DB Privat- und Firmenkundenbank AG

Annual Report 2019

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DB Privat- und Firmenkundenbank AG

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U3 Imprint

Report of the Supervisory Board of DB Privat- und Firmenkundenbank AG

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.

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, four extraordinary meetings and one constitutive meeting in fiscal year 2019. It exercised its voting rights in five written procedures in the past fiscal year and also held a closed meeting to discuss strategy.

During the first Supervisory Board meeting of the fiscal year, held on February 7, 2019, the Board passed resolutions on the target agreements, target achievements and remuneration of Management Board members. The preliminary results of operations from 2018 and the business planning from 2019 to 2021 were also presented.

During the extraordinary meeting on February 27, 2019, the Supervisory Board passed a resolution to make a single change in the composition of the Management Board.

At the financial statements meeting held on March 27, 2019, the 2018 annual and consolidated 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. Amendments to the Bylaws of the Supervisory Board and its committees were also resolved. As part of equity investment-related issues, a decision was made in accordance with section 32 of the *Mitbestimmungsgesetz* (MitbestG – German Co-Determination Act) to formally approve the conduct of office of the Management Board and Supervisory Board of Postbank Filialvertrieb AG. Other issues addressed by the Supervisory Board during the meeting included the risk position of the Bank as a whole, the adoption of resolutions for the Report of the Supervisory Board to the Annual General Meeting and the Corporate Governance Statement as well as the annual report of Internal Audit.

On June 24, 2019, the Supervisory Board held a constitutive meeting to establish a Human Resources Committee and appoint new members to the Supervisory Board committees following an assembly of delegates of employee representatives.

During the regularly scheduled meeting on June 24, 2019, the resignation of the Supervisory Board Chair as of August 1, 2019, was discussed. The Management Board reported on the business performance and current status of the “Bank for Germany” program and presented the risk report for the Bank as a whole.

The Supervisory Board held an extraordinary meeting on July 12, 2019, to discuss a single change to the composition of the Management Board.

The extraordinary meeting on July 31, 2019, was held to address matters of importance to the Management Board and the Supervisory Board. Related resolutions were also passed.

During an extraordinary meeting on September 6, 2019, the Supervisory Board discussed a single change to the composition of the Management Board.

The regularly scheduled meeting of the Supervisory Board on September 18, 2019, focused primarily on discussions of and/or resolutions on the election of a new shareholder representative, on the business performance for the third quarter of 2019 and the current status of the establishment of Privatkundenbank Deutschland and Unternehmensbank Deutschland. The risk situation was also discussed.

In the last regularly scheduled Supervisory Board meeting for the fiscal year on December 17, 2019, the Management Board presented the business planning for 2019 and the mid-term planning to the Supervisory Board for discussion. Following the resolution to make a single change to its composition, the Management Board reported on the Bank's business performance for the financial year and presented the risk report for the Bank as a whole.

Work of the commitees

To carry out its work, the Supervisory Board formed six committees. The following members serve on the Supervisory Board and its committees:

Supervisory Board

Karl von Rohr (Chair)	Claudia Fieber*	Karen Kuder	Werner Steinmüller
Susanne Walzer* (Deputy Chair)	Stefan Hoops	Andreas C. Loetscher	Alexander von zur Mühlen
Christoph Bornschein	Marzio Hug	Bernd Rose*	Kevin Voß*
Frank Bsirske*	Anna Issel	Frank Schulze*	Sandra Wirfs
Ursula Feikes-Feilhauer*	Christopher Justin*	Eric Stadler*	Jörg Wolfram*

Nomination Committee

Karl von Rohr (SB Chair)**	Frank Bsirske*
Susanne Walzer* (SB Deputy Chair)	Werner Steinmüller

Compensation Control Committee

Karl von Rohr (SB Chair)**	Frank Bsirske*
Susanne Walzer* (SB Deputy Chair)	Werner Steinmüller

Risk Committee

Marzio Hug (Chair)	Andreas C. Loetscher
Eric Stadler*	Bernd Rose*
Stefan Hoops	Ursula Feikes-Feilhauer*

Audit Committee

Andreas C. Loetscher (Chair)	Karen Kuder
Claudia Fieber*	Bernd Rose*
Anna Issel	Frank Schulze*
Christopher Justin*	Sandra Wirfs

Mediation Committee (Section 27 of the German Co-determination Act (MitbestG))

Karl von Rohr (SB Chair)**	Christopher Justin*
Susanne Walzer* (SB Deputy Chair)**	Werner Steinmüller

Human Resources Committee

Susanne Walzer* (SB Deputy Chair)	Eric Stadler*
Frank Bsirske*	Alexander von zur Mühlen
Anna Issel	Jörg Wolfram*
Karen Kuder	Sandra Wirfs

* Employee representative ** Appointed ex officio

The Risk Committee met six times in fiscal year 2019 and exercised its voting rights in a written procedure. 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 and addressed issues of concern in a joint meeting.

The Audit Committee met five times in fiscal year 2019 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 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 2018, the half-yearly financial report as of June 30, 2019, the audit and non-audit services rendered by the auditor, recent regulatory developments in the banking environment, the compliance report for 2018, and the annual report of Internal Audit for 2018.

In fiscal year 2019, the Nomination Committee met eight times and exercised its voting rights in a written procedure. 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 seven times in fiscal year 2019. 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 Human Resources Committee did not meet in fiscal year 2019.

The Mediation Committee did not meet in fiscal year 2019.

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

In fiscal year 2019, the following changes were made to the Supervisory Board:

The following members stepped down:

1. Alexander Diffenhard (as of June 13, 2019)
2. Wolfgang Ermann (as of June 13, 2019)
3. Joachim Kotthof (as of June 13, 2019)
4. Christian Sewing (as of July 31, 2019)
5. Andreas Timmann (as of November 1, 2019)
6. Christiana Riley (as of November 15, 2019)
7. Philip Laucks (as of December 31, 2019)
8. Michael Spiegel (as of January 13, 2020)

The following members were newly elected:

1. Christopher Justin (starting June 13, 2019)
2. Frank Schulze (starting June 13, 2019))
3. Andreas Timmann (starting June 13, 2019))
4. Karl von Rohr (starting August 1, 2019)
5. Kevin Voß (starting November 11, 2019)
6. Susanne Wirfs (starting November 16, 2019)
7. Alexander von zur Mühlen (starting January 1, 2020)
8. Dr. Stefan Hoops (starting February 1, 2020)

Vorstand

In fiscal year 2019, the Management Board consisted of the following members:

1. Herrn Frank Strauß (until July 31, 2019)
2. Herrn Stefan Bender
3. Herrn Philipp Gossow
3. Herrn Dr. Alexander Ilgen
4. Frau Susanne Klöß-Braekler
5. Frau Britta Lehfeldt (until December 31, 2019)
6. Herrn Dr. Ralph Müller (until September 18, 2019)
7. Herrn Dr. Markus Pertlwieser
8. Frau Zvezdana Seeger
9. Herrn Hanns-Peter Storr (until March 31, 2019)
10. Herrn Lars Stoy

During the meeting of the Supervisory Board on July 31, 2019, Manfred Knof was appointed to the Management Board of DB Privat- und Firmenkundenbank AG. The appointment was subject to the approval of the supervisory authorities and took effect thereafter. On January 10, 2020, the European Central Bank approved the appointment of Manfred Knof to the Management Board of DB Privat- und Firmenkundenbank AG. He has been Chairman of the Management Board of DB Privat- und Firmenkundenbank AG as of that date.

In addition, on December 17, 2019, Kay Wolf was appointed to the Management Board effective January 1, 2020. With effect from that same date, Philip Laucks received a similar appointment by means of circulated documents on November 27, 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 2019, 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 12 and March 26, 2020, the Audit Committee discussed the annual and consolidated financial statements and the auditor's reports 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, 2019, as well as the management report and the Group management report. The final results of this independent and thorough 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, 2020

On behalf of the Supervisory Board

Karl von Rohr

Chair of the Supervisory Board

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Group Management Report

Our Organization

Corporate profile and business model

DB Privat- und Firmenkundenbank AG, Frankfurt am Main, ("DB PFK AG" in the following) 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 ("DB PFK" in the following) 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 exercises the option in Section 2a of the *Kreditwesengesetz* (KWG - German Banking Act) in conjunction with Article 7(1) of the Capital Requirements Regulation (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. 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).

DB PFK has a dual presence on the German banking market consisting of two established brands – Deutsche Bank and Postbank. Based on the number of customers (ca. 19 million), DB PFK is the number one provider on the retail banking market in Germany.

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. Last year's merger of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG also opened up growth prospects in select areas of the retail and commercial banking business such as asset management, lending, and digital banking.

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 DB PFK AG conducts its business under the name "Postbank Luxembourg – a branch of DB Privat- und Firmenkundenbank AG."

BHW Bausparkasse AG is a key subsidiary of DB PFK AG and remains domiciled in Hameln.

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 banking clients, DB PFK is involved in the commercial banking business. Here it offers complex advisory solutions in cooperation with the Corporate 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.

The Management Board and the Supervisory Board work closely together for the collective good of the Company. The Management Board performs corporate governance 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

Manfred Knof, Chief Executive Officer, Munich (since January 10, 2020)

Frank Strauß, Chief Executive Officer, Bad Nauheim (until July 31, 2019)

Stefan Bender, Head of Deutsche Bank Commercial Clients, Bad Vilbel

Philipp Gossow, Head of Deutsche Bank Sales, Frankfurt am Main

Alexander Ilgen, Chief Financial Officer, Frankfurt am Main

Susanne Klöß-Braekler, Head of Product and Process Management, Munich

Britta Lehfeldt, Human Resources/Chief Regulatory Officer/Chief Administrative Officer, Frankfurt am Main (until December 31, 2019)

Phillip Laucks, CAO, Goldbach (since January 1, 2020)

Ralph Müller, Head of Postbank Commercial Clients, Bonn (until September 18, 2019)

Markus Pertlwieser, Chief Digital Officer, Bad Soden

Zvezdana Seeger, COO/Head of IT/Operations, Berlin

Hanns-Peter Storr, Chief Risk Officer, Bonn (until March 31, 2019)

Lars Stoy, Head of Postbank Sales, Bonn

Kay Wolf, Chief Risk Officer, Kelkheim (since January 1, 2020)

Senior Directors:

Manfred Knof, Munich (August 1, 2019 to January 9, 2020)

Kay Wolf, Kelkheim (April 1, 2019 to December 31, 2019)

Supervisory Board

Karl von Rohr, Frankfurt am Main (Chairman) (since August 1, 2019)

Christian Sewing, Osnabrück (Chairman) (until July 31, 2019)

Susanne Walzer*, Kaiserslautern (Deputy Chair)

Christoph Bornschein, Berlin

Frank Bsirske*, Berlin

Alexander Diffenhard*, Plochingen (until June 13, 2019)

Wolfgang Ermann*, Fürth (until June 13, 2019)

Ursula Feikes-Feilhauer*, Grevenbroich

Claudia Fieber*, Berlin

Stefan Hoops, Frankfurt am Main (since February 1, 2020)

Marzio Hug, London, UK

Anna Issel, Frankfurt am Main

Christopher Justin*, Bad Breisig (since June 13, 2019)

Joachim Kotthoff*, Nauheim (until June 13, 2019)

Karen Kuder, Frankfurt am Main

Philip Laucks, Goldbach (until December 31, 2019)

Andreas Christian Loetscher, Berg

Christiana Riley, Bad Homburg vor der Höhe (until November 15, 2019)

Bernd Rose*, Menden/Sauerland

Frank Schulze*, Hanau (since June 13, 2019)

Michael Spiegel, Bad Homburg vor der Höhe (until January 13, 2020)

Eric Stadler*, Markt Schwaben

Werner Steinmüller, Dreieich-Buchschlag

Andreas Timman*, Kassel (June 13, 2019 to November 1, 2019)

Alexander von zur Mühlen, Frankfurt am Main (since January 1, 2020)

Kevin Voß*, Munich (since November 11, 2019)

Sandra Ursula Wirfs, Hofheim (since November 16, 2019)

Jörg Wolfram*, Leipzig

(* Employee representative)

Current members of the DB Privat- und Firmenkundenbank AG Supervisory Board and its committees as of February 1, 2020

Supervisory Board

Karl von Rohr (Chair)	Claudia Fieber*	Karen Kuder	Werner Steinmüller
Susanne Walzer* (Deputy Chair)	Stefan Hoops	Andreas C. Loetscher	Alexander von zur Mühlen
Christoph Bornschein	Marzio Hug	Bernd Rose*	Kevin Voß*
Frank Bsirske*	Anna Issel	Frank Schulze*	Sandra Wirfs
Ursula Feikes-Feilhauer*	Christopher Justin*	Eric Stadler*	Jörg Wolfram*

Nomination Committee

Karl von Rohr (SB Chair)**	Frank Bsirske*
Susanne Walzer* (SB Deputy Chair)	Werner Steinmüller

Compensation Control Committee

Karl von Rohr (SB Chair)**	Frank Bsirske*
Susanne Walzer* (SB Deputy Chair)	Werner Steinmüller

Risk Committee

Marzio Hug (Chair)	Andreas C. Loetscher
Eric Stadler*	Bernd Rose*
Stefan Hoops	Ursula Feikes-Feilhauer*

Audit Committee

Andreas C. Loetscher (Chair)	Karen Kuder
Claudia Fieber*	Bernd Rose*
Anna Issel	Frank Schulze*
Christopher Justin*	Sandra Wirfs

Mediation Committee (Section 27 of the German Co-determination Act (MitbestG))

Karl von Rohr (SB Chair)**	Christopher Justin*
Susanne Walzer* (SB Deputy Chair)**	Werner Steinmüller

Human Resources Committee

Susanne Walzer* (SB Deputy Chair)	Eric Stadler*
Frank Bsirske*	Alexander von zur Mühlen
Anna Issel	Jörg Wolfram*
Karin Kuder	Sandra Wirfs

* Employee representative ** 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.

Nonfinancial key performance indicators

In its Group management, DB PFK AG makes use of financial as well as nonfinancial key performance indicators. In line with our vision, employee satisfaction and customer satisfaction are primary nonfinancial key performance indicators relevant to the remuneration of all Management Board members in 2019.

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 Deutsche Bank segment. In 2019, however, a standardized process was used for all employees of DB PFK Group in the form of a global employee survey. Deutsche Bank Group (DB Group) conducted a 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). During the reporting period, all DB Group employees were surveyed from September 3 to September 19, 2019. The survey was conducted online, with a five-level Likert scale used for responses. The 2019 results for DB PFK Group were separately evaluated as part of the Deutsche Bank Spotlight People Survey. The survey is not comparable with earlier Postbank employee surveys and includes this year for the first time questions about the feedback culture.

In 2019, customer satisfaction was also measured in separate processes at the former Postbank and in the other business units of Deutsche Bank Group.

In the retail and commercial banking business not part of the Postbank brand, customer surveys, interviews and mystery shopping were used to measure customer satisfaction and retention, indicators that are integral parts of branch target agreements. In Germany, 180,000 customers in 2019 provided feedback on their satisfaction with us, using self-service terminals and online banking. To ensure that our advisory processes are oriented steadily on the needs of customers, we regularly monitor them with mystery shopping. Feedback on our advisory services was obtained in customer satisfaction interviews conducted in collaboration with an independent market research institute. What's more, in Germany, 2,000 test purchases were made in 512 branches where we currently offer Deutsche Bank brand products and services. These tools

provide us with the opportunity to improve our advisory processes, comply with statutory requirements and, as a result, increase customer retention.

For the Postbank brand, which we operate in 807 branches in Germany, customer satisfaction is monitored with the help of telephone interviews. A structured questionnaire with consistent core content is used to ensure that trends in the management indicators are comparable. In addition to those core issues that are surveyed on an on-going basis, whenever necessary the Bank also measures and evaluates other matters including topics of current relevance.

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 Postbank brand 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 handling. Customer satisfaction is measured using a verbalized scale from one to five (1 = completely satisfied, 5 = dissatisfied). 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 noninterest 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 instead.
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)	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 DB Group-external business are taken into consideration.
Leverage Ratio	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 DB Group-external counterparties.

Management at DB PFK is based on an integrated 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 DB 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 40 to the consolidated financial statements.

Nonfinancial 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 nonfinancial report that is separate from the Group management report. As a result, DB PFK, as a subsidiary of Deutsche Bank AG, Frankfurt am Main, is exempt from the obligation to issue a consolidated nonfinancial statement in accordance with Section 315b(2) of the *Handelsgesetzbuch* (HGB - German Commercial Code). The Nonfinancial Report is published on the Deutsche Bank website (https://www.db.com/ir).

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.

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

The target value for the Supervisory Board in this context is 30%. As of December 31, 2019, 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 had three female members. 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 December 31, 2020. As of December 31, 2019, the percentage of women on the first level below the Management Board (VS-1) was 18% and on the second level (VS-2) 26%. The percentage at the first level is thus slightly below set target values. The set percentage for the second level was achieved.

Despite these significant, positive gains, the nonachievement of the targets on one level can be attributed to a historically conditioned and rather weak starting point. 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 banking 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 3,300 Deutsche Post AG partner retail outlets where customers can utilize select Postbank brand financial services. In Germany, we offer cash services at more than 10,000 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 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. There are no differences between management accounting and IFRS financial accounting.

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.

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’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.

During the reporting period, the allocation of earnings contributions to the segments in the corporate divisions has been modified as follows:

The infrastructure functions of the Postbank brand segment were separated from the sales units and presented in the „Other“ segment as part of the integration with Deutsche Bank brand’s infrastructure functions. Next, the infrastructure costs were correctly allocated to their originators in the Deutsche Bank and Postbank brand segments. In addition, income from money and capital market activities of the Postbank brand, the Deutsche Bank brand, and the other income of the two brands that could not be allocated to the products (retail and commercial banking customers) were allocated to the „Other“ segment.

The resulting adjustments made retrospectively can be found in the section “Segment Results of Operations”.

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

Deutsche Bank brand

The results generated in this corporate division in the retail and commercial banking 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 banking 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 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 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 obtained from 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 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.

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. Other items reported under this brand are the 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 obtained from the parent company.

“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 and the Postbank brand, and earnings effects from transactions with the parent company. Income and expenses from the largely independent money and capital market activities of the Postbank brand 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. In addition, income from money and capital market activities of the Deutsche Bank brand and the remaining income not attributable to the products (retail and commercial banking customers) of both brands are allocated from now on to the “Other” segment.

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. The merger of the business into one company and the joint management of the brands Deutsche Bank and Postbank for the retail and commercial banking business in Germany within Deutsche Bank Group are fundamental to further integration and the achievement of targeted synergies.

The 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 the condition for long-term profitability. 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. In May 2019, consequently, DB Bauspar was merged with BHW. Additional synergies are generated from the digitization of core products and a streamlined product offer.

Both brands will also 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 in line with customer needs.

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.

Progressive optimization of our branch network and increased process automation have already put DB PFK on the right path toward achieving the above-mentioned goals.

On July 7, 2019, our parent company Deutsche Bank AG announced a fundamental strategic realignment focused henceforth on four customer-oriented divisions. In the course of this realignment, plans were made to utilize the accelerated integration of Postbank and Deutsche Bank to generate cost savings in the new retail banking segment.

On December 10, 2019, the Bank announced additional details about the purposed transformation and integration of Postbank. The strategy of July 7, 2019, was set forth in detail and expanded. According to the new particulars, greater synergy effects than originally foreseen at the time of the July announcement are to be primarily achieved by accelerating the IT migration and optimizing central functions.

Projects were launched at the level of Deutsche Bank AG as the superordinate parent company of DB PFK AG to optimize the DB Group structure. In this context Deutsche Bank AG is currently considering a merger of its subsidiary DB PFK AG.

Key Events in DB PFK Group in Fiscal Year 2019

There were no key events in DB PFK Group in fiscal year 2019.

Economic Environment

The global economy

Economic growth (%)[1]	2019[2]	2018	Main driver
Global Economy	**3.1 %**	3.8 %	Due to trade-related and geopolitical uncertainties international trade and global industrial production weakened noticeably. Although trade policy and Brexit finally took a rather constructive path, in the course of the year trade policy in particular undoubtedly slowed down economic growth in both industrialised countries and emerging markets.
thereof: Industrialized countries	1.7 %	2.2 %	Slowing momentum of global trade adversely affected industrialized countries. The realignment of global value chains weighed on economic activity, while domestic demand remained a solid pillar of growth.
Emerging markets	4.0 %	4.9 %	Emerging markets were also negatively affected by trade tensions and the related slowdown of world trade. As a result, economic growth decelerated markedly in major emerging market regions.
Eurozone Economy	**1.2 %**	1.8 %	Trade tensions and the lingering Brexit as well as regional political uncertainties weighed on Eurozone economic activitiy. Domestic demand was the mainstay of growth. Nevertheless, there were initial signs of negative spillovers from the externally driven weakness of the industrial sector. The ECB reinitiated net asset purchsases, thereby further easing monetary conditions.
thereof: German economy	0.6 %	1.4 %	The German manufacturing industry has fallen into recession. The slowing world trade, and idiosyncratic factors (auto sector) led to a slowdown in production and order intake. In contrast, the construction and the more domestic oriented services industries continued to expand. Private consumption was supported by a strong labour market.

[1] Annual real GDP growth (year-on-year in %). Sources: National authorities unless otherwise stated
[2] Source: Deutsche Bank Research

Banking industry[1]

YoY growth (in %)	Corporate Lending	Retail Lending	Corporate Deposits	Retail Deposits	Main driver
Eurozone	1.5 %	3.3 %	6.0 %	5.4 %	Stable loan growth; deposit growth has accelerated and is now the highest since the financial crisis.
Of which: Germany[1]	5.7 %	4.5 %	4.2 %	4.8 %	Due to record-low and partly negative interest rates, strongest loan expansion since the financial crisis. Nevertheless, similar growth in deposits.

[1]Source: Deutsche Bank Research forecast

Consolidated Results of Operations

in € m. (unless stated otherwise)	Jan.-Dec. 2019	2018	Absolute Change	Change in %
Net revenues:				
Thereof:				
Deutsche Bank brand	2,921	2,838	83	3
Postbank brand	3,143	3,453	-310	-9
Other	−128	32	-160	N/M
Total income	5,936	6,323	-387	-6
Loan loss allowance	-233	-213	-20	9
Noninterest expenses				
Compensation and benefits	-2,310	-2,356	46	-2
General and administrative expenses	-2,680	-2,701	21	-1
Total noninterest expenses	-4,990	-5,057	66	-1
Net income (loss) before tax	713	1,053	-340	-32
Income tax expense (–)/benefit	-91	-47	-44	94
Net income/loss (–) after tax	622	1,006	-384	-38

Segment Results of Operations

The following tables show the cumulative results of operations of the segments, including the reconciliation to the IFRS consolidated financial statements, in each case for fiscal years 2019 and 2018. All of the comparisons in the following disclosures on the segments refer to the retrospectively adjusted amounts for fiscal year 2018.

in € m. (unless stated otherwise)	Deutsche Bank brand	Postbank brand	Other	Jan.-Dec. 2019 Total Group
net interest income	1,992	2,273	−582	3,683
loan loss allowance	−25	−210	3	-233
Net interest income after loan loss allowance	1,967	2,063	−579	3,450
Net commissions and fee income	870	871	80	1,821
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	21	–	−1	21
Net gains (losses) on financial assets at fair value through other comprehensive income	–	–	113	113
Other income (loss)	38	−1	261	298
Total noninterest income	929	870	454	2,253
Compensation and benefits	−767	−677	−865	−2,310
General and administrative expenses	−1,451	−1,861	631	−2,681
Total noninterest expenses	−2,218	−2,538	−235	−4,990
Income (loss) before income tax	678	395	−360	713

in € m. (unless stated otherwise)	Deutsche Bank brand	Postbank brand	Other	Jan.-Dec. 2018 Total Group
net interest income	1,910	2,270	−167	4,012
loan loss allowance	−31	−182	1	−213
Net interest income after loan loss allowance	1,879	2,087	−166	3,799
Net commissions and fee income	822	870	65	1,757
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	17	–	−25	−8
Net gains (losses) on financial assets at fair value through other comprehensive income	–	–	110	110
Other income (loss)	39	1	411	452
Total noninterest income	878	872	562	2,311
Compensation and benefits	−808	−689	−858	−2,356
General and administrative expenses	−1,563	−1,713	574	−2,702
Total noninterest expenses	−2,371	−2,402	−284	−5,057
Income (loss) before income tax	386	557	111	1,053

The allocation of earnings contributions to the segments was modified in the reporting period in order to more accurately reflect management responsibility.

As a result, the infrastructure functions of the Postbank brand segment were separated from the sales units and presented in the "Other" segment as part of their integration with the Deutsche Bank brand's infrastructure functions. In the next step, the infrastructure costs (except for infrastructure costs relating to money and capital market activities) were allocated to the Deutsche Bank and Postbank brands on the basis of the origination of those costs. In addition, income from money and capital market activities of the Postbank and Deutsche Bank brands and the remaining income not attributable to the products (retail banking customers and commercial clients) of both brands are now allocated to the "Other" segment.

Corporate Divisions

The intraperiod adjustment of earnings contributions to the segments in the reporting period referred to in the "Segment Results of Operations" section were not reflected in the prior-year projection. For this reason, any comparison between the 2019 reporting period and the 2019 projection must therefore consider this adjustment.

Deutsche Bank brand

Net income (loss) before tax

Net income before tax generated by our Deutsche Bank brand was €678 million in the reporting period, following €386 million in the prior-year period. This increase in earnings was achieved in a persistently challenging market environment, due in particular to the continued low level of interest rates. The increase was primarily due to the higher net commissions and fee income and net interest income compared with the prior-year period, as well as to a decline in noninterest expenses.

Net income before tax in the reporting period was higher than the level of projected net income before tax for 2019. This was due primarily to a volume-driven increase in liquidity remuneration by the parent company DB AG compared with the projection.

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, total income rose by €133 million or 5% year-on-year to €2,921 million.

Net interest income increased by €82 million or 4% to €1.992 million. This increase was driven by higher liquidity compensation for increased deposit volumes within the Group. Offsetting factors were the impact of the low interest rate environment on the deposit business and margin pressure in the lending business.

Total income in the reporting period was higher than the projection because of the volume-driven increased liquidity remuneration referred to above.

Noninterest income

Noninterest income was up €51 million or 6% year-on-year, at €929 million. This increase is attributable to the growth in net commissions and fee income. Net commissions and fee income rose by €48 million to €870 million, due largely to higher intermediary fees from the securities and retirement provision business and a slight increase in account services and payment transaction fees.

Loan loss allowance

At €25 million, the loan loss allowance was down year-on-year. This is attributable to positive intraperiod changes in inputs, mainly forward-looking information, in the reporting period. The sale of a loan portfolio in the prior-year period had an offsetting effect.

The loan loss allowance was lower than the 2019 projection. This is due to changes in inputs that were more favorable than the projection, mainly forward-looking information and recalibrations.

Total noninterest expenses

At €2,218 million, these expenses were €153 million lower than in the prior-year period. Compensation and benefits declined by €41 million or 5.1% due to a reduction in headcount. Additionally, general and administrative expenses shrank by €112 million or 7.2%, due largely to strict cost management in the area of discretionary spending.

Noninterest expenses in the reporting period were on a level with the expenses projected for 2019.

Postbank brand

Net income (loss) before tax

Net income before tax from business at our Postbank brand was €395 million in the reporting period, following €557 million in the prior-year period. The main reason for this deterioration in earnings was an impairment loss on software (€138 million) in the reporting period. Excluding this effect, net income before tax was down slightly year-on-year.

Net income before tax in the reporting period was lower than the 2019 projection. This is due primarily to the higher margin compression in the deposit business compared with the projection.

Total income

At €3,143 million, total income was almost on a level with the prior-year period.

Total income in the reporting period was below the total income projected for 2019, largely because of the margin compression referred to above. Lower income from securities brokerage compared with the projection also had an effect.

Interest-related income

At €2,273 million, net commissions and fee income was on a level with the prior-year period. The lower margins in the deposit business because of the low interest rate environment were offset by additional income generated by strong growth in all credit products and a moderate increase in account services and payment transaction fees.

Noninterest income

At €871 million, net commissions and fee income was on a level with the prior-year period. Lower income because of the amended postal services agreement with Deutsche Post AG was offset by the expansion of the brokerage business for securities and retirement products.

Loan loss allowance

The loan loss allowance increased from €182 million in the previous year to €210 million in the reporting period. This development is largely attributable to the higher loan loss allowance in the commercial clients business (€37 million), a settlement payment with a negative effect in the factoring business (€13 million), and the growth in the client lending business. Higher income from the sale of loan portfolios was an offsetting effect in the reporting period.

The loan loss allowance was higher than the projected level in the reporting period. This was largely because of the higher defaults in the commercial clients business and the negative effect of the settlement payment in the factoring business, as mentioned above, which were not reflected in the projection.

Total noninterest expenses

Noninterest expenses increased by €136 million to €2,538 million in the reporting period. General and administrative expenses rose by €148 million to €1,861 million. This is primarily a result of impairment losses recognized on software and a property in the reporting period. The reversal of a personnel leasing provision in the prior-year period also reduced expenses. By contrast, compensation and benefits declined by €12 million year-on-year due to a reduction in the headcount.

Noninterest expenses in the reporting period were in line with projections. Negative contributions from the impairment of software were almost fully offset by the adjustments to the allocation of earnings contributions in the reporting period.

“Other” segment

Net income (loss) before tax

The “Other” segment recorded a loss before tax of €360 million in the reporting period, following a profit of €111 million in the prior-year period. This is largely attributable to a number of offsetting nonrecurring factors. Income from the optimization of our real estate portfolio (€218 million) and from transactions with the parent company (€240 million) in the prior-year period was not repeated in the reporting period. The lower impact of investment costs and restructuring expenses incurred in the course of the integration of Postbank and Deutsche Bank (reporting period: €101 million, prior-year period: €268 million) had an offsetting effect.

The considerable decline in net income before tax compared with the net income before tax projected for 2019 is predominantly a result of the negative impact of yield curve effects on money and capital market activities, and the reclassification of infrastructure functions from the Postbank brand segment to the “Other” segment in the course of the changes to the allocation of earnings contributions to the segments.

Total income

The substantial decrease in total income is largely attributable to the positive effects of the optimization of the real estate portfolio and the transactions with the parent company in the prior-year period that were not repeated in the reporting period.

The considerably lower total income compared with the projection results mainly from the yield curve effect on money and capital market activities referred to above.

Interest-related income

Net interest income declined by €415 million year-on-year. This is attributable to higher negative effects from money and capital market activities (€140 million) as well as the discontinuation of positive contributions from transactions with the parent company (€240 million).

Noninterest income

Noninterest income declined by €108 million year-on-year to €454 million. The main driver of this decline was the positive contribution from the optimization of our real estate portfolio, as noted above, which was not repeated in the reporting period. Offsetting factors in the reporting period were primarily higher income from the sale of government and corporate bonds (€19 million), the sale of promissory note loans (€23 million), and positive effects from the measurement of investees (€20 million).

Total noninterest expenses

Noninterest expenses declined by €49 million to €235 million in the reporting period. This mainly reflected the lower impact of investment costs and restructuring expenses incurred due to the integration of Postbank and Deutsche Bank. Offsetting factors were the reversals of provisions in connection with adjustments to pension arrangements in the prior-year period.

The increase in noninterest expenses compared with the projected expenses is largely a result of the reclassification of Postbank brand infrastructure functions in the "Other" segment in the reporting period.

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, and 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 (loss) before tax	
in Mio €	2019	2018	2019	2018
Germany	5,866	6,270	696	1,068
Europe	70	53	17	-15
Total	**5,936**	6,323	**713**	1,053

Financial Position

in € m. (unless stated otherwise)	Dec 31, 2019	Dec 31, 2018	Absolute Change	Change in %
Cash and central bank balances	26,150	20,130	6,020	30
Interbank balances (excluding central banks)	41,658	42,731	−1,073	−3
Central bank funds sold, securities purchased under resale agreements	4,082	298	3,784	N/A
Financial assets at fair value through profit or loss	6,117	5,005	1,112	22
Positive market values from derivative financial instruments	5,711	4,434	1,277	29
Total nontrading financial assets mandatory at fair value through profit and loss	406	571	−165	−29
Total financial assets designated as at fair value through profit or loss	–	–	–	N/A
Loans at amortized cost	196,772	189,748	7,024	4
Brokerage and securities related receivables	395	278	117	42
Other assets	12,395	17,926	−5,531	−31
Total assets	**287,569**	276,116	11,453	4
Deposits	240,481	225,985	14,496	6
Central bank funds purchased, securities sold under repurchase agreements	–	1,135	−1,135	N/M
Financial liabilities at fair value through profit or loss	4,921	3,689	1,232	33
Negative fair values from derivative financial instruments	4,921	3,689	1,232	33
Noncurrent liabilities	27,727	29,953	−2,226	−7
Brokerage and securities related payables	90	88	2	2
Other liabilities	5,811	7,210	−1,399	−19
Total liabilities	**279,030**	268,060	10,970	4
Total equity	**8,539**	8,056	483	6

DB PFK discloses contingent liabilities of €32.4 billion in the reporting period (previous year: €31.9 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 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, 2019, were €287.6 billion, and thus rose by €11.5 billion (or 4.2%) compared with December 31, 2018.

Cash and central bank balances, as well as receivables from securities transactions, rose by €6.0 billion and €3.8 billion, respectively, in the course of liquidity investments. On the other hand, interbank balances declined by €1.1 billion.

Financial assets at fair value increased by €1.1 billion in particular because of changes in the fair value of derivatives, which were offset by a corresponding increase in liabilities.

Loans increased by €7.0 billion. This is mainly attributable to the strong growth, in particular in private mortgage lending.

In addition, other assets decreased by €5.5 billion, primarily because of the sale of fixed-rate securities.

Changes in liabilities

Total liabilities as of December 31, 2019, rose by €10.9 billion (or 4.1%) compared with the end of the prior-year period.

Deposits rose by €14.5 billion, buoyed among other things by an increase in noninterest-bearing demand deposits and an increase in our clients' savings deposits driven by deposit campaigns. Noncurrent liabilities decreased by €2.2 billion, due largely to maturities.

Additionally, financial liabilities at fair value increased by €1.2 billion. This change is related to the increase in financial assets at fair value described above and is attributable to changes in the fair value of derivatives.

Central bank funds purchased, securities sold under resale agreements (repos), and securities loaned declined by €1.1 billion, due in particular to the maturity of a government bond loaned to the DB Group.

The €1.2 billion decline in other liabilities is largely attributable to the payment of the profit transfer to the DB Group in the prior-year period.

Changes in equity

Recognized equity increased by €0.4 billion to €8.5 billion as of December 31, 2019. This overall positive trend is the result of offsetting movements: An increase in retained earnings in the amount of consolidated net income and the loss absorption based on the control and profit and loss transfer agreement on the one hand, and a reduction in retained earnings due to a change in actuarial assumptions related to defined benefit pension plans 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 are 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 the recognized equity of the DB PFK subgroup, including the net income as of the relevant reporting date after taking account of the control and profit and loss transfer agreement, 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 12.3% (2018: 12.6%) and the leverage ratio is 3.4% (2018: 3.3%). The internal thresholds for the two capital ratios defined for management purposes, as described above, were exceeded at all times.

Financial and nonfinancial key performance indicators

At €713 million, net income before tax in the reporting period was down €340 million year-on-year. Profit in the reporting period and the prior-year period was impacted in each case by a range of material nonrecurring factors. Impairment losses on software (€138 million) were a significant negative factor in the reporting period, while higher positive contributions from the sale of loan portfolios (reporting period: €68 million, prior-year period: €26 million) were a significant positive factor. The discontinuation of transactions with the parent company (€240 million) was also a negative factor. In addition, the prior-year period saw material nonrecurring effects, in particular from the optimization of our real estate portfolio (€218 million) and higher investment costs in the early phase of integrating our two brands (reporting period: €101 million, prior-year period: €268 million).

At 6.4%, the return on tangible equity (RoTE) after tax for the reporting period was 4.5% lower than in the prior-year period (10.9%). This is attributable to the relatively stronger capitalization of DB PFK in fiscal year 2018 and the lower net income

before tax. Taking usual negative effects within Deutsche Bank Group into account, the Group ratio would be considerably lower.

The cost/income ratio was 84.1% in the reporting period, compared with 80.0% in the prior-year period.

As expected, the CET1 ratio for the DB PFK subgroup, which is determined largely in compliance with the CRR and used for internal management purposes, remained approximately on a level with the previous year. Due in particular to the positive change in net income, Common Equity Tier 1 capital recorded an increase, which was offset in part by a rise in the present value of defined benefit obligations because of the decline in capital market interest rates. The scheduled expansion in new lending business and specific regulatory factors (ECB TRIM process) resulted in an increase in risk-weighted assets (RWAs). Overall, the DB PFK subgroup's solvency trend in the reporting period was stable, as expected, slightly beating the internal projection as of the year-end.

The leverage ratio determined for internal management purposes also rose in the reporting period, reflecting the positive capital trends described above. This more than offset the growth in total assets.

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

62% of DB PFK's employees participated in the Deutsche Bank Group's employee survey. The results for 2019 also contain the responses by employees of the former Postbank, which were not contained in the 2018 results. Comparability of the results is therefore limited. The approval ratings in the Commitment and Enablement categories rose compared with the prior-year period, reaching 55 and 65 points, respectively, following 51 and 61 points (on a scale of 0–100) in the prior-year period.

The employee survey was conducted in the period September 3 to 19, 2019.

Client satisfaction in the Private Bank segment of DB AG, specifically the Deutsche Bank brand, rose slightly year-on-year.

Client satisfaction of the retail clients of the Postbank brand declined slightly in 2019 compared with the prior-year period. Factors weighing on client satisfaction in the reporting period were mainly branch closures and client-related modifications in the online banking offering.

Events after the reporting date

Developments around the COVID 19 disease in 2020 so far suggest that, in the first half of 2020, global economic growth is expected to be negatively impacted by the spread of the disease and the resulting disruption of economic activity, which could impact our ability to generate revenues and negatively impact specific portfolios through negative rating migrations, higher than expected loan losses and potential impairments of assets. The current COVID 19 pandemic and its potential impact on the global economy may affect our ability to meet our financial targets. While it is too early for us to predict the impacts on our business or our financial targets that the expanding pandemic, and the governmental responses to it, may have, we may be materially adversely affected by a protracted downturn in local, regional or global economic conditions.

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

Interest rate environment

We believe the Bank will continue to face the challenges of a low interest rate environment in fiscal year 2020 as well.

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.

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 operations, 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 legal disputes and are subject to regular tax audits whose outcome is difficult to estimate and which may 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 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 alongside the corresponding income risks and resultant investment pressure in our domestic market. 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.

Opportunities

Execution of strategy

The successful implementation of our strategy will open up diverse opportunities for DB PFK. These include 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.

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, some 19 million customers will be offered new services and have their everyday banking activities made simpler.

This 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 banking customers 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 are offered reciprocally and thus to a larger range of clients.

Risk Report

Summary Overview of Risk Exposure

The business model of DB Privat- und Firmenkundenbank AG (DB PFK AG) focuses on lending and deposit business with retail banking customers and commercial and corporate clients in Germany. The associated risk profile is monitored by the capital and liquidity management unit of the DB Privat- und Firmenkundenbank Group (hereinafter DB PFK, the Group or the Bank) within the framework of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) based on a common system of boards and committees and uniform reporting lines as well as a uniform definition of risk, an overarching risk strategy, and a regular reporting cycle that includes all risk types.

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. With respect to capital management at DB PFK Group, this Risk Report only deals with the internal control framework.

During the reporting period, DB PFK's risk management activities extended to continuing to merge the management approaches of the former Deutsche Bank Privat- und Geschäftskunden AG and the former Deutsche Postbank AG. In this context, the internal risk management organization was restructured in the second half of 2019. Some of the steps involved in integration depend on technical implementation, which could lead to changes in risk management processes in the coming years.

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 limited as part of the internal capital adequacy assessment process (ICAAP). During the period under review, all limits established at Group level were adhered to at all times. Economic capital consumption remained largely stable in the reporting period. 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 Bank has observed initial signs of an economic downturn in some sectors. Given the composition of its loan portfolio, however, DB PFK benefitted from an economic climate in Germany that is basically solid thanks to low unemployment levels and which offers additional opportunities for expanding lending to retail banking customers and commercial clients. DB PFK thus further grew its lending business with retail banking customers and commercial and corporate clients during the period under review. Credit risk in the Bank's existing business continued to be positively impacted by the macroeconomic environment prevailing in Germany. As of the reporting date, the Bank's provision for credit losses was down on the prior-year level. Nonrecurring income from the sale of nonperforming loans in the retail banking segment more than compensated for the negative effects of significant individual losses in the corporate segment. The Bank anticipates having to increase the loan loss allowance in the coming years based on expectations of a downturn in the general economy.

Market risk at DB PFK is influenced in particular by interest rate and credit spread trends in the European capital markets. In the first three quarters of the reporting period, euro interest rates registered a slight decline. However, the fourth quarter saw a rate increase. Credit risk premiums for European companies dropped slightly on average during the reporting period. Given these market conditions, the risk capital needed to cover market risk (economic capital) was at a moderate level as of the reporting date thanks to the Bank's widely diversified portfolio.

With respect to operational risk, the main impact on VaR in the recent period came from legal actions and complaints brought by customers in connection with the sale of closed-end funds as well as actions and complaints relating to consumer protection rulings. Although the number of such proceedings increased compared with the long-term average, a considerable decline was recorded on a year-on-year basis. The focus in the retail lending business was 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. Attacks on automated teller machines (ATM bombings), which resulted in high losses in the previous year, decreased significantly compared with the prior-year period. The loss trend for the reporting period was driven primarily by two major cases of fraud in the corporate client business. However, the total loss amount was below the prior-year level.

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

In other respects, the political uncertainty that continues to prevail could result in greater market volatility, which could put the Bank's assets at risk.

Based on the composition of its customer portfolio and the analyses conducted, the Bank expects to be only minimally impacted by the anticipated effects of Brexit. Therefore, DB PFK does not see any notable default or liquidity risk in this context.

The current COVID 19 pandemic and its potential impact on the global economy may affect our ability to meet our financial targets. While it is too early for us to predict the impacts on our business or our financial targets that the expanding pandemic, and the governmental responses to it, may have, we may be materially adversely affected by a protracted downturn in local, regional or global economic conditions. Given the uncertainty around extent, duration and market spillover of COVID 19, our forward looking assumptions do not currently consider any of its potential impacts. While COVID 19 could affect the drivers of our key performance indicators and key risk metrics, its impact with regard to its negative attributes cannot be quantified yet due to the aforementioned uncertainties.

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

DB PFK is incorporated into the Single Supervisory Mechanism (SSM) via Deutsche Bank Group. As part of Deutsche Bank Group, DB PFK is under the direct supervision of the European Central Bank (ECB). In addition, DB PFK is in regular communication with the German regulator.

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 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. The integration allows the Group parent to exercise the necessary control. In addition, an established risk governance structure shared with Deutsche Bank AG ensures a common risk culture throughout the Group.

DB PFK is included in Deutsche Bank Group's processes for identifying, assessing, measuring, controlling, monitoring, and communicating risk, which deliver an end-to-end overview of the risk situation and the institutional protection scheme as a whole. DB PFK submits regular risk reports to Deutsche Bank Group in the context of Deutsche Bank's group-wide risk reporting and control system. 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) and (2) of the KWG (subsidiary waiver).

During the reporting period, DB PFK's risk management activities extended to the measures necessary to continue merging the management approaches of the former Deutsche Bank Privat- und Geschäftskunden AG and the former Deutsche Postbank AG. For example, the Financial Markets and Treasury approaches were harmonized, which led to changes in the management of liquidity and market risk.

Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main, which was already included in the basis of consolidation in accordance with the German Commercial Code in the prior-year period, was retrospectively merged with BHW Bausparkasse Aktiengesellschaft, Hameln, effective January 1, 2019, on entry of the merger in the commercial register on May 17, 2019. The merger had no effect on the recognition and measurement of items in DB PFK's consolidated financial statements. The portfolios of the former Deutsche Bank Bauspar-Aktiengesellschaft have been integrated into DB PFK's Group-wide risk management process. The initial steps involved in the integration are expected to occur in the first half of 2020 for both entities.

Some of the steps involved in integrating the two banks depend on technical implementation, which could lead to changes in risk management processes in the coming years.

DB PFK's risk position, its risk management system, and the measures implemented are described in detail in the following.

Types of Risk

The nature of DB PFK's business operations exposes it to a variety of risks. At least once per year, a risk register is prepared in which all risks to which the Bank is exposed are set out.

All identified risks are examined to determine their materiality. When compiling the risk register, DB PFK uses instruments that, in aggregate, cover all material organizational areas, including the Bank's significant equity investments. The risk types identified as material in the risk register comprise financial risks such as credit risk, market risk, business risk, and liquidity risk, risks to capital/group risk, and nonfinancial risks such as operational risk and reputational risk. All material risk types are subject to uniform risk management standards, including integration into risk governance and the 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 internal capital adequacy assessment process (ICAAP). 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 is 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 could occur due to variances between the actual and the forecast behavior of the home savings collective, insofar as such variances result from differences in actual versus forecast new business volumes or an incorrect estimation of customer behavior;

f) real estate risk, i.e., rental default risk and risk associated with losses on disposals of 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 nonperformance 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 noncompliance 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 of underestimating own funds requirements when using internal models that have been approved by the regulator and the risk of losses relating to the development, implementation, or improper use of any other models used for decision making purposes.

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 nonfinancial 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 nonfinancial) 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 compiling the risk register, 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 included in the context of monitoring 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 capital 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. No systematic increase in risk appetite occurred in any of the Bank's business units in 2019.

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 acts as a consultant in matters of risk management and makes key decisions on risk strategy. 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)	PB GY Non-Financial Risk Management Council (NFRC)	Covered Bond Committee (CBC)	Model and Validation Committee (MVC)
Frequency of meetings	Monthly	Quarterly	Bi-monthly	Quarterly	Quarterly	Monthly
Tasks	Advise the Management Board on risk management issues: - Strategic management of all material risks - Define risk appetite (economic, regulatory) - Define risk strategies and risk profile - Allocate risk capital - Establish measures to limit and manage Bank-wide risk positions	- Calculate risk appetite as part of developing strategies for customer products - Allocate credit risk limits - Define limit system - Analyze and evaluate credit risk - Issue credit risk management guidelines	- Manage risk and periodically monitor market and credit risk in capital market transactions - Allocate market risk limits - Establish contingency plans for liquidity and market price risk - Analyze and evaluate other market risk (e.g., collective risk, savings and current account risk, and other pension risk) - Manage strategic focus of the banking book	- Review and monitor the nonfinancial risk portfolio for products and legal entities - Monitor material nonfinancial risks and ensure adherence to the NFR strategy - Define minimum requirements for nonfinancial 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 and manage model risk - Change and approve models subject to the validation responsibilities of the Model Risk function - Validate all models annually - Monitor and validate all ratings systems and risk classification procedures

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 Credit Risk Committee (CRC), the Market and Liquidity Risk Committee (MLRC), the PB GY Non-Financial Risk Council (NFRC), the Covered Bond Committee (CBC), and the Model and Validation Committee (MVC) are all headed up by members of the Bank's senior management. These committees perform their duties in close cooperation with the PFK Risk Committee and the units responsible for operational risk management. The committees are supported by other committees and councils responsible for operating management – for example outsourcing, data quality management, and changes in the regulatory environment. Those committees also report to the PFK Risk Committee.

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 ensures that credit processing standards are complied with and performs central project and resource management for the CRO board department. The Risk Control unit ensures that all risk types are managed. This occurs in cooperation with the Chief Credit Office (Retail Banking) and the Chief Credit Office (Corporate Banking). The Credit Office, which comprises the Credit Analysis unit and the Collections, Recovery & Workout unit, bundles all credit decisions and organizes the implementation of business and risk strategies in close

cooperation with the sales units. Models are developed by the Risk Control unit, which is organized under the Non-Financial Risk and Validation unit to ensure independent validation. The Risk Control unit is also responsible for settling trades and managing collateral.

The CRO board department was restructured at the start of 2019, in the course of which the responsibilities of the Risk Management unit were transferred to the Risk Control and Non-Financial Risk & Validation units. The Group Risk Management and Credit Risk Management departments were combined in the process, as were the Market and Liquidity Risk Management departments.

The following overview illustrates the roles of the individual units within the CRO board department as of year-end 2019.

Risk management units and tasks

Unit	Tasks
Chief Operating Office	- Planning, managing, controlling, and reporting costs and available resources and CRO board department projects - Updating credit regulations and guidelines - Coordinating supervisory communications
Risk Control	- Updating the risk management and control system (primarily for credit, market and liquidity risks) - Maintaining the risk register - Deciding on strategy and risk policy - Monitoring risks and processes - Preparing reports and analyses - Developing and calibrating models - Performing stress tests and monitoring the risk management and control system
Non Financial Risk & Validation	- Overseeing the internal control system - Managing business continuity and outsourcing processes - Funneling risk control and feedback specifications and information security monitoring actions into an independent, central security organization - Overseeing access management - Managing operational risk - Validating models
Chief Credit Office (Retail Banking)	- Managing risk strategy and risk appetite in the retail banking loan portfolio - Managing operational and strategic credit risk with the help of suitable tools
Chief Credit Office (Corporate Customers)	- Approving, servicing, monitoring and processing loans in the nonretail segment - Handling special servicing for banks, governments, corporations, and real estate financiers (large cap portfolios/financial institutions, commercial mortgages, SMEs)
Collections, Recoveries & Workout	- Issuing a second opinion in the credit award process - Handling watch list and workout cases - Resolving nonperforming loans, including liquidating the collateral - Monitoring adherence to lending processes and credit limits - Maintaining the cover register and ensuring that the required cover is in place for Postbank Pfandbriefe

The Bank also plans to integrate the Compliance and the Anti-Financial Crime units into the CRO board department in 2020.

Regular seminars, flanked by DB PFK's training offerings, 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, 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.

Market risk is managed at DB PFK by setting strategic targets – for example to ensure stable interest income from 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. DB PFK's Treasury unit is responsible for all market risk positions arising in the pursuit of purely strategic goals. The Financial Markets unit manages market risk at an operational level. The market risk limit monitoring and reporting function is handled centrally by the Market & Liquidity 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 at a local level as part of operational risk management.

Operational management of liquidity and of the liquidity buffer necessary for managing liquidity risk is carried out by the Financial Markets unit. Liquidity risk is monitored centrally by the CRO board department. The primary task of the Market & 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. 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 shortfalls.

The Bank's rating models are developed and calibrated by the Risk Modeling department in cooperation with Deutsche Bank Group, whereas the credit risk limit monitoring, reporting, and steering functions are handled by the Risk & Portfolio Strategy department. The Chief Credit Office (Retail Banking) and the Chief Credit Office (Corporate Banking) are responsible for managing individual positions. 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 management levels in the various board departments and subsidiaries. They are supported in this by local OpRisk managers in the various divisions and subsidiaries. Responsibility for identifying and managing legal risk lies primarily with the Legal Affairs unit of DB PFK. The risk control function for legal risk is carried out by the Operational Risk Management department that forms part of 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 by the Non-Financial Risk Council or, in the event of material risk, by DB PFK's risk committee (the 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 Bank's current total exposure (VaR). DB PFK's internal capital adequacy was assured at all times from both perspectives.

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 internal management calculation of Tier 1 capital, which occurs largely in compliance with the CRR, is based on the recognized equity of the DB PFK Group, including the Group's net income as of the respective reporting date after accounting for the control and profit and loss transfer agreement with respect to the prudential scope of consolidation at the level of the DB PFK subgroup established in compliance with the policies of Deutsche Bank Group.

Common Equity Tier 1 Capital (CET1) is calculated by adjusting Tier 1 capital to reflect prudential filters and deductions, which are calculated to the greatest possible extent in compliance with the CRR. 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. 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 of Deutsche Bank Group are assigned a risk weight of 0% in line with Article 113(6) of the CRR and excluded from the calculation of leverage exposure in line 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 above assumptions, a Tier 1 capital ratio of 12.3% was calculated for the DB PFK Group's internal control system (previous period: 12.6%) in line with the provisions of the CRR. The decrease in the Tier 1 ratio in the reporting period was expected and resulted from an increase in risk-weighted assets (RWAs). In addition to business growth, the decrease was due to special regulatory factors.

The tables below show the composition of Tier 1 capital by risk type.

Tier 1 capital ratio

in €m	Dec 31, 2019	Risk-weighted assets (%)
Credit and counterparty risk (including CVAs)	57,850	85%
Market risk positions	89	0%
Operational risk	9,827	15%
Total risk-weighted assets	**67,766**	**100%**
Common Equity Tier 1 capital (CET1)	8,351	12%
Additional Tier 1 capital (AT1)	–	–
Tier 1 capital	**8,351**	**12%**

Tier 1 capital ratio – comparative period

in €m	Dec 31, 2018	Risk-weighted assets (%)
Credit and counterparty risk (including CVAs)	52,872	85%
Market risk positions	89	0%
Operational risk	9,297	15%
Total risk-weighted assets	62,258	100%
Common Equity Tier 1 capital (CET1)	7,826	13%
Additional Tier 1 capital (AT1)	–	–
Tier 1 capital	7,826	13%

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 the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management).

The allocation of DB PFK's risk cover amount by risk type, after factoring in correlation effects, was as follows as of the reporting date:

Total risk exposure – internal capital adequacy

in €m			Dec 31, 2019
Risk category	Utilization	Risk capital	EC adequacy ratio
Credit risk	2,391	3,000	80%
Market risk	1,913	3,000	64%
Operational risk	918	1,200	77%
Business risk	–	500	0%
Subtotal	**5,222**	**7,700**	**68%**
Diversification effect	606	1,087	0%
Total	4,616	6,613	70%
Available risk cover	3,735		
Risk cover amount	**8,351**		
EC adequacy ratio	**181%**		

Total risk exposure – internal capital adequacy – comparative period

in €m			Dec 31, 2018
Risk category	Utilization	Risk capital	EC adequacy 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	0%
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 to the risk cover amount after diversification. The economic capital adequacy ratio was 181% as of the reporting date (previous period: 173%).

In addition to limiting risk exposure among the individual risk types on the basis of 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.

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, 2019, reporting date, utilization of DB PFK's risk capital allocated to market risk was 64% (previous period: 58%).

Credit risk limit utilization amounted to 80% as of December 31, 2019 (previous period: 79%).

Operational risk is managed using internal loss events. To calculate the economic capital needed to cover operational risk, OpRisk is computed for both the Bank as a whole and the individual business units using the dbLORE (db Local OR Engine) OpRisk capital model. The calculation is based on internal and external loss events. The information on external loss events is 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 VaR limit for operational risk at overall Bank level was €1,200 million as of the 2019 closing date. As of year-end 2019, 77% of the OpRisk limit had been utilized (previous period: 88%). In addition, DB PFK's business units have been allocated specific risk capital amounts. Utilization of these economic capital limits is reviewed at least once per 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 market risk and operational risk using the standardized approach (SA).

Risk concentrations and stress tests

Concentrations of credit risk, liquidity risk, market risk, and business risk 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 nonfinancial 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 of the reporting date, most credit facilities granted to DB AG by DB PFK that were still outstanding were in the < 3-month maturity band. For a quantitative presentation of related party transactions, please refer to Note 37 to the consolidated financial statements.

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. The new products processes of the former DB PGK AG and the former Deutsche Postbank AG have been 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 content	Frequency	Addressees
All risk types	Internal capital adequacy, individual risks, risk concentrations, earnings performance calculated periodically and on a present-value basis, stress test results	Quarterly	Supervisory Board, Risk Committee, Group Management Board, PFK Risk Committee
Market risk	Risk indicators, limit utilization, earnings performance calculated on a present-value basis, significant transactions	Daily	Group Management Board, operational front office units
	Market performance, changes in material market risks, limit utilization, earnings calculated on a present-value basis, risk indicators calculated on a present-value basis, stress test and scenario analyses, risk concentrations, backtesting results	Monthly	Group Management Board, Market and Liquidity Risk Committee, operational front and back office units

Topic	Report content	Frequency	Addressees
Credit risk	Counterparty limit monitoring	Daily	Group Management Board, operational front and back office units
	Economic capital (EC) reporting, key performance indicators, country risk, changes in loan loss allowances including variance analyses	Monthly	Operational back office units
	Portfolio performance/early warning, specific portfolio analyses, key performance indicators, rating distributions, country risk, limit utilization including variance analyses, problem loans/watch list, risk concentrations, changes in risk-weighted assets (RWA), changes in expected loss (EL), results of scenario analyses/stress tests, mandatory MaRisk disclosures	Quarterly	Group Management Board, Risk Committee, PFK Risk Committee, Credit Risk Committee
Liquidity risk	Liquidity status including limit utilization, cash flows, liquidity sources, stress tests (operational front office units only)	Daily	Group Management Board, Market and Liquidity 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 tests, 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 and Liquidity Risk Committee
Operational risk	Loss events, risk indicators, results of scenarios analyses and self-assessments, VaR limit utilization, risk assessments of new products and of the outsourcing of functions	Monthly	Group Management Board, Non-Financial Risk Council
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 risk, results of stress tests of savings and current account risk	Monthly	Group Management Board, Market and Liquidity 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

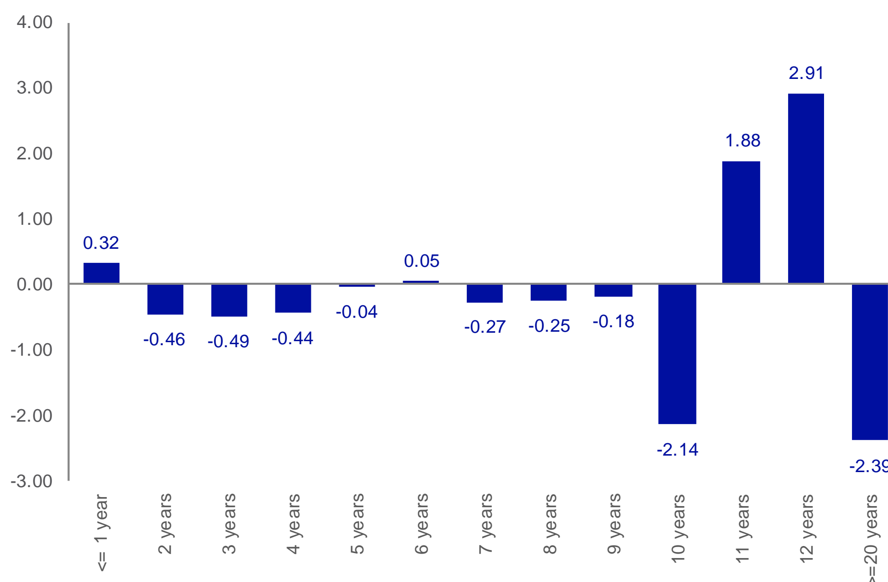
As of December 31, 2019, the VaR for market risk (confidence level of 99%, holding period of 10 days) totaled €54 million for all positions in which risk is actively taken (previous year: €48 million (DB PFK Group excluding DB Bauspar AG); €7.5 million (DB Bauspar AG)).

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. Risk control focuses on minimizing potential income statement risk arising from foreign currency positions. Foreign exchange risk is mainly incurred based on the currency positions held in an investment fund portfolio accounted for as plan assets to cover pension obligations. Positions held in foreign currencies are therefore of only minor significance in calculating market risk for DB PFK. The present value risk resulting from foreign currency positions is nonetheless included in the Bank’s calculations and reports of market risk. 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 equity investments.

Managing interest rate and credit spread risk

Analyzing interest rate and credit spread risk 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, 2019, in the form of a basis point value (bpv) presentation. IR exposure also includes the interest rate risk arising from defined benefit pension obligations and the related plan assets. The profile 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, 2019



The chart shows that positive interest rate exposures predominate in the maturity bands of 9 years and below. The negative exposures in the 12-year and 15-year maturity bands represent long-term mortgage liabilities hedged with swaps. Since those exposures do not account for the termination rights afforded under the German Civil Code, the resulting net exposure is negative. The positive exposures in the maturity bands of 20 years or more comprise the positive net exposure from mortgage lending (including interest rate hedging) and the negative net exposure from pension obligations. For more information on the different types of risk applicable to pension obligations, please refer to Note 32 of the notes to the consolidated financial statements ("Employee Benefits – Key risk sensitivities"). As of December 31, 2019, the total basis point value of the interest rate exposures was €–1.5 million.

The interest rate exposure of items recognized at fair value through other comprehensive income came to €–0.1 million as of December 31, 2019.

The Bank's EUR positions are the most susceptible to interest rate sensitivity. 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, 2019 reporting date, CS01 exposure for long positions in the banking book was €–10.2 million, €–6.2 million of which related to defined benefit pension plans and €–1.7 million of which to FVOCI positions.

Interest rate and credit spread risk 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 risk arising from unexpected customer behavior among holders of savings accounts and current accounts

Theoretical scenarios have been defined for customer transactions with nondeterministic 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 simulation models to quantify risk arising from the home savings collective. The models capture planned new contracts and expected behavior of home savings customers, 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 8(5) of the *Bausparkassengesetz* (BausparkG – German Bausparkassen Act). In addition, quality assurance is performed annually on the model in the form of backtesting and variance analyses.

Complex simulations of the home savings business, which apply a wide variety of parameters, are used to derive assumptions as to the behavior of home savings customers given different interest rate scenarios derived 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 simulations of the home savings collective incorporate 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 is 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 to ensure that their value is monitored on an ongoing basis.

"Investment risk" covers all equity investments and shareholdings in affiliated companies recognized in DB PFK's annual financial statements 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 undergo 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 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 nonretail 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 "nonrisk relevant lending transactions" (loans in a volume of up to €1 million).

Scoring and rating

The internal rating systems in use at DB PFK have either been approved for use under 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 ensuring compliance with methodological and procedural/organizational requirements, the rating systems are regularly tested for their suitability in classifying 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 and as needed (at least once per year). Batch ratings are issued for the retail portfolio each month. 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. The accuracy of the rating calibration is also reviewed in connection with the validation process. If the loss history calculated indicates that recalibration is needed, a recalibration request is sent to the model development department.

A Model and Validation Committee (MVC), which was established to provide process support, is responsible for communicating the results of the monitoring of internal rating processes to the Bank's MVC and the superordinate boards and committees. This ensures that the information is provided to management in accordance with the requirements of the credit risk monitoring unit. The Quality Assurance department, which is attached to the Chief Credit Office (Private Banking) within the CRO board department, is responsible for monitoring rating system processes. The Risk Standards department is responsible for monitoring rating system processes for corporate customers. 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. 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.

To mitigate credit risk, DB PFK uses mortgage liens as security for consumer and commercial real estate financing along with master netting agreements, trade credit insurance and guarantees. Financial collateral (cash) and physical collateral (assignments and transfers) are also furnished but are not included in the collateral security available for supervisory purposes.

Responsibility for managing collateral for DB PFK's 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 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 grown 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 nonretail 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 the relevant (early warning) risk indicators are present, and the loan may also be transferred to the Collections, Recoveries & Workout unit.

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. With respect to DB PFK Group as a whole, the largest single exposures – which must be approved by the Group Management Board – 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 Collections, Recoveries & Workout. The transfer occurs automatically for the most part on the basis of the criteria established.

The purpose of transferring an exposure to the workout and resolution unit is to take steps early on to either recover a nonperforming 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.

Risk provisioning

For information on risk provisioning at DB PFK, please refer to Note 2(d) to the consolidated financial statements ("Impairment and loan loss allowance").

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.

In line with the calculation of risk potential at Group level, 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 99.9%. 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, 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, 2019
Credit risk	Economic exposure	Expected loss	Economic capital[1]
Postbank brand	151,491	454	1,869
Deutsche Bank brand	78,128	131	522
Total	**229,619**	**585**	**2,391**

[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 on the following three aspects:

– maximum credit risk;
– concentrations of risk; and
– asset quality.

Maximum credit risk

The tables below show the maximum credit risk 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, as of the specified reporting date. 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, *Bürgschaften*, or assumptions of liability.

Maximum credit risk

					Dec 31, 2019
in €m	Maximum credit risk	Financial assets subject to impairment	Collateral	Guarantees and credit derivatives	Total reduction in credit risk
Financial assets at amortized cost					
Cash and central bank balances	26,150	26,150	–	–	–
Interbank balances (excluding central banks)	41,660	41,660	–	–	–
Central bank funds sold and securities purchased under resale agreements (reverse repos)	4,082	4,082	4,082	–	4,082
Securities borrowed	–	–	–	–	–
Loans	198,328	198,328	141,916	1,959	143,875
Other credit risk assets	7,763	6,231	–	–	–
Securities held to maturity	N/A	N/A	N/A	N/A	N/A
Total financial assets at amortized cost	**277,983**	**276,451**	**145,998**	**1,959**	**147,957**
Financial assets at fair value through profit or loss					
Trading assets	0	–	–	–	–
Positive fair values from derivative financial instruments	5,711	–	–	–	–
Nontrading financial assets at fair value through profit or loss	406	–	–	–	–
Securities purchased under resale agreements (reverse repos)	–	–	–	–	–
Securities borrowed	–	–	–	–	–
Loans	7	–	–	–	–
Financial assets designated as at fair value through profit or loss	–	–	–	–	–
Financial assets available for sale	N/A	N/A	N/A	N/A	N/A
Total financial assets at fair value through profit or loss	**6,117**	**–**	**–**	**–**	**–**
Financial assets at fair value through other comprehensive income					
Securities purchased under resale agreements (reverse repos)	–	–	–	–	–
Securities borrowed	–	–	–	–	–
Loans	–	–	–	–	–
Total financial assets at fair value through other comprehensive income	**2,949**	**2,949**	**–**	**–**	**–**
Financial guarantees and other contingent credit risk liabilities	870	870	198	55	253
Revocable and irrevocable loan commitments and other lending-related commitments	31,354	31,354	–	–	–
Total off-balance-sheet exposure	**32,224**	**32,224**	**198**	**55**	**253**
Maximum credit risk	**319,273**	**311,625**	**146,196**	**2,015**	**148,210**

Maximum credit risk – comparative period

in €m	Maximum credit risk	Financial assets subject to impairment[1]	Collateral[1]	Guarantees and credit derivatives[1]	Total reduction in credit risk[1]
					Dec 31, 2018
Financial assets at amortized cost					
Cash and central bank balances	20,130	20,130	–	–	–
Interbank balances (excluding central banks)	42,731	42,731	–	–	–
Central bank funds sold and securities purchased under resale agreements (reverse repos)	298	298	260	–	260
Securities borrowed	–	–	–	–	–
Loans	191,338	191,338	133,589	1,626	135,215
Other credit risk assets	7,806	6,224	–	–	–
Securities held to maturity	N/A	N/A	N/A	N/A	N/A
Total financial assets at amortized cost	262,303	260,721	133,849	1,626	135,475
Financial assets at fair value through profit or loss					
Trading assets	0	–	–	–	–
Positive fair values from derivative financial instruments	4,434	–	–	–	–
Nontrading financial assets at fair value through profit or loss	571	–	–	–	–
Securities purchased under resale agreements (reverse repos)	–	–	–	–	–
Securities borrowed	–	–	–	–	–
Loans	209	–	–	–	–
Financial assets designated as at fair value through profit or loss	–	–	–	–	–
Financial assets available for sale	N/A	N/A	N/A	N/A	N/A
Total financial assets at fair value through profit or loss	5,005	–	–	–	–
Financial assets at fair value through other comprehensive income					
Securities purchased under resale agreements (reverse repos)	–	–	–	–	–
Securities borrowed	–	–	–	–	–
Loans	–	–	–	–	–
Total financial assets at fair value through other comprehensive income	8,799	8,799	–	–	–
Financial guarantees and other contingent credit risk liabilities	787	787	72	29	101
Revocable and irrevocable loan commitments and other lending-related commitments	31,000	31,000	–	1	1
Total off-balance-sheet exposure	31,787	31,787	72	30	102
Maximum credit risk	307,894	301,307	133,921	1,656	135,577

[1] The information in the respective column has been adjusted.

The increase of €11.4 billion in maximum credit risk during 2019 was primarily due to substantial increases in the following balance sheet items: “Cash and central bank balances” (€+6.0 billion), “Securities purchased under resale agreements (reverse repos)” (€+3.8 billion), “Loans,” (€+7.0 billion), and “Positive fair values from derivative financial instruments” (€+1.3 billion). Two items recorded substantial decreases: “Total financial assets at fair value through other comprehensive income” (€–5.9 billion) and “Interbank balances (excluding central banks)” (€–1.1 billion).

Risk concentrations

The tables below illustrate the Bank’s exposure to risk by

- sector;
- region; and
- rating category

broken down into the IFRS 9 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.

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

Financial assets at amortized cost by sector[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Agriculture, forestry and fishing	428	46	7	481	0	1	2	4
Mining and quarrying	129	0	1	130	0	–	0	0
Manufacturing	4,548	428	143	5,118	2	4	84	90
Electricity, gas, steam and air conditioning supply	816	19	0	835	0	0	0	1
Water supply; sewerage, waste management and remediation activities	183	1	3	187	0	–	3	4
Construction	811	57	28	896	1	1	15	16
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,316	270	134	3,720	1	2	92	95
Transportation and storage	802	21	6	828	0	0	4	4
Accommodation and food service activities	124	8	0	132	0	0	0	0
Information and communication	863	79	6	948	0	0	5	5
Financial and insurance activities	77,302	192	10	77,504	4	2	4	10
Real estate activities	15,233	373	75	15,681	3	3	32	38
Professional, scientific and technical activities	6,322	344	85	6,751	2	5	35	42
Administrative and support service activities	493	36	2	532	0	0	1	2
Public administration and defense, compulsory social security	2,698	1	5	2,704	0	0	3	3
Education	90	11	1	102	0	0	0	1
Human health services and social work activities	2,272	97	9	2,377	1	2	4	6
Arts, entertainment and recreation	253	9	1	264	0	0	1	1
Other services (except public administration)	824	60	9	894	1	1	4	6
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	143,555	10,386	2,276	156,217	231	249	752	1,231
Activities of extraterritorial organizations and bodies	150	–	–	150	0	–	–	0
Total	261,209	12,441	2,801	**276,451**	248	270	1,041	**1,560**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at amortized cost by sector – comparative period[1]

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

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Overall, the sector breakdown of the financial instruments measured at amortized cost that are subject to credit risk, measured in terms of volume, is in line with the Bank's strategy for retail banking customers, banks and insurers as well as commercial and corporate clients. With respect to corporate clients, the loan portfolio continues to be well diversified across all sectors. Lending to retail banking customers as well as commercial and corporate clients increased compared with year-end 2018, whereas lending to public sector obligors declined.

Financial assets at amortized cost by region[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Germany	244,727	11,815	2,577	259,119	244	266	961	1,471
Western Europe (excluding Germany)	14,968	577	202	15,747	3	4	74	81
Eastern Europe	404	8	9	422	0	1	4	5
North America	749	9	4	762	0	0	1	1
Central and South America	53	22	5	79	0	0	0	1
Asia/Pacific	198	9	2	210	0	0	1	1
Africa	9	0	1	10	0	0	0	0
Other	102	–	0	102	1	–	–	1
Total	261,209	12,441	2,801	276,451	248	270	1,041	1,560

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at amortized cost by region – comparative period[1]

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

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

The regional distribution of lending volumes of financial instruments subject to credit risk that are carried at amortized cost reveals a concentration in the domestic German market in addition to selected exposures in Europe and North America, especially in the commercial customer segment, in line with the Bank’s strategy. Compared with year-end 2018, there was no notable change in the regional distribution of lending volumes.

Financial assets at amortized cost by rating category[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
iAAA–iAA	31,486	11	–	31,497	1	–	–	1
iA	28,273	63	–	28,336	2	0	–	2
iBBB	126,360	1,189	–	127,548	23	5	–	28
iBB	65,466	4,347	0	69,813	87	47	–	134
iB	9,110	5,612	0	14,722	123	112	–	236
iCCC and below	515	1,220	2,801	4,536	13	105	1,041	1,159
Total	**261,209**	**12,441**	**2,801**	**276,451**	**248**	**270**	**1,041**	**1,560**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at amortized cost by rating category – comparative period[1]

								Dec 31, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
iAAA–iAA	28,854	8	–	28,862	1	0	–	1
iA	22,490	113	–	22,604	2	0	–	2
iBBB	123,082	1,148	–	124,230	21	6	–	27
iBB	61,873	4,260	0	66,134	83	47	–	130
iB	9,400	5,095	0	14,496	119	115	–	233
iCCC and below	435	1,335	2,625	4,395	14	103	1,084	1,201
Total	246,135	11,960	2,625	260,720	239	271	1,084	1,594

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

In the above table, DB PFK’s portfolio is broken down into the supervisory rating categories. The table indicates that the credit quality of the 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 are rated at iCCC or below.

All of the financial instruments measured at fair value through other comprehensive income (FVOCI) are debt securities. The portfolio is comprised mainly of government bonds and bonds issued by banks (including covered bonds and Pfandbriefe), insurers, and other financial services providers, the volume of which was considerably scaled back during the reporting period.

Financial assets at fair value through other comprehensive income by sector[1]

	Dec 31, 2019							
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Agriculture, forestry and fishing	–	–	–	–	–	–	–	–
Mining and quarrying	5	–	–	5	–	–	–	–
Manufacturing	19	–	–	19	–	–	–	–
Electricity, gas, steam and air conditioning supply	–	–	–	–	–	–	–	–
Water supply; sewerage, waste management and remediation activities	–	–	–	–	–	–	–	–
Construction	–	–	–	–	–	–	–	–
Wholesale and retail trade; repair of motor vehicles and motorcycles	–	–	–	–	–	–	–	–
Transportation and storage	–	–	–	–	–	–	–	–
Accommodation and food service activities	–	–	–	–	–	–	–	–
Information and communication	20	–	–	20	–	–	–	–
Financial and insurance activities	228	–	–	228	0	–	–	0
Real estate activities	–	–	–	–	–	–	–	–
Professional, scientific and technical activities	11	–	–	11	–	–	–	–
Administrative and support service activities	–	–	–	–	–	–	–	–
Public administration and defense; compulsory social security	2,422	–	–	2,422	0	–	–	0
Education	–	–	–	–	–	–	–	–
Human health and social work activities	–	–	–	–	–	–	–	–
Arts, entertainment and recreation	–	–	–	–	–	–	–	–
Other services (except public administration)	–	–	–	–	–	–	–	–
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	–	–	–	–	–	–	–	–
Activities of extraterritorial organizations and bodies	243	–	–	243	0	–	–	0
Total	2,949	–	–	**2,949**	0	–	–	**0**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at fair value through other comprehensive income by sector – comparative period[1]

								Dec 31, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Agriculture, forestry and fishing	–	–	–	–	–	–	–	–
Mining and quarrying	5	–	–	5	–	–	–	–
Manufacturing	56	–	–	56	–	–	–	–
Electricity, gas, steam and air conditioning supply	36	–	–	36	–	–	–	–
Water supply; sewerage, waste management and remediation activities	11	–	–	11	–	–	–	–
Construction	–	–	–	–	–	–	–	–
Wholesale and retail trade; repair of motor vehicles and motorcycles	–	–	–	–	–	–	–	–
Transportation and storage	245	–	–	245	0	–	–	0
Accommodation and food service activities	–	–	–	–	–	–	–	–
Information and communication	444	–	–	444	0	–	–	0
Financial and insurance activities	1,361	–	–	1,361	0	–	–	0
Real estate activities	–	–	–	–	–	–	–	–
Professional, scientific and technical activities	62	–	–	62	–	–	–	–
Administrative and support service activities	8	–	–	8	–	–	–	–
Public administration and defense; compulsory social security	6,272	–	–	6,272	0	–	–	0
Education	–	–	–	–	–	–	–	–
Human health and social work activities	–	–	–	–	–	–	–	–
Arts, entertainment and recreation	–	–	–	–	–	–	–	–
Other services (except public administration)	–	–	–	–	–	–	–	–
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	–	–	–	–	–	–	–	–
Activities of extraterritorial organizations and bodies	301	–	–	301	0	–	–	0
Total	8,799	–	–	8,799	1	–	–	1

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at fair value through other comprehensive income by region[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Germany	770	–	–	770	0	–	–	0
Western Europe (excluding Germany)	2,159	–	–	2,159	0	–	–	0
Eastern Europe	20	–	–	20	–	–	–	–
North America	–	–	–	–	–	–	–	–
Central and South America	–	–	–	–	–	–	–	–
Asia/Pacific	–	–	–	–	–	–	–	–
Africa	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Total	2,949	–	–	**2,949**	0	–	–	**0**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at fair value through other comprehensive income by region – comparative period[1]

								Dec 31, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Germany	3,295	–	–	3,295	0	–	–	0
Western Europe (excluding Germany)	5,392	–	–	5,392	0	–	–	0
Eastern Europe	112	–	–	112	0	–	–	0
North America	–	–	–	–	–	–	–	–
Central and South America	–	–	–	–	–	–	–	–
Asia/Pacific	–	–	–	–	–	–	–	–
Africa	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Total	8,799	–	–	8,799	1	–	–	1

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at fair value through other comprehensive income by rating category[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
iAAA–iAA	2,691	–	–	2,691	0	–	–	0
iA	236	–	–	236	0	–	–	0
iBBB	23	–	–	23	–	–	–	–
iBB	–	–	–	–	–	–	–	–
iB	–	–	–	–	–	–	–	–
iCCC and below	–	–	–	–	–	–	–	–
Total	2,949	–	–	**2,949**	0	–	–	**0**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Financial assets at fair value through other comprehensive income by rating category – comparative period[1]

								Dec 31, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
iAAA–iAA	5,806	–	–	5,806	0	–	–	0
iA	873	–	–	873	0	–	–	0
iBBB	2,121	–	–	2,121	0	–	–	0
iBB	–	–	–	–	–	–	–	–
iB	–	–	–	–	–	–	–	–
iCCC and below	–	–	–	–	–	–	–	–
Total	8,799	–	–	8,799	1	–	–	1

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Consumer mortgage loans 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 property values are updated on a regular basis for internal reporting purposes. The LTV calculation only includes exposures that are secured by real estate. Any mortgage loans that are backed by collateral other than real estate are excluded from the LTV calculation.

Consumer mortgage loans by LTV bucket

in %	Dec 31, 2019
Loan-to-value (LTV) ratio	
≤ 50 %	65%
> 50 %, ≤ 70 %	17%
> 70 %, ≤ 90 %	10%
> 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, 2019, 65% of the Bank's total real estate financing portfolio had an LTV ratio of less than or equal to 50%. Only 5% of the portfolio had a loan-to-value ratio of more than 100%. These figures underline the good quality of the collateral underlying the consumer mortgage loan portfolio. The ratios have remained nearly constant compared with the figures presented in the 2018 annual financial statements.

Consumer mortgage loans by LTV bucket – comparative period

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%

Asset quality

IFRS 9 describes asset quality as 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 credit commitments and financial guarantees.

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

Overview of financial assets subject to impairment[1]

								Dec 31, 2019
	Gross carrying amount / nominal value				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and central bank balances	26,150	–	–	26,150	–	–	–	–
Interbank balances (excluding central banks)	41,660	–	–	41,660	2	0	–	2
Central bank funds sold and securities purchased under resale agreements (reverse repos)	4,082	–	–	4,082	–	–	–	–
Loans	183,086	12,441	2,801	198,328	244	270	1,041	1,556
Banks	1	17	–	19	–	0	–	0
Payable on demand	2,926	709	316	3,950	6	23	218	248
Term deposits	1,168	0	0	1,168	–	–	–	–
Consumer mortgage loans	134,953	9,404	1,357	145,714	58	119	221	398
Commercial loans	27,832	1,298	267	29,397	7	11	119	137
Public-sector loans	2,038	–	4	2,043	–	–	2	2
Consumer installment loans	12,486	1,006	856	14,349	171	117	482	769
Promissory note loans	1,671	7	–	1,678	1	0	–	1
Other loans	11	–	–	11	0	–	–	0
Other assets at armortized cost	6,231	–	–	6,231	2	–	–	2
Total financial assets at amortized cost	**261,209**	**12,441**	**2,801**	**276,451**	**248**	**270**	**1,041**	**1,560**
Financial assets at fair value through other comprehensive income	2,949	–	–	2,949	–	–	–	–
Off-balance sheet financial assets	30,963	1,167	95	32,224	9	9	24	42
Total	**295,121**	**13,608**	**2,896**	**311,625**	**257**	**279**	**1,066**	**1,602**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

The increase in DB PFK's loan book is shown under "Loans" in the above table. Increases in consumer mortgage loans (€+6.3 billion), consumer installment loans (+€0.8 billion), and loans to commercial and corporate clients (€+2.7 billion) were responsible for most of the growth. Lending to the public sector decreased, however (€–2.3 billion). The loan loss allowance declined by €35 million.

Overview of financial assets subject to impairment – comparative period[1]

								Dec 31, 2018
	Gross carrying amount / nominal value				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and central bank balances	20,130	–	–	20,130	–	–	–	–
Interbank balances (excluding central banks)	42,731	–	–	42,731	2	–	–	2
Central bank funds sold and securities purchased under resale agreements (reverse repos)	298	–	–	298	–	–	–	–
Loans	176,754	11,959	2,626	191,338	236	271	1,084	1,591
Banks	11	6	–	17	–	0	–	0
Payable on demand	3,276	623	248	4,147	6	20	189	216
Term deposits	1,708	0	–	1,708	–	0	–	0
Consumer mortgage loans	129,270	8,811	1,341	139,422	58	124	239	421
Commercial loans	24,981	1,492	260	26,733	8	13	127	149
Public-sector loans	4,306	–	5	4,311	–	–	3	3
Consumer installment loans	11,746	1,012	760	13,518	162	113	520	795
Promissory note loans	1,438	14	11	1,463	1	0	5	6
Other loans	18	–	–	18	0	0	–	0
Other assets at amortized cost[2]	6,224	–	–	6,224	2	–	–	2
Total financial assets at amortized cost	246,136	11,959	2,626	260,721	239	271	1,084	1,594
Financial assets at fair value through other comprehensive income	8,799	–	–	8,799	1	–	–	1
Off-balance sheet financial assets	30,739	991	57	31,787	9	9	15	32
Total	285,674	12,950	2,683	301,307	249	280	1,098	1,627

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.
[2] The information in the respective line has been adjusted.

Reconciliation of loan loss allowance

With respect to DB PFK's main classes of financial instruments of

- consumer mortgage loans;
- consumer installment loans;
- payable-on-demand loans; and
- commercial loans;

as well as the Bank's off-balance sheet exposure, 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 in 2019.

Consumer mortgage loans[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	129,270	8,811	1,341	**139,422**	58	124	239	**421**
Changes in financial assets, including new business	13,081	469	−23	13,527	−42	39	14	11
Transfers due to deterioration in credit quality	−1,108	800	308	0	43	−40	−2	0
Increase/decrease due to modifications w/o derecognition of assets	–	–	–	–	–	–	–	–
Derecognition	−6,290	−676	−269	−7,235	–	–	−60	−60
Recoveries on loans written off	–	–	–	–	–	–	27	27
Model updates	–	–	–	–	–	–	–	–
Foreign exchange movements and other changes	–	–	–	–	−1	−4	3	−1
Balance at end of period	134,953	9,404	1,357	**145,714**	58	119	221	**398**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Consumer mortgage loans – comparative period[1]

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

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Consumer installment loans[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	11,746	1,012	760	**13,518**	162	113	520	**795**
Changes in financial assets, including new business	2,819	43	13	2,875	6	37	94	136
Transfers due to deterioration in credit quality	−444	110	334	0	3	−31	28	0
Increase/decrease due to modifications w/o derecognition of assets	–	–	–	–	–	–	–	–
Derecognition	−1,635	−159	−251	−2,045	–	–	−166	−166
Recoveries on loans written off	–	–	–	–	–	–	7	7
Model updates	–	–	–	–	–	–	–	–
Foreign exchange movements and other changes	–	–	–	–	0	−3	–	−3
Balance at end of period	12,486	1,006	856	**14,349**	171	117	482	**769**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Consumer installment loans – comparative period[1]

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

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Payable-on-demand loans[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	3,276	623	248	**4,147**	6	20	189	**216**
Changes in financial assets, including new business	143	66	134	343	−3	6	45	48
Transfers due to deterioration in credit quality	−80	79	1	0	2	−5	3	0
Increase/decrease due to modifications w/o derecognition of assets	–	–	–	–	–	–	–	–
Derecognition	−413	−60	−68	−540	–	–	−28	−28
Recoveries on loans written off	–	–	–	–	–	–	7	7
Model updates	–	–	–	–	–	–	–	–
Foreign exchange movements and other changes	–	–	0	0	0	2	1	4
Balance at end of period	2,926	709	316	**3,950**	6	23	218	**248**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Payable-on-demand loans – comparative period[1]

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

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Commercial loans[1]

								Dec 31, 2019
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	24,981	1,492	260	**26,733**	8	13	127	**149**
Changes in financial assets, including new business	5,088	233	−6	5,315	−7	2	26	22
Transfers due to deterioration in credit quality	93	−157	64	0	6	−5	−1	0
Increase/decrease due to modifications w/o derecognition of assets	–	–	–	–	–	–	–	–
Derecognition	−2,332	−271	−51	−2,654	–	–	−39	−39
Recoveries on loans written off	–	–	–	–	–	–	3	3
Model updates	–	–	–	–	–	–	–	–
Foreign exchange movements and other changes	3	0	0	3	–	1	3	4
Balance at end of period	27,832	1,298	267	**29,397**	7	11	119	**137**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Commercial loans – comparative period[1]

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

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

The total loan loss allowance declined slightly across all classes of financial instruments to €1,556 million (previous year: €1,591 million) amid a moderate increase in the loan portfolio. This trend was observed in all of the Bank's primary classes of financial instruments except for "Payable-on-demand loans," which exhibit more volatile behavior. "Consumer mortgage loans" benefitted from continued growth of the German real estate market and good proceeds from the sale of collateral, while "Consumer installment loans" benefitted from a sale of receivables (impaired assets) undertaken during the fiscal year.

Change in off-balance sheet liabilities and loan loss allowance in the current reporting period[1]

								Dec 31, 2019
	Nominal value				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	30,739	991	57	**31,787**	9	9	15	**32**
Changes in financial assets, including new business	408	24	6	437	−1	2	8	9
Transfers due to deterioration in credit quality	−184	152	32	0	1	−2	0	0
Model updates	–	–	–	–	–	–	–	–
Foreign exchange movements and other changes	–	–	–	–	0	–	1	1
Balance at end of period	30,963	1,167	95	**32,224**	9	9	24	**42**

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

Change in off-balance sheet liabilities and loan loss allowance in the comparative period[1]

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

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

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, 2019
in €m	Collateral	Guarantees	Total amount
Financial assets at amortized cost (stage 3)	1,272	11	2,801
Total	**1,272**	**11**	**2,801**

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

			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 €145 million were written off in the reporting period. The assets remain subject to enforcement proceedings.

No loan loss allowances were recognized for Stage 3 financial instruments in a gross carrying amount of €202 million as the underlying transaction was fully collateralized as of the reporting date.

Modified assets (not derecognized)

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

Pursuant to 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 in the amount of the difference between the present values of the two financial instruments. To calculate the present value of the modified financial assets, the contractual cash flows are discounted using the effective interest rate of the original financial asset. An assessment is also made as to whether the default risk applicable to the original financial asset has increased significantly. The following risks are compared for this purpose:

– the risk of default as of the closing date (based on the modified contract); and
– the risk of default upon initial recognition (based on the original, unchanged contract).

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

Modified assets at amortized cost[1]

				Dec 31, 2019
	Gross carrying amount			
in €m	Stage 1	Stage 2	Stage 3	Total
Amortized cost before modifications	–	–	–	–
Changes in the income statement due to modifications	–	–	–	–

[1] DB PFK does not have any purchased or originated credit-impaired (POCI) financial assets.

No modified assets were found to have been transferred to Stage 1 in the reporting period.

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

The economic capital to be set aside for operational risk is calculated using the dbLORE 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. The information on external loss events is 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 reporting date, as in the previous period. In the event of limit overruns, the limit for operational risk is raised at the expense of other risk types or of the unallocated risk cover amount. The Postbank and Deutsche Bank brands have each been allocated specific risk capital amounts within DB PFK. The amount of risk capital utilized is 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 dbIRS;
– regular determination of risk indicators as an early warning instrument;
– separate risk assessments for evaluating internal control structures;
– 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 relevant management levels in the divisions and subsidiaries. They are supported by a networked organization of local OpRisk managers as well as dedicated OpRisk contacts that have been established in a number of divisions and subsidiaries. The OpRisk managers and contacts are responsible for promptly identifying and reporting all risks and losses as well as for initiating the appropriate preventive measures. The Divisional Control Officer (DCO) organization established within Deutsche Bank's Private & Commercial Clients unit orchestrates the management of operational risk at DB PFK. The DCO organization assists in the identification, analysis, and measurement of risks and losses and advises the respective management levels on defining risk-mitigating measures.

The risk control function is carried out by the ORM & Coverage department that forms part of the CRO board department. ORM & Coverage is also responsible for prompt reporting to DB PFK's Group Management Board. 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.). Excellent progress was made in harmonizing the methods and processes employed by the two brands during the year under review.

DB PFK recognized operational risk losses of approximately €112.8 million (gross)/€29.1 million (net) in the reporting period (previous period: €211.3 million (gross)/€44 million (net)). Loss trends for both brands were driven primarily by the still-high number 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 external fraud decreased to approximately €53.8 million (gross)/€38.3 million (net) in the reporting period (previous period: €82.0 million (gross)/€70.4 million (net)) before accounting for reversals of provisions from previous years. The figure for the period under review includes losses from two major cases of fraud in the commercial clients business. Internal fraud was recorded in a total amount of €2.7 million, distributed among a number of incidents. Losses from ATM bombings declined significantly on the prior-year amount.

The Bank has defined a number of technical and organizational measures to guard against fraud in recent years. 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 continue to gradually decline over the coming years as a result of measures that have either been initiated or already implemented.

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 for the year on the income statement. This primarily relates to strategic risks associated with earnings components for the period in question. The stress tests performed did not identify any unexpected net losses for DB PFK. 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.

Business risk also extends to net interest income in the banking book (NII risk), which impacts the interest income component of current earnings. DB PFK's Treasury unit is responsible for managing NII risk in consultation with the Asset and Liability Committee (ALCO) and the PFK Risk Committee. Business risk is generally quantified by running scenario analyses or stress tests from which the level of potential losses in future periods can be derived.

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, 64% of the limit for NII risk at DB PFK had been utilized (previous year: 80% for DB PFK Group excluding DB Bauspar AG and 2% for DB Bauspar AG).

Reputational risk management

The core element of reputational risk management at DB PFK 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 any time reputational risk is involved. In the event of reputational risk that could significantly impact the Bank's financial position or financial performance, the PFK Risk Committee is called in. The PFK Risk Committee supports the Group Management Board in its risk management activities, which include 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. Operational management of liquidity and of the liquidity buffer necessary for managing liquidity risk is carried out by the Financial Markets unit. 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.

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 projections are based on the Bank's business planning, which takes into account both the Group-wide funding strategy of Deutsche Bank Group and the capital planning established on that basis. 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 liquidity and funding plan takes a mix of liquidity sources into account as determined by the funding strategy. The planning process therefore includes analyzing and assessing DB PFK's funding potential in view of all economic and regulatory targets and in compliance with the risk strategy established.

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.

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 proactively 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, DB PFK had a net liquidity (minimum within the survival period) of €12.4 billion and an LCR ratio of 186% for the Group as of December 31, 2019.

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, 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.

DB PFK's financial liabilities as of December 31, 2019, and December 31, 2018, broken down into residual maturity bands, are presented in Note 31 to the consolidated financial statements ("Maturity Analysis of the Earliest Contractual Undiscounted Cash Flows of Financial Liabilities").

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 Group 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 Group'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.

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 the proper functioning of 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 as well as the (Group) management report. The Management Board has established 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 Officer board departments are the main units involved in the preparation of the policies.

The report at hand contains the components of an annual financial report within the meaning of section 114 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). As a publicly traded 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).

With respect to the inclusion of subsidiaries, the subsidiaries and special-purpose entities required to be included in the consolidated financial statements prepare reports (Group reporting packages) in line with Group accounting policies.

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 have the following key task:

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

The Resources board department is entrusted with the following financial reporting tasks in particular:

– creating the conditions for recognition, measurement (best estimate), and ongoing review of 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 CRO board department 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 overseeing 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, defining the audit focus areas, and setting 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 shaped by management's problem awareness and actions with respect to internal control as well as due diligence requirements. The control environment significantly influences employees' internal 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 the SAP BCS business consolidation system for preparing its 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 are 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 noncompliant 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, in essence, determining the basis of consolidation, processing reports from the companies included in consolidation, undertaking intercompany reconciliations, currency conversion, and automated and manual consolidation entries, and ultimately, generating the consolidated financial statements.

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 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 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. 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 District Court ruled in favor of the action for annulment and avoidance brought with respect to the resolution passed by the Annual General Meeting on August 28, 2015 concerning the transfer of the shares held by 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.

Outlook

The Global Economy[1]

Economic growth (%)	2020[2]	2019	Main driver
Global Economy			In the first half of 2020, global economic growth is expected to be negatively impacted by the spread of the COVID 19 and the resulting disruption of economic activity. If the outbreak can be quickly brought under control the global economic activity is expected to recover in the second half of 2020 due to a moderation of global trade tensions, higher monetary stimulus and an easing of financial conditions. Important trade negotiations should remain key in 2020 with the U.S.-China trade talks moving on to Phase Two.
GDP	2.4	3.1	
Inflation rate	3.1	3.0	
of which: Industrialized countries			Industrialized countries are expected to be negatively impacted by the global spread of COVID 19 and the associated uncertainty. In particular, the impending collapse of global value chain is weighing on the economic outlook. While the U.S. is still expected to show a positive growth, the Eurozone is likely to achieve only a slight positive expansion in 2020 compared to last year. Structural economic weaknesses in the Eurozone remain prevailing due to reform fatigue. The Japanese economy is expected to shrink in 2020.
GDP	0.5	1.7	
Inflation rate	1.1	1.4	
Emerging markets			The spread of the COVID 19 has started to directly impact consumption and production activity in certain Emerging markets. If containment is successful, recovering global growth momentum in the second half of 2020 and the resumption of trade negotiations between the U.S. and China should provide a relatively favorable background for a recovery in emerging market growth.
GDP	3.6	4.0	
Inflation rate	4.4	4.0	
Eurozone Economy			In the Eurozone, GDP in 2020 is expected to weaken due to moderately negative growth in the first half of 2020. With the COVID 19 outbreak, economic uncertainty that affected 2019 will persist in 2020. The European Central Bank (ECB) is expected to implement further targeted easing measures.
GDP	-0.1	1.2	
Inflation ate	0.4	1.2	
of which: German economy			The export-oriented German economy will be negatively affected by the global consequences of the spreading COVID 19. GDP growth is likely to decline in year over year terms, particularly due to shrinking of economic activity in the first half of 2020. Private consumption and construction should remain sources of a positive impetus in 2020. Exports and investments should gradually gain traction in the second half of 2020, if further trade tensions can be avoided.
GDP	-0.2	0.6	
Inflation rate	0.6	1.4	

[1] Annual real GDP growth (in % compared with the prior year). Sources: National authorities unless otherwise stated
[2] Sources: Deutsche Bank Research.

There are a number of risks to our global economic outlook. Challenges in containing the COVID 19 or a more severe global spread could considerably dampen economic momentum further. Despite the signing of the ‘Phase One’ trade agreement between the U.S. and China in January 2020, further trade conflicts including upcoming trade negotiations between the U.S. and the European Union (EU) could negatively impact the global economic outlook. The introduction of car duties on EU exports to the U.S. would have a negative impact on the EU industrial production, especially in Germany. Following Brexit, the UK has entered into a transition period with the EU that is expected to expire at the end of 2020. During 2020, the focus will be on the UK’s future trading relationship with the EU with the risk that both parties are unable to reach a trade deal before the end of the transition period. A resurgence of the refugee crisis could lead to increased political tensions between EU member states. In the Eurozone, the government debt burden in some countries, especially in Italy, is a risk due to the fragile political situation. Additionally, rising geopolitical tensions, particularly in the Middle East could create further uncertainty.

The Banking Industry[1]

The global banking industry is likely to face a challenging operating environment and lower profitability in 2020. Major economies will probably fall into recession in the first half of the year due to the impact of the COVID 19, before recovering in the second half of the year. In the U.S. as well as in Europe, this could lead to a substantial increase in loan loss provisions and a slowdown in asset growth as loan demand declines and banks tighten credit standards. This may reduce net interest income, together with a resumed expansionary monetary policy putting additional pressure on interest margins. In the payments business, transaction volumes might suffer.

In Europe, the negotiations between the EU and the UK on the withdrawal agreement concluded in 2019 will now enter into a new phase in which the final future trade arrangements will be determined. Against this background, uncertainty regarding the regulation of cross-border business is likely to continue through 2020. In addition, regulators in Europe are working to finalize their draft proposals on the implementation of the final Basel package, expected to be published by mid-2020. The newly installed College of Commissioners will work on providing regulatory initiatives around six priorities, namely a European Green Deal, an

economy that works for people, a Europe fit for digital age, promoting our European way of life, a stronger Europe in the world and a new push for European democracy. These priorities and principles will impact the financial sector in multiple ways either via direct legislation or indirectly and European banks will be required to gauge subsequent investor reaction to these developments.

Regulators and central banks globally have set the goal of improving the robustness of financial benchmarks, especially interest rate benchmarks. They have convened committees and industry working groups to bring together private-sector market participants to identify and promote the use of robust, transaction-based reference or Risk-Free Rates (RFRs) as alternatives to Interbank Offered Rates (IBORs). The replacement of IBORs represents a significant shift in the financial industry and affects the entire value chain of banks. Banks are required to assess as well as to manage the risk from the transition to their products, systems and client relationships and ensure a smooth transition to the new RFRs.

In addition to the repercussions of the COVID 19 which at this point in time are hard to predict and quantify, risks for banks globally arise from geopolitical uncertainty including tensions in the Middle East, trade conflicts and the looming threat of technology companies gaining a greater market share in a range of business segments, from payments to retail banking and asset management. The global banking industry is likely to find itself in a fragile operating environment in 2020. Economic growth will likely remain as weak as in the previous year. Continued expansive monetary policy in Europe will exert pressure on interest margins and growth in total assets could slow, increasing the pressure on net interest income. The loan loss allowance in the lending business could continue to rise, but from a low level.

[1] Source: Deutsche Bank Research forecasts

Consolidated results of operations

Projects aimed at optimizing DB’s group structure were launched at the level of Deutsche Bank AG as DB PFK AG’s ultimate parent company. In this context, Deutsche Bank AG is currently examining a merger of its DB PFK AG subsidiary.

Based on planning that is rooted solely in the perspective of DB PFK, in the following we present our estimates of the expected course of business of DB PFK in fiscal year 2020. The current COVID 19 pandemic and its potential impact on the global economy may affect our ability to meet our financial targets. While it is too early for us to predict the impacts on our business or our financial targets that the expanding pandemic, and the governmental responses to it, may have, we may be materially adversely affected by a protracted downturn in local, regional or global economic conditions. While COVID 19 could affect the drivers of our key performance indicators and key risk metrics (see “Risk Report: Risk and capital overview”) its impact with regard to its negative attribute cannot be quantified yet due to the aforementioned uncertainties. Given the uncertainty around extent, duration and market spillover of COVID 19, our forward looking assumptions do not currently consider any of its potential impacts. The following outlook statements should be read in conjunction with the sections Global Economy and the Banking Industry. Further diverging developments in the environment, the materialization of the 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 in this outlook.

The business with retail banking customers and commercial and corporate clients remains the foundation of our future earnings performance. Our focus is on continuing pressures from the low interest rate environment, stabilizing long-term income components, strong growth in noninterest-related product fields, leveraging additional income potential from new products, and further reducing our cost base, despite continued investments in integration and digitization.

In light of this, we are expecting moderately lower net income before tax for DB PFK for fiscal year 2020 compared with the reporting period. We expect that a decline in total income and a considerably higher loan loss allowance will not be offset fully by a drop in noninterest expenses.

Total income will be down slightly on fiscal year 2019. Further expansion in the securities, retirement provision and lending business is planned. We expect that the further moderate decline in earnings from deposit products in light of the continued low interest rate environment will be offset by the growth described above. In addition, we are expecting a slight decline in net interest income due to coupons already sold.

We are anticipating a substantial rise in the loan loss allowance compared with fiscal year 2019. This is due primarily to the continued strong growth in our loan portfolio and to the nonrecurring effect of the realization of a loan portfolio in the reporting period.

We are projecting a slight decrease in administrative expenses compared with fiscal year 2019 due to the planned implementation of various efficiency programs.

We are expecting a slight reduction in the CIR in fiscal year 2020.

The RoTE is anticipated to be slightly lower in fiscal year 2020 than in the reporting period.

In terms of the key performance indicators used for internal management purposes, we are expecting a modest increase in RWAs and the leverage exposure in fiscal year 2020, due to business growth in the course of the planned expansion in the lending volume. In addition, the planned implementation of model changes in fiscal year 2020 will drive up RWAs slightly. Internally defined CET1 is expected to increase slightly as a consequence of the planned development of IFRS equity, with the result that a slight decline in the CET1 ratio and a constant leverage ratio are expected for internal management purposes

Deutsche Bank brand

For 2020, we expect the business of our Deutsche Bank brand to generate net income before tax on a level with the reporting period. This trend will be largely driven by slightly lower total income, offset by a slight decline in administrative expenses.

We are predicting the decrease in total income in light of the negative factors from the low interest rate environment, which will be partly offset by continued growth in lending at a level slightly below the reporting period.

We expect the loan loss allowance to be considerably higher than in the reporting period, due primarily to the growth in our client lending business.

We are anticipating a slight decline in administrative expenses compared with the reporting period. This expectation is based on additional integration synergies and continued cost-cutting measures.

We are

Postbank brand

Assuming that the positive trends in the lending business and the cost base continue, we expect the Postbank brand to record a significant increase in net income before tax in fiscal year 2020, despite the continuing pressures from the low interest rate environment and the higher loan loss allowance. This will be due mainly to the impairment losses on software recorded in the reporting period.

In fiscal year 2020, we expect to see total income from the customer products of this brand at the level of the reporting period. Our forecast is based on operating income growth in the securities, retirement provision and lending business, which will offset the negative impact of the continued low interest rates on the home savings and deposit business.

We expect the loan loss allowance to increase considerably compared with the reporting period. This is due to nonrecurring special factors from the sale of loan portfolios in the reporting period.

We expect administrative expenses to decline slightly in fiscal year 2020 due to the planned implementation of efficiency measures.

Other

We expect the "Other" segment to record significantly lower net income before tax in fiscal year 2020 due to a substantial decline in total income. This will be offset, albeit not fully, by a clear decrease in total costs.

The total income trend for this segment will be dominated mainly by measurement effects from money and capital market activities. As these dominating effects are very volatile and dependent on changes in market inputs, the forecast for this item is particularly uncertain. We are anticipating a substantial decline in total income in fiscal year 2020, due primarily to lower income from sales of government and corporate bonds in fiscal year 2020.

We expect noninterest expenses to be down significantly on the reporting period. Investments to integrate processes, organizations, and platforms at our two brands will be offset by cost savings from efficiency measures.

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Consolidated Financial Statements

Consolidated Statement of Income

in €m	Note	2019	2018
Interest and similar income[1]		4,797	5,121
Interest expense[2]		−1,114	−1,109
Net interest income	6	**3,683**	4,012
Loan loss allowance	18	−233	−213
Net interest income after loan loss allowance		**3,450**	3,799
Net commissions and fee income	7	1,821	1,757
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	6	21	−8
Net gains (losses) on financial assets at fair value through other comprehensive income	6	113	110
Other income (loss)	8	298	452
Total noninterest income		**2,253**	2,311
Compensation and benefits	9	−2,310	−2,356
General and administrative expenses	10	−2,680	-2,701
Total noninterest expenses		**−4,990**	−5,057
Net income (loss) before tax		**713**	1,053
Income tax expense (–)/benefit	33	−91	−47
Consolidated net income (loss), after tax		**622**	1,006

[1]Net interest income includes interest income of €4.8 billion (previous year: €5.1 billion) calculated using the effective interest rate method.
[2]Interest expenses include interest expenses of €8 million from discounting lease liabilities.

Earnings per share as of December 31, 2019 were €2.26 (December 31, 2018: €3.66).

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	2019	2018
Net income (loss) recognized in the income statement	**622**	1,006
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) related to defined benefit plans, net of tax	−443	−106
Income tax related to items that will not be reclassified to profit or loss	7	2
Items that are or may be reclassified to profit or loss		
Financial assets at fair value through other comprehensive income		
Unrealized gains (losses) for the period, before tax	65	−113
Net (gains) losses for the period reclassified to profit or loss, before tax	−113	−110
Income tax related to items that will not be reclassified to profit or loss	–	–
Other comprehensive income (loss), net of tax	**−484**	−327
Total comprehensive income (loss), net of tax	**138**	679

Consolidated Balance Sheet

Assets

in €m	Note	Dec 31, 2019	Dec 31, 2018
Cash and central bank balances	11	26,150	20,130
Interbank balances (excluding central banks)	11	41,658	42,731
Central bank funds sold and securities purchased under resale agreements (reverse repos)		4,082	298
Financial assets at fair value through profit or loss	12	6,117	5,005
Financial assets at fair value through other comprehensive income	13	2,949	8,799
Loans at amortized cost	17, 18	196,772	189,748
Property and equipment	21	1,440	813
Intangible assets	23	160	294
Other assets	24	7,941	7,967
Current tax assets		13	12
Deferred tax assets		287	319
Total assets		**287,569**	276,116

Liabilities and equity

in €m	Note	Dec 31, 2019	Dec 31, 2018
Deposits	25	240,481	225,985
Central bank funds purchased and securities sold under resale agreements (repos)		–	1,135
Financial liabilities at fair value through profit or loss	12	4,921	3,689
Other liabilities	24	5,560	6,639
Provisions	26	285	615
Current tax liabilities		54	35
Deferred tax liabilities		2	9
Noncurrent liabilities	27	27,727	29,953
Total liabilities		**279,030**	268,060
Issued capital		550	550
Additional paid-in capital		7,930	7,923
Retained earnings		53	−471
Accumulated other comprehensive income (loss), net of tax		6	54
Total equity		**8,539**	8,056
Total liabilities and equity		**287,569**	276,116

Consolidated Statement of Changes in Equity

in €m	Common shares (no par value)	Additional paid-in capital	Retained earnings	Unrealized gains/ losses (–) from financial assets at fair value through other comprehensive income, net of tax and other adjustments	Accumulated other comprehen-sive income (loss), net of tax	Equity total
Balance as of January 1, 2018	550	4,856	854	277	277	**6,537**
Consolidated net income (loss), after tax	–	–	1,006	−223	−223	783
Capital contribution	–	3,050	–	–	–	3,050
Remeasurement gains (losses) related to defined benefit plans, net of tax	–	–	−104	–	–	−104
Net change in share awards in the reporting period	–	17	–	–	–	17
Other	–	–	−2,227	–	–	−2,227
Balance as of December 31, 2018	550	7,923	−471	54	54	**8,056**
Balance as of January 1, 2019	550	7,923	−471	54	54	**8,056**
Consolidated net income (loss), after tax	–	–	622	−48	−48	574
Remeasurement gains (losses) related to defined benefit plans, net of tax	–	–	−436	–	–	−436
Net change in share awards in the reporting period	–	7	–	–	–	7
Other	–	–	338	–	–	338
Balance as of December 31, 2019	550	7,930	53	6	6	**8,539**

DB PFK AG’s return on capital – calculated as the ratio of consolidated net income to total assets at the reporting date – was 0.22% in 2019 (previous year: 0.36%).

Consolidated Statement of Cash Flows

in €m	2019	2018
Net income (loss) after tax	**622**	1,006
Cash flows from operating activities:		
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loan loss allowance	233	213
Restructuring activities	-31	-16
Gains (losses) on sale of financial assets at fair value through other comprehensive income, equity method investments and other	-111	-262
Deferred income taxes, net	31	10
Impairment, depreciation and other amortization, and accretion	394	209
Income (loss), net of tax, adjusted for noncash charges, credits and other items	**1,138**	1,160
Adjustments for net change in operating assets and liabilities:		
Interest-earning time deposits with central banks and banks	3,058	-7,013
Central bank funds sold and securities purchased under resale agreements (reverse repos) and securities loaned	-3,784	573
Nontrading financial assets at fair value through profit or loss	165	-571
Financial assets designated as at fair value through profit or loss	–	543
Loans at amortized cost	-6,495	-5,706
Other assets	-453	-1,201
Deposits	14,496	10,917
Central bank funds purchased, securities sold under resale agreements and securities loaned	-1,135	-1,622
Other short-term borrowings	655	132
Other liabilities	-345	-1,069
Senior long-term debt	-2,141	-6,951
Trading assets and liabilities, positive and negative fair values from derivative financial instruments, net	-874	-1,016
Other, net	-480	243
Net cash provided by (used in) operating activities	**3,805**	11,581
Cash flows from investing activities:		
Proceeds from:		
Sale of financial assets at fair value through other comprehensive income	6,792	3,596
Maturities of financial assets at fair value through other comprehensive income	3,123	3,621
Sale of debt securities held to collect	–	N/A
Maturities of debt securities held to collect	5	1,691
Maturities of financial assets available for sale	774	N/A
Sale of property and equipment	60	451
Financial assets at fair value through other comprehensive income	-3,844	-1,422
Equity method investments	-1	N/A
Property and equipment	-227	-155
Acquisition of consolidated companies	–	-704
Other, net	-73	-85
Net cash provided by (used in) investing activities	**6,609**	6,993
Repayments and extinguishments of subordinated long-term debt[1]	-133	-598
Appropriation to additional paid-in capital	–	3,050
Payments of lease liabilities	-146	N/A
Profit transfer to the parent	-2,131	-369
Other, net	–	-57
Net cash provided by (used in) financing activities	**-2,410**	2,026
Net effect of exchange rate changes on cash and cash equivalents		
Net increase (decrease) in cash and cash equivalents	8,004	-2,562
Cash and cash equivalents at beginning of period	21,956	24,518
Cash and cash equivalents at end of period	29,960	21,956
Net cash provided by (used in) operating activities contains		
income taxes paid (received), net	43	-22
Interest paid	1,195	1,096
Interest received	4,889	5,009
Cash and cash equivalents comprise		
Cash and central bank balances (not included: interest-earning time deposits with central banks)	26,150	20,130
Interbank balances (excluding central banks) (not included: term deposits of €38 million as of December 31, 2019, and €47 million as of December 31, 2018)	3,810	1,826
Total	**29,960**	21,956

[1] Noncash changes in subordinated long-term debt of €49 million in 2019 are attributable to the effects of hedging transactions. Noncash changes in subordinated long-term debt in 2018 of €1,002 million and in trust preferred securities of €915 million are attributable to changes in the basis of consolidation.

Notes

01 – Significant Accounting Policies and Critical Accounting Estimates

Basis of preparation

The parent company of DB Privat- und Firmenkundenbank AG (hereinafter DB PFK AG) is Deutsche Bank AG, Frankfurt am Main, entered in commercial register B of the Local Court in Frankfurt am Main under the number 30000. The companies of DB Privat- und Firmenkundenbank Group (hereinafter DB PFK, Group, or Bank) are included in Deutsche Bank AG's consolidated financial statements. Deutsche Bank AG's consolidated financial statements are published in the Federal Gazette.

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).

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. In general, the abbreviation "N/A" is used for changes in the Notes attributable to the initial application of IFRS 16 "Leases."

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 the Management Board on 26 February 2020. Based on the latest developments with regard to the spread of the coronavirus (COVID 19), the statements regarding the outlook of the DB PFK, the assumptions regarding the development of the global economy and the economic risks and opportunities for the 2020 financial year, as well as Note 39 "Events after the balance sheet date" were adjusted. The financial statements originally prepared on 26 February 2020 were restated on 26 March 2020 with an addendum due to the aforementioned effects of COVID 19.

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, 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, the ability to realize deferred taxes, and the measurement of lease liabilities. 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 nonmonetary 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 nonmonetary 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 nonmonetary 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.

02 – 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. The accounting policies for the prior-year period governed by IAS 17 "Leases" that differ from the accounting policies presented in the following are disclosed in a separate section in point i). The effects of the change in accounting policies (effects of initial application of IFRS 16) 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 considers quantitative (e.g., expected frequency or volume of sales) and qualitative factors (such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the

Management Board) for classification of the business models. It also considers how the risks that affect the performance of the business model and the financial assets in the business model, in particular market and credit risks, are managed, and how the managers responsible for the business are remunerated, e.g., if the remuneration is determined by the fair value of the assets or on the basis of the contractual cash flows collected.

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.

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 nonrecourse 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.B5.5.22 et seq. 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 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. The sensitivities relating to the assumed customer behavior amount to approximately €15 million in the case of a deviation in the assumed bonus taker ratio by +1.0%. In the reporting period, the estimated average remaining maturity of the relevant home savings deposits was increased by 0.6 years to 5.6 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) and the effects of off-balance-sheet commitments are presented in the "Loan loss allowance" item in the statement of income. The same applies to debt instruments measured at fair value through other comprehensive income (FVOCI).

The determination of impairment losses and the loan loss allowance under IFRS 9 uses an expected credit loss (ECL) model, 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.

The ECL of financial assets that are not credit impaired uses 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 CCF reflects the probability that an open lending commitment or financial guarantee will be drawn down. These indicators (PD, LGD, EAD) are linked through multiplication to the calculation of ECL per time slice and discounted using the original effective interest rate applied at initial recognition (IFRS 9.5.5.17(b)). The current effective interest rate is used for variable rate financial instruments. The time slices are based on the interest or principal repayment cycle of the individual financial instrument. The inputs themselves 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). Significant macroeconomic factors in this context are general economic growth and

unemployment with regard to the next two years. 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 two years and then move back towards the long-term expected PD starting in year three. The forward-looking information is updated every year. The expected values of the macroeconomic variables are based on forecasts by DB Research. These variables are gross domestic product (growth rate) and unemployment. Parameterization of the point in time (PIT) lifetime PD used for IFRS 9 purposes uses regression analyses and is based on the concept that the PD of a borrower depends on a portfolio-specific factor and an idiosyncratic portion. This takes into account the level of dependency of the relevant parameter on the macroeconomic factors, with the level of dependency being derived from the realized and mean default rates. The derivation of the portfolio-specific macro factors from the macroeconomic forecasts uses a stochastic standard normally distributed process and features a high number of scenarios that model potential nonlinear effects in the PD.

The general use of forward-looking information, including macroeconomic factors, as well as adjustments to reflect nonrecurring effects, are monitored by DB PFK's Credit Risk Committee and Model Validation Committee. In certain situations, credit risk officers and senior executives may have additional information about certain portfolios indicating that the distributions of the parameters used for modeling are not appropriate. In such situations, the Group would make a corresponding adjustment.

The following macroeconomic projections flow into the calculation of ECL as of December 31, 2019:

Average	Current	Year 1	Year 2
Eurozone GDP	1.17%	0.93%	1.19%
German GDP	0.58%	0.48%	1.19%
Italian GDP	0.01%	0.39%	0.63%
Eurozone unemployment	7.71%	7.53%	7.45%
German unemployment	3.15%	2.92%	2.75%
Italian unemployment	10.15%	10.06%	10.06%

The sensitivity of our model with regard to future changes in the macroeconomic model variables is illustrated in the following table, which presents the effects of an additional shift across all upward and downward scenarios for Stages 1 and 2 used in calculating ECL. To present the sensitivities, the macroeconomic projections used to calculate ECL as of December 31, 2019, are modified by one standard deviation up and down.

in €m	Shift down	ECL calculation as of Dec 31, 2019	Shift up
Deutsche Bank brand	+55.91	128.94	-24.77
Postbank brand	+93.94	389.20	-64.92
Total	+149.85	518.14	-89.69

In principle, ECL is calculated for the individual financial instrument, i.e., at transaction level. In addition to the general approach (IFRS 9.5.5.1 et seq.), 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 features 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: For financial assets classified as credit impaired under IFRS 9 Appendix A, the Bank recognizes an allowance in the amount of the expected credit losses, on the basis of a 100% probability of default. The loss allowance in Stage 3 is recognized on a portfolio-specific basis. Mortgage loans and the nonretail business are measured on the basis of the expected cash flows. By contrast, for Consumer Finance, the loss allowance is recognized on the basis of portfolio parameters, which are the noncure rates (NCRs) relating to the individual instrument. The noncure rates reflect the loss allowance rate of the past due class in question (classes recognized on the basis of days past due) and are multiplied by the EAD of the individual financial instrument. The NCRs are calculated from a functional relationship between flow rates (probability of switching between past due classes) and severity (expected severity of loss). A distinction is made here between instalment loans, overdraft facilities for retail banking clients, and overdraft facilities for commercial clients.

Significant increase in credit risk

Financial assets are initially allocated to Stage 1. In the event of a significant increase in credit risk, they are transferred into Stage 2. Significant deteriorations are determined using rating-based and process-based indicators, as described in greater detail in the following.

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 9.5.5.9 et seq., 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.

The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month 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 (widening) of this ratio. An expected forward rating distribution is determined, based on the observed migration behavior and the available forward-looking information. A 10% quantile of this distribution is selected as the threshold for each product type and initial rating class. Specifically, the cumulative lifetime PD at the reporting date is compared on a daily basis with the cumulative lifetime PD on initial recognition. A significant increase in credit risk is assumed if, for the remaining maturity, the PD of a transaction based on current expectations exceeds the PD of the threshold based on the original expectations. 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 a transfer into Stage 2 if the current LTPD has deteriorated to a greater extent than would originally have been expected on the basis of the historical LTPD. The thresholds for determining Stage 2 rating-based indicators are based on expert estimates and are validated annually.

Process-based indicators: The qualitative processes are based on existing risk management indicators that are suitable for establishing a significant increase in the credit risk of financial assets. 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 nonretail 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 nonfinancial 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, the transfer between the Stage 1 and Stage 2 is symmetrical, i.e., the securities are transferred back to Stage 1 if the quantitative or qualitative indicators no longer apply. As long as the condition for one or more indicators is met and the financial asset is not classified as credit impaired, it remains in Stage 2. If none of the indicators apply any longer and the financial asset has not defaulted, it is reallocated to Stage 1. If credit impairment is identified, the financial asset is allocated to Stage 3. If a previously credit impaired financial asset is no longer classified as credit impaired, it is reallocated to Stage 1 or Stage 2.

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 consistent with the DB Group's definition, which is based on the regulatory 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 on the basis of internal research (e.g., breach of contract, 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).
– 90 days delinquency.

For impairment-relevant financial assets in Stage 3, the loss allowance covers the amount of loss the Bank expects to suffer. The evidence that a loan is credit-impaired applies irrespective of whether it involves retail instruments (Consumer Finance), mortgage lending, or nonretail business.

Forecasts of future individual economic conditions are considered when calculating ECLs. This applies in particular to the nonhomogeneous portfolio (discounted cash flow-based case-by-case assessment). The expected losses of the nonretail portfolio 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 scenarios with different probability weightings are applied to the nonretail business. 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 nonhomogeneous portfolio is performed at least every three months. Measurement uses amortized cost less the recoverable amount when collateral is realized.

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 (see above). This automated, parameter-based ECL calculation is performed daily and monthly. For mortgage lending, the ECL is also calculated largely automatically and parameter-based. This uses the parameters PD (PD=1), LGD, and EAD. For mortgage loans in workout, there is current information within the meaning of IFRS 9 (B5.5.49) with regard to collateral measurement from expert opinions or insolvency administrators, with the result that a case-specific severity of loss is used here instead of the LGD model parameter. Additionally, parameters calibrated at portfolio level are applied in order to take account of uncertainties relating to realization. These parameters relate to the geographic location of the collateral.

Purchased or originated credit-impaired financial assets in Stage 3

A purchased or originated financial asset is credit-impaired if there is objective evidence of impairment on initial recognition. Such impaired financial assets are termed "POCI financial assets." POCI financial assets are measured in such a way that they reflect the lifetime expected credit losses, and all subsequent changes in expected credit losses, whether they are positive or negative, are recognized in the income statement as part of the loan loss allowance. Corresponding financial assets are classified over the term of the financial asset in the POCI approach.

Write-offs

The Bank reduces the gross carrying amount of a financial asset if there is no reasonable expectation of proceeds from the collection and recovery process, 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.

For loans in the homogeneous loan portfolio, the number of days a loan is past due is an indicator for a write-off. A write-off is therefore recognized as time progresses and depending on the dunning and collection process, or taking expected cash flows into account.

For loans in the nonhomogeneous loan portfolio, the period until they are written off is not linked to past due status. A write-off is charged in line with the realization of collateral or if the expected proceeds are determined to be zero. Additionally, partial write-offs are possible in the course of curing/recovery.

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. (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), and
– 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 straight-line 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 each quarter 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 each quarter. 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

IFRS 16 lease accounting for the reporting period

Since January 1, 2019, the Bank has applied IFRS 16 "Leases" to account for leases.

Lessee

DB PFK enters into leases as a lessee primarily for land and buildings and for company cars.

At inception of the contract, DB PFK assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease under IFRS 16 if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

DB PFK applies a uniform presentation and measurement approach to all leases in cases where the lease term is more than 12 months and/or the underlying asset is not of low value. Assets are low-value assets if their cost is less than €5,000. DB PFK exercises the option not to apply the IFRS 16 recognition requirements to short-term leases and to leases for which the underlying asset is of low value.

As a lessee, DB PFK recognizes a right-of-use asset at inception of the lease that represents DB PFK's right to use the underlying asset and a lease liability, which represents DB PFK's obligation to make lease payments.

The right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement or modification of the lease liabilities. The cost of the right-of-use asset comprises the amount of the lease liabilities, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to be incurred for dismantling and removing the underlying asset or restoring the site on which it is located, less any lease incentives received. Right-of-use assets are depreciated using the straight-line method over the lease term and reported in general and administrative expenses.

In accordance with IAS 36, the impairment test is performed at the reporting date or when events or circumstances occur that could lead to impairment. Relevant events and circumstances include in particular strategic decisions by DB PFK, e.g., decisions to close a branch. If impairment is determined in the course of an impairment test, the right-of-use asset is written down accordingly and the impairment loss is reported in general and administrative expenses.

The lease liability is measured at the present value of the lease payments to be made over the lease term. The lease payments consist of fixed payments less any lease incentives. Variable lease payments that do not depend on an index or a rate are recognized in profit or loss in the period in which the event or condition occurs that triggers the payment. Interest expenses on leases are reported in interest expense.

To calculate the present value of the lease payments at inception of the contract, DB PFK uses the incremental borrowing rate because the interest rate implicit in the lease cannot be readily determined. It uses DB AG's incremental borrowing rate. In the course of subsequent measurement, the amount of the lease liabilities is increased by the interest expense and reduced by lease payments made. In addition, the carrying amount of the lease liabilities is remeasured if there is a change in the lease term or the lease payments.

In the case of a sale and leaseback transaction, in the first step DB PFK assesses whether there has been a sale within the meaning of IFRS 15. If this is the case, DB PFK derecognizes the underlying asset at the date of the sale and recognizes the right-of-use asset and a lease liability associated with the leaseback. The carrying amount of the right-of-use asset is measured by reference to the carrying amount of the underlying asset, depending on the right of use retained by means of the transaction. Gains and losses on the sale are recognized insofar as they relate to the rights of use not retained.

DB PFK reports right-of-use assets from leases in the "Property and equipment" line item and lease items in "Other liabilities."

DB PFK exercises the option not to apply the requirements of IFRS 16 to short-term leases, meaning leases with a term of no more than 12 months, and to leases for which the underlying asset is of low value. Lease payments for short-term leases and leases of low-value assets are recognized using the straight-line method over the lease term.

Lessor

Where DB PFK is the lessor in a finance lease, it reports the receivable at the net investment value. The derecognition and impairment requirements of IFRS 9 (Chapters (a) and (b)) are applied to the net investment. 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. DB PFK has not entered into any finance leases relating to real estate either as a lessor or as a lessee.

Where DB PFK 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.

Lease accounting under IAS 17 and IFRIC 4 for the prior-year period

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 DB PFK 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 DB PFK 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. DB PFK has not entered into any finance leases relating to real estate either as a lessor or as a lessee.

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

As the lessor in an operating lease, DB PFK recognizes the leased asset as an asset at amortized cost in 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 26 relate to the provisions recognized for the reorganization of the sales organization and provisions for efficiency measures as part of the new strategic realignment.

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%. Financial guarantees are recognized in the amount guaranteed, net of collateral received and the loss allowance.

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.

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 service 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 31 "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 12 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.

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

Noncurrent 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 revenue 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.

Nonrecurring 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 noncurrent 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. 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 noncash 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.

03 – Newly Applied and Future Accounting Pronouncements

Accounting pronouncements applied for the first time in the reporting period

IFRS 16 “Leases”

DB PFK implemented the requirements of IFRS 16 “Leases” effective January 1, 2019. IFRS 16 governs the recognition, measurement, presentation, and disclosure obligations relating to leases, and replaces the former IAS 17 “Leases.” IFRS 16 took effect for fiscal years beginning on or after January 1, 2019. The standard has been endorsed by the EU.

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 former 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.

DB PFK 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 that lie within the scope of IFRS 16 relate to land and buildings, as well as company cars.

DB PFK 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.

Lease liabilities were measured at the present value of the outstanding lease payments, discounted using the incremental borrowing rate as of January 1, 2019. The weighted average annual incremental borrowing rate was 1.44%.

In addition, in application of IFRS 16.C10(b), provisions previously recognized for onerous real estate leases were derecognized in other comprehensive income at the date of initial application, and the value of the right-of-use assets was reduced by the same amount, also in other comprehensive income.

Initial application of IFRS 16 led to the initial recognition of right-of-use assets from leases amounting to €724 million and lease liabilities of €736 million.

The following table presents the reconciliation to recognized lease liabilities under IFRS 16 as of January 1, 2019, based on the future minimum lease payments for operating leases under IAS 17 as of December 31, 2018.

in €m	
Operating lease obligations as of December 31, 2018	946
Changes due to new definition of leases	−347
Application relief for short-term leases	−7
Adjustments due to different assessments of extension or termination options	174
Other	15
Gross lease liabilities as of January 1, 2019	781
Discounting	−45
Total lease liabilities as of January 1, 2019	736

Other changes

The Bank also applied the following standards for the first time in the reporting period, which did not have any material effects on the Bank's net assets, financial position, and results of operations:

IAS 19 "Employee Benefits" – IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments to IAS 19 mean that it is mandatory 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.

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.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Supervisory authorities and central banks have staked out the goal of improving the robustness of benchmarks, in particular interest rate benchmarks.

The International Accounting Standard Board (IASB) is currently addressing the impact of the interest rate benchmark reform to financial reporting in two phases. Phase 1 addresses problems affecting financial reporting in the period before an existing interest rate benchmark is replaced by an alternative risk-free rate (RFR). Phase 2 will concentrate on problems that might affect financial reporting if an existing interest rate benchmark is replaced by an RFR.

The IASB issued the pronouncement "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7)" in September 2019, containing relief from certain hedge accounting requirements in order to remove uncertainties in the period arising from the discontinuation of interest rate benchmarks (e.g., Interbank Offered Rates – IBORs), as well as specific disclosure requirements for the hedging relationships affected. The amendments are effective for annual periods beginning on or after January 1, 2020, with early application permitted. The European Union adopted the amendments in January 2020, which allows DB PFK to apply them early. DB PFK has decided to apply the amendments early as from January 1, 2019.

The Bank is currently implementing a company-wide project in order to enable the switch from LIBOR and other interest rate benchmarks to the RFRs. The project involves all front and back office units, including the infrastructure function. The aim of the project is to identify the relevant interest rates and products in order to enable trading of products that reference an RFR and to analyze the impact on existing contracts. The Bank's has adopted a holistic approach so that the modifications to systems, processes, and strategy required by the switch from the existing interest rates to the alternative interest rate benchmarks can be implemented in full and in good time.

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.

Annual Improvements 2015–2017

The IASB has implemented clarifications, amendments, and additions to existing standards as part of its Annual Improvements Project.

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

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. The Bank does not expect the amendments outlined above to have any material effects on the net assets, financial position, and results of operations of the DB PFK Group.

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. The Bank does not expect the amendments outlined above to have any material effects on the net assets, financial position, and results of operations of the DB PFK Group.

IFRS 17 “Insurance Contracts”

In May 2017, the IASB issued IFRS 17, “Insurance Contracts”, which establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts within the scope of the standard. IFRS 17 replaces IFRS 4, which had given entities dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 is effective for annual periods beginning on or after January 1, 2021. Based on the Group’s current business activities, it is expected that IFRS 17 will not have a material impact on the Group’s consolidated financial statements. It has not yet been endorsed by the EU.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

These amendments clarify the recognition of unrealized gains on transactions between an investor and an associate or joint venture. The IASB has postponed the initial application date of the amendments indefinitely. It has 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.

The Bank does not expect the amendments outlined above to have any material effects on the net assets, financial position, and results of operations of the DB PFK Group.

Amendments to IAS 1 “Presentation of Financial Statements”: Classification of Liabilities as Current or Noncurrent

In January 2020, the IASB published amendments to the classification of liabilities as current or noncurrent. The amendments relate exclusively to the presentation of liabilities in the statement of financial position and clarify that the classification of liabilities as current or noncurrent must be based on rights that are in existence at the reporting date. The amendments must be applied retrospectively for annual periods beginning on or after January 1, 2022. It has not yet been endorsed by the EU. DB PFK is currently examining the potential impact on its consolidated financial statements.

04 – 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, 2019, include 25 subsidiaries, which are presented in the following overview.

Name and domicile	Direct interest (%)	Indirect interest (%)
Ambidexter GmbH, Frankfurt am Main	100.0	
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	
BHW Holding GmbH, Hameln	100.0	
DB Direkt GmbH, Frankfurt am Main	100.0	
DB Investment Services GmbH, Frankfurt am Main	100.0	
DB VersicherungsManager GmbH, Frankfurt am Main	100.0	
KEBA Gesellschaft für interne Services mbH, Frankfurt am Main	100.0	
PB International S.A., Munsbach, Luxembourg	100.0	
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0	
PCC Services GmbH der Deutschen Bank, Essen	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 Systems AG, Bonn	100.0	
VÖB-ZVD Processing GmbH, Bonn	100.0	
BHW Bausparkasse Aktiengesellschaft, Hameln		100.0
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln		100.0
Deutsche Postbank Finance Center Objekt GmbH, Munsbach, Luxembourg		100.0
PB Factoring GmbH, Bonn		100.0
PB Firmenkunden AG, Bonn		100.0
Postbank Immobilien GmbH, Hameln		100.0
Postbank Finanzberatung AG, Hameln	23.3	76.7
Stelvio Immobiliare Srl, Bolzano, Italy		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.

Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main, which was included in the basis of consolidation in the prior-year period, was retrospectively merged with BHW Bausparkasse Aktiengesellschaft, Hameln, effective January 1, 2019, on entry of the merger in the commercial register on May 17, 2019. The merger had no effect on the recognition and measurement of items in DB PFK's consolidated financial statements.

Stelvio Immobiliare Srl was established as of July 4, 2019, and has been included in DB PFK's basis of consolidation since that date. The sole founder and shareholder is BHW - Gesellschaft für Wohnungswirtschaft mbH. Initial consolidation of the company did not result in any material effects.

DSL Portfolio Verwaltungs GmbH, Bonn, was retrospectively merged with DB Privat- und Firmenkundenbank AG, Frankfurt am Main, effective January 1, 2019, upon entry of the merger in the commercial register on August 27, 2019. The merger also resulted in the absorption, and subsequent dissolution, of DSL Portfolio GmbH & Co. KG, Bonn, by DB Privat- und Firmenkundenbank AG. Neither the merger nor the absorption led to any material effects on recognition and measurement in the consolidated financial statements of DB PFK.

BHW Kreditservice GmbH, Hameln, and Postbank Service GmbH, Essen, were retrospectively merged with PCC Services GmbH der Deutsche Bank, Essen, effective January 1, 2019, upon entry of the merger in the commercial register on August 27, 2019. The merger had no effect on the recognition and measurement of items in DB PFK's consolidated financial statements.

PBC Banking Services GmbH, Frankfurt am Main, was retrospectively merged with DB Privat- und Firmenkundenbank AG, Frankfurt am Main, effective January 1, 2019, upon entry of the merger in the commercial register on August 29, 2019. The merger had no effect on the recognition and measurement of items in DB PFK's consolidated financial statements.

The non-Group limited partners of Postbank Immobilien und Baumanagement GmbH & Co Objekt Leipzig KG, Bonn, terminated their limited partner shares effective December 31, 2019. As a result, Postbank Immobilien und Baumanagement GmbH & Co Leipzig KG was merged by accrual with the sole remaining partner – Postbank Immobilien und Baumanagement GmbH, Bonn – and the company was dissolved. The merger by accrual had no material effect on the recognition and

measurement of items in DB PFK's consolidated financial statements. In connection with the termination of the shares, the remaining liability to the limited partners was derecognized through profit or loss.

There were no other changes in the basis of consolidation.

05 – 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. There are no differences between management accounting and IFRS financial accounting.

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.

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.

During the reporting period, the allocation of earnings contributions to the segments in the corporate divisions was modified as follows:

The infrastructure functions of the Postbank brand segment were separated from the sales units and presented in the "Other" segment with the Deutsche Bank brand's infrastructure functions. Next, the infrastructure costs were correctly allocated to their originators in the Deutsche Bank and Postbank brand segments. In addition, income from money and capital market activities of the Postbank brand, the Deutsche Bank brand, and the other income of the two brands that could not be allocated to the products (retail and commercial banking customers) were allocated to the "Other" segment.

The resulting adjustments made retrospectively can be found in the section "Segment Results of Operations".

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

Deutsche Bank brand

The results generated in this corporate division in the retail and 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 banking 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 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 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 obtained from 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 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.

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. Other items reported under this brand are the 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 obtained from the parent company.

“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 and the Postbank brand, and earnings effects from transactions with the parent company. Income and expenses from the largely independent money and capital market activities of the Postbank brand 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. In addition, income from money and capital market activities of the Deutsche Bank brand and the remaining income not attributable to the products (retail and commercial banking customers) of both brands are allocated from now on to the “Other” segment.

Measurement of segment profit or loss

Segment information 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, including the reconciliation to the IFRS consolidated financial statements, in each case for fiscal years 2019 and 2018. All of the comparisons in the following disclosures on the segments refer to the retrospectively adjusted amounts for fiscal year 2018.

				Jan – Dec 2019
in €m (unless stated otherwise)	Deutsche Bank brand	Postbank brand	Other	Group total
Net interest income	1,992	2,273	−582	3,683
Loan loss allowance	−25	−210	3	−233
Net interest income after loan loss allowance	**1,967**	**2,063**	**−579**	**3,450**
Net commissions and fee income	870	871	80	1,821
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	21	–	−1	21
Net gains (losses) on financial assets at fair value through other comprehensive income	–	–	113	113
Other income (loss)	38	−1	261	298
Total noninterest income	**929**	**870**	**454**	**2,253**
Compensation and benefits	−767	−677	−865	−2,310
General and administrative expenses	−1,451	−1,861	631	−2,681
Total noninterest expenses	**−2,218**	**−2,538**	**−235**	**−4,990**
Net income (loss) before tax	**678**	**395**	**−360**	**713**

in €m (unless stated otherwise)	Deutsche Bank brand	Postbank brand	Other	Jan – Dec 2018 Group total
Net interest income	1,910	2,270	−167	4,012
Loan loss allowance	−31	−182	1	−213
Net interest income after loan loss allowance	1,879	2,087	−166	3,799
Net commissions and fee income	822	870	65	1,757
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	17	–	−25	−8
Net gains (losses) on financial assets at fair value through other comprehensive income	–	–	110	110
Other income (loss)	39	1	411	452
Total noninterest income	878	872	562	2,311
Compensation and benefits	−808	−689	−858	−2,356
General and administrative expenses	−1,563	−1,713	574	−2,702
Total noninterest expenses	−2,371	−2,402	−284	−5,057
Net income (loss) before tax	386	557	111	1,053

The allocation of earnings contributions to the segments was modified in the reporting period in order to more accurately reflect management responsibility.

As a result, the infrastructure functions of the Postbank brand segment were separated from the sales units and presented in the “Other” segment as part of their integration with the Deutsche Bank brand’s infrastructure functions. In the next step, the infrastructure costs (except for infrastructure costs relating to money and capital market activities) were allocated to the Deutsche Bank and Postbank brands on the basis of the origination of those costs. In addition, income from money and capital market activities of the Postbank and Deutsche Bank brands and the remaining income not attributable to the products (retail and commercial banking customers) of both brands are now allocated to the “Other” segment.

Deutsche Bank brand

Net income (loss) before tax

Net income before tax generated by our Deutsche Bank brand was €678 million in the reporting period, following €386 million in the prior-year period. This increase in earnings was achieved in a persistently challenging market environment, due in particular to the continued low level of interest rates. The increase was primarily due to the higher net commissions and fee income and net interest income compared with the prior-year period, as well as to a decline in noninterest expenses.

Net income before tax in the reporting period was higher than the level of projected net income before tax for 2019. This was due primarily to a volume-driven increase in liquidity remuneration by the parent company DB AG compared with the projection.Postbank brand

Net income (loss) before tax

Net income before tax from business at our Postbank brand was 395 Mio € in the reporting period, following 557 Mio € in the prior-year period. The main reason for this deterioration in earnings was an impairment loss on software (€138 million) in the reporting period. Excluding this effect, net income before tax was down slightly year-on-year. The impairment loss recognized on software is a result of the strategic realignment of the parent company, Deutsche Bank AG, and the associated accelerated IT migration in the course of integrating Postbank and Deutsche Bank.

Net income before tax in the reporting period was lower than the 2019 projection. This is due primarily to the higher margin compression in the deposit business compared with the projection.

“Other” segment

Net income (loss) before tax

The “Other” segment recorded a loss before tax of €360 million in the reporting period, following a profit of 111 Mio € in the prior-year period. This is largely attributable to a number of offsetting nonrecurring factors. Income from the optimization of our real estate portfolio (€218 million) and from transactions with the parent company (€240 million) in the prior-year period was not repeated in the reporting period. The lower impact of investment costs and restructuring expenses incurred in the course of the integration of Postbank and Deutsche Bank (reporting period: €101 million, prior-year period: €268 million) had an offsetting effect.

The considerable decline in net income before tax compared with the net income before tax projected for 2019 is predominantly a result of the negative impact of yield curve effects on money and capital market activities, and the reclassification of infrastructure functions from the Postbank brand segment to the “Other” segment in the course of the changes to the allocation of earnings contributions to the segments.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 in Luxembourg 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 (loss) before tax	
in €m	2019	2018	2019	2018
Germany	5,866	6,270	696	1,068
Europe	70	53	17	−15
Total	**5,936**	**6,323**	**713**	**1,053**

Consolidated Statement of Income Disclosures

06 – Net Interest Income and Net Gains (Losses) on Financial Assets/Liabilities at Fair Value through Profit or Loss

Net interest income

in €m	2019	2018
Interest and similar income from:		
Interest income from cash and central bank balances	0	–
Interbank balances (excluding central banks)	41	53
Central bank funds sold and securities purchased under resale agreements (reverse repos)	2	1
Loans	4,605	4,850
Other interest income	95	76
Total interest and similar income from financial assets at amortized cost	**4,743**	4,980
Interest income on financial assets at fair value through other comprehensive income	48	136
Total interest and similar income from financial assets not measured at fair value through profit or loss[1]	**4,791**	5,115
Interest and similar income from financial assets measured at fair value through profit or loss	6	6
Total interest and similar income	**4,797**	5,121
Interest expenses from:		
Deposits	−692	−677
Central bank funds purchased and securities sold under resale agreements (repos)	−27	−27
Other short-term borrowings	−6	−4
Noncurrent liabilities	−176	−204
Trust preferred securities	–	−5
Lease liabilities	−8	–
Other interest expenses	−205	−191
Total interest expenses from financial liabilities not measured at fair value through profit or loss	**−1,114**	−1,109
Interest expenses from financial liabilities at fair value through profit or loss	–	–
Total interest expenses	**−1,114**	−1,109
Net interest income	**3,683**	4,012

1 Net interest income includes interest income of €4.8 billion (previous year: €5.1 billion) calculated using the effective interest method.

Other interest income includes positive interest on financial liabilities amounting to €70 million (previous year: €64 million). Other interest expenses include negative interest on financial assets amounting to €-186 million (previous year: €-172 million).

Net gains (losses) on financial assets/liabilities at fair value through profit or loss

in €m	2019	2018
Net trading income		
Sales & trading	56	54
Hedges	−70	−86
Total net trading income	**−14**	−32
Net gains (losses) on financial assets/liabilities designated as at fair value through profit or loss		
Disaggregated by category of financial assets/liabilities		
Equity investments	29	23
Other assets at fair value through profit or loss	6	2
Other financial liabilities designated as at fair value through profit or loss	–	−1
Total net gains (losses) on financial assets/liabilities designated as at fair value through profit or loss	**35**	24
Total net gains (losses) on financial assets/liabilities at fair value through profit or loss	**21**	−8

Net interest income and net gains (losses) on financial assets/liabilities at fair value through profit or loss

in €m	2019	2018
Net interest income[1]	3,683	4,012
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	21	−8
Net interest income and net gains (losses) on financial assets/liabilities at fair value through profit or loss	**3,703**	4,004

1 Net interest income includes interest income of €4.8 billion (previous year: €5.1 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 €113 million (previous year: €110 million) on debt securities.

07 – Net commissions and fee income

				2019
in €m	Deutsche Bank brand	Postbank brand	Other	Group total
Type of service:				
Commissions for administration	101	–	39	140
Brokerage fees	378	104	–	482
Commissions for local payments	412	495	–	907
Commissions for foreign commercial business	21	85	–	106
Commissions for loan processing and guarantees	186	54	–	240
Intermediary fees	139	252	–	391
Commissions and fees for other customer services	33	157	8	198
Total commissions and fee income	1,270	1,147	47	2,464
Commissions and fee expenses				−643
Net commissions and fee income				1,821

				2018
in €m	Deutsche Bank brand	Postbank brand	Other	Group total
Type of service:				
Commissions for administration	94	3	35	132
Brokerage fees	364	95	–	459
Commissions for local payments	394	483	–	877
Commissions for foreign commercial business	22	93	–	115
Commissions for loan processing and guarantees	133	44	–	177
Intermediary fees	133	242	–	375
Commissions and fees for other customer services	34	176	–	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

There were receivables of €125 million (previous year: €120 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 €36 million (previous year: €28 million) at the reporting date from Deutsche Bank AG resulting from a service agreement. There were also receivables of €5 million (previous year: €5 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 €2 million (previous year: €8 million) from prepayments already received for a service agreement relating to transaction banking.

Commissions and fee income includes €1,253 million (previous year: €1,169 million) and commissions and fee expense of €190 million (previous year: €189 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: €4 million).

08 – Other Income (Loss)

in €m	2019	2018
Income from liquidity offset	221	232
Gains on the sale of promissory note loans	23	–
Rental income	3	8
Gains (losses) on the sale of real estate	2	153
Gains on disposal of assets held for sale and liabilities associated with assets held for sale	2	71
Gains (losses) on hedges that meet the criteria for hedge accounting	−30	−95
Miscellaneous	77	83
Total	298	452

09 – Compensation and Benefits

in €m	2019	2018
Salaries	1,732	1,760
Additional benefits	571	545
Other compensation and benefits	7	51
Total	**2,310**	2,356

10 – General and Administrative Expenses

in €m	2019	2018
IT costs	676	517
Occupancy, furniture, and equipment expenses	577	572
Cost of services purchased from Deutsche Bank Group	559	598
Cost of banking and transaction services	194	212
Cost of deposit guarantee and bank levy expenses	152	162
Cost of professional service fees	140	170
Marketing expenses	112	120
Communication and data services	42	40
Travel and representation expenses	35	41
Other expenses	193	269
Total	**2,680**	2,701

Consolidated Balance Sheet Disclosures

11 – Cash and Interbank Balances

in €m	Dec 31, 2019	Dec 31, 2018
Cash		
Cash-on-hand	2,062	2,124
Central bank balances	24,088	18,006
Total	**26,150**	20,130

Interbank balances (excluding central banks)		
Noninterest-bearing interbank balances	23	19
Interest-bearing interbank balances	41,637	42,712
Total	**41,658**	42,731

12 – Financial Assets/Liabilities at Fair Value through Profit or Loss

in €m	Dec 31, 2019	Dec 31, 2018
Financial assets classified as held for trading:		
Positive fair values from derivative financial instruments	5,711	4,434
Total financial assets classified as held for trading	**5,711**	4,434
Nontrading financial assets at fair value through profit or loss:		
Receivables from securities resale agreements (repos)	–	–
Receivables from securities lending	–	–
Loans	7	209
Other financial assets at fair value	398	362
Total nontrading financial assets at fair value through profit or loss	**406**	571
Total financial assets at fair value through profit or loss	**6,117**	5,005

in €m	Dec 31, 2019	Dec 31, 2018
Financial liabilities classified as held for trading:		
Negative fair values from derivative financial instruments	4,921	3,689
Total financial liabilities classified as held for trading	**4,921**	3,689
Total financial liabilities at fair value through profit or loss	**4,921**	3,689

13 – Financial Assets at Fair Value through Other Comprehensive Income

in €m	Dec 31, 2019	Dec 31, 2018
Debt securities	2,949	8,799
Total	**2,949**	8,799

The position "Financial assets at fair value through other comprehensive income" contains exclusively debt securities. The decrease is primarily attributable to the sale of debt securities.

14 – 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 nonexchange-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

	Dec 31, 2019				Dec 31, 2018			
in €m	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)	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	5,711	–	5,642	69	4,434	–	4,403	31
Nontrading financial assets at fair value through profit or loss	406	–	266	140	571	–	456	115
Financial assets at fair value through other comprehensive income	2,949	1,559	1,390	–	8,799	3,087	5,712	–
Other financial assets at fair value	101	–	101	–	63	–	63	–
Total financial assets at fair value	**9,167**	**1,559**	**7,399**	**209**	13,868	3,087	10,634	146
Financial liabilities at fair value:								
Negative fair values from derivative financial instruments	4,921	–	4,882	39	3,689	–	3,652	37
Other financial liabilities at fair value	1,170	–	1,170	–	1,314	–	1,314	–
Total financial liabilities at fair value	**6,092**	**–**	**6,052**	**39**	5,003	–	4,966	37

The decline in Level 1 and Level 2 instruments compared with the prior-year period is mainly due to maturities and disposals. Based on liquidity testing procedures, there were no transfers between Level 1 and Level 2 in the current period. 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 based on quoted prices, as long as 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 volatilities. 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 based on 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). Key inputs are interest rate and spread curves (basis spreads). 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 inventory 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,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, 2019	Fair value as of Dec 31, 2018
Bonds and equities	Mark-to-market Reuters and Bloomberg prices, otherwise DCF	3,348	9,161
Interest rate derivatives	DCF, Black 76 if they contain options	-230	-466
Currency	DCF, Garman-Kohlhagen for foreign currency options	-10	-3
Loans	DCF	-32	172
Commodities	Quanto lognormal asset model, Garman-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

in €m	Balance at beginning of year	Changes in basis of consolidation	Total gains/ losses[1]	Purchases	Sales	Issuances	Settlements	Balance at end of period
								Dec 31, 2019
Positive fair values from derivative financial instruments	31	–	38	–	–	–	–	69
Nontrading financial assets at fair value through profit or loss	115	–	20	29	–	3	−28	140
Total financial assets at fair value	146	–	58	29	–	3	−28	208
Negative fair values from derivative financial instruments	37	–	2	–	–	–	–	39
Total financial liabilities at fair value	**37**	**–**	**2**	**–**	**–**	**–**	**–**	**39**

[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:

in €m	Balance at beginning of year	Changes in basis of consolidation	Total gains/ /losses[1]	Purchases	Sales	Issuances	Settlements	Balance at end of period
								Dec 31, 2018
Positive fair values from derivative financial instruments	19	–	12	–	–	–	–	31
Nontrading 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	–	1	–	–	–	–	37
Total financial liabilities at fair value	37	–	1	–	–	–	–	37

[1] All gains and losses are recognized in net gains (losses) on financial assets at fair value in the statement of income.

Sensitivity analysis of unobservable inputs

Structured credit products within nontrading financial assets at fair value that are allocated to Level 3 are currently measured using available dealer quotes (price range: min. 0% – max. 100%) 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 +/– €0.5 million.

Level 3 holdings of nontrading 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 €4.3 million.

Holdings of closed-end funds and equity investments within nontrading 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 +/– €0.3 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 +/– €2.9 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. 71.3% – max. 94.2%) 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 +/– €4.7 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 €2 million.

The fair value of loans designated as at fair value within nontrading 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 million – max. €4.4 million). Taking into account a 5% fluctuation in these assumptions, this results in a fair value change of +/– €0.4 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	Dec 31, 2019	Dec 31, 2018
Financial assets at fair value:		
Positive fair values from derivative financial instruments	38	12
Nontrading financial assets at fair value through profit or loss	19	23
Total financial assets at fair value	**57**	35
Financial liabilities at fair value:		
Negative fair values from derivative financial instruments	−2	−1
Total financial liabilities at fair value	**−2**	−1
Total	**54**	34

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.

15 – Fair Value of Financial Instruments at Amortized Cost

The fair value of financial instruments measured at amortized cost is normally calculated based on 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, noncurrent 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:

Fair value of financial instruments not carried at fair value in the balance sheet

in €m	Carrying amount	Fair value	Quoted prices in active markets (Level 1)	Valuation technique based on observable inputs (Level 2)	Dec 31, 2019 Valuation technique not based on observable inputs (Level 3)
Financial assets:					
Cash and central bank balances	26,150	26,150	26,150	–	–
Interbank balances (excluding central banks)	41,658	41,660	3,787	37,873	–
Central bank funds sold and securities purchased under resale agreements (reverse repos)	4,082	4,082	–	4,082	–
Loans	196,772	203,233	3,702	–	199,531
Banks	18	19	–	–	19
Overnight deposits	3,702	3,702	3,702	–	–
Term deposits	1,168	1,168	–	–	1,168
Consumer mortgage loans	145,317	151,599	–	–	151,599
Commercial loans	29,260	29,345	–	–	29,345
Public-sector loans	2,040	2,068	–	–	2,068
Installment loans	13,579	13,623	–	–	13,623
Promissory note loans	1,677	1,699	–	–	1,699
Other loans	11	11	–	–	11
Securities in the “Hold” business model (IFRS 9)	4,709	4,811	1,026	3,785	–
Other financial assets	2,757	2,757	–	2,757	–
Financial liabilities:					
Deposits	240,481	240,709	120	240,589	–
Central bank funds purchased and securities sold under resale agreements (repos)	–	–	–	–	–
Other short-term borrowings	934	934	–	934	–
Other financial liabilities	1,354	1,354	–	1,354	–
Noncurrent liabilities	27,727	29,051	–	27,615	1,436
Trust preferred securities	–	–	–	–	–

in €m	Carrying amount	Fair value	Quoted prices in active markets (Level 1)	Valuation technique based on observable inputs (Level 2)	Dec 31, 2018 Valuation technique not based on observable inputs (Level 3)
Financial assets:					
Cash and central bank balances	20,130	20,130	20,130	–	–
Interbank balances (excluding central banks)	42,731	42,730	1,806	40,924	–
Central bank funds sold and securities purchased under resale agreements (reverse repos)	298	298	–	298	–
Loans	189,748	186,330	3,931	–	182,399
Banks	17	32	–	–	32
Overnight deposits	3,931	3,931	3,931	–	–
Term deposits	1,708	1,708	–	–	1,708
Consumer mortgage loans	139,001	135,517	–	–	135,517
Commercial loans	26,584	26,301	–	–	26,301
Public-sector loans	4,309	4,321	–	–	4,321
Installment loans	12,723	13,062	–	–	13,062
Promissory note loans	1,457	1,440	–	–	1,440
Other loans	18	18	–	–	18
Securities in the “Hold” business model (IFRS 9)	5,470	5,569	849	4,720	–
Other financial assets	1,982	1,982	–	1,982	–
Financial liabilities:					
Deposits	225,985	225,810	217	225,593	–
Central bank funds purchased and securities sold under resale agreements (repos)	1,135	1,135	–	1,135	–
Other short-term borrowings	278	278	–	278	–
Other financial liabilities	3,589	3,589	–	3,589	–
Noncurrent liabilities	29,953	31,213	–	29,567	1,646
Trust preferred securities	–	–	–	–	–

16 – 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 based on 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, 2019
					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)	4,082	–	4,082	–	–	–	4,082
Receivables from securities lending	–	–	–	–	–	–	–
Financial assets at fair value							
Financial assets at fair value through profit or loss	10,566	−4,449	6,117	−18	−7	−0	6,092
Thereof: Trading assets	0	–	0	–	–	–	0
Thereof: Positive fair values from derivative financial instruments	10,160	−4,449	5,711	−18	−7	−0	5,686
Financial assets at fair value through other comprehensive income	2,949	–	2,949	–	–	–	2,949
Financial assets available for sale	–	–	–	–	–	–	–
Total financial assets at fair value	13,515	−4,449	9,066	−18	−7	−0	9,041
Loans	197,802	−1,030	196,772	–	–	–	196,772
Other assets	8,158	−215	7,943	–	−2	−0	7,941
Thereof: Positive fair values from derivatives held for hedging purposes	316	−215	101	–	−2	−0	99
Miscellaneous assets not set off	69,707	–	69,707	–	–	–	69,707
Total assets	**293,264**	**−5,693**	**287,571**	**−18**	**−9**	**−0**	**287,544**

Liabilities

							Dec 31, 2019
					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	240,481	–	240,481	–	–	–	240,481
Central bank funds purchased and securities sold under resale agreements (repos)	–	–	–	–	–	–	–
Liabilities from securities lending	–	–	–	–	–	–	–
Financial liabilities at fair value							
Thereof: Trading liabilities	–	–	–	–	–	–	–
Thereof: Negative fair values from derivative financial instruments	9,509	−4,588	4,921	−17	−2	−6	4,896
Financial liabilities designated as at fair value	–	–	–	–	–	–	–
Total financial liabilities at fair value	9,509	−4,588	4,921	−17	−2	−6	4,896
Other liabilities	6,665	−1,105	5,560	–	−0	−1	5,559
Thereof: Negative fair values from derivatives held for hedging purposes	2,275	−1,105	1,170	–	−0	−1	1,169
Miscellaneous liabilities not set off	28,067	–	28,067	–	–	–	28,067
Total liabilities and equity	**284,723**	**−5,693**	**279,030**	**−17**	**−2**	**−7**	**279,004**

The following tables contain the comparative figures as of December 31, 2018

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	–	–	−298	0
Receivables from securities lending	–	–	–	–	–	–	–
Financial assets at fair value							
Financial assets at fair value through profit or loss	8,640	−3,635	5,005	−15	−51	–	4,939
Thereof: Trading assets	0	–	0	–	–	–	0
Thereof: Positive fair values from derivative financial instruments	8,069	−3,635	4,434	−15	−51	–	4,368
Financial assets at fair value through other comprehensive income	8,799	–	8,799	–	–	–	8,799
Financial assets available for sale	–	–	–	–	–	–	–
Total financial assets at fair value	17,439	−3,635	13,804	−15	−51	–	13,738
Loans	190,239	−491	189,748	–	–	–	189,748
Other assets	8,379	−411	7,968	–	−11	–	7,957
Thereof: Positive fair values from derivatives held for hedging purposes	474	−411	63	–	−11	–	52
Miscellaneous assets not set off	64,299	–	64,299	–	–	–	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	–	225,985	–	–	–	225,985
Central bank funds purchased and securities sold under resale agreements (repos)	1,855	−720	1,135	–	–	−1,063	72
Liabilities from securities lending	–	–	–	–	–	–	–
Financial liabilities at fair value							
Thereof: Trading liabilities	–	–	–	–	–	–	–
Thereof: 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	–	–	–	–	–	–	–
Total financial liabilities at fair value	7,623	−3,934	3,689	−15	−115	−5	3,554
Other liabilities	7,242	−603	6,639	–	−12	−1	6,626
Thereof: Negative fair values from derivatives held for hedging purposes	1,917	−603	1,314	–	−12	−1	1,301
Miscellaneous liabilities not set off	30,612	–	30,612	–	–	–	30,612
Total liabilities and equity	273,317	−5,257	268,060	−15	−127	−1,069	266,849

17 – Loans at Amortized Cost

in €m	Dec 31, 2019	Dec 31, 2018
Banks	18	17
Overnight deposits	3,702	3,931
Term deposits	1,168	1,708
Consumer mortgage loans	145,317	139,001
Commercial loans	29,260	26,584
Public-sector loans	2,040	4,309
Installment loans	13,579	12,723
Promissory note loans	1,677	1,457
Other loans	11	18
Total	**196,772**	189,748

18 – Loan Loss Allowance for Financial Assets at Amortized Cost

Changes in loan loss allowance for financial assets at amortized cost

				2019
in €m	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	240	271	1,084	**1,595**
Changes in financial assets including new business	−41	87	178	224
Transfers due to change in credit quality	55	−82	27	–
Derecognition of impaired loans	–	–	−283	−283
Recoveries on loans written off	–	–	45	45
Foreign exchange movements and other changes	−6	−6	−9	−21
Balance at December 31	248	270	1,042	**1,560**

				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	–
Derecognition of impaired loans	–	–	−122	−122
Recoveries on loans written off	–	–	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

				2019
in €m	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	8	9	15	**32**
Changes in off-balance-sheet liabilities including new business	0	1	8	9
Transfers due to change in credit quality	1	−1	0	–
Foreign exchange movements and other changes	0	0	1	1
Balance at December 31	9	9	24	**42**

				2018
in €m	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	7	9	17	33
Changes in off-balance-sheet liabilities including new business	−12	0	0	−12
Transfers due to change in credit quality	7	−7	0	–
Foreign exchange movements and other changes	6	7	−2	11
Balance at December 31	8	9	15	32

19 – 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, 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, 2019	Dec 31, 2018
Carrying amount of transferred assets		
Financial assets designated as at fair value through profit or loss	–	–
Financial assets designated as at fair value through other comprehensive income	887	1,789
Financial assets measured at amortized cost	78	145
Total	**965**	1,934
Carrying amount of associated liabilities	**4**	1,135

Transferred assets are securities that continue to be measured at fair value through other comprehensive income or at amortized cost.

20 – 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, 2019	Dec 31, 2018
Financial assets designated as at fair value through other comprehensive income	1,322	2,039
Financial assets measured at amortized cost	54,905	63,320
Cash collateral	160	21
Total	**56,387**	65,380

Thereof: Assets pledged as collateral that the transferee has the right to sell or repledge

in €m	Dec 31, 2019	Dec 31, 2018
Financial assets designated as at fair value through profit or loss	–	–
Financial assets designated as at fair value through other comprehensive income	–	1,060
Financial assets measured at amortized cost	–	–
Other	–	–
Total	**–**	1,060

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, as long as 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, 2019	Dec 31, 2018
Securities and other financial assets accepted as collateral	4,228	312
Thereof:		
Collateral sold or repledged	512	155

21 – Property and Equipment

in €m	Land and buildings	Office equipment	Leasehold improvements	Assets under construction	Right-of-use assets under IFRS 16 leases	Total
Cost:						
Balance as of January 1, 2018	522	446	371	75	–	**1,414**
Changes in basis of consolidation	–	–	–	–	–	–
Additions	8	49	61	47	–	165
Reclassifications	21	21	19	−60	–	1
Reclassified to/from property and equipment held for sale	−183	–	–	–	–	−183
Disposals	116	43	1	–	–	160
Exchange rate movements	–	–	–	–	–	–
Balance as of December 31, 2018	252	473	450	61	–	**1,236**
Effect of introduction of IFRS 16	–	–	–	–	724	724
Changes in basis of consolidation	–	–	–	–	–	–
Additions	–	49	27	32	126	234
Reclassifications	−2	8	46	−37	–	15
Reclassifications to/from property and equipment held for sale	–	–	–	–	–	–
Disposals	69	38	9	–	24	140
Exchange rate movements	–	–	–	–	–	–
Balance as of December 31, 2019	181	492	514	56	826	**2,069**
Accumulated depreciation and impairment losses:						
Balance as of January 1, 2018	30	231	139	–	–	**400**
Changes in basis of consolidation	–	–	–	–	–	–
Write-offs	14	58	22		–	94
Impairment losses	–	–	–	–	–	–
Reversals of impairment losses	9	–	–	–	–	9
Reclassifications	–	9	−9	–	–	–
Reclassification to/from property and equipment held for sale	−19	–	–	–	–	−19
Disposals	6	38	–	–	–	44
Exchange rate movements	–	–	–	–	–	–
Balance as of December 31, 2018	10	261	152	–	–	**423**
Effect of introduction of IFRS 16	–	–	–	–	–	–
Changes in basis of consolidation	–	–	–	–	–	–
Write-offs	9	62	29		158	258
Impairment losses	5	–	–	–	8	13
Reversals of impairment losses	–	–	–	–	–	–
Reclassifications	8	−14	−3	–	–	−9
Reclassification to/from property and equipment held for sale	–	–	–	–	–	–
Disposals	12	36	5	–	3	56
Exchange rate movements	–	–	–	–	–	–
Balance as of December 31, 2019	20	273	173	–	163	**629**
Carrying amount:						–
Balance as of December 31, 2018	242	212	298	61		**813**
Balance as of December 31, 2019	161	219	341	56	663	**1,440**

22 – Leases

The DB PFK Group implemented the requirements of IFRS 16 “Leases” effective January 1, 2019. IFRS 16 governs the recognition, measurement, presentation, and disclosure obligations relating to leases, and replaces the former IAS 17 “Leases.” Due to the practical expedient for initial application under IFRS 16.C7, the Bank does not disclose comparative amounts under IFRS 16 for the periods prior to initial application. The disclosure requirements for leases for which the Bank is the lessor are similar under both IAS 17 and IFRS 16 and are therefore unchanged compared with the prior-year period. For information on the implementation effect, please refer to Note 3 “Newly Applied and Future Accounting Pronouncements.”

Leases as lessor

The Bank acts as lessor in finance leases of movable assets.

Reconciliation to present value of outstanding minimum lease payments

in €m	Dec 31, 2019	Dec 31, 2018
Outstanding minimum lease payments	374	292
Unguaranteed residual values	2	2
Total gross investment	**376**	294
Unearned finance income	14	11
Net investment	**362**	283
Present value of unguaranteed residual value	1	1
Present value of minimum lease payments	**361**	282

Maturity structure of total gross investment

in €m	Dec 31, 2019	Dec 31, 2018
Total gross investment:		
up to 1 year	98	84
1 to 5 years	250	191
more than 5 years	28	19
Aggregate total gross investment	**376**	294

Maturity structure of outstanding minimum lease payments

in €m	Dec 31, 2019	Dec 31, 2018
Future minimum lease payments		
up to 1 year	98	84
1 to 5 years	248	190
more than 5 years	28	18
Total outstanding minimum lease payments	**374**	292

Leases as lessee – IFRS 16 disclosures for the reporting period

DB PFK's leases that lie within the scope of IFRS 16 relate to land and buildings (real estate), as well as company cars. Significant leases relate to long-term leases of office buildings and branches. The leases are entered into on an arm's length basis and contain arrangements governing the term, including extension options, and the amount of the lease payments, including price adjustments (e.g., indexing). The lease contracts do not contain any clauses that could restrict DB PFK's ability to pay dividends, conduct debt funding operations, or enter into other leases.

Right-of-use assets from leases at the reporting date amounted to €663 million. Of this amount, real estate right-of-use assets amounted to €656 million and right-of-use assets relating to company cars amounted to €7 million. Depreciation of right-of-use assets amounted to €158 million in the reporting period, broken down into €154 million for real estate and €4 million for company cars. Please refer to Note 21 "Property and Equipment" for further information on changes in right-of-use assets.

The corresponding lease liabilities amounted to €685 million at the reporting date. Please refer to Note 24 "Other Assets and Liabilities." Of this amount, real estate lease liabilities accounted for €667 million and lease liabilities relating to company cars accounted for €18 million. Discounting of lease liabilities in the reporting period resulted in interest expense of €9 million. For information on the maturity analysis of outstanding lease liabilities, please refer to Note 31 "Maturity Analysis of the Earliest Contractual Undiscounted Cash Flows of Financial Liabilities." Total cash outflows from leases amounted to €156 million. The €145 million attributable to the principal portion is reported as net cash provided by (used in) financing activities in the consolidated statement of cash flows, and the €9 million attributable to the interest portion is reported as net cash provided by (used in) operating activities in the consolidated statement of cash flows.

The lease expenses in the reporting period attributable to short-term real estate leases amounted to €14 million. The payments from these leases are reported in the same amount as net cash provided by (used in) operating activities in the consolidated statement of cash flows.

DB PFK generated revenue of €1 million from subleases in the reporting period.

DB PFK sold one property in the reporting period and leased it back over 96 months. The sale and leaseback transaction generated a profit of €2 million. The right-of-use asset from the sale and leaseback transaction amounted to €12 million and the lease liability amounted to €13 million. Sale and leaseback transactions resulted in payments of €0.7 million in the reporting period.

Further payments from real estate leases that have not been included in the measurement of lease liabilities could be incurred by DB PFK. These relate to payments from extension options whose exercise by DB PFK is less likely, and to payments from real estate leases that have already been signed but will only commence in the future. The following table shows the maturity analysis of potential future lease payments to be incurred by DB PFK:

in €m	Dec 31, 2019
Future payments not included in the measurement of lease liabilities:	
up to 12 months	–
more than 1 year up to 5 years	49
more than 5 years	136
Future payments not included in the measurement of lease liabilities	**185**

Leases as lessor – IAS 17 disclosures for the prior-year period

The Bank acts as lessee in real estate and motor vehicle operating leases.

Future minimum lease payments

in €m	Dec 31, 2019	Dec 31, 2018
Future minimum lease payments		
up to 1 year	N/A	225
1 to 5 years	N/A	478
more than 5 years	N/A	243
Total future minimum lease payments	**N/A**	946
Less: lease income from subleasing (minimum amount)	N/A	–
Net minimum lease payments	**N/A**	946

Lease expenses of €164 million were recognized in general and administrative expenses in the prior-year period. Lease income from subleases amounted to €2 million.

23 – Intangible Assets

Intangible assets

in €m	Purchased software	Internally generated software	Total
Cost:			
Balance as of January 1, 2018	228	317	545
Additions	14	71	85
Changes in basis of consolidation	–	–	–
Disposals	5	–	5
Reclassifications from/to (–) assets held for sale	–	–	–
Reclassification	–	11	11
Exchange rate movements	–	–	–
Balance as of December 31, 2018	238	399	637
Additions	12	74	86
Changes in basis of consolidation	–	–	–
Disposals	24	1	25
Reclassifications from/to (–) assets held for sale	–	–	–
Reclassification	–	–	–
Exchange rate movements	–	–	–
Balance as of December 31, 2019	226	472	698
Accumulated amortization and impairment losses:			
Balance as of January 1, 2018	153	135	287
Amortization for the fiscal year	15	40	56
Changes in basis of consolidation	–	–	–
Disposals	–	–	–
Reclassifications from/to (–) assets held for sale	–	–	–
Impairment losses	–	–	–
Reversals of impairment losses	–	–	–
Reclassification	–	–	–
Exchange rate movements	–	–	–
Balance as of December 31, 2018	168	175	343
Amortization for the fiscal year	19	60	79
Changes in basis of consolidation	–	–	–
Disposals	23	–	23
Reclassifications from/to (–) assets held for sale	–	–	–
Impairment losses	5	134	139
Reversals of impairment losses	–	–	–
Reclassification	–	–	–
Exchange rate movements	–	–	–
Balance as of December 31, 2019	169	369	538
Carrying amount:			
Balance as of December 31, 2018	70	224	294
Balance as of December 31, 2019	57	103	160

Intangible assets relate to purchased and internally generated software with a finite useful life.

24 – Other Assets and Liabilities

Other assets

in €m	Dec 31, 2019	Dec 31, 2018
Debt securities held to collect	4,709	5,470
Receivables from collateral issued	1,000	998
Receivables from Deutsche Bank AG	423	290
Brokerage and securities-related receivables	395	278
Receivables from loss absorption for the fiscal year by Deutsche Bank AG	338	–
Accrued interest receivable	192	290
Derivatives used as hedging instruments in fair value hedges	101	63
Miscellaneous	783	578
Total	7,941	7,967

Other liabilities

in €m	Dec 31, 2019	Dec 31, 2018
Derivatives used as hedging instruments in fair value hedges	1,170	1,314
Payroll-related commitments	1,261	1,309
Other short-term borrowings	934	278
Lease liabilities	685	–
Accrued interest payable	489	577
Liabilities from profit transfer for the fiscal year to Deutsche Bank AG	–	2,131
Miscellaneous	1,021	1,030
Total	**5,560**	6,639

For further information on right-of-use assets and lease liabilities under IFRS 16, please refer to Note 22 “Leases.”

25 – Deposits

in €m	Dec 31, 2019	Dec 31, 2018
Noninterest-bearing demand deposits	124,028	110,268
Interest-bearing deposits		
Demand deposits	13,150	13,108
Term deposits	20,030	20,273
Savings deposits	58,648	57,549
Home savings deposits	24,625	24,787
Total interest-bearing deposits	**116,453**	115,717
Total	**240,481**	225,985

The home savings deposits include interest bonus liabilities of €836 million (previous year: €835 million) that must be paid to the home savings customers in the case of unutilized loans. Further, arrangement fees to be reimbursed of €59 million (previous year: €70 million) were also recognized.

26 – 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, 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 January 1, 2019	32	83	378	122	**615**
Changes in basis of consolidation	0	0	0	0	0
Additions to provisions	27	11	23	55	116
Utilization of provisions	0	23	230	70	323
Reversals of provisions	17	52	54	14	137
Effects of exchange rate movements/unwinding of discounts	0	0	0	0	0
Transfers	0	12	1	1	14
Balance as of December 31, 2019	42	31	118	94	**285**

The majority of the provisions are expected to be utilized in 2020 and 2021.

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 risks amounting to €31 million relate to risks in connection with revoked loan agreements, legal actions relating to investment advice, and a large number of court actions brought by customers in relation to various matters.

Restructuring provisions exist for the reorganization of the sales organization, and efficiency measures as part of the new strategic alignment.

Other provisions include provisions for commission payments of €40 million (previous year: €39 million), for restoration costs of €17 million (previous year: €28 million), and for a large number of other items for which provisions must be recognized.

27 – Noncurrent Liabilities

in €m	Dec 31, 2019	Dec 31, 2018
Senior debt:	10,701	12,529
Bonds and notes		
Fixed rate	10,648	12,422
Floating rate	53	107
Subordinated debt:	1,541	1,626
Bonds and notes		
Fixed rate	269	382
Floating rate	1,272	1,244
Other	**15,485**	15,798
Total	**27,727**	29,953

The decline in senior debt is largely the result of maturing instruments.

28 – 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 €0.4 billion to €8.5 billion in the fiscal year as of December 31, 2019.

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 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 in line with the minimum requirements of the CRR, the capital buffer requirements of CRD IV (Capital Requirements Directive 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 of Deutsche Bank Group are assigned a risk weight of 0% in line with Article 113(6) of the CRR and excluded from the calculation of 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 12.3% and the leverage ratio is 3.4%.

Other Financial Information

29 – 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, 2019	Dec 31, 2018
Irrevocable loan commitments	12,309	11,738
Revocable loan commitments	19,016	19,253
Other contingent liabilities	1,067	979
Total	**32,392**	31,970

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 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 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 subsidiaries PB Factoring GmbH (Bonn) and BHW Bausparkasse AG (Hameln) 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.

As part of the strategic realignment of Deutsche Bank, Deutsche Bank AG has issued an undertaking to the companies of the DB PFK subgroup to assume the obligations under the early retirement and severance offers issued by the Company as of December 31, 2019, with a discharging effect, and amounting to around €94 million.

30 – Noncurrent Assets Held for Sale

Noncurrent assets held for sale are reported in the balance sheet in "Other assets" and the related liabilities in "Other liabilities." This section explains the type of noncurrent assets held for sale and related noncurrent liabilities, as well as their financial impact.

In the fourth quarter of the reporting period, the Bank decided to sell its third-party mandate business in the payment transactions area.

The disposal group contains IT assets with a carrying amount at the reporting date of €1.7 million, as well as pension provisions with a carrying amount at the reporting date of €13 million.

No effects arose from the measurement of the disposal group at the classification date. Disposal is planned for the third quarter of 2020.

31 – Maturity Analysis of the Earliest Contractual Undiscounted Cash Flows of Financial Liabilities

					Dec 31, 2019
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
Noninterest-bearing deposits	124,028	–	–	–	–
Interest-bearing deposits	13,150	59,434	31,068	6,009	6,792
Trading liabilities	0	–	–	–	–
Negative fair values from derivative financial instruments	4,921	–	–	–	–
Financial liabilities designated as at fair value	–	–	–	–	–
Investment contract liabilities	–	–	–	–	–
Negative fair values from derivative financial instruments qualifying for hedge accounting	1,152	1	–	8	9
Central bank funds purchased	–	–	–	–	–
Liabilities from securities resale agreements (repos)	–	–	–	–	–
Liabilities from securities lending	–	–	–	–	–
Other short-term borrowings	927	–	7	–	–
Noncurrent liabilities	–	497	3,600	9,112	14,518
Trust preferred securities	–	–	–	–	–
Lease liabilities	3	38	123	405	116
Other financial liabilities	485	67	–	–	–
Irrevocable lending commitments	12,309	–	–	–	–
Financial guarantees	766	–	–	–	–
Total	**157,741**	**60,037**	**34,798**	**15,534**	**21,435**

					Dec 31, 2018
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
Noninterest-bearing deposits	110,268	–	–	–	–
Interest-bearing deposits	13,108	80,881	7,480	6,592	7,656
Trading liabilities	0	–	–	–	–
Negative fair values from derivative financial instruments	3,689	–	–	–	–
Financial liabilities designated as at fair value	–	–	–	–	–
Investment contract liabilities	–	–	–	–	–
Negative fair values from derivative financial instruments qualifying for hedge accounting	1,300	2	1	3	8
Central bank funds purchased	–	–	–	–	–
Liabilities from securities resale agreements (repos)	–	1,135	–	–	–
Liabilities from securities lending	–	–	–	–	–
Other short-term borrowings	278	–	–	–	–
Noncurrent liabilities	–	960	2,822	10,609	15,562
Trust preferred securities	–	–	–	–	–
Lease liabilities	N/A	N/A	N/A	N/A	N/A
Other financial liabilities	501	48	–	–	7
Irrevocable lending commitments	11,739	–	–	–	–
Financial guarantees	693	–	–	–	–
Total	141,576	83,026	10,303	17,204	23,233

32 – Employee Benefits

Share-based payment plans

The Deutsche Bank AG Group makes grants of share-based payments mainly under the DB Equity Plan. This plan conveys a contingent right to receive Deutsche Bank common shares after a specified period of time. The award recipients are 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
2018-2019	Annual award (CB/IB/CRU)[1]	1/4: 12 months[2] 1/4: 24 months[2] 1/4: 36 months[2] 1/4: 48 months[2]	Annual performance-based payment for select employees
	Annual award (non-CB/IB/CRU)[1]	1/3: 12 months[2] 1/3: 24 months[2] 1/3: 36 months[2]	Annual performance-based payment for select employees
	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]	Member of the Management Board or of the senior management
	Retention award/ new hire award	Individual specification	Select employees to attract and retain the best talent
	Annual award – upfront	Vesting immediately at grant[3]	Regulated employees
2017	Annual component[1]	1/4: 12 months[4] 1/4: 24 months[4] 1/4: 36 months[4] 1/4: 48 months[4]	Annual performance-based payment for select employees
		Cliff-vesting after 54 months[4]	Member of the Management Board or Senior Leadership Cadre
	Retention award/ new hire award	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	Nonmaterial 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]	Annual performance-based payment for select employees
		Cliff-vesting after 54 months[4]	Members of the Management Board or Senior Leadership Cadre
	Retention award/ new hire award	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

[1] For employees of certain Group companies, deferred equity is replaced by restricted shares due to local regulatory requirements. The data for the 2019 grant year are valid for the CB/IB/CRU divisions; for the 2018 grant year, the division name was CIB.
[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 and the subsequent years, 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 the Senior Leadership Cadre, and to all other regulated employees.
[5] The Key Retention Plan (KRP) is referred to as the "Retention Award Program" in the Bank's Remuneration Report. Share-based awards issued in January 2017 under this program depend on a share price being reached. This means that the award only vests if the 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 proportion of the KPA only vests in the event that the share price reaches a certain share target price prior to vesting.

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 4,416 employees are enrolled in the eleventh cycle of this plan, which began in November 2019.

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.

	Units in thousands	Weighted-average grant date fair value per unit in €
Balance as of December 31, 2017	835	13.49
Balance as of December 31, 2018	1,797	9.79
Balance as of December 31, 2019	1,731	9.09

Of the approximately €17 million of the holdings of outstanding share award units outstanding as of December 31, 2019, approximately €15 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, 2019, was therefore approximately €1 million.

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, 2019	Dec 31, 2018
in €m	Total	Total
Defined benefit obligation related to		
Active plan participants	2,496	2,230
Participants in deferred status	1,006	930
Participants in payment status	2,495	2,207
Total defined benefit obligation	**5,997**	5,367
Total fair value of plan assets	5,424	4,682
Funding ratio (in %)	**90%**	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 sustainably 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 2019	176
Benefits expected to be paid 2020	185
Benefits expected to be paid 2021	184
Benefits expected to be paid 2022	194
Benefits expected to be paid 2023	203
Benefits expected to be paid 2024	211
Benefits expected to be paid 2025 – 2029	1,190
Weighted average duration of defined benefit obligation (in years)	16

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. Since 2017, the Group has agreed to pay additional contributions in order to make up for the reduced benefit levels resolved by BVV's Annual General Meeting in 2016.

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 whether or not to reclaim 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 that 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, 2019	Dec 31, 2018
Discount rate	0.93%	1.70%
Inflation rate	1.40%	1.60%
Rate of nominal increase in future salary levels	1.90%	2.10%
Rate of nominal increase for pensions in payment	1.30%	1.50%
Assumed life expectancy at age 65		
For a male aged 65 at measurement date	21.1 years	20.0 years
For a female aged 65 at measurement date	23.4 years	23.6 years
For a male aged 45 at measurement date	22.4 years	22.8 years
For a female aged 45 at measurement date	24.5 years	25.8 years
Mortality tables applied	Modified Heubeck tables 2018G	Heubeck tables 2018G

The Group modified the rounding principles in 2019, with the result that the derivate annual rate for all key financial assumptions was rounded up or down to the nearest 0.01%.

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.

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.

In 2019, the Group reassessed the mortality assumption used to determine the defined benefit obligation in Germany. This reassessment was designed to confirm that the "Heubeck 2018G mortality tables" represent the best estimate for determining the future mortality of the plan participants. Based on an analysis of mortality experience over the past five years, a decision was taken that the mortality tables have to be adjusted in order to accurately reflect the underlying mortality of pension plan participants in Germany. This change in actuarial assumptions led to an actuarial loss of €12 million before taxes as of December 31, 2019, and is reported under remeasurement gains/losses in the consolidated statement of comprehensive income.

Reconciliation in movement of liabilities and assets – impact on financial statements

in €m	2019	2018
Change in present value of defined benefit obligation		
Balance, beginning of year	**5,367**	5,424
Defined benefit cost recognized in profit or loss		
Current service cost	90	98
Interest expense	90	91
Past service cost and gain or loss arising from settlements	6	−45
Defined benefit cost recognized in other comprehensive income		
Actuarial gain or loss arising from changes in financial assumptions	585	−72
Actuarial gain or loss arising from changes in demographic assumptions	12	44
Experience-based actuarial gains or losses	34	6
Cash flow and other changes		
Contributions by plan participants	3	3
Benefits paid	−176	−173
Payments in respect of settlements	0	0
Acquisitions/disposals	0	0
Exchange rate movements	0	0
Other	−14[1]	−9
Balance, end of year	**5,997**	5,367
Thereof:		
Unfunded	0	0
Funded	5,997	5,367
Change in fair value of plan assets		
Balance, beginning of year	**4,682**	4,745
Defined benefit cost recognized in profit or loss		
Interest income	80	81
Defined benefit cost recognized in other comprehensive income		
Return on plan assets less amount recognized in income statement	188	−127
Cash flow and other changes		
Contributions by plan participants	3	3
Contributions by employer	648	162
Benefits paid[2]	−176	−173
Payments in respect of settlements	0	0
Acquisitions/disposals	0	0
Exchange rate movements	0	0
Other	−1	−9
Plan administration costs	0	0
Balance, end of year	**5,424**	4,682
Funded status, end of year	**−573**	−685
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	**−573**	−685
Thereof recognized as:		
Other assets	5	0
Other liabilities	578	685
Assets held for sale/liabilities associated with assets held for sale	0	0
Present value of reimbursement rights	**0**	0

[1] Primarily due to disposals in the third-party mandate business in the payment transactions area.
[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 primary 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, and because of 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, 2019		31.12. 2018	
in €m	Total	of which quoted in active markets	Total	of which quoted in active markets
Cash and cash equivalents	152	151	361	367
Equity instruments[1]	262	222	314	273
Investment-grade bonds[2]				
Government bonds	1,083	473	743	414
Nongovernment bonds	3,184	0	2,703	0
Noninvestment-grade bonds				
Government bonds	36	0	48	1
Nongovernment bonds	75	0	44	0
Structured products	0	0	38	0
Insurance	0	0	0	0
Alternatives				
Real estate	134	0	97	0
Commodities	0	0	14	0
Equity investments	63	0	54	0
Other[3]	488	0	409	0
Derivatives (fair value)				
Interest rate	−96	0	12	0
Credit risk	32	0	3	0
Inflation	8	0	−162	0
Foreign exchange	2	0	4	0
Other	1	1	0	0
Total fair value of plan assets	**5,424**	**847**	4,682	1,055

[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.
[3] Among other things, this item contains mixed funds whose components cannot be allocated to the other asset categories. In particular the increase from 2018 to 2019 is attributable to such items.

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.

							Dec 31, 2019
in €m	Germany	United Kingdom	United States	Other eurozone countries	Other industrialized countries	Emerging economies	Total
Cash and cash equivalents	1	0	8	141	1	1	152
Equity instruments	51	10	70	67	54	10	262
Investment-grade government bonds	383	0	21	439	106	134	1,083
Noninvestment-grade government bonds	0	0	0	1	3	32	36
Investment-grade nongovernment bonds	376	199	1,015	1.448[1]	144	2	3,184
Noninvestment-grade nongovernment bonds	0	0	0	75	0	0	75
Structured products	0	0	0	0	0	0	0
Subtotal	**811**	**209**	**1,114**	**2,171**	**308**	**179**	**4,792**
Share	17%	4%	23%	45%	6%	4%	100%
Other asset categories							632
Total fair value of plan assets							**5,424**

[1] The majority of this amount relates to French, Italian and Dutch corporate bonds.

							Dec 31, 2018
in €m	Germany	United Kingdom	United States	Other eurozone countries	Other industrialized countries	Emerging economies	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
Noninvestment-grade government bonds	0	0	0	1	5	42	48
Investment-grade nongovernment bonds	374	198	596	1.370[1]	155	10	2,703
Noninvestment-grade nongovernment 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
Total fair value of plan assets							4,682

[1] The majority of this amount relates to French, Italian and Dutch corporate bonds.

Plan assets at December 31, 2019, include derivative transactions with Group counterparties with a negative fair value of €105 million (December 31, 2018: €198 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 nonlinear 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, 2019	Dec 31, 2018
Discount rate (–50 bp):		
(Increase) in DBO	−490	−420
Expected increase in plan assets	365	185
Expected net impact on funded status (increase (+)/decrease (–))	**−125**	−235
Discount rate (+50 bp):		
Decrease in DBO	450	385
Expected (decrease) in plan assets	−365	−185
Expected net impact on funded status (increase (+)/decrease (–))	**85**	200
Credit spread (-50 bp):		
(Increase) in DBO	−490	−420
Expected increase in plan assets	250	115
Expected net impact on funded status (increase (+)/decrease (–))	**−240**	−305
Credit spread (+50 bp):		
Decrease in DBO	450	385
Expected (decrease) in plan assets	−250	−115
Expected net impact on funded status (increase (+)/decrease (–))	**200**	270
Rate of price inflation (-50 bp):[1]		
Decrease in DBO	195	175
Expected (decrease) in plan assets	−45	−50
Expected net impact on funded status (increase (+)/decrease (–))	**150**	125
Rate of price inflation (+50 bp):[1]		
(Increase) in DBO	−205	−185
Expected increase in plan assets	45	50
Expected net impact on funded status (increase (+)/decrease (–))	**−160**	−135
Rate of real increase in future salaries (-50 bp):		
Decrease in DBO	45	40
Rate of real increase in future salaries (+50 bp):		
(Increase) in DBO	−45	−45
Longevity improvement by 10%:[2]		
(Increase) in DBO	−150	−135

[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 expected cash flows of the Group for post-employment benefits in 2020 presented in the following include both contributions to the Group's external pension trusts in respect of funded plans, direct payment to beneficiaries in respect of unfunded plans, and contributions to defined contribution plans.

in €m	2020
Expected contributions to	
Defined benefit plan assets	120
BVV	30
Pension fund for Postbank's postal civil servants	85
Other defined contribution plans	5
Expected benefit payments for unfunded defined benefit plans	0
Expected total cash flow related to post-employment benefits	**240**

Employee benefits expense

The following table presents a breakdown of specific expenses according to the requirements of IAS 19 and IFRS 2.

in €m	2019	2018
Expenses for defined benefit plans		
Service cost	96	53
Net interest expense (income)	10	10
Total expenses for defined benefit plans	**106**	63
Expenses for defined contribution plans		
BVV	29	29
Pension fund for Postbank's postal civil servants	86	88
Other defined contribution plans	4	3
Total expenses for defined contribution plans	**119**	120
Total expenses for post-employment benefit plans	**225**	183
Employer contributions to mandatory German social security pension insurance	**130**	138
Expenses for equity-settled share-based payments[1]	7	12
Expenses for cash-settled share-based payments[1]	4	0
Expenses for cash retention plans[1]	2	7
Expenses for severance payments[2]	10	43

[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, 2019	Dec 31, 2018
Current tax expense (benefit)		
Tax expense (benefit) for the current year	63	54
Adjustments for prior years	−3	−17
Total current tax expense (benefit)	**60**	37
Deferred tax expense (benefit)		
Temporary differences	−11	25
Tax loss carryforwards	42	−15
Total deferred tax expense (benefit)	**31**	10
Total	**91**	47

The following reconciliation illustrates the relationship between profit before tax and income tax expense/income:

in €m	Dec 31, 2019	Dec 31, 2018
Net income (loss) before tax	713	1,053
Applicable tax rate	31.28%	31.28%
Notional income tax	223	329
Tax effects		
from changes in tax rate	0	−1
from different effective tax rates in Germany and abroad	−2	4
from nondeductible expenses	17	21
from tax-exempt income	−20	−21
due to add-backs/deductions for local income tax	3	4
from tax group	−125	−289
from changes in valuation adjustments on/nonrecognition of deferred tax assets	8	9
for prior-period current and deferred taxes	−13	−9
Other	0	0
	−132	−282
Income tax expense (benefit)	**91**	47

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, 2019	Dec 31, 2018
Deferred tax assets		
Trading assets/liabilities	304	266
Loans	27	31
Securities (measurement)	–	1
Property and equipment	8	9
Other assets	15	26
Leases	5	–
Liabilities	102	93
Provisions	187	192
Other liabilities	0	0
	648	618
Tax loss carryforwards	0	43
Offset against deferred tax liabilities	361	342
Total	**287**	319

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 7 Mio € were recognized as income in other comprehensive income.

In the reporting period, deferred tax assets for temporary differences amounting to €9 million and for tax loss carryforwards not limited in time of €40 million were not recognized.

in €m	Dec 31, 2019	Dec 31, 2018
Deferred tax liabilities		
Trading assets/liabilities	154	133
Loans	138	130
Securities (measurement)	0	2
Property and equipment	2	6
Leases	4	–
Other assets	29	37
Liabilities	–	5
Provisions	35	37
Other liabilities	1	1
	363	351
Offset against deferred tax assets	361	342
Total	**2**	9

34 – Current and Noncurrent Assets and Liabilities

Assets

	Recovery or settlement		Total
in €m	2020	after 2020	Dec 31, 2019
Cash and central bank balances	26,150	–	26,150
Interbank balances (excluding central banks)	41,658	–	41,658
Central bank funds sold and securities purchased under resale agreements (reverse repos)	4,072	10	4,082
Receivables from securities lending	–	–	–
Financial assets at fair value	457	5,660	6,117
Financial assets at fair value through other comprehensive income	174	2,775	2,949
Loans	11,627	185,145	196,772
Property and equipment	–	1,440	1,440
Intangible assets	–	160	160
Other assets	1,809	6,132	7,941
Current tax assets	2	11	13
Total assets, before deferred tax assets	**85,949**	**201,333**	**287,282**
Deferred tax assets			287
Total assets			**287,569**

	Recovery or settlement		Total
in €m	2019	after 2019	Dec 31, 2018
Cash and central bank balances	20,130	–	20,130
Interbank balances (excluding central banks)	42,731	–	42,731
Central bank funds sold and securities purchased under resale agreements (reverse repos)	298	–	298
Receivables from securities lending	–	–	–
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
Financial assets available for sale	–	–	–
Loans	13,385	176,363	189,748
Property and equipment	–	813	813
Intangible assets	–	294	294
Other assets	2,812	5,155	7,967
Current tax assets	12	–	12
Total assets, before deferred tax assets	84,184	191,613	275,797
Deferred tax assets			319
Total assets			276,116

Liabilities

	Recovery or settlement		Total
in €m	2020	after 2020	Dec 31, 2019
Deposits	227,680	12,801	240,481
Central bank funds purchased and securities sold under resale agreements (repos)	–	–	–
Liabilities from securities lending	–	–	–
Financial liabilities at fair value	4,921	–	4,921
Other liabilities	4,223	1,337	5,560
Provisions	107	178	285
Current tax liabilities	49	5	54
Noncurrent liabilities	4,097	23,630	27,727
Total liabilities, before deferred tax liabilities	**241,077**	**37,951**	**279,028**
Deferred tax liabilities			2
Total liabilities			**279,030**

	Recovery or settlement		Total
in €m	2019	after 2019	Dec 31, 2018
Deposits	211,737	14,248	225,985
Central bank funds purchased and securities sold under resale agreements (repos)	1,135	–	1,135
Liabilities from securities lending	–	–	–
Financial liabilities at fair value	3,689	–	3,689
Other liabilities	5,312	1,327	6,639
Provisions	273	342	615
Current tax liabilities	26	9	35
Noncurrent liabilities	3,782	26,171	29,953
Total liabilities, before deferred tax liabilities	225,954	42,097	268,051
Deferred tax liabilities			9
Total liabilities			268,060

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(e), 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.

For an overarching description of the risk management strategy employed for market risk and the related risk management activities, please refer to the Risk Report section of the Group Management Report.

Description of the significant assumptions and estimates for application of the interest rate benchmark reform

Changes in hybrid Euribor constitute the significant assumption from the application of the interest rate benchmark reform. The calculation methodology used for Euribor changed in 2019. The new methodology is in line with the requirements of the interest rate benchmark reform at the end of 2019. It stipulates that Euribor will continue to be used for both old and new contracts. The Bank expects that Euribor will continue to be used for the foreseeable future. The Bank does not expect the hedged risk to change to another interest rate benchmark. For this reason, the Bank believes that hedging relationships that have Euribor as the hedged risk will not be affected by the interest rate benchmark reform as of December 31, 2019.

Hedge accounting and interest rate benchmarks

The following table provides an overview of the hedging relationships that are affected by the IASB's amendments relating to the interest rate benchmark reform, broken down by the interest rate benchmarks expected for the future reforms and the notional value of hedging derivatives as of December 31, 2019. The notional value of the hedging instruments presented in the following that are included in a hedging relationship serves as a suitable approximation for the risk that is directly affected by the interest rate benchmark reform.

in €m	Dec 31, 2019 Notional value
CHF IBOR	134

Fair value hedges

In fiscal year 2019, 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, 2019		Dec 31, 2018	
in €m	Assets	Liabilities and equity	Assets	Liabilities and equity
Derivatives used as hedging instruments in fair value hedges	101	1,170	63	1,314

In fiscal year 2019, the Group recognized a loss of 1.040 Mio € (previous year: loss of 199 Mio €) on hedging instruments. In the same period, gains from hedged items attributable to the hedged risk amounted to 1.010 Mio € (previous year: loss of 104 Mio €). Hedging gains and losses are reported separately in other income.

The following tables show the financial instruments included in hedging relationships:

Hedged items

	Dec 31, 2019		
in €m	Carrying amount	Adjustments to carrying amounts from current hedging relationships	Cumulative amount from hedged risk for terminated hedging relationships
Financial assets at fair value through other comprehensive income	2,724	126	−1
Loans at amortized cost included in microhedges	1,478	22	0
Loans at amortized cost included in portfolio hedges	28,998	−368	1,441
Securities in the “Hold” business model at amortized cost	1,739	61	0
Deposits included in portfolio hedges	0	0	0
Noncurrent liabilities	3,341	147	240

	Dec 31, 2018		
in €m	Carrying amount	Adjustments to carrying amounts from current hedging relationships	Cumulative amount from hedged risk for terminated hedging relationships
Financial assets at fair value through other comprehensive income	3,332	125	8
Loans at amortized cost included in microhedges	2,733	207	1
Loans at amortized cost included in portfolio hedges	13,731	-100	472
Securities in the “Hold” business model at amortized cost	1,782	38	-1
Deposits included in portfolio hedges	2,794	8	–
Noncurrent liabilities	4,986	212	267

Hedging instruments

	Dec 31, 2019	
in €m	Notional amounts	Carrying amounts before netting
Other assets		
Derivatives used as hedging instruments in fair value hedges	5,106	186
Other liabilities		
Derivatives used as hedging instruments in fair value hedges	28,643	1,975

in €m	Dec 31, 2018 Notional amounts	 Carrying amounts before netting
Other assets		
Derivatives used as hedging instruments in fair value hedges	10,498	265
Other liabilities		
Derivatives used as hedging instruments in fair value hedges	36,975	1,756

The residual maturities of microhedges were structured as follows:

Residual maturities of hedging instruments

in €m	Dec 31, 2019 Interest rate risk	Dec 31, 2018 Interest rate risk
up to three months	–	767
more than three months up to one year	52	936
more than one to five years	5,252	9,320
more than five years	3,921	5,135
Total	**9,225**	**16,158**

Hedging gains and losses are reported separately in other income. The following overview shows the corresponding items.

Hedging gains and losses

			Dec 31, 2019
in €m	Hedging gains and losses	Change in value of hedged item in the period	Change in value of hedging instrument in the period
Financial assets at fair value through other comprehensive income	−0	183	−183
Loans at amortized cost included in microhedges	0	66	−66
Loans at amortized cost included in portfolio hedges	−30	722	−752
Other assets, securities in the “Hold” business model at amortized cost	0	34	−34
Deposits included in portfolio hedges	0	0	0
Noncurrent liabilities	0	5	−5
Total	**−30**	**1,010**	**−1,040**

			Dec 31, 2018
in €m	Hedging gains and losses	Change in value of hedged item in the period	Change in value of hedging instrument in the period
Financial assets at fair value through other comprehensive income	1	6	−6
Loans at amortized cost included in microhedges	−0	15	−15
Loans at amortized cost included in portfolio hedges	−91	10	−101
Other assets, securities in the “Hold” business model at amortized cost	0	15	−14
Deposits included in portfolio hedges	−1	−0	−0
Noncurrent liabilities	−4	58	−63
Total	−95	104	−199

A significant part of recognized hedge accounting involves the use of efficient effectiveness measurement, which is undertaking using a regression analysis. Effectiveness is defined as the ratio of the change in fair value of the hedged item to the change in fair value of the hedging instrument. To be eligible for hedge accounting, effectiveness must lie within a range of 80 to 125 percent. If not, the hedging relationship must be terminated.

In DB PFK AG’s microhedge accounting, the causes of any hedge ineffectiveness are mainly the risk contained in the fair value measurement of the hedging instruments. This is not included in the determination of the fair value of hedged items, which results in fair value changes of the relevant hedging instrument not being completely offset by fair value changes of the hedged item. This happens even though the hedge is economically fully hedged. The most important risk in this connection is basis risk. Hedge ineffectiveness therefore probably results only from the methodology of measuring effectiveness retrospectively using regression analysis.

There were no other reasons in fiscal year 2019, on the basis of which a hedging relationship was ineffective.

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 11.870 Mio € (previous year: 13.925 Mio €) that are used to cover collateralized issues (*Pfandbriefe*), assets of 0 Mio € (previous year: 1.060 Mio €) that are used as collateral in securities resale agreements, development loans of 12.400 Mio € (previous year: 12.680 Mio €) that were originated under dedicated funding programs, and assets of 35 Mio € (previous year: 43 Mio €) that are furnished for clearing margins.

The Group furnished margins of 930 Mio € (previous year: 832 Mio €) for the OTC derivatives exposure.

In addition, assets in the amount of 202 Mio € (previous year: 118 Mio €) also serve to cover irrevocable payment obligations.

Furthermore, DB PFK furnished assets of 38.707 Mio € (previous year: 42.449 Mio €) 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 persons 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, 2019	Dec 31, 2018
Deposits		
Deutsche Bank AG	41,525	42,443
Other related parties	47	75
Central bank funds sold and securities purchased under resale agreements (reverse repos)		
Deutsche Bank AG	–	38
Financial assets at fair value through profit or loss		
Deutsche Bank AG	5,536	4,232
Loans at amortized cost		
Deutsche Bank AG	992	1,492
Other related parties	52	64
Other assets		
Deutsche Bank AG	1,802	1,498
Other related parties	45	43

Liabilities and equity

in €m	Dec 31, 2019	Dec 31, 2018
Deposits		
Deutsche Bank AG	160	–
Subsidiaries	14	12
Other related parties	971	1,689
Central bank funds purchased and securities sold under resale agreements (reverse repos)		
Deutsche Bank AG	–	1,135
Financial liabilities at fair value through profit or loss		
Deutsche Bank AG	5,978	4,856
Other noncurrent liabilities		
Deutsche Bank AG	15,243	15,462
Other related parties	1,100	1,100
Other liabilities		
Deutsche Bank AG	1,316	2,673
Other related parties	3	4

Other assets to Deutsche Bank AG contain the effects amounting to €340 million (as of December 31, 2018, in other liabilities: €2,132 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. In addition, Other liabilities include lease payments from rental agreements amounting to €71 million. The Bank has right-of-use assets relating to these leases, also in the amount of €71 million. These related party items are reported for the first time in the reporting period due to the initial application of IFRS 16 "Leases."

Statement of Income

in €m	2019	2018
Net interest income		
Deutsche Bank AG	−283	−301
Other related parties	−46	−44
Net commissions and fee income		
Deutsche Bank AG	57	58
Other related parties	144	144
Net gains (losses) on financial assets/liabilities at fair value through profit or loss		
Deutsche Bank AG	−39	−158
Other income (loss)		
Deutsche Bank AG	−517	−555
Subsidiaries	−11	−11
Other related parties	−18	−163

As of December 31, 2019, there were also contingent liabilities to Deutsche Bank AG of €103 million (as of December 31, 2018: €109 million).

Transactions with key management personnel

As of the reporting date, DB PFK had granted loans of €20 million to key management personnel and had received deposits of €15 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	2019	2018
Short-term employee benefits	6	7
Post-employment benefits	1	1
Other long-term benefits	3	3
Termination benefits	6	2
Share-based payments	6	4
Total remuneration under IAS 24.17	**22**	17

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 €0.5 million (previous year: €0.1 million) is classified as a short-term benefit under IAS 24.17.

The Supervisory Board members received remuneration of €0.4 million in the reporting period (previous year: €0.8 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 noncontractual 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 noncontractual 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 results from the total assets of the structured entity concerned.

	Jan – Dec 2019		
in €m	Commercial Real estate	Funds	Total
Assets			
Loans at amortized cost	8,485		8,485
Financial assets at fair value through profit or loss		256	256
Other assets		13	13
Maximum exposure to loss	8,755	269	9,024
Loans at amortized cost	8,485		8,485
Financial assets at fair value through profit or loss		256	256
Other assets		13	13
Off-balance-sheet commitments	270		270
Size of structured entities	9,390	7,710	17,100

The following table contains the comparative figures as of December 31, 2018.

	Jan – Dec 2018		
in €m	Commercial Real estate	Funds	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 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 noncontractual financial support to the structured entities, nor does it intend to do so.

39 – Events after the balance sheet date

Developments around the COVID 19 disease in 2020 so far suggest that, in the first half of 2020, global economic growth is expected to be negatively impacted by the spread of the disease and the resulting disruption of economic activity, which could impact our ability to generate revenues and negatively impact specific portfolios through negative rating migrations, higher than expected loan losses and potential impairments of assets. The current COVID 19 pandemic and its potential impact on the global economy may affect our ability to meet our financial targets. While it is too early for us to predict the impacts on our business or our financial targets that the expanding pandemic, and the governmental responses to it, may have, we may be materially adversely affected by a protracted downturn in local, regional or global economic conditions.

40 – Employees

Average number of employees at DB PFK AG during the reporting period:

	2019	2018
FTEs	**23,565**	24,381
Civil servants	3,417	3,707
Salaried employees	20,148	20,674
Part-time employees	**8,080**	9,632
Civil servants	932	1,016
Salaried employees	7,148	8,616
Total	**31,645**	34,013

The employees are employed almost exclusively in Germany.

41 – Remuneration of the Management Board and the Supervisory Board

The aggregate remuneration of the Management Board in fiscal year 2019 was €9 million (previous year: €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 2019. For fiscal year 2019, equity awards of €3 million were awarded to the Management Board (previous year: €2 million), including an equity upfront award of €1 million (previous year: €1 million). These are already included in the above-mentioned aggregate remuneration.

Severance payments in the total amount of €6 million (previous year: €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 €1.1 million in fiscal year 2019 (previous year: €0.5 million).

Provisions for pension benefits amounting to €37.9 million (previous year: €32.1 million) were 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 €0.5 million (previous year: €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 €13 million (previous year: €9 million) to members of the Management Board and the Supervisory Board.

42 – Names and Offices of Members of Executive Bodies

Management Board

The members of the Management Board of DB Privat- und Firmenkundenbank AG are:

Member of the Management Board
Manfred Knof, Munich (Chairman, since January 10, 2020) Chief Executive Officer
Frank Strauß, Bad Nauheim (Chairman, until July 31, 2019) Chief Executive Officer
Stefan Bender, Bad Vilbel Commercial Clients
Philipp Gossow, Frankfurt am Main DB Sales
Alexander Ilgen, Frankfurt am Main Chief Financial Officer
Susanne Klöß-Braekler, Munich Product and Process Management
Philip Laucks, Goldbach (since January 1, 2020) CAO
Britta Lehfeldt, Frankfurt am Main (until December 31, 2019) Human Resources/Chief Regulatory Officer/Chief Administrative Officer
Ralph Müller, Bonn (until September 18, 2019) PB Commercial Clients
Markus Pertlwieser, Bad Soden Chief Digital Officer (CDO)
Zvezdana Seeger, Berlin COO
Hanns-Peter Storr, Bonn (until March 31, 2019) Chief Risk Officer (CRO)
Lars Stoy, Bonn PB Sales
Kay Wolf, Kelkheim (since January 1, 2020) Chief Risk Officer (CRO)

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
Chairman of the Supervisory Board (since September 19, 2019)	PB Firmenkunden AG, Bonn

Philipp Gossow	
Function	Company
Member of the Supervisory Board (until May 23, 2019)	Deutsche Bank Polska Spólka Akcyjna, Warsaw
Member of the Supervisory Board (until June 7, 2019)	Deutsche Bank Sociedad Anónima Española, Madrid
Chairman of the Advisory Board (Member since May 29, 2019, Chairman since June 4, 2019)	Finanzberatungsgesellschaft mbH der Deutschen Bank, Berlin

Alexander Ilgen	
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	
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 (since April 12, 2019)	Postbank Finanzberatung AG, Hameln
Member of the Supervisory Board (since April 10, 2019)	SCHUFA Holding AG, Wiesbaden

Philip Laucks	Member of the Management Board since January 1, 2020
Function	Company
Member of the Supervisory Board	Deutsche Bank Societa per Azioni, Milan
Member of the Administrative Board (since January 24, 2020)	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Britta Lehfeldt	Member of the Management Board until December 31, 2019
Function	Company
Member of the Supervisory Board (until May 17, 2019)	Deutsche Bank Bauspar-Aktiengesellschaft, 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	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	Postbank Systems AG, Bonn
Member of the Administrative Board (until December 31, 2019)	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Ralph Müller	Member of the Management Board until September 18, 2019
Function	Company
Chairman of the Supervisory Board (until September 18, 2019)	PB Firmenkunden AG, Bonn
Chairman of the Supervisory Board (until September 18, 2019)	PB Factoring GmbH, Bonn
Member of the Supervisory Board (until September 18, 2019)	Postbank Filialvertrieb AG, Bonn

Markus Pertlwieser	
Function	Company
Chairman of the Supervisory Board (Member since March 13, 2019, Chairman since March 14, 2019)	norisbank GmbH, Bonn
Member of the Supervisory Board (since September 10, 2019)	Verimi GmbH, Berlin

Zvezdana Seeger	
Function	Company
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 until March 31, 2019
Function	Company
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board (until March 31, 2019)	Postbank Finanzberatung AG, Hameln
Deputy Chairman of the Supervisory Board (until March 31, 2019)	Postbank Systems AG, Bonn

Lars Stoy	
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	Postbank Filialvertrieb AG, Bonn

Kay Wolf	Member of the Management Board since January 1, 2020
Function	Company
Deputy Chairman of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board	PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn
Deputy Chairman of the Supervisory Board	Postbank Systems AG, Bonn

Supervisory Board

The members of the Supervisory Board of DB Privat- und Firmenkundenbank AG are:

Shareholder representatives:
Karl von Rohr, Frankfurt am Main (Chairman) (since August 1, 2019) Member of the Management Board, Deutsche Bank AG
Christian Sewing, Osnabrück (Chairman until July 31, 2019) Chairman of the Management Board, Deutsche Bank AG
Christoph Bornschein, Berlin Managing Director and Co-Founder, Torben, Lucie und die gelbe Gefahr GmbH
Stefan Hoops, Bad Homburg (since February 1, 2020) Head of Corporate Bank, Deutsche Bank AG
Marzio Hug, London, UK Chief Risk Officer AM/Head of Credit Risk Management, Deutsche Bank AG
Anna Issel, Frankfurt am Main Anti-Financial Crime, Global Head of Business Line AFC for Wealth Management, Deutsche Bank AG
Karen Kuder, Frankfurt am Main Chief Governance Officer, Legal, Deutsche Bank AG
Philip Laucks, Goldbach (until December 31, 2019) Global Head HR & Divisional Control Officer PCB, Deutsche Bank AG
Andreas Christian Loetscher, Berg Chief Accounting Officer, Deutsche Bank AG
Christiana Riley, Bad Homburg vor der Höhe (until November 15, 2019) Member of the Management Board, Deutsche Bank AG
Michael Spiegel, Bad Homburg vor der Höhe (until January 13, 2020) Global Head of Trade, Standard Chartered Bank AG
Alexander von zur Mühlen, Frankfurt am Main (since January 1, 2020) Head Group Strategy, Deutsche Bank AG
Sandra Ursula Wirfs, Hofheim (since November 16, 2019) CFO & Head of Business Insights Wealth Management, Deutsche Bank AG
Werner Steinmüller, Dreieich-Buchschlag Member of the Management Board, Deutsche Bank AG

Employee representatives
Susanne Walzer, Kaiserslautern (Deputy Chair) Chair of the Works Council, Deutsche Bank Nordbaden Works Council
Frank Bsirske, Berlin Former Chairman of Vereinte Dienstleistungsgewerkschaft - ver.di
Alexander Diffenhard, Plochingen (until June 13, 2019) Chairman of the Stuttgart Works Council and Member of the General Works Council, Deutsche Bank Stuttgart
Wolfgang Ermann, Fürth (until June 13, 2019) Member of the Works Council, Deutsche Bank Nuremberg
Ursula Feikes-Feilhauer, Grevenbroich Retiree
Claudia Fieber, Berlin Chair of the Works Council, Deutsche Bank Berlin
Christopher Justin, Bad Breisig (since June 13, 2019) Senior Professional, Postbank Filialvertrieb AG
Joachim Kotthoff, Nauheim (until June 13, 2019) Team Leader HR Business, Deutsche Bank AG
Bernd Rose, Menden/Sauerland Chairman of the General Works Council, Postbank Filialvertrieb AG, Menden (Sauerland)
Frank Schulze, Hanau (since June 13, 2019) Chairman of the General Works Council, Deutsche Bank, and Chairman of the Works Council, PW&CC Center
Eric Stadler, Markt Schwaben Chairman of the Munich Works Council, Betriebs-Center für Banken AG
Andreas Timmann, Kassel (June 13 – November 1, 2019)
Kevin Voß, Munich (since November 11, 2019) Trade Union Secretary, Vereinte Dienstleistungsgewerkschaft - ver.di
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:

Karl von Rohr	Chairman
Function	Company
Chairman of the Supervisory Board	DWS Group GmbH & Co. KGaA, Frankfurt am Main

Christoph Bornschein	
Function	Company
Member of the Supervisory Board	22Connect AG, Cologne

Stefan Hoops	
Function	Company
Member of the Supervisory Board	Eurex Clearing AG, Frankfurt am Main

Marzio Hug	
Function	Company
Member of the Supervisory Board	Deutsche Bank Luxembourg S.A., Luxembourg

Anna Issel	
Function	Company
Member of the Supervisory Board	Sal. Oppenheim jr. & Cie. AG & Co. KGaA, Cologne
Member of the Supervisory Board	Sal. Oppenheim jr. & Cie. Komplementär AG, Cologne
Member of the Supervisory Board	Deutsche Oppenheim Family Office AG, Grasbrun

Philip Laucks	
Function	Company
Member of the Supervisory Board (since April 29, 2019)	Deutsche Bank Societa per Azioni, Milan

Alexander von zur Mühlen	
Function	Company
Member of the Board of Directors	Deutsche Securities Saudi Arabia, Riyadh

Employee representatives:

Susanne Walzer	Deputy Chair
Function	Company
Member of the Administrative Board	BetriebskrankenkasseKK Deutsche Bank AG and BKK Pflegekasse der Deutschen 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 am Main

Christopher Justin	
Function	Company
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Bernd Rose	
Function	Company
Member of the Supervisory Board	Deutsche Bank AG, Frankfurt am Main
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Kevin Voß	
Function	Company
Member of the Supervisory Board	Fiducia GAD IT AG, Münster

43 – Significant Audit Fees

in €m	2019	2018
Audit fees	7	6
Other assurance services	1	2
Tax advice	0	0
Other services	0	0
Total	**8**	8

44 – 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 2019:

- PB Firmenkunden AG
- Postbank Beteiligungen GmbH
- Postbank Filialvertrieb AG
- Postbank Immobilien und Baumanagement GmbH
- Postbank Systems AG

45 – 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]
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 Postbank Finance Center Objekt GmbH, Schuttrange (Munsbach), Luxembourg	100.0
KEBA Gesellschaft für interne Services mbH, 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 Leasing GmbH, Bonn	100.0[3]
Postbank Systems AG, Bonn	100.0[3]
Stelvio Immobiliare Srl, Bolzano, Italy	100.0
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	7,970,503	167,688[6]
EC EUROPA IMMOBILIEN FONDS NR. 3 GmbH & CO. KG in insolvency, Hamburg	65.2	N/A	N/A
Finanzberatungsgesellschaft mbH der Deutschen Bank, Berlin	100.0	1,722	482
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl „Rimbachzentrum“ KG, Bad Homburg v. d. Höhe	74.9	0	-3
KOMPASS 3 Zweite Beteiligungsgesellschaft mbH & Co. USD KG i.L., Düsseldorf	97.0	29	71
KOMPASS 3 Erste Beteiligungsgesellschaft mbH & Co. Euro KG i.L., Düsseldorf	96.1	465	-31
Postbank Akademie und Service GmbH, Hameln	100.0	985	-54
SAB Real Estate Verwaltungs GmbH, Hameln	100.0	42	5
TESATUR Beteiligungsgesellschaft mbh & Co. Objekt Halle I KG, Düsseldorf	94.5	13,620	22,074
TESATUR Beteiligungsgesellschaft mbh & Co. Objekt Nordhausen I KG, Düsseldorf	94.4	1,427	857
b) Other companies in which an equity interest of at least 20% is held			
Benefit Trust GmbH, Lützen	26.5	7,085,831	4,684[6]
BSQ Bauspar AG, Nuremberg	21.1	27,640	-1,409
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin	21.1	11	-2
dwins GmbH, Frankfurt am Main	21.3	334	-858
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Dresden “Louisenstraße” KG, Bad Homburg v. d. Höhe	30.6	0	11
Fünfte SAB Treuhand und Verwaltung GmbH & Co. “Leipzig-Magdeburg” KG, Bad Homburg v. d. Höhe	41.2	0	30
giropay GmbH, Frankfurt am Main	33.3	0	19
Immobilien-Vermietungsgesellschaft Schuhmacher GmbH & Co. Objekt Rolandufer KG, Berlin	20.5	18,174	36,520
MT “KING DANIEL” Tankschiffahrts GmbH & Co. KG, Hamburg	33.0	1,340	-71
MT “KING DOUGLAS” Tankschiffahrts GmbH & Co. KG, Hamburg	33.0	1,086	-8,270
SOLON Grundstücks-Vermietungs-Gesellschaft mbH & Co. Objekt Heizkraft Halle KG i.L., Halle/Saale	30.5	1,397	-1
SRC Security Research & Consulting GmbH, Bonn	22.5	5,699	1,199
Starpool Finanz GmbH, Berlin	49.9	428	16
c) Equity interests in large corporations in which the interest exceeds 5% of the voting rights			
Saarländische Investitionskreditbank Aktiengesellschaft, Saarbrücken	11.8	65,285	194

[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

The financial statements were prepared by the Management Board on 26 February 2020. Based on the latest developments with regard to the spread of the coronavirus (COVID 19), the statements regarding the outlook of the DB PFK, the assumptions regarding the development of the global economy and the economic risks and opportunities for the 2020 financial year, as well as Note 39 "Events after the balance sheet date" were adjusted. The financial statements originally prepared on 26 February 2020 were restated on 26 March 2020 with an addendum due to the aforementioned effects of COVID 19.

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements as amended on March 26, 2020 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, March 26, 2020

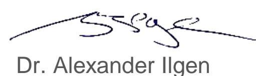
DB Privat- und Firmenkundenbank AG

The Management Board

Dr. Manfred Knof

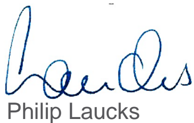
Stefan Bender

Philipp Gossow



Dr. Alexander Ilgen

Susanne Klöß-Braekler



Philip Laucks

Dr. Markus Pertlwieser

Zvezdana Seeger

Lars Stoy

Kay Wolf

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Independent Auditor's Report

To DB Privat- und Firmenkundenbank 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, 2019, 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, 2019, 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, 2019. In accordance with German legal requirements, we have not audited the content of the components of the management report specified in in the "Other Information" of our auditor's 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, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, 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 management report specified in the "Other Information" section of the auditor's report.

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, 2019. 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, we refer the Risk Report section within the group management report, section “Monitoring and Managing Credit Risk“ and “Quantitative Disclosures on Credit Risk pursuant to IFRS 7”. In addition, we refer to Note 2 of the consolidated financial statements “Significant Accounting Policies” as well as Note 18 “Loan Loss Allowance for Financial Assets at Amortized Cost“.

THE FINANCIAL STATEMENT RISK

As of the reporting date, the group reports loans in the amount of EUR 196.8 bn, representing 68% of total assets. In the financial year 2019, group recorded an amount of EUR 233 mn as provision for credit losses in the consolidated statement of comprehensive income. Thereof, a significant portion relate to credit-impaired loans. As at December 31, 2019 loan loss allowance for expected credit losses amount to EUR 1.0 bn. A major part of the specific loan loss allowances for actual default risks refers 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 are made in dependence of, 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 with regard to the expected contractual cash flows or cash flows from usage of loan collateral respectively the consideration of inadequate scenarios 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 inquires. 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 judgement 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 18 "Loan Loss Allowance for Financial Assets at Amortized Cost".

THE FINANCIAL STATEMENT RISK

As of December 31, 2019, the group reports loans to customers in the amount of

EUR 196.8 bn valued at amortized costs while the loan loss allowance amounts to EUR 1.6 bn. EUR 0.2 bn thereof refer 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 1.0 bn refer to credit-impaired loans in the retail business. A major part of the loan loss allowance was determined using a parameter-based approach for collective specific loan loss allowances and the portfolio-based valuation adjustments with and without significant increases in default risk (stage 1 and 2) and for credit-impaired loans (stage 3) 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 (stage 1) 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 (stage 2). For this, the Bank considers forward-looking information. For credit-impaired borrowers (stage 3) in retail 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 discretion are subject to uncertainty and have a significant impact on the amount of loan loss allowance, within our audit we performed procedures 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 of 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 appropriateness, the implementation and the operating effectiveness of those controls. Our audit focused on procedures and controls over 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 appropriateness of the general IT environment and the operating effectiveness of related IT controls with recourse to our IT specialists.

In addition, within a second step, we performed the substantive procedures below:

– comprehending 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;

– the review of the appropriate and IFRS 9-compliant consideration of macroeconomic factors and forward looking information in the risk models;

– the random sample-based verification of the data quality of the risk data budget and

– the 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 recourse to KPMG Credit Specialists.

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 25 "Deposits" 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, 2019, the home savings deposits include interest bonus liabilities of EUR 836 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, which assumes for each individual customers as to whether waiving the utilization of the home saving loan and thus 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 judgements. 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.

The risk for the consolidated financial statements is that the measurement model used and the assumptions and judgements 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 expiration fiction, 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 fiction 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 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 corporate governance statement according to Section 289f (4) HGB (disclosure of the percentage of women) in the section “Setting of target values for the percentage of women on the Supervisory Board, the Management Board, and at management levels” of the Group Management Report and

– the information extraneous to management reports and marked as unaudited.

– Other information also comprises the annual report which we expect to receive after the date of our audit opinion.

Other information does not include the annual financial statements, the management report information audited for content and our auditor’s report.

Our opinions on the consolidated financial statements and the group management report do not cover the other information, and consequently 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 knowledge obtained in 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 level 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 March 27, 2019. We were engaged by the supervisory board on July 11, 2019. We have been the auditor of the DB Privat- und Firmenkundenbank AG's 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).

Reference to Supplementary Audit

We issue this auditor's report on the amended consolidated financial statements and amended group management report on the basis of our audit, duly completed on March 4, 2020 and our supplementary audit completed on March 26, 2020 which concerned the amendments to disclosures in the notes to the consolidated financial statements and the group management report due to the updated reporting on the expected developments and on risks and opportunities taking into account new information on the effects of the spread of coronavirus. Please refer to the presentations of the amendments by the management in sections “01 – Significant Accounting Policies and Critical Accounting Estimates” and “39 – Events after the balance sheet date” in the amended notes to the consolidated financial statements, and in the sections “Events after the reporting date”, “Risk Report” and “Outlook” in the amended group management report.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Jan Möllenkamp.

Frankfurt am Mail, 4 March 2020 / limited to the amendments referred to in the “Reference to Supplementary Audit”: 26 March 2020.

KPMG AG

Wirschaftsprüfungsgesellschaft

[Original German version signed by:]

Winner

Wirtschaftsprüfer

[German Public Auditor]

Möllenkamp

Wirtschaftsprüfer

[German Public Auditor]

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This Group Annual Report contains forward-looking statements that relate to macroeconomic developments (in particular the development of money and capital market rate), 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 Group Annual Report are expressly cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Group 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 Group Annual Report constitutes a translation of the original German version. Only the German version is legally binding.