

## Other disclosures

### 51 Financial instruments

Financial instruments are contractual obligations to receive or deliver cash and cash equivalents. In accordance with IAS 32 and IAS 39, these include both primary and derivative financial instruments. Primary financial instruments include in particular bank balances, all receivables, liabilities, securities, loans and accrued interest. Examples of derivatives include options, swaps, and futures.

The Deutsche Postbank Group accounts for most of the financial instruments in the Group. The risks and derivatives of the Deutsche Postbank Group's financial instruments are therefore presented separately below.

#### 51.1 Risks and financial instruments of the Deutsche Postbank Group

Taking risks in order to generate earnings is the core function of the Deutsche Postbank Group's business activities. One of the Deutsche Postbank Group's core competencies is to assume normal banking risks within a strictly defined framework, whilst at the same time maximising the potential return arising from them. In the process, each of the relevant risks is carefully identified, continuously measured and monitored as well as regularly reported. To this end, the Deutsche Postbank Group has established a risk management organisation as the basis for risk and earnings-based overall bank management.

In accordance with the requirements of MaRisk (Minimum Requirements for Risk Management), the risk strategy is consistent with the business strategy and takes into account all significant business areas and types of risk. In addition to an overarching, group-wide risk strategy, Deutsche Postbank AG's Management Board has resolved specific risk strategies for market, credit, liquidity and operational risk.

Operational responsibility for risk management is spread across several units in the Deutsche Postbank Group, primarily the Financial Markets Board Department, domestic/foreign credit management and the credit functions of the retail banking business and, at a decentralised level, the subsidiaries BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International s.A. and PB Capital Corp., as well as the London branch.

Risk Controlling, which is part of the Finance Board Department, is the independent, group-wide risk monitoring unit. Risk Controlling is authorised to make decisions regarding the methods and models applied in risk identification, measurement and limitation. Risk Controlling, together with the risk control units at BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International s.A., PB Capital Corp. subsidiaries and the London branch, is responsible for operational risk control and reporting at Group level.

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

Management Board is responsible for risk strategy, the appropriate organisation of risk management, monitoring the risk content of all transactions and risk control. In conjunction with the Risk Committees, the Deutsche Postbank Management Board has defined the underlying strategies for activities on the financial markets and the other business sectors of the Group.

#### Definition of risk types

The Deutsche Postbank Group distinguishes between the following risk types:

- **Market risk:** Potential losses in financial transactions liable to incur from changes in interest rates, spreads, volatility, foreign exchange rates and equity prices.
- **Credit risk:** Potential losses that may be caused by changes in the creditworthiness of or default by a counterparty (for example as a result of insolvency). The following types of credit risk are distinguished:
  - **Default risk (credit risk):** Risk of potential losses caused by a deterioration in the credit rating of or default by a counterparty.
  - **Settlement risk:** Risk of possible losses during the settlement or netting of transactions.
  - **Counterparty risk:** The risk of possible losses arising from potential default by a counterparty, and hence the risk to unrealised profits on executory contracts (replacement risk).
- **Country risk:** The risk of possible losses arising from political or social upheaval, nationalisation and expropriation, a government's non-recognition of foreign debts, currency controls and devaluation or depreciation of a national currency (transfer risk).
- **Liquidity risk:** The risk that current and future payment obligations cannot be met, either in the full amount or as they fall due. Liquidity maturity transformation risk describes the risk of a loss occurring due to a change in Postbank's own refinancing curve (spread risk) resulting from an imbalance in the liquidity maturity structure within a given period for a certain confidence level.
- **Operational risk:** The risk of losses resulting from inadequate or failed internal processes and systems, people or external events. The definition also encompasses legal risks.
- **Investment risk:** Investment risk comprises possible losses arising from fluctuations in fair value of equity investments, unless they are already included in other risk types.
- **Real estate risk:** Real estate risk relates to the real estate owned by the Deutsche Postbank Group and comprises the risk of losses of rental income, write-downs to the going-concern value and losses on sale.
- **Collective risk:** Specific business risk arising from BHW Bausparkasse AG's home savings business. This is defined as the negative impact of (non interest-related) deviations in the actual behaviour of home savings customers from their forecast behaviour.
- **Business risk:** The risk of declining earnings arising from unexpected changes in the business volume and/or margins and corresponding costs. This notion also comprises model risks arising from modelling customer products with unknown capital and interest commitments (in particular savings and giro products) as well as the strategic and the reputational risk.