Deutsche Postbank

# Pillar III Disclosures in accordance with the German Solvency Regulation (Pillar III Disclosures pursuant to Basel II)

as of December 31, 2009

Postbank

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# 1 Scope

These Pillar III Disclosures fulfill, as of December 31, 2009, the disclosure requirements under sections 319 to 337 of the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) in conjunction with section 26a of the *Kreditwesengesetz* (KWG – German Banking Act) with which Deutsche Postbank AG ("Postbank") is required to comply. In them, Postbank, as the parent institution of the Postbank Group for regulatory purposes in accordance with section 10a(1) sentence 1 of the KWG, provides quantitative and qualitative information regarding its capital structure and capital adequacy, its risk exposure, and its risk management procedures including the models and credit risk mitigation techniques used and its securitization transactions. Section 7.3 of these Pillar III Disclosures (Securitization positions) complies with the revised Good Practice Recommendations of the Bundesverband deutscher Banken e. V. (Association of German Banks) published in January 2010 with regard to the disclosure requirements for securitization transactions pursuant to the Capital Requirements Directive (CRD).

The SolvV is the transposition into national law of the European capital adequacy standards set out in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC), and of the corresponding requirements of the Basel Capital Accord ("Basel II"). Postbank publishes its Pillar III Disclosures every six months. The present report is the fifth Disclosures report pursuant to the SolvV. The previous half-yearly report was published on the Internet on August 31, 2009.

These Pillar III Disclosures contain all disclosures of material information as defined in section 26a (2) sentence 1 no. 1 of the KWG relating to Deutsche Postbank AG and its subsidiaries. They therefore contain all quantitative information required in accordance with sections 319 to 337 of the SolvV. Where Postbank has no exposure to items for which information is required to be disclosed, a note to this effect is made in the narrative text of these Pillar III Disclosures and the item is not presented in the tables. The definition of materiality for specific individual items is given in the relevant sections.

All of the information in these Pillar III Disclosures relates to the regulatory basis of consolidation, which largely corresponds to the basis of consolidation for accounting purposes used for the IFRS consolidated financial statements.

For Deutsche Postbank AG and its subsidiaries BHW Bausparkasse AG, Hamelin, Deutsche Postbank International S. A., Luxembourg, PB Factoring GmbH, Bonn, PB Capital Corporation, Wilmington, U.S.A., PB Realty Corporation, New York, U.S.A. and the London branch office, capital backing for counterparty credit risk is largely calculated by the Foundation IRB Approach, or the Advanced IRB Approach for the retail business.

As a result of its use of the IRB Approaches, Postbank has exceeded the relevant regulatory threshold since January 1, 2008. The portfolio, capital backing for which is calculated using internal ratings, changed in the 2009 fiscal year in that foreign counterparties from the public sector of the European Economic Area have been calculated using the Credit Risk Standardized Approach (CRSA) since January 1, 2009 and the "insurers" portfolio has been included in the calculations based on the Foundation IRBA Approach since July 1, 2009. Postbank is currently in the process of implementing the changeover to the Advanced IRB Approach for calculating the regulatory capital requirements for counterparty credit risk for the non-retail portfolios using relevant residual maturity bands along with internal estimates of expected loss rates and credit conversion factors.

Postbank uses the Credit Risk Standardized Approach (CRSA) for the other portfolios not calculated in accordance with the IRB Approaches (mainly overdrafts and collection activities in the retail banking business, portfolios belonging to the other subsidiaries of the Postbank Group, business from discontinued operations, and exposures to counterparties from the public sector of the European Economic Area).

In relation to the requirements of section 10 of the KWG, Postbank has elected to exercise the waiver pursuant to section 2a of the KWG for the single-entity institution Deutsche Postbank AG, Bonn, and for BHW Bausparkasse AG, Hamelin. The waiver allows single institutions complying with the organizational and procedural requirements to be exempted at the institutional level from certain capital adequacy and reporting requirements. Postbank fulfils the conditions for exercising the waiver, and notified the Deutsche Bundesbank and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) in accordance with section 2a(2) sentence 1 of the KWG by way of a letter dated March 27, 2007 that Deutsche Postbank AG, Bonn, had fulfilled these conditions (in accordance with section 2a(6) sentence 1 numbers 1 and 2 of the KWG), and by way of a letter dated December 8, 2008 that BHW Bausparkasse AG, Hamelin, had fulfilled the conditions (in accordance with section 2a (1) numbers 1 to 5 of the KWG).

All tables in this report show the figures as of the reporting date December 31, 2009 alongside the reference values as of December 31, 2008. As indicated in Note 6 of the consolidated financial statements of Postbank (2009 Annual Report, p. 112), as part of a random sampling examination that was conducted by the Deutsche Prüfstelle für Rechnungslegung e. V. (the Financial Reporting Enforcement Panel, FREP), the view was taken that the allowance for losses on loans and advances in the amount of €90 million posted during the first nine months of 2009 should have been recognized in the 2008 consolidated financial statements. In order to avoid delaying the preparation of the 2009 consolidated financial statements, the Bank has concurred with this appraisal, especially since the result remains unchanged when viewed across both reporting periods. The issue involves a mere period shift. Retrospective changes to the figures as of the December 31, 2008 reporting date are indicated in the tables in this report either by footnotes and/or in the explanatory notes to the tables.

The following table sets out the differences between the different bases of consolidation, giving the names of all of the companies required to be consolidated and whether they are consolidated on a regulatory or an accounting basis (in accordance with the consolidated financial statements as of December 31, 2009). The classification of the companies by enterprise 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 fully consolidated. None of the companies shown in the table is subject to a regulatory capital deduction. However, half of the direct holding of BHW Bausparkasse AG, Hamelin, in "Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin" is deducted from Tier 1 capital and half from Tier 2 capital, pursuant to section 10(6) sentence 1 no. 1 of the KWG. Proportionate consolidation or inclusion using the equity method was not relevant for Postbank at the reporting date.

Companies included in the Postbank regulatory basis of consolidation, broken down by enterprise type in accordance with Group regulatory reporting

| Enterprise type | Company | Regulatory consolidation | Accounting consolidation |
|---|---|---|---|
| Credit institutions | Deutsche Postbank AG, Bonn | X | X |
| | BHW Bausparkasse AG, Hamelin | X | X |
| | Deutsche Postbank Home Finance, Ltd., Gurgaon, India | X | X |
| | Deutsche Postbank International S.A., Munsbach, Luxembourg | X | X |
| | PB Capital Corporation, Wilmington, Delaware, U.S.A. | X | X |
| | PB (USA) Realty Corporation, New York, New York, U.S.A. | X | X |
| | VÖB-ZVD Bank für Zahlungsverkehrsdienstleistungen GmbH, Bonn | X | X |
| Financial services providers | Deutsche Postbank Financial Services GmbH, Frankfurt am 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, U.S.A. | X | X |
| | Deutsche Postbank Funding LLC II, Wilmington, Delaware, U.S.A. | X | X |
| | Deutsche Postbank Funding LLC III, Wilmington, Delaware,U.S.A. | X | X |
| | Deutsche Postbank Funding LLC IV, Wilmington, Delaware, U.S.A. | X | X |
| | Deutsche Postbank Funding Trust I, Wilmington, Delaware, U.S.A. | X | X |
| | Deutsche Postbank Funding Trust II, Wilmington, Delaware, U.S.A. | X | X |
| | Deutsche Postbank Funding Trust III, Wilmington, Delaware, U.S.A. | X | X |
| | Deutsche Postbank Funding Trust IV, Wilmington, Delaware, U.S.A. | X | X |
| | DSL Holding AG i.A., Bonn | X | X |
| | PB (U.S.A.) Holdings Inc., Wilmington, Delaware, U.S.A. | X | X |
| | Postbank Beteiligungen GmbH, Bonn | X | X |
| | Postbank Direkt GmbH, Bonn | X | X |
| | Postbank Filialvertrieb AG, Bonn | X | X |
| Investment companies | BHW Invest S.A.R.L., Luxembourg | X | |
| | Deutsche Postbank Vermögens-Management S.A., Munsbach, Luxembourg | X | X |
| Ancillary services providers | Betriebs-Center für Banken AG, Frankfurt am Main | X | X |
| | Betriebs-Center für Banken Processing GmbH, Frankfurt am Main | X | X |
| | BHW Gesellschaft für Wohnungswirtschaft mbH & Co. Immobilienverwaltungs KG, Hamelin | X | X |
| | Deutsche Postbank Finance Center Objekt GmbH, Munsbach, Luxembourg | X | X |
| | DSL Portfolio GmbH & Co. KG, Bonn | X | X |
| | PB Finance (Delaware) Incorporation, Wilmington, Delaware, U.S.A. | X | X |
| | PB Firmenkunden AG, Bonn | X | X |
| | PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt am Main (TGV 1 - 24) | 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 |
| Other companies | BHW Immobilien GmbH, Hamelin | | X |
| | DPBI Immobilien KGaA, Munsbach, Luxembourg | | X |
| | DSL Portfolio Verwaltungs GmbH, Bonn | | X |
| | Miami MEI LLC, Dover, Delaware, U.S.A. | | X |
| | PB Hollywood I Hollywood Station LLC, Dover, Delaware, U.S.A. | | X |
| | PB Hollywood II Lofts, LLC, Dover, Delaware, U.S.A. | | X |
| | PBC Carnegie LLC, Wilmington, Delaware, U.S.A. | | X |
| | Postbank Finanzberatung AG, Hamelin | | X |
| | Postbank Versicherungsvermittlung GmbH, Bonn | | X |
| | 2650 Virginia Avenue NW LLC, Dover, Delaware, U.S.A. | | X |
| | 401 Mass Avenue Holdings LLC, Dover, Delaware, U.S.A. | | X |

Table 1

In 2009, the Postbank basis of consolidation changed as follows: the "Betriebs-Center für Banken Processing GmbH, Frankfurt am Main" was included in the consolidated financial statements for the first time as of March, while "Deutsche Postbank Privat Investment Kapitalanlagegesellschaft mbH, Bonn" was sold with effect from July 15, 2009.

As subsidiaries of PB Capital Corporation, Wilmington, Delaware, U.S.A., the companies Miami MEI LLC, Dover, Delaware, U.S.A., PB Hollywood II Lofts LLC, Dover, Delaware, U.S.A. and 2650 Virginia Avenue NW LLC, Dover, Delaware, U.S.A. were incorporated into the basis of consolidation in September, and PB Hollywood I Hollywood Station LLC, Dover, Delaware, U.S.A. and 401 Mass Avenue Holdings LLC, Dover, Delaware, U.S.A. were included in the basis of consolidation for accounting purposes as of November 2009.

As part of the optimization of the Group's call center structures, Postbank Direkt GmbH, Bonn, acquired the call center units belonging to Deutsche Postbank AG and BHW Direktservice GmbH, Hamelin, under an asset deal and was included in the consolidated financial statements for the first time in October 2009.

Three companies are included in the regulatory basis of consolidation that are not in the basis of consolidation for accounting purposes (see 2009 Annual Report, page 103) due to their relative insignificance in financial terms. The companies concerned are BHW Eurofinance B.V., Arnhem, Netherlands, BHW Invest S.A.R.L., Luxembourg, and Postbank P.O.S. Transact GmbH, Eschborn.

Three special purpose entities for securitizing installment loans and residential construction loans to private individuals resident in Germany were consolidated for accounting purposes in accordance with Note 2 to the 2009 Annual Report (page 104). These were the originator securitization transactions "PB Consumer 2008-1", "PB-Consumer 2009-1" and "Provide Domicile 2009-1" described in section 7.3.2, for which no significant transfer of risks has taken place so far pursuant to section 232(2) of the SolvV, and the individual exposures of which are shown as separate risks as of the reporting date.

The companies shown in table 1 under "Other companies" are not included in the regulatory basis of consolidation, as they are not required to be consolidated according to section 10a of the KWG. The holdings in these companies are subject to regulatory risk weights.

The following subordinated companies (providers of ancillary services) are exempted from inclusion in Group regulatory reporting in accordance with section 31(3) of the KWG:

- BHW Direktservice GmbH, Hamelin
- CREDA Objektanlage- und -verwaltungsgesellschaft mbH, Bonn
- easyhyp GmbH, Hamelin
- RALOS Verwaltung GmbH & Co. Vermietungs KG, Munich.

# 2 Methods for calculating capital requirements

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

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

By way of a letter dated December 21, 2006, the BaFin approved Postbank's adoption of the Foundation IRB Approach for calculating the regulatory capital requirements and the Advanced IRBA for the retail business. Approval for calculating additional portfolios using internal rating systems with effect from January 1, 2008 was given by way of a letter dated December 11, 2007. The German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) granted approval for the "insurers" portfolio, included since July 1, 2009, to be calculated according to the Foundation IRB Approach.

The following table shows all the portfolios calculated by Postbank in 2009 using the IRB Approach. For the majority of the portfolios, the internal rating systems are applied to all legal entities of the Group. Specific rating models are used by different Group entities for the corporate customers, commercial lending, purchased receivables, and mortgage loan portfolios.

| IRBA portfolios, broken down by SolvV exposure class |
|---|
| Central governments: Countries |
| Institutions: Banks |
| Corporates: Domestic corporate customers, foreign corporate customers, domestic commercial lending, foreign commercial lending, purchased corporate receivables, insurers |
| Retail claims: Postbank mortgage loans, BHW mortgage loans, installment loans, overdraft facilities for self-employed individuals and business customers, purchased retail receivables |
| Equity claims unless excluded under section 338(4) of the SolvV |
| Securitization positions |
| Other non-credit obligation assets |

Table 2

Since January 1, 2008, Postbank has been above the relevant regulatory threshold. For 2009 the degree of coverage in accordance with section 67 of the SolvV for portfolios calculated on the basis of internal ratings was 92.0 % of the exposure amounts and 82.7 % of the risk-weighted exposure amounts (calculated as of September 30, 2009). The degree of coverage is the ratio of the total IRBA exposure amounts or IRBA risk-weighted exposure amounts to the total exposure amounts or risk-weighted exposure amounts required to be included in the calculation in accordance with section 67(4) of the SolvV. The portfolio, capital backing for which is calculated using internal ratings, changed in fiscal year 2009 insofar as foreign business partners from the public sector of the European Economic Area were calculated using the Credit Risk Standardized Approach (CRSA) for the first time on March 31, 2009, and the "insurers" portfolio has been included in the calculations based on the Foundation IRB Approach since July 1, 2009.

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

- overdrafts and collection activities in the retail banking business,
- portfolios belonging to individual subsidiaries of the Postbank Group,
- business from discontinued operations,
- exposures to counterparties from the public sector of the European Economic Area (EEA).

In addition, Postbank is currently in the process of implementing the changeover to the Advanced IRB Approach for calculating the regulatory capital requirements for counterparty credit risk for non-retail portfolios using internal estimates of expected loss rates, relevant residual maturity bands and credit conversion factors.

Pursuant to section 70 of the SolvV and the minutes of the fourth meeting of the BaFin/Bundesbank Working Group on Banking Supervision dated March 10, 2008, Postbank does not apply the IRB Approach to business from discontinued operations or, in particular, to counterparty credit risk arising from the central governments exposure class for which settlement is due from public-sector counterparties in the EEA, among others; this exemption is for an unlimited period. In addition, Postbank permanently excludes exposures representing a negligible proportion of the total portfolio from the IRBA.

Postbank calculates its capital backing for equity exposures allocated to the banking book that are not required to be consolidated for regulatory purposes or deducted from own funds (see chapter 1) in accordance with section 78 of the SolvV:

- on the basis of the probability of default for all internally-rated equity exposures in the transactions underlying the investment fund units of PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt am Main,
- on the basis of the exception provided under section 338(4) of the SolvV (grandfathering) for all strategic equity exposures held before January 1, 2008, which have been temporarily excluded from the IRBA,
- on the basis of the simple risk weight pursuant to section 98 of the SolvV, for all other equity exposures.

The IRBA or the CRSA is applied to the transactions underlying the securitization positions as required by sections 226 and 227 of the SolvV. The capital backing for securitization positions in accordance with section 79 of the SolvV is generally calculated on the basis of the ratings-based approach pursuant to section 257 of the SolvV. Postbank uses an inferred credit assessment for the PB Domicile 2006-1 transaction (see section 7.3) in accordance with section 256(1) sentence 1 of the SolvV. Exposures for which this results in a risk weight of 1250 % are deducted from capital in accordance with the option provided for under section 266 of the SolvV. In contrast, capital backing for exposures for which there are no external ratings and for which the conditions pursuant to section 258 of the SolvV have been fulfilled is calculated on the basis of the Supervisory Formula Method.

Postbank currently uses the regulatory standardized approach to calculate capital requirements for market risk. As part of its program to introduce advanced risk models, Postbank is in addition preparing to deploy the internal market risk model used to measure and manage market risk to also determine the capital requirements for market risk in accordance with the SolvV.

Banks can choose between the Basic Indicator Approach, the Standardized Approach, and the Advanced Measurement Approach when calculating capital requirements for operational risk. Postbank currently uses the Standardized Approach to calculate capital requirements. This is the basis for the planned implementation of the Advanced Measurement Approach (AMA). The goal is to apply for approval to the BaFin and Deutsche Bundesbank in the first quarter of 2010, so as to be able to use the internal capital model for calculating regulatory capital requirements as well once approval has been granted.

# 3 Capital structure and capital adequacy

## 3.1 Capital components

Postbank's capital in accordance with the KWG is calculated on the basis of its IFRS consolidated financial statements, in accordance with the requirements of the *Konzernabschlussüberleitungsverordnung* (KonÜV – Consolidated Financial Statements Reconciliation Regulation). The amounts shown in the following table are based on Postbank's audited consolidated financial statements. Note 49 to the 2009 Annual Report of the Postbank Group relates to the following table ("Postbank's regulatory capital – an overview"). According to Note 6 to the 2009 Annual Report (page 133), the prior-year figures of the table have been restated. Other reserves, and hence Tier 1 capital before deductions, were reduced by €66 million. The valuation allowance difference, and hence the total of capital deduction items, changed by €188 million. The figures for modified capital available were similarly restated.

| Postbank's regulatory capital – an overview | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
|---|---|---|
| Paid-up capital | 4,168 | 4,140 |
| of which: issed capital | 547 | 547 |
| of which: capital reserves from new issues | 2,008 | 1,978 |
| of which: hybrid capital instruments | 1,600 | 1,600 |
| of which: silent participations | 13 | 15 |
| Other eligible reserves | 2,141 | 2,358*) |
| Special reserves for general banking risks under section 340g of the HGB | 0 | 0 |
| Other Tier 1 capital instruments | 861 | 16 |
| Deduction items from Tier 1 capital under section 10(2a) sentence 2 of the KWG | −925 | −1,150 |
| Total Tier 1 capital before deduction items under section 10(6) and (6a) of the KWG | 6,245 | 5,364*) |
| Total Tier 2 capital before deduction items under section 10(6) and (6a) of the KWG and eligible Tier 3 capital under section 10(2c) of the KWG | 3,205 | 3,588 |
| of which: eligible profit participation certificates under section 10(5) of the KWG | 1,115 | 1,152 |
| of which: eligible longer-term subordinated liabilities under section 10(5a) of the KWG | 2,233 | 2,445 |
| of which: adjustment items for measurement gains/losses from AfS equity instruments under section 2(1) of the KonÜV | 17 | 0 |
| of which: deduction items under section 10a(6), sentences 9 and 10 of the KWG | −161 | −9 |
| of which: unrealized reserves under section 4 of the KonÜV | 1 | 0 |
| Total capital deduction items of which 50 % are deducted from Tier 1 and 50 % from Tier 2 capital | −2,678 | −1,054*) |
| of which: value adjustment deficits for IRBA exposures under section 10(6a) no. 1 of the KWG | −1,473 | −407*) |
| of which: expected loss amounts for IRBA equity exposures under section 10(6a) no. 2 of the KWG | −8 | −2 |
| of which: securitization positions under section 10(6a) no. 3 of the KWG | −1,195 | −645 |
| of which: direct equity exposures under section 10(6) sentence 1 no. 1 of the KWG | −2 | 0 |
| Total modified capital available under section 10(1d) of the KWG and eligible Tier 3 capital under section 10(2c) of the KWG | 6,772 | 7,898*) |
| of which: Tier 1 capital | 4,906 | 4,837*) |
| of which: Tier 2 capital | 1,866 | 3,061*) |
| of which: Tier 3 capital | 0 | 0 |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 3

As of December 31, 2009, Tier 1 capital consisted of issued capital in the (unchanged) amount of €547 million, composed of 218,800,000 no-par value registered shares. The Management Board is authorized, with the approval of the Supervisory Board, to increase Postbank's share capital by up to a total of €273.5 million against cash or noncash contributions by issuing new registered no-par value shares on one or on several occasions, in whole or in part, in the period up to April 21, 2014.

In addition, Tier 1 capital comprises paid-up capital in the form of the capital reserves from issues in the amount of €2,008 million (after regulatory consolidation adjustments pursuant to section 10a (6) of the KWG, the relevant amount as of December 31, 2008 was €1,978 million).

The remaining €1,613 million of paid-up capital comprises a nominal €1,600 million in hybrid capital instruments and a nominal €13 million in silent participations with a residual maturity of more than two years. Postbank used its subsidiaries Deutsche Postbank Funding Trust I to IV, which were specially established for this purpose, to issue the hybrid capital instruments in four issues of preferred securities, as shown in the table below. These securities were issued between 2004 and 2007 at initially fixed, standard market rates of interest. The year-on-year change of €2 million in eligible silent participations is due to their proportionate participation in the net loss for the year.

Hybrid capital instruments outstanding

| Start of maturity | Amount €m | Issuer | Coupon | Interest rate Dec. 31, 2009 in % | Maturity date | Callable as of |
|---|---|---|---|---|---|---|
| 2004 | 300 | Deutsche Postbank Funding Trust I | – until Dec. 2, 2005: 6 %<br>– since Dec. 2, 2005: EUR-ISDA-EURIBOR Swap Rate 10-year term plus 2.5 bp – max. 8 %;<br>– half-yearly coupon payments | 3.443 | unlimited lifetime | Dec. 2, 2010 and on each following coupon date |
| 2004 | 500 | Deutsche Postbank Funding Trust II | – until Dec. 23, 2009: 6 %<br>– since Dec. 23, 2009: 4 * (10Y EUR-ISDA-EURIBOR Swap Rate – 2Y EUR-ISDA-EURIBOR Swap Rate) min. 3.75 % – max. 10 % | 6.944 | unlimited lifetime | Dec. 23, 2009 and on each following coupon date |
| 2005 | 300 | Deutsche Postbank Funding Trust III | – until June 7, 2008: 7 %<br>– since June 7, 2008: EUR-ISDA-EURIBOR Swap Rate 10-year term plus 12.5 bp – max. 8 % | 3.840 | unlimited lifetime | June 7, 2011 and on each following coupon date |
| 2007 | 500 | Deutsche Postbank Funding Trust IV | – until June 29, 2017: 5.983 %<br>– from June 29, 2017: 3M-EURIBOR +207 bp | 5.983 | unlimited lifetime | June 29, 2017 and on each following coupon date |

Table 4

In addition, Tier 1 capital includes other eligible reserves of €2,141 million (December 31, 2008: €2,358 million). These comprise the reserves containing the undistributed portion of net profits for past years. The regulatory profit for 2009 amounted to €89 million. Due to an amendment to the KonÜV, unrealized gains on loans, other receivables, bonds, and other fixed-income securities belonging to the available-for-sale category, as well as unrealized losses not recognized in profit or loss, were not included in the calculation of regulatory capital in accordance with sections 10 and 10a of the KWG as of June 30, 2009.

The other qualifying Tier 1 capital instruments included in the amount of €861 million represent asset-side balancing items of subsidiaries. In this connection, Postbank made use for the first time as of December 31, 2009 of the transitional provision set out in section 64h(3) sentence 2 of the KWG, whereby equity investments acquired up to December 31, 2006 may continue to deduct the asset-side balancing item pursuant to section 10a(6) sentence 10 of the KWG instead of the goodwill.

Postbank's Tier 2 capital in the first place comprises eligible profit participation certificates of €1,115 million (December 31, 2008: €1,152 million) and eligible longer-term subordinated liabilities (promissory note loans and bearer bonds) of €2,333 million (December 31, 2008: €2,445 million); these meet the requirements of sections 10(5) and (5a) of the KWG. In addition, Tier 2 capital contains adjustment items of €17 million for measurement effects of AfS financial instruments (corresponding to 45 % of the unrealized measurement gains in accordance with section 2(1) of the KonÜV), plus €1 million of adjustment items for measurement effects on unrealized reserves of financial investments held to maturity in accordance with section 4 of the KonÜV, less deductions of €161 million (December 31, 2008: €9 million). The increase in deductions year-on-year arises from the application of the transitional provision laid down in section 64h(3) sentence 2 of the KWG.

The profit participation certificates of €1,115 million as of December 31, 2009 can be broken down as follows:

Profit participation certificates

| Issuer | Category | Residual term to maturity | Coupon | Volume |
|---|---|---|---|---|
| Deutsche Postbank | Bearer profit participation certificates | 5–10 years | 4.7–5.1 % | €536 million |
| Deutsche Postbank | Registered profit participation certificates | < 5 years | 6.0–6.3 % | €99 million |
| Deutsche Postbank | Registered profit participation certificates | 5–10 years | 4.4–5.7 % | €412 million |
| Deutsche Postbank | Registered profit participation certificates | > 10 years | 4.5–5.5 % | €68 million |

Table 5

Holders of profit participation rights receive an annual distribution which ranks ahead of shareholders' entitlements and which is partly on net profit for the year and partly on net retained profit. The profit participation certificates, if necessary, participate in net loss for the year or net retained loss by means of a reduction in the nominal value which has to be increased again. If permitted by the earnings situation of the company, all arrears of profit distributions have to be made up for in accordance with the respective terms of issue. Holders of profit participation certificates have no right to call the issues. Postbank has a right of termination should certain contractually defined tax events occur. In accordance with the resolution of the Annual General Meeting of April 22, 2009, Postbank's Management Board is authorized, with the consent of the Supervisory Board, to issue bearer or registered convertible bonds and/or bonds with warrants, income bonds, and/or profit participation certificates in the aggregate principal amount of up to €2.5 billion on one or more occasions in the period up to April 21, 2014.

The subordinated liabilities of €2,233 million (December 31, 2008: €2,445 million) can be broken down as follows:

€1,124 million: Postbank promissory note loans
€826 million: Postbank bearer bonds
€283 million: subordinated liabilities of BHW Bausparkasse.

The promissory note loans and bearer bonds bear standard market rates of interest. The minimum denomination is generally €5 million.

Half of the capital deductions of €2,678 million (December 31, 2008: €1,054 million) are deducted from Tier 1 capital and half from Tier 2 capital; these represent:

- the difference of €1,473 million between the total expected losses for all IRBA exposures in the central governments, institutions, corporates, and retail claims exposure classes and the valuation allowances and provisions recognized for these exposures (December 31, 2008: €407 million)
- the expected losses for IRBA equity exposures of €8 million (December 31, 2008: €2 million)
- securitization positions (risk weight of 1,250 %) in the amount of €1,195 million (December 31, 2008: €645 million)
- the direct equity claims of €2 million in the finance company "Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin" in accordance with section 10(6) sentence 1 of the KWG.

The increased difference in the expected losses for all IRBA exposures in the central governments, institutions, corporates, and retail claims exposure classes and the valuation allowances and provisions compared to December 31, 2008 is mainly attributable to regulatory losses in the area of specialized lending (particularly commercial real estate finance in the U.S.A. and the U.K.), where a high level of collateralization or the presence of sponsors makes only limited valuation allowances necessary; however, the use of simple IRBA risk weights pursuant to section 104(4) of the SolvV indicates an expected loss of 50 % (cf. also comments in section 6.1.2).

The Postbank Group had no Tier 3 capital as of the December 31, 2009 reporting date.

The €1,126 million decrease in capital in 2009 is mainly due to the changes in the results of the valuation allowances and the securitization deduction item.

Deutsche Postbank AG has direct and indirect majority shareholdings in those companies included in the regulatory basis of consolidation. The companies are domiciled in Germany, the European Union, the United States and India. Postbank has notified the BaFin in accordance with section 2a(2) of the KWG that it is 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 countries.

The credit institutions and financial services institutions belonging to the Postbank Group are not subject to capital deductions and did not report a capital deficiency as of December 31, 2009.

## 3.2 Capital adequacy

### 3.2.1 Regulatory capital backing

The regulatory capital backing, which is calculated with reference to regulatory bases for assessment, is shown below, broken down by the type of risk and approach. The capital backing represents the total risk exposures required to be included multiplied by 8 % in each case. Total capital backing as of December 31, 2009 amounted to €5,920 million (December 31, 2008: €6,093 million).

**Capital backing by type of risk and approach**

| Counterparty credit risk: portfolios calculated using the IRB approaches | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
|---|---|---|
| Central governments | 7 | 163 |
| Institutions | 721 | 837 |
| Corporates | 1,430 | 1,248*) |
| Retail claims | 930 | 1,159 |
| of which: IRBA retail claims secured by real estate collateral in the retail business | 631 | 839 |
| of which: qualifying revolving IRBA retail claims | 12 | 0 |
| of which: other IRBA retail claims | 287 | 320 |
| Equity claims managed using the PD/LGD approach | 4 | 2 |
| Equity claims managed using internal models approach | – | – |
| Equity claims measured using simple risk weights | 78 | 27 |
| of which: exchange-traded | 0 | 4 |
| of which: private equity exposures in diversified equity portfolios | 0 | 3 |
| of which: other equity exposures | 78 | 20 |
| Securitization positions | 193 | 66 |
| Other non-credit obligation assets | 204 | 246 |
| Total capital backing for counterparty credit risk for porfolios calculated using the IRBA | 3,567 | 3,748*) |
| Counterparty credit risk: portfolios calculated using the CRSA | €m | €m |
| Central governments | 0 | 0 |
| Regional governments and local authorities | 8 | 6 |
| Other public-sector entities | 40 | 39 |
| Multilateral development banks | 0 | 0 |
| International organizations | 0 | 0 |
| Institutions | 24 | 59 |
| Covered bonds issued by credit institutions | 9 | 10 |
| Corporates | 403 | 386 |
| Retail business | 176 | 171 |
| Exposures secured by real estate property | 124 | 122 |
| Exposures in the form of collective investment undertakings | 135 | 165 |
| Securitization positions | 16 | 5 |
| Other items | 0 | 0 |
| Past due items | 37 | 26 |
| Total capital backing for counterparty credit risk for porfolios calculated using the CRSA | 972 | 989 |
| Counterparty credit risk: exempted equity exposures | €m | €m |
| Equity exposures exempt from IRBA treatment for a limited period under section 338(4) of the SolvV | 80 | 112 |
| Market risk (calculated using the Standardized Method) | €m | €m |
| Foreign exchange risk (aggregate) | 84 | 89 |
| Commodity risk (aggregate) | – | – |
| Interest rate risk (trading book) | 694 | 638 |
| Equity risk (trading book) | 0 | 1 |
| Other market risk (aggregate) | – | – |
| Total capital backing for market risk | 778 | 728 |
| Operational risk (calculated using the Standardized Method) | €m | €m |
| Total capital backing for operational risk | 523 | 516 |
| Total capital backing | 5,920 | 6,093*) |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements (total capital backing reduced by €34 million)

Table 6

Pursuant to the transitional provisions for IRBA institutions in accordance with section 339(5) of the SolvV, the amount of own funds for institutions that have calculated the capital charge for counterparty credit risk on the basis of internal rating systems may not, in the third year of application, be less than 80 % of the minimum capital requirements calculated using the regulatory weight factors in accordance with Grundsatz I (Principle I). Pursuant to sections 339(5a) and (5b) of the SolvV, Postbank will complete the floor calculation by December 31, 2011. The amount is calculated in compliance with the interpretation issued by the BaFin on August 12, 2008. According to this procedure, the transitional provision has no effect on the risk-weighted asset charge and hence on the capital ratios; rather, it is designed to ensure that minimum capital backing is maintained.

The first section of the table above shows the capital backing for the portfolios calculated for retail claims using the Foundation and Advanced IRB approaches as described in chapter 2 (table 2). The €182 million increase in capital backing in the corporates exposure class for a total of €1,430 million is due to volume increases and downgrades in credit structure as a result of the economic environment. The substantial, volume-driven capital backing in the retail claims exposure class underscores Postbank's focus on the retail banking business. Given the steady increase in business, the capital charges for IRBA retail claims exposures secured by real estate collateral declined by €208 million compared with the figure as of the December 31, 2008 reporting date due to improved methods of estimating the loss given default and the recalibration of the probabilities of default for the rating systems for this exposure class. The capital backing for the institutions exposure class – which is important in terms of positions – (see table 14) is relatively low due to the low risk weights. The decrease in capital backing for institutions reflects the decrease in volume for institutions. The €27 million year-on-year increase in capital backing for equity exposures to €78 million is attributable to a number of effects: the number and volume of equity exposures have increased with the assumption of loan collateral, the acquisition of retail funds and the increase in equity investments within the investment funds that are handled by the look-through method. A special fund is now also handled by the look-through method, in contrast to the Pillar III Disclosures as of December 31, 2008. Following the deduction of embedded derivatives and impairments, capital backing for securitization positions rose as against December 31, 2008 due to changes in the regulatory treatment of the revaluation reserve (amendment of the KonÜV) and to downgrades of external ratings.

In the central governments exposure class under the IRB Approach, the first-time application of permanent partial use for non-German public-sector counterparties in the EEA led, as against the figures for December 31, 2008, to a decline in the exposure amounts of €16.3 billion with an average risk weight of 12 % (see table 14). This resulted in a drop in the capital backing in the central governments exposure class from €163 million to €7 million. In parallel to this, the CRSA exposure amounts rose by a total of €17.5 billion compared to December 31, 2008 (see table 16).

The second section of the table relates to those portfolios for which the CRSA is used to calculate counterparty credit risk. The largest exposure amounts relate to claims against public-sector counterparties in the EEA. Overall, the capital backing for the CRSA portfolio was almost unchanged as against the amount recognized as of December 31, 2008.

The capital backing for equity exposures temporarily exempted from the IRBA in accordance with section 338(4) of the SolvV (€80 million) is lower than the figure recognized as of the December 31, 2008 reporting date due to impairments and lower goodwill.

Postbank's market risk mainly comprises interest rate risk. In light of the financial market crisis, Postbank started actively reducing its market risk exposure in 2008; this cautious risk strategy was systematically maintained in the equities area in 2009. In the interest rates area there was a greater focus on the assets side again. As in the past, Postbank had no relevant risks arising from commodity risk exposures or any other market risk exposures as of December 31, 2009 (see also the information on market risk on p. 64 et seq. of the 2009 Annual Report).

The capital charge for operational risk calculated once a year using the Standardized Approach amounted to €523 million.

### 3.2.2 Total and Tier 1 capital ratios

The following table shows the capital ratios for the Postbank Group and its material subsidiary, Deutsche Postbank International S.A., Luxembourg. The regulatory capital ratios are defined as regulatory capital divided by risk-weighted exposure amounts. Deutsche Postbank AG and BHW Bausparkasse AG are covered by the waiver provision pursuant to section 2a of the KWG (see section 1 of this report). With respect to the capital floor in accordance with *Grundsatz I*

Total and Tier 1 capital ratios

| | Total capital ratio (%) | | Tier 1 capital ratio (%) | |
|---|---|---|---|---|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| Deutsche Postbank Group, Bonn | | | | |
| including market risk exposures | 9.2 | 10.4*) | 6.6 | 6.4*) |
| excluding market risk exposures | – | – | 7.6 | 7.2*) |
| Deutsche Postbank International S.A., Luxembourg | | | | |
| including market risk exposures | 10.0 | 10.0 | 10.0 | 10.0 |
| excluding market risk exposures | – | – | 10.0 | 10.2 |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 7

(Principle I), the Postbank Group applies the transitional provision pursuant to section 339(3) – (5) of the SolvV in accordance with the interpretation issued by the BaFin on August 12, 2008. As of December 31, 2009, Deutsche Postbank S. A., Luxembourg, did not have to recognize in its capital calculations any additional risk-weighted asset charge requiring separate calculation and reporting under the Luxembourg supervisory regime in order to ensure compliance with the floor.

The Tier 1 capital ratio for the Postbank Group as of December 31, 2009 (including other market risk exposures in accordance with section 325(2) no. 5 of the SolvV) amounted to 6.6 %, up from 6.4 % calculated as of the end of 2008. Excluding the market risk exposures calculated using the Standardized Method there was a 1.0 percentage point increase as of the reporting date (December 31, 2008: an increase of 0.8 percentage points). A reduction in the capital backing and a corresponding increase in capital ratios are expected following the planned introduction of an internal model to calculate market risk. Without exception, the total and Tier 1 capital ratios for the Postbank Group as of December 31, 2009 exceeded the minimum regulatory ratios of 4 % for Tier 1 capital and 8 % for total capital. The Postbank Group was in compliance with regulatory capital adequacy requirements at all times throughout the period under review.

As of June 30, 2009, the regulatory capital ratio was calculated on the basis of the KonÜV as amended in the version published by the BaFin on July 24, 2009. According to this, unrealized losses from debt securities – as is already customary in most other European jurisdictions – are no longer required to be included in regulatory capital. This facilitates comparability at international level and helps prevent distortions of competition. The amendment to the KonÜV will aid comparisons of banks' capital ratios at European level; in addition, the volatility of the Tier 1 ratio disclosed will decline significantly.

In addition to the effects resulting from the amendment to the KonÜV, Postbank's measures to strengthen its capital position, improve its risk profile, and reduce volatility have had a substantial effect over the past year and played a key role in stabilizing the capital ratio, despite the impact of the crisis. Postbank is planning to introduce enhanced risk measurement models to further strengthen its capital ratio and to offset procyclical effects in its risk-weighted assets.

## 3.3 Management of economic risk-bearing capacity

The Bank's risk-bearing capacity is monitored from two different perspectives in parallel. It aims on the one hand to protect prior-ranking investors in a liquidation scenario (concept of investor protection) and on the other to ensure a defined Tier 1 ratio in accordance with the concept of a going concern. The investor protection concept serves as the basis for limiting market, credit, and operational risks. Together with the concept of a defined Tier 1 ratio, the risk-bearing concept provides management with input parameters for managing economic and regulatory capital. The Group Management Board specifies its risk appetite by defining a probability for unexpected losses and an upper limit for losses (risk tolerance). The Postbank Group considers its risk-bearing capacity as adequate to the extent that the risk cover amount exceeds allocated risk capital and the current level of overall risk (VaR).

Risk potential at a confidence level of 99.93 % is used for the protection of prior-ranking investors. The determination of the risk cover amount for investor protection is based on the consolidated balance sheet under IFRSs. The risk cover amount available for covering all risks consists of the Bank's capital in accordance with IFRSs less goodwill, its subordinated debt in accordance with IFRSs and parts of the other reserves and liabilities associated with financial instruments including customer transactions, less net cost. Other reserves include additional reserves that are not reported on the face and in the notes to IFRS-compliant financial statements. These are prorated checking and savings-related reserves as well as those of the BHW Bausparkasse AG home savings collective as determined by replication models. When calculating the risk cover amount, additional discounts and limit buffers are used to account for estimating uncertainties.

In 2009, the methods, systems and processes associated with the risk-bearing capacity concept were reviewed in detail in light of the lessons learned from the financial market crisis, among other things, and certain subareas were revised. These included, for example with respect to stress tests, the eligibility for inclusion of the various components of the risk cover amount, and, with respect to risk-bearing capacity, compliance with the minimum Tier 1 ratio. The risk-bearing capacity concept is continuously reviewed and, if necessary, amended as and when new information comes to hand.

The largely revised concept of risk-bearing capacity for the determination of defined Tier 1 ratio (going concern) entails a calculation of the difference between the regulatory capital and the minimum Tier 1 capital that is required according to the Postbank view. The resultant free Tier 1 capital and the planned income for the next three/twelve months are compared with the potential losses, at the 90 % confidence level, recognized in the relevant period in profit or loss and directly in equity arising from risks assumed over the same period, so as to ensure that the minimum Tier 1 ratio required to back the risk exposures is complied with at all times throughout the period under review. When predetermined thresholds are reached, an escalation to the Management Board is triggered.

The key action performed in this area during the financial market crisis was to implement a recession scenario as a stress test for examining the risk-bearing capacity; in this, all key risk types to which Postbank is operationally exposed (credit, market and operational risks) were subjected to defined stress tests in order to guarantee an overall risk assessment. The continuing development of the integrated stress tests for the Bank as a whole is an ongoing, dynamic process that is performed in keeping with changes in market trends and in Postbank's risk profile. In addition to the stress tests of all risk types for the Bank as a whole, risk type-specific sensitivity analyses and stress tests are also performed.

In order to ensure Postbank's long-term risk-bearing capacity, the Postbank Group's Management Board only allocates a portion of the risk cover amount (as calculated in accordance with the concept of investor protection) for risk taking, in line with its risk tolerance. This amount is known as risk capital and represents a limit for the Postbank Group's overall risk. The Group Management Board determines Postbank's risk capital at least on a quarterly basis and allocates it to the following risk categories that are relevant to Postbank:

- Market risk
- Credit risk
- Operational risk
- Investment and real estate risk
- Collective risk arising from the home savings business
- Business risk

Operational limits are established for market and credit risks backed by risk capital and directly manageable in the day-to-day business. Market risk is managed by allocating limits for the relevant portfolios. For loans to central governments, institutions, and corporates, credit risk is primarily managed by allocating limits at portfolio level and by taking correlation effects into account (see section 5.3.1). The volume of retail business is controlled through target vs. actual comparisons. Postbank amended its procedures for including operational risk in the internal risk-bearing capacity concept at the start of the third quarter of 2009. The calculation of the capital requirements for operational risk is now based on a newly developed internal quantification model. This model is used for calculating the utilization of the limit allocated to operational risk on a quarterly basis. The other risk types are not managed using operating limits. Rather, the risk capital attributed to them is deducted from the risk cover amount. The Risk Controlling unit regularly monitors the propriety of deductions. Liquidity risk is not explicitly included in the risk-bearing capacity and, as a result, is not backed by economic risk capital. Potential fluctuations in economic capital and sensitivity analyses are taken into account when allocating limits and risk capital.

56 % of the market risk limit was utilized as of the reporting date of December 31, 2009. Despite a downward trend in risk limit utilization (December 31, 2008: 78 %), the volatility inputs used to calculate the VaR, which increased sharply as a result of the financial market crisis, continued in particular to put upwards pressure on the limit. Credit risk limit utilization was 80 % (December 31, 2008: 74 %) after adjustment for losses reducing the unallocated risk cover amount. The VaR (confidence level: 99.93 %) for operational risk at the level of the Bank as a whole, which was calculated on the basis of the internal quantification model, amounted to €490 million as of December 31, 2009. Utilization of the relevant limit amounted to 87 %. The risk-bearing capacity of the Postbank Group was therefore assured at all times.

As long as the limits assigned to the individual risk types are not exceeded at Group level and the aggregated limits and deductible amounts are lower than the risk cover amount, risk-bearing capacity, based on the correlations assumed by the Bank, is assured. The regulatory capital requirements (regulatory capital adequacy in accordance with the *Kreditwesengesetz* (KWG – German Banking Act), the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation), and the *Groß- und Millionenkreditverordnung* (GroMiKV – German Large Exposures Regulation)) are additional conditions that must be strictly observed when managing economic risk capital. As of December 31, 2009, the risk/risk cover ratios to safeguard defined Tier 1 capital were 19 % (three month horizon) and 55 % (twelve month horizon). The available risk cover amount is sufficient for compliance with minimum Tier 1 capital requirements.

Risks are only assumed within limits that are in line with the Bank's risk-bearing capacity. This is designed to ensure that risks that could jeopardize the Bank's existence are avoided. In light of the financial market crisis, the risk situation remained tight in 2009. Whereas in the case of market risk the decline in market volatility seen in 2009 tended to lead to lower limit utilization, credit risk (expected and unexpected loss) in particular is rising continuously due to the economic situation and the rating downgrades that have occurred.

Postbank also manages regulatory capital using projections of risk-weighted assets and own funds for the next twelve months. These take into account the maturities of components of own funds, business development in accordance with medium-term strategic planning, expected downgrades of credit ratings, and changes in other parameters. Projections are made at the level of aggregate, material exposure classes, with more detailed projections being produced prior to the relevant reporting date. The results are used by the Management Board as a basis for deciding on risk management measures.

Further details on internal capital management are provided in the Risk Report on pages 60 – 63 of the 2009 Annual Report and in Note 50 to the 2009 Annual Report (page 147).

# 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 the necessary documentation for managing bank-specific risks, as well as a suitable reporting system.

Postbank defines the risks addressed within the scope of these Pillar III Disclosures as follows:

- Market risk:
  Potential financial losses triggered by changes in market prices (e. g., equity and commodity prices, foreign exchange rates) or changes in parameters that determine market prices (e.g., interest rates, spreads and volatility), including:
  – Interest rate risk in the banking book: changes in the fair value of interest-sensitive financial instruments in the banking book due to market interest rate movements.

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

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

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

Other risks relevant to Postbank (investment risk, real estate risk, collective risk, and business risk) are discussed in the Risk Report in the 2009 Annual Report, and are not required to be disclosed in accordance with the SolvV.

## 4.1 Strategies, processes, structure, and organization

As required by MaRisk (Minimum Requirements for Risk Management), the Group's risk strategy is consistent with business policies and takes into account all significant areas of business and types of risk. In addition to an overarching risk strategy, Postbank's Management Board has resolved specific subrisk strategies for credit, market, liquidity, business, and operational risks. All strategies apply throughout the Group; the risk strategies adopted by individual Group units (e. g., BHW) are consistent with the Group risk strategy.

The nature and extent of the risks taken, as well as the strategy for managing such risks, depend on the strategies defined by the business divisions in line with the Postbank Group's risk appetite. They are documented within the scope of those risk strategies that are based on the business strategies defined by the individual divisions. Postbank's areas of activity comprise the Retail Banking, Corporate Banking, Transaction Banking, and Financial Markets divisions. Postbank will introduce more stringent risk allocation procedures in 2010, for example by introducing a Bank Risk Committee.

The Group Management Board is responsible for the Bank's risk profile and risk strategy, its risk-bearing capacity concept, the appropriate organization of risk management, for monitoring the risk content of all transactions, and for risk control. The Management Board regularly informs the Supervisory Board of the Postbank Group's risk and capital profiles. In conjunction with the Risk Committees, the Group Management Board has defined the underlying strategies for activities on the financial markets and the Group's other business divisions. The following graphic illustrates the composition of the Committees and their areas of responsibility:

Composition and tasks of the Risk Committees

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

Table 8

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

At the beginning of 2010, the Management Board approved the establishment of a Bank Risk Committee, which will assist the Management Board in matters regarding Group-wide risk management particularly with respect to the determination of risk appetite, risk allocation and the related income targets.

One of Postbank's core tasks for 2009 was assuring the consistency of procedures with the Chief Risk Officer (CRO) structure established in the previous year within the Bank's risk processes. The CRO is responsible throughout the Group for risk monitoring functions. He reports regularly to the Group Management Board and the Supervisory Board on the Group's overall risk position. In terms of the organizational structure, the CRO is responsible for the Risk Management, Risk Controlling, and Lending Policy departments. Since August 1, 2009, the CRO and the departments mentioned have been assigned to the Group Management board department. The CRO is a voting member of the Market Risk, Credit Risk, and Operational Risk Committees. It is intended to enlarge the CRO departments in 2010 and to align them even more closely with the risk types and overarching management functions. The goal is to improve the convergence of process definitions and monitoring functions across the various risk types.

The Risk Management unit is continuing to expand overall bank risk management and its integration with the Finance division's bank management activities. The goal is to optimize economic capital and risk allocation for the entire Bank based on the reports and data provided by the Risk Controlling, Controlling and Reporting units.

Risk Controlling is the independent, Group-wide risk monitoring unit for all risk types. Risk Controlling is responsible for methods and models used for risk identification, measurement, aggregation, and limitation. In addition, Risk Controlling is responsible for the design and regular preparation of the Postbank Group's risk-bearing capacity report. In cooperation with the Risk Controlling units at the BHW Bausparkasse AG, Deutsche Postbank International S.A., and PB Capital Corp. subsidiaries, as well as Postbank's London branch, the department is responsible for risk control on an operational level and for risk reporting at Group level.

The Lending Policy department lays down the credit framework for the retail and mortgage lending businesses as well as the Postbank Group's lending guidelines for Corporate Banking and Financial Markets. MaRisk and the requirements of the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) are authoritative in this context, in addition to the internal management objectives.

Within the Group, responsibility for risk management in connection with position-taking activities at an operational level is spread across a number of units, chief among them Financial Markets, the Credit Management Domestic/International departments, the Retail Banking credit functions and, at a local level, the subsidiaries BHW Bausparkasse AG, Deutsche Postbank International S.A., PB Capital Corp., and PB Factoring GmbH, as well as the London branch.

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

Particularly in view of the financial market crisis, the methods, systems, and processes discussed in these Disclosures, and the reporting system that builds on them, are subject to continuous review and enhancement in order to meet market, business and regulatory requirements.

As part of credit risk monitoring, we have supplemented and enhanced processes, reporting lines and escalation mechanisms that enable monitoring of counterparty and issuer risk and categorization of exposure by the various sectors, customer groups and individual borrowers.

Further progress was made in 2009 particularly as regards the program to introduce advanced risk models for market, credit and operational risks. The aim of the program is to increase convergence between internal risk management and regulatory capital requirements, as well as to optimize the risk management systems and processes. Following regulatory approval, it is planned to also use the risk models for all the above-mentioned risk types for the determination of regulatory capital in accordance with the SolvV.

Postbank responded to the financial market crisis as well as to the revision of the MaRisk that took effect on August 14, 2009 by initiating a project designed to enhance its management of risk concentrations in the lending business. The objective is systematic credit portfolio management that identifies and reports risk concentrations at the borrower unit level as well as at sector level (industries, regions, categories of collateral, etc.) and that limits such concentrations by a predetermined procedure that takes risk-bearing capacity and risk/return considerations into account. Concentrations of liquidity, market, and other risks are identified and monitored by using sensitivity analyses and stress tests. Limits take the form of volume or gap limits, which are monitored on an ongoing basis, while the risks are managed in the course of day-to-day management (e. g., via hedging).

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

Postbank manages risk hedging and mitigation and the ongoing monitoring of risk mitigation measures separately for the individual types of risk, as described in the following sections.

The strategies, processes, structure, and organization for the individual types of risk are described in sections 5.1, 8.1, 9.1, and 10.1.

## 4.2 Group-wide risk reporting

Postbank's Management and Supervisory Boards are provided with comprehensive reports on the Bank's 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. Risk utilization for the individual risk types is presented in a large number of regular, specific reports. The reports include all relevant subsidiaries of Deutsche Postbank AG, 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 and the Supervisory Board. Recipients are thus kept informed of changes in relevant parameters in a timely manner. The Risk Controlling department is responsible for the methodology and content of risk reporting at Group level.

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

The reporting instruments for the different types of risk are described in sections 5.4, 8.2, 9.2, and 10.2.

# 5 Management of counterparty credit risk

## 5.1 Strategies, processes, structure, and organization

The Management Board has overall responsibility for risk management throughout the Postbank Group. It has delegated the management of credit risk to the Credit Risk Committee (CRC) whereas the Loan and Equity Investments Committee provides monitoring on behalf of the Supervisory Board.

The Postbank Group has established clear rules with regard to responsibility for credit risk management. The Credit Risk Committee (CRC) is responsible for strategic structural management at the level of the Postbank Group. Operational credit risk management is performed centrally by the Domestic Lending and Foreign Lending units, and locally by the back office units at the subsidiaries. Risk Controlling functions as a Group-wide, independent monitoring unit. Risk Controlling is responsible for operational limit monitoring and reporting, in addition to the methods and models used for risk identification, measurement, and management. The Lending Policy department is responsible for the issuance of standards regarding the treatment of credit risk exposure and targets for risk management at portfolio level.

The Postbank Group manages its counterparty credit risk on the basis of the credit risk strategy approved annually by the Management Board. Postbank's credit risk strategy is derived from its business strategy and is incorporated into the Bank's overall management as part of the risk management system (see section 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 a defined planning period, taking account of the economic environment, the original environment for business policy and Postbank's risk-bearing capacity.

Management of the loan portfolios for corporates, retail, institutions as well as central governments, regional governments, and local authorities is geared to a target portfolio, which has been constructed in particular to reflect a balanced risk/return profile and is used as the basis for structuring allocations to rating classes, sectors and regions. In the case of corporate lending, an individual profitability analysis is additionally performed on the basis of the return on equity, i.e. the ratio of the risk-adjusted net margin to the equity tied up. Due to its high degree of risk diversification, the retail business is not included in the target portfolio but is managed using the expected net margin after deduction of the expected risk.

The Risk Analysis unit is responsible for regularly reviewing both the appropriateness of the methods and processes used to manage counterparty credit risk and compliance with statutory and regulatory requirements. It is responsible for developing and implementing new models and making adjustments to existing systems. In addition, the Credit Risk Controlling unit 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 the ratings performed, providing a continuous rating history for each customer and each transaction.

Counterparty credit risk at the level of both individual transactions and entire portfolios is operationally managed by the front and back offices. Detailed information is provided in section 5.3, „Ratings-based credit risk management".

## 5.2 Rating systems

### 5.2.1 Overview

The purpose of rating systems is to assess the creditworthiness of borrowers, properties and guarantors; as defined by section 60(1) of the SolvV, such systems comprise all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of IRBA exposures to grades or pools (rating), and the quantification of default and loss estimates for the IRBA exposures. Internal rating systems are suitable if they comply with the minimum requirements for using the IRBA (section 56 of the 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 Analysis unit is responsible for designing and implementing the internal rating systems and for monitoring functional capabilities. These responsibilities include assessing the predictive quality as well as the calibration and validation of the ratings systems. The process of monitoring the rating systems includes assessing their predictive quality and correct application, their calibration and validation, and incorporating the results of the monitoring activities into the internal reporting system.

All rating systems are approved by Postbank's Management Board, which receives regular information on their effectiveness as well as on the results of the ratings performed as part of the management reporting process (see section 5.4).

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

Overview of rating systems in the IRBA exposure classes

| SolvV exposure class | Rating system for: |
|---|---|
| Central governments | Central governments: countries |
| Institutions | Institutions: banks |
| Corporates | Domestic corporate customers<br>Foreign corporate customers<br>Purchased corporate receivables<br>Insurers |
| Corporates:<br>specialized lending exposures | Domestic commercial lending<br>Foreign commercial lending |
| Retail claims:<br>IRBA exposures secured<br>by real estate collateral | Postbank mortgage loans to private customers<br>BHW mortgage loans to private customers |
| Retail claims: qualified revolving IRBA exposures, other IRBA retail exposures | Overdraft facilities for self-employed individuals and business customers |
| Retail claims:<br>other IRBA exposures | Installment loans to private customers<br>Purchased corporate receivables |
| Retail claims:<br>purchased receivables | Purchased retail receivables |
| Equity claims | Institutions: banks<br>Domestic corporate customers<br>Foreign corporate customers |

Table 9

Each rating system is allocated to an exposure class in accordance with the SolvV. The relevant rating models are used during the loan application and approval process for initial classifications and for credit assessment reviews of the borrowers and/or guarantors or other bearers of economic risk. Postbank uses rating systems comprising a statistical core (statistical financial statement rating or Monte Carlo simulation of expected cash flows) for borrowers and guarantors from the corporates, institutions, central governments, and commercial lending areas. The systems are supplemented by a qualitative component that permits the incorporation of important information within the risk classification. Relevant collateral is included as part of credit risk mitigation techniques (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 a borrower's probability of default. The recovery rates for eligible collateral or unsecured loans are included when calculating the LGD (loss given default = loss rate). The proportion of outstandings under open credit lines at the time of default is estimated to arrive at the CCF (credit conversion factor).

All internal ratings and scores are mapped to a uniform master scale, which assigns a rating class along with the probability of default determined for that class to each rating or score. Postbank applies the terminology used by the external credit assessment institution Standard & Poor's Rating Services for this. Regular model validation is based on standard core analyses comprising the following criteria: stability of the model formula/the estimated parameters and the distributions, as well as the accuracy of the rating model, and confirmation of the predictive power of the models. In this context, any changes in the loss history are also incorporated by adjusting the inputs.

In addition, the allocation of the rating classes used in Postbank's master scale to default probabilities and the results of the input estimates (PD, LGD, CCF) are reviewed annually by the Risk Controlling Credit Risk department. Incorporating 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 rating results, enabling a continuous rating history to be kept for each customer and transaction.

Postbank's Internal Audit unit reviews the appropriateness of the internal rating systems, including compliance with the minimum requirements for their use, on an annual basis.

Ratings supplied by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings Ltd. are applied to all Postbank exposures for which capital requirements are calculated in accordance with the Credit Risk Standardized Approach. Alternative external ratings are treated in accordance with sections 44 and 45 of the SolvV. If external ratings are not available for an exposure, a minimum risk weight of 100 % is applied. External credit assessments from approved external credit assessment institutions are transferred in accordance with sections 42 to 47 of the SolvV. Issue credit assessments were not transferred to comparable, equal, or higher-ranking exposures in any of the CRSA exposure classes. Similarly, external ratings are mapped to securitization positions in accordance with sections 235 et seq. of the SolvV.

The internal rating systems used for capital backing in 2009 and their allocation to the exposure classes are explained in greater detail below.

### 5.2.2 Central governments exposure class

The rating system for central governments is used to classify exposures to obligors that have been allocated to the central governments IRBA exposure 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) is used 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 their creditworthiness is received, a re-rating is performed before the end of the year.

### 5.2.3 Institutions exposure class

The Institutions rating system is used to classify all obligors allocated to the institutions IRBA exposure class in accordance with section 75 of the SolvV. The rating system assesses institutions by rating their financial statements, taking the external long-term ratings of the three major external credit assessment institutions (Standard & Poor's, Moody's, and Fitch Ratings) into account. In the case of foreign banks, the relevant central government rating is also incorporated in the assessment. After the initial rating, banks are re-rated at least once a year to monitor their creditworthiness. Where material information impacting their creditworthiness is received, a re-rating is performed before the end of the year.

### 5.2.4 Corporates exposure class

**Rating systems for corporate customers**

The "Domestic corporate customers" and "Foreign corporate customers" (Western Europe and North America) rating systems are used to classify obligors assigned to the corporates IRBA exposure class in accordance with section 80 of the SolvV. The systems use statistically calibrated financial statement ratings and sector information to rate the risk of default of individual companies. Moreover, additional qualitative factors are included in the rating systems in order to assess the enterprise's future development. After the initial rating, the enterprises are re-rated at least once a year to monitor their creditworthiness. Where material information impacting their 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 exposure class in accordance with section 81 of the SolvV. In keeping with 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. Monte Carlo simulations are used to produce different scenarios for the risk drivers, which are included in the default risk estimates using models of future cash flows. After the initial rating, all transactions are re-rated at least once a year. Where material information impacting their creditworthiness is received, a re-rating is performed before the end of the year. A simple risk weight for specialized lending exposures is assigned to each of the individual rating classes of the commercial lending rating systems in accordance with section 97 of the SolvV.

#### Rating system for insurance companies

The "Insurers" rating system is used to classify insurance companies allocated to the corporates IRBA exposure class in accordance with section 80 of the SolvV. The rating system assesses insurers by rating their financial statements, taking the external long-term ratings of the three major external credit assessment institutions (Standard & Poor's, Moody's, and Fitch Ratings) into account. After their initial rating, the insurers are re-rated at least once a year to monitor their creditworthiness. Where material information impacting their creditworthiness is received, a re-rating is performed before the end of the year.

### 5.2.5 Retail claims exposure class

#### Retail mortgage loans

Standardized home construction loans are classified using the "Postbank mortgage loans to retail customers" and "BHW mortgage loans to retail customers" rating systems. They are assigned to the retail claims, secured by real estate collateral IRBA exposure class in accordance with section 77(3) of the SolvV. Since the causes of loan defaults for owner-occupied and rental categories differ, two different versions of the rating systems model are used. Applications for residential mortgage loans undergo initial scoring. Separate pool estimates of the probability of default and the loss given default are produced for the pools of unscored existing exposures 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 individuals and business customers in Germany with maximum outstandings of €100,000. The facilities are assigned to the retail claims, qualifying revolving IRBA exposure class in accordance with section 77(2) of the SolvV. The scoring system distinguishes between new and existing customers with and without limits. Applications for overdraft facilities undergo initial scoring; the facility is then scored once a month using an internal behavioral scoring system that assesses the specific risk of default on the basis of the account management data and certain external information.

#### Installment loans to retail customers

The "Installment loans to retail customers" rating system is used to classify standardized installment loans to private persons. These are assigned to the other retail claims IRBA exposure class in accordance with section 77(4) of the SolvV. Decisions on applications for installment loans are based on the results of the "Installment loans for retail customers" scoring model. The model makes use of long-standing internal histories of default as well as data from external credit reporting agencies. Applications for installment loans undergo initial scoring. Separate pool estimates of the probability of default and the loss given default are produced for the pools of unscored existing exposures and exposures in the dunning stages.

### 5.2.6 Purchased receivables exposure class

#### Purchased retail receivables

The "Purchased retail receivables" 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 receivables segment. For purchased receivables, 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 given default. The methodology of the rating system is modeled closely on the system for classifying mortgage loans.

#### Purchased corporate receivables

The "Purchased corporate receivables" rating system relates to the borrowers of the purchased receivables. The exposures are allocated to the corporates or retail claims IRBA exposure classes, depending on the limit volume involved. The borrowers assigned to the corporates exposure class are rated separately using the domestic corporate customers and foreign corporate customers rating systems. A separate pool estimate of the probability of default and the loss given default is made for each of the borrowers assigned to the retail claims exposure class. Moral hazard is taken into account in both cases by including the quality of the factoring client in the risk assessment. After their initial rating, borrowers are re-rated at least once a year to monitor their creditworthiness. Where material information impacting their creditworthiness is received, a re-rating is performed before the end of the year.

### 5.2.7 Equity claims exposure class

#### Equity claims

Equity claims forming part of the investment portfolio held by PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt/Main, are classified in accordance with section 78(2) no. 1a of the SolvV using the rating system for institutions, domestic corporate customers, or foreign corporate customers, depending on their exposure class (institutions or corporates). After their initial rating, the equity claims are re-rated at least once a year to monitor their creditworthiness. Where material information impacting their creditworthiness is received, a re-rating is performed before the end of the year.

## 5.3 Ratings-based credit risk management

The other main areas of application of the risk parameters that are estimated internally for calculating the capital backing 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**
Postbank's credit guidelines contain detailed rules for all lending transactions. Credit approvals are subject to an established system of competencies, which act as a framework within which decision-making individuals or bodies are authorized to enter into lending transactions. The responsibility for approving loans is dependent on the amounts concerned; additionally, for the central governments, institutional and corporate exposure classes, borrower or obligor credit ratings are used, while the structure of the facility is accounted for in the case of retail claims.

An essential feature of the credit approval procedure is the separation between front office (sales/trading), back office and risk management in accordance with the regulatory requirements (MaRisk, SolvV). A permissible exception according to banking regulatory law from the strict separation of functions is the standardized credit approval procedure for transactions not relevant for risk purposes, which Postbank defines as private residential construction finance up to €1 million, other retail credit products as well as loans for up to €750,000 in the Corporate Banking division, to which simplified and standardized procedures are applied.

**Risk/return parameters**
Expected defaults in the Postbank Group's lending business are quantified with reference to the average standard risk costs that are factored into the preliminary calculations for specific exposures. This system means that all loans are assessed during the preliminary calculation. Standard risk costs are priced in as a premium for the expected loss and are included in the profitability calculation in the form of a return on equity (RoE) ratio for exposures to corporates. Profitability analysis aims at providing an overall assessment of the customer relationship concerned; it is performed at the product or portfolio level in the case of retail exposures and individually in the case of the central governments, institutions, and corporates exposure classes.

**Credit monitoring and problem loan procedures**
For non-standardized loans, credit risk is monitored by means of credit assessments carried out at least once annually and whenever events occur that could affect the creditworthiness of an obligor. Limits are monitored by the operational lending units in the back office in accordance with regulatory requirements and, in the case of trading transactions, by Risk Controlling as well.

In the area of individual lending to corporate customers and mortgage lending (in excess of €500,000 per borrower/borrowing entity or per project/principal loan in the case of mortgage financing), Postbank has implemented a credit monitoring process in accordance with banking regulatory requirements. The process enables higher-risk loans to be identified using qualitative and quantitative risk indicators (e.g., sector information, management accounting data, customer and account data, and rating changes). The use of risk indicators to enable the early identification of an increasing risk of default enables Postbank to take risk mitigation measures in a timely manner, to develop and implement loan restructuring plans with the borrower if necessary, or to arrange for settlement.

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

### 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. The credit value at risk is the potential negative change in the present value of the total loan portfolio resulting from actual or potential credit risk losses that will not be exceeded within one year for a 99.93 % probability. Under Postbank's 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 indicated in the "Credit risk" table is the expected amount of losses from credit risk in the Group portfolio, expressed in terms of the portfolio which is, on an average, expected to be past due or in default within a one-year period. This is calculated approximately as the product of the default probability, the total size of exposure, and the loss rate. It depends on the rating and the term of the counterparty or transaction. The expected loss does not contribute to the Bank's overall risk but is factored into margin calculations via the standard risk costs.

CVaR is calculated on the basis of the migration behavior of obligor-specific credit ratings and correlation effects within the portfolio, so as to quantify risks arising from an adverse concentration of counterparties in terms of sector, size category, credit rating, and country. The probability of a rating change (migration) is updated continually and adjusted to reflect the changes observed in the current economic environment. CVaR is calculated by taking all loans and advances together with their future cash flows and discounting them to the observation date. This allows the loan loss risk to be measured over the one-year observation period as well as capturing the effects on present value of all changes in credit ratings occurring outside the observation period. In this context, credit risk is measured using current internal and external credit assessments as well as internally and externally calculated assumptions as 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 input ranges used in the Monte Carlo simulations. Homogeneous, granular exposures 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. For individual products/ business divisions with special risk structures, the CVaR is calculated daily. Due to diversification effects, the CVaR in the Group loan portfolio is lower than the sum of the individual CVaRs for the business divisions. 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 types in order to quantify losses that might arise from extreme events. Improvements in the identification of risk-relevant borrower relationships in the portfolio model and the portfolio management systems are being promptly implemented.

## 5.4 Reporting

Postbank uses a variety of reporting instruments for presenting counterparty credit 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 at the level of individual transactions. In addition to presenting loan portfolio and credit risk indicators, the report includes details of the largest exposures aggregated by individual borrowers and the largest exposures in default, as well as 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 on credit risk management by the operating units, broken down by business division and product. The credit monitoring report is approved by the Credit Risk Committee.

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

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

- At the level of individual loans, the watch lists are another instrument for reporting larger and impaired exposures.

# 6 Quantitative disclosures on the scope and nature of counterparty credit risk

## 6.1 Disclosures on the structure of the loan portfolio

Postbank's business strategy provides for a conservative risk positioning with a focus on retail business with retail customers, commercial real estate finance secured by mortgages, and investment securities with very good or good credit ratings. As a result, the structure of Postbank's overall risk profile compares favorably with the rest of the sector. The exposures reported in this chapter relate in principle to the portfolio for the entire Postbank Group. The tables in this chapter do not show the non-credit obligation assets. Similarly, the equity exposures presented in detail in section 7.2 of these Pillar III Disclosures and Postbank's securitization positions presented in section 7.3 are not included in the tables in this chapter.

### 6.1.1 Structure of exposure values by sector, geographic region, and residual term to maturity

The tables below present the exposure values by region, sector, and residual term to maturity as required by section 327(2) of the SolvV. The tables show the loan volumes concerned in each case, broken down by exposure classes as of the date of disclosure. The historical cost and carrying amounts of on-balance sheet and off-balance sheet transactions are shown before credit risk mitigation and specific valuation allowances. Derivatives are shown at their positive fair values. On-balance sheet transactions essentially comprise bonds, loans, overdrafts, home construction loans, specialized lending, securities lending, repos, and leasing. Off-balance-sheet items primarily consist of unutilized credit lines. In addition, the tables include the basis for measuring moral hazard exposures of purchased receivables.

Total exposure values decreased only slightly to €236.2 billion from the €237.3 billion reported in the Pillar III Disclosures as of December 31, 2008, due to measurement differences for derivatives, home savings loans, and repos as against the presentation in the Annual Report. Exposure values for the derivatives business fell as against December 31, 2008 to €1,229 million, despite an increase in derivative counterparty credit risk exposures (cf. table 24) after netting agreements. Since the amounts as of the reporting date do not differ materially from the average exposure values for past reporting periods, the average amounts are not shown in these Disclosures.

The following table provides a breakdown of the exposures by the sectors and obligor groups of relevance to Postbank. Unlike in the previous reports, commercial real estate finance is now reported as a separate sector. The prior-year figures have therefore been restated. The perceptible shifts in the table compared to the previous year are partly due to adjustments to sector-specific allocations. The sector distribution of the portfolio is almost unchanged compared with the Pillar III Disclosures as of December 31, 2008 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 domestic private mortgage lending. It also includes loan exposures in the Corporate Banking division, predominantly in the German business customers segment, and in domestic and international commercial real estate finance. There is also a large portfolio of government bonds, mainly from Germany and other European countries, as well as the Financial Markets division's exposures to banks, insurers, and financial services providers. Postbank has defined a target portfolio as part of its credit risk strategy to manage its non-retail investments, and has optimized this from a diversification perspective.

Exposure values before credit risk mitigation, broken down by sector

| Exposure class | Retail customers | | Banks/insurers/ financial services providers | | Countries | | Commercial real estate finance | | Service providers/ wholesale and retail | | Industry | | Other sectors | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| On-balance sheet transactions | 71,112 | 68,645 | 67,220 | 75,092 | 28,714 | 29,366 | 16,592 | 14,069 | 6,656 | 4,331 | 3,631 | 5,270 | 6,972 | 5,672 | 200,897 | 202,445 |
| Off-balance sheet transactions | 22,475 | 22,941 | 1,185 | 1,929 | 391 | 1,197 | 1,314 | 1,908 | 3,009 | 3,847 | 1,674 | 919 | 4,029 | 381 | 34,077 | 33,122 |
| Derivatives | – | – | 1,011 | 1,504 | 31 | – | 96 | 93 | 64 | 32 | 12 | 17 | 15 | 104 | 1,229 | 1,750 |
| Total | 93,587 | 91,586 | 69,416 | 78,525 | 29,136 | 30,563 | 18,002 | 16,070 | 9,729 | 8,210 | 5,317 | 6,206 | 11,016 | 6,157 | 236,203 | 237,317 |

Table 10

The following table shows the loan volume by exposure class and Postbank's significant geographic business regions. The breakdown of the loans by geographic 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 given in the Pillar III Disclosures as of December 31, 2008. In line with our strategy, it reveals a concentration on the domestic German market as well as on selected exposures in Western Europe and North America, some of which were entered into by our foreign subsidiaries and branches.

Exposure values before credit risk mitigation, broken down by geographic region

| Exposure class | Germany | | Western Europe | | Other regions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| On-balance sheet transactions | 133,722 | 123,413 | 59,441 | 67,595 | 7,734 | 11,437 | 200,897 | 202,445 |
| Off-balance sheet transactions | 32,487 | 28,482 | 1,356 | 3,259 | 234 | 1,381 | 34,077 | 33,122 |
| Derivatives | 401 | 672 | 514 | 709 | 314 | 369 | 1,229 | 1,750 |
| Total | 166,610 | 152,567 | 61,311 | 71,563 | 8,282 | 13,187 | 236,203 | 237,317 |

Table 11

The following table shows the loan volume broken down by exposure class and the residual maturity bands that are of relevance to Postbank. 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.

Exposure values before credit risk mitigation, broken down by contractual residual maturity

| Exposure class | One day or on demand | | Up to and including three months | | More than three months and up to one year | | More than one year and up to five years | | More than five years or unlimited | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| On-balance sheet transactions | 10,386 | 6,513 | 20,233 | 25,030 | 9,246 | 11,501 | 57,204 | 65,483 | 103,828 | 93,918 | 200,897 | 202,445 |
| Off-balance sheet transactions | 16,084 | 18,888 | 243 | 263 | 2,864 | 1,248 | 2,518 | 4,185 | 12,368 | 8,538 | 34,077 | 33,122 |
| Derivatives | 66 | 0 | 52 | 750 | 60 | 161 | 177 | 640 | 874 | 199 | 1,229 | 1,750 |
| Total | 26,536 | 25,401 | 20,528 | 26,043 | 12,170 | 12,910 | 59,899 | 70,308 | 117,070 | 102,655 | 236,203 | 237,317 |

Table 12

### 6.1.2 Exposure amounts for IRBA specialized lending

The table "Exposure amounts for IRBA specialized lending exposures calculated using the simple risk weight method" provides an overview of Postbank's commercial lending exposures, broken down by the risk weight categories used in the simple risk weight method for specialized lending exposures in accordance with section 97 of the SolvV. The exposures relate to commercial residential construction loans, 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. As a result of an expansion in business, the portfolio increased as against the December 31, 2008 reporting date, from €15.6 billion to €17.7 billion. Some specialized lending transactions saw rating downgrades in 2009. This trend is marked by above-average growth in defaulted exposures as defined by Basel II. Along with the impact of the financial market crisis, this reflects the fact that the entire portfolio was subjected to an intensive review in the fourth quarter of 2009, applying more conservative criteria. Specialized lending transactions are rated using the "Domestic commercial lending" or "Foreign commercial lending" (U.K. and U.S.A.) rating systems. The individual rating classes are each allocated a simple risk weight for specialized lending transactions in accordance with section 97 of the SolvV.

| Exposure amounts for IRBA specialized lending exposures calculated using the simple risk weight method | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
|---|---|---|
| Risk weight category 1 (strong) | 12,361 | 11,438*) |
| Risk weight category 2 (good) | 1,728 | 2,557*) |
| Risk weight category 3 (satisfactory) | 234 | 496*) |
| Risk weight category 4 (weak) | 323 | 244*) |
| Risk weight category 5 (defaulted) | 3,043 | 872*) |
| Total | 17,689 | 15,607 |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 13

### 6.1.3 Exposure amounts by exposure class and risk category

Unlike tables 10 to 12, the following tables show actual exposure amounts, rather than historical cost or carrying amounts, as the basis for measuring the level of credit risk. The two measures differ in that the exposure amounts include the off-balance sheet transactions (generally undrawn credit lines), which were included proportionately in line with the conversion factors, as the expected degree of loan utilization in the event of a default. For example, under the Foundation IRBA the conversion factor for irrevocable loan commitments in the central governments, institutions, and corporates exposure classes is 75 %. Derivatives are shown in this table at their credit equivalent amounts.

In addition to the total exposure amount, the table "IRBA exposure amounts and average risk weights by exposure class and risk category" includes the unutilized credit commitments for central governments, institutions, and corporates, as well as the average risk weight for each risk category and exposure class, weighted by the relevant exposure amount, broken down between the investment and speculative grade credit ratings. The investment grade credit rating category is subdivided into the "AAA", "AA", "A", and "BBB" risk weight bands – the key bands for Postbank's portfolio – with specialized lending being shown separately. Non-credit obligation assets, equity exposures, securitization positions, and defaulted exposures under Basel II are not included in the following tables.

IRBA exposure amounts and average risk weights by exposure class and risk category in the central governments, institutions, and corporates exposure classes

| | IRBA exposure class | Investment grade (AAA to BBB–) 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 %) | "Strong" specialized lending exposures | Total (PD ≤ 0.475 %) | Speculative grade (BB+ to CCC–) (PD > 0.475 %) | Total as of Dec. 31, 2009 | Comparative figures as of Dec. 31, 2008 Investment grade (AAA to BBB–) | Speculative grade (BB+ to CCC–) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average risk weight | Central governments | – | – | 36 % | 50 % | – | 49 % | 94 % | 51 % | 12 % | 72 % | 12 % |
| | Institutions | 24 % | 11 % | 15 % | 30 % | – | 15 % | 74 % | 15 % | 15 % | 269 % | 15 % |
| | Corporates | 13 % | 15 % | 33 % | 60 % | 64 % | 55 % | 108 % | 64 % | 53 %*) | 103 %*) | 62 %*) |
| | of which: SMEs | – | – | 28 % | 51 % | – | 47 % | 68 % | 53 % | 41 % | 80 % | 52 % |
| | of which: specialized lending exposures | – | – | – | – | 64 % | 64 % | 108 % | 71 % | 66 %*) | 100 %*) | 74 %*) |
| | of which: purchased receivables | 13 % | 15 % | 33 % | 63 % | – | 26 % | 112 % | 34 % | 21 % | 97 % | 27 % |
| | Total | 13 % | 11 % | 15 % | 49 % | 64 % | 27 % | 108 % | 31 % | 22 % | 103 % | 26 % |
| Total exposure amounts €m | Central governments | – | – | 14 | 136 | – | 150 | 8 | 158 | 16,407 | 47 | 16,454 |
| | Institutions | 9 | 3,391 | 52,041 | 3,476 | – | 58,917 | 28 | 58,945 | 69,108 | 9 | 69,117 |
| | Corporates | 1,950 | 48 | 2,498 | 6,419 | 12,361 | 23,276 | 4,710 | 27,986 | 20,924*) | 4,701*) | 25,625*) |
| | of which: SMEs | – | – | 83 | 333 | – | 416 | 181 | 597 | 273 | 112 | 385 |
| | of which: specialized lending exposures | – | – | – | – | 12,361 | 12,361 | 2,285 | 14,646 | 11,438*) | 3,298*) | 14,736 |
| | of which: purchased receivables | 1,950 | 48 | 112 | 681 | – | 2,791 | 292 | 3,083 | 1,704 | 152 | 1,856 |
| | Total | 1,959 | 3,439 | 54,553 | 10,031 | 12,361 | 82,343 | 4,746 | 87,089 | 106,439 | 4,757 | 111,196 |
| of which: undrawn credit lines €m | Central governments | – | – | – | 13 | – | 13 | – | 13 | 13 | – | 13 |
| | Institutions | – | – | 13 | 15 | – | 28 | – | 28 | 29 | – | 29 |
| | Corporates | 537 | – | 822 | 1,484 | 596 | 3,439 | 440 | 3,879 | 2,509 | 801 | 3,310 |
| | of which: SMEs | – | – | 58 | 125 | – | 183 | 54 | 237 | 67 | 31 | 98 |
| | of which: specialized lending exposures | – | – | – | – | 596 | 596 | 211 | 807 | 710 | 716 | 1,426 |
| | of which: purchased receivables | 537 | – | – | – | – | 537 | – | 537 | – | – | – |
| | Total | – | – | 835 | 1,512 | 596 | 3,480 | 440 | 3,920 | 2,551 | 801 | 3,352 |

*) Prior-year figures restated due to adjustment to the 2008 consolidated financial statements

Table 14

The composition of the central governments, institutions, and corporates subportfolios clearly demonstrates Postbank's focus on investment grade ratings. Most exposure amounts relate to the institutions exposure class, which has a very low risk weight. The decline in the exposure amounts for central governments is due to the first-time application of permanent partial use for non-German public-sector counterparties in the EEA in 2009. The higher average risk weight for specialized lending is due to differences between the risk classes prescribed by the regulatory authorities for use with the simple risk weight method. Exposure amounts for the institutions exposure class declined from €69.1 billion as of December 31, 2008 to €58.9 billion; this was accompanied by an increase in the exposure amounts for corporates from €25.6 billion to €28.0 billion. Overall, the average risk weights rose slightly across all portfolio classes as a result of the rating downgrades due to the financial market crisis.

The table "IRBA exposure amounts for retail claims by exposure class and risk category" shows the total exposure amounts for each of Postbank's main expected loss bands, including the defaulted exposures under Basel II. Qualifying revolving IRBA exposure amounts reported for retail claims primarily consist of overdrafts for business customers that meet the SolvV requirements for the retail business. The CRSA, however, is used for overdrafts in the Retail Banking segment.

IRBA exposure amounts for retail claims by exposure class and risk category

| | | Expected loss band 0.00 – 5.00 % | | Expected loss band 5.01 – 20.00 % | | Expected loss band 5.01 – 20.00 % | | Expected loss band 50.01 – 100.00 % | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | IRBA exposure class | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Total exposure amounts | IRBA retail exposures secured by real estate collateral | 59,677 | 58,183 | 891 | 1,302 | 757 | 864 | 164 | 29 | 61,489 | 60,378 |
| | Qualifying revolving IRBA retail exposures | 410 | 21 | 31 | 1 | 0 | 0 | 0 | 0 | 441 | 22 |
| | Other IRBA retail exposures | 6,432 | 6,678 | 121 | 230 | 141 | 57 | 141 | 84 | 6,835 | 7,049 |
| | Total | 66,519 | 64,882 | 1,043 | 1,533 | 898 | 921 | 305 | 113 | 68,765 | 67,449 |

Table 15

Loans in the IRBA retail claims subportfolio rose slightly compared to the previous year. They reflect Postbank's strategic positioning as Germany's leading retail bank. The €61.5 billion in IRBA exposure amounts secured by real estate collateral – out of a total for retail claims of €68.8 billion – demonstrate the Bank's focus on real estate lending to retail customers. The risk structure of Postbank's retail business is very good; as expected, however, table 15 shows a year-on-year increase to €305 million in the expected loss band in excess of 50 % due to the current economic situation (December 31, 2008: €113 million).

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

Total CRSA exposure amounts before and after credit risk mitigation by risk weight category

| Portfolio | Risk weight category | Dec. 31, 2009 CRSA exposure amounts before credit risk mitigation €m | Dec. 31, 2009 CRSA exposure amounts after credit risk mitigation €m | Dec. 31, 2008 CRSA exposure amounts before credit risk mitigation €m | Dec. 31, 2008 CRSA exposure amounts after credit risk mitigation €m |
|---|---|---|---|---|---|
| Portfolios in accordance with sections 26-31, 33, 38-39 | 0 % | 37,603 | 37,603 | 20,426 | 20,425 |
| of the SolvV (central governments, regional governments, | 20 % | 2,906 | 2,906 | 5,509 | 5,440 |
| local authorities, other public entities, international | 50 % | 1,269 | 1,269 | 1,163 | 1,163 |
| organizations, institutions, corporates, other items, | 100 % | 4,894 | 4,894 | 4,597 | 4,597 |
| past due items) | 150 % | 197 | 197 | 119 | 119 |
| | Total | 46,869 | 46,869 | 31,814 | 31,744 |
| Covered bonds issued by credit institutions | 10 % | 1,159 | 1,159 | 1,198 | 1,198 |
| (section 32 of the SolvV) | Total | 1,159 | 1,159 | 1,198 | 1,198 |
| Exposures secured by real estate collateral | 35 % | 335 | 335 | 358 | 358 |
| (section 35 of the SolvV) | 50 % | 2,869 | 2,869 | 2,797 | 2,797 |
| | Total | 3,204 | 3,204 | 3,155 | 3,155 |
| Retail business | 75 % | 2,925 | 2,925 | 2,850 | 2,850 |
| (section 34 of the SolvV) | Total | 2,925 | 2,925 | 2,850 | 2,850 |
| CRSA bonds in exposures in the form | 0 % | 624 | 624 | 303 | 303 |
| of collective investment undertakings | 11 % | 211 | 211 | 599 | 599 |
| (section 36 in conjunction with section 83(4) | 22 % | 219 | 219 | 152 | 152 |
| sentence 2 no. 2 of the SolvV) | 55 % | 539 | 539 | 805 | 805 |
| | 110 % | 487 | 487 | 405 | 405 |
| | 200 % | 91 | 91 | 57 | 57 |
| | 300 % | 179 | 179 | – | – |
| | Total | 2,350 | 2,350 | 2,321 | 2,321 |
| Exposures in the form of collective investment | | | | | |
| undertakings with risk weights calculated | < 20 % | 38 | 38 | 1,727 | 1,727 |
| by third parties (section 83(5) of the SolvV) | Total | 38 | 38 | 1,727 | 1,727 |
| Total | | 56,545 | 56,545 | 43,065 | 42,995 |

Table 16

The substantial exposure amounts with a CRSA risk weight of 0 % primarily relate to claims against public-sector counterparties in the EEA. Postbank recognized no financial collateral as of the reporting date (previous year: €70 million) as reducing capital requirements in the CRSA portfolios, apart from the financial collateral disclosed in section 7.3 in connection with securitization transactions, so the figures before and after credit risk mitigation are identical. The increase compared to December 31, 2008 is due to the first-time application of permanent partial use for the above-mentioned non-German positions in the EEA in 2009. The retail business exposure class primarily contains outstanding overdrafts in the Retail Banking segment. In accordance with section 51 of the SolvV, a conversion factor of 0 % has been applied to unused overdraft facilities for retail customers. The breakdown of exposures in the form of collective investment undertakings by risk weight category is given in table 27 (see section 7.2).

## 6.2 Disclosures on 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 using techniques such as collateral, guarantees, or credit derivatives, or through netting.

In order to ensure that collateral is eligible for counting towards capital adequacy requirements, Postbank has introduced collateral management procedures that comply with regulatory requirements as part of its IRBA implementation. In line with the SolvV, strict standards are applied to the quality (e. g., the legal effectiveness and enforceability) of the collateral accepted. As with underlying transactions with a counterparty, the monetary value of the collateral is assessed at the time the loan is granted and then monitored continually throughout the term of the loan in accordance with uniform Group standards. Room for improvement was identified and appropriate action taken in 2009 particularly with respect to the valuation of immovable collateral in highly volatile markets, uniform documentation and data input into a consolidated database. The Bank also intends to enhance its standardized processes for the acceptance and management of other collateral in order to improve its position.

The decision on the approval and application of types of collateral instruments to mitigate credit risk is a component of business and credit risk strategies. The protection instruments principally used by Postbank consist of real estate liens to secure real estate financing, guarantees and credit derivatives, and financial collateral and other physical collateral.

The back office division is responsible for collateral management, which includes recognition of an instrument as collateral, its legal ranking and regular review and measurement, as well as the administration of the collateral taken into account. Exposure management systems provide IT support for the management of immovable collateral. The amounts recognized as collateral are reviewed at fixed intervals, depending on the type of protection; as a rule, this occurs annually or at shorter intervals in the case of critical exposures.

Loan collateral in the Corporate Banking segment taking the form of real estate liens is reviewed regularly, at least annually or as and when required, for impairment at the level of the properties concerned; in Germany, market developments are additionally monitored using the fair value fluctuation concept produced by the Zentraler Kreditausschuss (ZKA – German Central Credit Committee), while the front office and back office divisions perform qualitative monitoring of the relevant sectors and real estate markets on an ongoing basis. Valuations of loans and property assets in excess of €3 million are reviewed at least every three years by independent, qualified valuation specialists or are reappraised by property valuers, as appropriate.

A conservative approach is taken to positive correlations between the borrower's counterparty credit risk and the risk of a deterioration in the 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 the guarantors' loans (see section 5.3.1). In addition, risks relating to guarantees are expressly taken into account as part of portfolio management (see 5.3.2).

### 6.2.2 Nature and scope of the credit mitigation techniques applied

Eligible protection instruments in accordance with section 154 et seq. of the SolvV include financial collateral, credit protection, and credit derivatives. In addition, section 158 of the SolvV permits other eligible IRBA collateral, including real estate collateral, collateral assignments, and other IRBA physical collateral. Furthermore, in accordance with section 206 et seq. of the SolvV, credit risks can be mitigated using netting arrangements.

Postbank decides on the recognition and application of credit protection instruments for credit risk mitigation in line with 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 techniques relating to synthetic securitization transactions are dealt with separately in section 7.3.

The following two tables present the protected IRBA and CRSA exposure amounts respectively. All exposure classes included in the SolvV that are not shown separately in the two tables are aggregated in the "Other exposure classes". The tables are followed by detailed comments on collateral recognition.

| Protected IRBA exposure amounts | | | | | | |
|---|---|---|---|---|---|---|
| IRBA exposure classes | Financial collateral | | Credit protection and credit derivatives | | Other collateral | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Central governments | – | – | 7 | 7 | – | – |
| Institutions | 16,765 | 17,829 | 1,990 | 1,079 | – | – |
| Corporates | – | – | 800 | 995 | 15,484 | 13,340 |
| Retail claims | – | – | – | – | – | – |
| Other exposure classes | – | – | – | – | – | – |
| Total | 16,765 | 17,829 | 2,797 | 2,081 | 15,484 | 13,340 |

Table 17

| Protected CRSA exposure amounts | | | | |
|---|---|---|---|---|
| CRSA exposure classes | Financial collateral | | Credit protection and credit derivatives | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Central governments | – | – | – | – |
| Regional governments and local authorities | – | – | – | 5 |
| Other public entities | – | – | 196 | 251 |
| Institutions | – | 70 | – | 126 |
| Corporates | – | – | 906 | 463 |
| Other exposure classes | – | – | – | – |
| Total | – | 70 | 1.102 | 845 |

Table 18

### Financial collateral

Financial collateral in the retail business is incorporated directly in the estimated LGD and is therefore not shown.

The financial collateral recognized in the IRBA portfolios essentially comprises cash collateral, bonds, and other securities collateral related to repo lending. The value of collateral decreased from €17.8 billion as of the December 31, 2008 reporting date to €16.8 billion, in line with the trend in the repo lending business.

Postbank recognizes no financial collateral as of the reporting date as reducing capital requirements in the CRSA portfolios, apart from the financial collateral reported for securitization transactions in section 7.3 (December 31, 2008: €70 million).

### Credit protection and credit derivatives

Credit protection and credit derivatives must be irrevocable and unconditional in order to qualify as credit mitigation instruments when calculating minimum capital requirements for counterparty credit risk. Only credit protection issued by countries, other public-sector entities, banking institutions, supranational organizations, and legal persons with a rating of at least A– is eligible. Protection providers and collateral providers for credit derivatives are subject to the same risk classification, mitigation, and monitoring procedures as obligors. The amount of backing required for credit protection and credit derivatives is calculated in accordance with section 86(1) of the SolvV.

The volume of credit protection in the IRBA portfolio rose by €716 million compared to December 31, 2008.

In the IRBA corporates exposure class, the value assigned to credit protection for the specialized lending exposures rated using the simple weight method pursuant to section 97 of the SolvV is taken into account when calculating the risk weight category. The amount of such collateral was €282 million as of the reporting date (December 31, 2008: €612 million).

In the CRSA exposure class, the volume of credit protection and credit derivatives increased overall from €845 million as of December 31, 2008 to €1,102 million.

In total, credit derivatives in the amount of €441 million (December 31, 2008: €292 million) were recognized as mitigating risk in the IRBA portfolio.

**Other funded credit protection**
The protection offered by other funded credit protection in the retail business is taken into account directly when estimating the LGD and is therefore not reported separately.

**Real estate collateral**
In addition to financial collateral, credit protection, and credit derivatives, credit risk can also be mitigated by mortgages under the IRBA. Real estate collateral does not serve explicitly to mitigate risk under the CRSA, due to the fact that exposures secured by real estate collateral form a separate exposure class with a risk weight of 35 % (residential) and 50 % (commercial use).

Postbank uses mortgages on home loans as a key means of minimizing the risks associated with this form of finance. In the retail business, mortgages are taken into account when calculating the LGD and are therefore not reported separately.

In the IRBA corporates exposure class, the value of real collateral assigned to specialized lending exposures rated using the simple risk weight method pursuant to section 97 of the SolvV amounts to €15.5 billion; this is taken into account when calculating the risk weight category. The total exposures secured by real estate collateral under the CRSA amount to €2.9 billion.

**Other eligible IRBA collateral**
Postbank does not include other eligible IRBA collateral as defined in sections 160 and 161 of the SolvV (e.g., the assignment of receivables) when determining the capital requirements for portfolios calculated using the IRBA.

**Netting**
Banks can also reduce their capital requirements through netting arrangements. In this process, the underlying exposure is reduced either by eliminating individual offsetting transactions or using netting agreements.

Postbank uses netting agreements in the collateral management area solely for derivative financial transactions (see section 7.1). The agreements are based on standard international master agreements, with due regard for SolvV requirements. Netting agreements are entered into with most key trading counterparties. Collateral is handled using a computerized process in accordance with predefined collateral management standards. The netted positions are included in risk management for the relevant counterparties and for the overall credit risk.

## 6.3 Disclosures on the allowance 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 ad hoc reviews 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 categories of non-performance:

**Definition of “past due”**
An exposure is classified as a “past due exposure” or “past due item” if there is a delay in payment, i. e., if the obligor has exceeded an external limit communicated to it or if it has drawn credit without prior consent. In contrast to impaired items, exposures are categorized as “past due” if a payment is delinquent, but the item has not yet been classified as “impaired”.

**Definition of “impaired”**
The classification as “impaired” denotes that Postbank has recognized an allowance for losses on loans and advances, or it has been determined that the customer or the facility is in default. The “impaired” category includes all exposures in respect of which specific valuation allowances, collective specific valuation allowances, write-downs, and provisions for liabilities under sureties, other guarantees and irrevocable loan commitments have been recognized, or for which borrowers are past due more than ninety successive calendar days on any material part of its overall credit obligation. The “impaired” category for regulatory purposes is more comprehensive than the accounting classification of the same name, due for example to the application of cross default clauses to all exposures relating to a particular customer.

**Definition of “default” and risk provisioning**
In accordance with section 125 of the SolvV, an obligor is in default if it is past due more than 90 successive calendar days on any material part of its overall credit obligation to the institution. A borrower may be taken to have defaulted before the end of this period if the institution is of the opinion that the obligor is unlikely to pay its obligations in full to the institution without recourse by the institution to additional collateralization measures, such as the realization of collateral provided.

In the retail lending business, defaults are detected automatically using the data fields relevant for the individual transactions. Defaults of purchased receivables are also identified automatically. Definitions of default for the central governments, institutions, and corporates exposure classes, including specialized lending, are maintained manually in a separate default database. Listed securities and the investment funds' securities and derivative exposures are analyzed and documented as part of daily marking-to-market procedures.

A monthly watch list is generated on the basis of the non-performing transactions documented in the default database. The Risk Controlling unit is responsible for the database methodology and its ongoing development.

Postbank recognizes specific valuation allowances for individual loans that are impaired or have defaulted. The size of these specific valuation allowances is determined after taking into consideration 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 established and all exposures on the watch list are regularly revalued (for private mortgage lending except for 'A' cases and 'B' cases capable of restructuring).

Collective specific valuation allowances are recognized, where necessary, for the homogeneous portfolios of installment loans and overdraft facilities subject to automatic limit monitoring and dunning. The valuation allowances are calculated using fixed percentages that are based on historic default rates.

In accordance with IFRSs, portfolio valuation allowances are established for contingencies that have not yet been identified by Postbank, for example because the customer is still meeting payment obligations. Internal and external estimates of probabilities of default and losses on default are used to calculate the portfolio valuation allowances, with the period of time between the loss event taking place and its detection (loss incurrence period factors or LIP factors) being estimated as a function of the 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 figures for the allowance 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 both the IRB approaches and the CRSA. The allowance for losses on loans and advances recognized relates to loans and advances to customers and to other banks. Gains and losses on the sale and remeasurement of investment securities, equity interests, and investments in unconsolidated subsidiaries are not reported below but in net income from investment securities (see Note 11 of the 2009 Annual Report, page 115).

The following table shows the carrying amounts of impaired and past due exposures, the amounts of and changes in specific valuation allowances, portfolio-based valuation allowances, and provisions as of the reporting date, as well as direct writedowns of and recoveries on loans written off in 2009, broken down by the sectors of relevance to Postbank. The net amounts recognized represent the difference between additions to and reversals of the allowances for losses and provisions. The provisions relate primarily to undrawn commitments and guarantees.

The impact of the financial market crisis has now reached the real economy. Due to the economic downturn and the tight situation on the international real estate markets, the allowance for losses on loans and advances is up €180 million on the prior-year figure, at €678 million. The increase in the additions to specific valuation allowances is primarily attributable to the commercial lending area. The poor economic situation also led to a rise in the allowance for losses on loans and advances in Retail Banking. The allowance for losses on loans and advances in 2009 was within the range announced by Postbank.

Overall, Postbank's focus on the retail segment can also be seen from the breakdown of the allowance for losses on loans and advances by the sectors and obligor groups of relevance to Postbank. The carrying amounts of impaired exposures also include exposures to customers that have been classified as impaired due to cross default clauses. The increase in the carrying amounts of impaired exposures compared to the previous year arises largely from the crisis in the financial markets and the fourth-quarter review of the whole portfolio mentioned above, which focused on commercial real estate finance.

| Allowance for losses on loans and advances, broken down by sector | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Retail customers €m | Banks/ insurers/ financial services providers €m | Countries €m | Commercial real estate finance €m | Service providers/ wholesale and retail €m | Industry €m | Other sectors €m | Total as of Dec. 31, 2009 €m | Comparative figures as of Dec. 31, 2008 or previous year €m |
| Carrying amounts | Impaired exposures | 2,479 | 679 | 1 | 3,731 | 308 | 260 | 630 | 8,088 | 2,675*) |
| | Past due exposures | 405 | 12 | 0 | 8 | 5 | 3 | 349 | 782 | 831 |
| Amounts | Specific valuation allowances | 943 | 161 | 0 | 276 | 34 | 45 | 32 | 1,491 | 1,209*) |
| | Portfolio-based valuation allowances | 108 | 6 | 2 | 1 | 4 | 4 | 25 | 150 | 114 |
| | Provisions | 33 | 0 | 0 | 0 | 9 | 0 | 0 | 42 | 48 |
| Net period expense | Specific valuation allowances | 253 | 99 | 0 | 176 | 32 | 32 | 8 | 600 | 429*) |
| | Portfolio-based valuation allowances | 9 | 2 | 2 | 0 | 0 | 0 | 18 | 31 | 32 |
| | Direct writedowns and writeoffs | 59 | 0 | 0 | 1 | 3 | 0 | 0 | 63 | 39 |
| | Provisions | −4 | 2 | 0 | 0 | 2 | 0 | 0 | 0 | 19 |
| Recoveries | Loans previously written off | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 16 | 21 |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 19

Similarly, the following overview gives a breakdown of the allowance for losses on loans and advances by the geographic regions of relevance to Postbank. In line with the SolvV, no changes in the allowance for losses on loans and advances are shown in this table. The distribution of the allowance for losses on loans and advances corresponds to the distribution of the exposure amounts in the underlying loan portfolios. The carrying amounts of impaired and past due exposures and specific valuation allowances for Western Europe and North America reflect, among other things, the value adjustments established in the course of the financial market crisis.

| Allowance for losses on loans and advances, broken down by geographic region | | | | | | |
|---|---|---|---|---|---|---|
| | | Germany €m | Western Europe €m | Other regions €m | Total as of Dec. 31, 2009 €m | Comparative figures as of Dec. 31, 2008 €m |
| Carrying amounts | Impaired exposures | 5,128 | 2,132 | 829 | 8,088 | 2,675*) |
| | Exposures past due | 778 | 4 | 0 | 782 | 831 |
| Amounts | Specific valuation allowances | 1,204 | 183 | 104 | 1,491 | 1,209*) |
| | Portfolio-based valuation allowances | 133 | 2 | 15 | 150 | 114 |
| | Provisions | 41 | 0 | 1 | 42 | 48 |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 20

The following table shows the changes in the allowance for losses on loans and advances from the beginning of the fiscal year up to the reporting date of December 31, 2009:

Changes in allowance for losses on loans and advances

| | Opening balance €m | Additions €m | Reversals €m | Utili-zation/ unwinding €m | Currency translation and other adjustments €m | Closing balance €m |
|---|---|---|---|---|---|---|
| Specific valuation allowances | 1,209 | 746 | –146 | –309 | –9 | 1,491 |
| Portfolio-based valuation allowances | 114 | 31 | 0 | 0 | 5 | 150 |
| Provisions | 48 | 14 | –14 | –6 | 0 | 42 |
| Total | 1,371 | 791 | –160 | –315 | –4 | 1,683 |
| *2008 comparative figures* | *1,193* | *576*)* | *–96* | *–304* | *2* | *1,371*)* |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 21

The following table shows the “actual losses” for the two half-years of 2009 for the IRBA portfolios. Actual losses represent the aggregate difference between additions to 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 chapter 1 of these Pillar III Disclosures). The increase in actual losses in the second half of 2009 compared with the previous period is due in particular to value adjustments for commercial lending.

Actual loan losses

| IRBA exposure classes | Actual losses July 1-Dec. 31, 2009 €m | Actual losses Jan. 1-June 30, 2009 €m |
|---|---|---|
| Central governments | 0 | 0 |
| Institutions | 16 | 2 |
| Corporates | 191 | 67*) |
| IRBA retail exposures secured by real estate collateral | 95 | 75 |
| Qualifying revolving IRBA retail exposures | 0 | 0 |
| Other IRBA retail exposures | 59 | 49 |
| Equity exposures | 0 | 0 |
| Total | 361 | 193*) |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 22

The following table compares Postbank's estimate of expected losses with the actual losses incurred in both halves of 2009 and both halves of 2008, calculated for a half-year horizon in each case. The expected losses relating to transactions not in default and not subject to valuation allowances at the beginning of the period under review were determined and then compared with the actual losses for each period. Any recoveries on or reversals of valuation allowances or provisions during the period under review in respect of exposures that only became impaired during the period concerned 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, which cover a period of six months in each case, were calculated for the first six months of 2008 as of March 31, 2008 rather than as of January 1, 2008.

Estimated and actual loan losses

| IRBA exposure classes | Expected losses at beginning of period (as of July 1, 2009) €m | Actual losses July 1 – Dec. 31, 2009 €m | Expected losses at beginning of period (calculated as of Jan. 1) €m | Actual losses Jan. 1 – June 30, 2009 €m | Expected losses at beginning of period (as of July 1, 2008) €m | Actual losses July 1 – Dec. 31, 2008 €m | Expected losses at beginning of period (calculated as of March 31 ) €m | Actual losses Jan. 1 – June 30, 2008 €m |
|---|---|---|---|---|---|---|---|---|
| Central governments | 0 | 0 | 1 | 0 | 1 | 0 | 1 | – |
| Institutions | 15 | 16 | 8 | 2 | 5 | 45 | 6 | – |
| Corporates | 173 | 191 | 48*) | 67*) | 50 | 106*) | 44 | 22 |
| IRBA retail exposures secured by real estate collateral | 205 | 95 | 69 | 75 | 82 | 90 | 88 | 62 |
| Qualifying revolving IRBA retail exposures | 0 | 0 | 0 | 0 | 0 | 0 | – | – |
| Other IRBA retail exposures | 63 | 59 | 32 | 49 | 32 | 51 | 29 | 22 |
| Equity exposures | 0 | 0 | 1 | 0 | 1 | 0 | 11 | – |
| Total | 456 | 361 | 159*) | 193*) | 172 | 292*) | 179 | 106 |

*) Prior-year figures restated due to adjustments to the 2008 consolidated financial statements

Table 23

The high proportion of the expected losses attributable to the retail business correlates with the Bank's strong positioning in this segment. While there is generally a strong correlation between expected and actual losses for retail exposures due to their high degree of granularity, the non-retail business is characterized by a low number of defaults involving higher losses. Due to the economic environment, Postbank recognized valuation allowances in the retail business for retail exposures secured by real estate collateral (both commercial real estate finance and private mortgage lending) and for other IRBA retail exposures (installment loans). Observed data for the loss given default within the statistical confidence intervals generally correlates well with the regulatory parameters applicable under the IRB Foundation Approach.

# 7 Special quantitative disclosures on counterparty credit risk

## 7.1 Disclosures on derivative counterparty credit risk exposures

Postbank enters into derivative financial transactions as part of its trading activities and for asset/liability management. Postbank's foreign currency financial derivatives consist for the most part of forward exchange transactions, currency swaps, cross currency swaps, and currency options. Interest rate derivatives primarily comprise interest rate swaps, forward rate agreements as well as interest rate futures and options; in isolated cases, fixed-income forwards are also entered into. The equity derivatives entered into mainly take the form of equity options and stock/index futures. Only a small number of credit derivatives are entered into.

Compliance with loan approval procedures is a precondition for entering into derivative counterparty credit risk exposures. The risk classification, limitation, and monitoring processes used for derivative counterparty credit risk exposures are similar to those for classic lending operations (see section 5.3.1). Derivative transactions are charged towards a limit that has been entered in the system and that was applied for, and approved by the relevant decision-making instance, in advance. Risk Controlling monitors limit utilization. The capital charges for derivative positions are aggregated with the other products subject to credit risk when calculating the exposure, limiting the amount of risk assumed, calculating risk provisioning, and allocating capital.

Financial derivatives in the trading book and the banking book are recognized at their positive fair values (plus add-ons) on their valuation date. 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 106 et seq. of the 2009 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 generated if a new contract has to 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. The potential replacement cost is defined as the positive fair value of a derivative (section 19 of the SolvV) without the add-on. It 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 key counterparties in the Financial Markets portfolio. These agreements provide for daily netting of positions and cash collateralization of any surpluses. Collateral acceptance and administration is an independent, system-driven process. In isolated cases, Postbank has agreed to clauses in the annexes to the master agreements regulating collateralization which require collateral to be provided or increased in the event of an external rating downgrade for Postbank. 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 fiscal year 2009, so that no additional collateral was called under such clauses. In the course of the financial market crisis, the collateral agreements with certain counterparties were amended to include a clause requiring net positions to be settled.

Since contracts with a key counterparty do not entail counterparty risk, the disclosures in the tables below are limited to OTC derivatives and to contracts at stock exchanges that are not recognized as key counterparties by the regulatory authorities, as well as to contracts at stock exchanges to which Postbank has not been admitted and for which it enters into derivative exposures via brokers. As of the December 31, 2009 reporting date, the recognized positive fair values after netting of €1,229 million therefore differ by €0.2 million from the total amount of derivative transactions shown in tables 10–12 because of limited business with key counterparties.

The disclosure requirements in accordance with section 326 of the SolvV relate solely to derivative counterparty credit risk exposures as defined in section 11 of the SolvV, i.e., to derivatives with the exception of those derivative instruments for transferring credit risk in which Postbank is the protection provider and is required to recognize this derivative instrument as an off-balance sheet CCR exposure, or for which Postbank is a protection buyer and recognizes this derivative instrument as eligible credit protection when calculating the risk-weighted exposure amount of another CCR exposure. Also, the definition of counterparty credit risk exposures does not include commitments from options written.

The following table shows the values of the derivative counterparty credit risk exposures, before and after netting and collateral. The positive fair values for derivative counterparty credit risk exposures before netting agreements increased in 2009 as against the December 31, 2008 reporting date, climbing from €15,673 million to a total of €19,398 million. This was primarily due to interest rate movements. Netting agreements mitigating counterparty credit risk were recognized as reducing risk for regulatory purposes in the amount of €18,169 million as of December 31, 2009. Thus, the positive fair values after netting fell from €1,617 million to €1,229 million. No collateral was recognized as offsetting risk as of December 31, 2009.

| Measurement of derivative counterparty credit risk exposures before and after netting and collateral arrangements | | | | | | |
|---|---|---|---|---|---|---|
| | | | Eligible collateral | | | |
| | Positive fair values before netting and collateral arrangements €m | Positive fair values after netting €m | Cash collateral €m | Securities collateral €m | Other collateral €m | Positive fair values after netting and collateral arrangements €m |
| Derivative counterparty credit risk exposures | 19,398 | 1,229 | – | – | – | 1,229 |
| *Comparative figures as of Dec. 31, 2008* | *15,673* | *1,617* | *–* | *–* | *–* | *1,617* |

Table 24

When calculating capital requirements, derivative counterparty credit risk exposures are recognized at their credit equivalent amounts. The total amount for the IRBA and CRSA portfolios is €4,687 million (December 31, 2008: €4,705 million). Postbank uses the current exposure method in all cases.

The following table shows the derivative counterparty credit risk exposures after netting and before collateral arrangements as defined by section 19 of the SolvV, broken down by underlying. This risk is of subordinate importance in relation to Postbank's total counterparty credit risk. In accordance with the SolvV, the credit derivatives used for protection held by Postbank are either recognized as protection or treated as off-balance sheet counterparty credit risk exposures and are therefore not included in the following table. The credit derivatives shown in the following table relate to contracts that are not used for protection. The total portfolio of derivative counterparty credit risk exposures after netting decreased as against December 31, 2008. Unlike the previous year, contracts for which netting bundles relate to multiple derivative types are now reported under "Other contracts". The entry under "Other contracts" in the amount of €691 million therefore results in a decrease in "Interest rate contracts" and "Foreign exchange contracts". As of the December 31, 2009 reporting date there were no derivative counterparty credit risk exposures in connection with commodities futures.

| Positive fair values of derivative counterparty credit risk exposures | | |
|---|---|---|
| Type of derivative | Mark-to-market method | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Interest rate contracts | 418 | 923 |
| Foreign exchange contracts | 112 | 694 |
| Equity contracts | 1 | – |
| Credit derivative contracts | 6 | – |
| Commodity contracts | – | – |
| Other contracts | 691 | – |
| Total | 1,229 | 1,617 |

Table 25

All of Postbank's credit derivative transactions 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 and includes both derivatives and off-balance sheet exposures. The table breaks down the credit derivatives used for the Bank's own portfolio into long and short positions. The long positions as of December 31, 2009 totaling €441 million comprise both credit derivatives used for protection and credit derivatives not used for protection.

| Notional value of credit derivatives used for the Bank's own portfolio | | | | |
|---|---|---|---|---|
| | Used for own portfolio | | | |
| Type of credit derivative | Long | | Short | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Credit default swaps | 441 | 507 | 831 | 1,501 |
| Total return swaps | – | – | – | – |
| Credit linked notes | – | – | – | – |
| Credit options | – | – | – | – |
| Other credit derivatives | – | – | – | – |
| Total | 441 | 507 | 831 | 1,501 |

Table 26

## 7.2 Disclosures on equity exposures in the banking book

Postbank calculates its capital backing for equity exposures allocated to the banking book that are not required to be consolidated or deducted from own funds for regulatory purposes (see chapter 1) in accordance with section 78 of the SolvV:

- on the basis of the probability of default for all internally-rated equity exposures in the transactions underlying the investment fund units of "PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Frankfurt/Main",
- on the basis of the exception provided by section 338(4) of the SolvV (grandfathering) for all strategic equity exposures held prior to January 1, 2008, which have been temporarily excluded from the IRBA,
- on the basis of the simple risk weight in accordance with section 98 of the SolvV for all other equity exposures (IRBA).

The direct holding of €2 million in the finance company "Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin" is deducted from capital in accordance with section 10(6) sentence 1 no. 1 of the KWG.

Strategic equity exposures in other companies that are not consolidated for regulatory purposes and that have been temporarily excluded from the IRBA in accordance with section 338(4) of the SolvV (grandfathering) amounted to €1,004 million as of the reporting date; this was less than the amount as of December 31, 2008 (€1,400 million) due to impairments and lower goodwill.

The following table shows IRBA equity exposures managed by the probability of default (€39 million; €17 million as of the December 31, 2008 reporting date) and measured according to the simple risk weight method (€265 million; €106 million as of the December 31, 2008 reporting date). The exposure amounts increased from the €123 million reported as of December 31, 2008 to €304 million. The rise is due to new equity exposures arising from the assumption of loan collateral (including the subsidiaries of PB Capital Corporation, Wilmington, Delaware, U.S.A., included in the basis of consolidation for accounting purposes, as shown in chapter 1, table 1), the acquisition of four mutual funds handled by the look-through method and the increase in equity investments within the investment funds that are handled by the look-through method. A special fund is now also handled by the look-through method, in contrast to the report as of December 31, 2008.

| Exposure amounts for IRBA equity exposures | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
|---|---|---|
| Private equity exposures in sufficiently diversified portfolios | 0 | 18 |
| Exchange-traded equity exposures | 2 | 36 |
| Other equity exposures | 302 | 69 |
| Total | 304 | 123 |

Table 27

The table "Carrying amounts of IRBA equity exposures, broken down by type and marketability" presents the equity exposures together with their carrying amounts and fair values.

The equity exposures are recognized on acquisition at cost. In the case of "assets measured as fixed assets" (including investments in the meaning of the German Commercial Code – HGB), they are subsequently remeasured using the 'moderate lower of cost or market principle', in the case of "assets measured as current assets" using the 'strict lower of cost or market principle'. With the moderate lower of cost or market principle, the carrying amount has to be written down to the lower fair value; with the strict lower of cost or market principle, the carrying amount given a projected permanent impairment is written down to the fair value. Reversals may be recognized up to their acquisition costs. With listed assets, the quoted exchange price or market price has to be taken as the fair value; for unlisted assets, the fair value is determined by the *Ertragswertverfahren* (income capitalization approach). If the fair value cannot be determined, the assets are carried at amortized cost. Fair value is normally the market or quoted exchange price. For equity exposures that are not publicly quoted, the recognized fair value equals the discounted earnings or the acquisition costs.

Carrying amounts of IRBA equity exposures, broken down by type and marketability

| Type of equity exposure | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Equity exposures in credit institutions and other financial institutions | 17 | 16 | 26 | 16 |
| of which: exchange-traded | – | 13 | – | 13 |
| of which: private equity exposures in a diversified investment portfolio | – | – | – | – |
| of which: other equity exposures | 17 | 3 | 26 | 3 |
| Equity exposures in corporates and other equity exposures | 287 | 107 | 291 | 97 |
| of which: exchange-traded | 2 | 23 | 2 | 13 |
| of which: private equity exposures in a diversified investment portfolio | – | 18 | – | 18 |
| of which: other equity exposures | 285 | 66 | 289 | 66 |
| Total | 304 | 123 | 316 | 113 |

Table 28

The exposures in the form of collective investment undertakings held by Postbank can be broken down by their treatment for regulatory purposes as shown in the table below: The change is characterized by a reduction in securities portfolios and by restructuring within the investment funds. A higher-volume collective investment undertaking was also sold, and the look-through method was applied for the first time to another investment in a collective undertaking for which the risk-weighted exposure amount was previously calculated by a third party in accordance with section 83(5) of the SolvV.

Breakdown of exposures in the form of collective investment undertakings by regulatory treatment

| Regulatory treatment | Carrying amount | |
|---|---|---|
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Exposures in CIUs treated in accordance with the transparency method (section 83(1) of the SolvV) | 7,218 | 7,534 |
| of which: rated bonds (IRBA exposures – disclosed in chap. 6.1.1 and 6.1.3) | 4,453 | 4,996 |
| of which: equity exposures managed using simple risk weights (IRBA – disclosure in chap. 7.2) | 163 | 43 |
| of which: equity exposures managed using PD/LGD approach (IRBA – disclosure in chap. 7.2) | 29 | 16 |
| of which: securitization positions (IRBA exposures – disclosed in chap. 7.3 ) | 223 | 159 |
| of which: unrated bonds (CRSA exposures – disclosed in chap. 6.1.1 and 6.1.3) | 2,351 | 2,321 |
| CIU exposures with risk weights provided by third parties (section 83(5) of the SolvV) | 38 | 1,727 |
| Total | 7,256 | 9,261 |

Table 29

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

Gains and losses on equity exposures

| | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
|---|---|---|
| Realized gains/losses from disposals and settlements in the reporting period | 2 | −603 |
| Unrealized remeasurement gains/losses | 38 | 0 |
| of which: contained in Tier 1 capital | – | 0 |
| of which: contained in Tier 2 capital | 17 | – |

Table 30

In contrast to the loss of €603 million reported in the previous year, which was dominated by the financial market crisis and the reduction of the portfolio of equity exposures, gains of €2 million were realized in the reporting period, based on disposals. In accordance with section 2(1) of the KonÜV, 45 % of the unrealized remeasurement gains of €38 million transferred to the revaluation reserve was included in the Tier 2 capital for AfS equity securities.

## 7.3 Disclosures on securitization positions

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

The present section on securitization positions is oriented on the recommendations on transparency of the Financial Stability Forum for external reporting. Further details are contained in Postbank's Group Management Report (page 77 of the Annual Report) and Note 4 (h) to the consolidated financial statements (p.107 et seq. of the Annual Report). The valuation techniques for securitization transactions are described in Note 42 to the consolidated financial statements (p. 136 et seq. of the Annual Report). The consolidation methods are set out in Notes 2 and 3 to the consolidated financial statements (p. 104 of the Annual Report).

The IRBA or the CRSA is applied to the securitization positions on the basis of the underlying transactions, as required by sections 226 and 227 of the SolvV. Capital backing for securitization positions in accordance with section 79 of the SolvV is generally calculated on the basis of the ratings-based approach pursuant to section 257 of the SolvV. Postbank uses an inferred credit assessment for the PB Domicile 2006-1 transaction in accordance with section 256(1) sentence 1 of the SolvV. Exposures for which this results in a risk weight of 1250 % are deducted from capital in accordance with the option provided for under section 266 of the SolvV. In contrast, capital backing for exposures for which there are no external ratings and for which the conditions pursuant to section 258 of the SolvV have been fulfilled is calculated on the basis of the Supervisory Formula Method.

### 7.3.1 Investor positions

Postbank predominantly acts as an investor in securitization positions entered into during credit substitution transactions, with the objective of generating income and diversifying its portfolio. In this context, Postbank has invested in structured credit products (SCPs), among other things. Specifically, these are 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 and receivables and available for sale categories and are measured accordingly. (For details on IFRS accounting and SCP measurement, see Note 4 (h) to the 2009 consolidated financial statements.)

Postbank invests in structured credit products following a buy-and-hold approach; the breakdown is shown in table 31. In the course of the financial market crisis, a series of measures was taken to improve the transparency and control of this business area: These included enhancing internal measurement models for the SCP portfolio, developing a central SCP database and implementing an ongoing monitoring process at the central level, in order to identify problematic developments at an early stage and initiate countermeasures to address them.

The portfolio demands active management with the aim of reducing risk, e.g. by asset sales or the purchase of subordination. A project was run to look into transferring the SCP portfolios to the German government's 'Bad Bank' solution via SoFFin (*Finanzmarktstabilisierungsfonds*), but this was rejected because there was no economic advantage to be gained.

Securitization positions are generally rated by at least one recognized external credit assessment institution (Standard & Poor's, Moody's, or Fitch Ratings; see also the comments at the end of section 5.2.1 regarding the use of external ratings). There is no internal rating model for these positions. According to the implementation provisions from BaFin, a "leading" rating agency has to be defined to determine the credit rating to be used for each securitization tranche. Hence, 86 % of exposures are rated by Standard & Poor's, 11 % by Moody's and 3 % by Fitch Ratings.

The following table shows, broken down by product type and rating class, the investor position volumes (EAD), calculated by the ratings-based approach, that correspond in total to the figure of €5,458 million reported in table 34, which represents the sum of the IRBA exposures (€5,444 million) and the CRSA positions (€14 million). The difference between the volume shown here and the figure of €5.8 billion shown for structured credit products in the Annual Report (see page 78) is primarily due to the definitions of the notional volumes applicable under the German Commercial Code as opposed to the regulatory exposure amounts. In the reporting year, there was a review of the investor positions with a view to assigning them for CRSA or IRBA eligibility pursuant to section 226(4) of the SolvV.

Investor positions by rating class

| Securitization positions | Volumes by rating class | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AAA | | AA | | A | | BBB | | <= BB | | Total | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| CMBSs | 46 | 153 | 83 | 54 | 102 | 42 | 18 | 16 | 26 | – | 275 | 265 |
| RMBSs | 287 | 456 | 150 | 71 | 132 | 70 | 37 | 3 | 30 | 58 | 636 | 658 |
| Corporate CDOs | 313 | 526 | 145 | 288 | 196 | 189 | 83 | 578 | 1,534 | 766 | 2,271 | 2,347 |
| Non-corporate CDOs | 0 | 173 | 95 | 184 | 74 | 189 | 111 | 252 | 1,342 | 1,059 | 1,622 | 1,857 |
| Other ABSs | 318 | 405 | 74 | 118 | 19 | 6 | 28 | 101 | 215 | 74 | 654 | 704 |
| Total amount | 964 | 1,713 | 547 | 715 | 523 | 496 | 277 | 950 | 3,147 | 1,957 | 5,458 | 5,831 |

Table 31

The table shows that the large majority of investor positions consist of collateralized debt obligations (71.3 %). The total volume of structured finance to be disclosed for regulatory purposes decreased by €373 million overall in the period since December 31, 2008, mainly because of exchange rate effects and redemptions.

As of the December 31, 2009 reporting date no individual exposures in the investor portfolio had been hedged for regulatory purposes. However, Postbank holds investor positions that are structured in such a manner that the issuer uses credit insurance (monoliners with a nominal value of €28 million) to hedge the cash flows. The creditworthiness of such exposures is determined by credit assessments provided by external credit assessment institutions.

Capital charges are not made as part of credit risk mitigation techniques. Generally speaking, however, the acceptance and administration of any collateral would be based on the strict standards of the SolvV and would be performed in a similar manner to the procedures for credit risk mitigation techniques that are described in section 6.2. The value assigned to existing collateral is regularly reviewed, depending on the type of collateral involved.

### 7.3.2 Originator positions

With respect to Postbank's role as originator, the current Pillar III Disclosures in accordance with section 26a of the KWG are based on the Good Practice Recommendations of the Bundesverband deutscher Banken e. V. (Association of German Banks) with regard to the disclosure requirements for securitization positions pursuant to the Capital Requirements Directive (CRD). The recommendations were implemented primarily with a view to improving transparency and enhancing comparability of the securitization exposures. Comparative figures as of the previous reporting date (December 31, 2008) are given in the text and tables below.

Postbank uses synthetic and true-sale securitization transactions to discharge its banking control responsibilities, i.e. in capital management, risk management, liquidity management/refinancing and balance-sheet and P&L management.

As of December 31, 2009 Postbank is the originator of the PB Domicile 2006-1, Provide Blue 2005-1, Provide Blue 2005-2, and PB Domicilio 2007-1 transactions. These are all synthetic securitizations of residential real estate assets located in Germany and Italy. The transactions serve to reduce regulatory capital requirements on the one hand and diversify risk on the other. They were recognized on the reporting date at their repayment amounts. The underlying exposures are reported in the IFRS categories assigned to them in each case. The IRB Approach is used for PB Domicile 2006-1, Provide Blue 2005-1, and Provide Blue 2005-2, based on the underlying exposures, whereas the CRSA is used for PB Domicilio 2007-1 (residential property finance originated by the BHW branch in Italy). As of the reporting date, there were no securitization positions related to revolving counterparty credit risk exposures in Postbank's portfolio.

The following table gives a summary of Postbank's individual securitization transactions and hence also provides transparency with respect to the risk concentrations entered into and the steps taken to mitigate risk.

Total amount of securitized positions

| Transaction | Approach | Country | Total amount of securitized positions €m | | Swaps €m | | Financial collateral €m | | Own risk retained €m | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| PB-Domicile 2006-1 (Postbank AG) | IRBA | Germany | 1.987 | 2.170 | 0 | 0 | 177 | 174 | 1.810 | 1.996 |
| PB Domicilio-2007-1 (BHW) | CRSA | Italy | 1.066 | 1.197 | 0 | 1.120 | 66 | 67 | 1.000 | 10 |
| Provide Blue 2005-1 (BHW) | IRBA | Germany | 809 | 1.024 | 798 | 1.011 | 0 | 0 | 11 | 13 |
| Provide Blue 2005-2 (BHW) | IRBA | Germany | 2.147 | 2.509 | 156 | 2.490 | 0 | 0 | 1.991 | 19 |
| Total amount | | | 6.009 | 6.899 | 954 | 4.620 | 243 | 240 | 4.812 | 2.038 |

Table 32

As can be seen in the table, total securitized positions amounted to €6,009 million as of the reporting date (December 31, 2008: €6,899 million). The securitization transactions have been collateralized against defaults in the reference portfolios using credit default swaps totaling €954 million and financial collateral of €243 million. There are two swaps eligible for regulatory purposes as of December 31, 2009; the Provide-Blue 2005-1 transaction has a credit default swap for which KfW is the protection seller, while the Provide-Blue 2005-2 transaction has the existing junior credit default swap, again with KfW as the protection seller. Since the December 31, 2008 reporting date, the credit default swap under the PB Domicilio 2007-1 transaction with Merrill Lynch as protection seller was cancelled on July 7, 2009, and the existing senior credit default swap under the Provide Blue 2005-2 transaction, with KfW as protection seller, was cancelled on November 9, 2009. The financial collateral pertains to the IRBA transaction PB Domicile 2006-1 and the CRSA transaction PB Domicilio 2007-1. As a result, Postbank's own risk retained, which requires capital backing, amounted to €4,812 million in addition to the counterparty risk associated with the guarantors (see table 34).

The Deutsche Postbank AG PB Domicile 2006-1 transaction has a credit default swap of €1,803 million for which Dresdner Bank acts as the protection seller. Due to the high credit rating of the individual securitization tranches, the transaction was not included as mitigating risk in the regulatory calculation of capital requirements in 2009. Postbank uses an inferred credit assessment for these securitization positions in accordance with section 256(1) sentence 1 of the SolvV. The own risk retained under PB-Domicile 2006-1 primarily falls into the "<10 %" risk weight band (see table 36).

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 using the rating approach published for German RMBSs in each case. The Provide-Blue 2005-1 transaction was cancelled on January 7, 2010.

As of December 31, 2009, Deutsche Postbank AG, Bonn, Deutsche Postbank International S. A., Munsbach, Luxembourg, and BHW Bausparkasse AG, Hamelin, had limited holdings of purchased individual tranches of the originated securitization transactions shown in table 32. Risk reduction for regulatory purposes applies in all cases despite these investments.

The underlyings for the originated securitization transactions are allocated both to the IAS-39 loans and receivables category and to the fair value option category. Holdings classified as belonging to the loans and receivables category are recognized at amortized cost, whereas holdings assigned to the fair value option are recognized at fair value through profit or loss. The swaps shown in table 32 are deemed to be (received) financial guarantee contracts as defined by IAS 39. In accordance with IAS 39.9, financial guarantee contracts are not required to be recognized, although they must be included in impairment tests for assets.

In addition, Postbank structured three originator securitization transactions for which no significant risk transfer in accordance with section 232(2) of the SolvV has yet taken place.

- PB Consumer 2008-1 (traditional/true sale): €367 million, initially €1,160 million
- PB Consumer 2009-1 (traditional/true sale): €714 million, initially €997 million
- Provide Domicile 2009-1 (synthetic): €1,297 million, initially €1,534 million

These three transactions are not shown in any of the tables in this section. The individual exposures are shown as separate risks as of the reporting date and relate exclusively to consumer credits and mortgage loans to private individuals resident in Germany.

The following table shows the impaired and past due securitized positions for the above-mentioned originator transactions on the basis of the protected amount (BHW securitization transactions) and outstanding balances (PB Domicile 2006-1) totaling €258 million, far in excess of the overdue payments for the exposures shown. The period of arrears for the past due items reported is generally less than one month. The volume of impaired and past due exposures decreased slightly as against December 31, 2008. The table also shows the losses realized with respect to the originator positions in 2009.

Impaired and past due securitized positions and losses realized in the year under review

| Type of securitized position | Impaired/past due positions | | Realized losses | |
|---|---|---|---|---|
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Residential real estate | 258 | 266 | 7 | 3 |
| Commercial real estate | – | – | – | – |
| Other exposures | – | – | – | – |
| Total amount | 258 | 266 | 7 | 3 |

Table 33

### 7.3.3 Retained or purchased securitization positions

The following table shows the exposure amount of the securitization positions retained or purchased by Postbank in its function as investor and originator, broken down in each case by the type of underlying exposure and the approach used for calculation. The total volume of structured finance (investor securitizations) to be disclosed for regulatory purposes decreased by €373 million overall in the period since December 31, 2008, mainly because of exchange rate effects and redemptions. In the reporting year, there was also a review of the investor positions with a view to assigning them for CRSA or IRBA eligibility pursuant to section 226(4) of the SolvV. The volume of originator securitizations increased by €2,774 million because of cancelled collateral (see notes to table 32).

Total amount of retained or purchased securitization positions

| Exposure amounts | Investor function | | | | Originator function | | | |
|---|---|---|---|---|---|---|---|---|
| | IRBA | | CRSA | | IRBA | | CRSA | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Recognized positions | 0 | 5,527 | 0 | 304 | 0 | 2,028 | 0 | 10 |
| Receivables | 0 | – | 0 | – | 0 | – | 0 | – |
| Credit enhancements | 0 | – | 0 | – | 0 | – | 0 | – |
| ABS transaction exposures | 5,444 | 5,527 | 14 | 304 | 3,812 | 2,028 | 1,000 | 10 |
| Other recognized positions | 0 | – | 0 | – | 0 | – | 0 | – |
| Unrecognized positions | 0 | – | 0 | – | 0 | – | 0 | – |
| Other unrecognized positions | 0 | – | 0 | – | 0 | – | 0 | – |
| Total amount | 5,444 | 5,527 | 14 | 304 | 3,812 | 2,028 | 1,000 | 10 |

Table 34

The following table shows the amounts of the securitization positions retained or purchased by Postbank, broken down by geographic region:

Securitization positions, broken down by geographic region

| Exposure amounts | Investor function | | Originator function | |
|---|---|---|---|---|
| | IRBA | CRSA | IRBA | CRSA |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| Germany | 82 | – | 3,812 | – |
| Western Europe | 3,568 | – | – | 1,000 |
| North America | 474 | 14 | – | – |
| Other regions | 1,319 | – | – | – |
| Total amount | 5,444 | 14 | 3,812 | 1,000 |
| *Comparative figures as of Dec. 31, 2008* | *5,527* | *304* | *2,028* | *10* |

Table 35

Table 36 shows the total amount of securitized positions and the capital requirements for the main risk weight bands. There has been a significant shift towards risk bands with higher risk weights as well as an increase in capital deductions compared with the December 31, 2008 report, due to the change in regulatory treatment of the revaluation reserve following the amendment to the KonÜV and due to downgrades of the external ratings for investor positions. The calculations of capital requirements include €1,316 million in negative fair values of embedded derivatives and impairments amounting to €357 million.

| Capital requirements for retained or purchased securitization positions by risk weight band | | | | | | |
|---|---|---|---|---|---|---|
| Risk weight bands | Exposure amount | | Capital requirements IRBA | | Capital requirements CRSA | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| < 10 % | 4,453 | 2,912 | 26 | 14 | – | 5 |
| ≥ 10 % and < 20 % | 880 | 1,491 | 8 | 5 | – | – |
| ≥ 20 % and < 50 % | 1,476 | 518 | 9 | 3 | 16 | 0 |
| ≥ 50 % and ≤ 100 % | 278 | 946 | 12 | 9 | 0 | 0 |
| > 100 % and ≤ 650 % | 408 | 334 | 138 | 35 | – | – |
| 1250 % or capital deduction | 2,775 | 1,668 | 1,186 | 637 | 9 | 8 |
| Total amount | 10,270 | 7,870 | 1,379 | 703 | 25 | 13 |

Table 36

In addition to the positions presented in tables 35 and 36, Postbank held an investor securitization position of €67 million calculated according to the Supervisory Formula Method as of December 31, 2008. This transaction expired in the second half of 2009 and was no longer held by Postbank as of December 31, 2009.

# 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 entered into as a result of business considerations. Consequently, the size of the market risk is the result of a risk capital allocation process that limits the size of the risk entered into overall to a level that is acceptable for Postbank while still permitting a desirable level of earnings. Unwanted market risk is hedged or reduced where it makes economic sense to do so and where this is possible given the tight market conditions resulting from the financial market crisis. When market risk is intentionally taken or retained, this is done with the goal of generating income. Postbank thus enters into interest rate, equity, currency, spread, commodity, and volatility risks in its banking and trading books as an additional source of income.

Postbank's market risk strategy, as a component of its overall Group-wide risk strategy, specifies the risk profile that Postbank is willing to accept when 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 business divisions and portfolios subject to market risk as well as the organization of and processes used for risk management and risk reporting to the relevant management bodies at Postbank.

Market risk as defined in Postbank's market risk strategy comprises interest rate risk, equity price risk, foreign exchange risk, spread risk, commodity price risk, as well as volatility risk. These risks are incurred directly in the Financial Markets division or as part of business activities in the strategic business divisions of Corporate Banking and Retail Banking and are then transferred for management either to the central Financial Markets division or to the local risk management units.

The Management Board has delegated market risk management to the Market Risk Committee (MRC), which is monitored by the Supervisory Board. In general, Deutsche Postbank AG's Financial Markets division manages market risk centrally. BHW Bausparkasse AG, the foreign subsidiaries in New York and Luxembourg, and the London branch manage their risks independently using separately defined risk limits. To achieve this, the integration of the Market Risk Committees (MRCs) at the subsidiaries into the Group was increased in fiscal year 2009.

The Risk Controlling unit acts as a Group-wide, independent monitoring unit. Risk Controlling is responsible for operational limit monitoring and reporting, in addition to the methods and models used for risk identification and measurement.

Additional information on managing market risk is contained in the 2009 Postbank Group Annual Report (p. 64 et seq.).

**Management and measurement of market risk**

The key task of market risk management is asset/liability management of the balance of market price-sensitive positions transferred by the individual business divisions. In addition to asset/liability management in the banking book, risk is also incurred as a result of trading; this is disclosed in the trading book. Market risk is actively assumed within limits that are set from a risk-bearing capacity perspective in order to generate profits.

Postbank makes use of a combination of risk, earnings, and other inputs to manage its market risk. Changes in the value of market risk are derived from daily marking to market, independently of their measurement for financial accounting purposes. In the case of inactive market segments, a special process has been instituted to regularly review whether the market data available still permits adequate valuations to be made. As a result, specific portfolios are marked to model. The management of market risk exposures from an earnings perspective focuses both on specific periods and on the present value. All market risk is measured using value at risk. Risks from potential changes in spreads have been taken into account in risk measurement. Sensitivity indicators and maturity structures are other management indicators used.

In the Postbank Group, market risk is monitored using a system of risk limits based on the value at risk methodology. The aggregate limits are set by the Group Management Board and allocated by the Market Risk Committee to the individual operating units as sublimits. These are dynamic outcome-based limits; any losses incurred reduce the limit, while gains replenish it, at a maximum, to the originally defined level. There were no limit exceedances at Group level in 2009. End-of-day risk measurement and monitoring are used for the whole Bank; additional intraday monitoring is carried out for the trading portfolios.

The Market Risk Committee allocates the total risk capital made available by the Management Board for market risk to the banking book portfolios and the trading books. 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.

To account for the relative significance of market risk and the volatility of market movements, Postbank has defined escalation mechanisms for critical management parameters and for exogenous events. These mechanisms make it possible to react promptly to situations in which limits are approached or exceeded, as well as to extreme market movements impacting Postbank.

**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 mark-to-model backtesting). Evaluation uses the "traffic light" color code model published by the Bank for International Settlements (BIS). The Management Board is informed of the backtesting results in the monthly reports. The current "Internal Market Risk Model" project laid the foundation for discontinuing the use of current mark-to-model backtesting in favor of a marking-to-market procedure which is planned to be implemented in 2010.

**Stress testing**
In addition to the VaR calculations, scenario analyses are performed at regular intervals to permit the separate analysis of extreme market movements. These analyses quantify the effects of extraordinary events and extreme market conditions (worst-case scenarios) on the Postbank Group's balance sheet positions. The scenario analyses and stress tests are performed for all material risk factors in the interest rate, spreads, currency, and equity risk types. The assumptions underlying the stress tests are validated on an ongoing basis. The stress parameters were completely revised in 2009 in light of the financial market crisis in order to account for the market volatility observed and are currently being reviewed to assure compliance with new MaRisk requirements. The effects of the scenarios are compared with the 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.

## 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 serves to inform the Group Management Board and the position managers about the positions entered into, limit utilization, and the economic profit/loss of the positions before the start of each trading day.

- The weekly report is addressed to the position managers and summarizes the significant changes in the market and in the positions. The daily and weekly reports are regularly discussed with the position managers and provide the basis for operational management.

- The monthly report provides a comprehensive overview of the change in market risk within the reporting period and is addressed to the Group Management Board. In addition to the current figures and the risk indicators, this report also contains the results of the regular stress testing and backtesting analyses. Information is also provided by portfolio and currency on the interest rate risk in the banking book that would be incurred in the event of a defined interest rate shock, along with additional interest rate scenarios.

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

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

## 8.3 Fundamentals of risk hedging and mitigation

As explained in section 8.1, the Postbank Group has highly sophisticated processes and methods for managing market risk and monitoring compliance with the defined limits. Moreover, the stress and backtesting processes described support risk management by facilitating reviews of the risk measurement methodology used.

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

## 8.4 Specific disclosures on interest rate risk in the banking book

In accordance with 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 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 is +130 basis points or –190 basis points, respectively:

| Interest rate risk in the banking book | | | | |
|---|---|---|---|---|
| Currency | Interest rate shock (+130 bp / –190 bp) | | | |
| | Change in value +130 bp | | Change in value –190 bp | |
| | Dec. 31, 2009 €m | Dec. 31, 2008 €m | Dec. 31, 2009 €m | Dec. 31, 2008 €m |
| EUR | –502 | 142 | 565 | –378 |
| USD | –147 | –133 | 262 | 266 |
| JPY | –3 | –43 | 2 | 89 |
| GBP | –2 | 0 | 3 | 1 |
| CHF | 0 | 0 | 0 | 0 |
| Others | –1 | 1 | 1 | 0 |

Table 37

At the Postbank Group, the daily changes in value remained in all cases below the reporting threshold of 20 %.

In accordance with the regulatory parameters, the change in the present value in the banking book is calculated by taking into account all interest-bearing balance sheet items and interest-sensitive off-balance sheet items in accordance with the internal management methods and models.

Specific behavioral assumptions are made on the basis of past behavioral patterns in order to quantify the interest rate risk for customer transactions involving significant implicit options. Particularly important in this connection are Deutsche Postbank AG's variable interest customer deposits, 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 supplement the risk monitoring and management concept. When measuring interest rate risk, option models are used to account for material statutory and contractual early loan repayment rights, offers of new loans and extensions to existing ones, and loan payment delinquencies. The option models and statistical modeling techniques used for this were extended and further enhanced in 2009. In the case of deposits without agreed maturities, investor behavior is modeled using the internal models and procedures for managing and monitoring interest rate risk. In accordance with MaRisk, those elements of capital available to the Bank without time limit are excluded from the determination of 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 (refinancing risk, yield curve risk, basis risk, and optionality risk). Refinancing risk and yield curve risk are incurred through cash flow mismatches that react to changes in interest rates and the yield curve. Basis risk is incurred between different market segments, e. g., *Pfandbriefe* (mortgage bonds) and the swap market, as well as directly between individual counterparties. Optionality risk also exists, both in Postbank's customer business and in respect of financial instruments.

The results of the regular interest rate risk reviews are taken into account when setting limits. The market risk determined using VaR for the banking book for a 99 % confidence level and a ten-day holding period amounted to €365.7 million as of December 31, 2009 (December 31, 2008: €532.0 million).

# 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 (LMT) risk describes the risk of increased refinancing costs as a result of closing gaps caused by changes in the Bank's refinancing curve.

The Deutsche Postbank Group considers liquidity risk as an integral element of the risk strategy for the Bank as a whole. Its 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. The liquidity risk strategy is implemented on the one hand by regularly reviewing liquidity and taking action to ensure it is maintained and, on the other, by specified decision-makers deliberately entering into liquidity risk positions within the framework of the applicable limits in each case.

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 illiquidity risk. Postbank pursues active liquidity management and control to prevent the risk of illiquidity. The Postbank Group has adequate sources of liquidity as well as a collateral portfolio consisting of ECB-eligible securities for potential stress situations. The risk of increased refinancing costs as a result of closing gaps caused by changes in Postbank's refinancing curve (liquidity maturity transformation risk) is, at the moment, implicitly covered by risk capital partially allocated to business risk and partially to market risk. To further improve management of this risk type, it is planned to implement a separate limit for liquidity maturity transformation risk in 2010.

Additional information on managing liquidity risk is contained in the 2009 Postbank Group Annual Report (p. 79 et seq.).

**Management and measurement of liquidity risk**

The responsibility for performing centralized risk management tasks at the Postbank Group lies with the Management Board. 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. BHW Bausparkasse AG, the foreign subsidiaries in New York and Luxembourg, and the London branch manage their risks independently within defined limits, using uniform, Group-wide procedures and processes.

Risk Controlling functions 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 responsible for limit monitoring and reporting at an operational level.

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

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

In keeping with the increasing importance of liquidity management, a project was set up in 2007 to successively enhance liquidity risk management. This was completed according to plan at the end of 2009. As a result, Postbank has laid important foundations for differentiated liquidity management in keeping with the requirements derived from the "Principles for Sound Liquidity Risk Management and Supervision". The current enhancement of the liquidity management concept takes into account the ongoing regulatory debate and in particular the structural liquidity position monitored over the course of several years. This concept is scheduled to be implemented operationally in 2010.

Risk Controlling assesses the liquidity status of the Postbank Group each business day on the basis of funding matrices and cash flow forecasts, with operational management of risk being performed on the basis of the liquidity status. Risk management activities focus above all on ensuring solvency at all times, even in stress situations. To achieve this, liquidity exposures are subject to separate stress testing at least once a month. These simulated calculations reflect external changes in a variety of market factors, anxious reactions of customers, and structural changes in funding resources. The stress tests also identify and analyze risk concentrations with respect to the Postbank Group's liquidity position, e. g., with respect to its savings and demand deposits or its access to the collateralized and uncollateralized money markets.

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

## 9.2 Reporting

The Postbank Group uses a number of regular reports for liquidity risk. In 2009, these were expanded and, in some cases, supplemented by ad hoc analyses of specific key items in view of the strained market situation. The standard reports are described in more detail below:

- The Group Management Board, the members of the Market Risk Committee, and the relevant liquidity management units are informed daily by Risk Controlling on the liquidity status including limit utilization at Group and unit levels. A detailed reconciliation of cash inflows and outflows with available sources of liquidity is provided.
- Supplementing this, the Liquidity Management department uses a separate monthly report to inform the Market Risk Committee of the market situation and of Postbank's liquidity status and refinancing activities.
- The Group Management Board and the members of the Market Risk Committee receive monthly liquidity status overviews, including the established scenario analyses and stress tests at Group level.
- Monthly information on liquidity ratios in accordance with the LiqV is sent to the Group Management Board as part of the Management Board information system.
- The Supervisory Board is informed on a quarterly basis of the Postbank Group's liquidity position, including in the defined stress situations.

## 9.3 Fundamentals of risk hedging and mitigation

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

Due to its strategic focus as a retail bank, Postbank has 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 a framework of approved limits. To guard against unexpected cash outflows, Postbank has an extensive portfolio of unencumbered ECB-eligible securities that can be used to generate liquidity rapidly. To ensure the additional diversification of its refinancing activities, Postbank has a *Pfandbrief* license allowing it to issue public-sector *Pfandbriefe* and mortgage *Pfandbriefe*.

The Treasury units are responsible for ensuring solvency 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 of the SolvV as the risk of loss resulting from inadequate or failed internal processes and systems, people, or external events. This definition also covers legal risk, but not reputational or strategic risk. 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 substrategy for operational risk comprises principles that are applicable throughout the Group and that, for example, cover both active security measures (such as process transparency, clear rules defining authorizations and powers, and appropriate security guidelines) and passive security measures in the form of appropriate emergency plans and adequate financial cover.

Postbank's Management Board has overall responsibility for managing, monitoring, and controlling operational risk. The Operational Risk Committee (ORC) commissioned by the Management Board defines the strategy and framework for managing operational risk. Deutsche Postbank AG's central OpRisk Controlling unit coordinates activities so as to ensure uniform procedures throughout the Group. 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 identifying and managing legal risk.

A two-tiered organizational structure with decentralized OpRisk managers has been established for each division or subsidiary to supplement the central Risk Controlling unit and to assist the managers concerned with risk prevention.

In 2009, Deutsche Postbank Home Finance Ltd., Gurgaon, India, was fully integrated into the controlling process. This means that all areas of the Postbank Group have now been integrated.

Additional information on managing operational risk can be found in the Postbank Group's 2009 Annual Report (p. 82 et seq.).

**Operational risk management**

Operational risk management is performed locally in the respective Group units. When analyzing operational risk, Postbank focuses primarily on capturing risk indicators, performing structured self-assessments and scenario analyses, and collecting information on losses incurred.

To date, Postbank has used the Standardized Approach to calculate capital requirements for operational risk. An internal audit confirmed that the requirements in accordance with the SolvV qualifying the Bank to apply the Standardized Approach and, in particular, the manner in which gross amounts are assigned to the individual business divisions were met; the BaFin and Deutsche Bundesbank were notified of this.

In 2008, the Group Management Board resolved to introduce an Advanced Measurement Approach (AMA). Implementation work started in the second half of 2008 and continued in 2009. The internal quantification model for operational risk developed as part of the AMA implementation project went live on July 1, 2009. Since then, the economic capital requirements for operational risk both for the Bank as a whole and for the four business divisions individually have been determined using an internal capital model. A scorecard was developed to assess the quality of operational risk management in the business divisions so as to enable qualitative modifications to the capital amounts calculated for the business divisions; this also represents a material incentive to improve operational risk management. As a flanking measure, the processes and methods already established were enhanced in 2009 in line with the regulatory requirements for the AMA; scenario analysis was implemented in all business divisions, and an IT-based activity tracking system was established. The AMA implementation project is scheduled for completion in the first quarter of 2010. It is planned to submit the application for approval to the BaFin and Deutsche Bundesbank at the end of the first quarter of 2010.

## 10.2 Reporting

In fiscal year 2009, Postbank enhanced its internal operational risk reporting system to include quantitative elements such as the utilization of the VaR (value at risk) limits assigned to the business divisions, as well as additional information on, for example, AMA-related (AMA – Advanced Measurement Approach) risk indicators and the results of scenario analyses.

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

- The members of the Operational Risk Committee (ORC) are informed on a monthly basis of losses incurred and of selected indicators that have exceeded the defined tolerance threshold, as well as of utilization levels for warning thresholds for typical losses in the individual business divisions and utilization levels for warning thresholds relating to high-frequency losses.

- Above and beyond this, the members of the ORC are informed on a quarterly basis of the utilization of the defined VaR limits at the level of the Bank as a whole and of the business divisions; in addition, they are provided with the results of the self-assessment every six months.

- The Group Management Board receives a current summary of the losses recorded each month as well as the results of the scenario analysis on an annual basis.

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

Members of the Operational Risk Committee and the heads of the business divisions receive ad hoc reports without delay in the case of material losses that exceed a predefined level or of serious risks.

## 10.3 Fundamentals of risk hedging and mitigation

Postbank has created the basis for reducing operational risk by implementing a well-structured organization, clear rules defining authorities and powers, and working instructions for subprocesses. Employees receive regular training and are informed promptly about new developments relating to processes and working instructions.

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 monitored continually.

The purchase of insurance cover for losses arising from operational risk is reviewed at regular intervals by a separate organizational unit.

# List of tables

# List of abbreviations

| Abbreviation | Long form |
|---|---|
| ABSs | Asset-Backed Securities |
| AfS | Available for Sale |
| AG | Aktiengesellschaft (German stock corporation) |
| AMA | Advanced Measurement Approach |
| BaFin | Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) |
| BDB | Bundesverband deutscher Banken (Association of German Banks) |
| BIS | Bank for International Settlements |
| BP | Basis points |
| BV | Besloten Vennootschap |
| 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 |
| EAD | Exposure at Default |
| EC | European Community |
| ECB | European Central Bank |
| EIU | Economic Intelligence Unit |
| EU | European Union |
| EUR | Euro |
| EURIBOR | Euro Interbank Offered Rate |
| GmbH | Gesellschaft mit beschränkter Haftung (limited company) |
| HGB | Handelsgesetzbuch (German Commercial Code) |
| IASs | International Accounting Standards |
| IFRSs | International Financial Reporting Standards |
| IRBA | Internal Ratings-Based Approach |
| ISDA | International Swaps and Derivatives Association |
| KG | Kommanditgesellschaft (limited partnership) |
| KGaA | Kommanditgesellschaft auf Aktien (partnership limited by shares) |

| Abbreviation | Long form |
|---|---|
| KonÜV | Konzernabschlussüberleitungsverordnung (Consolidated Financial Statements Reconciliation Regulation) |
| KWG | Kreditwesengesetz (German Stock Corporation Act) |
| LGD | Loss Given Default |
| LIP | Loss Identification Period |
| LiqV | Liquiditätsverordnung (German Liquidity Regulation) |
| LLC | Limited Liability Company |
| LMT | Liquidity maturity transformation |
| Ltd. | Limited |
| MaRisk | Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management) |
| MIS | Management Board Information System |
| MRC | Market Risk Committee |
| OpRisk | Operational risk |
| ORC | Operational Risk Committee |
| ORX | Operational Riskdata eXchange Association |
| OTC | Over the counter (derivatives) |
| PB | Postbank |
| PD | Probability of Default |
| RMBSs | Residential Mortgage-Backed Securities |
| RoE | Return on equity |
| RWA | Risk-weighted assets |
| S.A. | Société Anonyme |
| S.A.R.L. | Société à Responsabilité Limitée |
| SCP | Structured Credit Products |
| SolvV | Solvabilitätsverordnung (German Solvency Regulation) |
| Srl | Società a responsabilità limitata |
| VaR | Value at risk |
| VÖB | Bundesverband öffentlicher Banken Deutschlands (Association of German Public Sector Banks) |
| ZKA | Zentraler Kreditausschuss (German Central Credit Committee) |

# Contacts

Published by

Deutsche Postbank AG
Head Office
Investor Relations

Friedrich-Ebert-Allee 114–126
53113 Bonn, Germany

Postfach 40 00
53105 Bonn, Germany

Phone: +49 228 920-0

Investor Relations

Phone: +49 228 920-18003
E-mail: ir@postbank.de
www.postbank.com/ir

Translation:

Deutsche Post
Corporate Language Services et al.

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