition, the Group Management Board receives monthly overviews of the liquidity status, including the scenario analyses and stress tests established at Group level.
- Monthly information on liquidity ratios in accordance with the LiqV is sent to the Management Board information system.

9.3 Fundamentals of risk hedging and mitigation

Maintaining liquidity at all times is a central precondition for banking operations and thus represents the ultimate requirement for liquidity risk management; therefore, it is a strict ancillary condition in the Deutsche Postbank Group's target system.

Due to its strategic focus as a retail bank, Postbank enjoys a strong refinancing base in its customer business and is, therefore, relatively independent of the money and capital markets. Liquidity risk is only incurred within the framework of approved limits. To guard against unexpected cash outflows, an extensive portfolio consisting of unencumbered ECB-eligible securities is held that can be used to rapidly obtain liquidity. The size of this portfolio was again increased significantly in view of the considerable uncertainty among retail customers in particular and the extremely tight situation on the money market due to the financial market crisis. To ensure the additional diversification of its refinancing activities, Postbank has a *Pfandbrief* license allowing it to issue public-sector and standard mortgage bonds (*Öffentliche Pfandbriefe* and *Hypothekenpfandbriefe*). Under this license, two *Jumbo Pfandbriefe* were issued in the year under review.

Treasury units are responsible for ensuring liquidity at all times. In the event of a liquidity shock, the Liquidity Crisis Committee has clear responsibility and authority over all Postbank units responsible for portfolios, as well as over all portfolio units at the subsidiaries and foreign branches.

10 Management of operational risk

10.1 Strategies, processes, structure and organization

Postbank defines operational risk in accordance with section 269, SolvV, as the risk of loss resulting from inadequate or failed internal processes and systems, people, or external events. The definition also includes legal risk. Operational risk can occur in all processes within ongoing business operations.

Strategic parameters for managing operational risk are part of the overall strategy. The objective is to use suitable measures to limit operational risk to a minimum. The part of the strategy for operational risk comprises Group-wide fundamental principles, e. g., active security such as process transparency, unambiguous rules regarding authorizations and powers, and appropriate security guidelines, in addition to passive security in the form of adequate financial cover.

Group-wide standards have been supplemented in all divisions by additional standards. Additional principles going beyond Postbank's standard emergency planning were established for processes relating to payment transactions, business continuity management and disaster backups.

Postbank's Management Board has overall responsibility for managing, monitoring and controlling operational risk. The Operational Risk Committee (ORC) appointed by the Management Board is responsible for the determination of principles that are applicable throughout the Group. To assure uniformity of procedures throughout the Group, all activities are coordinated by Deutsche Postbank AG's central Risk Controlling unit. This unit is also responsible for regularly reviewing the appropriateness of the methods and procedures used to control operational risk. Postbank's legal department is primarily responsible for the identification and management of legal risk.

For each division or subsidiary, a two-tiered organizational structure with decentralized OpRisk managers has been established to supplement the central risk control process and support the respective managers in risk prevention.

Operational risk is integrated into the Postbank Group's concept of risk-bearing capacity. The weighting computed for operational risk is incorporated into the risk limitation process by deducting it from the available risk cover amount. At present, risk capital is not suballocated to individual profit centers.

Additional information on managing operational risk can be found in the Postbank Group's 2008 Annual Report (p. 95 et seq.).

Operational risk management

Operational risk management has been decentralized to the respective Group units. When analyzing operational risk, Postbank focuses primarily on risk indicators, performing structured self-assessments, and collecting information on losses that have been incurred.

Postbank uses the standardized approach to calculate the weightings required for operational risk. An internal audit confirmed that the requirements under SolvV qualifying the Bank to apply the standard approach and, particularly the manner in which gross amounts are allocated to the individual business divisions, were met; the Bundesanstalt für Finanzdienstleistungsaufsicht and Deutsche Bundesbank were notified of this.

The Group Management Board approved the introduction the Advanced Measurement Approach ("AMA") in 2008. Implementation commenced in the second half of 2008. Additional preparations will be made in 2009. The objective is to apply for BaFin and the Deutsche Bundesbank approval at the beginning of 2010 and, once approval has been granted, to also use the internal model for the calculation of external capital requirements as well. External data are sourced from the DakOR data consortium. Postbank, moreover, joined the ORX international data consortium in 2008. The first exchange of loss data will occur at the beginning of 2009.

10.2 Reporting

The Postbank Group reports regularly on operational risk and loss at management level.

- The members of the Operational Risk Committee receive monthly information on loss events and selected indicators that have exceeded the defined tolerance thereshold.

- The Group Management Board receives an up-to-date summary of recorded events of loss from the Risk Controlling Market/ Operational Risk department on a monthly basis, as a part of the Risk Report.

- In addition, the Operational Risk Committee is informed twice a year of the results of self-assessments.

- At a local level, individual managers at various levels receive reports tailored to their specific information needs.

Where there are material losses in excess of a predefined amount, the members of the Operational Risk Committee are immediately informed through the ad hoc reporting process.

10.3 Fundamentals of risk hedging and mitigation

Postbank has created the basis for a reduction of operational risk through the development of a well-structured organization, clear rules defining authorities and powers, and working guidelines for sub-processes. Employees receive regular training and are promptly informed about new developments relating to processes and working guidelines.

All transactions involving material risk may only be entered into in accordance with the principle of dual control. The functionality and security of the IT systems are continually monitored.

Insurance policies taken out for losses arising from operational risk are reviewed at regular intervals by a separate organizational unit.

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List of abbreviations

Abbreviation	Full Form
ABSs	Asset-Backed Securities
AG	Aktiengesellschaft (German Public Corporation)
AMA	Advanced Measurement Approach
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)
BIS	Bank for International Settlements
CCF	Credit Conversion Factor
CDO	Collateralized Debt Obligation
CLO	Collateralized Loan Obligation
CMBSs	Commercial Mortgage-Backed Securities
CRC	Credit Risk Committee
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRSA	Credit Risk Standardized Approach
CVaR	Credit Value at Risk
DakOR	Datenaustauschkonsortium Operationelle Risiken (Operational Risk Data Exchange Association)
EAD	Exposure at Default
EC	European Community
ECB	European Central Bank
EDP	Electronic Data Processing
EIU	Economic Intelligence Unit
EL	Expected Loss
EU	European Union
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IFRSs	International Financial Reporting Standards
incl.	including
IRBA	Internal Rating Based Approach

Abbreviation	Full Form
KonÜV	Konzernabschlussüberleitungsverordnung (Regulation Governing the Procedure for Calculating the Own Funds of Groups of Institutions and Financial Holding Groups when using consolidated or Interim Financial Statements at Group Level)
KWG	Kreditwesengesetz (German Banking Act)
LGD	Loss Given Default
LIP	Loss Incurrence Period
MaRisk	Minimum Requirements for Risk Management in Banks
MIS	Management Information System
MRC	Market Risk Committee
OpRisk	Operational risk
ORC	Operational Risk Committee
ORX	Operational Risk Data Exchange Association
OTC	Over the counter
PB	Postbank
PD	Probability of Default
RMBSs	Residential Mortgage-Backed Securities
RoE	Return on Equity
RWA	Risk weighted assets
SCP	Structured Credit Product
SMEs	Small and Medium-sized Enterprises
SolvV	Solvabilitätsverordnung (Solvency Regulation)
VaR	Value at Risk
ZKA	Zentraler Kreditausschuss Central Credit Committee)

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