DB Privat- und Firmenkundenbank Group

Annual Report 2018

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U3 Imprint

Ladies and gentlemen,

Fiscal year 2018 was marked by the creation of DB Privat- und Firmenkundenbank AG.

DB Privat und Firmenkundenbank AG (DB PFK AG) arose from the merger of Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Postbank AG. The merger of the legal entities was completed without difficulties last May. At the same time, the Bank managed to hold its own in the face of difficult market conditions characterized by persistently low interest rates and tough competition. As a result, we are pleased to present our report on the satisfactory first fiscal year of both customer brands – Deutsche Bank and Postbank – as a joint company. The business performance detailed in the following pages provides impressive evidence of our claim to be the creative force in German banking.

The entry of DB PFK AG into the commercial register marked an important milestone in the execution of our “One bank – two brands” strategy announced at the end of 2017. Thanks to some 20 million customers – more than ten million of which are digital – we are now the clear leader on the German banking market for retail and corporate clients.

And we have other accomplishments to report. The Management Board of DB PFK AG has been appointed, and we have established new managerial structures for a joint headquarters with two locations. In particular, we have bundled the responsibilities for our key products under one managerial function for each – from client contact all the way to accounting, both for new clients and existing ones. Since doing so, the management of our service and product portfolio for both brands has been consistent and centralized. We have modified our branch network in line with the “One bank – two brands” strategy and achieved our first synergies on the cost side. In addition, the change in ownership at DB Bauspar AG has laid the groundwork for further synergies to be realized in the following years through the scheduled merger (mid-2019) of both home savings and loan associations.

We also made good progress with our products and services in 2018. The sales division was successfully reorganized in the Postbank customer brand and our branch structure further improved. For the corporate clients of Deutsche Bank we launched BluePort, an online digital services offer that has had an ever-increasing number of users since its inception. For our youngest customers, AppStores now feature a pocket money planner for children and young people, called Young Money. Our brokerage brand DSL scored top marks by gaining the highest volume in its history last year. Moreover, integration has also enabled us to achieve our first synergies in the corporate client support services of both brands, such as commercial real estate finance, factoring and corporate finance solutions.

As the leading digital bank in Germany, we are making great efforts to expand our digital offers and client contacts. Our goal is to implement a comprehensive digital agenda for DB PFK AG that will allow us to benefit from economies of scale and dialog across our customer brands. Our online consumer credit business provided more than €1.7 billion to Postbank and Deutsche Bank clients in 2018. The Deutsche Bank customer brand also fared well with the successful launch of a platform for multibank aggregation, for interest markets – a brokerage platform for fixed-term savings deposits – and for Apple Pay. We are one of the few banks in Germany that offer our customers this type of innovative tool for mobile payments.

All of these accomplishments helped to improve DB PFK AG’s net income before tax by €349 million or 49.6 % to €1,053 million year-on-year. The results for the year under review and for the prior-year period were each affected by a range of non-recurring effects such as the optimization of our real estate portfolio in 2018. In the customer business, the negative impacts of a challenging market environment characterized by low interest rates could be largely offset by a once again very satisfying €140 million in income growth across all lending products. Net new lending volumes, at €6.9 billion, were once again €2 billion more than in the previous year. The deposits balance sheet item also increased by €10.9 billion year-on-year.

The persistently low interest rate level continues to make strict cost management key to success. We were able to make major progress here in 2018 primarily by improving our cost discipline, aligning our capacities and achieving our first synergies from the merger. We were also able to reduce non-interest expenses by €272 million or 5.1 %. With regard to our workforce, the number of full-time equivalents decreased by 860 year-on-year to 28,178 by the end of 2018.

The loan loss allowance ended 2018 at €213 million, a marked increase of €83 million or 63.9 % above the prior year's €130 million. This can primarily be attributed to a non-recurring effect in the previous year, to growth in our loan portfolio and to effects from the first-time application of IFRS 9. The successful realization of a commercial real estate loan in the previous year also had a positive impact in this area.

Return on tangible equity (RoTE) after tax, in the specific context of DB PFK AG, reached a satisfyingly high level of 10.9 %.

Ladies and gentlemen, DB PFK AG has laid important groundwork in the past fiscal year. These changes have certainly already had a positive impact or will have one in the near future. We intend to continue that trend in 2019 and further execute our strategy by focusing even more strongly on the operating business and stricter cost discipline.

In fiscal year 2018, DB PFK AG's very satisfying performance made a key contribution to PCB, a segment that has developed into a second strong mainstay of Deutsche Bank Group. DB PFK AG has thus become an important member of the overall Group. As DB PFK AG, we intend to confirm and further expand this role in the coming year.

We intend to generate additional income growth in two facets of the operating business: The lending and deposit business and net commissions and fee income. Opportunities here can be found in our outstanding digital offers, the expansion of the order-based securities business following implementation of MiFID in 2018, our very successful activities in institutional asset management, and our business with small and medium-sized clients. In addition we will continue to undertake select pricing measures and use our liquidity even more efficiently to reach our long-term income and profitability targets. For fiscal year 2019, we are expecting a moderately higher net income before tax compared with the reporting period, based on this differentiated package of measures.

Our plans for fiscal year 2019 also include the completion of additional stages of integration: The vision for our IT architecture, the consolidation of first operational units and the merger of our home savings and loan associations in the second quarter. We are working intensely on configuring the structures at headquarters and the functions for finalizing our products. And we will continue to vigorously pursue the digitization of our core business by means of a comprehensive digital agenda.

In past years our employees have been crucial to the economic development of DB PFK AG and will remain so on the next part of our journey. When it comes to further developing our structure and organization and facing the challenges of the market environment head on, our staff have always displayed an enormous readiness to do their part. That readiness was crucial to the satisfying business performance in 2018. For that reason, I would like to say thank you on behalf of the Management Board and the Supervisory Board of DB PFK AG.

My Management Board colleagues and I are convinced that DB PFK AG, with its products and services for our customers and the integration successes to date, has laid the foundation for becoming a dynamic force on the German market and for further increasing profitability.

Frankfurt, March 28, 2019

Frank Strauß
Chairman of the Management Board

Report of the Supervisory Board

In the year under review, using Management Board reports, the Supervisory Board closely studied the business performance and the strategic direction of DB Privat- und Firmenkundenbank AG.

One key event in fiscal year 2018 was the merger of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG through a merger agreement dated May 12, 2018. The merger and the name change of the absorbing legal entity to DB Privat- und Firmenkundenbank AG, Frankfurt am Main, were entered into the commercial register on May 25, 2018. Moreover, during status proceedings the number of Supervisory Board members was raised from 16 to 20.

In the past fiscal year, the Supervisory Board discharged its duties under the law and the Articles of Association, regularly advised the Management Board on the management of the Company, and monitored managerial activities with regard to compliance with the relevant banking regulations.

The Management Board provided the Supervisory Board with written and verbal reports on business policy and other fundamental questions of corporate governance and planning, on the Bank's business performance, the risk position, the risk management, the internal control system, compliance, and commercial operations of special significance for the Company. These reports were regular, comprehensive and timely. An account was also given to the Supervisory Board for deviations between the course of business and the plans and targets. The Supervisory Board was directly involved in decisions of fundamental importance for the Company and gave its approval whenever necessary after extensive consultation and examination. When it was necessary to consider such issues outside regularly scheduled meetings, decisions were made by means of written procedures. Between Supervisory Board meetings, the Management Board informed the Chairs of the Supervisory Board, the Audit Committee, and the Risk Committee about important business transactions and forthcoming decisions.

Main subjects of discussion by the Supervisory Board

The Supervisory Board held a total of five regularly scheduled meetings, three extraordinary meetings and two constitutive meetings in fiscal year 2018. It exercised its voting rights in six written procedures in the past fiscal year and also conducted a strategy workshop.

During the first Supervisory Board meeting of the fiscal year, held on January 30, 2018, the Board passed resolutions on the target agreements, target achievements and remuneration of Management Board members.

At the financial statements meeting held on March 19, 2018, the 2017 annual financial statements were approved. This step was taken after thorough deliberation, examination and earlier discussion with the auditor, and reflects the recommendation of the Audit Committee. The results of the evaluation by the Management Board and the Supervisory Board were also presented. The structure of both bodies and the work of the Management Board received an approval rating of "very good" to "good" in all categories, which represents no major changes compared with the previous year. In addition, a precautionary resolution was passed on participation in the capital increase of Verimi GmbH.

The Supervisory Board met for an extraordinary meeting on May 9, 2018, for the purpose of passing resolutions on the agendas for the Extraordinary and Annual General Meetings. The Supervisory Board proposed to the Annual General Meeting that KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, should serve as auditor for fiscal year 2018 and as reviewer of the Interim Financial Statements as of June 30, 2018. In addition, the Supervisory Board discussed the composition of the Management Board and appointed seven new members effective May 28, 2018. It also extended the appointment of one Management Board member. The Supervisory Board was also informed about forthcoming resolutions in connection with the merger of Deutsche Postbank AG and Deutsche Bank Privat- und Geschäftskunden AG.

During the extraordinary meeting on May 11, 2018, the Supervisory Board passed a resolution on the merger following receipt of the merger agreement and the establishment of a branch in Luxembourg.

During the extraordinary meeting on May 22, 2018, the Supervisory Board passed a resolution to make a single change in the composition of the Management Board as a result of the merger.

The Supervisory Board's Chair and Deputy Chair were elected during the constitutive meeting on May 25, 2018. In addition, the Mediation Committee, the Executive Committee, the Nomination Committee, the Compensation Control Committee, and the Risk and Audit Committee were formed and their members elected.

During the regularly scheduled meeting on July 2, 2018, the Supervisory Board amended the Bylaws of the Supervisory Board and the Risk Committee and, as a result, altered that committee's composition. Resolutions were also passed on Management Board matters, and the Management Board reported on the business performance and current status of the "Bank for Germany" program and presented the overall bank risk report.

The regularly scheduled meeting of the Supervisory Board on November 6, 2018, focused primarily on discussions of and/or resolutions on Management Board employment contracts and target agreements for 2018 as well as on the business performance for the third quarter of 2018 and the current status of the "Bank for Germany" program. The risk situation was also discussed.

The constitutive meeting on December 6, 2018, convened because of the status proceedings, involved the election of the Chair, Deputy Chair and members of the committees. In addition, the responsibilities of the Executive Committee were assigned to the Nomination Committee and the Compensation Control Committee. The number of Audit Committee members was raised from six to eight and the number of Risk Committee members from four to six.

In the last regularly scheduled Supervisory Board meeting for the fiscal year on December 14, 2018, the Management Board presented the business planning for 2019, the business strategy and the revised sub-strategies (risk strategy, outsourcing strategy, IT strategy) to the Supervisory Board for discussion. Other subjects of discussion included mid-term planning as well as the efficiency test in line with section 25d(11) sentence 2, number 4, of the *Kreditwesengesetz* (KWG – German Banking Act).

Work of the committees

To carry out its work, the Supervisory Board formed five committees. The Executive Committee was dissolved during the constitutive meeting on December 6, 2018, and its responsibilities delegated to the Nomination Committee and/or the Compensation Control Committee. The following members serve on the Supervisory Board and its committees:

Supervisory Board			
Christian Sewing (Chair)	Wolfgang Ermann[1]	Joachim Kotthoff[1]	Bernd Rose[1]
Susanne Walzer[1] (Deputy Chair)	Ursula Feikes-Feilhauer[1]	Karen Kuder	Michael Spiegel
Christoph Bornschein	Claudia Fieber[1]	Philip Laucks	Eric Stadler[1]
Frank Bsirske[1]	Marzio Hug	Andreas Christian Loetscher	Werner Steinmüller
Alexander Diffenhard[1]	Anna Issel	Christiana Riley	Jörg Wolfram[1]

Nomination Committee	
Christian Sewing (Chair)[2]	Frank Bsirske[1]
Susanne Walzer[1] (Deputy Chair)[2]	Philip Laucks

Compensation Control Committee	
Christian Sewing (Chair)[2]	Frank Bsirske[1]
Susanne Walzer[1] (Deputy Chair)	Philip Laucks

Risk Committee	
Werner Steinmüller (Chair)	Marzio Hug
Alexander Diffenhard[1]	Michael Spiegel
Wolfgang Ermann[1]	Eric Stadler[1]

Audit Committee	
Christiana Riley (Chair)	Joachim Kotthoff[1]
Ursula Feikes-Feilhauer[1]	Karen Kuder
Claudia Fieber[1]	Andreas Christian Loetscher
Anna Issel	Bernd Rose[1]

Mediation Committee (Section 27 of the German Co-determination Act (MitbestG))	
Christian Sewing (Chair)[2]	Joachim Kotthoff[1]
Susanne Walzer[1] (Deputy Chair)[2]	Philip Laucks

[1] Employee representative
[2] Appointed ex officio

The Risk Committee met four times in fiscal year 2018. During those meetings in the past fiscal year, the Management Board provided the Risk Committee with regular comprehensive information on the development of key financial figures and risk indicators. Further, the committee discussed the business and risk strategy as well as the digitization and outsourcing strategy with the Management Board. It extensively addressed regulatory changes to derive measures for improving risk management and risk culture. The committee received comprehensive reports on market and liquidity risks, credit risk, operational risk, legal risk and legislative developments. To be able to efficiently advise the Supervisory Board and the Management Board with regard to overarching topics, the Risk Committee and the Audit Committee worked closely together.

The Audit Committee met five times in fiscal year 2018 and focused primarily on the monitoring of the financial reporting process, the effectiveness of the internal control system, the risk management system, and the internal audit system, as well as the audit of the financial statements. The committee was regularly informed about the work of internal audit and its human resources. It reviewed the actions taken by the Management Board to eliminate shortcomings identified by the auditor, internal audit and supervisory authorities, and received regular progress status reports. Other focal points of discussion were the annual financial statements for 2017, the half-yearly financial report as of June 30, 2018, the audit and non-audit services rendered by the auditor, recent regulatory developments in the banking environment, the compliance report for 2017, and the annual report of internal audit for 2017.

The Executive Committee met five times in the year under review. Their meetings addressed such matters as the further evolution of corporate governance as well as the terms and conditions of Management Board employment contracts. During its meetings, the Executive Committee also prepared resolutions for the Supervisory Board and approved the assumption of mandates of Management Board members in other companies.

In fiscal year 2018, the Nomination Committee met four times. Key focal points of discussion were the preparation of proposals to the Annual General Meeting for the election of shareholder representatives to the Supervisory Board, succession planning for the Management Board and the Supervisory Board, and evaluations of those boards, which are to be conducted regularly. Amendments to the schedule of responsibilities of the Management Board were also discussed.

The Compensation Control Committee met five times in fiscal year 2018. Deliberation focused on ascertaining Management Board target achievement, the setting of those targets, the comprehensive discussion of the reports of the compensation control officer, and deliberation on the remuneration of Management Board members and the standards for comparing remuneration. In addition, the committee obtained information on adjustments to the remuneration systems necessitated by an amendment of the *Institutsvergütungsverordnung* (InstVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions).

The Mediation Committee did not meet in fiscal year 2018.

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

Changes in the Management Board and in the Supervisory Board

Supervisory Board

Carmen Herbstritt resigned from the Supervisory Board effective as of the end of January 31, 2018.

In the course of the merger, the Supervisory Board was newly constituted during the Annual General Meeting on May 25, 2018, in connection with the election of employee representatives on April 28, 2018.

The following members stepped down:

1. Arthur Biehler[1]
2. Annemarie Ehrhardt
3. Günter Haardt[1]
4. Peter Hinder
5. Hans-Werner Jacob
6. René Keller
7. Andreas Koop[1]
8. Detlef Polaschek[1]
9. Rita Schlink[1]
10. Till Staffeldt

The following were newly elected:

1. Hans-Holger Albrecht
2. Frank Bsirske[1]
3. Alexander Diffenhard[1]
4. Claudia Fieber[1]
5. Marzio Hug
6. Philip Laucks
7. Christiana Riley
8. Michael Spiegel
9. Werner Steinmüller
10. Susanne Walzer[1]
11. Jörg Wolfram[1]

As of May 25, 2018, the Supervisory Board consists of the following members:

1. Hans-Holger Albrecht[2]
2. Frank Bsirske[1, 2]
3. Alexander Diffenhard[1, 2]
4. Wolfgang Ermann[1]
5. Ursula Feikes-Feilhauer[1]
6. Claudia Fieber[1, 2]
7. Marzio Hug[2]
8. Joachim Kotthoff[1]
9. Karen Kuder
10. Philip Laucks[2]
11 Christiana Riley[2]
12. Christian Sewing
13. Michael Spiegel[2]
14. Werner Steinmüller[2]
15. Susanne Walzer[1, 2]
16. Jörg Wolfram[1, 2]

[1] Employee representatives
[2] Newly elected to the Supervisory Board

As a result of the status proceedings and the increase in members from 16 to 20, all 16 Supervisory Board mandates ended upon conclusion of the Annual General Meeting on November 29, 2018. As a result, 10 shareholder representatives and 10 employee representatives of the Supervisory Board had to be (newly) determined.

The following employee representatives were proposed by the employee side and appointed by the local court to the Supervisory Board effective December 3, 2018:

1. Susanne Walzer (Deputy Chair)
2. Frank Bsirske
3. Alexander Diffenhard
4. Wolfgang Ermann
5. Ursula Feikes-Feilhauer
6. Claudia Fieber
7. Joachim Kotthoff
8. Bernd Rose
9. Eric Stadler
10. Jörg Wolfram

At the Annual General Meeting on November 29, 2018, the following were elected as shareholder representatives:

1. Christian Sewing (Chair)
2. Christoph Bornschein
3. Marzio Hug
4. Anna Issel
5. Karen Kuder
6. Philip Laucks
7. Andreas Loetscher
8. Christiana Riley
9. Michael Spiegel
10. Werner Steinmüller

In summary, the status proceedings led to the following changes in the composition of the Supervisory Board: Hans-Holger Albrecht stepped down from his position as shareholder representative on the Supervisory Board. His elected successor was Christoph Bornschein. Anna Issel and Andreas Loetscher were newly elected as shareholder representatives. Bernd Rose and Eric Stadler were newly appointed as employee representatives.

Management Board

In the course of the merger, Rainer Burmester and Alp Dalkilic resigned from the Management Board as of May 24, 2018. The Supervisory Board appointed Frank Strauß, Susanne Klöß-Braekler, Ralph Müller, Zvezdana Seeger, Hanns-Peter Storr, Lars Stoy and Alexander Ilgen as new members of the Management Board, with Frank Strauß named as Chairman of the Management Board, effective May 28, 2018.

As of that date, the Management Board consists of the following:

1. Frank Strauß
2. Stefan Bender
3. Alexander Ilgen
4. Susanne Klöß-Braekler
5. Britta Lehfeldt
6. Ralph Müller
7. Markus Pertlwieser
8. Zvezdana Seeger
9. Hanns-Peter Storr
10. Lars Stoy

In addition, in the meeting of the Supervisory Board on November 6, 2018, Philipp Gossow was appointed to the Management Board effective January 1, 2019.

The Supervisory Board would like to thank the departing members for their many years of dedicated work serving the best interests of the Company.

Annual and consolidated financial statements

The auditor elected by the Annual General Meeting – KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin – audited the annual and consolidated financial statements, the management report and the Group management report for fiscal year 2018, and issued an unqualified audit opinion for each. The report of the auditor was presented to the Supervisory Board members for review. The Supervisory Board concurred with the results of the audit.

At its meeting of March 11, 2019, the Audit Committee discussed the annual and consolidated financial statements and the auditor's report extensively with the auditor's representatives. The Chair of the Audit Committee reported on this matter during today's Supervisory Board meeting. Representatives of the auditor were also present at the discussion of the annual and consolidated financial statements during today's Supervisory Board meeting. They reported on the execution and key results of their annual and consolidated financial statements audit, and were available to provide additional details.

Through perusal of the auditor's reports, the Supervisory Board reviewed the annual and consolidated financial statements for the year ended December 31, 2018, as well as the management report and the Group management report. The final results of this independent examination induced no objections from the Board. Today the Supervisory Board approved the annual and consolidated financial statements put forward by the Management Board. The annual financial statements have thus been adopted.

The Supervisory Board wishes to thank Management Board members, employee representatives and all employees for their successful work in the year under review.

Frankfurt am Main, March 27, 2019

On behalf of the Supervisory Board

Christian Sewing
Chair of the Supervisory Board

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Group Management Report

Our Organization

Corporate profile and business model

On May 25, 2018, Deutsche Postbank AG, Bonn, was merged with Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, pursuant to Section 2(1) of the *Umwandlungsgesetz* (UmwG – German Transformation Act) with retroactive effect to January 1, 2018. At the same time, Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, was renamed DB Privat- und Firmenkundenbank AG, Frankfurt am Main ("DB PFK AG" in the following). The company is a wholly-owned subsidiary of Deutsche Bank AG and included, together with its subsidiaries, in the consolidated financial statements of Deutsche Bank AG. As a capital-market oriented stock corporation, DB PFK AG has prepared its consolidated financial statements for the reporting period in accordance with the International Financial Reporting Standards (IFRSs), as adopted in the European Union (EU). As a subordinate entity of Deutsche Bank AG, DB PFK AG exercises the option in Section 2a of the *Kreditwesengesetz* (KWG – German Banking Act) in conjunction with Article 7(1) of the CRR (subsidiary waiver) under which it is not required to apply certain prudential requirements to the determination of own funds and capital requirements, large exposures, exposures to transferred credit risk, leverage, and disclosures on and certain requirements for risk management at single institution level.

These consolidated financial statements represent the first-time that DB Privat- und Firmenkundenbank Group (DB PFK) has engaged in corporate reporting in accordance with IFRSs. As a result, the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" were applied to the preparation of these full-year consolidated financial statements.

Following the merger, DB PFK, with its 20+ million customers, is now the clear number one provider on the retail banking market in Germany, and its establishment has laid the foundation for future business growth and efficiency gains. Its two brands – Deutsche Bank and Postbank – are longstanding companies on the German banking market and will be preserved, allowing our customers to continue to use the established avenues of contact to enjoy our products and services.

Over the past few months the Deutsche Bank and Postbank brands further sharpened their respective profiles. Whereas the Deutsche Bank brand serves chiefly as a risk manager and point of contact providing in-depth advisory services to customers with individual and complex requirements, the Postbank brand covers the need for standardized daily banking services while offering more complex products for commercial clients. "Two brands – one bank" is their common dictum. The merger has also opened up growth prospects in select areas of the retail & commercial business such as asset management, lending, and digital banking.

The service and product range for both brands is managed centrally from a single source to concentrate responsibility for the overall process in a single function – from client contact to financial reporting as well as for new business and the portfolio process. As of December 1, 2018, the Bank's expertise has been bundled in five "principal establishments," each under one management and able to call upon the sales organizations of both brands, without losing sight of customer-specific needs. Each establishment is assigned to a target location. Establishment managers and their teams collaborate across all brands and sales channels.

Key locations

DB PFK AG is domiciled in Frankfurt am Main. The following branches each have business addresses registered in Bonn (Friedrich-Ebert-Allee):

- Postbank – a branch of DB Privat- und Firmenkundenbank AG
- DSL Bank – a branch of DB Privat- und Firmenkundenbank AG

The Luxembourg branch of the former Deutsche Postbank AG will continue to operate as the Luxembourg branch of DB PFK AG but conduct its business under the name "Postbank Luxembourg – a branch of DB Privat- und Firmenkundenbank AG."

BHW Bausparkasse AG, as the key subsidiary of the former Deutsche Postbank AG, is now a subsidiary of DB PFK AG and remains domiciled in Hameln.

DB PFK AG indirectly has a 100 % shareholding interest in Deutsche Bank Bauspar-Aktiengesellschaft (DB Bauspar AG). DB Bauspar AG remains domiciled in Frankfurt am Main.

Sales markets and competitive position

In the area of retail banking, DB PFK conducts its business almost exclusively in Germany and is one of the major financial services providers in the country. DB PFK intends to position itself as a fair and reliable partner that utilizes differentiated approaches in client coverage to address a broad spectrum of clients.

DB PFK's important competitors in the retail banking business in Germany primarily are providers from the sector of savings banks and cooperative banks as well as several major domestic and foreign banks.

In addition to its business with retail clients, DB PFK is involved in the commercial banking business. Here it offers complex advisory solutions in cooperation with the Private & Commercial Bank division of the parent company. In the areas of payment services and factoring, DB PFK is one of the leading providers in Germany. DB PFK also serves as a partner for commercial mortgage lending with a European orientation for its commercial clients.

Providers from the sector of savings banks and cooperative banks as well as several major banks are the most significant competitors in this business segment as well.

Management Structure

In accordance with the provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act), the Management Board is responsible for the executive management of DB Privat- und Firmenkundenbank AG. Its members are appointed and dismissed by the Supervisory Board. The responsibilities of the Management Board include strategic management, corporate governance, financial accounting and reporting, resource allocation, as well as control and risk management. Functional committees provide assistance with these duties. Following the merger, the composition of the executive committees and bodies were duly modified upon entry into the Commercial Register on May 28, 2018, to take into account the altered and expanded business division. There were also additional changes in the course of the year as a result of the implementation of the principal establishments.

The Management Board and the Supervisory Board work closely together for the collective good of the Company. The Management Board performs corporate management duties in keeping with its responsibilities outlined in stock corporation law. The Supervisory Board fulfills supervisory, monitoring and advisory duties. The two corporate bodies consist of the following members:

Management Board

Frank Strauß, Chief Executive Officer, Bad Nauheim (Chairman, since May 28, 2018)
Stefan Bender, Head of Deutsche Bank Commercial Clients and Head of Deutsche Bank Private Clients, Bad Vilbel
Rainer Burmester, Credit Risk Management, Hamburg (until May 24, 2018)
Alp Dalkilic, Chief Financial Officer, Mainz (until May 24, 2018)
Philipp Gossow, Private Clients Business DB, Frankfurt am Main (since January 1, 2019)
Alexander Ilgen, Chief Financial Officer, Frankfurt am Main (since May 28, 2018)
Susanne Klöß-Braekler, Head of Postbank Private Clients I, Munich (since May 28, 2018)
Britta Lehfeldt, Human Resources/ Chief Regulatory Officer/ Chief Administrative Officer, Frankfurt am Main
Ralph Müller, Head of Postbank Commercial Clients, Bonn (since May 28, 2018)
Markus Pertlwieser, Chief Digital Officer, Bad Soden
Zvezdana Seeger, COO/ Head of IT/Operations, Berlin (since May 28, 2018)
Hanns-Peter Storr, Chief Risk Officer, Bonn (since May 28, 2018)
Lars Stoy, Head of Postbank Private Clients II, Bonn (since May 28, 2018)

Senior Director:
Asoka Wöhrmann, Head of Deutsche Bank Private Clients, Bad Salzuflen (until November 5, 2018)

Supervisory Board

Christian Sewing, Osnabrück (Chairman)
Susanne Walzer[1], Kaiserslautern (Deputy Chair) (since May 25, 2018)
Hans-Holger Albrecht, Umhausen, Austria (May 25, 2018 to November 29, 2018)
Arthur Biehler, Ettenheim (until May 25, 2018)
Christoph Bornschein, Berlin (since November 29, 2018)
Frank Bsirske[1], Berlin (since May 25, 2018)
Alexander Diffenhard[1], Plochingen (since May 25, 2018)
Annemarie Erhardt, Kiel (until May 25, 2018)
Wolfgang Ermann[1], Fürth
Ursula Feikes-Feilhauer[1], Grevenbroich
Claudia Fieber[1], Berlin (since May 25, 2018)
Günter Haardt, Leubsdorf (until May 25, 2018)
Carmen Herbstritt, Bad Vilbel (until January 31, 2018)
Peter Hinder, Weinfelden, Switzerland (until May 25, 2018)
Marzio Hug, London, UK (since May 25, 2018)
Anna Issel, Frankfurt am Main (since November 29, 2018)
Hans-Werner Jacob, Schönau am Königssee (until May 25, 2018)
René Werner Keller, Eschborn (until May 25, 2018)
Andreas Koop, Berlin (until May 25, 2018)
Joachim Kotthoff[1], Nauheim
Karen Kuder, Frankfurt am Main
Philip Laucks, Goldbach (since May 25, 2018)
Andreas Christian Loetscher, Berg (since November 29, 2018)
Detlef Polaschek, Essen (until May 25, 2018)
Christiana Riley, Bad Homburg vor der Höhe (since May 25, 2018)
Bernd Rose[1], Menden/Sauerland (since December 3, 2018)
Rita Schlink, Horn-Bad Meinberg (until May 25, 2018)
Michael Spiegel, Bad Homburg vor der Höhe (since May 25, 2018)
Eric Stadler[1], Markt Schwaben (since December 3, 2018)
Till Staffeldt, Frankfurt am Main (until May 25, 2018)
Werner Steinmüller, Dreieich-Buchschlag (since May 25, 2018)
Jörg Wolfram[1], Leipzig

[1] Employee representatives

Current members of the DB Privat- und Firmenkundenbank AG Supervisory Board and its committees as of the reporting date

Supervisory Board			
Christian Sewing (Chair)	Wolfgang Ermann[1]	Joachim Kotthoff[1]	Bernd Rose[1]
Susanne Walzer[1] (Deputy Chair)	Ursula Feikes-Feilhauer[1]	Karen Kuder	Michael Spiegel
Christoph Bornschein	Claudia Fieber[1]	Philip Laucks	Eric Stadler[1]
Frank Bsirske[1]	Marzio Hug	Andreas Christian Loetscher	Werner Steinmüller
Alexander Diffenhard[1]	Anna Issel	Christiana Riley	Jörg Wolfram[1]

Nomination Committee	
Christian Sewing (Chair)[2]	Frank Bsirske[1]
Susanne Walzer[1] (Deputy Chair)[2]	Philip Laucks

Compensation Control Committee	
Christian Sewing (Chair)[2]	Frank Bsirske[1]
Susanne Walzer[1] (Deputy Chair)	Philip Laucks

Risk Committee	
Werner Steinmüller (Chair)	Marzio Hug
Alexander Diffenhard[1]	Michael Spiegel
Wolfgang Ermann[1]	Eric Stadler[1]

Audit Committee	
Christiana Riley (Chair)	Joachim Kotthoff[1]
Ursula Feikes-Feilhauer[1]	Karen Kuder
Claudia Fieber[1]	Andreas Christian Loetscher
Anna Issel	Bernd Rose[1]

Mediation Committee (Section 27 of the German Co-determination Act (MitbestG))	
Christian Sewing (Chair)[2]	Joachim Kotthoff[1]
Susanne Walzer[1] (Deputy Chair)[2]	Philip Laucks

[1] Employee representative
[2] Appointed ex officio

Group management

The corporate bodies and committees obtain the information required for the performance of duties primarily from reporting on current business developments differentiated according to the contributions of the Deutsche Bank and Postbank brands. Within this structure they allocate resources and assign managerial responsibility at the levels below the Group Management Board. This structure has been adapted to the management systems of the Private & Commercial Bank (PCB) segment of the parent company, which are also to be differentiated by brand. DB PFK AG and its subsidiaries and equity investments to be included in consolidation make a key contribution to PCB.

Non-financial key performance indicators

In its Group management, DB PFK AG makes use of financial as well as non-financial key performance indicators. True to our vision and mission statement, the primary non-financial key performance indicators that are relevant as Group targets to the remuneration of all Management Board members for 2018 are employee satisfaction and customer satisfaction.

Employee satisfaction is measured by evaluating the results of the annual employee survey. In 2018, the figures were still measured separately from one another in the separate processes of the former Postbank subgroup and the Deutsche Bank segment. For 2019, a standardized process will be used for all employees of DB PFK Group in the form of a global employee survey.

Deutsche Bank Group (without the former Postbank subgroup) conducts an annual Group-wide employee survey to determine the degree to which employees feel connected with the Bank (commitment) and how they view their opportunities to make a contribution (enablement). In the reporting year, all employees of the Deutsche Bank segment were surveyed from April 17 to May 9, 2018. The survey was conducted online, with a five-level Likert scale used for responses.

The survey used by the former Postbank subgroup poses a number of questions related to the dimensions of identification, leadership, business success/targets, customer orientation, productivity and efficiency, vision and mission, ability to change, communication, work load, and the digital transformation. All employees participate voluntarily and anonymously, using five different response levels. The degree of employee satisfaction is primarily derived from the results of the “identification” dimension, which consists of questions focusing on motivation and workforce loyalty to the Company.

In 2018, customer satisfaction was also measured in separate processes at Postbank and in the other business units of Deutsche Bank Group.

Based on Group management of the parent company, customers in the Private & Commercial Bank (PCB) segment, in which the Deutsche Bank brand segment is contained in the sub-segment Private & Commercial Clients Germany (PCC GY), have the option of using other channels to express their opinions about our products and services apart from using contact points in branches. In 2018, some 215,000 customers took advantage of this opportunity. Customer feedback and the customer satisfaction index derived from it are immediately reported to the relevant branches to identify improvement potential in active dialog with customers. We work continually on our advisory processes and ensure that they are customer-oriented and compliant with statutory provisions regulating these types of services. Our advisory processes are clearly defined and regularly monitored in our branches through mystery shopping. In the reporting year, a total of 2,000 interviews with mystery shoppers in 525 branches were conducted.

Existing clients can also voice their satisfaction with our advisory services in customer interviews conducted by an independent market research institute. In 2018, approximately 6,000 Deutsche Bank brand customers used this channel to share their points of view. Customer satisfaction and retention are integral parts of branch target agreements. The degree to which those targets are achieved is evaluated on the basis of results of our customer satisfaction survey and our mystery shopping program.

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

Financial key performance indicators

Primary financial key performance indicators	Definition
Net income (loss), before tax	Net income (loss), before tax, as the most important metric used to judge and manage the performance of DB PFK, contains all of the components of the Consolidated Statement of Income before income tax. Total income (consisting of net interest income and total non-interest income), the loan loss allowance, compensation and benefits, and general and administrative expenses including other expenses are taken into account.
Return on tangible equity (RoTE), after tax	The value is calculated as the ratio of consolidated net income after tax to average time-weighted recognized equity according to IFRSs minus average time-weighted intangible assets in the reporting period. To calculate time-weighted equity and time-weighted intangible assets, monthly averages are calculated as the average value of the starting and closing balances of a month. The annual average is calculated as the average of the monthly averages. Since the actual tax payments of DB PFK inadequately reflect the actual tax liability of the business owing to membership in the parent company's tax group, actual company tax totals are not used to determine this value. A pro forma tax rate of 30 % is used.
Cost/income ratio (CIR)	The metric is calculated as a ratio in which the numerator is defined as the total of compensation and benefits, general and administrative expenses, and other expenses; and the denominator as total income before loan loss allowance.
Common Equity Tier 1 capital ratio (CET1 capital ratio)[1]	The value is calculated as the ratio of CET1 capital calculated for internal management purposes and risk-weighted assets for counterparty credit risk, market risk positions, the CVA charge, and operational risk. In this process, only risks from Group-external business are taken into consideration.
Leverage ratio[1]	The value is calculated as the ratio of an institution's CET calculated for internal management purposes and that institution's total exposure measure (leverage exposure). The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items from businesses with Group-external counterparties.

[1] DB PFK AG is not a superordinate entity of a group of institutions within the meaning of Section 10a(1) of the KWG and is therefore not subject to the requirements of the CRR at the sub-consolidated level. DB PFK AG also exercises the option in Section 2a of the KWG in conjunction with Article 7(1) of the CRR. It is therefore not subject to those CRR provisions that address determination of own funds and compliance with capital requirements. The value is thus determined only for internal management purposes but nevertheless in accordance with CRR requirements to the greatest extent possible.

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

For operational management, the strategic targets are further defined as key performance indicators (KPIs), broken down into targets for the proximate management levels and subjected to regular reviews. This assures that all business activities are focused on achieving company objectives. The variable remuneration of Management Board members, executives, and employees at the DB PFK subgroup is closely linked to this management system. It is based on individual targets, divisional targets, and DB PFK and/or Deutsche Bank Group targets. As a result of regulatory requirements and the company goal of sustainable success, the sustainability of company performance is taken into account in the case of the Management Board and risk takers (persons with substantial influence on the Bank's overall risk profile). Additional details are provided in Note 32.

Non-financial statement

In accordance with the national law of a European Union member state and in line with Directive 2013/EU/34, Deutsche Bank AG as the parent company issues and makes publicly available an individual consolidated non-financial report that is separate from the Group management report. As a result, DB PFK AG, as a subsidiary of Deutsche Bank AG, Frankfurt am Main, is exempt from the obligation to issue a consolidated non-financial statement in accordance with Section 315b(2) of the HGB. The Non-Financial Report is published on the Deutsche Bank website (https://www.db.com/ir).

Corporate Governance Statement

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

In compliance with the law on the equal participation of women and men in leadership positions in the private and public sectors, close attention is paid to the appropriate consideration of women in the filling of managerial positions at the Company, in the appointment of individuals to the Management Board and in the composition of the Supervisory Board.

Owing to the merger of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG (DB PGK AG) the target values and target achievement deadlines of the company DB PGK AG – whose name was changed to DB Privat- und Firmenkundenbank AG – apply.

For the Supervisory Board, the Management Board, and the two levels immediately below the Management Board, the first deadline was June 30, 2017, and the second is December 31, 2020.

The target value for the Supervisory Board in this context is 30 %. In December 2018, the number of Supervisory Board members was expanded from 16 to 20. As of December 31, 2018, six women serve on the twenty-member Supervisory Board, which corresponds to 30 %.

On August 27, 2015, the Supervisory Board resolved that at least one woman must serve on the Management Board. In the reporting period, the Management Board initially had one female member, and as of May 28, 2018, it has three. The Management Board has thus met the set quota.

In addition, on August 19, 2015, the Management Board resolved binding target values for the percentage of women on each of the first two management levels below the Management Board of 22 % by June 30, 2017, and 25 % for the year 2020. On December 31, 2018, the percentage of women on the first level below the Management Board (VS-1) was 18 % and on the second level (VS-2) 19 %. The percentages at the management levels are thus slightly below set target values.

Despite these significant, positive gains, the non-achievement of the targets can be attributed to a historically conditioned rather weak starting point. The measures implemented starting in 2015 have thus proven themselves as effective. It must be noted that the identification, promotion and placement of qualified individuals is a process that can take many years.

Corporate Overview

Products and services

As a company with two brands – Deutsche Bank and Postbank – we pursue a differentiated, customer-focused approach in our advisory services and product range.

The Deutsche Bank brand offers retail clients a comprehensive range of banking and financial products and services that include special and individual solutions primarily in the area of investment advice. In its positioning as the “principal banking connection” for small and medium-sized clients, Deutsche Bank offers solutions for all banking transactions in cooperation with experts from the Corporate & Investment Bank of our parent company – including complex products such as international financing and capital market products.

The Postbank brand offers its retail clients standardized banking solutions for everyday needs, focusing on payment transactions, loans, and cash withdrawal. Postal and parcel products and services are also available in the Postbank brand branches thanks to a cooperation agreement with Deutsche Post AG, Bonn. This relationship increases the number of customers who visit the branches every day and thus multiplies sales opportunities. In the area of commercial clients, the Postbank brand concentrates on standardized payment transactions and financing solutions as well as on select core products such as factoring, commercial mortgage lending, and domestic transaction banking, to ensure a broad range of products and suitable advisory expertise for this client segment.

Distribution channels and marketing

To optimize accessibility and availability of services for our clients, both brands follow an omni-channel approach – each with its own clearly recognizable and independent brand identity. Here the expansion of our digital presence remains a high priority in all our business segments. Our clients, both existing and prospective, have the following contact options:

– Branches: In our branches, we generally offer the entire range of products and advisory services through our Deutsche Bank and Postbank brands. The branch portfolio is supplemented with customer call centers and self-service terminals. Additionally, the Postbank brand has service points in around 4,000 Deutsche Post AG partner retail outlets where customers can utilize select Postbank brand financial services. In Germany, we offer cash services at more than 11,000 ATM cash points.

– Advisory centers: The advisory centers of the Deutsche Bank brand function as a link between the branches and our digital offers to ensure comprehensive support and advice for our retail and commercial clients both during and outside of normal branch business hours.

– Online and mobile banking/digital platform: Both brands have websites offering clients a broad variety of product information and services including interactive tools, online tutorials, access to certain media content, and options for purchasing products and/or finalizing the corresponding contracts. We also provide a powerful transaction platform for banking, brokerage, and self-services, and combine these offers with our highly popular app solutions for smartphones and tablets. Moreover, we invest in additional improvements to client-friendly end-to-end processes.

– Financial advisors/ sales and cooperation partners: Both brands utilize self-employed financial advisors and sales and cooperation partners to provide additional channels of access to banking products and financial services.

Corporate divisions

DB PFK structures its business into three corporate divisions. This structure is also used consistently in segment information. Income taxes are not calculated at the segment level. With regard to the valuation techniques, there are no differences between the segments.

In addition to the results in the income statement of the business units allocated to the corporate divisions, imputation procedures are applied to ensure correct allocation of the segment profit/loss to their originators. In this process of allocating segment profit/loss to their originators, there are no differences in the accounting and measurement policies that are used in accordance with IFRSs.

Pursuant to IFRS 8.23, we report net interest income (net interest revenue) instead of interest income and interest expense. The allocation of net interest income from customer products to the segments uses the market rate method, under which the customer interest rate is compared with imputed money and capital market rates for matching terms. The administrative expenses and other expenses of the units included in the segment results are primarily based on the results of cost center accounting. Income taxes are not calculated at the segment level.

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

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

Pursuant to our brand differentiation, we define the three corporate divisions as follows:

Deutsche Bank brand

The results generated in this corporate division in the retail & commercial business in Germany are disclosed in the Deutsche Bank brand segment. This brand is positioned with a broad range of financial services and advisory offers that include complex solutions for our retail clients. In addition, the Deutsche Bank brand offers an integrated advisory concept for small and medium-sized enterprises in cooperation with experts from the Corporate & Investment Bank of our parent company. We make these services available to our customers on the basis of an omni-channel strategy; customers can access daily banking services and qualified advisory options through any of our channels, whether mobile or branch-based. Those contact options that are the unique province of the Deutsche Bank brand include our branch network, online banking and online brokerage, self-service terminals, mobile sales, advisory centers, and DB Direkt as our customer service hotline.

The product range offered by the brand runs from transaction banking services, the current accounts and savings business, pension and investment advice including wealth advisory solutions, through mortgage lending, consumer credit financing, the home savings business, commercial lending including export financing and factoring, to cash, interest rate and currency management solutions. We also aim at becoming the recognizable trendsetter with our innovations, offering our customers new kinds of products as well as traditional banking and financial services.

For integrated earnings management purposes, we disclose net income from this business and the associated loan loss allowance as well as the direct costs of the corresponding sales organizations for the Deutsche Bank brand. Other items reported under this brand are the direct costs of the operating platforms and infrastructure units that can be directly assigned to this business as well as the related invoicing for corresponding services provided by the parent company.

Postbank brand

The results generated by the Postbank brand business are disclosed in this section. With our Postbank brand offer we target retail and commercial clients in Germany. In the retail banking business, we focus on standardized, reasonably priced banking and financial services designed to meet typical needs. The product and service range encompasses current account and savings products, credit and debit cards, mortgage lending, installment loans, home savings, securities and securities accounts, and the sale of investment funds. The Postbank brand offers commercial clients services for payment transactions and corporate loans, commercial mortgage lending with a European orientation as well as factoring and leasing. Cash investments and solutions in the area of interest rate and currency management complete the portfolio. These products and services are offered through a Germany-wide branch network of finance, advisory and sales centers, as well as through mobile sales, call centers, and direct banking via online sales channels with their own independent brand identity.

Income and expenses from the so far largely independent money and capital market activities are also allocated to this corporate division, activities that primarily serve the management of the interest and liquidity position as well as the optimized use of resources for the businesses of this brand. Other items assigned to the Postbank brand are net income, the associated loan loss allowance, and the costs for those units through which sales under this brand are made. Moreover, costs from central and operating functions that directly support this brand are also reported in this segment.

“Other” segment

The “Other” segment primarily shows the restructuring and investment costs related to the integration of Postbank and Deutsche Bank, investments and results in the context of the new digital offer, costs and associated cost allocations of the infrastructural areas supporting the Deutsche Bank brand, and earnings effects from transactions with the parent company.

Strategy

In March 2017, Deutsche Bank AG announced its intention to integrate Deutsche Postbank AG and its subsidiaries – which had been separated as far as possible from Deutsche Bank Group – fully into the parent company. A new program, "The Bank for Germany," was developed for this purpose. Following the internal announcement of the program in October 2017, the first major milestone in its implementation was reached in May 2018 with the merger of the two legal entities of Deutsche Postbank AG and Deutsche Bank Privat- und Geschäftskunden AG and the change of the company's name to DB PFK AG. The merger of the business into one company and the joint management of the brands Deutsche Bank and Postbank for the retail & commercial business in Germany within Deutsche Bank Group are fundamental to further integration and the achievement of targeted synergies.

The unique positioning of both brands, the broad customer base and the exploitation of the complementary strengths of both brands and organizations provide a foundation for achieving significant cost and income synergies of more than €900 million per annum starting in 2022 in Deutsche Bank Group – substantially in DB PFK – and ultimately create in the long term the condition for profitability above the market average. To achieve these goals, the Bank will primarily utilize efficient and standardized operating processes with a joint IT and product platform and joint overall bank management. Additional IT cost synergies can be achieved through a fully optimized process chain from customer need to the provision of service as well as through a streamlining of the product offer (e.g., in the area of home savings).

Both brands will continue to develop their products and services further in line with their own unique brands. Joint management in the future will ensure the greatest possible market success. Initiatives to realize these plans include further optimizing the branch networks of both brands depending on customer needs and further increasing the number of contact points by mutual cooperation.

The digital strategies of both brands will also be aligned with one another to achieve synergies through a shared exploitation of the digital offers. Brand-specific customer interfaces will be preserved and other select digital offers will be made mutually available to clients of both brands.

Key Events in DB PFK Group 2018

Changes in the Group

DB PFK AG established Ambidexter GmbH, Frankfurt am Main (Ambidexter), effective July 12, 2018, and DB VersicherungsManager GmbH , Frankfurt am Main (DB VersicherungsManager), effective October 23, 2018. Both companies belong to the newly created "Digital Venture" business division in the "Other" corporate division, which aims at tapping new target groups and markets. The start-up company Ambidexter will seek to bring digital innovations quickly to the traditional banking business market and beyond. In the fall of 2018, the app "Yunar" was launched, offering a free digital platform for a select group of users. The app provides a convenient way to take advantage of bonus programs and thus to collect points as the basis for receiving premiums and price advantages. DB VersicherungsManager will assist our clients with the administration and optimization of property insurance in the future.

Economic Environment

The global economy

Economic growth (in %)	2018[1]	2017[2]	Main driver
Global economy	**3.8 %**	3.8 %	Solid growth of the global economy, with the industrialized countries reaching peak levels of economic activity while growth in the emerging markets slowed toward the end of the year. Trade tensions increased to a level that negatively impacted global trade. The strong US economy propelled economic growth worldwide.
Thereof: Industrialized countries	2.2 %	2.3 %	Worldwide momentum strengthened growth in the industrialized countries, but trade disputes resulted in initial negative impacts on the globally interwoven value chains of these countries.
Emerging markets	4.9 %	4.8 %	Emerging markets benefitted from the widening expansion phase of the global economic cycle. The difference between this and other cycles was notable. Growth rates reached record levels in Asia and stabilized in several of the national economies of Latin America.
Eurozone	**1.8 %**	2.5 %	Economic activity in the EU grew at a slower pace than expected as a result of temporary effects in several of the member states as well as faltering growth in the economic environment outside of Europe. Growth was driven by domestic demand supported by solid increases in income and favorable financial conditions.
Thereof: Germany	1.4 %	2.2 %	The German economy displayed some surprising weakness. Delays in emissions certification of new vehicles hampered automobile production, thus also inhibiting economic value creation. The tight labor market resulted in high collective wage agreements.

[1] Source: Deutsche Bank Research Forecasts
[2] Source: Deutsche Bank Research Forecasts from 2018 for 2017

Banking industry[1]

In the eurozone, banks registered significant growth in corporate lending in 2018 for the first time since the financial crises (volume +2 % year-on-year). In contrast, growth in private real estate lending and consumer loans slowed somewhat (to +3 % and +5 % respectively). The ongoing, unchanged nearly historic low interest rate level negatively impacted bank interest margins and the deposit business, which significantly slowed with companies (to just +3.5 % year-on-year) but gained some momentum with retail customers (to over +4 %). In the end, the income and administrative expenses of the European banks are expected to have decreased slightly while the decrease in the loan loss allowance is likely to be more pronounced (from an already low level).

In Germany, lending to corporates and the self-employed once again grew sharply in the past year (+5.5 % year-on-year). Growth such as this has not been seen since the New Economy bubble and was accompanied by a sharp decline in the issuance of corporate bonds. Consumer lending also continued to expand (+3.5 %), driven by a 5 % higher volume of mortgages. On the funding side, the strong inflow of deposits from private households continued (+4.5 %), while deposits from companies slowed significantly (2.5 %). Despite their outstanding credit quality, nothing is anticipated to have changed in the structurally low profitability of German banks due in particular to intensive competition and the zero-interest rate environment.

[1] Source: Deutsche Bank Research Forecasts

Consolidated Results of Operations

in €m (unless stated otherwise)	Jan–Dec 2018	Jan–Dec 2017[1]	Absolute change	Change in %
Income:				
Thereof:				
Deutsche Bank brand	2,838	2,774	64	2
Postbank brand	3,453	3,192	261	8
Other	32	197	−165	−84
Total income	6,323	6,163	160	3
Loan loss allowance	−213	−130	−83	64
Non-interest expenses:				
Compensation and benefits	−2,356	−2,431	75	−3
General and administrative expenses	−2,701	−2,898	197	−7
Total non-interest expenses	−5,057	−5,329	272	−5
Net income (loss) before tax	1,053	704	349	50
Income tax expense (benefit)	−47	2	−49	N/M
Net income (loss) after tax	1,006	706	300	42

[1] Prior-year figures adjusted as if merger and renaming transaction would have occurred on January 1, 2017
N/M – Not meaningful

Earnings performance in fiscal year 2018 compared with the prior-year period

DB PFK AG and its consolidated subsidiaries and investments recorded a €349 million (50 %) year-on-year increase in net income before tax to a total of €1,053 million in fiscal year 2018. Although the business of our two brands recorded positive growth in fiscal year 2018, profit was reduced – to an extent that hardly changed overall year-on-year – by the separately managed “Other” segment – mainly because of investments as part of the integration as well as earnings contributions from transactions with our parent company.

Profit in the reporting period and the prior-year period was impacted in each case by a range of material non-recurring factors. This related primarily to positive contributions from the optimization of our real estate portfolio in 2018. Material non-recurring factors in the prior-year period were in particular the unusually high proceeds from the realization of a corporate credit exposure (€64 million), a negative impact on profit from the early exercise of a call option on subordinated capital (€118 million), and especially high investment costs in the early phase of integrating our two brands (prior-year period: €365 million, reporting period: €268 million). Without these factors, the earnings contribution of our two brands Deutsche Bank and Postbank to net income before tax was largely stable on a level with the prior-year period.

At €6.3 billion, total income increased by €160 million or 3 % year-on-year. This increase was driven by the positive year-on-year contributions from the optimization of the real estate portfolio, as described above, and the fact that the impact of the exercise of the call option for subordinated capital in the prior-year period did not recur in the reporting period. Income from the client business of our two brands was negatively impacted by the Bank’s management response to the effects of the persistently low interest rate environment on deposit products, new regulatory requirements for investment products, and the renegotiated agreement with Deutsche Post AG concerning the provision of postal services in our Postbank brand branches. The negative factors were largely, albeit not fully, offset by the continued very encouraging growth in lending volumes – in particular in the product portfolio offered under the Postbank brand.

The loan loss allowance in fiscal year 2018 amounted to €213 million and, with an increase of €83 million (65 %), was considerably higher than the prior-period figure. This increase was due almost entirely to an unusually high reversal of loss allowances following the realization of a corporate credit exposure (€64 million) and comparatively higher proceeds from the sale of a portfolio of non-performing loans in the prior-year period.

At €5.1 billion, non-interest expenses in fiscal year 2018 were €272 million (5 %) lower than in the prior-year period. Compensation and benefits declined by €75 million (3 %), primarily because of the successful implementation of the goals formulated in our parent company’s Strategy 2020, as well as reversals of provisions in the reporting period in connection with adjustments to pension arrangements. General and administrative expenses amounted to €2.7 billion, corresponding to a decrease of €197 million (7 %). This encouraging development resulted primarily from the lower aggregate investment costs and restructuring expenses compared with the early phase of the integration and from the savings generated by our strict cost discipline in both operating segments.

At €1,006 million, net income in fiscal year 2018 was considerably higher than in the prior-year period (€706 million). Income tax expense in the reporting period was €47 million, compared with an income tax benefit of €2 million in fiscal year 2017.

Segment Results of Operations

The following tables show the cumulative results of operations of the segments/divisions, including the reconciliation to the IFRS consolidated financial statements, in each case for fiscal years 2018 and 2017 (refer to Note 6 regarding the application of IFRS 1).

				Jan–Dec 2018
in €m	Deutsche Bank brand	Postbank brand	Other	Total Group
Net interest income	1,952	2,189	−129	**4,012**
Loan loss allowance	−31	−182	0	**−213**
Net interest income after loan loss allowance	1,921	2,007	−129	**3,799**
Net commissions and fee income	821	901	35	**1,757**
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	31	0	−39	**−8**
Net gains (losses) on financial assets at fair value through other comprehensive income	0	110	0	**110**
Other income (loss)	35	254	163	**452**
Total non-interest income	887	1,265	159	**2,311**
Compensation and benefits	−996	−1,304	−56	**−2,356**
General and administrative expenses	−1,222	−1,264	−215	**−2,701**
Total non-interest expenses	−2,218	−2,567	−272	**−5,057**
Net income (loss) before tax	590	704	−241	**1,053**

				Jan–Dec 2017
in €m	Deutsche Bank brand	Postbank brand	Other	Total Group
Net interest income	1,818	2,118	251	4,187
Loan loss allowance	−31	−99	0	−130
Net interest income after loan loss allowance	1,787	2,019	251	4,057
Net commissions and fee income	872	923	0	1,795
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	17	163	−50	130
Net gains (losses) on financial assets at fair value through other comprehensive income	−6	90	0	84
Other income (loss)	73	−103	−3	−33
Total non-interest income	956	1,074	−54	1,976
Compensation and benefits	−1,020	−1,376	−35	−2,431
General and administrative expenses	−1,206	−1,318	−374	−2,898
Total non-interest expenses	−2,226	−2,694	−409	−5,329
Net income (loss) before tax	517	399	−212	704

Divisions

Deutsche Bank brand

Net income before tax

Net income before tax generated by our Deutsche Bank brand was €590 million in fiscal year 2018, following €517 million in the prior-year period. This corresponds to a 14 % increase in earnings, which was achieved in a persistently challenging market environment, due in particular to the continued low level of interest rates and tougher new regulatory requirements.

Total income

Despite lower margins in the deposit and lending business due to the persistently low interest rate environment and the resulting high availability of liquidity, as well as the impact on investment products of additional regulatory changes (including MiFID II), total income rose by €65 million or 2 % year-on-year to €2,839 million.

Net interest income increased by €134 million or 7 % to €1,952 million. This growth was driven by higher income from asset-liability management and the reclassification of the availability fee for assets for a securitization transaction from net commissions and fee income to net interest income. Offsetting factors were the impact of the low interest rate environment on the deposit business and margin pressure in the lending business.

Non-interest income

Non-interest income was down €69 million or 7 % year-on-year, at €887 million. This decline was mainly driven by the change in net commissions and fee income. Net commissions and fee income was down by €51 million to €821 million, due mainly to the reclassification of the availability fee for assets for a securitization transaction from net commissions and fee income to net interest income (€61 million), and to the impact on investment products of additional regulatory changes (including MiFID II).

Loan loss allowance

At €31 million, the loan loss allowance was on a level with the prior-year period.

Total non-interest expenses

At €2,218 million, these expenses were on a level with the previous year, with negative factors from the higher reversal of restructuring provisions in the reference period, increased infrastructure cost allocations from Deutsche Bank Group, and higher investments in digitization being offset by a considerable reduction in compensation and benefits expenses as a consequence of the successful implementation of Strategy 2020.

Postbank brand

Net income before tax

Net income before tax from business at our Postbank brand was €704 million in fiscal year 2018, following €399 million in the prior-year period. This significant improvement in earnings was due to a series of non-recurring effects. Particularly noteworthy in this context are the positive contributions in the reporting period from the optimization of our real estate portfolio (€218 million), and, in the prior-year period, the impact of the exercise of the call option on subordinated capital (–€118 million) and significant proceeds from the realization of a corporate credit exposure (€64 million). Adjusted for these effects, net income before tax was stable on a level with the prior-year period.

Total income

At €3,454 million, total income rose by €262 million compared with the prior-year period. The main reasons for this increase in income were, in the reporting period, the contributions from the optimization of our real estate portfolio referred to above and, in the prior-year period, the impact of the exercise of the call option on subordinated capital. Adjusted for these effects, our total income in a challenging market environment was on a level with the prior-year period.

Interest-related income

Net interest income increased by €71 million to €2,189 million. This was due above all to the measurement of liabilities in the home savings business. The significant impact of the Bank's management response to the effects of the low interest rate environment on margins in the deposit business was almost offset by strong growth in all credit products. For example, the total volume of client credit products rose by €5 billion in the reporting period, from €67 billion to €72 billion.

Non-interest income

At €901 million, net commissions and fee income was €22 million lower than the corresponding prior-period figure. The main reasons for this decline were the effects of the renegotiated agreement with Deutsche Post AG (–€48 million) to provide postal services in our branch network.

Net gains (losses) on financial assets/liabilities at fair value through profit or loss were down €163 million on the prior-period figure. The net gains (losses) reported in this item mainly result from the measurement of outstanding banking book derivatives that are used to hedge interest rate risk at portfolio level. The decrease in net gains for this item is a result of the comparatively dynamic change in the yield curve in the relevant maturity bands in 2017.

The collectively slightly positive growth in the items net gains (losses) on financial assets at fair value through other comprehensive income and net gains (losses) on financial assets available for sale is primarily a result of the ongoing optimization of our portfolio of investment securities and other investments, with positive effects on income arising primarily from transactions in government bonds in the reporting period. The change in the presentation of the gains and losses in these two items is a result of the modification of the accounting policies applied due to the introduction of IFRS 9 as of January 1, 2018.

At €254 million, other income was considerably higher than in the prior-year period (+€357 million). The main drivers behind this increase were the proceeds generated from the optimization of our real estate portfolio (€218 million) and the impact of the exercise of a contractually agreed call option on subordinated capital in the previous year (€118 million).

Loan loss allowance

The loan loss allowance increased significantly from €99 million in the prior-year period to €182 million. This change is largely attributable to the loan loss allowance reversal enabled by the realization of a corporate credit exposure and comparatively higher proceeds from the sale of portfolios of non-performing loans in the reference period.

Total non-interest expenses

Non-interest expenses decreased by €127 million to €2,567 million in fiscal year 2018 despite a higher volume of business in the lending business and the impact of growing regulatory requirements. General and administrative expenses declined by €54 million to €1,264 million in the reporting period thanks to Postbank’s strict cost management. Compensation and benefits fell by €72 million to €1,304 million due to the sustained reduction in headcount and the reversal of provisions following the modification of pension arrangements.

“Other” segment

Net income before tax

The “Other” segment recorded a loss before tax of €241 million in fiscal year 2018, following a comparable loss of €212 million in the prior-year period. The reduction in the investment costs incurred to integrate our two brands was a positive factor, while the measurement differences reported in this segment between the net present value-based banking book management used for management reporting and IFRS financial reporting (IAS 39/IFRS 9) were a negative factor (–€172 million).

Total income

The considerable decrease in total income is due mainly to the above-mentioned measurement differences resulting from the application of the accrual method of accounting for client business required under IFRSs and the net present value-based accounting for the related derivative hedging instruments, which were only partly offset by the application of fair value hedge accounting.

Total non-interest expenses

Non-interest expenses declined by €137 million to €272 million in fiscal year 2018. Both the lower aggregate investment costs and restructuring expenses incurred for the integration of Postbank and Deutsche Bank and the reduction in the compensation and benefits costs of the infrastructure functions attributable to the restructuring program as part of Strategy 2020 contributed to this improvement.

Company-level disclosures

The results of the geographical areas are calculated using the profit and loss as reported in the income statements of the legal entities and branches attributable to the areas.

The Europe region contains the entities PB International S.A., the Luxembourg branch, Deutsche Postbank Finance Center Objekt GmbH in Luxembourg, plus the branches of BHW in Italy and Luxembourg, all of which are managed under the Postbank brand. The Germany region comprises all domestic business units including all consolidation adjustments.

	Income		Net income before tax	
in €m	2018	2017	2018	2017
Germany	6,270	6,105	1,068	686
Europe	53	58	– 15	18
Total	6,323	6,163	1,053	704

Financial Position

in €m	Dec 31, 2018	Dec 31, 2017	Absolute change	Change in %
Cash and central bank balances	20,130	14,451	5,679	39
Interbank balances (w/o central banks)	42,731	43,961	−1,230	−3
Central bank funds sold, securities purchased under resale agreements	298	871	−573	−66
Financial assets at fair value through profit or loss	5,005	9,384	−4,379	−47
Trading assets	0	0	0	N/M
Positive fair values from derivative financial instruments	4,434	6,541	−2,107	−32
Total non-trading financial assets at fair value through profit or loss	571	0	571	N/M
Total financial assets designated as at fair value through profit or loss	0	2,842	−2,842	N/M
Loans at amortized cost	189,748	186,251	3,497	2
Brokerage and securities-related receivables	278	270	8	3
Other assets	17,926	19,893	−1,967	−10
Total assets	276,116	275,081	1,035	0
Deposits	225,985	215,112	10,873	5
Central bank funds purchased, securities sold under resale agreements	1,135	2,757	−1,622	−59
Financial liabilities at fair value through profit or loss	3,689	6,812	−3,123	−46
Negative fair values from derivative financial instruments	3,689	6,812	−3,123	−46
Long-term debt	29,953	36,499	−6,546	−18
Brokerage and securities-related payables	88	66	22	33
Other liabilities	7,210	6,750	460	7
Total liabilities	268,060	267,996	64	0
Total equity	8,056	7,085	971	14

N/M – Not meaningful

DB PFK disclosed contingent liabilities in the reporting period of €31.9 billion (previous year: €32.4 billion). These mainly consist of obligations under guarantees and warranties, an irrevocable payment obligation to the deposit protection fund, and cash collateral for the bank levy.

Overall, the deposits entrusted to us by our clients and recognized as liabilities exceed the loans granted to our clients and recognized as assets. We transfer the surplus deposits to our Group parent to the extent required by prudential liquidity management requirements, the risk appetite formulated by DB PFK, and considering economic opportunities. The resulting balance sheet structure allows us to manage our liquidity position appropriately and flexibly at all times. Correspondingly, all payment obligations were fulfilled in compliance with the contractual terms in the reporting period.

Changes in assets

Total assets as of December 31, 2018 were €276.1 billion, and thus rose by €1.0 billion (or 2.0 %) compared with December 31, 2017. This slight increase is the result of our long-term efforts to optimize the balance sheet structure.

Cash and central bank balances rose by €5.7 billion due to liquidity investments, while interbank balances were on a level with the previous year.

Financial assets at fair value declined further by €4.4 billion in particular because of maturities, expirations, and changes in the fair value of derivatives, which were offset by a corresponding reduction in liabilities.

Loans increased by €3.5 billion. The growth in the client lending business was partly offset by the reclassification to other assets of securities with a volume of €6.7 billion still reported in this category in the 2017 annual financial statements.

The increase in other assets resulting from this reclassification was more than offset by maturities of securities.

Changes in liabilities

Total liabilities as of December 31, 2018 rose by €0.9 billion (or 0.4 %) compared with the year-end.

Deposits rose by €10.9 billion due, among other factors, to non-interest-bearing demand deposits received from clients, while non-current liabilities declined by €6.5 billion. This was due primarily to maturities of €4.8 billion.

Additionally, financial liabilities at fair value decreased by €3.1 billion. This change is related to the decrease in financial assets at fair value described above and is attributable to maturities, expirations, and changes in the fair value of derivatives.

Central bank funds purchased, securities sold under resale agreements, and securities loaned declined by €1.6 billion, due in particular to the maturity of a government bond loaned to the parent company .

Changes in equity

Recognized equity increased by €1.0 billion to €8.1 billion in the fiscal year ended December 31, 2018. This overall positive development was the result of two opposing movements: an increase in additional paid-in capital due to an intraperiod contribution and an increase in retained earnings by the amount of consolidated net income on the one hand, and the reduction in retained earnings due to the transfer of net income for the year on the basis of the control and profit and loss transfer agreement, as well as the effect of the initial application of IFRS 9, on the other.

Changes in own funds

DB Privat- und Firmenkundenbank AG is not a superordinate entity of a group of institutions within the meaning of Section 10a(1) of the *Kreditwesengesetz* (KWG – German Banking Act) and is not subject to the requirements of the CRR (Capital Requirements Regulation) at subconsolidated level. As a subordinate entity of Deutsche Bank AG, DB PFK AG exercises the option in Section 2a of the KWG in conjunction with Article 7(1) of the CRR (subsidiary waiver) under which it is not required to apply certain prudential requirements to the determination of own funds and capital requirements, large exposures, exposures to transferred credit risk, leverage, and disclosures on and certain requirements for risk management at single institution level. Notwithstanding this waiver, DB PFK AG and its subsidiaries, as part of Deutsche Bank Group's prudential scope of consolidation, are subject to the requirements of the CRR, which means that they are included in Deutsche Bank Group's regulatory reporting. Pursuant to the requirements governing the approval of the subsidiary waiver under Article 7(1)(c) of the CRR, DB PFK and its subsidiaries are also included in Deutsche Bank AG's risk management system.

In order to safeguard capital adequacy at all times despite the waiver, the own funds requirements of the DB PFK subgroup defined for internal management purposes continue to be determined largely in accordance with the CRR as part of the risk and capital management in line with the legal and group-wide requirements, and are used for monitoring and internal management. In this context, targets were defined for CET1 and the leverage ratio for internal management purposes. The calculation of these internal thresholds is aligned with the minimum requirements of the CRR, the capital buffer requirements of CRD IV, additional potential capital expectations of supervisory authorities, and management buffers.

The internal management calculation of Tier 1 capital largely in compliance with the CRR is based on recognized equity, including the net income as of the relevant reporting date (net of the German GAAP net income to be transferred) for the prudential scope of consolidation at the level of the DB PFK subgroup established in compliance with the policies of Deutsche Bank Group. Adjusting Tier 1 capital for prudential filters and deductions, which are calculated to the greatest possible extent in compliance with the CRR, results in Common Equity Tier 1 capital (CET1). At present, the DB PFK subgroup has not issued any capital instruments that would be classified as additional Tier 1 capital (AT1) under the CRR, so the CET1 used for internal management purposes is currently the same as Tier 1 capital. Transitional arrangements within the meaning of Part 10 Title 1 of the CRR are not applied (fully phased-in).

For DB PFK's operational capital management purposes, receivables from domestic subsidiaries in Deutsche Bank Group are assigned a risk weight of 0 % in line with Article 113(6) of the CRR and disregarded from the calculation of the leverage exposure in line with Article 429(7) of the CRR. The other items are mainly accounted for using the same methodologies and models that are used for regulatory reporting at the level of Deutsche Bank Group.

Based on the assumptions described above, the CET1 ratio calculated for the DB PFK subgroup's internal management is 12.6 % and the leverage ratio is 3.3 %. The internal thresholds for the two capital ratios defined for management purposes, as described above, were exceeded significantly at all times.

Financial and non-financial key performance indicators

At €1,053 million, net income before tax in fiscal year 2018 was up €351 million year-on-year. Net income in both periods was impacted by a range of material non-recurring factors. Negative non-recurring factors in the prior-year period were the main driver of the improvement in net income, in particular the early exercise of a call option on subordinated capital, and high investment costs for integrating our two brands. In addition, positive contributions were generated in the reporting period from the optimization of our real estate portfolio.

At 10.9 %, the return on tangible equity (RoTE) after tax for 2018 was therefore 4.0 % higher than in the prior-year period (6.9 %). Taking usual negative effects within Deutsche Bank Group into account, the Group ratio would be considerably lower.

The cost/income ratio improved to 80.0 % in the reporting period, compared with 86.5 % in the previous year.

The CET1 ratio for the DB PFK subgroup, which is determined largely in compliance with the CRR and used for internal management purposes, increased clearly compared with the previous year and was affected in particular by changes in recognized equity. The negative initial application effect of the loss allowance requirements for financial instruments (IFRS 9) was not fully offset in the impairment comparison and slightly depressed internally defined CET1. The net income for the year and a contribution to additional paid-in capital in December 2018 resulted in a considerable increase in internally defined CET1. The RWAs used for internal management rose slightly due to the scheduled expansion in new lending business. Overall, the solvency of the DB PFK subgroup recorded a positive development, as expected.

At 3.3 %, the leverage ratio determined for internal management purposes also rose, reflecting the positive capital trends described above. This more than offset the growth in total assets to a significant extent.

Year-on-year changes in key non-financial indicators are reported in the following.

63 % of the employees in the Private & Commercial Bank (PCB) segment of Deutsche Bank Group participated in the employee survey. The approval ratings in the Commitment and Enablement categories were largely stable compared with the previous year, reaching 51 and 61 points, after 53 and 63 points in the previous year.

The survey of the employees of the former Postbank subgroup was conducted from September 24 to October 19.

70 % of the employees participated in the 2018 employee survey – almost reaching the record 71 % participation achieved in the previous year. The employees were again surveyed about nine issues. The approval ratings maintained their high level in all dimensions. The employees were more satisfied in two of the issues of the survey than in the previous year: the approval rating increased by one percentage point in each case for “Business success/targets” (68 %) and “Digital transformation” (77 %). At 77 % in each case, “Ability to change” and “Digital transformation” received the highest approval ratings.

We believe that this result is highly satisfactory in light of the large number of changes for the employees of the former Postbank associated with the integration of Postbank with Deutsche Bank’s retail and commercial banking business. This development is due not least to numerous improvements and initiatives in response to the insights and outcomes provided by last year’s employee survey, such as upgrading the hardware and software in the branches, and the further roll-out of digitization (e.g., digital complaints management tool).

Client satisfaction in the Private & Commercial Clients Germany (PCC GY) subsegment declined slightly in recent years. We were not able to match the good results of the previous years in all categories because of the effects of the ongoing implementation of the new business model.

Customer satisfaction in the Postbank brand’s retail banking segment improved in 2018 compared with the previous years, and is now slightly above average. The significantly negative impact on customer satisfaction of the introduction of charges for Postbank current accounts was successively offset in the course of 2017. A stable trend reversal then emerged in the reporting period.

Significant Events after the Reporting Date

The Supervisory Board of DB PFK AG appointed Philipp Gossow as member of the Management Board effective January 1, 2019.

[1] Source: Deutsche Bank Research Forecasts

Risks and Opportunities

Risks and opportunities that we view as probable are considered in our Outlook. The following section focuses on these future trends and events that could represent risks or opportunities vis-à-vis the expectations expressed in the Outlook.

Risks

Regulatory reforms and supervisory reviews

The regulatory reforms enacted or proposed in response to shortcomings in the financial sector and heightened regulatory scrutiny and discretion will be associated with both the additional regulatory requirements formulated with the granting of the subsidiary waiver and material costs for our business. This could create significant uncertainty for us and adversely affect our business plans and the execution of our strategy. Those changes that require us to maintain increased capital may significantly affect our business model, financial position, and results of operation, as well as the competitive environment in general. Other regulatory reforms may also materially increase our forecasted operating costs. Regulatory reforms that address resolvability or resolution measures may also impact our shareholders and creditors.

Furthermore, implementing enhanced controls may result in higher regulatory compliance costs that could offset or exceed efficiency gains. Regulators may disagree with our interpretation of specific regulatory requirements and/or the conditions of the subsidiary waiver when interpretative matters are discussed as part of our ongoing dialog with regulatory authorities or as part of supervisory inspections. Changes in rule interpretations can have a material impact on regulatory capital determined for internal management purposes as well as a negative impact on our leverage and liquidity ratios.

Legal proceedings and fiscal reviews

We are currently facing a number of minor legal disputes and are subject to regular tax audits whose outcome is difficult to estimate and which may substantially and adversely affect our planned results of operations, financial position, and reputation. If these matters are resolved on terms that are more adverse to us than we expect – whether with regard to their costs or impact on our businesses – or if the perception of our business or prospects should worsen, we may not be able to achieve our strategic objectives or may be required to change them.

Risk management policies, procedures and methods as well as operational risks

DB PFK AG has geared its risk management activities toward early recognition and mitigation of material risks. Here we have employed resources in the context of our integration initiatives to further improve the adequacy of our risk management policies, procedures and methods for market, credit, liquidity and operational risks. Nevertheless these measures may not be sufficient to allow us to forecast and/or recognize every conceivable risk situation in every market environment.

Digitization

Digitization, new technologies, and altered customer expectations have had and continue to have a growing impact on the traditional banking business. These factors also pose new challenges to DB PFK AG and its subsidiaries. In response, we will continue to pursue the digital transformation of our business to make it more digital and efficient and further improve the customer experience.

Competition

In a fragmented market with margins that are already low, retail banks in Germany face both tough competition for profitable business as well as palpable consolidation pressures. New market competitors such as FinTechs, digital banks, and foreign banks mean even tougher competition in our domestic market alongside the corresponding income risks and resultant investment pressure. To ensure our capacity for an immediate response at any time to the latest market changes, we will not only have to conduct continual analyses of the market and the competition but also continually prospect for new partners and cooperative relationships to improve our own market position.

Execution of strategy

Our Outlook is based on the assumption that the effective implementation of the Deutsche Bank and Postbank integration initiatives will make substantial contributions to our business. The initiative-associated implementation risks must be continually monitored and assessed so that suitable countermeasures may be devised against any unfavorable developments that may arise. To ensure that these risks do not materialize, a dedicated project team with experts from both brands works systematically on the implementation of requirements.

Opportunities

Digitization

DB PFK AG finds itself in a good starting position as the digital market leader in Germany, and will continue to exploit this position by setting standards for digital offers, transforming its core business and in the process opening up additional market positions. In addition, 20 million customers will be offered new services and have their everyday banking activities made simpler.

The transformation of our core business will allow us to achieve great potential for synergies through the shared use of existing digital solutions. Moreover, shared end-to-end digitization of all core products will allow for faster and more efficient implementation.

Competition

Thanks to our high number of customers, DB PFK will have a dynamic impact on the shape of the German banking market. Income synergies in sales will be generated not only from new customer relations but also from greater penetration of existing customers and from pricing measures for retail and commercial clients coordinated between the two brands. Specific measures include, for example, the mutual provision of existing and complementary products and advisory offers of both brands. In the commercial clients business these products and offers include commercial real estate financing, factoring, corporate finance and capital market solutions that can now be offered reciprocally and thus to a larger range of clients.

Execution of strategy

The successful execution of our strategy for and the integration of DB PFK will open up diverse opportunities such as financial opportunities arising from synergy effects and increased profitability, opportunities for improved and more focused contact with customers, and joint digital development of both brands. For customers, it will mean the opportunity to benefit from the expertise of both brands simultaneously.

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Risk Report

Summary Overview of Risk Exposure

DB Privat und Firmenkundenbank (DB PFK) was created out of the merger between Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Postbank AG. In December 2018, Deutsche Bank Bauspar-Aktiengesellschaft (DB Bauspar AG) was added to DB PFK Group as a subsidiary. The risk profile of DB PFK consequently focuses on the lending and deposit business with retail banking customers and commercial and corporate clients in Germany.

Risk management at DB PFK comprises capital and liquidity management for DB PFK Group. The ECB has granted DB PFK AG a capital waiver within the meaning of Article 7(1) of the EU Capital Requirements Regulation (CRR) in conjunction with Section 2a(1) and (2) of the *Kreditwesengesetz* (KWG – German Banking Act) on the basis of its relationship with Deutsche Bank AG. This Risk Report presents information on both capital and liquidity management at DB PFK Group, whereby only the Bank's internal control processes are elucidated with regard to the management of risks to capital adequacy.

In 2018, DB PFK's risk management activities were primarily concerned with operational implementation of the merger between Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Postbank AG. The merger involved establishing a common system of boards and committees and uniform reporting lines, harmonizing the definitions of risk, and defining an overarching risk strategy. In addition, a regular system of reporting was introduced at DB PFK that includes all risk types as well as stress testing and local internal capital adequacy assessment processes. In the context of technical implementation of the integration, additional activities have already been designated for the coming years, which could lead to further changes in risk management.

Taking on risk in order to generate income is a core part of DB PFK's business activities. All internal control risks are identified, measured, monitored, and allocated limits as part of the internal capital adequacy assessment process (ICAAP). Throughout the 2018 reporting period, all Group limits, in particular those relating to market, credit and operational risks, were complied with in full. Economic capital consumption remained largely stable in 2018. DB PFK's internal capital adequacy was assured at all times. No risks that could impair the performance of DB PFK or its subsidiaries, or especially that could jeopardize their going-concern status, are discernible at present.

The economic climate was favorable for DB PFK in 2018 given its risk profile. Excluding any potential non-recurring effects, the current environment continues to offer growth opportunities for expanding lending to retail banking customers and commercial clients. DB PFK thus additionally grew its lending business with retail banking customers and commercial and corporate clients during the period under review. Moreover, the macroeconomic environment prevailing in Germany during 2018 had a positive impact on credit risk in the Bank's existing business. DB PFK's loan loss allowance was nonetheless significantly higher in 2018 than in the previous year. However, the increase was due almost entirely to non-recurring effects in the prior-year period, most of which related to reversal of loss allowances in an unusually high amount as a result of recovery of a corporate credit exposure as well as higher proceeds from selling non-performing loan portfolios in the reporting period compared with the prior period. Taking those factors into account, risk provisioning continued to benefit from the Bank's growing customer business – driven especially by the sustained favorable macroeconomic environment in which DB PFK operates – as well as proceeds from collateral realization and systematic risk management.

Market risk at DB PFK is influenced in particular by interest rate and credit spread trends in the European capital markets. Over the course of 2018, the euro yield curve flattened out somewhat due to the sustained low interest rate environment. Credit risk premiums for European banks and corporates widened slightly on average during the reporting period against the backdrop of an economic climate that, while basically solid, was clouded by uncertainty relating to US trade policies, Brexit, and circumstances in Turkey and Italy. Given these market conditions, the risk capital needed to cover market risk (economic capital) and the operational value at risk (VaR) ratios for the actively managed portfolios in DB PFK's banking book remained at a moderate level in the reporting period thanks to the Bank's widely diversified portfolio.

Recent trends in loss events involving operational risk have been driven primarily by legal actions and complaints brought by customers in connection with closed-end funds – the number of which is still high compared with the long-term average – as well as actions and complaints relating to consumer protection rulings. However, the number of proceedings declined considerably on the prior-year level. The retail lending business focused on high frequency/low impact losses, i.e., loss events that, taken separately, are only of minor significance but that occur repeatedly throughout the year. In addition, attacks on automated teller machines (ATM bombings) increased significantly during the reporting period.

All liquidity risks are identified, measured, monitored, and allocated limits as part of an internal liquidity adequacy assessment process (ILAAP). DB PFK AG has not been granted a waiver with respect to liquidity risk. The Bank's stable funding structure comprising retail customer deposits enabled it to maintain adequate liquidity buffers at all times during 2018, hence ensuring both solvency and compliance with regulatory requirements. DB PFK's liquidity remains sound thanks to the Bank's currently stable funding base and its extensive portfolio of highly liquid securities.

From a planning perspective, achievement of the 2019 earnings targets will involve increasing the Bank's risk appetite. In addition, the political uncertainty that continues to prevail could result in greater market volatility and thus in corresponding fluctuations in present values.

Given DB PFK's business model and its focus on retail banking customers and commercial clients in Germany, DB PFK does not currently expect to be more than minimally impacted by developments in other European countries as a result of Brexit. Nor does DB PFK see any notable default or liquidity risk in this context at present. However, political uncertainty could increase volatility, resulting in fluctuations in present values and the associated risks for the Bank's financial position.

Integration into Deutsche Bank Group's Risk Management System, Capital Waiver, and Status of Integration

DB PFK is integrated in the risk management system of Deutsche Bank Group subject to the applicable corporate law and prudential banking regulations, the aim being to guarantee uniform, appropriate, and effective risk management at the level of Deutsche Bank Group. DB PFK is therefore included in Deutsche Bank Group's processes for identifying, assessing, measuring, controlling, monitoring, and communicating risk that deliver an end-to-end overview of the risk situation and the system for protecting the Company as a whole, and that allow the Group parent to exert a corresponding influence. In addition, an established risk governance structure shared with Deutsche Bank AG ensures a common risk culture throughout the Group.

DB PFK is incorporated into the Single Supervisory Mechanism (SSM) via Deutsche Bank Group. As part of Deutsche Bank Group, DB PFK AG is under the direct supervision of the European Central Bank (ECB), and is also included in inquiries from ECB Banking Supervision to Deutsche Bank. In addition, DB PFK is in regular communication with the German regulator.

As part of overall Deutsche Bank Group risk management, DB PFK is included in Deutsche Bank Group's risk management system via an established network of boards and committees as well as functional reporting lines between DB PFK and Deutsche Bank Group. DB PFK submits regular risk reports to Deutsche Bank Group as part of comprehensive risk reporting and control. A joint reporting system has been established for the main management reports and key performance indicators.

DB PFK AG is exempt from having to adhere to internal capital adequacy requirements based on application of the provisions of Section 2a(2) of the *Kreditwesengesetz* (KWG – German Banking Act) and the resulting exemption from complying with supervisory obligations on an individual basis pursuant to Article 7(1) of the EU Capital Requirements Regulation (CRR) in conjunction with Section 2a(1) of the KWG (subsidiary waiver). DB PFK AG was created out of the merger between the former DB PGK AG and Deutsche Postbank AG in May 2018. In addition, the ECB has granted DB PFK AG a waiver within the meaning of Article 7(1) of the CRR in conjunction with Section 2a(1) and (2) of the KWG with respect to its relationship with Deutsche Bank AG. Due to the merger of the two Deutsche Bank AG subsidiaries, their respective management approaches (including risk management) are being combined.

In connection with the merger as of May 25, 2018, the two former risk management units were combined to form a single risk management function at DB PFK. This involved establishing a common system of boards and committees and uniform reporting lines, harmonizing the definitions of risk, and defining an overarching risk strategy. In addition, a regular system of reporting was introduced for DB PFK that includes all risk types as well as stress testing and local internal capital adequacy assessment processes. The integration process has also involved standardizing the main risk measurement methods (in particular, the calculation of economic capital). However, parts of the model landscape are dependent on extensive technical implementation processes and/or regulatory approvals. Plans for implementation have therefore been coordinated with the regulator. In the context of technical implementation of the integration, additional activities have been designated for the coming years, which could lead to further changes in risk management.

The merger of Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Postbank AG led to the two banks' existing projects being combined. Among other things, this involved implementing measures aimed at ensuring BCBS 239 compliance, improving IT security, and ensuring business continuity during IT outages. DB PFK also continued working on implementation of the ECB's new Analytical Credit Dataset (AnaCredit) project.

In December 2018, DB Bauspar AG was transferred to the DB PFK subgroup. Integration of DB Bauspar AG's risk management operation into the risk management system of DB PFK Group is planned for 2019.

DB PFK's risk position, its risk management system, and the measures implemented are described in detail in the following. Wherever possible, DB Bauspar AG has been included in DB PFK's disclosures. Where not yet possible, separate disclosures have been presented for DB Bauspar AG.

Types of Risk

The nature of DB PFK's business operations exposes it to a variety of risks, which are identified in connection with a risk inventory conducted at least once per year.

All identified risks are examined to determine their materiality. When performing the risk inventory, DB PFK uses instruments that, in aggregate, cover all material organizational units, including the Bank's significant equity investments. The risk types identified as material in the risk register comprise financial risks such as credit, market, business and liquidity risks, risks to capital/group risk, and non-financial risks such as operational risk and reputational risk. All material risk types are subject to uniform risk management standards, including integration into the risk governance and risk committee structure, definition of the risk appetite for each type of risk, and calculation of the risk capital as part of the internal capital adequacy assessment. Liquidity risk and risks to capital/group risk are not included in the calculation of risk capital. Reputational risk is implicitly included via the other risk categories.

The risk types captured by DB PFK are described in detail below.

Market risk

DB PFK is exposed to market risk in the narrower sense based on uncertainty regarding changes in the fair values of its banking book positions and on the basis of its pension plans. Risk may also be driven by changes in interest rates, risk premiums on assets, exchange rates, share prices, and other relevant parameters such as market volatilities, inflation, and market-based default probabilities, and the correlations between them.

Market risk in the narrower sense thus comprises the following risk types in particular:

a) all present value interest rate risk in the banking book (IRRBB);

b) credit spread risk, i.e., widening credit spreads stemming from fluctuations in the prices of financial instruments due to changes in general market conditions; and

c) market risk relating to defined benefit pension plans as a result of potential declines in the fair value of assets or increases in the fair value of pension obligations.

Market risk in the banking book arising from fluctuating exchange rates or share prices are of only minor significance at DB PFK.

DB PFK defines market risk in the broader sense as including

d) potential losses that can occur as a result of volume fluctuations and that are triggered by unexpected behavior on the part of savings and current account customers;

e) collective risk, i.e., the potential negative effects on financial performance, financial position, or risk exposure that may occur due to variances between the actual and the forecast behavior of the home savings collective;

f) real estate risk, i.e., rental default risk and risk associated with losses on sales relating to properties owned by DB PFK; and

g) investment risk, i.e., potential losses due to fluctuations in the fair value of strategic equity investments, to the extent not already included in the other risk types.

Credit risk

Credit risk is the risk of loss arising from a deterioration in the credit quality of a borrower or obligor or as a result of non-performance of contractual or other agreements by the borrower or obligor.

Credit risk ensues from direct lending operations (loans, contingent payment obligations) as well as from trading activities (derivatives, currency and interest rate forwards) and receivables due for services rendered.

It includes credit quality risk, concentration risk, migration risk, and country risk as well as transaction/settlement risk.

Operational risk

In line with the regulatory standards, the Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes and systems, people, or from external events. This definition includes legal risk.

Operational risk at DB PFK comprises the following main subcategories:

a) Legal risk is part of operational risk. It includes, but is not limited to, exposures to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. Legal risk can also arise as a result of changes in the legal situation following new rulings or due to legislative amendments affecting transactions that have already been entered into. It does not include the cost of modifying processes for the purpose of implementing changes in the framework. Under European Banking Authority (EBA) guidelines, compliance risk is also a part of operational risk. Compliance risk is defined as “the current or prospective risk to earnings and capital arising from violations of or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.” There is therefore significant overlap between compliance risk and legal risk.

b) Conduct risk means the current or prospective risk of a company incurring losses due to inappropriate supply of financial services, including cases of willful or negligent misconduct toward the Bank or its customers and employees. Conduct risk at DB PFK includes all operational risk losses attributable to the “clients, products, and business practices” and “internal fraud” event categories.

c) Model risk means the risk relating to the underestimation of own funds requirements by regulatory approved internal models and the risk of losses relating to the development, implementation, or improper use of any other models used by the company for decision making.

d) Information and communication technology risk is the current or prospective risk of losses arising from an inadequate technical infrastructure, including hardware and software failures, that may compromise the availability, integrity, accessibility, or security of such infrastructure or that of the data collected.

Reputational risk

Reputational risk is defined as the risk of potential damage to DB PFK’s brands or reputation and the associated risk to or impact on earnings, own funds, or liquidity arising by association or from an act or failure to act, if such association, act, or failure to act could be perceived as inappropriate, unethical, or inconsistent with DB PFK’s values and beliefs.

DB PFK also refers to operational risk and reputational risk under the combined heading of non-financial risk.

Risks to capital/group risk

Risks to capital means the risk of DB PFK having insufficient risk capital, i. e., the risk of the risk cover amount being too low to fund the Bank’s business operations or to adequately support the associated risk profile, both under normal economic conditions and in stress scenarios.

Group risk means the risk that the financial position of DB PFK may be adversely affected by its relationships (financial or non-financial) with other entities within Deutsche Bank Group.

Business risk

Business risk is the risk of the Bank reporting a net loss in its income statement due to unexpected deviations in earnings and the corresponding expense items, where the deviations do not stem from market risk, credit risk, capital/group risk, reputational risk, or operational risk.

Business risk also includes net interest income risk, which impacts current earnings (interest risk in the banking book, periodic perspective).

Liquidity risk

Liquidity risk is the risk of DB PFK being unable to meet its payment obligations when they fall due or incurring excessive costs for meeting such obligations. In managing liquidity risk, DB PFK distinguishes three types of risk:

a) Short-term liquidity risk describes the risk of being unable to meet current or future payment obligations – including intraday payment obligations – in the full amount or as they fall due. Management of short-term liquidity risk focuses on the current year and on maintaining an adequate buffer of liquid assets.

b) Structural liquidity risk – also known as funding liquidity risk – describes the risk that the funding strategy will fail to deliver the expected resources in sufficient time to close any funding gaps.

c) Maturity transformation risk describes the risk of incurring higher financing costs when attempting to reduce maturity mismatches due to increases in the Bank's funding spreads on the swap rate.

When conducting its risk inventory, DB PFK identified maturity transformation risk as being immaterial for the Bank; as a result, this risk type is not backed by risk capital.

This Risk Report provides a general overview of risk management as well as a detailed presentation of market, credit, operational and liquidity risks. Risk within DB PFK Group is managed by units at the head office and the local units networked with them. Unless otherwise noted, all statements made in the Risk Report specifically refer to these Group functions. Subsidiaries of DB PFK are included in risk management in accordance with their materiality for the Group. Compliance with specific supervisory requirements relating to subsidiaries is always assured. Immaterial subsidiaries are monitored in the context of managing investment risk.

The Risk Management Framework

Responsibilities and risk strategy

The Group Management Board of DB PFK is responsible for the Bank's risk and capital profiles, its risk strategy, for establishing a proper risk management organization, and for managing and monitoring the risk associated with all transactions of DB PFK Group. It also ensures capital and liquidity adequacy for DB PFK Group.

The control function is exercised by the Supervisory Board and its Risk Committee. The Risk Committee advises the Supervisory Board in particular on issues related to risk appetite, the risk profile and risk strategy, and addresses topics relating to current market developments or events that significantly impact the risk profile or individual portfolios. The Management Board regularly reports to the Supervisory Board and the Supervisory Board's Risk Committee on DB PFK's risk and capital profiles.

The risk strategy adopted by DB PFK and its subsidiaries is consistent with the Bank's business strategy, extends to all material business units, and accounts for all types of risk. The nature and extent of the risks taken, as well as the strategy for managing such risks, depend on the strategies defined by the individual business units in line with DB PFK's risk appetite, risk profile, and target returns.

As part of implementing the Supervisory Review and Evaluation Process (SREP) internal control guidelines, the Bank's risk strategy defines an internal liquidity adequacy assessment process (ILAAP) in addition to a simplified presentation of the internal capital adequacy assessment process (ICAAP) based on the waiver granted.

The objective of risk management is to safeguard earnings and optimize the risk/return profile by ensuring efficient operating standards in the Bank's retail business. Establishment of an integrated, comprehensive risk management function strengthens DB PFK's ability to successfully face the future and enhances the Bank's risk culture and risk discipline. With respect to the individual business units, the merger of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG has not resulted in a systematic increase in risk appetite despite the addition of Deutsche Postbank AG's portfolios and products to DB PGK AG's existing business in the reporting period.

Headed up by the Chief Risk Officer (CRO), DB PFK's independent risk management function provides the basis for the Bank's risk- and earnings-based integrated performance and risk management system by identifying all key risks and risk drivers, and independently measuring and evaluating the risks identified. Limits for all risks are set, and all risks are managed, within the framework of DB PFK's ICAAP and ILAAP.

The internal risk management system in place at DB PFK ensures that all risks associated with individual business segments are independently identified, assessed, controlled, and monitored. The cross-divisional processes established for that purpose aim to effect a permanent improvement in the Bank's risk/return profile based on efficient management of capital and liquidity. In this context, selected portfolios are also subjected to a risk/return analysis as part of integrated performance and risk management. This enables DB PFK to identify opportunities to improve the business and risk strategies of its individual business units to reflect a more risk-appropriate perspective.

Risk committees

The Management Board is supported in its tasks by the PFK Risk Committee, which serves as the central risk committee. As the Management Board's steering and monitoring committee, the PFK Risk Committee is entrusted with significant decision-making powers. The Management Board has delegated risk management for the individual risk types to additional, subordinate risk committees. The following table illustrates the committees' areas of responsibility.

Tasks of the PFK Risk Committee and its subordinate risk committees

	PFK Risk Committee (PFK RC)	Credit Risk Committee (CRC)	Market and Liquidity Risk Committee (MLRC)	Non-Financial Risk Management Committee (NFRC)	Cover Business Committee (CBC)	Model and Validation Committee (MVC)	Radar Committee (RC)
Frequency of meetings	- Monthly	- Quarterly	- Quarterly	- Quarterly	- Monthly	- Monthly	- Quarterly, if required
Tasks	Advise the Management Board with respect to: - Risk appetite (economic, regulatory) - Risk strategies and risk profile - Allocation of risk capital - Measures to limit and manage Bank-wide risk positions	- Allocate credit risk limits - Define limit system - Analyze and evaluate credit risk - Issue credit risk management guidelines	- Allocate market risk limits - Define liquidity risk profile - Analyze and evaluate collective risk, savings and current account risk, and other pension risk - Manage strategic focus of the banking book - Discuss the Bank's earnings and risk position	- Advise the PFK Risk Committee on the strategy for non-financial risk (i.e., operational and reputational risks) - Allocate risk capital amounts to the business divisions - Define minimum requirements for operational risk management - Ensure compliance with regulatory requirements	- Address issues relating to the cover business register - Implement regulatory requirements relating to the *Pfandbrief* business - Ensure conformity with targets relating to strategic orientation and ability to access the capital markets	- Monitor the model landscape and manage model risk - Change and approve models subject to validation responsibilities of the Model Risk function - Validate all models annually - Monitor and validate all rating systems and risk classification procedures	- Ensure proper compliance of DB PFK Group - Structure the regulatory agenda

The PFK Risk Committee is a Group-wide risk committee with Management Board representation. The Committee aggregates all risk themes and submits them to the Group Management Board. The risk management organization includes additional committees, councils, and forums that make decisions and coordinate issues of relevance to risk management. The Radar Committee (RC), the Cover Business Committee (CBC), the Credit Risk Committee (CRC), the Market and Liquidity Risk Committee (MLRC), the Committee for the Management of Non-Financial Risk (NFRC), and the Model and Validation Committee (MVC) are all headed up by members of the Bank's senior management. The Cover Business Committee develops management triggers for DB PFK's coverage business. The Model and Validation Committee is responsible for modifying and expanding risk models and risk classification procedures, as well as for approving the validation reports. The Radar Committee is tasked with ensuring DB PFK's compliance with new regulatory provisions. These committees perform their duties in close cooperation with the PFK Risk Committee and the units responsible for operational risk management. Like DB PFK, BHW Bausparkasse has also established a Bank Risk Committee (BHW BRC) with management board representation. The BHW BRC reports to the PFK Risk Committee and to the BHW Group Management Board.

Centralized Risk Monitoring and Management

Risk control function

The Chief Risk Officer (CRO) is responsible for all risk monitoring and risk management functions throughout the Group. The CRO heads up the Risk Control function and reports directly to the Group Management Board, the Supervisory Board's Risk Committee, and the Supervisory Board on the Group's overall risk position. The CRO also reports to the CRO of Deutsche Bank Group as dictated by functional reporting lines.

The organizational structure of the CRO board department provides the basis for active portfolio management across different risk types and serves to bundle all credit decisions. A Chief Operating Office (COO) ensures that credit processing standards are complied with and performs central project and resource management for the CRO board department. The COO is also responsible for outsourcing management, business continuity management, and authorization management for DB PFK. The Risk Management and Group Risk Control units ensure that all risk types are managed with the support of the Business-Aligned Risk Management unit. The Credit Office, which comprises the Credit Analysis unit and the Credit Recovery and Workout unit, bundles all credit decisions and organizes the implementation of business and risk strategies in close cooperation with the sales units. The Operations Financial Markets unit is responsible for trade settlement and collateral management.

The Pfandbrief Management unit, which includes the Trusteeship department, is likewise allocated to the CRO board department. The Trusteeship department ensures that the required cover is in place for the *Pfandbriefe* issued by the former Deutsche Postbank AG and maintains the cover register. The department therefore works together closely with the Regulatory Requirements Retail Banking Pfandbrief/Principles department, which is allocated to the Private Clients II board department.

The CRO board department was restructured at the start of 2019. The following overview illustrates the roles of the individual units within the CRO board department as of year-end 2018.

Risk management units and tasks

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

Regular seminars, flanked by DB PFK's training offering, are held to ensure that Risk Management employees have proper qualifications. The training portfolio also includes courses that are dedicated solely to specific risk management issues (particularly credit risk).

Risk management by risk type

Within DB PFK Group, responsibility for risk management at an operational level – in the sense of position-taking activities – is spread across a number of central divisions. For all quantifiable risk types, risk capital is allocated at segment and divisional level as part of the internal management process. The primary units to which risk is allocated are Financial Markets, Treasury, Corporate Finance, Commercial Real Estate Finance, and Banks & Capital Markets as well as the retail lending functions. Internal transfer pricing is used to transfer all significant interest rate and liquidity risks arising in the Bank's divisions to Treasury or Financial Markets.

In addition, Group subsidiaries BHW Bausparkasse AG, DB Bauspar AG, PB Factoring GmbH, and PB Leasing GmbH manage their risks independently using separately defined risk limits. The Luxembourg branch is integrated into DB PFK's management system and is subject to separate risk limits.

Market risk is managed at DB PFK by setting strategic targets – for example to ensure stable interest income from the margins on customer business – as well as at an operational level with the goal of optimizing present value performance in the banking book and generating additional interest income for the Bank. For the Postbank brand (former Postbank subgroup), management of the Group's market risk at an operational level takes place in the Financial Markets unit, which reports to the Corporates & Markets board department. For the Deutsche Bank brand (former DB PGK), market risk is managed at an operational level by the Group Controlling/Treasury unit under the Finance board department of Deutsche Bank Group. DB PFK's Treasury unit is responsible for all market risk positions arising in the pursuit of purely strategic goals. Limit monitoring and reporting of market risk is performed centrally by the Market Risk Management department within the Risk Management unit. Collective risk, i.e., risk arising from the home savings collective, is managed by BHW Bausparkasse AG/ DB Bauspar AG at a local level as part of operational risk management.

Liquidity risk is monitored and managed centrally in the CRO board department. The primary task of the Liquidity Risk Management department is to ensure that DB PFK remains solvent at all times, including in specific stress scenarios, and to ensure a stable funding structure. Operational management of liquidity and of the liquidity buffer necessary for managing liquidity risk is performed for the Postbank brand in the Financial Markets unit, which reports to the Corporates & Markets board department. Liquidity risk relating to the Deutsche Bank brand is managed by Group Controlling/Treasury, which is allocated to DB PFK's Finance board department. BHW Bausparkasse AG manages its risk independently but is included in Group-wide risk monitoring on the basis of uniform procedures and processes. DB PFK serves as a lender of last resort in the event of local liquidity squeezes.

The Bank's rating models are developed and calibrated by the Group Risk Control – Risk Modeling department in cooperation with Deutsche Bank Group, whereas the credit risk limit monitoring, reporting, and steering functions are handled by Group Risk Control – Credit Risk Management. In this context, the Model Risk Management and Validation department acts as an independent validation unit (for IRBA procedures) as required by prudential regulations. The Chief Operating Office's Risk Standards department is responsible for issuing standards on the treatment of credit risk exposure.

Responsibility for managing operational risk generally lies with the respective local management levels. They are supported in this by local OpRisk managers and dedicated OpRisk contacts and function holders appointed by the various divisions and subsidiaries. Responsibility for identifying and managing legal risk lies primarily with the Legal Affairs unit of DB PFK. The independent risk control function required by the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management) is performed by the Operational Risk Management department under the CRO board department.

DB PFK is exposed to only minor reputational risk from its business activities. Reputational risk mainly relates to the "customer" stakeholder group in the retail banking business. At Group level, key reputational risks are managed via DB PFK's risk committee (PFK Risk Committee).

Overarching Risk Management

Internal capital adequacy – economic and normative perspectives

DB PFK is exempt in principle from adhering to internal capital adequacy requirements based on the waiver granted. The Bank nonetheless calculates its internal capital adequacy requirement for internal management purposes at Group level, applying both economic and normative perspectives. Under the economic perspective, risk potential is calculated using a confidence level of 99.9%; the regulatory capital requirement reflects the calculation of risk potential. The Tier 1 capital calculated for internal monitoring and control purposes under the economic perspective is taken as the risk cover amount in line with the CRR. Under the normative perspective, risk potential is computed using internally defined thresholds. The calculation of these internal thresholds is aligned with the minimum requirements of the CRR, the capital buffer requirements of CRD IV, additional potential capital expectations of supervisory authorities, and management buffers. The capital from the risk cover amount that is allocated to the various units and risk types under the economic perspective is known as risk capital. DB PFK considers its internal capital adequacy to be adequate if the risk cover amount exceeds both the allocated risk capital and the current total exposure (VaR). DB PFK's internal capital adequacy was assured at all times from both perspectives.

DB PFK is actively following the current regulatory discussion on modifications to banks' internal methods for calculating internal capital adequacy and ICAAP, and examining which of the modifications would make a useful addition to the Bank's current internal procedures.

Calculation and management of the risk cover amount (risk capital under the normative perspective)

DB PFK is exempt from minimum regulatory capital requirements based on the waiver granted pursuant to Part Three of the EU Capital Requirements Regulation (CRR). DB PFK nonetheless calculates its regulatory capital and own funds each month for internal management purposes, and monitors compliance with regulatory limits. The internal management process aims to ensure that DB PFK maintains capital adequacy in compliance with the control and profit and loss transfer agreement in effect between DB PFK and Deutsche Bank Group.

The calculation of Tier 1 capital for internal management purposes is performed largely in compliance with the CRR and is based on recognized equity, including the net income as of the relevant reporting date (net of the German GAAP net income to be transferred), for the prudential scope of consolidation at the level of the DB PFK subgroup established in compliance with the policies of Deutsche Bank Group. Adjusting Tier 1 capital for prudential filters and deductions, which are calculated to the greatest possible extent in compliance with the CRR, results in Common Equity Tier 1 capital (CET1). At present, DB PFK does not have any capital instruments in issue that would be classified as additional Tier 1 capital (AT1) under the CRR, meaning that the CET1 used for internal management purposes is currently equivalent to Tier 1 capital. None of the transitional provisions contained in Part Ten, Title 1 of the CRR have been applied (fully phased-in).

For the purpose of managing DB PFK's operational capital, receivables from domestic subsidiaries in Deutsche Bank Group are assigned a risk weight of 0 % in accordance with Article 113(6) of the CRR and excluded from the calculation of the leverage exposure in accordance with Article 429(7) of the CRR. The remaining items are mainly accounted for using the same methodologies and models that are used for regulatory reporting at the level of Deutsche Bank Group.

Based on the assumptions described above, the Tier 1 ratio calculated for the DB PFK subgroup's internal management is 12.6 %. The table below shows the composition of Tier 1 capital by risk type.

Tier 1 capital ratio as of December 31

in €m	Dec 31, 2018	Risk-weighted assets (%)
Credit and counterparty risk (including CVAs)	52,872	84.9 %
Market risk positions	89	0.1 %
Operational risk	9,297	14.9 %
Total risk-weighted assets	**62,258**	**100.0 %**
Common Equity Tier 1 capital (CET1)	7,826	12.6 %
Additional Tier 1 capital (AT1)	–	–
Tier 1 capital	**7,826**	**12.6 %**

Economic perspective: risk capital and risk limitation

Risk capital allocation is reviewed and, if necessary, adjusted at least once per quarter by the Group Management Board and/ or the PFK Risk Committee. Responsibility for further breaking down the risk capital allocated to the specific risk types and for adjusting individual limits where necessary lies with the risk committees.

Economic capital (EC) is allocated to all of the material risk types listed in the section entitled "Types of risk" with the exception of reputational risk, risks to capital/group risk, and liquidity risk. To hedge against short-term liquidity risk, DB PFK maintains a liquidity buffer consisting of highly liquid and liquid assets sufficient to cover a two-month survival period in a stress scenario as stipulated by MaRisk.

The allocation of DB PFK's risk cover amount by risk type, after factoring in correlation effects, was as follows for the 2018 reporting period (calculated as of December 31, 2018):

Overall risk position – economic capital adequacy (ECA)

in €m			Dec 31, 2018
Risk category	Utilization	Risk capital	ECA ratio
Credit risk	2,379	3,000	79 %
Market risk	1,747	3,000	58 %
Operational risk	1,054	1,200	88 %
Business risk	0	500	0 %
Subtotal	5,180	7,700	67 %
Diversification effect	654	1,097	
Total	4,526	6,603	69 %
Available risk cover	2,077		
Risk cover amount	**7,826**		
EC adequacy ratio	**173 %**		

The economic capital (EC) adequacy ratio measures internal capital adequacy and is expressed as the ratio of allocated risk capital (amount utilized/limit) to the risk cover amount after diversification. The EC adequacy ratio was 173 % as of the reporting date.

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

Market risk is managed by defining a Group-wide EC limit and allocating VaR and loss limits to the relevant control portfolio. To calculate market risk in the narrower sense, a stressed value at risk (SVaR) concept is used; this is a method of calculating the capital requirement for market risk during a stressed period. The historical period used to determine the stressed VaR as of the reporting date was the period from July 1, 2008 to June 30, 2009, since this represented a period of significant stress (Lehman crisis).

With regard to loans to banks, corporates, and sovereigns (central and regional governments and local authorities), credit risk is primarily managed by allocating limits at portfolio level and by specifying a target portfolio. Retail business volumes are managed using variance analyses. In the case of operational risk, limits are defined both for the Bank as a whole and for each segment. The other risk types are managed using Group-wide limits.

As of the December 31, 2018 reporting date, utilization of DB PFK's risk capital allocated to market risk was 58 %. Utilization of the EC limit for market risk was 76 % at DB Bauspar AG, which was not included in the scope of consolidation of the DB PFK subgroup until December 31, 2018.

Credit risk limit utilization amounted to 79 % as of December 31, 2018.

Since the third quarter of 2018, the economic capital set aside for operational risk has been determined using the dbLORE (db Local OR Engine) OpRisk capital model for both the Bank as a whole and the individual business units.

The VaR limit for operational risk at overall bank level was €1,200 million as of the 2018 closing date. As of year-end 2018, 88 % of the OpRisk limit had been utilized. In addition, DB PFK's business units have been allocated specific risk capital amounts. Utilization of those VaR limits is also monitored each quarter.

Normative perspective: risk capital and risk limitation

DB PFK is exempt from calculating and reporting its own funds requirements based on the capital waiver granted. The Bank nonetheless utilizes the IRB approaches applied by Deutsche Bank AG for internal management purposes, i.e., in addition to the IRB approach used for the Postbank brand's retail business, the Advanced IRB approach (A-IRBA) is applied to all Deutsche Bank brand portfolios and to the following Postbank brand portfolios: retail banking – overdraft facilities, corporates, banks, and commercial real estate finance.

DB PFK calculates its regulatory capital requirement for operational risk using the standardized approach (SA).

Risk concentrations and stress tests

Concentrations of credit, liquidity, market and business risks are identified and monitored using sensitivity analyses and stress tests, among other methods, and are limited using risk factor or gap limits (e.g., in the areas of interest rate risk and credit spread risk). Sensitivity analyses and stress scenarios are used to describe hypothetical future changes in the various portfolios, value drivers, and risk drivers. Macroeconomic inflation and recession scenarios are calculated across all risk types, as are other hypothetical or historical scenarios. With respect to market risk, a focus on interest rate and credit spread risk can be observed throughout the eurozone. The Bank's holdings of European government bonds are particularly relevant in this context due to the spread risk involved.

The Bank's financial and non-financial integration with Deutsche Bank AG is of particular significance when it comes to managing concentrations of risk. What is known as "Group risk" is therefore considered separately, and presented separately in internal reports. Group risk includes aspects of credit, market, liquidity and operational risks that are depicted under the respective management approaches.

As part of credit portfolio management, risk concentrations at both borrower unit level and sectoral level (industry, region, etc.) are systematically identified, reported, and limited using an internal process that takes risk/return factors into account in certain segments. Guidelines for improving the management of risk concentrations are laid down in DB PFK's organizational directives. The focus is on specifically identified sectors – commercial real estate finance, banks, and sovereigns – for which additional rules exist above and beyond the limit matrix applicable to corporates. Risk concentrations are closely monitored in near real-time using the segment-specific portfolio reports and the risk circles relevant to managing risk concentrations.

Measured on an economic capital basis, a concentration of risk is particularly discernible at present with respect to sovereign exposures. Monthly reporting of the economic capital requirement for credit risk and risk concentrations is a key component of credit risk reporting at DB PFK.

With respect to the commercial mortgage portfolio, DB PFK pursues a strategy designed to prevent regional concentrations of specific risks. The portfolio is largely focused on Germany and the rest of Europe.

End-to-end risk assessment is ensured by regularly subjecting the key risk types (credit, market, liquidity, business and operational risks) to defined scenario analyses and stress tests. This involves conducting inverse stress tests and risk type-specific stress tests in addition to stress tests across all risk types at the level of the Bank as a whole. The stress tests are performed as dictated by market developments and are continuously and dynamically updated to reflect DB PFK's risk profile.

New Products Process

The risk factors applicable to new and modified products are systematically identified and documented using a "new products" process. The resulting risks are integrated into the risk measurement and monitoring system of DB PFK. At present, the new products processes of the former DB PGK AG and the former Deutsche Postbank AG are being combined.

Group-Wide Risk Reporting

Risk reporting at DB PFK focuses on internal capital adequacy and risk cover utilization within the individual risk types. In addition to the regular management reports, rules have been established for an ad hoc early warning reporting system that distinguishes between different risk types. This means that report recipients can be kept informed of changes in the relevant parameters in a timely manner. The following table provides an overview of the content of the key reports, their publication frequency, and their recipients, broken down by risk type.

Group-wide reporting

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

An ad hoc escalation requirement applies to all decision-relevant events and developments, regardless of the risk type involved.

Monitoring and Managing Market Risk

Along with limiting economic capital at Group level, DB PFK manages its market risk in the narrower sense by means of VaR limits and present value-based loss limits for subportfolios. Additional indicators such as sensitivity parameters and maturity structures are also used in operational risk management. As part of managing market risk, DB PFK distinguishes between market risk in the narrower sense, risk arising from unexpected behavior on the part of savings and current account customers, risk arising from the home savings collective, real estate risk, and investment risk. In view of DB PFK's risk profile, focus is placed above all on managing interest rate risk. DB PFK is not exposed to significant commodity risk.

The changes in value of positions exposed to market risk are derived from observable market data, where available. Parameters from valuations derived from mark-to-model data are also used, with market liquidity risk accounted for in the valuation to the extent necessary.

To account for the relative significance of market risk at DB PFK, escalation mechanisms have been defined for critical management parameters and for exogenous events. These mechanisms ensure a prompt response to situations in which limits are approached or exceeded, or to extreme market movements impacting DB PFK.

Economic capital requirement, VaR measurement, and risk limitation

DB PFK Group uses a value-at-risk (VaR) approach to quantify and monitor the market risk (in the narrower sense) that it assumes. The VaR of a portfolio describes the maximum potential loss in fair value of the portfolio that will occur for a given probability over a certain horizon. VaR is calculated consistently for all positions with market risk exposures, regardless of how they are presented in the financial statements.

DB PFK uses a Monte Carlo simulation to calculate VaR. Operational risk management is based on a confidence level of 99 % and a holding period appropriate to day-to-day risk management of ten days. The material risk factors taken into account when calculating VaR are interest rates and credit spreads, share prices, exchange rates, and volatilities.

Volatilities and correlations between risk factors are derived from historical data. Whereas the historical values for the past twelve months are always used to manage risk at an operational level, the “stressed” VaR used for assessing economic capital requirements is based on a historical timeframe that represents a period of significant financial stress by comparison with the position as of the reporting date.

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

Market risk is managed using a system of risk limits/thresholds. The aggregate risk capital for market risk is set by the PFK Risk Committee and allocated to the individual units or control portfolios by the Market and Liquidity Risk Committee in the form of operating sublimits. In addition to the risk limits based on total VaR as well as the four main subtypes of market risk, loss limits are allocated for potential fair value losses in individual portfolios.

In addition, the Market and Liquidity Risk Committee has defined sensitivity limits that restrict credit spread and interest rate sensitivities in the different segments, portfolios, and maturity bands. The market risk limits authorized at DB PFK Group level were complied with at all times during the reporting period.

Stress testing and risk concentrations

Scenario analyses and stress tests are used to quantify the effects of extraordinary events and extreme market conditions on the relevant DB PFK exposures. The assumptions and inputs underlying the internal stress tests are regularly reviewed for appropriateness. Stress tests comprise both scenarios derived from historical changes in risk factors and hypothetical extreme scenarios. According to the regularly performed internal stress tests for market risk, the greatest risk arising from the Bank’s positioning continues to be in the area of interest rates and spreads. Sensitivities to changes in share prices and exchange rates are significantly less pronounced due to the Bank’s low exposure in these areas.

When measuring market risk, particular attention is paid to the requirement to take risk concentrations into account. This is done by regularly analyzing the effects of stress testing on each exposure class and segment, and identifying existing concentrations of risk using sensitivity analyses. Instruments used in this context include interest rate gap analyses, credit spread sensitivity analyses differentiated by issuer, asset class, and credit rating, and analyses of the Group’s exposure to equities and foreign currencies.

Risk indicators

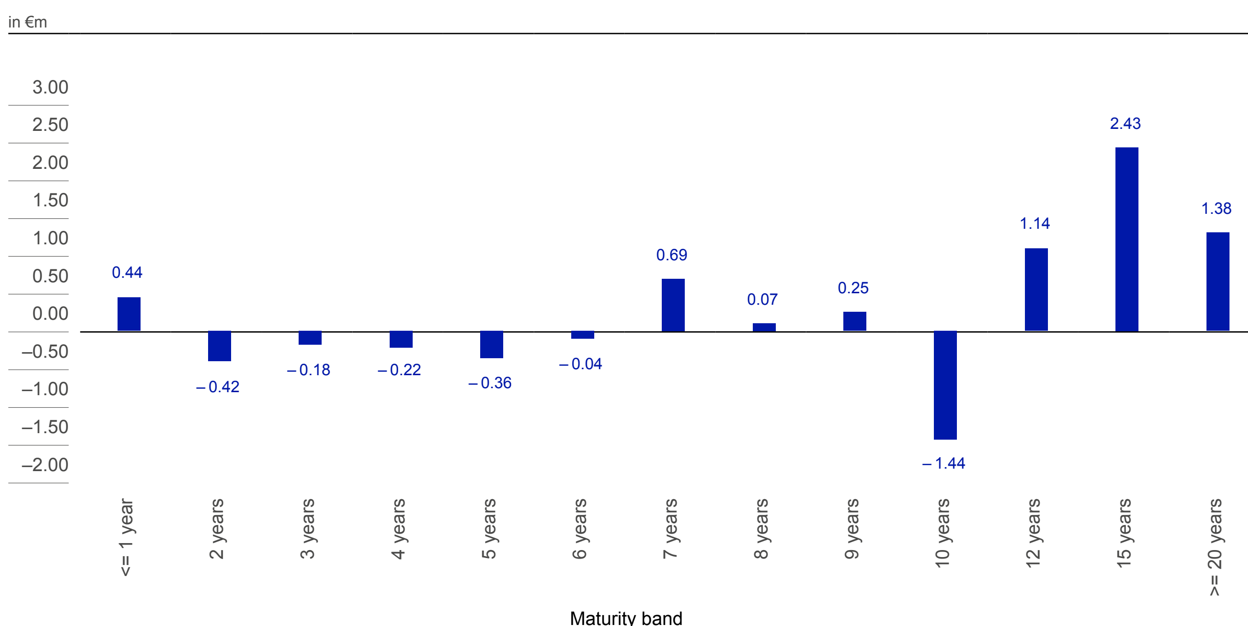
As of December 31, 2018, the VaR for market risk (confidence level of 99 %, holding period of 10 days) totaled €48 million for all positions in which risk is actively taken. The VaR of DB Bauspar AG was €7.5 million as of December 31, 2018 (confidence level: 99 %; holding period: 30 days).

In line with DB PFK's business strategy with its clear focus on the customer loan and deposit business, the level of market risk is largely determined by interest rate and spread risk. Currency risk is mainly incurred based on positions in the investment fund accounted for as plan assets to cover pension obligations. It is of relatively minor significance to DB PFK's market risk, since the open foreign currency positions are immaterial. The present value risk resulting from foreign currency positions is included in the market risk calculations and reports. Risk control focuses on minimizing potential income statement risk arising from foreign currency positions. Share price risk is comparatively low, since neither DB PFK's financial market activities nor its pension fund assets currently involve investments in equities or equity index products, with the exception of strategic investments.

Managing interest rate and credit spread risk

Analyzing interest rate and credit spread risks is an integral part of the market risk management process. The chart below offers a profile of all of DB PFK's interest rate exposures as of December 31, 2018, in the form of a basis point value (bpv) presentation. The positions include the interest rate risk arising from defined benefit pension obligations and the related plan assets. The presentation does not include present value interest rate risk from margins on customer business. Positions with a negative value represent an asset-side interest rate risk, meaning that an increase of one basis point (0.01 %) in the yield curve for the respective maturity band would result in a corresponding loss in the present value of the position. By the same token, positions with positive values represent a liability-side interest rate risk.

Interest rate exposure (bpv) of DB Privat- und Firmenkundenbank as of December 31, 2018



The chart shows that positive interest rate exposures predominate in the 2-year to 6-year and 10-year maturity bands, whereas negative exposures are in the majority in all other maturity bands. As of December 31, 2018, the total bpv of those positions was €3.75 million.

Interest rate exposure pertaining to defined benefit pension plans and other pension commitments was €4.2 million as of December 31, 2018, and exposure relating to FVOCI positions was €–0.67 million. The open negative positions in the >10-year maturity band mainly reflect long-term pension obligations.

The above chart does not indicate the interest rate exposure of DB Bauspar AG, whose net interest rate exposure (bpv) came to €0.13 million as of December 31, 2018.

The interest rate sensitivities resulted primarily from EUR positions. DB PFK uses interest rate swaps as the main instrument for actively managing the risk of changes in interest rates. Equity capital components that are made available to the Bank indefinitely are excluded from the calculation of interest rate risk.

CS01 is used as a sensitivity parameter for calculating the impact of credit spreads on the fair value of an asset. As of the December 31, 2018 reporting date, CS01 exposure for long positions in the banking book was €–9.3 million, €–2.7 million of which related to defined benefit pension plans and €–2.6 million to FVOCI positions.

Interest rate and credit spread risk is accounted for when calculating the economic capital model for market risk, and are limited in the context of the total economic capital limit for market risk.

Managing risk arising from unexpected customer behavior among holders of savings accounts and current accounts

Theoretical scenarios have been defined for customer transactions with non-deterministic interest rates and capital commitment periods (primarily savings and current account deposits) in order to permit interest rate risk to be managed. The scenarios appropriately reflect the repricing and capital commitment behavior associated with these customer products. Over time, unexpected volume and margin fluctuations may occur as a result of unexpected customer behavior or changes in the Bank's own repricing policy (or as a result of an inability to perform repricing in marginal areas); this could jeopardize the Bank's ability to generate stable net interest income in the long term and hence also impact the economic capital requirement for market and business risks.

Risk arising from unexpected behavior on the part of savings and current account holders is accounted for when calculating the economic capital model for market risk, and is limited in the context of the total economic capital limit for market risk.

Managing collective risk

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

The plausibility and prediction quality of the simulation model for the home savings collective has been confirmed by an audit firm in connection with exercise of the authorization provision pursuant to Section 5 of the *Bausparkassenverordnung* (BausparkV – German Bausparkassen Regulation). In addition, quality assurance is performed annually on the model in the form of backtesting and variance analyses.

A complex simulation of the home savings business, which applies a wide variety of parameters, is used to derive assumptions as to the behavior of home savings customers given different interest rate scenarios from historical data series. There is a risk of incorrect assumptions being made when modeling the parameters for savers' future behavior, which could adversely affect the results of operations or financial position.

The simulation of the home savings collective incorporates both existing contracts and assumptions about new business in the coming years. Medium-term results of operations could be materially impacted if actual new business were to fall significantly below the assumptions, as in such a case BHW Bausparkasse AG would have access to a reduced volume of low-interest customer funds.

Risk arising from unexpected behavior on the part of customers in BHW Bausparkasse's home savings collective is accounted for when calculating the economic capital model for market risk, and are limited in the context of the total economic capital limit for market risk.

Managing real estate and investment risk

The real estate portfolio primarily comprises properties that are owned and occupied by DB PFK. These properties are reappraised every three years in order to monitor their value on an ongoing basis.

The term "investments" refers to all equity interests recognized in DB PFK's annual financial statements under "participating interests" and "investments in affiliated companies," as well as investments in companies pursuant to Section 16(2) and (4) of the *Aktiengesetz* (AktG – German Stock Corporation Act). The majority of those holdings are strategic investments that are in keeping with DB PFK's product and service lines or that were made for the purpose of providing internal services for DB PFK. DB PFK has established procedures to ensure that key investment risks are adequately managed and monitored at Group level. The relevant lending departments at DB PFK monitor risk arising from credit-equivalent investments and from investments serving as credit substitutes. DB PFK's existing management and monitoring systems, which are subject to continuous improvement, guarantee that DB PFK is at all times in a position to monitor and manage risk arising from shareholdings, including strategic investment risk.

Risks arising from DB PFK's real estate holdings and equity investments are accounted for in connection with calculating the economic capital model for market risk, and are limited in the context of the total economic capital limit for market risk. Potential fluctuations in the carrying amount of equity investments are taken into account in the calculation.

Monitoring and Managing Credit Risk

DB PFK uses a target portfolio as a reference for the overall composition of its credit portfolio, which focuses on retail banking customers and corporate clients (including commercial real estate finance), banks, and sovereigns (central and regional governments and local authorities) in addition to the related concentrations of risk. The target portfolio was put together with a view to ensuring a balanced risk/return profile. Each quarter, the current portfolio of exposures is compared with the target portfolio. Individual profitability analyses of the Bank's total lending portfolio are also performed using the ratio of the risk-adjusted net margin to the regulatory capital tied up, especially when extending credit in the large-volume corporate banking business or as otherwise needed. When defining the target portfolio, the retail portfolio is not generally subject to proportionate limits due to the high degree of risk diversification in the retail banking business; instead, retail banking business is managed using the margin ambition less the expected risk. Counterparty credit risk is managed and monitored – and hence the Bank's credit risk strategy implemented – on the basis of individual risks on the one hand and the entire portfolio on the other.

Managing individual risks

Credit approval procedures

DB PFK's credit policies contain detailed specifications for all lending transactions. They are updated on an ongoing basis and modified to meet the requirements of the lending operations performed. The Bank's back office has been assigned process ownership as regards the design of lending processes.

Credit approvals are subject to an established decision-making hierarchy (including, in the case of loans to members of executive bodies, the Risk Committee and/or the Executive Committee). Credit approval authority is defined on the basis of fixed upper limits for each group of connected clients, and takes into account the requirements for combining exposures and the "one obligor" principle. In the non-retail segment, credit approval authority additionally depends on the client credit rating and facility amount. An important feature of the credit approval procedure is the fundamental separation of front office (sales/trading) and back office functions in accordance with prudential banking regulations (MaRisk). In the case of lending transactions deemed immaterial from a risk perspective, DB PFK has exercised the simplification option provided for in BTO 1.1 No. 4 of MaRisk and has decided that only one vote is necessary in the case of "non-risk relevant lending transactions," which DB PFK defines as loans in a volume of up to €1 million to which simplified and standardized processes apply in principle.

Scoring and rating

The internal rating systems in use at DB PFK have either been approved for use of the IRB approach in accordance with the Capital Requirements Regulation (CRR) and the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) or, as in the case of customer credit scores, are in the use test stage. In addition to meeting the methodological and procedural/organizational requirements, the rating systems have proven their suitability in relation to the classification of existing portfolios and new business. All lending transactions, regardless of size or type, are subjected to individual rating or scoring during the credit approval process as well as at least once annually and on an as-needed basis. The Risk Modeling department, in consultation with the rating model owners at Deutsche Bank Group, is responsible for the design, methodological supervision, and calibration of all rating procedures used as well as for implementing the internal rating procedures that have been transposed into internal IT routines.

In retail banking, the approval of loans and the definition of loan terms are based on the results of statistical scoring models and in compliance with credit approval policies. The scoring models utilized at DB PFK make use of internal and external information about the borrower and employ statistical methods to estimate the probability of default (PD) for a specific borrower. The recovery rate is estimated as part of the calculation of loss given default (LGD). The credit conversion factor (CCF) is calculated to estimate the degree of utilization of open credit lines at the time of default.

Rating models are used to make credit decisions and define terms for customers and guarantors in the areas of corporates, commercial real estate, banks, and sovereigns. The models generally consist of a statistical balance sheet rating or a simulation of expected cash flows; they also incorporate qualitative, shorter-term information into the internal rating in the form of a heuristic component.

All internal ratings and credit scores are depicted using a master scale that assigns a rating category (iAAA to iCCC and below) to each rating or score and includes the probability of default calculated for that rating category. The terminology used by DB PFK in this context is based on that used by the Standard & Poor’s rating agency.

Responsibility for designing and maintaining a superordinate validation process that governs all of the Bank’s (relevant) models lies with the Model Risk Management and Validation (MRMV) department in consultation with the relevant Group function. All internal rating processes in particular are subject to validation by the MRMV department on a regular and as-needed basis. The model validation process is based in particular on standard core analyses, which include factors such as the stability of the model formula, including the parameters used and their distributions, the accuracy of the rating model, and the predictive power of the models. The process also takes qualitative aspects of the rating process into account. This ensures that an end-to-end assessment of the appropriateness of the respective risk classification system is carried out. During the validation process, any changes in loss history are taken into account in subsequent recalibrations (where necessary) by adjusting the inputs.

A Model and Validation Committee (MVC), which was established to provide process support, is responsible for ensuring that the results of the monitoring of internal rating processes are incorporated into the Bank’s internal reporting and risk control processes. The responsible bodies (BRC, CRC, MVC) provide the Management Board with regular information on the functioning of the rating systems as well as on the results of the ratings included in the management reporting process. The Risk Standards department, which is attached to the Chief Operating Office within the CRO board department, is responsible for process monitoring. In the period under review, the Bank’s Group Risk Control function again focused its activities on updating the scoring and rating systems as well as on their ongoing validation and, where necessary, recalibration. The appropriateness of the internal rating systems, including adherence to the minimum requirements for the use of rating systems, is reviewed by Internal Audit on an annual basis.

By involving the individual control functions responsible for overseeing risk classification systems in DB PFK’s processes, it is possible to derive business policy and model-specific measures directly from the results of the core analyses. Electronic records are maintained of all relevant input factors and the results of the rating processes, enabling a seamless credit rating history to be kept for each customer.

In addition to supporting the credit approval process, credit ratings and scores serve, among other things, as a basis for calculating the expected loss, i. e., the loss that is to be expected over a one-year period based on statistical averages. They also serve as a starting point for designing more advanced models able to calculate lifetime ECL and loss allowances, for example. Along with other variables, the credit ratings and scores are factored indirectly into margin calculations using standard risk costs, as described in the following section.

Risk/return performance indicators

When calculating expected defaults in DB PFK's lending business, the average standard risk costs are factored in at the level of the individual credit product. This allows all lending transactions to be evaluated. Pricing is handled differently within the respective portfolios, but a risk-independent component is always included. In the case of exposures to corporate clients and retail banking customers, the standard risk costs are priced in as a premium on the expected loss and are included in the profitability calculation. By contrast, other portfolios price ratings-based facility expenses into their calculations, among other factors.

Collateral management and credit risk mitigation techniques

Collateral management is an important and integral component of the credit management process at DB PFK. Strict standards have been established regarding the quality (e.g., the legal validity and enforceability) of the collateral security accepted. The value of the collateral is continuously monitored, not only when a loan is granted but also during its term. Collateral processes are regularly reviewed for compliance with regulatory requirements and further improved.

DB PFK utilizes the following collateral instruments in particular to mitigate credit risk:

– mortgage liens as security for consumer and commercial real estate financing;

– master netting agreements;

– guarantees and trade credit insurance;

– financial collateral (cash collateral);

– guarantees (*Bürgschaften*) and other assumptions of liability;

– assignments or transfers of security; and

– other eligible collateral.

Responsibility for managing collateral for DB PFK's non-risk-relevant credit transactions generally lies with the back office units. This includes recognizing instruments as eligible collateral as well as reviewing and evaluating the collateral provided. The amounts recognized as eligible collateral are reviewed at fixed intervals, depending on the type of security provided; as a rule, this occurs annually or at shorter intervals in the case of critical exposures.

Guarantees (both *Garantien* and *Bürgschaften*), other assumptions of liability, and trade credit insurance policies must be irrevocable and unconditional in order to qualify as credit risk mitigation instruments when calculating the minimum capital requirements for credit and counterparty risk. Only guarantees issued by sovereigns (central and regional governments and local authorities), other public-sector entities, banks, supranational organizations, and legal persons are recognized. The collateral is realized in the event a borrower becomes more than temporarily insolvent.

To provide security for consumer real estate financing, DB PFK uses mortgage liens as a key instrument for minimizing the risks associated with the lending business. The mortgage liens flow directly into the calculation of the supervisory LGD, especially for the retail business and the portfolios computed using the Advanced Internal Ratings-Based Approach (A-IRBA). Loan collateral taking the form of mortgage liens is either reviewed at least once annually for impairment or (in Germany) monitored on the basis of market developments using the fair value fluctuation concepts produced by vdpResearch GmbH (the real estate market research company of Verband deutscher Pfandbriefbanken e. V.) and, in the case of hotel properties, by the German Banking Industry Committee (Deutsche Kreditwirtschaft). In addition, the front office and back office units perform qualitative monitoring of the relevant sectors and real estate markets on an ongoing basis. In the case of loans and property values in excess of €3 million, valuations and appraisals are always reviewed after three years at the latest. For the Postbank brand, the reviews are performed by independent, qualified collateral specialists. For the Deutsche Bank brand, internal experts conduct the review or real estate experts reappraise the property in question.

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

In the case of credit risk mitigation using netting agreements, the underlying exposure is reduced either by netting out individual offsetting transactions or by means of net settlement arrangements. For the Postbank brand, DB PFK's collateral management activities involve the use of netting agreements for derivative transactions and repurchase agreements. The agreements used are standard international master netting agreements (MNAs) that comply with the requirements of the CRR. Netting agreements are entered into with most key trading counterparties. Collateral is managed using a computerized process that complies with specified collateral management standards. Netted positions are included in risk management for the counterparty concerned as well as for the aggregate credit risk exposure.

Credit monitoring and problem loan procedures

In the case of non-retail loans, credit risk is monitored using credit assessments performed at least once annually and whenever events occur that could affect a borrower's credit quality. The checks are made by the operational lending units in the back office in accordance with prudential requirements and, in the case of trading transactions, by Risk Control as well.

In the area of lending to individual corporate clients and mortgage lending in excess of €500,000 or €750,000 per borrower or borrower unit (depending on the portfolio), DB PFK has implemented a credit monitoring process in accordance with prudential requirements. The process enables problem exposures to be identified using defined qualitative and quantitative early warning and risk indicators (e. g., customer and account data or rating changes). The use of early warning and risk indicators to enable advance identification of an increasing risk of default enables DB PFK to take risk mitigation measures in a timely manner, to develop and implement loan restructuring plans with the borrower if necessary, or to arrange for workout.

When a problem corporate loan is identified, the borrower in question is placed on a watch list if (early warning) risk indicators are present, and may be placed in special servicing as well.

In the case of hard ("rules-based") risk indicators, allocation of the exposure to the respective watch list category is mandatory; if only soft ("principles-based") risk indicators have been identified, the decision is made at the discretion of the credit specialist responsible for the exposure in cooperation with the workout specialists. The largest single exposures of DB PFK as a whole, which are submitted to the Group Management Board for approval, are included in the credit risk report presented to the Group Management Board and the Supervisory Board's Risk Committee each quarter.

In the case of retail banking customers, the Bank's policies define hard criteria for transferring an exposure from regular loan servicing to the workout or resolution units. The transfer occurs automatically for the most part on the basis of the criteria established.

The purpose of transferring an exposure to a workout or resolution unit is to take steps early on to either recover a non-performing exposure or to assert the Bank's claims by liquidating collateral or initiating enforcement proceedings against the individual in question. However, DB PFK places value on retaining the customer relationship and restoring normal credit flows or, failing that, to liquidate the collateral for as high an amount as possible. All actions are based on standardized agreements, i. e., no foreclosed properties are acquired, for example.

Risk provisioning

The provisions of IFRS 9 governing allowances for expected credit losses (ECLs) cover all assets recognized at amortized cost or at fair value through other comprehensive income as well as off-balance sheet loan commitments and financial guarantee contracts. Calculation of the loan loss allowance has switched from an "incurred credit loss model" to an "expected loss model" under IFRS 9.

“Three-bucket” approach to recognition

IFRS 9 introduces a “three-bucket” approach to recognition of loss allowances for financial assets, which can be summarized as follows:

– Stage 1: Loss allowances are recognized in an amount equal to the expected credit loss over a 12-month horizon (12M ECL). The allowance is recognized upon initial recognition of the transaction. Forward-looking information is reflected in adjustments to the probability of default (PD) made on the basis of in-house research. The time horizon is set at three years. Information on the LGD also flows into certain portfolios.

– Stage 2: In the case of transactions where the credit risk has increased significantly since initial recognition, the loss allowance is calculated to equal the expected credit loss over the lifetime of the financial instrument (lifetime ECL).

– Stage 3: The loss allowance is computed to equal the lifetime ECL, assuming a PD of 1 and future cash flows. The definition of “default” pursuant to IFRS 9 has been modified to align with the prudential definition provided in the CRR, which aligns with the definition used within Deutsche Bank Group. Accordingly, the amount of the loss allowance is calculated for the unsecured portions of the credit facilities as the difference between the carrying amount of the total exposure and the present values of expected future cash flows, including cash flows from the realization of collateral. In general, the original effective interest rate is used to discount the cash flows, with the effective rate for the rate-fixing period being used for variable-interest loans when transitioning to Stage 3. The proceeds from realization of the collateral and the time of its realization are taken into account on a case-by-case basis. For all corporate credit exposures, two scenarios are calculated and then used to compute the loss allowance based on the respective probability weightings.

In addition to the three stages described, IFRS 9 requires a special procedure to be followed for purchased or originated credit-impaired (POCI) financial assets. DB PFK holds no POCI assets at present, nor does its risk strategy foresee the purchase of any such assets.

Description of Stage 2 trigger events

When evaluating whether the default risk on a financial instrument has increased significantly since initial recognition, a distinction is made between quantitative and qualitative triggers. In so doing, all reasonable and supportable information is taken into account, including information about past events and current conditions, and forecasts of future economic conditions.

A relative criterion is used as the quantitative trigger. At each closing date, a review is conducted of whether the default risk over the expected life of the financial instrument has increased significantly versus the expectations on initial recognition. This involves defining thresholds based on the specific portfolio and the initial level of default risk.

For the qualitative trigger, the days past due (DPD) and watch list statuses are consulted. Financial instruments that are grouped into homogeneous portfolios, which include retail and corporate exposures, are allocated to Stage 2 if their DPD status is equal to or more than 30 days past due.

Stage 3 assets

An exposure is allocated to Stage 3 if one of the following two conditions is fulfilled:

– the company considers it unlikely that the obligor will make its interest or principal payments (“unlikely-to-pay” criterion); or

– the obligor is more than 90 days past due on contractually agreed payments of principal or interest (“90 DPD” criterion).

All collateral and guarantees provided are taken into account in the calculation.

For mortgage loans and non-retail processes, the expected credit loss is calculated on a case-by-case basis using a present value comparison of contractual cash flows to expected cash flows. Any collateral furnished is included in the calculation. With regard to non-retail exposures, the ECL is calculated for two scenarios and then applied in accordance with their probability weightings. Depending on the value of the collateral, a figure of "0" may be calculated for the credit loss provision in some cases. In the commercial and consumer lending business, the loss allowance is calculated on the basis of homogenous portfolios using portfolio-specific parameters. Those retail portfolios are broken down by portfolio type, similar to the control portfolios. The calculations are made on a monthly basis. Where calculations are performed on a case-by-case basis, the cash flow expectations are reviewed each quarter and adjusted as needed.

Information on DB PFK's impairment policies is provided in Note 2(d) to the consolidated financial statements ("Write-offs").

Managing credit risk at portfolio level

Portfolio management

Above and beyond monitoring individual risks, DB PFK calculates the necessary economic capital for all Group exposures subject to credit risk. The credit portfolio model used by DB PFK takes account of internal and external risk inputs, concentration risks in the credit portfolio, and reinvestment effects in the case of terms to maturity of less than one year, and can drill down to individual debtors.

DB PFK defines economic capital (EC) as the potential negative change in the present value of the total loan portfolio resulting from actual or potential credit losses and ratings changes that will not be exceeded within one year with a probability of 99.90 %. Under DB PFK's Group-wide internal capital adequacy concept, economic capital – as a measure of unexpected losses arising from credit risk – must be backed by risk capital.

The calculation of economic capital is based on the migration behavior of borrower-specific credit ratings and correlation effects in the portfolio, and is intended to quantify risk arising from an adverse concentration of borrowers in terms of their sector, credit rating, or country. Probabilities of rating changes (migration) are continually updated and adjusted to reflect current changes observed in the economic environment. To calculate EC, all exposures are taken together with their future cash flows and discounted to the observation date. This allows both the risk of default to be measured over a one-year observation period and the present-value effects of all credit rating changes occurring outside the observation period to be quantified. Credit risk is measured using current internal and external credit ratings as well as internally and externally derived estimates of loss-given-default parameters.

External inputs used to calculate economic capital include continuously updated rating agency data, migration tables derived from that data, yield curves, and a covariance matrix for the risk factors applied in the correlation model. Homogeneous, granular exposures are aggregated when calculating EC and are not computed at individual transaction level. These exposures mostly involve retail products such as mortgage loans, consumer installment loans, and current accounts.

The updated portfolio and market data is used to calculate economic capital in the Group loan portfolio on a monthly basis. The calculation of EC in the Group loan portfolio takes diversification effects between portfolios held in different divisions into account. The degree of utilization of the EC limits allocated by the CRC to individual portfolios and of the aggregate credit risk limit is monitored regularly.

In addition to calculating economic capital, the Group loan portfolio is subjected to regular stress testing and sensitivity analyses across all risk types with the aim of quantifying losses that could be triggered by extreme events.

In contrast with economic capital, the expected credit loss (ECL) indicated in the table under "Maximum credit risk" represents the expected losses arising from credit risk in the Group portfolio over a one-year period. It is equivalent to the product of the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD), and depends on the counterparty/transaction rating and the term of the transaction.

The following table provides an overview of material credit risk indicators for the “Postbank brand” and “Deutsche Bank brand” segments:

Overview of the economic exposure, expected loss, and economic capital[1]

in €m			Dec 31, 2018
Credit risk	Economic exposure	Expected loss	Economic capital[1]
Postbank brand	139,988	451	1,892
Deutsche Bank brand	76,051	134	487
Total	**216,039**	**584**	**2,379**

[1] The underlying confidence level is 99.90 %.

Quantitative disclosures on credit risk pursuant to IFRS 7

The following sections contain quantitative disclosures on credit risk, especially regarding

- maximum counterparty credit risk;
- credit risk concentrations;
- loan loss allowances and credit-impaired financial instruments; and
- any modifications.

IFRS 9 has been applied to the recognition of financial instruments since January 1, 2018. However, the comparative figures as of the December 31, 2017 reporting date are based on the IAS 39 accounting standard. The figures are not comparable due to the significant differences between the two standards in the requirements for recognizing financial instruments and the definition and calculation of impairment. Therefore, the prior-year comparative figures have been presented in a separate section following the IFRS 9 disclosures.

Maximum credit risk

The table below shows, for the December 31, 2018 reporting date, the maximum credit risk (counterparty credit exposures) before accounting for loss allowances or collateral, or applying any other credit risk mitigation techniques (offsetting or hedging) that cannot be applied to the balance sheet. Collateral used to mitigate credit risk consists mainly of mortgage liens on consumer or commercial real estate, securities received as collateral, assignments or transfers of physical collateral, and cash collateral. These instruments are measured using internally calculated haircuts, and the collateral values computed are capped at the level of the collateralized exposure. Where guarantees are used to reduce credit risk, the guarantees mainly consist of trade credit insurance policies, guarantees (*Bürgschaften*), or assumptions of liability.

Maximum credit risk

in €m	Maximum credit risk	Loan loss allowance	Collateral	Guarantees and credit derivatives	Total reduction in credit risk
					Dec 31, 2018
Financial assets at amortized cost					
Cash and central bank balances	20,130	20,130	0	0	0
Interbank balances (w/o central banks)	42,731	42,731	630	0	630
Central bank funds sold and securities purchased under resale agreements	298	298	0	0	0
Receivables from securities lendings	0	0	0	0	0
Loans	191,338	191,338	51,967	945	52,912
Other credit risk assets	7,806	6,224	0	0	0
Securities held to maturity	N/M	N/M	N/M	N/M	N/M
Total financial assets at amortized cost	**262,303**	**260,721**	**52,597**	**945**	**53,542**
Financial assets at fair value through profit or loss					
Trading assets	0	0	0	0	0
Positive fair values from derivative financial instruments	4,434	0	0	0	0
Non-trading financial assets at fair value through profit or loss	571	0	0	0	0
Securities purchased under resale agreements	0	0	0	0	0
Receivables from securities lendings	0	0	0	0	0
Loans	209	0	0	0	0
Financial assets designated as at fair value through profit or loss	0	0	0	0	0
Financial assets available for sale	N/M	N/M	N/M	N/M	N/M
Total financial assets at fair value through profit or loss	**5,005**	**0**	**0**	**0**	**0**
Financial assets at fair value through other comprehensive income					
Securities purchased under resale agreements	0	0	0	0	0
Receivables from securities lendings	0	0	0	0	0
Loans	0	0	0	0	0
Total financial assets at fair value through other comprehensive income	**8,799**	**0**	**0**	**0**	**0**
Financial guarantees and other contingent credit risk liabilities	787	787	0	0	0
Revocable and irrevocable loan commitments and other lending-related commitments	31,000	31,000	0	0	0
Total off-balance-sheet exposure	**31,787**	**31,787**	**0**	**0**	**0**
Maximum credit risk	**307,894**	**292,508**	**52,597**	**945**	**53,542**

The increase in the maximum credit risk during 2018 was primarily due to a substantial rise in “Cash and central bank balances” and „Loans.“ The increase made up for the substantial decline in fixed-interest securities carried as “Financial assets at fair value through other comprehensive income” (FVOCI) and “Other credit risk assets.”

Asset quality

Asset quality refers to the quality of debt instruments subject to impairment, which under IFRS 9 consist of debt instruments measured at amortized cost (AC), financial instruments at fair value through other comprehensive income (FVOCI), and off-balance sheet assets such as loan commitments and financial guarantees.

The section below provides an overview of the gross carrying amounts of and the allowances for loan losses on financial assets.

Risk concentrations by sector

The following tables illustrate the Bank’s exposure to concentrations of risk by sector, broken down into the IFRS 9 loss allowance categories. Transactions measured at amortized cost and at fair value through profit or loss are presented separately. The tables also show the current gross carrying amounts and the related loan loss allowances.

Financial assets at amortized cost by sector

										Dec 31, 2018
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Agriculture, forestry, and fishing	405	46	7	0	458	0	1	2	0	3
Mining and quarrying	144	0	1	0	146	0	0	1	0	1
Manufacturing	4,476	332	115	0	4,922	2	2	64	0	68
Electricity, gas, steam and air conditioning supply	876	5	0	0	881	0	0	0	0	1
Water supply; sewerage, waste management, and remediation activities	173	1	3	0	177	0	0	3	0	3
Construction	836	66	20	0	923	1	1	13	0	15
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,252	274	113	0	3,640	2	2	72	0	75
Transportation and storage	867	15	6	0	889	0	0	4	0	5
Accommodation and food service activities	106	6	1	0	112	0	0	0	0	0
Information and communication	735	21	7	0	763	0	0	6	0	7
Financial and insurance activities	68,433	115	14	0	68,562	4	2	6	0	12
Real estate activities	13,137	683	70	0	13,890	3	6	30	0	39
Professional, scientific and technical activities	5,892	350	36	0	6,279	2	4	11	0	18
Administrative and support service activities	418	29	1	0	448	0	1	1	0	2
Public administration and defence; compulsory social security	5,080	2	6	0	5,087	0	0	3	0	3
Education	87	13	1	0	101	0	0	0	0	1
Human health and social work activities	2,302	114	8	0	2,423	1	2	3	0	6
Arts, entertainment, and recreation	222	12	1	0	236	0	0	0	0	1
Other services (except public administration)	918	63	31	0	1,012	1	1	5	0	7
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	137,602	9,813	2,185	0	149,600	221	249	857	0	1,326
Activities of extraterritorial organizations and bodies	172	0	0	0	172	0	0	0	0	0
Total	246,135	11,960	2,625	0	**260,720**	239	271	1,084	0	**1,594**

Financial assets at fair value through other comprehensive income by sector

Dec 31, 2018

	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Agriculture, forestry, and fishing	0	0	0	0	0	0	0	0	0	0
Mining and quarrying	5	0	0	0	5	0	0	0	0	0
Manufacturing	56	0	0	0	56	0	0	0	0	0
Electricity, gas, steam and air conditioning supply	36	0	0	0	36	0	0	0	0	0
Water supply; sewerage, waste management, and remediation activities	11	0	0	0	11	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0
Wholesale and retail trade; repair of motor vehicles and motorcycles	0	0	0	0	0	0	0	0	0	0
Transportation and storage	245	0	0	0	245	0	0	0	0	0
Accommodation and food service activities	0	0	0	0	0	0	0	0	0	0
Information and communication	444	0	0	0	444	0	0	0	0	0
Financial and insurance activities	1,361	0	0	0	1,361	0	0	0	0	0
Real estate activities	0	0	0	0	0	0	0	0	0	0
Professional, scientific and technical activities	62	0	0	0	62	0	0	0	0	0
Administrative and support service activities	8	0	0	0	8	0	0	0	0	0
Public administration and defence; compulsory social security	6,272	0	0	0	6,272	0	0	0	0	0
Education	0	0	0	0	0	0	0	0	0	0
Human health and social work activities	0	0	0	0	0	0	0	0	0	0
Arts, entertainment, and recreation	0	0	0	0	0	0	0	0	0	0
Other services (except public administration)	0	0	0	0	0	0	0	0	0	0
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	0	0	0	0	0	0	0	0	0	0
Activities of extraterritorial organizations and bodies	301	0	0	0	301	0	0	0	0	0
Total	8,799	0	0	0	**8,799**	1	0	0	0	**1**

Overall, the sector distribution of the instruments subject to credit risk, measured in terms of volume, displays a balanced structure with the exception of concentrations among banks. The loan portfolio consists mainly of loans to retail customers, with a focus on consumer mortgage lending and consumer installment loans in Germany. The portfolio also includes corporate lending exposures consisting predominantly of commercial transactions in Germany, as well as commercial real estate financing in Germany and elsewhere in Western Europe. The Bank’s securities holdings consist mainly of its portfolio of government bonds, the majority of which are German Bunds and bonds from other European nations, as well as bonds issued by banks (including covered bonds and *Pfandbriefe*), insurers, and other financial services providers.

Consumer mortgage lending by LTV bucket

The loan-to-value (LTV) ratio is the ratio of a mortgage loan exposure to the value of the property securing the loan. DB PFK calculates the LTV ratio as the total lending exposure divided by the current value of the property pledged as collateral. The values are updated on a regular basis for internal reporting purposes. The LTV calculation only includes exposures that are secured by real estate collateral. Any mortgage loans that are backed by collateral other than real estate collateral are excluded from the LTV calculation.

Consumer mortgage lending by LTV bucket

in %	Dec 31, 2018
Loan-to-value (LTV) ratio	
≤ 50 %	65
> 50 %, ≤ 70 %	17
> 70 %, ≤ 90 %	11
> 90 %, ≤ 100 %	3
> 100 %, ≤ 110 %	2
> 110 %, ≤ 130 %	2
> 130 %	1
Total	**100**

The borrower's credit score, the LTV ratio, and the quality of collateral are an integral part of risk management when originating loans and when monitoring and managing credit risk. As of December 31, 2018, 65 % of our total real estate financing portfolio had an LTV ratio of less than or equal to 50 %.

Risk concentrations by region

The regional distribution of credit volumes reveals a concentration in the domestic German market as well as selected commercial exposures in other Western Europe countries, in line with the Bank's strategy. The tables below provide a detailed overview of assets by region. They show the credit portfolio broken down by assets measured at amortized cost and assets measured at fair value through other comprehensive income (FVOCI) as well as current gross carrying amounts and the related loan loss allowances.

Financial assets at amortized cost by region

										Dec 31, 2018
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Germany	231,912	11,244	2,391	0	245,548	234	265	1,007	0	1,506
Western Europe (excluding Germany)	12,471	637	218	0	13,326	4	6	69	0	79
Eastern Europe	470	37	5	0	511	0	1	4	0	4
North America	711	10	3	0	724	0	0	2	0	2
Central and South America	52	17	4	0	73	0	0	1	0	1
Asia/Pacific	200	15	3	0	218	0	0	1	0	1
Africa	8	0	1	0	9	0	0	0	0	0
Other	311	0	0	0	311	0	0	0	0	0
Total	246,135	11,960	2,625	0	**260,720**	239	271	1,084	0	**1,594**

Financial assets at fair value through other comprehensive income by region

Dec 31, 2018

in €m	Gross carrying amount					Loan loss allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Germany	3,295	0	0	0	3,295	0	0	0	0	0
Western Europe (excluding Germany)	5,392	0	0	0	5,392	0	0	0	0	0
Eastern Europe	112	0	0	0	112	0	0	0	0	0
North America	0	0	0	0	0	0	0	0	0	0
Central and South America	0	0	0	0	0	0	0	0	0	0
Asia/Pacific	0	0	0	0	0	0	0	0	0	0
Africa	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	8,799	0	0	0	**8,799**	1	0	0	0	**1**

Portfolio rating structure

The following tables show the credit quality of the risk-bearing financial instruments by rating category, broken down into assets measured at amortized cost and assets measured at fair value through other comprehensive income (FVOCI). The tables also show the current gross carrying amounts and the related loan loss allowances.

Financial assets at amortized cost by rating category

Dec 31, 2018

in €m	Gross carrying amount					Loan loss allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
iAAA–iAA	28,854	8	0	0	28,862	1	0	0	0	1
iA	22,490	113	0	0	22,604	2	0	0	0	2
iBBB	123,082	1,148	0	0	124,230	21	6	0	0	27
iBB	61,873	4,260	0	0	66,134	83	47	0	0	130
iB	9,400	5,095	0	0	14,496	119	115	0	0	233
iCCC and below	435	1,335	2,625	0	4,395	14	103	1,084	0	1,201
Total	246,135	11,960	2,625	0	**260,720**	239	271	1,084	0	**1,594**

Financial assets at fair value through other comprehensive income by rating category

Dec 31, 2018

in €m	Gross carrying amount					Loan loss allowance				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
iAAA–iAA	5,806	0	0	0	5,806	0	0	0	0	0
iA	873	0	0	0	873	0	0	0	0	0
iBBB	2,121	0	0	0	2,121	0	0	0	0	0
iBB	0	0	0	0	0	0	0	0	0	0
iB	0	0	0	0	0	0	0	0	0	0
iCCC and below	0	0	0	0	0	0	0	0	0	0
Total	8,799	0	0	0	**8,799**	1	0	0	0	**1**

The tables indicate that the credit quality of DB PFK’s portfolio is good overall. More than two-thirds of lending exposures have an investment grade rating of iBBB or better. Only 1.6 % of the loans have a rating of iCCC or below.

Reconciliation of loss allowance

The following table provides an overview of the gross carrying amounts and loss allowances for each class of financial assets, broken down into stages for all financial assets subject to impairment.

Overview of financial assets subject to impairment

										Dec 31, 2018
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and central bank balances	20,130	0	0	0	**20,130**	0	0	0	0	**0**
Interbank balances (w/o central banks)	42,731	0	0	0	**42,731**	2	0	0	0	**2**
Central bank funds sold, securities purchased under resale agreements	298	0	0	0	**298**	0	0	0	0	**0**
Loans	176,754	11,959	2,626	0	**191,338**	236	271	1,084	0	**1,591**
Banks	11	6	0	0	17	0	0	0	0	0
Payable on demand	3,276	623	248	0	4,147	6	20	189	0	216
Term deposits	1,708	0	0	0	1,708	0	0	0	0	0
Consumer mortgage lending	129,270	8,811	1,341	0	139,422	58	124	239	0	421
Commercial loans	24,981	1,492	260	0	26,733	8	13	127	0	149
Public-sector loans	4,306	0	5	0	4,311	0	0	3	0	3
Installment loans	11,746	1,012	760	0	13,518	162	113	520	0	795
Promissory note loans	1,438	14	11	0	1,463	1	0	5	0	6
Other loans	18	0	0	0	18	0	0	0	0	0
Other assets at amortized cost	7,806	0	0	0	7,806	2	0	0	0	2
Total financial assets at amortized cost	247,718	11,959	2,626	0	**262,303**	239	271	1,084	0	**1,594**
Financial assets at fair value through other comprehensive income	8,799	0	0	0	**8,799**	1	0	0	0	**1**
Off-balance sheet financial assets	30,739	991	57	0	**31,787**	9	9	15	0	**32**
Total	287,256	12,950	2,683	0	**302,889**	249	280	1,098	0	**1,627**

The tables below present a reconciliation of the opening to the closing balances of the allowance for expected credit losses and the change in the corresponding gross carrying amounts over the year for the main categories of financial instruments (consumer mortgage loans, installment loans, overnight deposits, and commercial loans.

Consumer mortgage loans

	Dec 31, 2018									
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at beginning of year	125,703	9,405	1,443	0	**136,552**	69	119	258	0	**446**
Changes in financial assets including new business	9,511	723	–416	0	9,818	–59	40	27	0	8
Transfers due to deterioration in credit quality	370	–895	525	0	0	61	–56	–5	0	0
Increase/decrease due to modifications w/o derecognition of assets	0	0	0	0	0	0	0	0	0	0
Derecognition	–6,315	–422	–211	0	–6,948	0	0	–73	0	–73
Recoveries on loans written off	0	0	0	0	0	0	0	33	0	33
Model updates	0	0	0	0	0	0	0	0	0	0
Foreign exchange movements and other changes	0	0	0	0	0	–14	21	0	0	7
Balance at end of period	129,270	8,811	1,341	0	**139,422**	58	124	239	0	**421**

Installment loans

	Dec 31, 2018									
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at beginning of year	10,368	1,198	584	0	**12,150**	112	140	388	0	**640**
Changes in financial assets including new business	4,000	–33	86	0	4,053	18	30	125	0	173
Transfers due to deterioration in credit quality	–169	1	168	0	0	31	–40	9	0	0
Increase/decrease due to modifications w/o derecognition of assets	0	0	0	0	0	0	0	0	0	0
Derecognition	–2,453	–154	–77	0	–2,684	0	0	–17	0	–18
Recoveries on loans written off	0	0	0	0	0	0	0	15	0	15
Model updates	0	0	0	0	0	0	0	0	0	0
Foreign exchange movements and other changes	0	0	0	0	0	2	–17	0	0	–15
Balance at end of period	11,746	1,012	760	0	**13,518**	162	113	520	0	**795**

Overnight deposits

	Dec 31, 2018									
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at beginning of year	2,361	552	234	0	**3,147**	6	19	175	0	**199**
Changes in financial assets including new business	1,289	77	41	0	1,407	–2	7	22	0	27
Transfers due to deterioration in credit quality	–51	48	3	0	0	3	–6	3	0	0
Increase/decrease due to modifications w/o derecognition of assets	0	0	0	0	0	0	0	0	0	0
Derecognition	–323	–53	–30	0	–407	0	0	–22	0	–22
Recoveries on loans written off	0	0	0	0	0	0	0	10	0	10
Model updates	0	0	0	0	0	0	0	0	0	0
Foreign exchange movements and other changes	0	0	0	0	0	0	0	1	0	1
Balance at end of period	3,276	623	248	0	**4,147**	6	20	189	0	**216**

Commercial loans

										Dec 31, 2018
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at beginning of year	23,158	1,441	384	0	**24,984**	9	24	121	0	**154**
Changes in financial assets including new business	4,785	105	15	0	4,905	–10	5	16	0	11
Transfers due to deterioration in credit quality	–128	111	17	0	0	10	–9	–1	0	0
Increase/decrease due to modifications w/o derecognition of assets	0	0	0	0	–1	0	0	0	0	0
Derecognition	–2,838	–165	–156	0	–3,159	0	0	–24	0	–24
Recoveries on loans written off	0	0	0	0	0	0	0	12	0	12
Model updates	0	0	0	0	0	0	0	0	0	0
Foreign exchange movements and other changes	4	0	0	0	4	0	–6	2	0	–4
Balance at end of period	24,981	1,492	260	0	**26,733**	8	13	127	0	**149**

Change in off-balance sheet receivables and loan loss allowance in the current reporting period

										Dec 31, 2018
	Gross carrying amount					Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at beginning of year	24,730	707	53	0	**25,490**	6	9	17	0	**33**
Changes in financial assets including new business	6,036	255	6	0	6,297	–11	–1	0	0	–12
Transfers due to deterioration in credit quality	–27	29	–2	0	0	7	–7	0	0	0
Model updates	0	0	0	0	0	0	0	0	0	0
Foreign exchange movements and other changes	0	0	0	0	0	7	7	–2	0	11
Balance at end of period	30,739	991	57	0	**31,787**	9	9	15	0	**32**

The following table shows the collateral held as security for all Stage 3 financial assets.

Collateral held as security for Stage 3 financial assets at amortized cost

			Dec 31, 2018
in €m	Collateral	Guarantees	Total amount
Financial assets at amortized cost (Stage 3)	1,113	10	2,625
Total	**1,113**	**10**	**2,625**

Financial assets with outstanding contractual volumes of €107 million were written off in the reporting period. The assets remain subject to enforcement proceedings.

Modified assets (not derecognized)

A financial asset is considered modified when its contractual cash flows are renegotiated or otherwise modified. Renegotiation or modification can either lead to derecognition (of the old and recognition of the new financial instrument) or not. This section covers modified financial assets that have not been derecognized.

Under IFRS 9, when the terms of a financial asset are renegotiated or modified and the modification does not result in derecognition, a gain or loss is recognized in the income statement as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. For modified financial assets, the determination of whether the asset's credit risk has increased significantly reflects a comparison of:

– the remaining lifetime probability of default (PD) at the reporting date based on the modified terms; with

– the estimated remaining lifetime PD, based on the data at initial recognition and the original contractual terms.

The following table shows the gross carrying amounts of the contracts modified in the current reporting period where the modification impacts income, stated at amortized cost before modification, and the associated net gain or loss.

Modified assets at amortized cost

	Dec 31, 2018				
	Loan loss allowance				
in €m	Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost before modifications	0	0	0	0	**0**
Changes in the income statement from modifications	0	0	0	0	**0**

In the first 12 months after implementation of the IFRS 9 requirements, no modified assets were found to have been upgraded to Stage 1.

Asset quality (comparative period as reported under IAS 39)

This section provides information on the comparative figures as of December 31, 2017, in accordance with IAS 39 for maximum credit risk and for risk concentrations by sector, region, and credit quality. It should be noted that the figures are only comparable with the current figures to a limited extent due to the significant differences in the requirements for recognizing financial instruments and for calculating impairment resulting from the introduction of IFRS 9 as of the start of the reporting year. The introduction of IFRS 9 also led to a reclassification of financial assets. More information on this can be found in Note 3 ("Newly applied and future accounting pronouncements") to the consolidated financial statements.

Asset quality (comparative period as reported under IAS 39) – maximum credit risk

				Dec 31, 2017
in €m	Maximum credit risk	Collateral	Guarantees and credit derivatives	Total reduction in credit risk
Cash and central bank balances	14,451	0	0	0
Interbank balances (w/o central banks)	43,961	0	0	0
Central bank funds sold and securities purchased under resale agreements	871	835	0	835
Financial assets at fair value through profit or loss	9,384	2,800	0	2,800
Positive fair values from derivative financial instruments	6,541	0	0	0
Non-trading financial assets at fair value through profit or loss	2,842	2,800	0	2,800
Financial assets at fair value through other comprehensive income	17,175	0	0	0
Loans	187,344	128,499	1,526	130,025
Banks	1,021	0	0	0
Payable on demand	3,247	166	107	273
Term deposits	126	0	0	0
Consumer mortgage lending	134,471	115,930	178	116,108
Commercial loans	23,173	11,918	1,019	12,936
Public-sector loans	5,069	7	0	7
Installment loans	13,275	478	163	641
Promissory note loans	1,597	0	0	0
Other loans	134	0	59	59
Securities in the "hold" business model (IFRS 9)/LaR (IAS 39)	5,231	0	0	0
Other financial assets	1,246	0	0	0
Contingent liabilities	1,042	133	38	172
Irrevocable loan commitments	11,093	0	1	1
Maximum credit risk	286,566	132,267	1,566	133,833

Asset quality (comparative period as reported under IAS 39) – financial assets by sector

						Dec 31, 2017
	Gross carrying amount			Loan loss allowance		
in €m	Non-credit-impaired assets	Credit-impaired assets	Total	Non-credit-impaired assets	Credit-impaired assets	Total
Financial services	62,696	2	62,698	0	0	1
Investment fund management	336	1	337	0	0	0
Manufacturing	3,939	96	4,035	9	71	80
Wholesale and retail trade	3,329	71	3,400	1	43	44
Households	139,242	1,367	140,609	209	646	855
Commercial real estate	12,768	119	12,887	9	40	49
Public sector	6,985	6	6,992	0	3	3
Other	15,272	98	15,370	11	51	62
Total	244,567	1,761	246,328	239	854	1,093

Asset quality (comparative period as reported under IAS 39) – financial assets by region

						Dec 31, 2017
	Gross carrying amount			Loan loss allowance		
in €m	Non-credit-impaired assets	Credit-impaired assets	Total	Non-credit-impaired assets	Credit-impaired assets	Total
Germany	233,206	1,527	234,733	235	788	1,023
Western Europe (excluding Germany)	9,967	232	10,199	4	66	70
Eastern Europe	445	0	446	0	0	0
North America	628	1	628	0	0	0
Central and South America	56	0	56	0	0	0
Asia/Pacific	245	1	246	0	0	0
Africa	10	0	10	0	0	0
Other	10	0	10	0	0	0
Total	244,567	1,761	246,328	239	854	1,093

Asset quality (comparative period as reported under IAS 39) – financial assets by rating category

						Dec 31, 2017
	Gross carrying amount			Loan loss allowance		
in €m	Non-credit-impaired assets	Credit-impaired assets	Total	Non-credit-impaired assets	Credit-impaired assets	Total
iAAA–iAA	24,416	0	24,416	0	0	0
iA	14,752	1	14,753	3	0	4
iBBB	113,009	17	113,026	23	2	25
iBB	72,697	145	72,843	67	62	129
iB	16,775	249	17,024	90	89	179
iCCC and below	2,918	1,348	4,266	56	700	757
Total	244,567	1,761	246,328	239	854	1,093

Environmental risk

Following a review conducted most recently in December 2017, DB PFK received a management certification report in accordance with the ISO 14001:2015 environmental management systems standard from DNV GL Business Assurance Zertifizierung und Umweltgutachter GmbH, located in Essen, Germany. The review deemed the Bank's management system to be both effective and compliant with the ISO standard. The scope of certification encompasses business with retail banking and corporate clients as well as B2B business and central functions, including facilities management.

Monitoring and Managing Operational Risk

Since the third quarter of 2018, the economic capital set aside for operational risk has been determined using the dbLORE (db Local OR Engine) OpRisk capital model for both the Bank as a whole and the individual business units. The calculation is based on internal and external loss events in particular. The external loss events are obtained from the Operational Riskdata eXchange Association (ORX). The main function of dBLORE is to model the distribution of the total net loss that DB PFK could incur for the year. The distribution is calculated using a Monte Carlo simulation and depicts the operational value-at-risk (OpVaR) at a confidence level of 99.9 %.

The VaR limit for operational risk at overall bank level was €1,200 million as of the 2018 closing date. In the event of limit overruns, the limit for operational risk is increased (including during the course of the year) at the expense of other risk types or of the unallocated risk cover amount. The business units under the Postbank brand have been allocated specific risk capital amounts. Utilization of those limits is also monitored each quarter.

In addition to its regular calculations of economic capital, DB PFK uses the following qualitative instruments in particular to monitor operational risk:

– structured capture of internal losses of €1,000 or more (fraud cases starting at €0) in the Deutsche Bank Incident Reporting System (dbIRS);

– regular determination of risk indicators as an early warning instrument;

– separate risk assessments for the Postbank brand and the Deutsche Bank brand for evaluating internal control structures and processes;

– scenario analyses for evaluating specific risk situations; and

– lessons-learned analyses in the event of serious losses.

The reporting process is supported by longstanding, proven IT applications that systematically capture risk and losses Group-wide in line with uniform standards. The large collection of data that has been amassed over many years facilitates operational risk management.

Responsibility for OpRisk management lies with the local management at divisional and subsidiary level. It is supported by a networked organization of local OpRisk managers and dedicated OpRisk contacts that has been established in a number of divisions and subsidiaries. The OpRisk managers and contacts are responsible for promptly identifying and reporting risk and losses as well as for initiating appropriate preventive measures. The Divisional Control Office (DCO) organization established within Deutsche Bank's Private & Commercial Clients unit plays a crucial role in managing operational risk at DB PFK. The DCO organization assists in the identification, analysis, and measurement of risk and losses, and advises the management levels in defining risk-mitigating measures.

The independent risk control function required by MaRisk is performed by the Operational Risk Management department that forms part of the CRO board department. The OpRisk Management department is also responsible for providing timely reports to the Group Management Board and the relevant DB PFK risk committees. For instance, each week a report on losses incurred is submitted to the Group Management Board to ensure that the top management level is informed and involved at an early stage in the event any unwanted developments are identified. Risk reporting is based on the previous structures established under the Postbank and the Deutsche Bank brands (e.g., the organizational structures and workflows, policies, etc.). An integration project has been established with the goal of implementing harmonization of these structures.

DB PFK recognized new losses from operational risk of approximately €106 million in 2018. After adjusting for losses from prior years in the amount of €62 million, the resulting net loss came to €44 million, which is well below the prior-year level of €62 million. Loss trends for both brands have been driven primarily by the still-high level of legal actions and complaints brought by customers in connection with purchases of closed-end funds in comparison with the long-term average. Losses arising from cases of fraud, the majority of which occurred externally, were up significantly year-on-year to approximately €70.4 million in 2018 (2017: €20.1 million). The increase was mainly due to two major cases of fraud in the commercial clients business as well as to losses from ATM bombings.

The Bank has already defined a number of technical and organizational anti-fraud measures in recent years in order to guard against external fraud attacks. The anti-fraud measures are regularly reviewed and updated to reflect the current situation. In addition, the battle against fraud continues to focus on communicating all material cases of fraud promptly throughout the Bank, as well as on raising awareness among the employees involved in the relevant processes in order to ensure systematic, comprehensive, and early identification of fraud.

DB PFK assumes that losses from operational risk will gradually decline over the coming years as a result of the measures that have either been initiated or already implemented. However, consumer protection issues could again negatively impact the Bank in 2019; such issues relate to the calculation of bank fees as well as model proceedings pursuant to the *Kapitalanleger-Musterverfahrensgesetz* (KapMuG – Capital Investors Model Proceedings Act).

As part of the identification and management of legal risk, the Legal Affairs unit regularly reports to the Management Board and prepares analyses to ensure that the business divisions have access to detailed and sophisticated assessments for decision-making purposes. Legal Affairs uses a variety of individual techniques to identify legal risk. Among other things, it assists in measuring DB PFK's tolerance for legal risk. The steps necessary to eliminate or mitigate potential legal risk arising from the Bank's business activities are agreed between the Legal Affairs unit and the corporate divisions.

DB PFK performs business continuity management (BCM), which comprises both preventive and reactive measures, along its value chain. The preventive measures include identifying critical business processes, developing and establishing adequate BCM plans (known as contingency plans), and subjecting them to regular review. The objective is to develop and then implement contingency plans in the prevention stage in order to improve the continuity, propriety, and robustness of the Bank's business operations and thus enable a quicker response to emergencies or crises. Regular BCM risk identification and assessment (RIA) exercises and business impact analyses (BIA), which focus on the Bank's main tasks and business processes, are used as the basis for planning. The proper functioning of the contingency planning processes is reviewed, monitored, and documented on an ongoing basis.

Monitoring and Managing Business Risk

Due to the Bank's business model, it is subject to the risk of unexpected circumstances causing it to report a net loss on the income statement. Such risk also extends to net interest income in the banking book (NII risk), which impacts the interest income component of current earnings. NII risk is overseen by DB PFK's Treasury unit and is managed by the Asset and Liability Committee (ALCO) as well as via the risk committee structure in place at DB PFK. It is generally quantified by running scenario analyses or stress tests from which the level of potential losses in future periods can be derived. In addition, the risk control function and the business units act as an early warning system by gathering and analyzing data on markets and competitors on an ongoing basis in order to identify potential risks and develop the appropriate countermeasures.

The Risk Management unit of DB PFK is responsible for limit monitoring and reporting, which must be performed at least quarterly. As of the reporting date, 80 % of the limit for NII risk at DB PFK had been utilized and 2 % of the local limit for DB Bauspar AG had been utilized.

Reputational risk management

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

The Non-Financial Risk Management Committee (NFRC) acts as the escalation instance at DB PFK and must be consulted on issues concerning serious reputational risk. The NFRC supports the Group Management Board in its risk management activities, including monitoring and managing reputational risk. The main management objective is to prevent reputational risk entirely if possible or, failing that, to minimize the effects of any reputational damage that has occurred by responding with appropriate measures.

Monitoring and Managing Liquidity Risk

ILAAP architecture and risk governance

Liquidity risk is monitored and managed centrally in the CRO board department. The primary task of liquidity risk management is to ensure that DB PFK is solvent at all times, including in specific stress situations, and to guarantee a stable funding structure. To achieve this, DB PFK has defined an overarching risk strategy detailing how liquidity risk should be handled at both the level of the parent company and the Group as well as for the Group's two brands, Postbank and Deutsche Bank.

Liquidity and funding planning

As a part of DB PFK's Group-wide integrated planning process, liquidity planning involves identifying all projected liquidity needs and surpluses over a specific planning horizon. The liquidity requirement indicated by the Group parent in its business planning is taken as the starting point. A variety of liquidity perspectives can be used to identify liquidity needs or surpluses. These include the cash balance and/or net/surplus liquidity on the one hand and the LCR buffer or the available stable funding (ASF) surplus on the other.

The information on potential funding sources supplied by the market managers and the liquidity requirement from the Group parent is used to develop a package of suitable instruments that takes all economic and regulatory targets into account in the best manner possible and ensures that planning adheres to the risk strategy adopted. One of the primary strategic instruments used at DB PFK is its deposits campaigns, for example.

Managing short-term liquidity risk

Short-term liquidity risk is managed and limited at Group level, primarily by means of stress tests, in order to guarantee the viability of the Bank.

Designed to ensure solvency, the risk strategy defines and limits the management parameters of net/surplus liquidity as well as the LCR buffer. The parameters are stated retrospectively as of each reporting date as well as prospectively in the form of 12-month forecasts. This assures that any liquidity shortages are identified at an early stage so that countermeasures can be promptly initiated whenever necessary. The Deutsche Bank brand is being added to the prospective forecasts in the follow-up to the merger of Deutsche Postbank AG and Deutsche Bank Privat- und Geschäftskunden AG. The first step here has been to implement a regular process for computing simplified scenarios in order to gauge the effect of significant risk control actions on key performance indicators.

In addition, a reserve balance for intraday settlement is maintained at the ECB in the form of cash or securities to safeguard payment flows. The liquid assets held for this purpose are flagged as encumbered in the daily measurement of liquidity risk, and are not available for funding purposes or for any other daily liquidity needs. The adequacy of the reserve for managing intraday liquidity is monitored on a daily basis and assessed each month.

All of the aforementioned limits are monitored progressively at each stage using a traffic light system. If a limit is breached, an escalation process is triggered, which can in turn trigger a liquidity shock. In such case, the Liquidity Crisis Committee led by the CRO decides on the action to be taken on the basis of DB PFK Group's liquidity contingency plan.

Stress testing (net/surplus liquidity)

The Bank's liquidity stress scenarios cover both company-specific and market-wide causes. In addition, a combined "MaRisk scenario" covering a combination of the two is computed each day to manage short-term liquidity risk at an operational level.

In the company-specific stress scenario, DB PFK's business model is used as the basis for determining the primary drivers of liquidity risk. The model focuses in particular on the lending and deposit business with retail banking customers and commercial and corporate clients (mainly in Germany, in EUR). This permits the model to reflect changes in a variety of market factors as well as panic reactions by customers and structural changes in funding resources (e.g., due to a decline in market liquidity). The MaRisk scenario simulates severe outflows of savings deposits, demand deposits, and corporate customer deposits, restricted access to the uncollateralized money market, and increased haircuts on central bank-eligible securities. In addition, all stress scenarios require the customer loan portfolio to be maintained at existing levels at a minimum, even in times of stress. To guard against unexpected cash outflows, the Bank maintains cash holdings, balances with central banks, and an extensive portfolio of financial assets in the form of unencumbered, highly liquid, central bank-eligible securities.

This actively ensures access to the secured money market in order to enable the Bank to tap the repo markets (an important consideration) as a potential source of liquidity reserves in a stress scenario, in addition to increasing the diversification of funding sources and optimizing buffer costs.

For the purpose of operationalizing the internal risk management concept, net liquidity is defined as the available liquidity buffer less the required minimum buffer under the "MaRisk scenario." The internally defined survival period is two months, i.e., longer than the minimum period under supervisory law. To avoid MaRisk coverage breaches, an additional (amber) buffer is also defined. If coverage falls below the buffer, an "amber" status is triggered. Specifying a strategic amber buffer assists in defining the Bank's risk appetite in concrete terms.

In addition to net liquidity, surplus liquidity is another management indicator used by DB PFK. Surplus liquidity is a measure of the liquidity that is available over and above the amber buffer. It is calculated both retrospectively as a monthly net liquidity minimum (less the amber buffer), as well as prospectively in the form of monthly 12-month liquidity forecasts.

The minimum surplus liquidity in the forecast is limited and is used as an early warning indicator that is subjected to monthly monitoring. The forecast is based on expected increases or decreases in volumes as estimated by the managers in charge of the products concerned.

Both the results of the daily stress tests performed since the merger and the LCR ratio confirm DB PFK's solid liquidity position. Even after accounting for the combined stress effects in the MaRisk scenario, comfortable surpluses existed in the net liquidity position and in surplus liquidity at all times, thus underlining the Bank's comfortable liquidity position.

At Group level (excluding DB Bauspar AG), DB PFK had a net liquidity (minimum within the survival period) of €13.5 billion and an LCR ratio of 201% for the Group (excluding DB Bauspar AG) as of December 31, 2018. The LCR ratio for DB Bauspar AG was 169% as of December 31, 2018.

Managing structural liquidity risk (funding risk)

Due to its strategic focus as a bank for retail banking customers and commercial and corporate clients, DB PFK enjoys a broad and stable funding base from its customer business and is therefore largely independent of the money and capital markets. The stability of the funding structure is regularly reviewed on the basis of internal analyses and is also guaranteed by limiting the net stable funding ratio (NSFR). For this purpose, the NSFR for DB PFK Group is calculated and monitored in accordance with the requirements of the Basel Committee on Banking Supervision's Quantitative Impact Study (QIS).

In addition, the monthly liquidity forecasts calculate the available stable funding. This ensures that any undesired changes in funding structure stability are identified at an early stage so that countermeasures (such as deposits campaigns) can be promptly initiated whenever necessary. The Deutsche Bank brand is being added to the forecasts prospectively in the follow-up to the merger.

The following table shows DB PFK's financial liabilities as of December 31, 2018 and December 31, 2017, broken down into residual maturity bands:

Liabilities by residual maturity

	Payable on demand		≤ 3 months		> 3 months and ≤ 1 year		> 1 year and ≤ 5 years		> 5 years		Total	
in €m	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Non-derivative liabilities	**124,155**	99,722	**83,024**	85,831	**10,302**	9,350	**17,201**	26,906	**23,225**	34,146	**257,907**	255,956
Contingent liabilities from guarantees (*Bürgschaften* and *Garantien*)	**693**	943	**0**	0	**0**	0	**0**	0	**0**	0	**693**	943
Other payment obligations	**11,739**	11,093	**0**	0	**0**	0	**0**	0	**0**	0	**11,739**	11,093
Derivative liabilities	**4,989**	7,405	**2**	1	**1**	0	**3**	1	**8**	1	**5,003**	7,407
Hedging derivatives	**1,300**	592	**2**	1	**1**	0	**3**	1	**8**	1	**1,314**	595
Trading liabilities	**3,689**	6,812	**0**	0	**0**	0	**0**	0	**0**	0	**3,689**	6,812
Total	**141,576**	119,163	**83,026**	85,831	**10,303**	9,351	**17,204**	26,907	**23,233**	34,147	**275,342**	275,399

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

Internal Control and Risk Management System for the Financial Reporting Process

The key features of the internal control and risk management system as they relate to the preparation of the consolidated financial statements for the DB PFK subgroup are described in the following, as required by Section 315(4) in conjunction with Section 264d of the *Handelsgesetzbuch* (HGB – German Commercial Code). DB PFK regards information as being material within the meaning of Section 315(4) of the HGB if failure to disclose the information could influence financial decisions made on the basis of the subgroup's consolidated financial statements or other components of financial reporting. Materiality cannot be determined in general terms, but is established on the basis of the nature and scope of the issues involved. DB PFK assesses the materiality of an issue in terms of its significance with respect to the consolidated financial statements for the DB PFK subgroup.

Accounting-related internal control and risk management system

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

DB PFK's internal control and risk management system comprises rules for managing corporate activities (internal control system/risk management system) as well as rules for monitoring compliance with those rules (internal monitoring system).

DB PFK's internal control system performs the following tasks:

– ensuring the effectiveness and cost efficiency of business activities in line with corporate strategy;

– ensuring the proper execution and reliability of both internal and external financial reporting; and

– ensuring compliance with the legal provisions applicable to the Bank.

DB PFK's Management Board is responsible for establishing the internal control system. Its implementation is assured by the appropriate principles, procedures, and measures.

Structure of the accounting-related internal control and risk management system

The Management Board is responsible for preparing the annual and consolidated financial statements of the DB PFK subgroup as well as the group management report. The Management Board has prepared organizational policies that clearly define the responsibilities for the individual components of financial reporting and the financial reporting workflow and has assigned those responsibilities to individual organizational units. The Finance, CEO, Resources, and Chief Risk Office board departments are the main units involved in the preparation of the policies.

The 2018 consolidated financial statements of the DB PFK subgroup constitute the first complete set of financial statements issued by DB PFK in accordance with IFRSs. Therefore, the requirements of IFRS 1 “First-time Adoption of International Financial Reporting Standards” were adhered to in the preparation of these consolidated financial statements. The consolidated financial statements for the DB PFK subgroup contain the constituent parts of an annual financial report within the meaning of Section 114 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). As a capital market-oriented company as defined in Section 264d of the HGB, DB PFK AG has prepared its consolidated financial statements for the reporting period in accordance with the International Financial Reporting Standards (IFRSs), as adopted in the European Union (EU).

The Bank’s subsidiaries are included in the scope of consolidation on the basis of reports prepared by the subsidiaries and special-purpose entities in accordance with the accounting policies of DB PFK Group using Group reporting packages.

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

– monitoring new legislation;

– preparing and updating accounting policies;

– due and proper capture and processing of accounting-related information/transactions in IT applications;

– preparing the consolidated financial statements and the group management report; and

– providing segment reporting information.

In addition, certain activities are handled by the units under the CEO board department, which is responsible for the following key task:

– preparing specific disclosures for the notes to the financial statements.

The Resources board department primarily performs the following financial reporting tasks:

– creating the conditions for recognition, measurement (best estimate), and ongoing review of the provisions for pensions and other employee benefits as well as preparing the relevant notes disclosures; and

– preparing any additional relevant disclosures for the notes or the risk report.

The Chief Risk Office performs the following tasks:

– measuring financial instruments, and particularly loan receivables, in accordance with IFRS 9;

– providing the information relevant to managing market, credit, liquidity and operational risks; and

– providing the relevant disclosures for the notes and the risk report.

The Supervisory Board is tasked with overseeing the Management Board. In the area of financial reporting, the Supervisory Board is responsible for approving DB PFK's consolidated financial statements and annual financial statements. The Audit Committee formed by the Supervisory Board has the following tasks:

– offering advice and supervision with respect to financial reporting, the internal control system, risk management and risk control (insofar as not delegated to the Risk Committee), internal auditing, and compliance;

– dealing with matters relating to the auditor independence requirement; and

– engaging the auditors, determining the areas of emphasis for the audit, and establishing the fee.

The Audit Committee makes use of its right to have the Internal Audit function provide it with the information it requires to perform its duties.

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

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

The audit report to be prepared by the auditor must be submitted to the Supervisory Board of DB PFK.

Components of the accounting-related internal control and risk management system

DB PFK's control environment, as a component of the accounting-related internal control and risk management system, is the framework within which the rules applicable at DB PFK are introduced and applied. It is determined by management's problem awareness and actions with respect to internal control as well as the due diligence requirements. The control environment significantly influences employees' control awareness. A positive control environment is a precondition for an effective internal control system.

Accounting policies and other rules serve to ensure the due and proper treatment of transactions. These policies and rules are reviewed on an ongoing basis and modified as necessary. DB PFK uses SAP BCS as a financial consolidation system when preparing the subgroup consolidated financial statements. Various SAP systems and subledgers are upstream of the consolidation system. Separate data processing tools are also used, the setup of which is supervised in connection with monitoring end user data processing. The Group reporting packages submitted by the companies included in consolidation are either loaded directly, or via another SAP system (SAP SEM), into the SAP SEM BCS system, or entered manually in specific cases. The SAP BCS data, together with other information provided by the companies included in consolidation, is used by the Bank to prepare its consolidated financial statements in the SmartNotes system.

The risk of non-compliant financial statements is addressed by way of relevant specifications in the accounting policies. Technical validation rules, along with a variety of analytical checks (such as time series analyses) are used to ensure that the contents of the financial statements are in compliance with the Group accounting manuals. The annual and consolidated financial statements are prepared, and their quality is assured, by the Accounting and Tax unit. Each month, the Group parent informs all Group companies – either directly or indirectly – of the deadlines for, and changes relating to, the preparation of the consolidated financial statements. The Group policies are updated at regular intervals and the updated versions communicated to the subsidiaries. The policies in effect at the Group parent also apply.

Generally accepted valuation techniques are used. The techniques used and the underlying parameters are reviewed at regular intervals and modified as necessary.

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

The financial reporting process for the annual and consolidated financial statements comprises support from the relevant organizational unit in the treatment of accounting transactions, data capture and processing, report preparation, and publication of the individual financial reporting components. Preparation of the consolidated financial statements additionally comprises determining the basis of consolidation, processing reports from the companies included in consolidation, intercompany reconciliations, currency conversion, automated and manual consolidation entries, and ultimately, generating the consolidated financial statements, among other things.

The entire financial reporting process is supported by IT applications. Both standard applications and custom software are used. Rules and procedures based on DB PFK's IT and risk strategies have been established for program development and updating, data backups, and access control, thus ensuring the compliance of the Bank's financial reporting with the applicable accounting standards.

Internal Audit

Internal Audit is a key element of DB PFK's process-independent business monitoring system. In terms of the Bank's organizational structure, Internal Audit is under the purview of the CEO and reports independently to the Group Management Board.

The Internal Audit function is obliged to comply with the standards issued by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Deutsches Institut für Interne Revision). It reviews the effectiveness and appropriateness of risk management in general and the internal control system in particular as well as the propriety of basically all transactions and processes. The audits take a risk-oriented and process-independent approach and are conducted in accordance with MaRisk. The responsibilities of Internal Audit also extend, in a scaled-down form, to DB PFK's subsidiaries. Its activities for the subsidiaries range from acting in an advisory capacity to conducting full-scale internal audits.

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

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

Pending litigation

On October 20, 2017, the Cologne Regional Court ruled in the first instance in favor of the actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 28, 2015 on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement. Deutsche Postbank AG has appealed the decision with the Higher Regional Court of Cologne. The proceedings are being continued by DB PFK.

Outlook

The global economy[1]

The global economy will likely experience solid growth in 2019, although at a somewhat slower pace than in the previous year. We expect global economic growth of 3.5 % due to the prospective slight stagnation of the economy in the U.S.A. and weakening of the economies in China and Europe. The underlying economic conditions are expected to remain stable but a gradual exit from the accommodative monetary policy could bring with it higher risks with larger and more frequent volatility-driven incidents. According to forecasts, the global inflation rate will gradually sink to 3.1 % in 2019 (2018: 3.3 %). In the industrialized countries, we expect growth to slow to 1.8 % and consumer prices to climb by 1.4 % in 2019. In emerging markets, economic growth is anticipated to decrease slightly to 4.6 %, while inflation is expected to rise to 4.3 % in 2019.

We foresee economic growth in the eurozone dropping to 1.2 % in 2019. This reflects the weakening of the economic situation outside of Europe, which threatens to undermine the stability of the domestic economy of the eurozone. While lower oil prices and easing of the fiscal policy in large member states such as France support a favorable outlook for the domestic economy of the eurozone, this could be jeopardized by one-off factors such as continuing weakness in the German automotive industry and a no-deal outcome in Brexit negotiations. Inflation in the eurozone is expected to sink to 1.3 % in 2019. Following GDP growth of 1.5 % in 2018, we anticipate 1 % growth in the German economy in 2019, driven almost exclusively by domestic demand.

The uncertainty of our global forecast remains relatively high. Key risks include Brexit, the political and economic developments in Italy, the protests in France, and the European Parliament elections as well as an escalation of the trade war, especially between China and the U.S.A. If the British Parliament persists in failing to reach an exit agreement, this would result in a no-deal Brexit. A disorderly Brexit could then further dampen the already uncertain economic outlook for Great Britain and Europe and hamper growth in continental Europe, the confrontation between Italy and the European Commission, escalation of the yellow vests movement in France, or uncertainty regarding the upcoming EU Parliamentary elections could increase volatility and hamper growth in the eurozone. The worldwide trade war is the pivotal event on the global stage. If the U.S.A. and China do not reach a trade agreement, additional tariffs for the automotive industry and on the remaining imports from China or an expansion of the conflicts beyond trade itself could significantly slow growth.

The banking industry[1]

The greatest risks for the worldwide banking industry in 2019 are likely posed by political developments leading to macroeconomic risks. In the U.S.A., trade policy conflicts continue to smolder with China and Europe. Additionally, the different majorities in Congress and the Senate have significantly increased the possibility of a paralyzed government. In Europe, a lack of agreement between Great Britain and the EU may lead to a chaotic Brexit. There is also the possibility that the populist government in Italy may once again take measures that lead to greater uncertainty and volatility in the financial markets. All in all, the sense of nervous tension on the global stock markets grew considerably last year, likely driven by a troubled macroeconomic outlook as well as structural changes among the market participants and in trade practices. From a regulatory standpoint, no major new impetus is to be expected following near completion of re-regulation in the wake of the financial crisis. Instead, the focus is now on implementation of the measures already adopted.

In Europe, the environment for the banking industry in 2019 will likely become more harsh than in the previous year. Reasons for this include the already foreseeable economic slowdown, the risks associated with Brexit, and vulnerability to fading export dynamics in light of a possible trade war. Furthermore, the net interest income of banks is coming under increasing pressure in light of zero and negative interest rates, especially since the interest rate environment is unlikely to change much in the coming year. A significant increase in the profitability of banks is therefore not to be expected. Nevertheless, the moderate lending growth seen with both companies and private households could continue, unless the European economy slides into recession.

[1] Source: Deutsche Bank Research Forecasts

The conditions for German banks are similar to those for other European banks, but the economic signs are generally more positive: Even in the case of a slight downturn, credit quality would likely remain excellent with credit growth staying robust. However, the income problems faced by German banks are similar to those of other European banks, in particular in regard to interest rates, and German banks are plagued with even greater difficulties achieving solid profitability.

Consolidated results of operations

The following assessment of the forecast direction of business at DB PFK in fiscal year 2019 is based on expectations described above with regard to the macroeconomic and industry-specific parameters. Divergent developments in the environment, the emergence of risks described above, or unforeseen events such as legal decisions or unexpected stricter regulation of the banking industry, could have a significant impact on the financial position, net assets, and results of operations that are not taken into account for the outlook presented here.

The business with retail and commercial clients remains the foundation of our future earnings performance. With pressures continuing from the low interest rate environment, the focus will be on stabilizing the long-term income components, strong growth in non-interest products, leveraging additional income potential through new products, and a further reduction in the cost base, despite continuing investments in the integration and in digitization.

For fiscal year 2019, we are expecting DB PFK to record moderately higher net income before tax compared with the reporting period, based on this differentiated package of measures.

Despite the loss of non-recurring items that had a positive effect in the reporting period, we are expecting total income to remain largely stable compared with the reporting period. The contribution from the client business is set to continue to perform positively. We expect that the strengthening of the securities business and continued growth in credit products in particular will more than make up for the further earnings decline in deposit products in light of the persistently low interest rate environment.

We expect the loan loss allowance to rise slightly compared with the 2018 reporting period, due largely to the sharp growth in the loan portfolio.

We anticipate that administrative expenses will decline slightly compared with the 2018 reporting period. The administrative expenses will also no longer contain non-recurring positive factors from the reporting period, but this ought to be more than offset by the long-term decline in cost trends. We will achieve cost savings in 2019 and beyond from both integration synergies and the implementation of planned efficiency measures.

For the following year, we are expecting a further reduction in the CIR to 77 %.

At 10.1 %, RoTE in the following year is likely to be lower than in the comparative period (10.9 %).

For the ratios calculated for internal management purposes, we are expecting a clear increase in both RWAs and the leverage exposure in 2019 in the course of the planned volume growth. Model effects will also depress RWAs slightly in fiscal year 2019. We are expecting the planned earnings retention to push up internally defined CET1 slightly, with the result that we are assuming a moderate decline in the CET1 ratio used in internal management, but a slight rise in the leverage ratio.

Deutsche Bank brand

For 2019, we are anticipating net income before tax for our Deutsche Bank brand to decline slightly compared with the reporting period. This trend is attributable primarily to non-recurring positive factors in 2018.

We are expecting an overall slight decline in total income in particular because of the impact of the low interest rate environment. Increased income from the investment business and account services will counter this declining earnings trend. The introduction of MiFID II and negative market factors weighed on the investment business in the reporting period. We are again expecting an increase in the number of transactions and the acquisition of new client volumes in 2019. The revision of the fee structure in 2018 will enable additional income in the account services business.

The loan loss allowance in 2018 received a boost from the sale of non-performing loan portfolios. Without any comparable non-recurring effect, we are expecting our net need for loan loss allowances for 2019 to be higher.

We are forecasting a continuation of the positive trend for administrative expenses. The reasons behind this projection are additional integration synergies and the continuation of cost cutting measures. In the reported figures, this positive development is masked by a non-recurring factor from the reversal of restructuring provisions in the reporting period, which will not be repeated in 2019, with the result that we are expecting a slight increase in administrative expenses in 2019 compared with 2018.

Postbank brand

If the positive trends in the lending business and the cost base continue, we are forecasting moderately lower net income before tax for the Postbank brand for fiscal year 2019 – in particular because of the continuing pressures from the low interest rate environment and the overall significantly positive non-recurring factors on both the income and the cost side that emerged in 2018.

We expect to see essentially no change in total income from the client products of the Postbank brand in 2019 compared with the reporting period. Our assessment is based on continued growth in lending volumes and a stronger commission business – among other things from securities brokerage, which can offset the pressures on the home savings and deposit business due to the persistently low level of interest rates.

The remaining income components were influenced in 2018 by non-recurring, overall significantly positive effects – primarily from the optimization of the real estate and investment securities portfolios – that will no longer occur on a comparable scale in 2019. In light of this, we expect to generate slightly lower income overall in 2019 compared with the 2018 reporting period.

We are expecting the loan loss allowance to remain on a level with the 2018 reporting period.

We expect administrative expenses to remain largely unchanged in the 2019 fiscal year compared with the reporting period. Although this item also contains non-recurring factors, in particular from the modification of pension arrangements, we are predicting a further acceleration in the long-term decreasing cost trend due to integration synergies.

Other

We expect the “Other” segment to contribute higher net income before tax for fiscal year 2019 as a result of a substantial reduction in expenses, accompanied by a considerable increase in total income.

The total income trend for this segment will be dominated essentially by measurement effects from transactions with other entities in our parent group. Since these dominating effects are very volatile and dependent on the development of market parameters, our forecast for this segment is particularly uncertain.

In the case of non-interest expenses, we are expecting a considerable reduction compared with the reporting period – attributable above all to a further increase in our investments to integrate processes, organizations, and platforms of both of our brands. These additional investments will more than offset the reduction in the compensation and benefits costs of the infrastructure functions attributable to the restructuring program as part of Strategy 2020.

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Consolidated Statement of Income

in €m	Note	2018	2017
Interest and similar income[1]		5,121	5,590
Interest expense		–1,109	–1,403
Net interest income	6	**4,012**	4,187
Loan loss allowance	19	–213	–130
Net interest income after loan loss allowance		**3,799**	4,057
Net commissions and fee income	7	1,757	1,794
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	6	–8	130
Net gains (losses) on financial assets/liabilities at fair value through other comprehensive income	6	110	N/A
Net gains (losses) on financial assets available for sale	6	N/A	84
Other income (loss)	8	452	–32
Total non-interest income		**2,311**	1,976
Compensation and benefits	9	–2,356	–2,431
General and administrative expenses	10	–2,701	–2,898
Total non-interest expenses		**–5,057**	–5,329
Net income (loss), before tax		**1,053**	704
Income tax expense (–)/benefit	33	–47	2
Consolidated net income (loss) after tax		**1,006**	706

[1] Interest and similar income includes €5.1 billion (previous year: €5.5 billion) calculated using the effective interest rate method.

Earnings per share were €3.66 as of December 31, 2018 (December 31, 2017: € 2.57).

Earnings per share are calculated by dividing consolidated net income (loss) by the weighted average number of shares outstanding during the reporting period. The average number of shares outstanding in the reporting period was 275,000,000, as in the prior-year period.

Diluted earnings per share are the same as earnings per share in the reporting period, as in the prior-year period, because no conversion or option rights are outstanding and hence there is no dilutive effect.

Consolidated Statement of Comprehensive Income

in €m	2018	2017
Net income (loss) recognized in the income statement	**1,006**	706
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) related to defined benefit plans, before tax	−106	−144
Total income tax related to items that will not be reclassified to profit or loss	2	12
Items that are or may be reclassified to profit or loss		
Financial assets available for sale		
Unrealized net gains (losses) for the period, before tax	N/A	−160
Net (gains) losses for the period reclassified to profit or loss, before tax	N/A	−91
Financial assets at fair value through other comprehensive income		
Unrealized net gains (losses) for the period, before tax	−113	N/A
Net (gains) losses for the period reclassified to profit or loss, before tax	−110	N/A
Total income tax related to items that are or may be reclassified to profit or loss	0	1
Other comprehensive income (loss), net of tax	**−327**	−382
Total comprehensive income (loss), net of tax	**679**	324

Consolidated Balance Sheet

Assets

in €m	Note	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Cash and central bank balances	11	20,130	14,451	10,574
Interbank balances (w/o central banks)	11	42,731	43,961	39,421
Central bank funds sold and securities purchased under resale agreements (reverse repos)		298	871	5,886
Financial assets at fair value through profit or loss	12	5,005	9,384	14,225
Financial assets at fair value through other comprehensive income	14	8,799	N/A	N/A
Financial assets available for sale	13	N/A	17,175	20,230
Loans at amortized cost	18, 19	189,748	186,251	183,999
Property and equipment	22	813	1,013	978
Intangible assets	24	294	257	203
Other assets	25	7,967	1,393	1,928
Current tax assets		12	74	148
Deferred tax assets		319	251	184
Total assets		276,116	275,081	277,776

Equity and liabilities

in €m	Note	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017
Deposits	22	225,985	215,112	204,435
Central bank funds purchased and securities sold under resale agreements		1,135	2,757	3,149
Financial liabilities at fair value through profit or loss	12	3,689	6,812	11,116
Other liabilities	25	6,639	5,085	5,603
Provisions	27	615	754	861
Current tax liabilities		35	39	109
Deferred tax liabilities		9	23	20
Non-current liabilities	28	29,953	36,499	43,921
Trust preferred securities		0	915	1,352
Total liabilities		268,060	267,996	270,566
Issued capital		550	550	550
Additional paid-in capital		7,923	4,856	4,855
Retained earnings		−471	1,317	1,192
Accumulated other comprehensive income (loss), net of tax		54	362	613
Total equity		8,056	7,085	7,210
Total liabilities and equity		276,116	275,081	277,776

Consolidated Statement of Changes in Equity

in €m	Common shares (no par value)	Additional paid-in capital	Retained earnings	Unrealized net gains (losses) from financial assets available for sale, net of tax and other adjustments	Unrealized net gains (losses) from financial assets at fair value through other comprehe-nsive income, net of tax and other adjustments	Accumulated other com-prehensive income, net of tax	Total equity
Balance as of January 1, 2017	550	4,855	1,193	613	0	613	**7,211**
Consolidated net income (loss) after tax	0	0	706	− 251	0	− 251	410
Remeasurement gains (losses) related to defined benefit plans, net of tax	0	0	− 132	0	0	0	− 132
Net change in share awards in the reporting period	0	1	0	0	0	0	1
Other	0	0	− 450	0	0	0	− 450
Balance as of December 31, 2017 (IAS 39)	550	4,856	1,317	362	0	362	**7,085**
Effect of initial application of IFRS 9	0	0	− 463	− 362	277	− 85	**− 548**
Balance as of January 1, 2018 (IFRS 9)	550	4,856	854	0	277	277	**6,537**
Consolidated net income (loss) after tax	0	0	1,006	0	− 223	0	783
Change in basis of consolidation	0	0	0	0	0	0	**0**
Capital contribution	0	3,050	0	0	0	0	3,050
Remeasurement gains (losses) related to defined benefit plans, net of tax	0	0	− 104	0	0	0	− 104
Net change in share awards in the reporting period	0	17	0	0	0	0	17
Other	0	0	− 2,227	0	0	0	− 2,227
Balance as of December 31, 2018	550	7,923	− 471	0	54	54	**8,056**

DB PFK AG’s return on capital – calculated as the ratio of consolidated net income to total assets – was 0.36% in 2018 (previous year: 0.26 %).

Consolidated Statement of Cash Flows

in €m	2018	2017
Net income (loss)	**1,006**	706
Cash flows from operating activities:		
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loan loss allowance	213	130
Restructuring activities	(16)	247
Gains (losses) on sale of financial assets available for sale and securities held to maturity	0	(93)
Gains (losses) on sale of financial assets at fair value through other comprehensive income, equity method investments and other	(262)	6
Deferred income taxes, net	10	(52)
Impairment, depreciation and other amortization, and accretion	209	116
Income (loss), net of tax, adjusted for non-cash charges, credits and other items	**1,160**	1,060
Adjustments for net change in operating assets and liabilities:		
Interest-earning time deposits with central banks and banks	(7,013)	(7,160)
Central bank funds sold, securities purchased under resale agreements, securities borrowed	573	5,015
Non-trading financial assets at fair value through profit or loss	(571)	0
Financial assets designated as at fair value through profit or loss	543	802
Loans at amortized cost	(5,706)	(3,493)
Other assets	(1,201)	462
Deposits	10,917	10,680
Central bank funds purchased, securities sold under resale agreements and securities loaned	(1,622)	(392)
Other short-term borrowings	132	(22)
Other liabilities	(1,069)	(348)
Senior long-term debt	(6,951)	(7,508)
Trading assets and liabilities, positive and negative fair values from derivative financial instruments, net	(1,016)	(263)
Other, net	243	(149)
Net cash provided by (used in) operating activities	**(11,581)**	(1,316)
Cash flows from investing activities:		
Proceeds from:		
Sale of financial assets at fair value through other comprehensive income	3,596	0
Maturities of financial assets at fair value through other comprehensive income	3,621	0
Sale of debt securities held to collect at amortized cost	0	218
Maturities of debt securities held to collect at amortized cost	1,691	1,008
Sale of financial assets available for sale	0	1,601
Maturities of financial assets available for sale	0	3,110
Sale of property and equipment	451	23
Financial assets at fair value through other comprehensive income	(1,422)	0
Debt securities held to collect	0	(97)
Financial assets available for sale	0	(2,170)
Equity method investments	0	(5)
Property and equipment	(155)	(137)
Acquisition of consolidated companies	(704)	0
Other, net	(85)	(104)
Net cash provided by (used in) investing activities	**6,993**	3,447
Cash flows from financing activities:		
Repayments and extinguishments of subordinated long-term debt	(598)[1]	(398)
Appropriation to additional paid-in capital	3,050	0
Profit transfer to the parent	(369)	(411)
Other items, net	(57)	(65)
Net cash provided by (used in) financing activities	**2,026**	(874)
Net effect of exchange rate changes on cash and cash equivalents		
Net increase (decrease) in cash and cash equivalents	(2,562)	1,257
Cash and cash equivalents at beginning of period	24,518	23,261
Cash and cash equivalents at end of period	21,956	24,518
Net cash provided by (used in) operating activities contains		
income taxes paid (received), net	(22)	47
Interest paid	1,096	1,263
Interest received	5,009	5,694
Cash and cash equivalents comprise	0	
Cash and central bank balances (not included: interest-earning time deposits with central banks)	20,130	14,451
Interbank balances (excluding central banks) (not included: term deposits of €47 million as of December 31, 2018, and €48 million as of December 31, 2017)	1,826	10,067
Total	**21,956**	24,518

[1] Non-cash changes in subordinated long-term debt of €1,002 million and in trust preferred securities of €–915 million are attributable to changes in the basis of consolidation.

Notes

1 – Significant Accounting Policies and Critical Accounting Estimates

Basis of preparation

Deutsche Postbank AG, Bonn, was merged with Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, on May 25, 2018. At the same time, Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, was renamed DB Privat- und Firmenkundenbank AG, Frankfurt am Main.

The parent company of DB Privat- und Firmenkundenbank AG (hereinafter DB PFK AG) is Deutsche Bank AG, Frankfurt am Main. The companies of DB Privat- und Firmenkundenbank Group (hereinafter DB PFK, Group, or Bank) are included in Deutsche Bank AG's consolidated financial statements.

The accompanying financial report contains the components of an annual financial report within the meaning of section 114 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). As a capital market-oriented stock corporation, DB PFK AG has prepared its consolidated financial statements for the reporting period in accordance with the International Financial Reporting Standards (IFRSs), as adopted in the European Union (EU).

The accompanying consolidated financial statements constitute the first full IFRS consolidated financial report issued by DB PFK. As a result, the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" were also applied to the preparation of these consolidated financial statements.

In accordance with IFRS 1, three balance sheets were prepared, whereby the balance sheet as of January 1, 2017, represents the opening consolidated balance sheet. As a general principle, the accounting policies applied as of December 31, 2018, were applied to all of the periods presented in the consolidated financial statements.

In line with the predecessor basis of accounting, DB PFK measured its assets and liabilities in the opening balance sheet for the first IFRS reporting period as of January 1, 2017, at the carrying amounts at which they were included in the consolidated financial statements of Deutsche Bank AG as the ultimate parent. The acquisition of Deutsche Postbank AG by Deutsche Bank Privat- und Geschäftskunden AG by way of a merger was accounted for as a business combination under common control. In accordance with the principles applicable to common control transactions, this acquisition is accounted for at the carrying amounts at the transaction date. The consolidated financial statements of Deutsche Bank Privat- und Geschäftskunden AG have been prepared in accordance with the requirements of IFRS 1.D16(a). The prior-year amounts and the amounts for the period up to the transaction date were adjusted as if the transaction had occurred as of January 1, 2017. In the same way, Deutsche Bank Bauspar-Aktiengesellschaft (DB Bauspar), which was acquired in the reporting period, was included in DB PFK's basis of consolidation as if the transaction occurred as of January 1, 2017.

Accounting and measurement are based on the going concern principle.

The consolidated financial statements comprise the statement of income, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows, and the notes.

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

The abbreviation "N/A" (not applicable) is used in the tables if the item is not relevant in this form in the respective period. As a general rule, the abbreviation "N/A" is used for changes in the categories of financial instruments and the associated changes in the structure of reporting instruments and notes resulting from the initial application of IFRS 9.

Disclosures in accordance with IFRS 7 "Financial instruments: Disclosures" on the nature and extent of risks attributable to financial instruments are presented in the Risk Report section of the Management Report,

The financial statements were prepared by DB PFK AG's Management Board on February 27, 2019.

Consolidation methods

The financial information in the consolidated financial statements relates to data of DB PFK AG together with its consolidated subsidiaries, including certain structured entities, presented as a single economic entity. The Group's subsidiaries are the entities it controls directly or indirectly. The Group controls an entity if it has exposure to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of those returns.

A range of control factors must be assessed in order to establish whether an entity must be consolidated. These include an assessment of the purpose and design of the entity, the relevant activities and how decisions about those activities are made, whether the rights of the Group give it the ability to direct the relevant activities as well as clarification of the questions whether the Group is exposed, or has rights, to variable returns from its involvement, and whether the Group has the ability to use its power to affect the amount of its returns.

If voting rights are decisive, the Group controls an entity if it directly or indirectly holds more than half of the voting rights of the entity, unless there are indications that another investor has the practical ability to direct the relevant activities unilaterally.

Subsidiaries are consolidated from the date on which the Group obtains control. Consolidation ends on the date when the Group is no longer able to exercise control.

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

Subsidiaries are accounted for in the consolidated financial statements in accordance with IFRS 10.B86. The carrying amounts of the shares in subsidiaries at the parent entity level are replaced by the assets and liabilities of the consolidated companies.

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

Interests in the equity of subsidiaries not attributable to the parent that are puttable financial instruments within the meaning of IAS 32 are reported under the Other liabilities item.

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

Critical accounting estimates

All assumptions, estimates, and assessments required for recognition and measurement in accordance with the IFRSs are in conformity with the respective standards, are regularly reassessed, and are based on past experience as well as other factors, including expectations as to future events that appear reasonable under the given circumstances. The assumptions and estimates refer primarily to the fair value measurement of certain financial instruments, including the assessment of whether an active or inactive market exists, the recognition and measurement of the loan loss allowance, of intangible assets and of provisions, and the ability to realize deferred taxes. When determining the intention to hold financial instruments, business strategy and current market conditions are also taken into account.

The Bank has identified the matters described in the following – whose measurement is based to a substantial extent on estimates – as material:

- Determination of the fair value of financial instruments (see Note 2(c) and Note 15);
- Impairment of loans and provisions for off-balance-sheet exposures (see Note 2(d));
- Recognition and measurement of interest bonus liabilities in the home savings business (see Note 2(c))
- Recognition and measurement of deferred tax assets (see Note 2(n));
- Accounting for uncertain obligations from litigation and arbitration proceedings (see Note 2(j)).

Foreign currency translation

In accordance with IAS 21.23, all foreign currency monetary items and equities denominated in foreign currencies that are classified as non-monetary items in accordance with IAS 21.8 and measured at fair value in accordance with IAS 21.23(c) are translated into euros at the closing rate at the reporting date. There were no material non-monetary items at the reporting date measured at (amortized) cost (in particular property and equipment, prepaid expenses, and deferred income) and translated at the historical rate in accordance with IAS 21.23(b). Foreign currency income and expenses are generally translated at the closing rate of the relevant month of the business transaction.

Gains and losses resulting from the translation of monetary assets and liabilities are recognized in the statement of income. Gains and losses on the translation of non-monetary items are either recognized directly in the revaluation reserve or in profit or loss as net gains (losses) on financial assets at fair value, depending on the item's underlying measurement category.

2 – Significant Accounting Policies

The following "Accounting policies" chapter presents the significant accounting policies applied to the preparation of all reporting periods in these consolidated financial statements. Accounting policies governed by IAS 39 and IAS 18 for the prior-year period that differ from these accounting policies are disclosed in "Differing accounting policies in the prior-year period." The effects of the change in accounting policies (effects of initial application of IFRS 9 and IFRS 15) are presented in Note 3.

Accounting policies

(a) Recognition and derecognition of financial instruments

A financial asset or a financial liability is generally recognized in the balance sheet when the Bank becomes a party to a financial instrument. As a general rule, a financial asset or a financial liability is initially recognized at its fair value, which usually corresponds to the transaction price.

Financial assets and liabilities designated as at fair value through profit or loss are recognized or derecognized at the trade date provided there is a standard market settlement period for the instrument. The trade date is the date on which the Bank commits itself to purchase or sell the relevant assets or to issue or repurchase the financial liabilities. Financial instruments measured at amortized cost are recognized at the settlement date. Financial assets are derecognized when the contractual entitlement to cash flows arising from the financial asset expires. Additionally, financial assets are derecognized when the contractual entitlement to cash flows arising from the financial asset is transferred, or when an obligation to forward such cash flows has been accepted and this obligation meets the criteria of a pass-through arrangement. Thus, derecognition occurs as soon as substantially all the risks and rewards of ownership of the financial assets have been transferred. In the event that substantially all the risks and rewards of ownership of the assets are neither retained nor transferred, assets are derecognized if the control of the assets is relinquished. Otherwise, the assets continue to be accounted for according to the extent of the continuing exposure. If an existing financial asset is replaced by another financial asset of the same counterparty at significantly different contractual terms and conditions, the existing financial asset is derecognized and a new financial asset recognized. The difference between the carrying amount of the derecognized financial asset and the fair value of the new financial asset is recognized in profit or loss. The analysis whether the contractual terms were significantly modified is done on a case-by-case basis. In addition to the criteria applicable to the individual case, this analysis also features a comparison of the present value of the new and old cash flows (e. g., due to changes in interest rates or terms), and the difference thus calculated is factored into the determination of materiality.

A financial liability is derecognized if the associated obligation is discharged, is canceled, or expires. The reacquisition of own debt instruments also leads to the derecognition of the financial obligations. Any differences between the carrying amount of the obligation (including premiums and discounts) and the purchase price on reacquisition are recognized through profit or loss. If an existing financial liability is replaced by another financial liability to the same lender with significantly different contractual terms, or if the contractual terms of the existing liability are significantly modified, the original liability is derecognized at its carrying amount and a new liability is recognized at its fair value. The analysis whether contractual terms were significantly modified follows the same principles as the analysis for assets.

(b) Securities resale agreements

The Bank enters into genuine securities resale agreements. Securities sold under securities resale transactions (repos) are carried as securities in the consolidated balance sheet. Cash inflows from such transactions are carried in the balance sheet as deposits from other banks. These cash inflows are disclosed in the amount of the purchase price received; prepaid expenses are recognized ratably for the repo rate to be paid. Interest payments are recognized as interest expenses or as positive interest on financial liabilities.

Reverse repos are accounted for as receivables. The securities purchased are not carried in the balance sheet; interest arising from such transactions is carried under interest income or as negative interest on financial assets.

Receivables and liabilities from repos and reverse repos with the same counterparty, currency, maturity, and clearing house, are presented on a net basis in the balance sheet.

IFRSs only require an obligation to return the securities to be recognized by the borrower if the securities are passed on to another party. The lender continues to recognize the securities.

Interest income from reverse repos and interest expenses for repos are presented in net interest income.

(c) Categorization and measurement of financial assets and liabilities

IFRS 9 requires the classification of financial assets to be determined based on both the business model used for managing the financial assets and the contractual cash flow characteristics of the financial asset (also known as “solely payments of principal and interest” or SPPI).

Business model
Three business models are possible under IFRS 9:

- Hold to Collect – Financial assets held with the objective of collecting contractual cash flows.
- Hold to Collect and Sell – Financial assets held with the objective of both collecting contractual cash flows and selling the assets.
- Other – Financial assets held with trading intent or that do not meet the criteria of either Hold to Collect or Hold to Collect and Sell. No financial instruments are allocated to this model in the accompanying financial statements.

The Bank has modelled a range of portfolios for allocation to the business models. As well as allocating the retail and corporate customer loan portfolio to the Hold to Collect business model, the Bank has allocated a narrowly defined portfolio of hedging derivatives and from the marketable securities holding to the Hold to Collect and Sell business model.

Despite allocation to the Hold to Collect business model, unplanned sales to the extent permitted by IFRS 9 do not affect this classification. The assessment considers the following reasons for a sale in this context.

- Increase in credit risk: An increase in credit risk is based on both external information (e. g., relative or absolute rating deterioration) and internal assessments (e. g., stage transfer (deterioration) under the IFRS 9 classification system, or inclusion in a loan watch list).
- Contractual term: The maturity factor considers both relative and absolute values compared with the contractual total life. At the same time, the sale proceeds must be in a particular proportion to the net carrying amount at the time of sale.

Other sales are subject to predefined thresholds relating to balance sheet or statement of income factors (e. g., share of sold gross volume or realized gains or losses) and are monitored, including analysis of the reasons for the sale, in a controlled process.

Based on the business and risk strategies that are regularly adopted by the Management Board, the assessment of the business model requires judgment based on facts and circumstances at the date of the assessment (e. g., if there is a change in the individual business model). The Bank uses quantitative (e. g., frequency or volume of sales) and qualitative factors for allocation to business models. The latter include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel; the risks that affect the performance of the business model and the financial assets held within that business model, in particular, the way in which those risks are managed; and how managers of the business are compensated (e. g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Solely payments of principal and interest (SPPI)

If a financial asset is held in either a Hold to Collect or a Hold to Collect and Sell business model, then an assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is applied either individually (individual contracts) or on a portfolio basis (standard contracts) in accordance with the lending and investment processes in force when the contract is entered into.

Contractual cash flows that are SPPI on the principal amount outstanding are consistent with a simple lending arrangement. In such lending arrangements, interest in particular represents consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e. g., liquidity risk) and costs (e. g., administrative costs) associated with holding the financial asset for a particular period of time, as well as a profit margin that is consistent with a simple lending arrangement. In addition, the SPPI test also assesses call rights, prepayment penalties, and non-recourse clauses (among other things) and their impact on the contractual cash flows.

Financial assets at amortized cost

A financial asset in the form of a debt instrument is classified and subsequently measured at amortized cost (AC), unless designated under the fair value option, if it is held in a Hold to Collect business model and the contractual cash flows are SPPI.

Under this measurement category, the financial asset is measured at fair value at initial recognition. Subsequent measurement uses the effective interest method, adjusted for any impairment losses. In addition, impairment losses in the current period are presented separately from interest income in the loan loss allowance item in the statement of income.

Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is classified and measured as FVOCI (fair value through other comprehensive income), unless designated under the fair value option, if the financial asset is held in a Hold to Collect and Sell business model and the contractual cash flows are SPPI.

Under FVOCI, a debt instrument is measured at its fair value with any changes in fair value recognized in other comprehensive income in the statement of changes in equity and is tested for impairment under the expected credit loss (ECL) model. The foreign currency translation effect for FVOCI assets is recognized in profit or loss, as is the interest component (using the effective interest method), in the statement of income items "Other income (loss)" or "Net interest income." The amortization of premiums and the accrual of discounts are recorded in net interest income.

Unrealized gains and losses on FVOCI assets are reported in net gains (losses) on financial assets/liabilities at fair value through other comprehensive income and reclassified to profit or loss when the financial asset is derecognized.

The Bank's equity instruments are assigned to the FVtPL category. The option to categorize them as FVOCI is not currently exercised, with the result that no equity instruments were assigned to the category "Financial assets at fair value through other comprehensive income" in either the reporting period or at the reporting date.

For financial instruments that have a low credit risk at the reporting date, the Bank uses the exemptions in IFRS 9.5.5.10 and IFRS 9.B5.5.22ff. for parts of its financial assets at fair value through other comprehensive income (FVOCI), under which it can be assumed that credit risk moves within the rating classes prescribed by the internal investment policy and that there will thus be no transfer to another stage.

Financial assets at fair value through profit or loss

Any financial asset that is held for trading or that does not fall into the Hold to Collect or Hold to Collect and Sell business models is assigned to the Other business model and is measured at fair value through profit or loss (FVtPL). Remeasurement gains (losses) are presented in "Net gains (losses) on financial assets/liabilities at fair value through profit or loss" in the statement of comprehensive income.

Additionally, any instrument for which the contractual cash flow characteristics are not SPPI must be measured at FVTPL, even if held in a Hold to Collect or Hold to Collect and Sell business model.

Financial instruments are included in the Other business model and held for trading if they have been originated, acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Financial liabilities

With the exception of derivative financial instruments that are measured at fair value through profit or loss and that are reported as financial liabilities in the case of a negative fair value, financial liabilities are measured at amortized cost using the effective interest method.

Liabilities covering reimbursements of arrangement fees, and for interest premiums payable retroactively in the case of unutilized loans, or of changes in interest rates or tariffs, are recognized for the home savings business in line with the different tariffs and contract terms. The amount of the liabilities is calculated on the basis of predefined rational customer decision patterns. An estimate is made for each individual customer as to whether utilization of the home loan and, hence, the waiver of a reimbursement of the arrangement fees and the retroactive receipt of interest premiums, is economically advantageous for the customer. In addition, past experience of actual customer behavior, which does not always meet expectations, is taken into account in the form of a separate add-on amount. As it is not usually possible to predict customer behavior solely on the basis of rational decision-making patterns, and past actions do not always indicate future customer behavior, there is an inherent uncertainty in the amount of the liabilities recognized. In the reporting period, the estimated average remaining maturity of the relevant home savings deposits was increased by 1 year to 5 years on the basis of current analyses.

(d) Impairment and loan loss allowance

The impairment requirements of IFRS 9 apply to debt instruments that are measured at amortized cost (AC) or at fair value through other comprehensive income (FVOCI), and to off-balance-sheet lending commitments such as loan commitments and financial guarantees (hereinafter collectively referred to as "impairment-relevant financial instruments"), with guarantees being accounted for in the same way as lending commitments.

The effects of the impairment of debt instruments measured at amortized cost (AC) are presented in the "Loan loss allowance" item in the statement of income, of debt instruments measured at fair value through other comprehensive income (FVOCI) in the "Loan loss allowance" item in the statement of income, and of off-balance-sheet commitments in the "Loan loss allowance" item in the statement of income.

The accounting estimates and judgments applied to the determination of the impairment of loans and provisions for off-balance-sheet commitments were considered to be material, as the underlying assumptions for both the specific and the collective specific valuation allowances changed from time to time and were able to materially affect the Group's financial performance.

The determination of impairment losses and loan loss allowance is moving from an incurred loss model, in which credit losses are recognized when a defined loss event occurs under IAS 39, to an expected credit loss (ECL) model under IFRS 9, in which a loan loss allowance is recognized upon initial recognition of a financial instrument, based on expectations of potential credit losses at the time of initial recognition.

ECL is implemented on an input-based approach. The relevant inputs are probability of default (PD), loss given default (LGD), and the expected exposure at default (EAD). A credit conversion factor (CCF) is also applied to off-balance-sheet exposures. The latter reflects the need to recognize a provision or contingent liability for undrawn loan commitments. These indicators are linked through multiplication to the calculation of ECL per time slice and discounted using the effective interest rate (IFRS 9.5.5.17(b)). The inputs are based in the first instance on the regulatory inputs (Internal Ratings-based Approach – IRBA). These are adjusted on a portfolio-specific basis (IFRS 9.5.5.17(a)) in order to arrive at an unbiased ECL. Macroeconomic factors in particular are considered when determining probabilities of default (PD). Material macroeconomic factors in this context are general economic growth, or its components (including annual consumer spending, annual public-sector spending, gross investment), and unemployment. Expectations of changes in collateral values are also considered, but not any prudential adjustments as part of the LGD components. In addition, the EAD component is adjusted for expected prepayments. This forward-looking information (IFRS 9.5.5.1), relating to the PD is based on forecasts that affect PD up to three years and then move back towards the long-term expected PD starting in year four. The forward-looking information is updated every year. The expected values for the macroeconomic factors are based on externally available forecasts by PB Research that are published regularly in the “Perspektiven” series.

In principle, ECL is calculated for the individual financial instrument, i. e., at transaction level. In addition to the general approach (IFRS 9.5.5.1ff.), IFRS 9 also contains an option for a simplified approach (IFRS 9.5.5.5.15). This is not used at DB PFK.

Three-stage approach to the determination of expected credit losses

IFRS 9 introduces a three-stage approach for calculating the impairment of financial instruments that are not classified as credit-impaired at the date of origination or purchase. This approach can be summarized as follows:

Stage 1: The Bank recognizes a loss allowance in the amount of the one-year expected credit loss, based on the ECL approach outlined above (IFRS 9.5.5.5). This is calculated through multiplication using a one-year input from the probability of default (PD), the loss given default (LGD), and the expected exposure at default (EAD) per monthly time slice and discounted using the original effective interest rate. The impairment-relevant EAD for off-balance-sheet commitments is calculated through multiplication using a product-specific credit conversion factor (CCF). This credit loss thus represents the portion of lifetime expected loan losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For Stage 1, this means that all financial instruments are allocated on initial recognition in the first instance and remain there until the Stage 2 or Stage 3 conditions are met.

Stage 2: The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses (LTECLs) for those financial instruments that are considered to have experienced a significant increase in credit risk since initial recognition. This requires a time-slice-based calculation of the ECL over the maximum contractual period (IFRS 9.5.5.19) using the lifetime probability of default (LTPD) of the exposure at default (EAD) and loss given default (LGD) curve, applying the original effective interest rate to discounting. In the same way as in Stage 1, a CCF is applied to off-balance-sheet commitments. The loss allowance for credit risk in this stage is therefore higher compared with Stage 1. The expected EAD curves take contract-specific circumstances into account. The underlying LGD profiles are portfolio-specific and are calculated using individual collateral, if appropriate. Depending on the portfolio, scenario-type collateral curves are also used.

Stage 3: The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100 %, based on the recoverable cash flows, discounted using the effective interest rate, for the asset, for those financial assets that are classified as credit-impaired.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i. e., risk of default without collateral positions) of a financial asset has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. Under IFRS 9.5.5.9ff, this includes quantitative and qualitative information based on the Bank’s historical experience, credit risk assessment, and forward-looking information. The latter are in particular the aforementioned macroeconomic factors that impact credit risk and are taken into account accordingly. They include general expectations of economic growth (or components of that growth) and the expected unemployment trend.

The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on one-year ECLs to one that is based on LTECLs (i.e., from Stage 1 to Stage 2). The procedure for assessing a significant increase in the Bank's credit risk is part of the internal credit risk management process and includes rating-based and process-based indicators. The assessment of the increase in credit risk is always based on the individual financial instrument, i.e., at transaction level.

A PD comparison is used in the context of the rating-based indicators. This compares the lifetime probability of default (LTPD) on initial recognition with the corresponding PD at the reporting date. There is a transfer to Stage 2 if there is any significant deterioration of this ratio. Specifically, the cumulative lifetime PD at the reporting date is compared on a daily basis with the cumulative lifetime PD on initial recognition. The relevant threshold of the ratio of these values that leads to a transfer is calibrated depending on the product and the initial rating class. Depending on the product and the initial rating class, there can be a transfer into the stage if a transaction has not deteriorated, but the initial expectation was an improvement in the PD. Typically, this affects very poor initial rating classes. At the other end of the range, there is only a transfer into Stage 2 in the case of a deterioration of cumulative lifetime PD by the portfolio-specific factor. Typically, this affects very good initial investment grade ratings.

Process-related indicators in the retail segment are in particular days past due (DPD). A significant deterioration in credit risk is assumed in the case of more than 30 DPD, regardless of rating-based indicators (IFRS 9.5.5.11). For the non-retail portfolios, the watch list status is used as a process-related indicator. As well as days past due, this status may include other individual risk factors. These include in particular expected default on the basis of liquidity and cash flow analyses, breaches of non-financial covenants, as well as qualitative factors that indicate a significant increase in credit risk. In the case of real estate finance, the change in the expected annual net base rent is also significant for determining the watch list status.

For its securities holdings classified as AC/FVOCI, the Bank also applies the low credit risk exemption pursuant to IFRS 9.5.5.10 in conjunction with IFRS 9.B5.5.22-B5.5.24. The Bank defines low credit risk exclusively for securities with an investment grade rating. For these securities holdings, a rating below investment grade constitutes a significant increase in credit risk. No such rating was identified as of the reporting date.

Under IFRS 9.5.5.8, this transfer between the stages is symmetrical, i.e., the securities are transferred back to Stage 1 if the quantitative or qualitative indicators no longer apply.

Impairment-relevant financial instruments in Stage 3

The Bank recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100%, based on the recoverable cash flows for the asset, for those financial assets that are classified as credit-impaired in accordance with the requirements of IFRS 9 Appendix A. The Bank's definition of credit-impaired transactions is based on the prudential definition of default in Article 178 of the CRR. Allocation to Stage 3 does not consider the effects of credit risk mitigants such as collateral or guarantees. The following factors are considered to assess whether there has been any credit impairment:

– Significant financial difficulty, breach of contract, e.g., a default or past due event, as well as breaches of covenants, concessions granted by lenders in connection with financial difficulty that would not otherwise be granted, increased risk of insolvency, the disappearance of active markets because of financial difficulties, a reduction of expected cash flows from a group of assets since their initial recognition.

– Internal risk indicators: rule-based indicators of recovery and workouts (including institution of insolvency proceedings, termination by other creditors), principle-based indicators of workouts (including establishment of a bank/collateral pool).

– Default pursuant to Article 178 of the CRR.

For impairment-relevant financial assets in Stage 3, the loss allowance covers the amount of loss the Bank expects to suffer. The loan loss allowance is estimated on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual financial assets in those portfolios using the Bank's ECL model for homogeneous portfolios. The evidence that a loan is credit-impaired applies irrespective of whether it involves retail instruments (consumer finance), mortgage lending, or non-retail business.

Forecasts of future individual economic conditions are considered when calculating ECLs. This applies in particular to the non-homogeneous portfolio (discounted cash flow-based case-by-case assessment) and in mortgage lending. The expected losses are estimated based on the probability-weighted present value of the difference between the contractual cash flows that are due to the Bank under the contract, and the cash flows that the Bank expects to receive. A range of different scenarios with different probability weights is applied. These scenarios reference in particular the recovery of collateral on the one hand and successful recovery on the other. The probability weightings are defined on a case-by-case basis that takes into account the circumstances of each individual case. The cash flow-based case-by-case assessment of ECLs in Stage 3 for the non-homogeneous portfolio is performed at least every three months.

In the consumer finance portfolios (installment loans, overdraft facilities, credit cards), this case-by-case approach is not used in the mass market business for reasons of simplification. Instead, portfolio parameters are used to calculate the ECLs in Stage 3. This automated, parameter-based ECL calculation is performed daily and monthly.

Write-offs

The Bank reduces the gross carrying amount of a financial asset if there is no reasonable expectation of recovery, e. g., considering the current market situation of an affected borrower and the criteria defined for the relevant portfolio. Write-offs can relate to a financial asset in its entirety, or to a portion of it, and constitute a derecognition event.

Loans from the non-homogeneous (non-retail) loan portfolio for which a loan loss allowance was recognized are measured at least quarterly on a case-by-case basis. For this category of loans, the number of days a loan is past due is an indicator for a write-off. A write-off is ultimately recognized once all relevant information has been considered, for example that the expected payment received from the liquidation of collateral is not sufficient to cover the current carrying amount of the loan.

For installment loans, overdraft facilities, and mortgage loans, the timing of the write-off depends on whether collateral is available, how the Bank estimates the recoverable amount, and the legal requirements applicable in the jurisdiction of loan origination.

Interest income calculation

For financial assets in Stages 1 and 2, the Bank calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount (i. e., without deducting any loan loss allowance). Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortized cost (i. e., the gross carrying amount less the loan loss allowance).

Loan loss allowance for contingent liabilities

For financial guarantees and irrevocable lending commitments, the loan loss allowance pursuant to IFRS 9 5.5.7 is recognized in the same way as for loans. Financial guarantees at the Bank are mainly other guarantees. Irrevocable lending commitments are typically open credit lines, i. e., unused credit limits. The principle here is that a credit conversion factor (CCF) is applied in addition to the parameters already mentioned when determining ECLs in order to reflect the probability of these unused credit lines being drawn.

(e) Derivatives and hedging

Derivatives are used to manage interest rate, currency, credit and other market risk, including risks from planned transactions. All freestanding contracts that are classified as derivatives for accounting purposes are recognized at fair value in the consolidated balance sheet – regardless of whether they are held for trading or for other purposes.

There were no embedded derivatives within the meaning of IFRS 9 at the reporting date.

Changes in fair value of derivatives held for trading or of derivatives not included in hedge accounting are reported in net gains (losses) on financial assets/liabilities at fair value through profit or loss. The corresponding interest payments in connection with derivatives held for trading are presented in net gains (losses) on financial assets/liabilities at fair value through profit or loss, and those in connection with derivatives not included in hedge accounting in net interest income.

Hedge accounting
DB PFK exercises the option to continue using the IAS 39 hedge accounting requirements when it applies IFRS 9.

Hedge accounting distinguishes between three types of hedges that are each accounted for differently:

- Fair value hedges of assets, liabilities, or firm commitments (fair value hedge)
- Cash flow hedges of highly probable forecast transactions and variable interest rate assets and liabilities (cash flow hedge)
- Hedges of foreign currency risk from the translation of financial statements of foreign operations into the parent's reporting currency (hedges of net investments in a foreign operation).

The Bank only uses fair value hedges in its hedge accounting.

When it applies hedge accounting, the Bank designates and documents the relationship between the hedging instrument and the hedged item. The Bank also documents the risk management objective and strategy underlying the hedging relationship, as well as the nature of the hedged risk. This documentation includes a description of how the Bank measures the effectiveness of the hedging instrument in offsetting risks from changes in the fair value of the hedged item that are attributable to the hedged risk. Effectiveness is determined for each hedging relationship both at inception of the hedge and during the term of the hedge. Hedge effectiveness is calculated even if the contractual terms of the derivative match those of the hedged item.

Derivatives held for hedging purposes are reported as Other assets or liabilities. If a derivative is subsequently no longer used for hedging purposes, it is transferred to financial assets/liabilities at fair value.

In a fair value hedge, the changes in the fair value of the hedged item attributable to the hedged risk, or a portion of those changes, are recognized in the consolidated statement of income together with the entire change in the fair value of the hedging derivative. In a hedge of interest rate risk, interest accrued or paid on the derivative and the hedged item is reported as interest income or expense. Unrealized gains or losses from fair value adjustments attributable to hedge accounting are recognized in the Other income (loss) item in the statement of income. Hedge ineffectiveness is recognized in Other income. It is measured as the balance of changes in the fair value of the hedging instrument and the hedged item that are attributable to the changes in fair value or market prices underlying the hedged risk or risks.

If a hedging relationship used to hedge fair value is terminated before the maturity of the instrument because the underlying derivative is terminated early or used for other purposes, the interest-related adjustments to the fair value of the terminated hedging relationship contained in the carrying amount of the hedged debt instrument are amortized over the remaining maturity of the hedged item and offset against the interest income or expense. In the case of other types of fair value adjustments that do not relate to the hedged exposure (e. g., credit quality for FVOCI holdings), or in the case of the sale or other derecognition of assets or liabilities hedged by a fair value hedge, the fair value adjustments are included in the determination of the derecognition gain or loss.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and presented at the net amount in the consolidated balance sheet when, and only when, the Bank has a legally enforceable right to set off the recognized amounts at the present time and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right to offset the recognized amounts must be legally enforceable both in the normal course of business and in the case of a default event, insolvency, or bankruptcy, either of the Group or of the counterparty. The amounts are presented gross in all other cases. If financial assets and liabilities are presented net in the consolidated balance sheet, the associated income and expenses are also offset in the consolidated statement of income, unless offset is expressly prohibited by another IFRS.

The Bank primarily offsets derivatives and receivables and liabilities from securities pertaining to resale agreements. Much of the offsetting relates to interest rate derivatives and the related cash collateral that are settled through a central counterparty such as the London Clearing House. The Bank also offsets receivables and liabilities from securities pertaining to resale agreements, to the extent that the Bank has a right to set off and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

If the counterparty does not fulfil its obligations, the master agreement allows the rights and obligations under all transactions covered by the master agreement to be set off in such a way that only a single net receivable or liability remains in respect of that counterparty. We also enter into collateral agreements relating to master agreements in order to further mitigate credit risk. These credit support annexes generally offer risk mitigation by means of regular variation margins for the secured exposures.

(g) Intangible assets

Intangible assets comprise internally generated and purchased intangible assets.

Intangible assets are only recognized in accordance with IAS 38.21–23 if it is probable that the expected benefit will flow to the entity and the cost can be reliably determined. Development costs for internally generated software are capitalized if the evidence required under IAS 38.57(a)–(f) can be provided. If the criteria for capitalization are not met, the expenses are recognized immediately in the statement of income for the period in which they arise.

Intangible assets are recognized at amortized cost.

Intangible assets with a finite useful life are generally amortized over a period of five to ten years using the straightline method. The amortization period for intangible assets with a finite useful life is reviewed at least at the end of each fiscal year. Changes to expected useful lives are accounted for as changes in accounting estimates. No changes were made in the reporting period with respect to expected useful lives with a material impact on the profit and loss of this or future periods. Intangible assets with a finite useful life are reviewed at the reporting date for evidence of possible impairment. If this is the case, the impairment loss is determined. This is done by determining whether the respective carrying amount of the asset exceeds its recoverable amount, taking into account the possibility of a complete writedown and/or disposal of the asset. Intangible assets not yet ready for use are tested for impairment annually. The amount of the impairment loss is recognized in profit or loss in “General and administrative expenses” in the consolidated statement of income.

Any intangible assets with an indefinite useful life are not amortized, but are tested for impairment at least once a year. They are tested for impairment more frequently if events or changes in conditions indicate that they could be impaired.

(h) Property and equipment

Property and equipment includes real estate, leasehold improvements, and operating and office equipment. Real estate is recognized at cost less accumulated depreciation and impairment losses. Depreciation is generally charged over the expected useful life of the asset using the straight-line method. The expected standard useful life is generally 25 to 50 years for buildings and three to ten years for operating and office equipment. Leasehold improvements are depreciated using the straight-line method over the shorter of the lease term and the expected standard useful life of the improvements, which is as a rule three to 18 years. Depreciation of buildings and operating and office equipment is reported in the General and administrative expenses item in the statement of income. Maintenance and repair costs are recognized as expenses. Gains and losses on sales are reported in Other income (loss).

Property and equipment is regularly tested for indications of impairment. If impairment is established, the recoverable amount is determined, i.e., the higher of fair value less costs to sell and value in use. An impairment loss is recognized if the asset’s recoverable amount is lower than its carrying amount. Value in use is the present value of estimated future cash flows from the asset. After an impairment loss is recognized, the impairment expense is adjusted in future periods in order to appropriately reflect the change in the asset’s carrying amount. The impairment expense is adjusted prospectively if the impairment loss is subsequently reversed. The amount of the impairment loss or reversal is recognized in profit or loss in General and administrative expenses in the consolidated statement of income.

(i) Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4.

In accordance with IAS 17, leases are allocated to and recognized by the lessor or the lessee, and the leases are classified as a finance or operating lease, on the basis of the risks and rewards incidental to ownership.

Where the Bank is the lessee in a finance lease, it capitalizes the leased asset at the fair value amount applicable at the beginning of the lease or at the lower present value of the minimum lease payments under Property and equipment and writes it down over the lease term.

Where the Bank is the lessor in a finance lease, it reports the receivable at the net investment value. The lease installments due are broken down into the interest component, which is recognized as interest income in profit or loss, and the principal redemption component, which is deducted from the receivables reported in other comprehensive income. The Bank has not entered into any finance leases relating to real estate either as a lessor or as a lessee.

Where the Bank is the lessee in an operating lease, it recognizes the lease installments paid as rental expense using the straight-line method over the term of the lease.

Where the Bank is the lessor in an operating lease, it reports the leased asset at amortized cost under Property and equipment or intangible assets. The lease installments received in the period are recognized as income and writedowns of the leased assets are recognized as expenses.

(j) Provisions and contingent liabilities

Provisions

Provisions are recognized if the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount of the provision is the best estimate of the amount required to settle the obligation at the reporting date. Risks and uncertainties are taken into account in measuring the provision.

Where the effect of the time value of money is material, provisions are discounted and recognized at the present value of the expenditure required to settle the obligation. A pre-tax discount rate is used that reflects current market assessments of the time value of money.

Provisions for litigation are recognized if there is a more than 50 % probability that current legal disputes will lead to a cash outflow and a reliable estimate of the obligation can be made. The Bank takes into account a large number of factors to determine whether the probability of the cash outflow is greater than 50 % and to estimate the amount of the potential obligation. These factors include the nature of the claim and the underlying circumstances, the status and progress of the individual proceedings, court and arbitration board decisions, the experience of the Bank and third parties in similar cases (where the Bank is aware of such cases), preliminary settlement discussions, available exemptions, and the opinions and assessments of legal advisors and other experts. Since the assessment of the probability and the amount of the obligation arising from legal disputes involves a level of uncertainty, the actual obligation at the end of the legal proceedings or out-of-court settlement may differ from the provisions recognized.

Restructuring provisions arise out of restructuring activities. The restructurings disclosed in Note 27 relate to the provisions recognized as part of the planned staff-related measures and the reorganization of the sales organization.

Contingent liabilities

Contingent liabilities arise from past events that will lead to possible future obligations. These obligations arise from the occurrence of uncertain future events whose settlement amount cannot be estimated with sufficient reliability. For the definition of a contingent liability, the Bank generally presumes that a liability is contingent if the probability of settlement is less than or equal to 50 %.

The Bank's contingent liabilities are mainly obligations under guarantees and warranties, as well as loan commitments.

Contingent liabilities and other obligations are reduced by the recognized loan loss allowance. Please refer to "Impairment and loan loss allowance" in this Note for information on the calculation of the loan loss allowance for off-balance-sheet exposures (see Note 2 (d)).

(k) Employee benefits

Pension benefits

The Bank provides a number of pension plans. In addition to defined contribution plans, there are retirement benefit plans accounted for as defined benefit plans. The assets of all the defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of salary and are recognized in Compensation and benefits in profit or loss based on employee services rendered, generally in the year of contribution.

All retirement benefit plans accounted for as defined benefit plans are measured using the projected unit credit method to determine the present value of the defined benefit obligation and the related service costs. Under this method, measurement is based on actuarial calculations that include assumptions about demographic trends, salary increases, and interest and inflation rates. Actuarial gains and losses are recognized in Other comprehensive income and presented in equity in the period in which they occur. The majority of the Bank's defined benefit plans are funded.

Further information on pension and other post-employment benefits are contained in Note 32 "Employee Benefits."

Termination benefits

Termination benefits arise when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits as a liability and an expense if the Group is demonstrably committed to a detailed formal plan without a realistic possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value. The discount rate is determined by reference to market yields on high-quality corporate bonds.

Liabilities to pay employee benefits are reported in Other liabilities.

Share-based payment

DB PFK participates in the DB Equity Plan pursuant to the conditions stipulated by Deutsche Bank Group. Deutsche Bank Group made share-based payment awards under the terms of the DB Equity Plan. Share-based payment awards in which Deutsche Bank AG, as the parent, grants employees of DB PFK Deutsche Bank common shares, are reported in DB PFK's consolidated financial statements as equity-settled share-based payment transactions, as the settlement obligation lies with Deutsche Bank AG.

The substance of Deutsche Bank Group's share-based payment plans is that Deutsche Bank AG provides DB PFK with a capital contribution and DB PFK makes a share-based payment to its employees in return for their service. The costs of the payments related to allotments of shares by the parent (Deutsche Bank AG) to employees of DB PFK are recognized as Compensation and benefits in DB PFK's consolidated financial statements with a corresponding addition to equity. These benefits are recognized on the basis of the fair value of the benefits at the grant date (including adjustments for forfeitures) over the stipulated period of service until the benefits vest.

If a share-based payment is modified so that its fair value immediately after modification exceeds its fair value immediately prior to modification, it is remeasured and the resulting increase in fair value is recognized as additional benefit expense.

The offsetting entry for the reported benefit expense is recognized in additional paid-in capital. The benefit expense is recognized on a straight-line basis over the period in which employees perform services to which the awards relate or over the period of the tranches for share-based payment granted in tranches. Estimates of expected forfeitures are periodically adjusted to reflect actual forfeitures and changes in expectations. The timing of expense recognition relating to share-based payments that, due to early retirement provisions, include a nominal, but not substantial, service period, is accelerated by shortening the amortization period of the expense from the grant date to the date when the employee meets the eligibility criteria for the award, and not the vesting date. For share-based payments that are granted in tranches, each tranche is considered a separate award and amortized separately.

Further information on share-based payment is contained in Note 31 “Employee Benefits.”

(l) Assets held for sale

Non-current assets (and disposal groups) are classified as held for sale in accordance with IFRS 5 if their carrying amount is recovered principally through sale and their sale is highly probable.

Assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are reported in the Other assets balance sheet item. According to IFRS 5.5 exceptions to this measurement rule are, among other things, applied to financial instruments. The liabilities associated with these assets are reported in the Other liabilities balance sheet item if these are also to be transferred.

Either the purchase prices quoted in the active market, if available, or existing bids or agreed prices are used to calculate the fair value of assets held for sale whose measurement falls within the scope of IFRS 5.

Assets whose measurement does not fall within the scope of IFRS 5 continue to be measured using the applicable standards.

(m) Revenue recognition

Interest and similar income

In accordance with IFRS 9, interest from interest-bearing financial assets that are classified as AC or FVOCI and financial liabilities is recognized using the effective interest method and reported in interest income or interest expense. When the effective interest method is used, the expected cash flows are discounted with the effective interest over the entire term of the asset or liability. All transaction costs and fees directly attributable to the financial instrument and other payments made or received are included in the calculation of the effective interest rate.

Dividend income is recognized when the legal entitlement to the dividend arises, provided that it is probable that the associated economic benefits will be accrued to the Bank and the amount of the dividend can be reliably estimated.

Commissions and fees

Since January 1, 2018, the Bank has applied the revenue recognition model in IFRS 15 “Revenue from contracts with Customers” to the recognition of commissions and fees, under which income must be recognized when control of goods and services is transferred and hence the contractual performance obligations to the customer have been satisfied. At the Bank, IFRS 15 applies in particular to the fees and charges reported under “Net commissions and fee income” in the Bank’s statement of income. The income recognized in this item relates to income from contracts with customers that the Bank is required to report separately to its other sources of income.

The Bank applies the IFRS 15 five-step model to assess revenue recognition. After a contract with a customer has been identified, the performance obligation – or a series of distinct performance obligations – to the customer is identified in the first instance. The Bank examines whether the service is capable of being distinct and is actually distinct within the context of the contract. A promised service is distinct if customers can benefit from the service either on its own or together with other resources that are readily available to the customer, and the promise to transfer the service to the customer is separately identifiable from other promises in the contract.

The amount of income (consideration) is measured on the basis of the contractually agreed transaction price for the performance obligations defined in the contract. If variable consideration has been contractually agreed in the performance obligation, the Bank estimates the consideration expected to be received for the relevant performance. Variable consideration may result, for example, because of price concessions, rebates, discounts, refunds, and similar allowances.

Income is not recognized in profit or loss until the identified performance obligations have been satisfied.

Non-recurring fees and commissions or acquisition commissions, including in payment transactions, brokerage activities, and fees for lending activities, that are not part of the effective interest method, are recognized in Net commissions and fee income in profit or loss when the service is rendered. These mainly involve event-driven services and hence services at a point in time. Control of the promised services is transferred to the customer directly when the service is rendered, even if the services are partly billed to the customer before or after the service is rendered.

In the securities and fund business, the Bank also earns trail commissions, which are deferred over a certain period, for its brokerage services in addition to sales commissions due after provision of the brokerage service. After provision of the brokerage service, these commissions are recognized at their present value in profit or loss for the period, taking future cancellations into account. Commissions for brokering payment protection insurance payable to the Bank over the term of the related insurance policies are recognized on the basis of a reliable estimate of the expected present value. The related outstanding payments are recognized as receivables in Other assets.

Fees for services that are rendered over time, including in the area of payment transactions (e.g., annual fees for current account and card business) are recognized at the reporting date corresponding to the progress toward satisfaction of the performance obligation.

In the case of contracts for which several separate performance obligations were identified, the total fee received is split up for revenue recognition purposes and allocated to the various components of the contract. There are currently no such contracts at the Bank.

(n) Income taxes

Income taxes are recognized and measured in accordance with IAS 12, with the consolidated income tax group with Deutsche Bank being taken into account from a formal legal perspective. Under this approach, income taxes are not recognized at the level of the DB PFK tax group because they are owed by the tax group parent, Deutsche Bank AG. The entity-specific tax rate is used for consolidated subsidiaries that are not part of the DB PFK tax group.

The assessment of income tax assets and liabilities requires certain estimates to be made. A differing assessment by the tax authorities cannot be ruled out. Account is taken of the associated uncertainty by recognizing uncertain tax assets and liabilities if the Bank considers their probability to be greater than 50 %. A change in the assessment, e. g., based on final tax assessments, would affect the current and deferred tax items. The uncertain income tax items recognized are based on the best estimate of the expected tax payment.

The following applies to the taxes owed by companies not belonging to the DB PFK tax group:

Deferred taxes are recognized for all temporary differences between the carrying amounts in the IFRS financial statements and the carrying amounts in the tax accounts (tax base). Deferred tax assets are recognized for tax loss carryforwards and temporary differences in the amount of their probable future utilization. Deferred tax assets are recognized for tax loss carryforwards based on future taxable income within a planning period that generally covers five years.

Current and non-current deferred tax assets and liabilities are offset in accordance with IAS 12.74.

Income and expenses from deferred taxes are recognized under income tax separately from current tax income and expenses. Recognition depends on the accounting treatment of the underlying item. For example, deferred taxes are recognized in profit or loss when the balance sheet item is itself recognized in profit or loss. Deferred taxes are credited or charged to other comprehensive income or in equity when the balance sheet item is itself credited or charged directly to other comprehensive income or in equity (IAS 12.61A).

(o) Consolidated statement of cash flows

In the consolidated statement of cash flows, the Group's cash and cash equivalents comprise highly liquid assets that are directly convertible into cash and are exposed to an insignificant risk of a change in value. This relates to cash and demand deposits with banks.

The Group classifies cash flows into the categories operating activities, investing activities, or financing activities, based on the business model (management approach). The Group's operating activities primarily consist of managing financial assets and liabilities.

The Group classifies the issuance of senior long-term debt to operating activities. Senior debt consists of mortgage *Pfandbriefe*, unsecured debt instruments, and other long-term liabilities.

The difference between cash flows from subordinated long-term debt and trust preferred securities and cash flows from senior long-term debt is that the former are managed as components of capital, in particular in order to be able to meet prudential capital requirements. For this reason, they cannot be substituted by other operating liabilities, but only by equity, so they are classified as cash flows from financing activities.

The amounts shown in the consolidated statement of cash flows correspond only to a limited extent to changes in the balance sheet that can be observed by comparing a reporting period with the next period, as they do not reflect non-cash items such as changes in the basis of consolidation.

Changes in balance sheet items measured at fair value are attributable to changes that affect the carrying amount, i.e., both market changes and receipts and expenditures. Changes in balance sheet items measured at fair value are generally classified as cash flows from operating activities.

Differing accounting policies for recognition and measurement in the prior-year period

(p) Categorization and measurement of financial instruments in accordance with IAS 39

Until the adoption of IFRS 9, the Bank classified its financial assets and liabilities into the following categories in accordance with IAS 39: assets and liabilities at fair value, financial assets at amortized cost, financial assets available for sale, and other financial liabilities. The appropriate classification of financial assets and liabilities is determined at the time of initial recognition.

(q) Financial assets and liabilities at fair value

The Bank classifies certain financial assets and liabilities at the time of initial recognition either as held for trading or as at fair value. Such financial assets and liabilities are recognized at fair value and presented as financials at fair value through profit or loss (FVtPL). The corresponding realized and unrealized gains/losses are contained in net gains (losses) on financial assets/liabilities at fair value through profit or loss. In the case of financial instruments at fair value, interest on debt securities and derivatives not held for trading and dividends on shares are reported in Interest and similar income.

(r) Financial assets and liabilities designated as at fair value

Certain financial assets and liabilities that do not meet the definition of trading assets or liabilities are designated as at fair value in accordance with the fair value option.

DB PFK applies the fair value option in accordance with IAS 39 exclusively to specific loan portfolios in the mortgage lending business that are hedged by interest rate derivatives. In accordance with this, financial assets may be designated as at fair value through profit or loss if this leads – among other things – to the elimination or significant reduction of inconsistencies in measurement or recognition (accounting mismatches). Application of the fair value option is designed to avoid accounting mismatches. In accordance with IFRS 13.61ff. in conjunction with IFRS 13.B12ff., loans are measured on the basis of discounted cash flow analysis using a current swap yield curve and loan-specific risk or cost premiums. Changes in the fair value of the portfolios are recognized in net gains (losses) on financial assets/liabilities at fair value through profit or loss. The interest on portfolios allocated to the fair value option and the related interest rate swaps are reported in Net interest income.

(s) Financial assets available for sale

Financial assets that are classified as available for sale (AfS) are initially recognized at fair value plus directly attributable transaction costs associated with the purchase. The amortization of premiums and the accrual of discounts are recorded in Net interest income. Future changes in fair value are reported in Other comprehensive income – unless they are hedged by a fair value hedge. In that case, changes in fair value attributable to the hedged risk are reported in Other income (loss) in the statement of income. In the case of monetary available-for-sale financial assets (debt securities), changes in fair value attributable to exchange rate changes are recognized in profit or loss, while other changes in the carrying amount are reported in other comprehensive income, as described above. In the case of non-monetary available-for-sale financial assets (equity instruments), the fair value changes recognized in other comprehensive income also include the foreign currency component.

Equity instruments classified as available-for-sale financial assets are tested for impairment if there is objective evidence of a significant or prolonged decline in the fair value of the investment. In the case of debt instruments classified as available-for-sale financial assets, the existence of impairment is determined on the basis of the same criteria applied to loans.

If there is evidence of impairment, all amounts previously recognized in Other comprehensive income are reclassified to the statement of income for the reporting period and recognized in net gains (losses) on financial assets available for sale. The impairment loss for the reporting period to be reclassified from Accumulated other comprehensive income corresponds to the difference between cost (minus principal repayments and amortization) and current fair value, less impairment losses on this asset previously recognized in profit or loss.

Subsequent declines in the fair value of an impaired available-for-sale debt instrument are recognized in profit or loss as they are considered to be further impairments. Subsequent increases in fair value are also recognized in profit or loss until the asset is no longer considered to be impaired. An available-for-sale debt instrument is no longer considered to be impaired if its fair value has recovered as a minimum to the amount of its amortized cost, excluding any impairment loss. Subsequent changes in fair value are recognized in other comprehensive income.

Impairment losses on available-for-sale equity instruments are not reversed to profit or loss; increases in fair value following impairment are recognized in other comprehensive income.

Realized gains and losses are reported in net gains (losses) on financial assets available for sale.

Generally, the weighted-average cost method is used to determine the cost of available-for-sale financial assets. When an available-for-sale financial asset is sold, unrealized gains and losses previously recognized in other comprehensive income are recognized in the consolidated statement of income and reported in net gains (losses) on financial assets available for sale.

(t) Embedded derivatives

Some hybrid contracts contain both derivative and non-derivative components. In such cases, the derivative component is termed an embedded derivative and the non-derivative component the host contract. If the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and the hybrid contract in question is not recognized at fair value, the embedded derivative is separated from the host contract and recognized at fair value, with changes in fair value reported in net gains (losses) on financial assets/liabilities at fair value through profit or loss. The host contract continues to be accounted for in accordance with the applicable accounting standard. The carrying amount of an embedded derivative is reported in the balance sheet together with the host contract. Some hybrid instruments are classified as at fair value under the fair value option.

(u) Loans

Loans are generally accounted for at amortized cost (AC).

The Bank has applied the fair value option in accordance with IAS 39 exclusively to specific loan portfolios in the mortgage lending business that are hedged by interest rate derivatives. In accordance with this, financial assets may be designated as at fair value through profit or loss if this leads – among other things – to the elimination or significant reduction of inconsistencies in measurement or recognition (accounting mismatches). In accordance with IFRS 13.61ff. in conjunction with IFRS 13.B12ff., loans are measured on the basis of discounted cash flow analysis using a current swap yield curve and loan-specific risk or cost premiums. Changes in fair value are reported in profit or loss. The interest on portfolios allocated to the fair value option and the related interest rate swaps are reported in net interest income.

Impairments of loans due to changes in credit risk that are not designated as at fair value through profit or loss are recognized separately in the loan loss allowance, and deducted from assets.

The carrying amount of collateralized loans for which hedge accounting is used is adjusted for the gains and losses from changes in fair value attributable to the hedged risk.

Premiums and discounts including transaction costs and fees to be included, as well as hedge premiums, are recognized in net interest income over the term of the loans using the effective interest method. Deferred interest on loans, as well as premiums and discounts, are reported together in the relevant balance sheet items.

The fair value of financial instruments measured at amortized cost or at the hedge fair value is determined using observable market prices or discounted cash flow analysis using swap yield curves and credit spreads currently observable in the market.

Financial instruments are grouped into classes as required by IFRS 7.6 at DB PFK on the basis of allocation to the categories of financial instruments and product types.

(v) Loan loss allowance

Identifiable credit risks are covered by recognizing specific valuation allowances (or collective specific valuation allowances). Additionally, in the case of risks that have arisen but not yet been identified, portfolio-based valuation allowances are recognized for groups of financial assets with similar default risk profiles, the amounts of which are determined on the basis of the parameters of loss given default, probability of default, and a loss identification period factor (LIP).

A potential need to recognize impairment losses is assumed in the case of defined qualitative and rating-related trigger events such as delinquency over a certain period, the initiation of enforcement measures, imminent insolvency or over-indebtedness, the application for or opening of insolvency proceedings, or the failure of restructuring measures.

A financial asset is impaired if its estimated recoverable amount is lower than its carrying amount, i. e., if a loan is presumed to be (partly) credit-impaired. If this is the case, the loss on financial assets carried at amortized cost must be recognized through a loan loss allowance or by writing down the asset directly and recognizing the loss in profit or loss (IAS 39.63).

In accordance with IAS 39.63ff., recoverable amount is determined using the following methods:

– the present value of estimated future cash flows (interest and principal payments as well as payments received from the liquidation of collateral) from the financial asset;

– an observable market price, where there is an observable market price for the financial instrument, because marking-to-market reflects the increased counterparty credit risk.

Uncollectible loans are written off directly against income in the appropriate amount; recoveries on loans previously written off are recognized in income.

Credit risk provisions are recognized for liabilities under bank guarantees, other guarantees, and loan commitments involving a default risk.

(w) Fees and commissions under IAS 18 “Revenue” in prior-year periods

Income is measured on the basis of the contractually agreed transaction price. Compensation is normally due when the service has been provided.

If services are rendered over several periods, income from services transactions are recognized by reference to the stage of completion of the performance obligation applying to the transaction at the reporting date.

3 – Newly Applied and Future Accounting Pronouncements

Accounting pronouncements applied for the first time in the reporting period

IFRS 9 “Financial Instruments”

The Bank adopted IFRS 9 “Financial Instruments” as of January 1, 2018. IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”; it comprises updated requirements on the classification and measurement of financial instruments, impairment, and general hedge accounting (not including macrohedge accounting).

Financial instruments are classified by reference to the two criteria of “business model” and “solely payments of principal and interest” (SPPI).

There has been no change in the measurement of DB PFK’s portfolios of financial liabilities under IFRS 9 compared with IAS 39.

With regard to impairment, the previous incurred loss model has been replaced by an expected credit loss model, which accounts for expected default risk in a more timely manner. These requirements apply to assets at amortized cost and assets at fair value through other comprehensive income.

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

The Bank has decided to exercise the initial application option in IFRS 9, which allows it not to restate comparative periods in accordance with IFRS 9 for the periods prior to initial application. As a result, the initial adoption effect will be reflected in the opening balance of equity for fiscal year 2018. In the following disclosures on the statement of income and the balance sheet, disclosures relating to prior-year periods are presented in the IAS 39 structure.

The International Accounting Standards Board (IASB) issued an amendment to IFRS 9 in October 2017 addressing “Prepayment Features with Negative Compensation.” This clarifies or amends the existing requirements in IFRS 9.B4.1.10 and IFRS 9.B4.1.11(b). The amendment classifies cash flows for instruments that could lead to negative compensation in the event of prepayment as SPPI. The amendment was endorsed by the EU and is applicable to fiscal years beginning on or after January 1, 2019. Early application is permitted. DB PFK has exercised the early application option and applied the amendments when it implemented IFRS 9. The changes due to the initial application of IFRS 9 did not result in any effects directly attributable to those changes.

In addition – as a result of IFRS 9 – some of the requirements for disclosures on financial Instruments in IFRS 7 "Financial Instruments: Disclosures" were revised. The requirements of the amended IFRS 7 were taken into account in the disclosures on financial instruments for the reporting period. DB PFK has decided to exercise the option for the initial application method, which allows it not to restate comparative periods in accordance with the revised IFRS 7 for the periods prior to initial application.

Effect of initial application

€178 million of the IFRS 9 initial adoption effect of €548 million is attributable to classification and measurement effects, and €370 million to loss allowances. Please refer to the statement of changes in equity for information on the effects of IFRS 9 on the individual components of equity.

The total effect has an impact on retained earnings (€463 million) and other comprehensive income (€85 million). Starting on the date of application of IFRS 9, the changes in other comprehensive income no longer contain an IAS 39 AfS reserve, which was reversed in full to other comprehensive income. At the same time, a new FVOCI reserve was established in other comprehensive income in which the measurement effects of the fair value measurement of financial instruments classified as FVOCI were recognized. There were no effects on financial liabilities.

Reconciliation: classification and measurement

The following table shows an overview of the effects of the change in classification and measurement on assets, excluding impairment losses for recognized and off-balance-sheet items affected by IFRS 9, from IAS 39 as of December 31, 2017, to IFRS 9 as of January 1, 2018.

in €m	IAS 39 Dec 31, 2017	Reclassifications	Remeasurements	IFRS 9 Jan 1, 2018
Financial assets at FVtPL (IFRS 9)				
From FVtPL (IAS 39)	6,615	0	0	6,614
of which derivatives	6,541	0	0	6,541
of which other assets (hedging derivatives)	73	0	0	73
From AfS (IAS 39)	0	327	0	327
of which debt instruments	0	8	0	8
of which equity instruments (securities)	0	29	0	29
of which other equity instruments	0	290	0	290
From AC (IAS 39)	0	230	–14	216
of which loans	0	200	2	202
of which debt instruments	0	30	–16	14
To AC (IFRS 9)	2,842	–2,842	0	0
of which loans	2,842	–2,842	0	0
To FVOCI (IFRS 9)	0	0	0	0
Total financial assets at FVtPL	9,457	–2,285	–14	7,158
Financial assets at FVOCI (IFRS 9)				
From AfS (IAS 39)	0	13,412	0	13,412
of which debt instruments	0	13,412	0	13,412
From AC (IAS 39)	0	1,352	40	1,392
of which debt instruments	0	1,352	40	1,392
From FVtPL (IAS 39)	0	0	0	0
To AC (IFRS 9)	0	0	0	0
To FVtPL (IFRS 9)	0	0	0	0
Total financial assets at FVOCI	0	14,764	40	14,804
Financial assets at AC (IFRS 9)				
From AC (IAS 39)	246,363	0	–2	246,361
of which cash/central bank balances	14,451	0	0	14,451
of which interbank balances	43,961	0	0	43,961
of which securities purchased under resale agreements	871	0	0	871
of which loans	181,913	0	0	181,913
of which debt instruments	3,850	0	–2	3,848
of which other assets	1,317	0	0	1,317
From AfS (IAS 39)	0	3,436	–94	3,342
of which debt instruments	0	3,436	–94	3,342
From FVtPL (IAS 39)	0	2,842	–199	2,643
of which loans	0	2,842	–199	2,643
To FVOCI (IFRS 9)	1,351	–1,351	0	0
of which debt instruments	1,351	–1,351	0	0
To FVtPL (IFRS 9)	230	–230	0	0
of which loans	200	–200	0	0
of which debt instruments	30	–30	0	0
Total financial assets at AC	247,944	4,697	–295	252,346
Tax assets	327	0	90	417
Financial assets AfS (IAS 39)	17,175	–17,175	0	0
of which debt instruments	16,855	–16,855	0	0
of which equity instruments (securities)	29	–29	0	0
of which other equity instruments	290	–290	0	0
Financial assets HTM (HTM)	0	0	0	0
Total assets affected by IFRS 9, reclassifications and remeasurements	274,903	0	–178	274,725
Other (property and equipment, and intangible assets)	1,270	0	0	1,270
Total assets (before loan loss allowance)	276,173	0	–178	275,995

With the introduction of IFRS 9, the Bank reassigned the mortgage lending portfolio previously designated as at fair value under the fair value option to the amortized cost category, which corresponds to the primary IFRS 9 transition effect attributable to classification and measurement. The Bank implemented the reclassification in the course of the initial application of IFRS 9 in order to enable consistent management and consistent measurement of mortgage lending receivables at amortized cost. The portfolio consists of approximately 40,000 individual contracts with remaining maturities of between 1 and 20 years and an average effective interest rate of approximately 4 %. Interest income recognized for this portfolio in 2017 amounted to €121 million.

Further reclassifications between the measurement categories result from the new classification system comprising the business model and the SPPI test, and affect securities portfolios in particular. Especially in the case of the former AfS portfolio, it was necessary to make strategic decisions about differences in allocation to business models and hence to classification as either AC or FVOCI. The Bank did not exercise any classification options (including the fair value option).

Reconciliation: impairment

The following table shows an overview of the effects of the changes in impairment losses for recognized and off-balance-sheet items affected by IFRS 9.

in €m	IAS 39 loss allowance Dec 31, 2017	Change due to reclassifications	Changes due to ECL model	IFRS 9 loss allowance Jan 1, 2018
Financial assets at FVtPL (IFRS 9)				
From AfS (IAS 39)	0	0	0	0
From AC (IAS 39)	11	– 11	0	0
of which loans	11	– 11	0	0
To AC (IFRS 9)	0	0	0	0
To FVOCI (IFRS 9)	0	0	0	0
Total financial assets at FVtPL	11	– 11	0	0
Financial assets at FVOCI (IFRS 9)				
From AfS (IAS 39)	0	0	1	1
of which debt instruments	0	0	1	1
From AC (IAS 39)	0	0	0	0
From FVtPL (IAS 39)	0	0	0	0
To AC (IFRS 9)	0	0	0	0
To FVtPL (IFRS 9)	0	0	0	0
Total financial assets at FVOCI	0	0	1	1
Financial assets at AC (IFRS 9)				
From AC (IAS 39)	1,082	0	361	1,443
of which interbank balances	0	0	2	2
of which loans	1,082	0	359	1,441
of which debt instruments	0	0	0	0
of which other assets	0	0	0	0
From AfS (IAS 39)	0	0	0	0
of which debt instruments	0	0	0	8
From FVtPL (IAS 39)	0	0	0	8
of which loans	0	0	0	0
To FVOCI (IFRS 9)	0	0	0	0
To FVtPL (IFRS 9)	0	0	0	0
Total financial assets at AC	1,082	0	369	1,451
Total balance sheet items affected by IFRS 9 ECL model	1,093	– 11	370	1,452
Off-balance-sheet commitments	22	0	11	33
Total balance sheet items and off-balance-sheet commitments affected by IFRS 9 ECL model	1,115	– 11	381	1,485

The impairment effects result from the model change from the incurred loss model under IAS 39 to the expected loss model under IFRS 9. Inputs for determining the loss allowance were revised to meet the IFRS 9 requirements. The main factors driving the impact of the switch to the new loss allowance under IFRS 9 are:

(1) discontinuation of the loss identification period (LIP) factor

(2) introduction of the lifetime approach to expected loss (EL)

(3) introduction of the new loss parameters under IFRS 9: Probability of Default (PD), Loss Given Default (LGD), expected Exposure at Default (EAD)

Under IAS 39, the factor from (1) was calibrated at less than or equal to one, depending on the products involved. As a result, all other things being equal, the discontinuation of this factor results in an increase in the loss allowance.

Under IFRS 9.5.5.9, part of the assets are allocated to Stage 2. An analysis of the expected loss over the entire remaining term of the financial instrument is therefore necessary (2). Consequently, there is an additional increase in the loss allowance for this item because there is an aggregation of the EL for each time slice over the maximum contract period.

Conversely, the introduction of the IFRS 9 inputs causes a partly offsetting effect. The corresponding parameters under IAS 39 from (3) based on the regulatory models and thus contained general conservation buffers. Under IAS 39, the PD was always oriented on a 12-month horizon, whereas the corresponding IFRS 9 factor is always counted on an exact time slice basis, i.e., potentially also shorter in line with the actual remaining term. In addition, the positive state of the economy or economic forecasts under IFRS 9 as of the reporting date leads to an improvement in the IFRS 9 PD, as under IFRS 9.5.5.1, this information has the effect of reducing the PD.

IFRS 15 "Revenue from Contracts with Customers"

The Bank adopted IFRS 15 "Revenue from Contracts with Customers" effective January 1, 2018. IFRS 15 is a new standard on revenue recognition that brings together the numerous requirements previously contained in various standards and interpretations and provides a single, principle-based five-step model that applies to customer contracts. Under IFRS 15, the amount of the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer must be recognized as revenue.

As a general rule, the standard applies to all contracts with customers that agree on the sale of goods and services from the entity's ordinary business activities.

At DB PFK, IFRS 15 applies in particular to the fees and charges reported under Net commissions and fee income in the Bank's statement of income. This income arises in connection with services that are directly related to DB PFK's ordinary business activities (core banking business) and hence fall within the scope of IFRS 15.

DB PFK has exercised the initial application relief allowed by IFRS 15 "Revenue from Contracts with Customers" and applies this standard to reporting periods beginning on or after January 1, 2018. Fees and commissions in the prior-year period are recognized and measured in accordance with IAS 18 "Revenue." The initial application of IFRS 15 did not have any material effects on the recognition of fees and commissions charged in the Group. As a consequence, there are no material differences between revenue recognition under IFRS 15 in the reporting period and under IAS 18 in the prior-year period.

Due to the initial application relief under IFRS 15.C3(b), the Bank does not disclose comparative amounts under IFRS 15 for the periods prior to initial application.

Amendments resulting from standards and interpretations to be applied in future fiscal years

IFRS 16 "Leases"

IFRS 16 governs the recognition, measurement, presentation, and disclosure obligations with respect to leases, and replaces the current IAS 17 "Leases." The new accounting model requires the lessee to recognize all assets and liabilities relating to leasing arrangements. Under this model, the lessee recognizes an asset representing its right to use the underlying leased asset. At the same time, the lessee recognizes a liability that represents its obligation to make the lease payments. This means that the distinction between financing and operating leases (previously the case with IAS 17) no longer applies at all to the lessee. With regard to the lessor, the regulations of IFRS 16 do not differ significantly from those contained in the current IAS 17 accounting model.

In addition, IFRS 16 requires entities to provide more meaningful and more relevant notes disclosures for the users of financial statements. IFRS 16 takes effect for fiscal years beginning on or after January 1, 2019. The standard has been endorsed by the EU.

The Group analyzed the impact on the first-time application of IFRS 16 in a joint group-wide implementation program at Deutsche Bank. DB PFK's leases relate to land and buildings, as well as company cars.

At the date of initial application, DB PFK will make use of the practical expedient to apply IFRS 16 to contracts that were previously identified as leases using IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease." DB PFK also exercises the option not to apply the new recognition requirements to short-term leases and to leases for which the underlying asset is of low value.

DB PFK has decided to apply the modified retrospective approach and not to adjust prior-year figures. Under the modified retrospective approach, DB PFK can decide for each lease whether (i) to measure the right-of-use asset at the same amount as the lease liability or (ii) to measure the right-of-use asset retrospectively, using the incremental borrowing rate at the date of initial application. When approach (ii) is applied, the resulting difference between the right-of-use asset and the lease liability is recognized as of the date of initial application as an adjustment to the opening balance of retained earnings in consolidated equity.

When IFRS 16 is initially applied to leases previously classified as operating leases, DB PFK has, for all leases, opted to measure the right-of-use asset in the amount of the lease liability in accordance with approach (i), using the incremental borrowing rate at the date of initial application. As a result, there is no effect on equity for DB PFK arising from the initial application of IFRS 16.

In addition, provisions previously recognized for onerous real estate leases were derecognized in other comprehensive income at the data of initial application, and the value of the right-of-use assets was also reduced by the same amount, also in other comprehensive income.

Based on the current status of the implementation project, the potential impact of initial application would result in the recognition of right-of-use assets from leases of €707 million and of lease liabilities of €713 million. The expected impact of initial application may change until final implementation in the first quarter of 2019.

New accounting pronouncements for which no material effects on the net assets, financial position, and results of operations of DB PFK are expected:

IAS 1 and IAS 8 “Definition of Material”

The amendments narrow the definition of “material.” They state that information must be classified as material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective for annual periods beginning on or after January 1, 2020. They have not yet been endorsed by the EU.

IAS 19 “Plan Amendment, Curtailment, or Settlement”

The amendment to IAS 19 “Employee Benefits” means that it is mandatory in the future for the current service cost and the net interest for the rest of the fiscal year to be remeasured if a plan is amended, curtailed, or settled. It also clarifies how a plan amendment, curtailment, or settlement affects the asset ceiling.

The amendments are effective for annual periods beginning on or after January 1, 2019. They have not yet been endorsed by the EU.

IAS 28 “Long-term Interests in Associates and Joint Ventures”

This amendment clarifies that entities apply IFRS 9 to the accounting for long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, but to which the equity method is not applied.

The amendments are effective for annual periods beginning on or after January 1, 2019. They have not yet been endorsed by the EU.

IFRS 3 “Business Combinations”

The amendments clarify and narrow the definition of a business and are designed to make it easier for preparers to determine whether they have acquired a business or a group of assets.

The amendments are effective for annual periods beginning on or after January 1, 2020. They have not yet been endorsed by the EU.

IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies the accounting of uncertainty over income tax treatments. The interpretation applies to taxable profit (loss), tax bases, unused tax losses, unused tax credits, and tax rates if there is uncertainty about the treatment of income tax under IAS 12.

The interpretation takes effect for fiscal years beginning on or after January 1, 2019. IFRIC 23 has been endorsed by the EU.

Annual Improvements 2015–2017

The IASB has implemented clarifications, amendments, and additions to existing standards as part of its Annual Improvements Project. The interpretation is not expected to have a material effect on the net assets, financial position, and results of operations of DB PFK.

The amendments are effective for annual periods beginning on or after January 1, 2019. They have not yet been endorsed by the EU.

Amendments to references to the conceptual framework in IFRS standards

The amendments relate in particular to revised definitions of assets and liabilities, as well as new guidance on measurement and derecognition, presentation, and disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2020. They have not yet been endorsed by the EU.

4 – Basis of Consolidation

In addition to the parent company DB Privat- und Firmenkundenbank AG, Frankfurt am Main, entered in the commercial register of the Local Court in Frankfurt am Main under the number 47141, the consolidated financial statements as of December 31, 2018, include 31 subsidiaries, which are presented in the following overview.

Consolidated companies

Name and domicile	Equity (%) interest direct	Equity (%) interest indirect
Ambidexter GmbH, Frankfurt am Main	100.0	
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	
BHW Holding GmbH, Hameln	100.0	
BHW Kreditservice GmbH, Hameln	100.0	
DB VersicherungsManager GmbH, Frankfurt am Main	100.0	
DSL Portfolio GmbH & Co. KG, Bonn	100.0	
DSL Portfolio Verwaltungs GmbH, Bonn	100.0	
PB International S.A., Munsbach, Luxembourg	100.0	
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0	
PBC Banking Services GmbH, Frankfurt am Main	100.0	
Postbank Beteiligungen GmbH, Bonn	100.0	
Postbank Direkt GmbH, Bonn	100.0	
Postbank Filialvertrieb AG, Bonn	100.0	
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	
Postbank Leasing GmbH, Bonn	100.0	
Postbank Service GmbH, Essen	100.0	
Postbank Systems AG, Bonn	100.0	
BHW Bausparkasse Aktiengesellschaft, Hameln		100.0
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln		100.0
DB Direkt GmbH, Frankfurt am Main		100.0
DB Investment Services GmbH, Frankfurt am Main		100.0
Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main		100.0
Deutsche Postbank Finance Center Objekt GmbH, Munsbach, Luxembourg		100.0
KEBA Gesellschaft für interne Services mbH, Frankfurt am Main		100.0
PB Factoring GmbH, Bonn		100.0
PB Firmenkunden AG, Bonn		100.0
PCC Services GmbH der Deutschen Bank, Essen		100.0
Postbank Immobilien GmbH, Hameln		100.0
Postbank Finanzberatung AG, Hameln	23.3	76.7
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn		90.0
VÖB-ZVD Processing GmbH, Bonn	100.0	

Eight subpools of assets and one securitization vehicle are included in the basis of consolidation in accordance with IFRS 10. All of the subpools of assets and securitization vehicles are structured entities in accordance with IFRS 12.

The shares of Postbank Immobilien und Baumanagement GmbH & Co Leipzig KG that are not held by DB PFK are classified as minority interests in puttable financial instruments in accordance with IAS 32. These shares, which are therefore classified as debt instruments, are reported in Other liabilities.

The Wendelstein 2015–1 securitization vehicle was closed effective April 17, 2018. Following resale by DB PFK AG, the majority of its portfolio of mortgage-backed loans were sold to the Wendelstein 2017-1 securitization vehicle included in the consolidated financial statements. Because the transactions relate to the Group's own securitization, no material effect arose from the deconsolidation within the Group of the Wendelstein 2015-1 securitization vehicle.

Effective July 12, 2018, DB PFK AG formed Ambidexter GmbH, Frankfurt am Main, and effective October 23, 2018, it formed DB VersicherungsManager GmbH, Frankfurt am Main, which have been included in DB PFK's basis of consolidation from the dates of their respective formation. Initial consolidation of the two companies did not result in any material effects.

The CREDA Objektanlage- und verwaltungsgesellschaft mbH subsidiary, which was previously not included in the basis of consolidation due to immateriality, was merged with Postbank Beteiligungen GmbH on December 18, 2018, and the merger was retrospectively entered in the commercial register as of September 30/October 1, 2018. The merger did not result in any material effects.

In the reporting period, BHW Holding GmbH acquired 6% of the shares and BHW – Gesellschaft für Wohnungswirtschaft mbH acquired 94 % of the shares of DB Bauspar. The difference – between the consideration granted and the balance of assets and liabilities of DB Bauspar transferred at Deutsche Bank's consolidated carrying amounts – resulting from the acquisition in the Group reduced the DB PFK Group's retained earnings.

The purchase price for the shares of DB Bauspar was paid exclusively in cash. As of the date of acquisition, the assets of the company amounted to €14,068 million and its liabilities amounted to €13,239 million. The additions of assets relate primarily to loans receivable, and the additions of liabilities relate primarily to deposits in the home savings and loan business and non-current liabilities. Its share of consolidated profit for the period under review was €110 million. For information about inclusion in the consolidated financial statements of DB PFK, please refer to our disclosures on inclusion under the principles applying to common control transactions in Note 1.

There were no other changes in the basis of consolidation.

5 – Segment Information

The Group's segment information is based on the management approach. This requires segment information to be presented on the basis of internal management reporting. The Management Board of DB PFK reviews this regularly in order to allocate resources to the various segments and to assess their performance.

Segments

DB PFK structures its business into three corporate divisions. This structure is also used consistently in segment information. Income taxes are not calculated at the segment level. With regard to the valuation techniques, there are no differences between the segments.

In addition to the results in the income statement of the business units allocated to the corporate divisions, imputation procedures are applied to ensure correct allocation of the segment profit/loss to their originators. In this process of allocating segment profit/loss to their originators, there are no differences in the accounting and measurement policies that are used in accordance with IFRSs.

Pursuant to IFRS 8.23, we report net interest income (net interest revenue) instead of interest income and interest expense. The allocation of net interest income from customer products to the segments uses the market rate method, under which the customer interest rate is compared with imputed money and capital market rates for matching terms. The administrative expenses and other expenses of the units included in the segment results are primarily based on the results of cost center accounting. Income taxes are not calculated at the segment level.

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

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

Pursuant to our brand differentiation, we define the three corporate divisions as follows:

The Group's segment information follows the organizational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to them.

The DBPFK Group comprises the following segments: Deutsche Bank brand, Postbank brand and Other.

The results generated in this corporate division in the retail & commercial business in Germany are disclosed in the "Deutsche Bank" brand segment. This brand is positioned with a broad range of financial services and advisory offers that include complex solutions for our retail clients. In addition, the Deutsche Bank brand offers an integrated advisory concept for small and medium-sized enterprises in cooperation with experts from the Corporate & Investment Bank of our parent company.

The results generated by the "Postbank" brand business are disclosed in this section. With our Postbank brand offer we target retail and commercial clients in Germany. In the retail banking business, we focus on standardized, reasonably priced banking and financial services designed to meet typical needs. The product and service range encompasses current account and savings products, credit and debit cards, mortgage lending, installment loans, home savings, securities and securities accounts, and the sale of investment funds. The Postbank brand offers commercial clients services for payment transactions and corporate loans, commercial mortgage lending with a European orientation as well as factoring and leasing. Cash investments and solutions in the area of interest rate and currency management complete the portfolio.

The "Other" segment primarily shows the restructuring and investment costs related to the integration of Postbank and Deutsche Bank, investments and results in the context of the new digital offer, costs and associated cost allocations of the infrastructural areas supporting the Deutsche Bank brand, and earnings effects from transactions with the parent company.

Measurement of segment profit or loss

Segment reporting shows the segment results of operations on the basis of the management reporting. The segment information is based on the internal management reporting on segment profit or loss, as well as other information that is reviewed regularly by the Management Board.

As the Group has integrated a range of different business activities in its operating units, the allocation of income and expenses to the segments is subject to certain assumptions and estimates.

Segment results of operations

The following tables show the cumulative results of operations of the segments/divisions, including the reconciliation to the IFRS consolidated financial statements, in each case for fiscal years 2018 and 2017.

				2018
in €m	Deutsche Bank brand	Postbank brand	Other	Total Group
Net interest income	1,952	2,189	−129	4,012
Loan loss allowance	−31	−182	0	−213
Net interest income after loan loss allowance	1,921	2,007	−129	3,799
Net commissions and fee income	821	901	35	1,757
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	31	0	−39	−8
Net gains (losses) on financial assets at fair value through other comprehensive income	0	110	0	110
Other income (loss)	35	254	163	452
Total non-interest income	887	1,265	159	2,311
Compensation and benefits	−996	−1,304	−56	−2,356
General and administrative expenses	−1,222	−1,264	−215	−2,701
Total non-interest expenses	−2,218	−2,567	−272	−5,057
Net income (loss) before tax	590	704	−241	1,053

				2017
in €m	Deutsche Bank brand	Postbank brand	Other	Total Group
Net interest income	1,818	2,118	251	4,187
Loan loss allowance	−31	−99	0	−130
Net interest income after loan loss allowance	1,787	2,019	251	4,057
Net commissions and fee income	872	923	0	1,795
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	17	163	−50	130
Net gains (losses) on financial assets at fair value through other comprehensive income	−6	90	0	84
Other income (loss)	73	−103	−3	−33
Total non-interest income	956	1,074	−54	1,976
Compensation and benefits	−1,020	−1,376	−35	−2,431
General and administrative expenses	−1,206	−1,318	−374	−2,898
Total non-interest expenses	−2,226	−2,694	−409	−5,329
Net income (loss) before tax	517	399	−212	704

Company-level disclosures

The results of the geographical regions are calculated using the profit and loss as reported in the income statements of the legal entities and branches attributable to the areas.

The Europe region contains the Luxembourg entities PB International S.A., the Luxembourg branch, Deutsche Postbank Finance Center Objekt GmbH that are managed under the Postbank brand, plus the branches of BHW in Italy and Luxembourg. The Germany region comprises all domestic business including all consolidation adjustments.

	Income		Net income before tax	
in €m	2018	2017	2018	2017
Germany	6,270	6,105	1,068	686
Europe	53	58	– 15	18
Total	**6,323**	6,163	**1,053**	704

Consolidated Statement of Income Disclosures

6 – Net Interest Income and Net Gains (Losses) on Financial Assets/Liabilities at Fair Value through Profit or Loss

Net interest income

in €m	2018	2017
Interest and similar income from:		
Interbank balances (w/o central banks)	53	11
Central bank funds sold and securities purchased under resale agreements (reverse repos)	1	0
Loans	4,850	5,137
Other interest income	76	138
Total interest and similar income from financial assets at amortized cost	**4,980**	5,285
Interest income on financial assets at fair value through other comprehensive income	136	N/A
Interest and dividend income on financial assets available for sale	N/A	183
Total interest and similar income from financial assets not measured at fair value through profit or loss[1]	**5,115**	5,469
Total interest and similar income from financial assets measured at fair value through profit or loss	6	121
Total interest and similar income	**5,121**	5,590
Interest expenses from:		
Deposits	677	859
Central bank funds purchased and securities sold under resale agreements	27	17
Other short-term borrowings	4	2
Non-current Liabilities	204	269
Trust preferred securities	5	32
Other interest expenses	191	225
Total interest and similar income from financial liabilities not measured at fair value through profit or loss	**1,109**	1,403
Interest expenses from financial liabilities at fair value through profit or loss	0	0
Total interest expenses	**1,109**	1,403
Net interest income	**4,012**	4,187

[1] Net interest income includes interest income of €5.1 billion (previous year: €5.5 billion) calculated using the effective interest method.

Other interest income includes non-typical interest expenses amounting to €64 million (previous year: €117 million). Other interest expenses include non-typical interest income amounting to €172 million (previous year: €213 million).

Net gains (losses) on financial assets/liabilities at fair value through profit or loss

in €m	2018	2017
Net trading income		
Sales & trading	54	59
Hedges	−86	144
Total net trading income	**−32**	203
Net gains (losses) on financial assets/liabilities designated as at fair value through profit or loss		
Equity investments	23	0
Net gain (loss) from applying the fair value option	N/A	−73
Other assets at fair value through profit or loss	2	0
Other financial liabilities designated as at fair value through profit or loss	−1	0
Total net gains (losses) on financial assets/liabilities designated as at fair value through profit or loss	**24**	−73
Total net gains (losses) on financial assets/liabilities at fair value through profit or loss	**−8**	130

Net interest income and net gains (losses) on financial assets/liabilities at fair value through profit or loss

in €m	2018	2017
Net interest income[1]	4,012	4,187
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	−8	130
Net interest income and net gains (losses) on financial assets/liabilities at fair value through profit or loss	**4,004**	4,317

[1] Net interest income includes interest income of €5.1 billion (previous year: €5.5 billion) calculated using the effective interest method.

Net gains (losses) on financial assets at fair value through other comprehensive income

Net gains (losses) on financial assets at fair value through other comprehensive income include the disposal gain of €110 million on fixed-rate securities.

Net gains (losses) on financial assets available for sale

Net gains (losses) on financial assets available for sale in 2017 amounting to €84 million mainly included the net gain on the disposal of fixed-rate securities and equity investments.

7 – Net Commissions and Fee Income

				2018
in €m	Deutsche Bank brand	Postbank brand	Other	Total Group
Type of service:				
Commissions for administration	94	3	35	132
Brokerage fees	364	95	0	459
Commissions for local payments	394	483	0	877
Commissions for foreign commercial business	22	93	0	115
Commissions for loan processing and guarantees	133	44	0	177
Intermediary fees	133	242	0	375
Commissions and fees for other customer services	34	176	0	210
Total commissions and fee income	1,174	1,136	35	**2,345**
Commissions and fee expenses				−588
Net commissions and fee income				**1,757**

In 2017, net commissions and fee income amounted to €1,794 million and was broken down as follows: commissions for administration (€120 million), securities business (€467 million), domestic and foreign payment transactions (€805 million), lending and guarantees (€107 million), and other services (€295 million).

There were receivables of €120 million (previous year: €117 million) from contracts with customers at the reporting date that resulted from insurance and securities mediation services already rendered by the Bank. There were receivables of €28 million (previous year: €27 million) at the reporting date from Deutsche Bank AG resulting from a services agreement. There were also receivables of €5 million (previous year: €4 million) relating to other services already provided to customers. There were also liabilities at the reporting date from contracts with customers amounting to €13 million (previous year: €13 million) that result from the deferral of annual credit card fees already received as well as liabilities of €8 million (previous year: €12 million) from prepayments already received for a services agreement relating to transaction banking.

Commissions and fee income includes €1,169 million (previous year: €1,117 million) and commissions and fee expense of €189 million (previous year: €205 million) resulting from transactions in financial instruments not measured at fair value through profit or loss.

The interest expense on fiduciary business amounted to €4 million (previous year: €5 million).

8 – Other Income (Loss)

in €m	2018	2017
Rental income	8	12
Gains (losses) on the sale of real estate	153	– 1
Gains (losses) on the sale of loans	0	14
Gains on disposal of assets held for sale and liabilities associated with assets held for sale	71	23
Gains (losses) on hedges that meet the criteria for hedge accounting	– 95	– 181
Income from liquidity offset	232	154
Miscellaneous	83	– 53
Total	**452**	– 32

9 – Compensation and Benefits

in €m	2018	2017
Salaries	1,760	1,820
Additional benefits	545	597
Other compensation and benefits	51	14
Total	**2,356**	2,431

10 – General and Administrative Expenses

in €m	2018	2017
Cost of services purchased from Deutsche Bank Group	598	519
Occupancy, furniture, and equipment expenses	572	572
IT costs	517	450
Banking and transaction charges	212	216
Professional service fees	170	214
Deposit guarantee and bank levy expenses	162	177
Marketing expenses	120	124
Travel and representation expenses	41	45
Communication and data services	40	38
Other expenses	269	543
Total	**2,701**	2,898

Consolidated Balance Sheet Disclosures

11 – Cash and Interbank Balances

in €m	Dec 31, 2018	Dec 31, 2017
Cash		
Cash-on-hand	2,124	2,068
Central bank balances	18,006	12,383
Total	**20,130**	14,451
Interbank balances (w/o central banks)		
Non-interest-bearing interbank balances	19	29
Interest-bearing interbank balances	42,712	43,932
Total	**42,731**	43,961

12 – Financial Assets/Liabilities at Fair Value through Profit or Loss

in €m	Dec 31, 2018	Dec 31, 2017
Trading financial assets		
Trading assets:		
Trading securities	0	0
Other trading assets	0	0
Trading assets	0	0
Positive fair values from derivative financial instruments	4,434	6,542
Total trading financial assets	**4,434**	6,542
Non-trading financial assets at fair value through profit or loss:		
Receivables from securities resale agreements (repos)	0	N/A
Receivables from securities lending	0	N/A
Loans	209	N/A
Other financial assets at fair value	362	N/A
Total non-trading financial assets at fair value through profit or loss	**571**	N/A
Financial assets designated as at fair value through profit or loss		
Receivables from securities resale agreements (repos)	0	0
Receivables from securities lending	0	0
Loans	0	2,842
Other financial assets designated as at fair value	0	0
Total financial assets designated as at fair value through profit or loss	**0**	2,842
Total financial assets at fair value through profit or loss	**5,005**	9,384

in €m	Dec 31, 2018	Dec 31, 2017
Financial liabilities classified as held for trading:		
Trading liabilities:		
Trading securities	0	0
Other trading liabilities	0	0
Trading liabilities	0	0
Negative fair values from derivative financial instruments	3,689	6,812
Total financial liabilities classified as held for trading	**3,689**	6,812
Financial liabilities designated as at fair value:		
Liabilities from securities resale agreements (repos)	0	0
Loan commitments	0	0
Non-current liabilities	0	0
Other financial liabilities designated as at fair value	0	0
Total financial liabilities at fair value through profit or loss	**3,689**	6,812

13 – Financial Assets Available for Sale

in €m	Dec 31, 2018	Dec 31, 2017
Debt securities	N/A	16,856
Equity securities	N/A	29
Other equity interests	N/A	290
Loans	N/A	0
Total	**N/A**	17,175

14 – Financial Assets at Fair Value Through Other Comprehensive Income

in €m	Dec 31, 2018	Dec 31, 2017
Debt securities	8,799	N/A
Total	**8,799**	N/A

"Financial assets at fair value through other comprehensive income" are exclusively fixed-rate securities.

15 – Financial Instruments at Fair Value

Fair value hierarchy

The allocation of financial instruments measured at fair value to the three-level fair value hierarchy in accordance with IFRS 13.72ff. is presented in the following. In line with the Standard, the Bank assigns its portfolios as follows to Levels 1 to 3:

Level 1: Quoted market prices for the identical asset or the identical liability exist for the instruments classified as Level 1. In other words, Level 1 fair value measurement is based solely on quoted market prices in an active market for an identical financial instrument. Level 1 therefore mainly consists of highly liquid securities and exchange-traded derivatives.

Level 2: Level 2 fair values are measured either with the help of quoted prices in active markets for similar instruments or using techniques whose inputs are based solely on directly or indirectly observable market data. This includes non-exchange-traded-derivatives (e.g., swaps, caps, and floors) as well as bonds and promissory note loans that are valued using yield and spread curves and/or volatilities.

Level 3: Level 3 fair values are determined using valuation models whose significant inputs are not observable in the market. Such valuation techniques are used in particular to measure structured credit products.

Financial instruments at fair value

in €m	Dec 31, 2018 Fair value	Quoted prices in active markets (Level 1)	Valuation technique based on observable inputs (Level 2)	Valuation technique not based on observable inputs (Level 3)	Dec 31, 2017 Fair value	Quoted prices in active markets (Level 1)	Valuation technique based on observable inputs (Level 2)	Valuation technique not based on observable inputs (Level 3)
Financial assets at fair value:								
Positive fair values from derivative financial instruments	4,434	0	4,403	31	6,542	0	6,523	19
Non-trading financial asset at fair value through profit or loss	571	0	456	115	N/A	N/A	N/A	N/A
Financial assets designated as at fair value through profit or loss	0	0	0	0	2,842	0	2,842	0
Financial assets at fair value through other comprehensive income	8,799	3,087	5,712	0	N/A	N/A	N/A	N/A
Financial assets available for sale	N/A	N/A	N/A	N/A	17,175	7,517	9,586	72
Other financial assets at fair value	63	0	63	0	73	0	73	0
Total financial assets at fair value	**13,868**	**3,087**	**10,634**	**146**	26,632	7,517	19,024	91
Financial liabilities at fair value:								
Negative fair values from derivative financial instruments	3,689	0	3,652	37	6,812	0	6,775	37
Other financial liabilities at fair value	1,314	0	1,314	0	595	0	595	0
Total financial liabilities at fair value	**5,003**	**0**	**4,966**	**37**	7,407	0	7,370	37

The decline in Level 1 and Level 2 instruments compared with the prior-year period is mainly due to maturities and disposals. The change in Level 1 and Level 2 holdings relate in particular to effects from the mandatory initial application of IFRS 9. A result of IFRS 9 was that holdings that were previously recognized at fair value are now recognized at amortized cost because of the business model and the fact that the underlying transactions are solely payments of principal and interest (SPPI). At the same time, however, holdings that were previously accounted for at amortized cost are now recognized at fair value because of the IFRS 9 requirements (see also in Note 3 “Accounting pronouncements applied for the first time in the reporting period”). Based on liquidity testing procedures, there was a transfer into Level 1 amounting to €85 million in the reporting period due to prices that are quoted in an active market. In addition to maturities, the changes in positive and negative fair values from derivative financial instruments result in particular from market movements.

Measurement policies and controls

The Group measures the fair value of financial instruments quoted in active markets on the basis of quoted prices, provided that those prices constitute the prices used in regular, current transactions.

Valuation techniques are used to determine fair value for which no quoted prices in an active market are available, or for example if a price quotation or another quoted input is available instead of a price. They are generally measured using modeling techniques that are customary in the industry, such as discounted cash flow (DCF models) and commonly used option pricing models. These models are dependent on estimated future cash flows, discount factors, and volatility. To the extent possible, the inputs used in the valuation techniques are based on observable information or are derived from relevant financial instruments traded in active markets. If no observable information is available for the inputs, other market information is taken into account, for example indicative broker quotes. Where no observable information is available, the inputs are based on other relevant sources of information, such as prices for similar transactions and historical data. These are adjusted appropriately to reflect the terms of the financial instrument and current market conditions.

For securities classified as at fair value through other comprehensive income and non-derivative financial assets at fair value through profit or loss, fair values that are directly observable in active markets are used in the first instance (Level 1). If the observable fair value is not quoted in active, liquid markets, the securities are classified as Level 2. The fair value of structured credit products measured at fair value through profit or loss is determined on the basis of valuation techniques that do not solely involve inputs that are directly observable in the market, with the result that these products are allocated to Level 3.

Unlisted derivative financial instruments are measured using standard models that are customary in the industry (discounted cash flow models, Black models for option components). Interest rate and spread curves (basis spreads) are the key inputs. The standard swap rates are used for the yield curves. The spread curves are also obtained from market data providers. Interest rate volatilities are normal volatilities for caps and swaptions. The inputs used are generally observable in the market, which is why the instruments are allocated to Level 2. However, there is also a small holding of structured derivatives whose inputs are not observable in the market, which is why they are classified as Level 3. In addition, valuation adjustments for counterparty risk (credit valuation adjustments – CVAs) are charged for OTC derivatives, and debit valuation adjustments (DVAs) and funding valuation adjustments are charged for own financial liabilities.

The decision on which valuation technique will be applied depends on the market liquidity of the financial instrument. Instruments for which no market prices are quoted, such as swaps, are measured using inputs that are observable in the market and allocated to Level 2 in the fair value hierarchy. If the data is not directly observable in the market, other information is used and the financial instrument is allocated to Level 3 in the fair value hierarchy.

As part of the measurement process, the Group has an established system of controls, comprising internal control standards, policies, and methods.

Prices and inputs for individual transactions are provided by external sources. The price sources are validated and assessed in order to assess the quality of the resulting fair value, and to give those sources that offer greater measurement reliability and relevance more weight.

The prices and inputs, assumptions, and value adjustments used in valuation models are verified using independent sources or examined for appropriateness using suitable methods. The system of controls for measurements is continuously enhanced: On an ongoing basis, the Bank reviews the measurement control methods and techniques and the elaboration and management of measurement policies. The assumptions and techniques used in the model for financial instruments whose fair value is determined using valuation models are validated.

in €m	Valuation model	Fair value as of Dec 31, 2018	Fair value as of Dec 31, 2017
Bonds and equities	Mark-to-market Reuters and Bloomberg prices, otherwise DCF	9,161	17,175
Interest rate derivatives	DCF, Black 76 if they contain options	–466	–763
Equity/index options	Mark-to-market EUREX price, Black-Scholes	0	0
Currency	DCF, Garman-Kohlhagen for currency options	–3	8
Loans	DCF	172	2,805
Commodities	Quanto lognormal asset model, Garmann-Kohlhagen	0	0

Analysis of financial instruments with fair value derived from valuation techniques containing significant unobservable inputs (Level 3)

Financial assets and liabilities allocated to Level 3 changed as follows in the reporting period:

Reconciliation of financial instruments classified in the Level 3 Category

							Dec 31, 2018
in €m	Balance at beginning of year	Changes in basis of consolidation	Total gains/ losses[1]	Purchases	Sales	Settlements	Balance at end of year
Positive fair values from derivative financial instruments	19	0	12	0	0	0	31
Non-trading financial assets at fair value through profit or loss	84	0	23	12	−2	−3	115
Total financial assets at fair value	103	0	35	12	−2	−3	146
Negative fair values from derivative financial instruments	37	0	1	0	0	0	37
Total financial liabilities at fair value	37	0	1	0	0	0	37

[1] All gains and losses are recognized in net gains (losses) on financial assets at fair value in the statement of income.

Financial assets and liabilities allocated to Level 3 changed as follows in the prior-year period:

							Dec 31, 2017
in €m	Balance at beginning of year	Changes in basis of consolidation	Total gains/ losses[1]	Purchases	Sales	Settlements	Balance at end of year
Positive fair values from derivative financial instruments	61	0	−42	0	0	0	19
Financial assets available for sale	68	0	4	7	−2	−5	72
Total financial assets at fair value	128	0	−38	7	−2	−5	91
Negative fair values from derivative financial instruments	39	0	−2	0	0	0	37
Total financial liabilities at fair value	39	0	−2	0	0	0	37

[1] The amount comprises unrealized gains and losses of €8 million from financial assets available for sale that are recognized in other comprehensive income.

Sensitivity analysis of unobservable inputs

Structured credit products within non-trading financial assets at fair value that are allocated to Level 3 are currently measured using available dealer quotes (price range: min. 0% – max. 143.39%) or, if these are not available, by an internal valuation technique (DCF model). The internal valuation technique also takes the illiquidity of the markets for structured products into account in addition to the impact of default on expected cash flows. This is done by adding a premium to the risk-free interest rate for the same maturity when discounting the previously calculated cash flows. Assuming a change in arranger/dealer quotes by +/– 500 basis points, the fair value would change by +/– €1 million.

Level 3 holdings of non-trading financial assets at fair value include preferred shares of Visa Inc. When measuring fair value, assumptions with respect to the conversion rate (common share conversion ratio) and the liquidity of the shares are taken into account. Any change in the assumptions with respect to the conversion rate by 5% and the illiquidity discount by 5% would lead to a positive change in fair value of €3.0 million.

Holdings of closed-end funds within non-trading financial assets at fair value are measured using DCF models. Risk-adjusted planning assumptions are taken into account for the closed-end funds. If the planning assumptions for the funds deviate from the assumptions made when calculating fair value (price range: min. 0% – max. 100%), this would result in a fair value change of +/– €0.2 million. If the planning assumptions for the equity investments deviate by 5% from the assumptions made when calculating fair value (price range: min. 0% – max. 100%), this would result in a fair value change of +/– €2.6 million.

DCF models and option pricing models are used to measure Level 3 structured derivatives within positive fair values from derivative financial instruments. Because of the option components and the long maturities, assumptions have to be made about the interest rate correlations (range: min. 59.5% – max. 90.0%) that are not observable in the market in this form. If the assumptions deviate from the assumptions made when calculating the fair value, this would result in a fair value change of +/–€4.9 million. Additionally, assumptions have to be made about expected customer behavior in the case of structured derivatives with negative fair values from derivative financial instruments. The possible scenarios for customer behavior range between 0% (customer does not trade another product) and 100% (customer trades product in full). A change in the assumptions by 5% would result in a fair value change of €1.9 million.

The fair value of loans designated as at fair value within non-trading financial assets at fair value is measured on the basis of an internal valuation technique (DCF model). This involves assumptions about expected cash flows (range: min. €1.5 million – max. €4.8 million). Taking into account a 5% fluctuation in these assumptions, this results in a fair value change of +/– €1.0 million.

Unrealized gains or losses on Level 3 instruments held at the reporting date

Unrealized gains and losses are not based exclusively on unobservable inputs, as many of the inputs that are used to measure financial instruments in this category are observable. Changes in the gains and losses are thus based in part on changes in observable inputs that occur over the course of the reporting period. Many of the positions in this level of the hierarchy are economically hedged by instruments that are categorized in other levels of the fair value hierarchy. In accordance with IFRS 13, the following table contains only those gains and losses that result from Level 3 instruments held at the reporting date. The unrealized gains and losses on Level 3 instruments are included in net gains (losses) on financial assets/liabilities at fair value through profit or loss in the consolidated statement of income.

in €m	2018	2017
Financial assets at fair value:		
Trading securities	0	0
Positive fair values from derivative financial instruments	12	−42
Other trading assets	0	0
Non-trading financial assets at fair value through profit or loss	23	0
Financial assets designated as at fair value through profit or loss	0	0
Financial assets at fair value through other comprehensive income	0	N/A
Financial assets available for sale	N/A	−4
Other financial assets at fair value	0	0
Total finanical assets at fair value	**35**	−46
Financial liabilities at fair value:		
Negative fair values from derivative financial instruments	−1	2
Total financial liabilities at fair value	**−1**	2
Total	**34**	−44

Recognition of trade date profit

If any unobservable inputs are used in a valuation technique, the relevant financial instrument is recognized at the transaction price and any trade date profit is deferred. No day 1 profit or loss arose in the reporting period.

16 – Fair Value of Financial Instruments at Amortized Cost

The fair value of financial instruments measured at amortized cost is normally calculated on the basis of discounted cash flow models that are customary in the industry. Besides observable inputs (such as yield curves), inputs that are not observable in the market are used, depending on the product type.

For debt securities held to collect, both fair values directly observable in the market (Level 1) and discounted cash flow models (Level 2) are used. For typical customer loan receivables (for example, consumer mortgage lending, installment loans), material inputs are not observable in the market, which is why they are allocated to Level 3. Traditional interbank transactions are classified both as Level 1 (overnight money) and as Level 2 (term deposits, securities purchased/sold under resale agreements). Depending on the availability of prices or other inputs observable directly in the market, non-current liabilities are classified as Level 1, 2, or 3.

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

Estimated fair value of financial instruments not carried at fair value in the balance sheet

					Dec 31, 2018
in €m	Carrying amount	Fair value	Quoted prices in active market (Level 1)	Valuation technique based on observable inputs (Level 2)	Valuation technique not based on observable inputs (Level 3)
Financial assets:					
Cash and central bank balances	20,130	20,130	20,130	0	0
Interbank balances (w/o central banks)	42,731	42,730	1,806	40,924	0
Central bank funds sold and securities purchased under resale agreements (reverse repos)	298	298	0	298	0
Loans	189,748	186,330	3,931	0	182,399
Banks	17	32	0	0	32
Payable on demand	3,931	3,931	3,931	0	0
Term deposits	1,708	1,708	0	0	1,708
Consumer mortgage lending	139,001	135,517	0	0	135,517
Commercial loans	26,584	26,301	0	0	26,301
Public-sector loans	4,309	4,321	0	0	4,321
Installment loans	12,723	13,062	0	0	13,062
Promissory note loans	1,457	1,440	0	0	1,440
Other loans	18	18	0	0	18
Securities in the “Hold” business model (IFRS 9)/LaR (IAS 39)	5,470	5,569	849	4,720	0
Other financial assets	1,982	1,982	0	1,982	0
Financial liabilities:					0
Deposits	225,985	225,810	217	225,593	
Central bank funds purchased and securities sold under resale agreements	1,135	1,135	0	1,135	0
Other short-term borrowings	278	278	0	278	0
Other financial liabilities	3,589	3,589	0	3,589	0
Non-current liabilities	29,953	31,213	0	29,567	1,646
Trust preferred securities	0	0	0	0	0

					Dec 31, 2017
in €m	Carrying amount	Fair value	Quoted prices in active market (Level 1)	Valuation technique based on observable inputs (Level 2)	Valuation technique not based on observable inputs (Level 3)
Financial assets:					
Cash and central bank balances	14,451	14,451	14,451	0	0
Interbank balances (w/o central banks)	43,961	43,964	10,038	33,926	0
Central bank funds sold and securities purchased under resale agreements (reverse repos)	871	871	0	871	0
Loans	181,020	189,107	3,052	0	186,055
Banks	1,021	1,033	0	0	1,033
Payable on demand	3,052	3,052	3,052	0	0
Term deposits	126	126	0	0	126
Consumer mortgage lending	134,214	141,135	0	0	141,135
Commercial loans	23,039	23,337	0	0	23,337
Public-sector loans	5,066	5,133	0	0	5,133
Installment loans	12,771	13,534	0	0	13,534
Promissory note loans	1,597	1,623	0	0	1,623
Other loans	134	134	0	0	134
Securities in the “Hold” business model (IFRS 9)/LaR (IAS 39)	5,231	5,385	0	5,262	123
Other financial assets	740	740	0	740	0
Financial liabilities:					
Deposits	215,112	215,590	130	215,460	0
Central bank funds purchased and securities sold under resale agreements	2,757	2,757	0	2,757	0
Other short-term borrowings	147	147	0	147	0
Other financial liabilities	2,761	2,761	0	2,761	0
Non-current liabilities	36,499	38,342	0	36,122	2,220
Trust preferred securities	915	1,051	0	1,051	0

17 – Offsetting Financial Assets and Financial Liabilities

The Bank has the right to present certain financial assets and liabilities in its balance sheet at their net carrying amounts on the basis of the criteria applicable to offsetting (see Note 2(f) for further details). The following tables contain information on the effects of offsetting on the consolidated balance sheet and the financial effects of offsetting in the case of instruments for which there is a legally enforceable master netting or similar agreement, as well as available cash and collateral in the form of financial instruments.

Assets

							Dec 31, 2018
					Unrecognized amounts		
in €m	Financial assets (gross)	Offset recognized amounts (gross)	Recognized financial assets (net)	Effect of master netting agreements	Cash collateral	Collateral in the form of financial instruments	Net amount
Central bank funds sold and securities purchased under resale agreements (reverse repos)	1,018	−720	298	0	0	−298	0
Receivables from securities lending	0	0	0	0	0	0	0
Financial assets at fair value:							
Financial assets at fair value through profit or loss	8,640	−3,635	5,005	−15	−51	0	4,939
of which: trading assets	0	0	0	0	0	0	0
of which: positive fair values from derivative financial instruments	8,069	−3,635	4,434	−15	−51	0	4,368
Financial assets at fair value through other comprehensive income	8,799	0	8,799	0	0	0	8,799
Financial assets available for sale	0	0	0	0	0	0	0
Total financial assets at fair value	17,439	−3,635	13,804	−15	−51	0	13,738
Loans	190,239	−491	189,748	0	0	0	189,748
Other assets	8,379	−411	7,968	0	−11	0	7,957
of which: positive fair values from derivatives held for hedging purposes	474	−411	63	0	−11	0	52
Miscellaneous assets not set off	64,299	0	64,299	0	0	0	64,299
Total assets	**281,373**	**−5,257**	**276,116**	**−15**	**−62**	**−298**	**275,741**

Liabilities

							Dec 31, 2018
					Unrecognized amounts		
in €m	Financial liabilities (gross)	Offset recognized amounts (gross)	Recognized financial liabilities (net)	Effect of master netting agreements	Cash collateral	Collateral in the form of financial instruments	Net amount
Deposits	225,985	0	225,985	0	0	0	225,985
Liabilities from transferred central bank funds purchased and securities sold under resale agreements	1,855	−720	1,135	0	0	−1,063	72
Liabilities from securities lending	0	0	0	0	0	0	0
Financial liabilities at fair value							
Trading liabilities	0	0	0	0	0	0	0
Negative fair values from derivative financial instruments	7,623	−3,934	3,689	−15	−115	−5	3,554
Financial liabilities designated as at fair value	0	0	0	0	0	0	0
Total financial liabilities at fair value	7,623	−3,934	3,689	−15	−115	−5	3,554
Other liabilities	7,242	−603	6,639	0	−12	−1	6,626
of which: negative fair values from derivatives held for hedging purposes	1,917	−603	1,314	0	−12	−1	1,301
Miscellaneous liabilities not set off	30,612	0	30,612	0	0	0	30,612
Total liabilities	**273,317**	**−5,257**	**268,060**	**−15**	**−127**	**−1,069**	**266,849**

The following tables contain the comparative figures as of December 31, 2017.

Assets

							Dec 31, 2017
				Unrecognized amounts			
in €m	Financial assets (gross)	Offset recognized amounts (gross)	Recognized financial assets (net)	Effect of master netting agreements	Cash collateral	Collateral in the form of financial instruments	Net amount
Central bank funds sold and securities purchased under resale agreements (reverse repos)	1,326	−455	871	0	0	−871	0
Receivables from securities lending	0	0	0	0	0	0	0
Financial assets at fair value:							
Financial assets at fair value through profit or loss	13,916	−4,532	9,384	−54	−41	0	9,289
of which: trading assets	0	0	0	0	0	0	0
of which: Positive fair values from derivative financial instruments	11,073	−4,532	6,541	−54	−41	0	6,446
Financial assets at fair value through other comprehensive income	0	0	0	0	0	0	0
Financial assets available for sale	17,175	0	17,175	0	0	0	17,175
Total financial assets at fair value	31,090	−4,532	26,558	−54	−41	0	26,463
Loans	186,596	−345	186,251	0	0	0	186,251
Other assets	2,068	−675	1,393	0	−7	0	1,386
of which: positive fair values from derivatives held for hedging purposes	748	−675	73	0	−7	0	66
Miscellaneous assets not set off	60,007	0	60,007	0	0	0	60,007
Total assets	281,087	−6,007	275,080	−54	−48	−871	274,107

Liabilities

							Dec 31, 2017
				Unrecognized amounts			
in €m	Financial liabilities (gross)	Offset recognized amounts (gross)	Recognized financial liabilities (net)	Effect of master netting agreements	Cash collateral	Collateral in the form of financial instruments	Net amount
Deposits	215,112	0	215,112	0	0	0	215,112
Liabilities from transferred central bank funds purchased and securities sold under resale agreements	3,212	−455	2,757	0	0	−2,588	169
Liabilities from securities lending	0	0	0	0	0	0	0
Financial liabilities at fair value							
Trading liabilities	0	0	0	0	0	0	0
Negative fair values from derivative financial instruments	11,821	−5,009	6,812	−54	−111	0	6,647
Financial liabilities designated as at fair value	0	0	0	0	0	0	0
Total financial liabilities at fair value	11,821	−5,009	6,812	−54	−111	0	6,647
Other liabilities	5,628	−543	5,085	0	−14	0	5,071
of which: negative fair values from derivatives held for hedging purposes	1,138	−543	595	0	−14	0	581
Miscellaneous liabilities not set off	38,230	0	38,230	0	0	0	38,230
Total liabilities	274,003	−6,007	267,996	−54	−125	−2,588	265,229

18 – Loans at Amortized Cost

in €m	Dec 31, 2018	Dec 31, 2017
Banks	17	1,021
Payable on demand	3,931	3,052
Term deposits	1,708	126
Consumer mortgage lending	139,001	134,214
Commercial loans	26,584	23,039
Public-sector loans	4,309	5,066
Installment loans	12,723	12,771
Promissory note loans	1,457	1,597
Securities in the “Hold” business model (IFRS 9)/LaR (IAS 39)	0	5,231
Other loans	18	134
Total	**189,748**	186,251

19 – Loan Loss Allowance for Financial Assets at Amortized Cost

IFRS 9 loan loss allowance for financial assets at amortized cost

Changes in loan loss allowance for financial assets at amortized cost

				2018
in €m	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	201	308	943	**1,452**
Changes in financial assets including new business	−55	82	198	225
Transfers due to change in credit quality	106	−112	6	0
Derecognition of impaired loans	0	0	−122	−122
Recoveries on loans written off	0	0	70	70
Foreign exchange movements and other changes	(12)	(7)	−11	(30)
Balance at December 31	240	271	1,084	**1,595**

Changes in loan loss allowance for off-balance-sheet exposures

				2018
in €m	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	7	9	17	**33**
Changes including new business	−12	0	0	−12
Transfers due to change in credit quality	7	−7	0	0
Foreign exchange movements and other changes	6	7	−2	11
Balance at December 31	8	9	15	**32**

IAS 39 loan loss allowance for financial assets at amortized cost

Changes in loan loss allowance for financial assets at amortized cost

			2017
in €m	Individually assessed	Collectively assessed	Total
Balance at January 1	215	886	1,101
Changes in financial assets including new business	−30	177	147
Derecognition of impaired loans	−5	−209	−214
Recoveries on loans written off	14	60	74
Foreign exchange movements and other changes	−5	−10	−15
Balance at December 31	189	904	1,093

Changes in loan loss allowance for off-balance-sheet exposures

in €m	2017
Balance at January 1	39
Changes including new business	−17
Balance at December 31	22

20 – Transfers of Financial Assets

DB PFK AG enters into transactions in which it transfers financial assets held on the balance sheet and as a result may either be eligible to derecognize the transferred asset in its entirety or must continue to recognize the transferred asset to the extent of any continuing involvement, depending on certain criteria. These criteria are described in Note 2(a). Where financial assets are not eligible to be derecognized, the transfers are viewed as secured financing transactions, with any consideration received resulting in a corresponding liability. DB PFK AG is not entitled to use these financial assets for any other purposes, e. g., for the cover pool for covered issues. Relevant items for DB PFK AG are securities purchased/sold under resale agreements and margins transferred for OTC transactions (cash collateral and securities). In these transactions, DB PFK AG retains substantially all of the associated credit, equity price, interest rate, and foreign exchange risks as well as all of the rewards associated with the assets, in particular from positive market movements and interest payments, and the associated income streams.

Information on asset types and associated transactions that do not qualify for derecognition

in €m	Dec 31, 2018	Dec 31, 2017
Carrying amount of transferred assets		
Financial assets designated as at fair value through other comprehensive income	1,789	0
Financial assets available for sale	0	3,307
Financial assets measured at amortized cost	145	23
Total	**1,934**	3,330
Carrying amount of associated liabilities	**1,135**	2,757

Transferred assets are securities that continue to be measured at fair value through other comprehensive income or at amortized cost.

21 – Assets Pledged and Received as Collateral

DB PFK AG pledges assets primarily as collateral against secured funding, for resale agreements, and for margining purposes on OTC derivative liabilities. Pledges are generally conducted under terms that are usual and customary for standard contracts.

Carrying amount of DB PFK’s assets pledged as collateral for liabilities or contingent liabilities

in €m	Dec 31, 2018	Dec 31, 2017
Financial assets designated as at fair value through other comprehensive income	2,039	0
Financial assets available for sale	0	3,829
Financial assets measured at amortized cost	63,320	54,969
Cash collateral	21	36
Total	**65,380**	58,834

Of which: assets pledged as collateral that the transferee has the right to sell or repledge

in €m	Dec 31, 2018	Dec 31, 2017
Financial assets designated as at fair value through other comprehensive income	1,060	0
Financial assets available for sale	0	2,596
Total	**1,060**	2,596

DB PFK AG receives collateral primarily in securities resale agreements and derivatives transactions. These transactions are generally executed under terms that are usual and customary for standard contracts (primarily ISDA). DB PFK AG, as the secured party, has the right to sell or repledge such collateral, provided that it returns equivalent securities on completion of the transaction. This right is used primarily to provide collateral for settlement risks.

Fair value of collateral received

in €m	Dec 31, 2018	Dec 31, 2017
Securities and other financial assets accepted as collateral	312	935
of which:		
Collateral sold or repledged	155	315

22 – Property and Equipment

in €m	Land and buildings	Office equipment	Leasehold improvements	Assets under construction	Total
Cost:					
Balance as of January 1, 2017	502	449	527	90	1,568
Changes in basis of consolidation	0	0	0	0	0
Additions	10	57	19	52	138
Reclassifications	26	6	35	– 67	0
Reclassified to/from property and equipment held for sale	20	0	0	0	20
Disposals	36	66	210	0	312
Exchange rate movements	0	0	0	0	0
Balance as of December 31, 2017	522	446	371	75	1,414
Changes in basis of consolidation	0	0	0	0	0
Additions	8	49	61	47	165
Reclassifications	21	21	19	– 61	0
Reclassified to/from property and equipment held for sale	– 183	0	0	0	– 183
Disposals	116	43	1	0	160
Exchange rate movements	0	0	0	0	0
Balance as of December 31, 2018	252	473	450	61	1,236
Accumulated amortization and impairment losses:					
Balance as of January 1, 2017	27	236	328	0	591
Changes in basis of consolidation	0	0	0	0	0
Write-offs	19	58	19		96
Impairment losses	0	0	0	0	0
Reversals of impairment losses	0	0	0	0	0
Reclassifications	0	0	0	0	0
Reclassified to/from property and equipment held for sale	0	0	0	0	0
Disposals	16	62	208	0	286
Exchange rate movements	0	0	0	0	0
Balance as of December 31, 2017	30	232	139	0	401
Changes in basis of consolidation	0	0	0	0	0
Write-offs	14	58	22		94
Impairment losses	0	0	0	0	0
Reversals of impairment losses	9	0	0	0	9
Reclassifications	0	9	– 9	0	0
Reclassified to/from property and equipment held for sale	– 19	0	0	0	– 19
Disposals	6	38	0	0	44
Exchange rate movements	0	0	0	0	0
Balance as of December 31, 2018	10	261	152	0	423
Carrying amount:					
Balance as of December 31, 2017	492	214	232	75	1,013
Balance as of December 31, 2018	242	212	298	61	813

23 – Leases

Finance leases

The Bank acts as lessor in finance leases of movable assets.

Reconciliation to present value of outstanding minimum lease payments

in €m	Dec 31, 2018	Dec 31, 2017
Outstanding minimum lease payments	292	248
Unguaranteed residual values	2	2
Total gross investment	**294**	250
Unearned finance income	11	10
Net investment	**283**	240
Present value of unguaranteed residual values	1	1
Present value of minimum lease payments	**282**	239

Maturity structure of total gross investment

in €m	Dec 31, 2018	Dec 31, 2017
Total gross investment:		
Up to 1 year	84	74
1 to 5 years	191	163
More than 5 years	19	13
Aggregate total gross investment	**294**	250

Maturity structure of outstanding minimum lease payments

in €m	Dec 31, 2018	Dec 31, 2017
Minimum lease payments:		
Up to 1 year	84	73
1 to 5 years	190	162
More than 5 years	18	13
Total outstanding minimum lease payments	**292**	248

Operating leases

The Bank acts as lessee in real estate and motor vehicle operating leases.

Future minimum lease payments

in €m	Dec 31, 2018	Dec 31, 2017
Future minimum lease payments		
Up to 1 year	225	214
1 to 5 years	478	484
More than 5 years	243	243
Total future minimum lease payments	**946**	941
Less: lease income from subleasing (minimum amount)	0	0
Net minimum lease payments	**946**	941

Lease expenses of €164 million (previous year: €157 million) were recognized in general and administrative expenses in the reporting period. Lease income from subleases amounted to €2 million (previous year: €1 million).

24 – Intangible Assets

Intangible assets

in €m	Purchased software	Internally generated software	Total
Cost:			
Balance as of January 1, 2017	218	245	**463**
Additions	28	77	105
Changes in basis of consolidation	0	0	0
Disposals	18	4	23
Reclassifications from/to (–) assets held for sale	0	0	0
Reclassification	0	0	0
Exchange rate movements	0	0	0
Balance as of December 31, 2017	228	317	**545**
Additions	14	71	85
Changes in basis of consolidation	0	0	0
Disposals	5	0	5
Reclassifications from/to (–) assets held for sale	0	0	0
Reclassification	0	11	11
Exchange rate movements	0	0	0
Balance as of December 31, 2018	238	399	**637**
Accumulated amortization and impairment losses:			
Balance as of January 1, 2017	154	106	**260**
Amortization for the fiscal year	– 1	29	28
Changes in basis of consolidation	0	0	0
Disposals	0	0	0
Reclassifications from/to (–) assets held for sale	0	0	0
impairment losses	0	0	0
Reversals of impairment losses	0	0	0
Reclassification	0	0	0
Exchange rate movements	0	0	0
Balance as of December 31, 2017	153	135	**288**
Amortization for the fiscal year	15	40	55
Changes in basis of consolidation	0	0	0
Disposals	0	0	0
Reclassifications from/to (–) assets held for sale	0	0	0
impairment losses	0	0	0
Reversals of impairment losses	0	0	0
Reclassification	0	0	0
Exchange rate movements	0	0	0
Balance as of December 31, 2018	168	175	**343**
Carrying amount:			
Balance as of December 31, 2017	75	182	**257**
Balance as of December 31, 2018	70	224	**294**

Intangible assets relate to purchased and internally generated software with a finite useful life.

25 – Other Assets and Liabilities

Other Assets

in €m	Dec 31, 2018	Dec 31, 2017
Brokerage and securities-related receivables	278	270
Debt securities held to collect	5,470	N/A
Accrued interest receivable	290	452
Receivables from Deutsche Bank AG	290	73
Derivatives used as hedging instruments in fair value hedges	63	73
Receivables from collateral issued	998	0
Miscellaneous	578	525
Total	**7,967**	1,393

Other liabilities

in €m	Dec 31, 2018	Dec 31, 2017
Other short-term borrowings	278	147
Accrued interest payable	577	439
Liabilities from profit transfer for the fiscal year to Deutsche Bank AG	2,131	389
Derivatives used as hedging instruments in fair value hedges	1,314	595
Payroll-related commitments	1,309	1,404
Miscellaneous	1,030	2,112
Total	**6,639**	5,085

26 – Deposits

in €m	Dec 31, 2018	Dec 31, 2017
Non-interest-bearing demand deposits	110,268	99,032
Interest-bearing deposits		
Demand deposits	13,108	12,628
Term deposits	20,273	19,331
Savings deposits	57,549	59,094
Home savings deposits	24,787	25,027
Total interest-bearing deposits	115,717	116,080
Total	**225,985**	215,112

The home savings deposits include interest bonus liabilities of €835 million (previous year: €1,000 million) that must be paid to the home savings customers in the case of unutilized loans.

Arrangement fees to be reimbursed of €70 million (previous year: €62 million) were also recognized.

27 – Provisions

Changes by class of provisions

in €m	Loan loss allowances for off-balance-sheet exposures	Litigation and other operational risk	Restructuring	Other	Total
Balance as of January 1, 2017	39	184	443	195	**861**
Changes in basis of consolidation	0	0	0	0	0
Additions to provisions	8	31	351	44	434
Utilization of provisions	0	57	236	49	342
Reversals of provisions	25	28	104	41	198
Effects of exchange rate movements/unwinding of discounts	0	0	0	0	0
Transfers	0	0	0	– 1	– 1
Balance as of December 31, 2017	22	130	454	148	**754**
Effect of initial application of IFRS 9	11				11
Balance as of January 1, 2018	33	130	454	148	765
Changes in basis of consolidation	0	0	0	0	0
Additions to provisions	26	38	85	37	186
Utilization of provisions	0	67	59	31	157
Reversals of provisions	38	25	101	54	218
Effects of exchange rate movements/unwinding of discounts	0	0	0	0	0
Transfers	11	7	– 1	22	39
Balance as of December 31, 2018	32	83	378	122	**615**

The majority of the provisions are expected to be utilized in 2019 and 2020.

Classes of provisions

Provisions for credit risks of off-balance-sheet exposures are recognized for impairment of contingent liabilities and loan commitments.

Provisions for litigation and other operational risk amounting to €83 million are primarily related to risks in connection with revoked loan agreements and for legal actions and complaints about investment advice. Most of these latter legal actions and complaints relate to advice provided and transactions entered into in the area of closed-end funds, the distribution of which was discontinued in 2012. The amount also includes provisions for numerous claims brought by customers in relation to various matters. Since the legal proceedings are similar in nature, they have been grouped together.

Restructuring provisions relate to planned staff-related measures, reorganization of the sales organization, and efficiency measures as part of Strategy 2020.

Other provisions include provisions for interest on payments of tax arrears of €13 million (previous year: €13 million), for commission payments of €27 million (previous year: €21 million), for restoration costs of €24 million (previous year: €42 million), and for a large number of other items for which provisions must be recognized.

28 – Non-current Liabilities

in €m	Dec 31, 2018	Dec 31, 2017
Senior debt:	12,529	14,563
Bonds and notes		
Fixed rate	12,422	14,441
Floating rate	107	122
Subordinated debt:	1,626	1,223
Bonds and notes		
Fixed rate	382	1,033
Floating rate	1,244	190
Other	**15,798**	20,713
Total	**29,953**	36,499

29 – Equity and Capital Management

DB PFK AG's issued capital (€550 million) is composed of 275,000,000 no-par value registered shares. The issued capital of the former Postbank was transferred to additional paid-in capital in the course of the merger.

As a rule, premiums from the issue of shares are reported in additional paid-in capital. Direct contributions paid in by the parent company are also recognized in additional paid-in capital.

Undistributed profits from previous years and remeasurement gains/losses from defined benefit pension plans are generally reported in retained earnings, net of deferred taxes.

Gains or losses on the measurement of investment securities at fair value, net of deferred taxes, are reported in the FVOCI reserve. Any profit or loss is not recognized in the income statement until the asset has been sold or impairment has been identified.

Recognized equity increased by €1.0 billion to €8.1 billion in the fiscal year ended December 31, 2018.

DB Privat- und Firmenkundenbank AG is not a superordinate entity of a group of institutions within the meaning of section 10a(1) of the *Kreditwesengesetz* (KWG – German Banking Act) and is not subject to the requirements of the CRR (Capital Requirements Regulation) at subconsolidated level. As a subordinate entity of Deutsche Bank AG, DB PFK AG exercises the option in section 2a of the KWG in conjunction with Article 7(1) of the CRR (subsidiary waiver) under which it is not required to apply certain prudential requirements to the determination of own funds and capital requirements, large exposures, exposures to transferred credit risk, leverage, and disclosures on and certain requirements for risk management at single institution level. Pursuant to the requirements governing the approval of the subsidiary waiver under Article 7(1)(c) of the CRR, DB PFK and its subsidiaries are also included in Deutsche Bank AG's risk management system.

In order to safeguard capital adequacy at all times despite the waiver, the own funds requirements of the DB PFK subgroup defined for internal management purposes continue to be determined largely in accordance with the CRR as part of the risk and capital management in line with the legal and group-wide requirements, and are used for monitoring and internal management. In this context, targets were defined for CET1 and the leverage ratio for internal management purposes. The calculation of these internal thresholds is aligned with the minimum requirements of the CRR, the capital buffer requirements of CRD IV, additional potential capital expectations of supervisory authorities, and management buffers.

The internal management calculation of Tier 1 capital largely in compliance with the CRR is based on recognized equity, including the net income as of the relevant reporting date (net of the German GAAP net income to be transferred) for the prudential scope of consolidation at the level of the DB PFK subgroup established in compliance with the policies of Deutsche Bank Group. Adjusting Tier 1 capital for prudential filters and deductions, which are calculated to the greatest possible extent in compliance with the CRR, results in Common Equity Tier 1 Capital (CET1). At present, the DB PFK subgroup has not issued any capital instruments that would be classified as additional Tier 1 capital (AT1) under the CRR, so the CET1 used for internal management purposes is currently the same as Tier 1 capital. None of the transitional provisions contained in Part Ten, Title 1 of the CRR have been applied (fully phased-in).

For the purpose of managing DB PFK's operational capital, receivables from domestic subsidiaries in Deutsche Bank Group are assigned a risk weight of 0% in accordance with Article 113(6) of the CRR and excluded from the calculation of the leverage exposure in accordance with Article 429(7) of the CRR. The other items are mainly accounted for using the same methodologies and models that are used for regulatory reporting at the level of Deutsche Bank Group.

Based on the assumptions described above, the CET1 ratio calculated for the DB PFK subgroup's internal management is 12.6 % and the leverage ratio is 3.3 %.

Other Financial Information

30 – Contingent Liabilities and Other Commitments

Contingent liabilities arise from past events that will lead to possible future obligations. These obligations arise from the occurrence of uncertain future events whose settlement amount cannot be estimated with sufficient reliability.

in €m	Dec 31, 2018	Dec 31, 2017
Irrevocable lending commitments	11,738	11,092
Revocable lending commitments	19,253	19,803
Other contingent liabilities	979	1,484
Total	**31,970**	32,379

Other contingent liabilities mainly include obligations under guarantees and warranties, an irrevocable payment obligation to the deposit protection fund, and cash collateral for the bank levy.

On October 20, 2017, the Cologne District Court ruled in favor of the action for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 28, 2015, on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement. Deutsche Postbank AG filed an appeal against this decision with the Higher Regional Court in Cologne. The proceedings are being continued by DB PFK AG.

Contingencies and other obligations were reduced by the recognized loan loss allowance.

The amount and timing of utilization are often variable, particularly in the case of revocable lending commitments, guarantees, and warranties.

Other commitments

In accordance with section 16 of the *Postpersonalrechtsgesetz* (Deutsche Bundespost Former Employees Act), DB PFK AG pays an annual contribution for civil servant pensions to the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (BanstPT), Postbeamtenversorgungskasse (PVK) in the amount of 33 % of the gross compensation of its active civil servants and of the notional gross compensation of its civil servants on leave of absence who are eligible for pensions. DB PFK AG has no further obligations for benefits paid by the pension fund.

DB PFK AG ensures that, with the exception of political risk, its PB Factoring GmbH (Bonn) and BHW Bausparkasse AG (Hameln) subsidiaries will be able to meet their obligations.

The comfort letters issued in favor of creditors of subsidiaries of DB PFK AG primarily lead to benefits for the subsidiaries in the form of improved terms and conditions for business and finance. DB PFK AG profits from these benefits since they have a positive impact on the enterprise value of the subsidiaries concerned. Conversely, there is the possibility of the creditors having recourse against DB PFK AG.

DB PFK AG has issued subordinated comfort letters under the terms of issue of subordinated bonds issued by Deutsche Postbank Funding LLC I, II, and III, all of which are domiciled in Delaware, U.S.A.

DB PFK AG is a member of the deposit protection fund of the Bundesverband deutscher Banken e. V. and of Entschädigungseinrichtung deutscher Banken GmbH's investor compensation scheme.

31 – Maturity Analysis of the Earliest Contractual Undiscounted Cash Flows of Financial Liabilities

in €m	Overnight money	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
					Dec 31, 2018
Non-interest-bearing deposits	110,268	0	0	0	0
Interest-bearing deposits	13,108	80,881	7,480	6,592	7,656
Trading liabilities	0	0	0	0	0
Negative fair values from derivative financial instruments	3,689	0	0	0	0
Financial liabilities designated as at fair value	0	0	0	0	0
Investment contract liabilities	0	0	0	0	0
Negative fair values from derivative financial instruments qualifying for hedge accounting	1,300	2	1	3	8
Central bank funds purchased	0	0	0	0	0
Liabilities from securities resale agreements (repos)	0	1,135	0	0	0
Liabilities from securities lending	0	0	0	0	0
Other short-term borrowings	278	0	0	0	0
Non-current liabilities	0	960	2,822	10,609	15,562
Trust preferred securities	0	0	0	0	0
Other financial liabilities	501	48	0	0	7
Irrevocable lending commitments	11,739	0	0	0	0
Financial guarantees	693	0	0	0	0
Total	**141,576**	**83,026**	**10,303**	**17,204**	**23,233**

in €m	Overnight money	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
					Dec 31, 2017
Non-interest-bearing deposits	99,032	0	0	0	0
Interest-bearing deposits	66	82,083	7,682	12,497	13,752
Trading liabilities	0	0	0	0	0
Negative fair values from derivative financial instruments	6,812	0	0	0	0
Financial liabilities designated as at fair value	0	0	0	0	0
Investment contract liabilities	0	0	0	0	0
Negative fair values from derivative financial instruments qualifying for hedge accounting	592	1	0	1	1
Central bank funds purchased	0	0	0	0	0
Liabilities from securities resale agreements (repos)	0	2,757	0	0	0
Liabilities from securities lending	0	0	0	0	0
Other short-term borrowings	147	0	0	0	0
Non-current liabilities	0	949	753	14,409	20,388
Trust preferred securities	0	0	915	0	0
Other financial liabilities	478	42	0	0	7
Irrevocable lending commitments	11,093	0	0	0	0
Financial guarantees	943	0	0	0	0
Total	119,163	85,831	9,351	26,907	34,147

32 – Employee Benefits

Share-based payment plans

Deutsche Bank AG Group makes grants of share-based payments mainly under the DB Equity Plan. This plan represents a contingent right to receive Deutsche Bank common shares after a specified period of time. The award recipient is not entitled to receive dividends during the vesting period of the award.

The share awards granted under the terms and conditions of the DB Equity Plan may be forfeited fully or partly if the recipient voluntarily terminates employment before the end of the relevant vesting period. Vesting usually continues after termination of employment in cases such as redundancy or retirement.

The following table sets out the basic terms of these share-based payment plans.

Grant year(s)	Deutsche Bank Equity Plan	Vesting schedule	Eligibility
2018	Annual award (CIB)[1]	1/4: 12 months[2] 1/4: 24 months[2] 1/4: 36 months[2] 1/4: 48 months[2]	Select employees as annual performance-based payment
	Annual award (non-CIB)[1]	1/3: 12 months[2] 1/3: 24 months[2] 1/3: 36 months[2]	Select employees as annual performance-based payment
	Annual award (senior management)[1]	1/5: 12 months[2] 1/5: 24 months[2] 1/5: 36 months[2] 1/5: 48 months[2] 1/5: 60 months[2]	Members of the Management Boards or of the senior management
	Retention/ new hire	Individual specification	Select employees to attract and retain the best talent
	Annual award – upfront	Vesting immediately at grant[3]	Regulated employees
2017	Annual award[1]	1/4: 12 months[4] 1/4: 24 months[4] 1/4: 36 months[4] 1/4: 48 months[4]	Select employees as annual performance-based payment
		Cliff-vesting after 54 months[4]	Members of the Management Board or Senior Leadership Cadre
	Retention/ new hire	Individual specification	Select employees to attract and retain the best talent
	Annual award – upfront	Vesting immediately at grant[3]	Regulated employees
	Key Retention Plan (KRP)[5]	1/2: 50 months[6] 1/2: 62 months[6]	Material risk takers (MRTs)
		Cliff-vesting after 43 months	Non-material risk takers (non-MRTs)
2016	Annual award	1/4: 12 months[4] 1/4: 24 months[4] 1/4: 36 months[4] 1/4: 48 months[4]	Select employees as annual performance-based payment
		Cliff-vesting after 54 months[4]	Members of the Management Board or Senior Leadership Cadre
	Retention/new hire	Individual specification	Select employees to attract and retain the best talent
	Annual award – upfront	Vesting immediately at grant[3]	Regulated employees
	Key Position Award (KPA)[7]	Cliff-vesting after 4 years[3]	Select employees as annual retention award
2015/ 2014	Annual award	1/3: 12 months[4] 1/3: 24 months[4] 1/3: 36 months[4]	Select employees as annual performance-based payment
		Cliff-vesting after 54 months[4]	Members of the Management Board or Senior Management Group
	Retention/new hire	Individual specification	Select employees to attract and retain the best talent
	Annual award – upfront	Vesting immediately at grant[8]	Regulated employees

[1] For employees of certain Group companies, deferred equity is replaced by restricted shares due to local regulatory requirements.
[2] A further retention period of twelve months applies to members of the Management Board or Senior Management and all other regulated employees who are subject to the *Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten* (InstitutsVergV – Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions).
[3] For all regulated employees subject to InstitutsVergV, shares are delivered after a further retention period of twelve months. For remuneration components for 2018, this applies only to Material Risk Takers (MRTs) as defined in the InstitutsVergV.
[4] A further retention period of six months applies to members of the Management Board or of the Senior Leadership Cadre and all other regulated employees who are subject to the InstitutsVergV.
[5] The Key Retention Plan (KRP) is referred to as the “Retention Award Program” in the Bank’s Remuneration Report. Share-based payments granted under this program in January 2017 are subject to an additional share price hurdle, meaning that this award proportion only vests if the Bank’s share price reaches a certain share target price prior to vesting.
[6] For Material Risk Takers (MRTs), shares are delivered after a further retention period of twelve months.
[7] A predefined proportion of the individual’s KPA is subject to an additional share price hurdle, meaning that this award proportion only vests in the event that the Bank’s share price reaches a certain share target price prior to vesting.
[8] For members of the Management Board, shares are delivered after a further retention period of three years. For all other regulated employees who are subject to InstitutsVergV, shares are delivered after a further retention period of six months.

Furthermore, the Deutsche Bank AG Group offers a broad-based employee share ownership plan entitled Global Share Purchase Plan (“GSPP”). The GSPP offers employees the opportunity to purchase Deutsche Bank shares in monthly installments over one year. At the end of the purchase cycle, Deutsche Bank AG matches the acquired stock in a ratio of one to one up to a maximum of ten free shares, provided that the employee remains at the Group for another year. Approximately 4,440 employees are enrolled in the tenth cycle of this plan, which began in November 2018.

The following table shows the outstanding share award units as of the respective dates, which represent a contingent right to receive Deutsche Bank common shares after a specified period of time.

	Share units (in thousands)	Weighted-average grant date fair value per unit in €
Balance as of December 31, 2016	515	18,28
Balance as of December 31, 2017	835	13,49
Balance as of December 31, 2018	1,797	9,79

Of the approximately €18 million of the holdings of outstanding share award units outstanding as of December 31, 2018, approximately €14 million was recognized in the benefit expense for the reporting period and in the prior periods. The unrecognized benefit expense for outstanding share-based payments as of December 31, 2018, was therefore approximately €4 million.

In March 2019, share awards of approximately €0.04 million were issued to beneficiaries of previous grants under the Deutsche Bank Equity Plan.

Post-employment benefits

Nature of plans

The Group sponsors a number of post-employment benefit plans on behalf of its employees, both defined contribution plans and defined benefit plans. The Group’s plans are accounted for based on the nature and substance of the plan. Generally, for defined benefit plans the value of a participant’s accrued benefit is based on each employee’s remuneration and length of service. Contributions to defined contribution plans are typically based on a percentage of each employee’s remuneration. The rest of the disclosures in this Note focuses predominantly on the Group’s defined benefit plans.

	Dec 31, 2018	Dec 31, 2017
in €m	Total	Total
Defined benefit obligation related to		
Active plan participants	2,230	2,373
Participants in deferred status	930	915
Participants in payment status	2,207	2,136
Total defined benefit obligation	5,367	5,424
Total fair value of plan assets	4,682	4,745
Funding ratio (in %)	87 %	87 %

In Germany, post-employment benefits are usually agreed on a collective basis with employee works councils, trade unions, or similar bodies.

Post-employment benefits can form an important part of an employee's total remuneration. The Group's approach is that their design should be attractive to employees in the respective market, which can sustainable be provided by the Group over the longer term. At the same time, the Group tries to limit its risks related to provision of such benefits.

In the past the Group typically offered pension plans based on final salary prior to retirement. These types of benefits still form a significant part of the pension obligations for participants in deferred and payment status. Currently, the main defined benefit pension plans for active staff in Germany are cash account type plans where the Group credits an annual amount to individual accounts based on an employee's current salary. Dependent on the plan rules, the accounts increase either at a fixed interest rate or participate in market movements of certain underlying investments to limit the investment risk for the Group. Generally, there is a guaranteed benefit amount within the plan rules, e.g., payment of at least the amounts contributed. Upon retirement, beneficiaries may usually opt for a lump sum or for conversion of the accumulated account balance into an annuity. This conversion is often based on market conditions and mortality assumptions at retirement.

The following amounts of expected benefit payments from the Group's defined benefit plans include benefits attributable to employees' past and estimated future service, and include both amounts paid from the Group's external pension trusts and paid directly by the Group in respect of unfunded plans.

in €m	
Actual benefit payments 2018	173
Benefits expected to be paid 2019	176
Benefits expected to be paid 2020	181
Benefits expected to be paid 2021	188
Benefits expected to be paid 2022	199
Benefits expected to be paid 2023	210
Benefits expected to be paid 2024–2028	1,203
Weighted average duration of defined benefit obligation (in years)	15

Multi-employer plans

In Germany, the Group is a member of BVV Versicherungsverein des Bankgewerbes a.G. (BVV) together with other financial institutions. BVV offers retirement benefits to eligible employees in Germany as a complement to post-employment benefit promises of the Group. Both employers and employees contribute on a regular basis to BVV. BVV's plans provide for fixed pension payments with profit sharing. According to legislation in Germany, the employer is ultimately liable for providing the benefits to its employees. An increase in benefits may also arise due to additional obligations to retirees for the effects of inflation. The Group classifies the BVV plan as a defined benefit multi-employer plan and, in line with industry practice, accounts for it as a defined contribution plan since the information available is not sufficient to allocate the assets and the pension obligations to current and former employees to the individual member companies. This is mainly because BVV does not fully allocate its assets to either the beneficiaries or the member companies. According to BVV's disclosures, there is no current deficit in the plan that may affect the amount of future Group contributions. In June 2016, BVV's Annual General Meeting approved a reduction in benefits from future contributions for certain groups of employees. Similar to other participating companies, the Group committed to make up for reduced benefit levels by increasing contributions to BVV from January 1, 2017. A corresponding works agreement was signed with the German works council.

The Group's expenses for defined contribution plans also include annual contributions by DB PFK to the pension fund for postal civil servants in Germany. Responsibility for the liability for these benefits lies with the German government.

Governance and risk

Deutsche Bank maintains a Pensions Risk Committee to oversee its pension and related risks on a global basis. This Committee meets quarterly, reports directly to the Senior Executive Compensation Committee and is supported by the Pensions Operating Committee.

Within this context, the Group develops and maintains policies for governance and risk management, including funding, asset allocation and actuarial assumption setting. In this regard, risk management means the management and control of risks for the Group related to market developments (e. g., interest rate, credit spreads, price inflation), asset investment, regulatory or legislative requirements, as well as monitoring demographic changes (e. g., longevity). Especially during and after acquisitions or changes in the external environment (e. g., legislation, taxation), topics such as the general plan design or potential plan amendments are considered. Any plan changes follow a process requiring approval by Group Human Resources. To the extent that pension plans are funded, the assets held mitigate some of the liability risks, but introduce investment risk.

The Group's post-employment benefit plan risk exposures relate to potential changes in credit spreads, interest rates, price inflation and longevity, although these have been partially mitigated through the investment strategy adopted.

Overall, the Group seeks to minimize the impact of pensions on the Group's financial position from market movements, subject to balancing the trade-offs involved in financing post-employment benefits, regulatory capital and constraints from local funding or accounting requirements. The Group measures its pension risk exposures on a regular basis using specific metrics developed by the Group for this purpose.

Funding

The Group maintains an external pension trust to fund the majority of its defined benefit plan obligations. The Group's funding policy is to maintain coverage of the defined benefit obligation by plan assets within a range of 90 % to 100 % of the obligation, subject to meeting any local statutory requirements.

There are local minimum funding requirements for most of the externally funded defined benefit plans. The Group can decide on any additional plan contributions, with reference to the Group's funding policy. With reference to the Group's funding policy, the Group considers not reclaiming benefits paid from the Group's assets as an equivalent to making cash contributions into the external pension trusts during the year.

Actuarial methodology and assumptions

December 31 is the measurement date for all plans. All plans are valued by independent qualified actuaries using the projected unit credit method. A Group policy provides guidance to local actuaries to ensure consistency globally on setting actuarial assumptions which are finally determined by the Group's Pensions Operating Committee. Senior management is regularly informed about the actuarial assumptions.

The key actuarial assumptions applied in determining the defined benefit obligations at December 31 are presented below in the form of weighted averages.

	Dec 31, 2018	Dec 31, 2017
Discount rate	1.7 %	1.7 %
Inflation rate	1.6 %	1.8 %
Rate of nominal increase in future salary levels	2.1 %	2.3 %
Rate of nominal increase for pensions in payment	1.5 %	1.7 %
Assumed life expectancy at age 65		
For a male aged 65 at measurement date	20.0 years	19.2 years
For a female aged 65 at measurement date	23.6 years	23.3 years
For a male aged 45 at measurement date	22.8 years	21.9 years
For a female aged 45 at measurement date	25.8 years	25.8 years
Mortality tables applied	Heubeck tables 2018G	Heubeck tables 2005G

The discount rate used at each measurement date is calculated based on a high quality corporate bond yield curve – derived based on bond universe information sourced from reputable third-party index and data providers and rating agencies – reflecting the timing, amount, and currency of the future expected benefit payments for the respective plan. For longer durations where limited bond information is available, reasonable yield curve extrapolation methods are applied using respective actual swap rates and credit spread assumptions.

The price inflation assumptions are set with reference to market measures of inflation in the eurozone based on inflation swap rates in those markets at each measurement date.

The assumptions for the increases in future salary levels and for increases to pensions in payment are based on the price inflation assumption and reflect the Group's reward structure or policies in each market, as well as relevant statutory and plan-specific requirements.

Among other assumptions, mortality assumptions can be significant in measuring the Group's obligations under its defined benefit plans and are based as of December 31, 2018, for the first time on the Heubeck 2018G mortality tables. These mortality tables reflect the latest statistics published by the statutory pension insurance agencies in Germany and the Federal Statistical Office.

Reconciliation in movement of liabilities and assets – impact on financial statements

in €m	2018	2017
Change in present value of defined benefit obligation		
Balance, beginning of year	**5,424**	5,360
Defined benefit cost recognized in profit or loss		
Current service cost	98	99
Interest expense	91	90
Past service cost and gain or loss arising from settlements	−45	16
Defined benefit cost recognized in other comprehensive income		
Actuarial gain or loss arising from changes in financial assumptions	−72	49
Actuarial gain or loss arising from changes in demographic assumptions	44	0
Experience-based actuarial gains or losses	6	−15
Cash flow and other changes		
Contributions by plan participants	3	3
Benefits paid	−173	−161
Payments in respect of settlements	0	0
Acquisitions/disposals	0	0
Exchange rate movements	0	0
Other[1]	−9	−17
Balance, end of year	**5,367**	5,424
of which:		
unfunded	0	0
funded	5,367	5,424
Change in fair value of plan assets		
Balance, beginning of year	**4,745**	4,785
Defined benefit cost recognized in profit or loss		
Interest income	81	81
Defined benefit cost recognized in other comprehensive income		
Return on plan assets less amount recognized in income statement	−127	−113
Cash flow and other changes		
Contributions by plan participants	3	3
Contributions by employer	162	166
Benefits paid[2]	−173	−160
Payments in respect of settlements	0	0
Acquisitions/disposals	0	0
Exchange rate movements	0	0
Other[1]	−9	−17
Plan administration costs	0	0
Balance, end of year	**4,682**	4,745
Funded status, end of year	**−685**	−679
Change in irrevocable surplus (asset ceiling)		
Balance, beginning of year	**0**	0
Interest expense	0	0
Changes in irrevocable surplus	0	0
Exchange rate movements	0	0
Balance, end of year	**0**	0
Net asset (liability) recognized	**−685**	−679
of which recognized as:		
Other assets	0	0
Other liabilities	685	679
Assets held for sale/liabilities associated with assets held for sale	0	0
Present value of reimbursement rights	**0**	0

[1] Transfers to other DB Group companies.
[2] For funded plans only.

The Group does not have reimbursement rights from defined benefit plans.

Investment strategy

The Group's investment objective is to protect the Group from adverse impacts of its defined benefit pension plans on key financial metrics. In the past, the primary focus has been on protecting the plans' IFRS funded status in the case of adverse market scenarios. Recently there has been a shift in the investment strategy in selected markets to balance competing key financial metrics. Investment managers manage pension assets in line with investment mandates or guidelines as agreed with the pension plans' trustees and investment committees.

For key defined benefit plans for which the Bank aims to protect the IFRS funded status, the Group applies a liability driven investment (LDI) approach. Risks from mismatches between fluctuations in the present value of the defined benefit obligations and plan assets due to capital market movements are minimized, subject to balancing relevant trade-offs. This is achieved by allocating plan assets closely to the market risk factor exposures of the pension liability to interest rates, credit spreads, and inflation. Plan assets broadly reflect the underlying risk profile and currency of the pension obligations. For pension plans where the LDI approach may impact adversely other key financial metrics, the Group deviates from this primary investment strategy. For example, in 2015, the Group started to adjust the investment strategy for the German main pension plan assets by reducing the interest rate and credit spread hedges. The Group closely monitors this divergence from the primary investment strategy and has put in place governance mechanisms to ensure a regular review of the deviation from the LDI approach.

Where the desired hedging level for market risks cannot be achieved with physical instruments (i.e., corporate and government bonds), derivatives are employed. Derivative overlays mainly include interest rate, inflation, and credit default swaps. Other instruments are also used, such as interest rate futures and options. In practice, a completely hedged approach is impractical, for instance because of insufficient market depth for ultra-long-term corporate bonds, as well as liquidity and cost considerations. Therefore, plan assets contain further asset categories to create long-term return enhancement and diversification benefits such as equity, real estate, high yield bonds, or emerging markets bonds.

Plan asset allocation to key asset classes

The following table shows the asset allocation of the Group's funded defined benefit plans to key asset classes, i. e., exposures include physical securities in discretely managed portfolios and underlying asset allocations of any commingled funds used to invest plan assets.

Asset amounts in the following table include both "quoted" (i.e., Level 1 assets in accordance with IFRS 13 – amounts invested in markets where the fair value can be determined directly from prices which are quoted in active, liquid markets) and "other" (i.e., Level 2 and 3 assets in accordance with IFRS 13) assets.

	Dec 31, 2018		Dec 31, 2017	
in €m	Total	of which quoted in active markets	Total	of which quoted in active markets
Cash and cash equivalents	361	367	392	390
Equity instruments[1]	314	273	312	312
Investment-grade bonds[2]				
Government bonds	743	414	1,016	639
Non-government bonds	2,703	0	2,554	0
Non-investment-grade bonds				
Government bonds	48	1	48	1
Non-government bonds	44	0	0	0
Structured products	38	0	41	0
Insurance	0	0	0	0
Alternatives				
Real estate	97	0	70	0
Commodities	14	0	6	0
Equity investments	54	0	58	0
Other	409	0	450	0
Derivatives (fair value)				
Interest rate	12	0	–17	0
Credit risk	3	0	–42	0
Inflation	–162	0	–146	0
Foreign exchange	4	0	3	0
Other	0	0	1	1
Total fair value of plan assets	**4,682**	**1,055**	4,745	1,343

[1] Allocation of equity exposure is broadly in line with the typical index in the respective market, e.g., the equity portfolio's benchmark of the UK retirement benefit plans is the MSCI All Countries World Index.
[2] Investment-grade means BBB and above. Average credit rating exposure for the Group's main plans is around A.

The following tables show the asset allocation of the Group's "quoted" and "other" defined benefit plan assets by key geography in which they are invested.

in €m	Germany	United Kingdom	United States	Other eurozone countries	Other developed countries	Emerging economies	Dec 31, 2018 Total
Cash and cash equivalents	39	2	11	306	2	1	361
Equity instruments	65	15	70	77	81	6	314
Investment-grade government bonds	361	0	5	210	66	101	743
Non-investment-grade government bonds	0	0	0	1	5	42	48
Investment-grade non-government bonds	374	198	596	1,370[1]	155	10	2,703
Non-investment-grade non-government bonds	0	0	0	44	0	0	44
Structured products	38	0	0	0	0	0	38
Subtotal	**877**	**215**	**682**	**2,008**	**309**	**160**	**4,251**
Share	21 %	5 %	16 %	47 %	7 %	4 %	100 %
Other asset categories							431
Fair value of plan assets							**4,682**

[1] The majority of this amount relates to French, Italian and Dutch corporate bonds.

in €m	Germany	United Kingdom	United States	Other eurozone countries	Other developed countries	Emerging economies	Dec 31, 2017 Total
Cash and cash equivalents	6	0	10	373	1	2	392
Equity instruments	83	11	96	38	72	12	312
Investment-grade government bonds	607	0	0	225	69	115	1,016
Non-investment-grade government bonds	0	0	0	3	6	39	48
Investment-grade non-government bonds	349	219	607	1,242[1]	125	12	2,554
Non-investment-grade non-government bonds	0	0	0	0	0	0	0
Structured products	41	0	0	0	0	0	41
Subtotal	1,086	230	713	1,881	273	180	4,363
Share	25 %	5 %	16 %	43 %	6 %	4 %	100 %
Other asset categories							382
Fair value of plan assets							4,745

[1] The majority of this amount relates to French, Italian and Dutch corporate bonds.

Plan assets at December 31, 2018, include derivative transactions with Group counterparties with a negative fair value of €198 million (previous year: €203 million). There is neither a material amount of securities issued by the Group nor other claims on Group assets included in the fair value of plan assets. The plan assets do not include any real estate which is used by the Group.

In addition, the Group estimates and allows for uncertain income tax positions which may have an impact on the Group's plan assets. Significant judgment is required in making these estimates and the Group's final net liabilities may ultimately be materially different.

Key risk sensitivities

The defined benefit obligations are sensitive to changes in capital market conditions and actuarial assumptions. Sensitivity to capital market movements and key assumption changes are presented in the following table. Each market risk factor and assumption is changed in isolation. Sensitivities of the defined benefit obligations are approximated using geometric extrapolation methods based on plan durations for the respective assumption. Duration is a risk measure that indicates the broad sensitivity of the obligations to a change in an underlying assumption and provides a reasonable approximation for small to moderate changes in those assumptions.

For example, the discount rate duration is derived from the change in the defined benefit obligation to a change in the discount rate based on information provided by the local actuaries of the respective plans. The resulting duration is used to estimate the remeasurement liability loss or gain from changes in the discount rate. For other assumptions, a similar approach is used to derive the respective sensitivity results.

For defined benefit pension plans, changes in capital market conditions will impact the plan obligations via actuarial assumptions – mainly discount rate and price inflation rate – as well as the plan assets. Where the Group applies a LDI approach, the Bank’s overall exposure to changes is reduced. Consequently, to aid understanding of the Group’s risk exposures related to key capital market movements, the net impact of the change in the defined benefit obligations and plan assets due to a change of the related market risk factor or underlying actuarial assumption is shown; for sensitivities to changes in actuarial assumptions that do not impact the plan assets, only the impact on the defined benefit obligations is shown.

Asset-related sensitivities are derived for the Group’s major plans by using risk sensitivity factors determined by the Group’s Market Risk Management function. These sensitivities are calculated based on information provided by the plans’ investment managers and extrapolated linearly to reflect the approximate change of the plan assets’ market value in case of a change in the underlying risk factor.

The sensitivities illustrate plausible variations over time in capital market movements and key actuarial assumptions. The Group is not in a position to provide a view on the likelihood of these capital market or assumption changes. While these sensitivities illustrate the overall impact on the funded status of the changes shown, the significance of the impact and the range of reasonable possible alternative assumptions may differ between the different plans that comprise the aggregated results. Even though plan assets and plan obligations are sensitive to similar risk factors, actual changes in plan assets and obligations may not fully offset each other due to imperfect correlations between market risk factors and actuarial assumptions. Caution should be used when extrapolating these sensitivities due to non-linear effects that changes in capital market conditions and key actuarial assumptions may have on the overall funded status. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in these sensitivities.

in €m	Dec 31, 2018	Dec 31, 2017
Discount rate (–50 bp):		
(Increase) in DBO	–420	–440
Expected increase in plan assets	185	170
Expected net impact on funded status (decrease) increase	–235	–270
Discount rate (+50 bp):		
Decrease in DBO	385	395
Expected (decrease) in plan assets	–185	–170
Expected net impact on funded status (decrease) increase	200	225
Credit spread (–50 bp):		
Decrease in DBO	–420	–440
Expected (decrease) in plan assets	115	90
Expected net impact on funded status (decrease) increase	–305	–350
Credit spread (+50 bp):		
Decrease in DBO	385	395
Expected (decrease) in plan assets	–115	–90
Expected net impact on funded status (decrease) increase	270	305
Rate of price inflation (–50 bp):[1]		
Decrease in DBO	175	180
Expected (decrease) in plan assets	–50	–45
Expected net impact on funded status (decrease) increase	125	135
Rate of price inflation (+50 bp):[1]		
(Increase) in DBO	–185	–195
Expected increase in plan assets	50	45
Expected net impact on funded status (decrease) increase	–135	–150
Rate of real increase in future salaries (–50 bp):		
Decrease in DBO	40	45
Rate of real increase in future salaries (+50 bp):		
(Increase) in DBO	–45	–50
Longevity improvement by 10 %:[2]		
(Increase) in DBO	–135	–140

[1] Incorporates sensitivity to changes in pension benefits to the extent linked to the price inflation assumption.
[2] Estimated to be equivalent to an increase of around 1 year in overall life expectancy.

Expected cash flows

The following table shows expected cash flows for post-employment benefits in 2019, including contributions to the Group's external pension trusts in respect of funded plans, direct payment to beneficiaries in respect of unfunded plans, as well as contributions to defined contribution plans.

in €m	2019
Expected contributions to	
Defined benefit plan assets	160
BVV	30
Pension fund for Postbank's postal civil servants	90
Other defined contribution plans	5
Expected benefit payments for unfunded defined benefit plans	0
Expected total cash flow related to post-employment benefits	**285**

Employee benefits expense

The following table presents a breakdown of specific expenses according to the requirements of IAS 19 and IFRS 2.

in €m	2018	2017
Expenses for defined benefit plans		
Service cost	53	115
Net interest expense (income)	10	9
Total expenses for defined benefit plans	**63**	124
Expenses for defined contribution plans		
BVV	29	31
Pension fund for Postbank's postal civil servants	88	93
Other defined contribution plans	3	5
Total expenses for defined contribution plans	**120**	129
Total expenses for post-employment benefit plans	**183**	253
Employer contributions to mandatory German social security pension insurance	**138**	143
Expenses for equity-settled share-based payments[1]	12	5
Expenses for cash-settled share-based payments[1]	0	0
Expenses for cash retention plans[1]	7	2
Expenses for severance payments[2]	43	19

[1] Including expenses for new hire awards and the acceleration of expenses not yet amortized due to the discontinuation of employment, and including those amounts which are recognized as part of the Group's restructuring expenses.

[2] Excluding the acceleration of expenses for deferred compensation awards not yet amortized.

33 – Income Taxes

Income taxes in the Group were composed of the following items:

in €m	Dec 31, 2018	Dec 31, 2017
Current tax expense (benefit)		
Tax expense (benefit) for the current year	54	65
Adjustments for prior years	–17	–15
Total current tax expense (benefit)	37	50
Deferred tax expense (benefit)		
Temporary differences	25	–28
Tax loss carryforwards	–15	–24
Total deferred tax expense (benefit)	10	–52
Total	47	–2

The following reconciliation illustrates the relationship between profit before tax and income tax expense/income:

in €m	Dec 31, 2018	Dec 31, 2017
Income before tax	1,053	704
Applicable tax rate	31.28 %	31.28 %
Notional income tax	329	220
Tax effects		
from changes in tax rate	–1	0
from different effective tax rates in Germany and abroad	4	–1
from non-deductible expenses	21	23
from tax-exempt income	–21	–18
due to add-backs/deductions for local income tax	4	4
from tax group	–289	–192
from changes in valuation adjustments on/non-recognition of deferred tax assets	9	–14
for prior-period current and deferred taxes	–9	–24
Other	0	0
	–282	–222
Income tax expense (benefit)	47	–2

The Group’s tax rate is 31.28 %. This comprises corporate income tax of 15 % plus the 5.5 % solidarity surcharge, and trade tax of 15.45 %.

Primary components of deferred tax assets and liabilities

in €m	Dec 31, 2018	Dec 31, 2017
Deferred tax assets		
Trading assets/liabilities	266	249
Loans	31	61
Securities (measurement)	1	18
Property and equipment	9	11
Other assets	26	46
Liabilities	93	105
Provisions	192	195
Other liabilities	0	1
	618	686
Tax loss carryforwards	43	28
Offset against deferred tax liabilities	342	463
Total	**319**	251

The deferred tax assets for tax loss carryforwards are primarily attributable to the German subsidiaries of DB Privat- und Firmenkundenbank AG. As a result of tax planning opportunities, the companies will probably generate sufficient taxable profit to allow them to use losses from prior periods.

Deferred taxes of €2 million were recognized as income in other comprehensive income. Deferred taxes of €90 million were recognized directly in equity because of the effect of the initial application of IFRS 9.

In the reporting period, deferred tax assets for temporary differences amounting to €10 million and for tax loss carryforwards not limited in time of €31 million were not recognized.

in €m	Dec 31, 2018	Dec 31, 2017
Deferred tax liabilities		
Trading assets/liabilities	133	174
Loans	130	192
Securities (measurement)	2	6
Property and equipment	6	6
Other assets	37	43
Liabilities	5	7
Provisions	37	37
Other liabilities	1	21
	351	486
Offset against deferred tax assets	342	463
Total	**9**	23

34 – Current and Non-current Assets and Liabilities

Assets

in €m	Recovery or settlement in 2019	Recovery or settlement after 2019	Total Dec 31, 2018
Cash and central bank balances	20,130	0	20,130
Interbank balances (w/o central banks)	42,731	0	42,731
Central bank funds sold and securities purchased under resale agreements (reverse repos)	298	0	298
Receivables from securities lending	0	0	0
Financial assets at fair value	1,576	3,429	5,005
Financial assets at fair value through other comprehensive income	3,240	5,559	8,799
Equity method investments	0	0	0
Loans	13,385	176,363	189,748
Property and equipment	0	813	813
Intangible assets	0	294	294
Other assets	2,812	5,155	7,967
Current tax assets	12	0	12
Total assets, before deferred tax assets	**84,184**	**191,613**	**275,797**
Deferred tax assets			319
Total assets			**276,116**

in €m	Recovery or settlement in 2018	Recovery or settlement after 2018	Total Dec 31, 2017
Cash and central bank balances	14,451	0	14,451
Interbank balances (w/o central banks)	43,961	0	43,961
Central bank funds sold and securities purchased under resale agreements (reverse repos)	871	0	871
Receivables from securities lending	0	0	0
Financial assets at fair value	432	8,952	9,384
Financial assets available for sale	4,213	12,962	17,175
Equity method investments	0	0	0
Loans	17,951	168,300	186,251
Property and equipment	0	1,013	1,013
Intangible assets	0	257	257
Other assets	1,393	0	1,393
Current tax assets	69	5	74
Total assets, before deferred tax assets	83,341	191,489	274,830
Deferred tax assets			251
Total assets			275,081

Liabilities

in €m	Recovery or settlement in 2019	after 2019	Total Dec 31, 2018
Deposits	211,737	14,248	225,985
Central bank funds purchased and securities sold under resale agreements (repos)	1,135	0	1,135
Liabilities from securities lending	0	0	0
Financial liabilities at fair value	3,689	0	3,689
Other liabilities	5,312	1,327	6,639
Provisions	273	342	615
Current tax liabilities	26	9	35
Non-current liabilities	3,782	26,171	29,953
Trust preferred securities	0	0	0
Obligation to purchase own shares	0	0	0
Total liabilities, before deferred tax liabilities	**225,954**	**42,097**	**268,051**
Deferred tax liabilities			9
Total liabilities			**268,060**

in €m	Recovery or settlement in 2018	nach 2018	Total Dec 31, 2017
Deposits	188,863	26,249	215,112
Central bank funds purchased and securities sold under resale agreements (repos)	2,757	0	2,757
Liabilities from securities lending	0	0	0
Financial liabilities at fair value	6,812	0	6,812
Other liabilities	2,827	2,258	5,085
Provisions	393	361	754
Current tax liabilities	38	1	39
Non-current liabilities	1,702	34,797	36,499
Trust preferred securities	915	0	915
Obligation to purchase own shares	0	0	0
Total liabilities, before deferred tax liabilities	204,307	63,666	267,973
Deferred tax liabilities			23
Total liabilities			267,996

35 – Derivative Financial Instruments

Derivative financial instruments and hedging activities

Derivative contracts used by the Group include swaps, forwards, options, and interest rate caps and floors. In the normal course of business, the Group enters into a variety of derivative transactions, mainly for hedging purposes and, to a limited extent for sales, market-making and hedging purposes. As part of its ordinary business activities, the Group uses derivatives for risk management purposes. It also enters into derivatives for interest rate and currency management (customer business) to a limited extent.

In accordance with the Group's accounting policy relating to derivatives and hedge accounting as described in Note 2, all derivatives are carried at fair value in the balance sheet.

Derivatives held for sale and market-making

Sales and market-making

The majority of the Group's derivatives transactions relate to sales and market-making activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify, or reduce current or future risks. Market-making involves quoting bid and offer prices to other market participants, enabling revenue to be generated based on spreads and volume.

Derivatives qualifying for hedge accounting

The Group applies hedge accounting to derivatives that meet the criteria described in Note 2 (e).

Risk management

The majority of the Group's derivatives transactions relate to its asset and liability management, in which derivatives are entered into for hedging purposes in order to reduce market interest rate risk. It does so by hedging specific portfolios of fixed-rate financial instruments and by strategically hedging the entire balance sheet risk. The Group actively manages interest rate risk through the use of derivative contracts, among other things. The use of derivative financial instruments is modified from time to time within prescribed limits in response to changing market conditions, as well as to changes in the characteristics and mix of the related assets and liabilities.

Hedging transactions are only entered into to hedge interest rate risk using fair value hedges, both as microhedges and as portfolio hedges. In the case of portfolio hedges, mortgage finance cash flows are designated as underlyings and hedged against interest rate risk. The hedging relationship is designated with a one-month term and managed using basis point value analysis. The hedge ratio is calculated as the ratio of the cash flow of the risk to be controlled to the total cash flow of the portfolio per maturity bucket. The disclosures on risk management made above also apply to these hedging relationships.

The hedging relationships are generally highly effective, so that any ineffectiveness during the term of the hedge can probably only arise from the methodology of retrospective effectiveness measurement with regression analysis towards the maturity of the underlying.

Fair value hedges

In fiscal year 2018, the Group entered exclusively into fair value hedges using interest rate swaps and cross-currency swaps in order to protect itself against movements in market interest rates.

	Dec 31, 2018		Dec 31,2017	
in €m	Assets	Liabilities and Equity	Assets	Liabilities and Equity
Derivatives used as hedging instruments in fair value hedges	63	1,314	73	595

In fiscal year 2018, the Group recognized a loss of €199 million (previous year: gain of €166 million) on hedging instruments. In the same period, gains from hedged items attributable to the hedged risk amounted to €104 million (previous year: loss of €347 million). Hedging gains and losses are reported separately in other income.

The following tables show the financial instruments included in hedging relationships:

Hedged items

in €m	Carrying amount	Adjustments to carrying amounts from current hedg-ing relationships	Changes in value relating to hedged risk	Cumulative amount from hedged risk for terminated hedging relation-ships
				Dec 31, 2018
Financial assets at fair value through other comprehensive income	3,332	125	– 18	8
Loans at amortized cost included in microhedges	2,733	207	9	1
Loans at amortized cost included in portfolio hedges	13,731	– 100	10	472
Other assets, securities in the “Hold” business model at amortized cost	1,782	38	21	– 1
Deposits included in portfolio hedges	2,794	8	–	–
Non-current liabilities	4,986	212	82	267
Total	**29,357**	**490**	**104**	**747**

Hedging instruments

in €m	Notional amounts	Carrying amounts before netting	Change in value of hedging instrument in the period
			Dec 31, 2018
Financial assets at fair value through profit or loss	10,498	265	– 100
Financial liabilities at fair value through profit or loss	36,975	1,756	– 99
Total	**47,473**	**2,021**	**– 199**

Hedging gains and losses are reported separately in other income. The following overview shows the corresponding items.

Hedging gains and losses

in €m	Dec 31, 2018
Financial assets at fair value through other comprehensive income	–
Loans at amortized cost included in microhedges	–
Loans at amortized cost included in portfolio hedges	– 96
Other assets, securities in the “Hold” business model at amortized cost	–
Deposits	–
Non-current liabilities	1
Total	**– 95**

Hedging gains and losses reflect permitted ineffectiveness in the individual hedges. This results from changes in the fair value of hedged items and hedging instruments that do not offset perfectly.

36 – Significant Restrictions on Access to or Use of the Group's Assets

The transfer of assets within a group can be restricted by legal, regulatory, or contractual provisions. Within the DB PFK Group, this affects assets of €13,925 million (previous year: €15,506 million) that are used to cover collateralized issues (*Pfandbriefe*), assets of €1,060 million (previous year: €2,596 million) that are used as collateral in securities resale agreements, development loans of €12,680 million (previous year: €12,926 million) that were originated under dedicated funding programs, and assets of €43million (previous year: €779 million) that are furnished for clearing margins.

The Group furnished margins of €832 million (previous year: €706 million) for the OTC derivatives exposure.

In addition, assets in the amount of €118 million (previous year: €84 million) also serve to cover irrevocable payment obligations.

In addition, DB PFK furnished assets of €42,499 million (previous year: €46,847 million) as collateral for refinancing operations of Deutsche Bank Group.

In addition, some Group companies are subject to legal restrictions on the distribution of profits in particular in accordance with section 268(8) and section 253(6) of the *Handelsgesetzbuch* (HGB – German Commercial Code) and with respect to minimum capital requirements. However, the Group considers these restrictions to be insignificant.

37 – Related Party Transactions

In addition to the companies included in the consolidated financial statements, in the course of its ordinary business activities, DB PFK has direct or indirect relationships with Deutsche Bank AG, which controls DB PFK, and with a relatively small number of subsidiaries not included in DB PFK's consolidated financial statements. Other related parties are Deutsche Bank AG's subsidiaries, the associates and joint ventures of DB PFK and Deutsche Bank, and their subsidiaries. Related parties are defined as key management personnel (Management Board and Supervisory Board) of DB PFK AG and of Deutsche Bank AG, and the close members of their families. In the course of business activities, all transactions for the provision of goods and services entered into with the aforementioned companies and persons were conducted at standard market terms and conditions.

Transactions between Deutsche Bank AG and its subsidiaries meet the definition of related party transactions. If these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

All related party entities included in DB PFK's basis of consolidation are listed in Note 4.

Control and profit and loss transfer agreement

There is a control and profit and loss transfer agreement between DB PFK AG as the dependent company and Deutsche Bank AG, Frankfurt am Main, as the controlling company. The control and profit and loss transfer agreement can be terminated within one year.

Transactions with parent, subsidiaries, and other companies

Assets

in €m	Dec 31, 2018	Dec 31, 2017
Deposits		
Deutsche Bank AG	42,443	43,686
Other related parties	75	165
Central bank funds sold and securities purchased under resale agreements (reverse repos)		
Deutsche Bank AG	38	0
Financial assets at fair value through profit or loss		
Deutsche Bank AG	4,232	4,851
Loans at amortized cost		
Deutsche Bank AG	1,492	2,020
Other related parties	64	65
Other assets		
Deutsche Bank AG	1,498	256
Other related parties	43	28

Liabilities and equity

in €m	Dec 31, 2018	Dec 31, 2017
Deposits		
Deutsche Bank AG	0	10
Subsidiaries	12	11
Other related parties	1,689	1,589
Central bank funds purchased and securities sold under resale agreements		
Deutsche Bank AG	1,135	2,757
Financial liabilities at fair value through profit or loss		
Deutsche Bank AG	4,856	5,684
Other non-current liabilities		
Deutsche Bank AG	15,462	20,114
Other related parties	1,100	0
Other liabilities		
Deutsche Bank AG	2,673	668
Other related parties	4	7

Other liabilities to Deutsche Bank AG contain the effects amounting to €2,132 million (as of December 31, 2017: €389 million) from the control and profit and loss transfer agreement that correspond to the German GAAP net income for the reporting period and were recognized in retained earnings.

Statement of Income

in €m	2018	2017
Net interest income		
Deutsche Bank AG	–301	–180
Other related parties	–44	–25
Net commissions and fee income		
Deutsche Bank AG	58	55
Other related parties	144	139
Net gains (losses) on financial assets/liabilities at fair value through profit or loss		
Deutsche Bank AG	–158	–104
Other income (loss)		
Deutsche Bank AG	–555	–624
Subsidiaries	–11	1
Other related parties	–163	–22

As of December 31, 2018, there were also contingent liabilities to Deutsche Bank AG of €109 million (as of December 31, 2017: €105 million).

Transactions with key management personnel

As of the reporting date, DB PFK had granted loans of €43 million to key management personnel and had received deposits of €5 million from key management personnel. In addition, the Group provides banking services, such as payment transaction and account services as well as investment advice, to key management personnel and their close family members.

The following table shows the benefit expense arising in the reporting period (or in the period in which the person in question was a member of the Management Board) in conjunction with the remuneration of the members of the Management Board of DB PFK AG pursuant to IAS 24.17. In some cases, the remuneration was paid by Deutsche Bank AG.

in €m	2018	2017
Short-term employee benefits ;	7	2
Post-employment benefits	1	0
Other long-term benefits ;	3	0
Termination benefits	2	0
Share-based payments	4	1
Total remuneration under IAS 24.17	18	4

The total remuneration of the members of the Supervisory Board for the reporting period (or the period in which the member in question belonged to the Supervisory Board) amounting to €0.1 million (previous year: €0.1 million) is classified as a short-term benefit under IAS 24.17.

The Supervisory Board members received remuneration of €0.8 million in the reporting period (previous year: €0.9 million), as set out in their respective employment contracts.

38 – Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. A structured entity often has the following features: restricted activities, a narrow and well-defined objective, insufficient equity, and financing that creates concentrations of credit or other risks.

Relationships with structured entities include contractual and non-contractual business relationships that expose the Bank to variable positive and/or negative returns from the performance of the structured entity.

Relationships with consolidated structured entities

There are currently no contractual arrangements that provide financial support to consolidated structured entities. In the reporting period, the Bank did not provide any non-contractual financial support to the unconsolidated structured entities, nor does it intend to do so.

Relationships with unconsolidated structured entities

In the area of commercial real estate finance, the Bank has, among other things, lending relationships with real estate investment vehicles, whose purpose is the holding and rental of commercial real estate primarily in Germany and Europe, and with national and international real estate funds (“Commercial Real Estate Finance” category). The real estate is equity and debt-financed. As a rule, real estate investment vehicles use a higher proportion of debt capital.

Relationships with structured entities also include the securities that have been issued by structured entities (e. g., securitization vehicles) (“Other” category) and fund certificates/shares (“Funds” category) held by the Group.

The maximum exposure to loss shown is the highest potential loss to which the Bank could be exposed as a result of its relationships with structured entities. The maximum exposure to loss from transactions measured at cost comprises the carrying amount and the value of the Bank's off-balance sheet liabilities from its relationships with structured entities. The maximum exposure to loss is shown without taking account of collateral received.

The size of the structured entities is determined based on the following measures:

– Commercial real estate finance and funds: total assets of the structured entity

– Other: notional amounts of the notes issued.

				Jan–Dec 2018
in €	Commercial real estate	Funds	Other	Total
Assets				
Loans at amortized cost	7,214			7,214
Financial assets at fair value through profit or loss		247		247
Other assets		14		14
Maximum exposure to loss	7,473	261		7,734
Loans at amortized cost	7,214			7,214
Financial assets at fair value through profit or loss		247		247
Other assets		14		14
Off-balance-sheet commitments	259			259
Size of structured entities	7,941	9,114		17,055

The following table contains the comparative figures as of December 31, 2017.

				Jan–Dec 2017
in €	Commercial real estate	Funds	Other	Total
Assets				
Loans at amortized cost	6,306		4	6,310
Financial assets available for sale	–	–		–
Financial assets at fair value through profit or loss		227		227
Other assets		16		
Maximum exposure to loss	6,553	243	4	6,800
Loans at amortized cost	6,306		4	6,310
Financial assets available for sale				–
Financial assets at fair value through profit or loss		227		227
Other assets		16		
Off-balance-sheet commitments	247			247
Size of structured entities	7,039	8,396	4	15,439

The off-balance sheet liabilities represent contractual obligations on the part of the Bank to financially support the structured entities. In the reporting period, the Bank did not provide any non-contractual financial support to the structured entities, nor does it intend to do so.

39 – Employees

Average number of employees at DB PFK AG during the reporting period:

	2018	2017
FTEs	**24,381**	25,743
Civil servants	3,707	3,953
Salaried employees	20,674	21,790
Part-time employees	**9,632**	10,109
Civil servants	1,016	1,051
Salaried employees	8,616	9,058
Total	**34,013**	35,852

The employees are employed almost exclusively in Germany.

40 – Remuneration of the Management Board and the Supervisory Board

The aggregate remuneration of the Management Board in fiscal year 2018 was €9 million. In some cases, the remuneration was paid by Deutsche Bank AG. The aggregate remuneration contains the following components: cash bonuses, equity upfront awards, restricted equity awards, and tranches of the restricted incentive awards granted for work on the Management Board in previous years and paid out in fiscal year 2018. For fiscal year 2018, equity awards of €2 million were awarded, including an equity upfront award of €1 million. These are already included in the above-mentioned aggregate remuneration. Severance payments in the total amount of €2 million were awarded to departing members of the Management Board.

Former members of the Management Board and their surviving dependents received pension payments of €0.5 million in fiscal year 2018.

Provisions for pension benefits amounting to €32.1 million have been recognized for former members of the Management Board. There are no other obligations to former members of the Management Board.

The members of the Supervisory Board received total remuneration of €0.1 million for the reporting period (or the period in which the member in question belonged to the Supervisory Board).

As of the reporting date, DB PFK granted loans of €9 million to members of the Management Board and the Supervisory Board.

Due to the merger and renaming of DB PFK AG and the resulting lack of comparability of remuneration, the Bank has not disclosed prior-period amounts.

41 – Names and Offices of Members of Executive Bodies

Management Board

The members of the Management Board of DB Privat- und Firmenkundenbank AG are:

Members of the Management Board
Frank Strauß, Bad Nauheim (Chairman, since May 28, 2018)
Stefan Bender, Bad Vilbel
Rainer Burmester, Hamburg (until May 24, 2018)
Alp Dalkilic, Mainz (until May 24, 2018)
Philipp Gossow, Frankfurt am Main (since January 1, 2019)
Alexander Ilgen, Frankfurt am Main (since May 28, 2018)
Susanne Klöß-Braekler, Munich (since May 28, 2018)
Britta Lehfeldt, Frankfurt am Main
Ralph Müller, Bonn (since May 28, 2018)
Markus Pertlwieser, Bad Soden
Zvezdana Seeger, Berlin (since May 28, 2018)
Hanns-Peter Storr, Bonn (since May 28, 2018)
Lars Stoy, Bonn (since May 28, 2018)

Offices held by members of the Management Board of DB Privat- und Firmenkundenbank AG on supervisory boards or other supervisory bodies:

Stefan Bender

Function	Company
Member of the Supervisory Board	Deutsche Bank Europe GmbH, Frankfurt am Main

Philipp Gossow — Member of the Management Board since January 1, 2019

Function	Company
Member of the Supervisory Board	Deutsche Bank Polska Spólka Akcyjna, Warsaw
Member of the Supervisory Board	Deutsche Bank Sociedad Anónima Española, Madrid

Alexander Ilgen — Member of the Management Board since May 28, 2018

Function	Company
Member of the Advisory Board	DB HR Solutions GmbH, Eschborn
Member of the Supervisory Board	Deutsche Asset Management Investment GmbH, Frankfurt am Main

Susanne Klöß-Braekler — Member of the Management Board since May 28, 2018

Function	Company
Chair of the Supervisory Board	Postbank Direkt GmbH, Bonn
Chair of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board (until June 22, 2018)	Eurex Frankfurt AG, Frankfurt am Main
Member of the Board of Directors (until June 22, 2018)	Eurex Zürich AG, Zurich

Britta Lehfeldt

Function	Company
Member of the Supervisory Board	Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main
Member of the Supervisory Board (until September 19, 2018)	DB Investment Services GmbH, Frankfurt am Main
Member of the Advisory Board	VÖB-ZVD Processing GmbH, Bonn
Member of the Advisory Board	DB HR Solutions GmbH, Eschborn
Member of the Supervisory Board (since November 16, 2018)	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board (since November 21, 2018)	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board (since November 26, 2018)	Postbank Systems AG, Bonn
Member of the Administrative Board (since June 8, 2018)	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Ralph Müller — Member of the Management Board since May 28, 2018

Function	Company
Chairman of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board (since August 1, 2018) Chairman of the Supervisory Board (since January 1, 2019)	PB Factoring GmbH, Bonn
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Zvezdana Seeger — Member of the Management Board since May 28, 2018

Function	Company
Chair of the Supervisory Board (until August 20, 2018)	Betriebs-Center für Banken AG, Frankfurt am Main
Chair of the Supervisory Board (until June 30, 2018)	BHW Kreditservice GmbH, Hameln
Chair of the Supervisory Board (until February 28, 2018)	Postbank Service GmbH, Essen
Chair of the Supervisory Board	Postbank Systems AG, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln

Hanns-Peter Storr	Member of the Management Board since May 28, 2018
Function	Company
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Deputy Chairman of the Supervisory Board	Postbank Systems AG, Bonn

Lars Stoy	Member of the Management Board since May 28, 2018
Function	Company
Chairman of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Chairman of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Member of the Supervisory Board (until June 30, 2018)	BHW Kreditservice GmbH, Hameln
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Supervisory Board

The members of the Supervisory Board of DB Privat- und Firmenkundenbank AG are:

Shareholder representatives
Christian Sewing, Osnabrück (Chairman) Chief Executive Officer, Deutsche Bank AG
Hans-Holger Albrecht, Umhausen, Austria (from May 25, 2018, until November 29, 2018) Chief Executive Officer, Deezer
Christoph Bornschein, Berlin (since November 29, 2018) Managing Director and Co-Founder, Torben, Lucie und die gelbe Gefahr GmbH
Annemarie Erhardt, Kiel (until May 25, 2018) Retiree
Carmen Herbstritt, Bad Vilbel (until January 31, 2018) Chief Financial Officer, Switzerland, Deutsche Bank (Suisse) SA
Peter Hinder, Weinfelden, Switzerland (until May 25, 2018) Head of Wealth Management EMEA (ex. Germany, Deutsche Bank (Suisse) SA)
Marzio Hug, London, UK (since May 25, 2018) Chief Risk Officer AM/Head of Credit Risk Management
Anna Issel, Frankfurt am Main (since November 29, 2018) Anti-Financial Crime, Global Head of Business Line AFC for Wealth Management, Deutsche Bank AG
Hans-Werner Jacob, Schönau am Königssee (until May 25, 2018) Retiree
René Werner Keller, Eschborn (until May 25, 2018) Head of Technology PWCC Deutsche Bank AG
Karen Kuder, Frankfurt am Main Chief Governance Officer, Legal, Deutsche Bank AG
Philip Laucks, Goldbach (since May 25, 2018) Global Head HR & Divisional Control Officer PCB
Andreas Christian Loetscher, Berg (since November 29, 2018) Chief Accounting Officer, Deutsche Bank AG
Christiana Riley, Bad Homburg vor der Höhe (since May 25, 2018) CFO Corporate & Investment Banking, Deutsche Bank AG
Michael Spiegel, Bad Homburg vor der Höhe (since May 25, 2018) Global Head of Cash Management and Head of GTB Germany, Deutsche Bank AG
Till Staffeldt, Frankfurt am Main (until May 25, 2018) Global Business Partner Legal, Compliance & GRAD, Deutsche Bank AG
Werner Steinmüller, Dreieich-Buchschlag (since May 25, 2018) Member of the Management Board, Deutsche Bank AG

Employee representatives
Susanne Walzer, Kaiserslautern (Deputy Chair) (since May 25, 2018) Chair of the Works Council, Deutsche Bank Nordbaden Works Council
Arthur Biehler, Ettenheim (until May 25, 2018) Deputy Chairman (since January 13, 2017), Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Frank Bsirske, Berlin (since May 25, 2018) Trade Union Secretary, Chair of Vereinte Dienstleistungsgewerkschaft – ver.di
Alexander Diffenhard, Plochingen (since May 25, 2018) Chairman of the Stuttgart Works Council and Member of the General Works Council, Deutsche Bank Stuttgart
Wolfgang Ermann, Fürth Member of the Works Council, Deutsche Bank Nuremberg
Ursula Feikes-Feilhauer, Grevenbroich Retiree
Claudia Fieber, Berlin (since May 25, 2018) Chair of the Works Council, Deutsche Bank Berlin
Günter Haardt, Leubsdorf (until May 25, 2018) Managing Director, Vermögensverwaltung der ver.di GmbH
Andreas Koop, Berlin (until May 25, 2018) Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Joachim Kotthoff, Nauheim Team Leader HR Business, Deutsche Bank AG
Detlef Polaschek, Essen (until May 25, 2018) Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Bernd Rose, Menden/Sauerland (since December 3, 2018) Chairman of the General Works Council Postbank Filialvertrieb AG/Postbank Filial GmbH, Menden (Sauerland)
Rita Schlink, Horn-Bad Meinberg (until May 25, 2018) Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Eric Stadler, Markt Schwaben (since December 3, 2018) Chairman of the Munich Works Council, Betriebs-Center für Banken AG (BCB AG)
Jörg Wolfram, Leipzig Deputy Chairman, General Works Council, DB Privat- und Firmenkundenbank AG

Offices held by members of the Supervisory Board of DB Privat- und Firmenkundenbank AG on supervisory boards or other supervisory bodies:

Shareholder representatives:

Hans-Holger Albrecht

Function	Company
Chairman of the Supervisory Board	Scout 24, Munich
Member of the Supervisory Board	AINMT Holdings AB, Stockholm

Christoph Bornschein

Function	Company
Member of the Supervisory Board	22Connect AG, Cologne

Carmen Herbstritt

Function	Company
Member of the Supervisory Board (until January 31, 2018)	Sal. Oppenheim jr. & Cie. AG & Co. KGaA, Cologne
Member of the Supervisory Board (until January 31, 2018)	Sal. Oppenheim jr. & Cie. Komplementär AG, Cologne
Member of the Supervisory Board (until January 31, 2018)	Deutsche Oppenheim Family Office AG, Grasbrunn

Peter Hinder

Function	Company
Member of the Founders Council	Kartause Ittingen Foundation, Warth
Member of the Administrative Board	FOSTAG Formenbau AG, Stein am Rhein

Marzio Hug

Function	Company
Member of the Supervisory Board	Deutsche Bank Luxembourg S.A., Luxembourg

Anna Issel

Function	Company
Member of the Supervisory Board (since August 21, 2018)	Sal. Oppenheim jr. & Cie. AG & Co. KGaA, Cologne
Member of the Supervisory Board (since August 21, 2018)	Sal. Oppenheim jr. & Cie. Komplementär AG, Cologne
Member of the Supervisory Board (since August 22, 2018)	Deutsche Oppenheim Family Office AG, Grasbrunn

René Werner Keller

Function	Company
Member of the Supervisory Board	Deutsche Bank, Società per Azioni, Milan

Philip Laucks

Function	Company
Member of the Supervisory Board (until August 20, 2018)	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board (until November 15, 2018)	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board (until November 15, 2018)	Postbank Systems AG, Bonn
Member of the Supervisory Board (until November 15, 2018)	Postbank Filialvertrieb AG, Bonn
Member of the Administrative Board (until June 7, 2018)	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Till Staffeldt	
Function	Company
Member of the Supervisory Board	Deutsche Bank Società per Azioni, Milan
Member of the Supervisory Board	Deutsche Bank Europe GmbH, Frankfurt am Main

Employee representatives:

Susanne Walzer	Deputy Chair
Function	Company
Member of the Administrative Board	Betriebskrankenkasse Deutsche Bank AG and BKK Pflegekasse Deutsche Bank AG, Düsseldorf

Frank Bsirske	
Function	Company
Deputy Chairman of the Supervisory Board	RWE AG, Essen
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Deputy Chairman of the Supervisory Board	innogy SE, Essen
Member of the Board of Supervisory Directors	KfW, Frankfurt

Bernd Rose	
Function	Company
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Rita Schlink	
Function	Company
Member of the Administrative Board	Betriebskrankenkasse Deutsche Bank AG, Düsseldorf

42 – Significant Audit Fees

Fees charged by the auditor by category:

in €m	2018	2017
Audit fees	6	3
Other assurance services	2	3
Tax advice	0	0
Other services	0	0
Total	8	6

43 – Application of Section 264(3) of the HGB

The following consolidated subsidiaries applied the simplification options contained in section 264(3) of the HGB in fiscal year 2018:

- PB Firmenkunden AG
- Postbank Beteiligungen GmbH
- Postbank Filialvertrieb AG
- Postbank Immobilien und Baumanagement GmbH
- Postbank Systems AG

44 – List of Shareholdings

Name and domicile	Equity interest %
a) Affiliated companies	
Included in the consolidated financial statements	
Ambidexter GmbH, Frankfurt am Main	100.0 [3]
Betriebs-Center für Banken AG, Frankfurt am Main	100.0
BHW Bausparkasse Aktiengesellschaft, Hameln	100.0
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln	100.0 [3]
BHW Holding GmbH, Hameln	100.0 [3]
BHW Kreditservice GmbH, Hameln	100.0
DB Direkt GmbH, Frankfurt am Main	100.0 [3]
DB Investment Services GmbH, Frankfurt am Main	100.0 [3]
DB VersicherungsManager GmbH, Frankfurt am Main	100.0 [3]
Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main	100.0
Deutsche Postbank Finance Center Objekt GmbH, Schuttrange (Munsbach), Luxembourg	100.0
DSL Portfolio GmbH & Co. KG, Bonn	100.0
DSL Portfolio Verwaltungs GmbH, Bonn	100.0
KEBA Gesellschaft für interne Services mbH, Frankfurt am Main	100.0 [3]
PBC Banking Services GmbH, Frankfurt am Main	100.0 [3]
PB Factoring GmbH, Bonn	100.0 [3]
PB Firmenkunden AG, Bonn	100.0 [3]
PB International S.A., Schuttrange (Munsbach), Luxembourg	100.0
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0 [2]
Teilgesellschaftsvermögen PB 02	100.0
Teilgesellschaftsvermögen PB 08	100.0
Teilgesellschaftsvermögen PB 09	100.0
Teilgesellschaftsvermögen PB 11	100.0
Teilgesellschaftsvermögen PB 13	100.0
Teilgesellschaftsvermögen PB 14	100.0
Teilgesellschaftsvermögen PB 21	100.0
Teilgesellschaftsvermögen PB 26	100.0
PCC Services GmbH der Deutschen Bank, Essen	100.0 [3]
Postbank Beteiligungen GmbH, Bonn	100.0 [3]
Postbank Direkt GmbH, Bonn	100.0
Postbank Filialvertrieb AG, Bonn	100.0 [3]
Postbank Finanzberatung AG, Hameln	100.0
Postbank Immobilien GmbH, Hameln	100.0 [3]
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0 [3]
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn	90.0
Postbank Leasing GmbH, Bonn	100.0 [3]
Postbank Service GmbH, Essen	100.0
Postbank Systems AG, Bonn	100.0 [3]
VÖB-ZVD Processing GmbH, Bonn	75.0 [4]

Name and domicile	Equity interest %	Equity € thousand	Profit/loss for the period € thousand[1]
Not included in the consolidated financial statements[5]			
DB Advisors SICAV, Luxembourg	65.6	n/a	255,863 [6]
EC EUROPA IMMOBILIEN FONDS NR. 3 GmbH & CO. KG (in insolvency), Hamburg	65.2	–10,390	–6,745
Finanzberatungsgesellschaft mbH der Deutschen Bank, Berlin	100.0	1,240	164
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl “Rimbachzentrum” KG, Bad Homburg v.d. Höhe	74.9	0	–103
KOMPASS 3 Zweite Beteiligungsgesellschaft mbH & Co. USD KG i.L., Düsseldorf	97.0	–39	–12
KOMPASS 3 Erste Beteiligungsgesellschaft mbH & Co. Euro KG i.L., Düsseldorf	96.1	526	–12
Postbank Akademie und Service GmbH, Hameln	100.0	1,039	19
SAB Real Estate Verwaltungs GmbH, Hameln	100.0	37	0
TESATUR Beteiligungsgesellschaft mbh & Co. Objekt Halle I KG, Düsseldorf	94.5	–7,606	1,071
TESATUR Beteiligungsgesellschaft mbh & Co. Objekt Nordhausen I KG, Düsseldorf	94.4	1,118	853
b) Other companies in which there is a shareholding of at least 20 %			
Benefit Trust GmbH, Lützen	26.5	7,081,147	117,703 [6]
BSQ Bauspar AG, Nuremberg	21.1	29,048	4
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin	21.1	13	–2
dwins GmbH, Frankfurt am Main	21.3	41	–16
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Dresden “Louisenstraße” KG, Bad Homburg v.d. Höhe	30.6	0	–40
Fünfte SAB Treuhand und Verwaltung GmbH & Co. “Leipzig-Magdeburg” KG, Bad Homburg v.d. Höhe	41.2	0	–77
giropay GmbH, Frankfurt am Main	33.3	0	52
Immobilien-Vermietungsgesellschaft Schuhmacher GmbH & Co. Objekt Rolandufer KG, Berlin	20.5	–12,055	7,126
MT “CAPE BEALE” Tankschiffahrts GmbH & Co. KG, Hamburg	32.3	63	1,067
MT “KING DANIEL” Tankschiffahrts GmbH & Co. KG, Hamburg	30.1	1,772	–3,396
MT “KING DOUGLAS” Tankschiffahrts GmbH & Co. KG, Hamburg	30.1	9,420	–2,902
SOLON Grundstücks-Vermietungs-Gesellschaft mbH & Co. Objekt Heizkraft Halle KG i.L., Halle/Saale	30.5	n/a	n/a
SRC Security Research & Consulting GmbH, Bonn	22.5	5,356	855
Starpool Finanz GmbH, Berlin	49.9	413	6
c) Equity interests in large corporations in which the interest exeeds 5 % of the voting rights			
Saarländische Investitionskreditbank Aktiengesellschaft, Saarbrücken	11.8	65,474	1,009

[1] The data on equity and profit and loss for the year are based on the most recently adopted annual financial statements of the companies concerned.
[2] The company also includes the shares in Teilgesellschaftsvermögen PB 25 that are not held by a company belonging to the DB Privat- und Firmenkundenbank Group.
[3] Profit and loss transfer agreement in the DB Privat- und Firmenkundenbank Group.
[4] 25 % of the share capital is held in trust by Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB) on behalf of DB Privat- und Firmenkundenbank AG.
[5] These companies have not been disclosed because they are neither strategically nor quantitatively material and are thus insignificant for the presentation of a true and fair view of the Group’s net assets, financial position, and results of operations.
[6] The shares of Benefit Trust GmbH and DB Advisors SICAV are plan assets within the meaning of IAS 19, which are subject to a restraint on disposal by the Bank.

Responsibility Statement

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

Frankfurt am Main, February 27, 2019

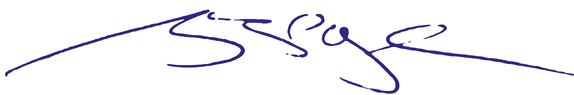
DB Privat- und Firmenkundenbank AG

The Management Board

Frank Strauß

Stefan Bender

Philipp Gossow

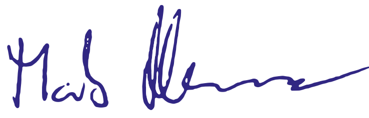


Alexander Ilgen

Susanne Klöß-Braekler

Britta Lehfeldt

Ralph Müller



Markus Pertlwieser

Zvezdana Seeger

Hanns-Peter Storr

Lars Stoy

Note: This is a translation of the German original. The original text in German language should be used as the authoritative source.

Independent Auditor's Report

To DB Privat- und Firmenkundenbank AG (till May 24, 2018: Deutsche Bank Privat- und Geschäftskunden AG), Frankfurt am Main

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of DB Privat- und Firmenkundenbank AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DB Privat- und Firmenkundenbank AG for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement which is included in section "Corporate Governance Statement" of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB (*Handelsgesetzbuch* – German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group`s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities, in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Loan loss allowances for loans to customers in non-retail credit portfolios

For a qualitative and quantitative description of the management of credit risks including the valuation of loans to customers, refer to the Risk Report section within the group management report, section “Risk strategy and risk tolerance” and “Quantitative disclosures on credit risk pursuant to IFRS 7”. In addition, refer to Note 2 of the consolidated financial statements “Significant Accounting Policies” as well as Note 19 “Loan Loss Allowance for Financial Assets at Amortized Cost”.

The financial statement risk

As of the reporting date, the Group reported loans in the amount of EUR 189.7 bn, representing 69 % of total assets. In the financial year 2018, the Group recorded an amount of EUR 213 mn as provision for credit losses in the consolidated statement of comprehensive income. Thereof, EUR 198 mn relate to credit-impaired loans. As at December 31, 2018 loan loss allowance for expected credit losses amounted to EUR 1.1 bn. A major part of the specific loan loss allowances for actual default risks relates to loans within the non-retail credit portfolios.

The measurement of loan loss allowances for credit-impaired loans to customers in the non-retail portfolio is subject to judgment. Judgmental assumptions are required with regard to contractual repayments and interest payments from the borrower, and/or the realization of collateral, taking into account probability-weighted scenarios. The assumptions made are dependent upon respective applied restructuring or liquidation strategies.

As part of our audit, it was relevant to identify processes in place to ensure appropriate criteria for the identification of credit-impaired engagements. In addition, a significant matter for our audit was to ensure that reasonable assumptions and scenarios (e. g. liquidation, going-concern) were chosen to reflect the expected contractual cash flows and / or the cash flows from the recovery of collaterals. Inadequate assumptions and scenarios, with regard to the expected contractual cash flows or cash flows from usage of loan collateral, may result in over- or underestimation of credit risks and, thus, in an audit misstatement due to an inaccurate evaluation of loans to customers.

Our audit approach

Based on our risk assessment and our evaluation of the risk of error, we established an audit approach including control and substantive testing. Accordingly, we have performed the following audit procedures, among others:

In a first step, we obtained a comprehensive insight into the development of loans to customers, and the related credit risks as well as the internal control system with regard to the management, monitoring and valuation of non-retail loans to customers.

For the evaluation of the appropriateness of the internal control system with regard to the identification, management, monitoring and evaluation of loans to customers in the non-retail portfolio, we inspected relevant organizational guidelines and conducted inquiries. In addition, we have performed procedures to conclude on the design, implementation and the operating effectiveness of relevant controls, which have been established by the Bank to identify engagements that require loan loss allowances and those to ensure the compliant measurement of the allowance. For the IT systems used in this context, we tested the operating effectiveness of relevant application controls with the involvement of our IT specialists.

On the basis of a sample of individual engagements selected from the non-retail portfolio, we analyzed the intrinsic value of those loans taking into account materiality and risk aspects. First, we examined, whether for all of the selected engagements criteria are given which indicate a credit impairment and whether the engagements were correctly identified as credit-impaired or not. For the credit-impaired engagements, in a second step, we evaluated, whether realistic and comprehensive probability-weighted scenarios have been used, which also consider the Bank`s respective restructuring or liquidation strategy.

Based on the evidence, we reviewed and evaluated the assumptions on the expected contractual cash flows and the cash flows from the realization of collaterals as well as the estimated points in time the Bank expects those cash flows to occur. Whenever collaterals for an engagement existed, we concluded on the legal enforceability and recoverability of such loan collaterals. Within this context, we based our judgment on valuation reports from independent experts and concluded on whether their assumptions were derived from appropriate internal or external sources. For this, we relied on market studies and considered market prices as well as yield and profitability analyses. For chosen collaterals, we involved our real estate valuation experts. Finally, we concluded on the accuracy of the measurement of the required loan loss allowances.

In addition, we selected a sample of individual engagements, which have not been selected for the procedures described above, and evaluated if the criteria for the identification of credit-impaired engagements were applied on each individual engagements compliantly.

Our observations

Based on the procedures performed, we conclude that the criteria applied to identify credit-impaired loans to customers and the assumptions and scenarios used to determine loan loss allowances within the Bank`s non-retail portfolio are appropriate.

Valuation of loans to customers using a parameter-based approach

Please refer to the risk report for an explanation of the risk management system. With regard to the accounting and measurement methods applied by the Group for the valuation of loans to customers, we refer to Note 2 of the consolidated financial statements "Significant Accounting Policies" as well as Note 19 "Loan Loss Allowance for Financial Assets at Amortized Cost".

The financial statement risk

As of December 31, 2018, the Group reports loans to customers in the amount of EUR 189.7 bn valued at amortized costs while the loan loss allowance amounts to EUR 1.6 bn. EUR 0.2 bn thereof relates to loans without a significant increase in credit risk since recognition. EUR 0.3 bn relates to loans with a significant increase in credit risk since recognition and EUR 1.1 bn relates to credit-impaired loans in the retail business. A major part of the loan loss allowance was determined using on a parameter-based approach, whereas collective specific loan loss allowances and the portfolio-based valuation adjustments with and without significant increases in default risk for credit-impaired loans in the retail business.

The measurement of loan loss allowances using a parameter-based approach requires a portfolio-based, average estimate for recoveries from interest and repayment claims as well as average recovery rates for collaterals, which have to consider the probable development of value determining assumptions and parameters and are subject to a high degree of discretion. Key value-determining assumptions and parameters for measuring default risks for borrowers who not yet defaulted include the probability for a default within the next 12-month period respectively the probability for a default within the remaining lifetime for all engagements which were impacted by a significant increase in credit risk since initial recognition. For this, the Bank considers forward-looking information. For credit-impaired borrowers in homogenous portfolios, corresponding assumptions for the expected cash-inflows and expected recovery rates have to be made in the context of the measurement of collective specific valuation allowances.

Since any estimates and the exercise of judgment are subject to uncertainty and have a significant impact on the amount of loan loss allowance, we have performed procedures, throughout our audit, to ensure that the most important value-determining assumptions and parameters were derived properly and in compliance with IFRS 9 requirements on parameter-based methods for the determination of portfolio-based valuation adjustments and collective specific loan loss allowances.

Our audit approach

Based on our risk assessment and our evaluation of the risk of error, we established an audit approach, including control and substantive testing, as a basis for our audit opinion. Therefore, we performed the following audit procedures including the work of our credit risk specialists:

In a first step, we have obtained a comprehensive insight into the development of the Banks loans portfolio, and the associated credit risks, the methods and models used as well as the internal control system with regard to the monitoring and evaluation credit risks in the credit portfolio.

To conclude on the appropriateness of the internal control system with regard to the modelling and calibration of the value determining assumptions and parameters we performed inquiries and inspections into relevant records and documents to identify relevant controls. Furthermore, we assessed the design, implementation and operating effectiveness of those controls. Our audit concentrated on procedures and controls concerning the derivation and authorization of determined parameters by the Bank, as well as the appropriateness of the processing the risk data in the IT systems of the Bank, which are used to calculate the loan loss allowance based on the parameter-based approach. For each IT system in use for this purpose, we audited the design of the general IT environment and the operating effectiveness of related IT controls with recourse to our IT specialists.

In addition, we performed the substantive procedures as outlined below:

– reviewing the results of the validation of risk classification models, and recalculation of the calibration of parameters for a sample of risk classification models and parameters predominantly selected based on risk-oriented criteria;

– review of the appropriate and IFRS 9-compliant consideration of macroeconomic factors and forward looking information in the risk models;

– random sample-based verification of the data quality of the risk data budget and

– random sample-based recalculation of risk provisions for individual loans and advances to customers calculated using the parameter-based approach.

We performed our audit procedures related to models and parameters with the assistance of KPMG Credit Specialists.

We audited the appropriate recognition of parameter-based loan loss allowances in the accounting system and the consolidated financial statements of the Bank.

Our observations

The determination of valuation allowance on loans to customers, based on a parameter-based method and the underlying assumptions and parameters, were properly derived and comply with the impairment requirements for the portfolio-based valuation adjustments and collective specific valuation allowances.

Valuation of liabilities for interest bonuses to be remunerated for loan waivers or interest rate changes

Please refer to Note 2 „Significant Accounting Policies“ and Note 26 „Deposits“ in the Notes for information on the accounting policies used and the assumptions applied.

The financial statement risk

In the consolidated financial statements of the Group as at December 31, 2018, the home savings deposits include interest bonus liabilities of EUR 835 million payable to customers in case of unutilized loans or changes in interest rates.

Interest bonus liabilities relate to the payment of interest bonuses to customers in the event of unutilized loans or changes in interest rates based on a measurement model. This assumes, for each individual customers, whether waiving the utilization of the home saving loan and the retrospective payment of interest bonuses is economically advantageous for the customer, in lieu of alternative financing and therefore probable. The Group calculates the expected payment date on the basis of empirical values from the home savings collective of BHW Bausparkasse AG. The selection of the measurement model and its parameterization are based on assumptions and judgments. The key assumptions relate to the comparative interest rate applied, the estimated probability for each customer to use the interest bonus and the expected payment date.

For the consolidated financial statements the risk exists that the measurement model used and the assumptions and judgments taken into account may misjudge future customer behavior and thus misjudge the liabilities for interest bonuses to be remunerated in the event of loan waivers or interest rate changes.

Our audit approach

Based on our risk assessment and the evaluation of the risks of error, we have performed control-based procedures and substantive audit procedures to form our audit opinion on liabilities from interest bonuses payable on unutilized loans and interest rate changes. Accordingly, we have performed the following audit procedures, among others:

As part of our audit, we conducted interviews and inspected documents, in order to obtain an understanding of the measurement model and the assumptions used in the valuation as well as the organizational structure of the process for determining the liabilities for interest bonuses to be remunerated in the event of unutilized loans or interest rate changes.

During the course of the audit, we paid particular attention to the extent to which the measurement model applied is designed appropriately to ensure that liabilities and the key assumptions made are proper and conclusive. For the purpose of auditing the probabilities applied for the utilization of interest bonuses and the estimated expiration, we have assessed the comparison of the estimates made for previous financial years with the subsequent actual results and analyzed the results to determine whether they confirm the estimation method applied. We have verified the appropriateness of the comparative interest rate used by comparing it with market data and other publicly available information. By comparing the assumed estimated expiration with data evaluations from the home savings collective simulation, we have reperformed the appropriateness of the cash outflow taken into account in the valuation.

As part of the control-based audit procedures, we assessed the design of the controls used to ensure the completeness and accuracy of the data used in the measurement and tested their operating effectiveness.

Through a comparison with the general terms and conditions for home saving contracts, we have ensured that the relevant tariffs were used as input for the valuation models. Furthermore we reperformed the calculation for the significant calculation steps within the measurement model.

Our observations

The models and parameters underlying the calculation of the liability for interest bonuses to be remunerated for loan waivers or interest rate changes were appropriately selected and used in compliance with the applicable accounting policies.

Other Information

Management is responsible for the other information. The other information comprises:

– the non-financial statement and the corporate governance statement, and

– the remaining parts of the annual report, with the exception of the audited consolidated financial statements and management report and our auditor’s report.

Our opinions on the consolidated financial statements and the group management report do not cover the other information and we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the management report or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group‘s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of the group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group‘s financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report, as a whole, provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the understanding obtained during the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events, in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 25, 2018. We were engaged by the supervisory board on July 23, 2018. We have been the auditor of the DB Privat- und Firmenkundenbank AG's (till May 24, 2018, Deutsche Bank Privat- und Geschäftskunden AG) consolidated financial statements for the first time in the fiscal year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Markus Winner.

Frankfurt am Main, March 4, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Böth
Wirtschaftsprüfer
(German Public Auditor)

Winner
Wirtschaftsprüfer
(German Public Auditor)

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

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

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