DB Privat- und Firmenkundenbank AG

2018 Annual Financial Statements (HGB)

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

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

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

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

Key locations

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

– Postbank – a branch of DB Privat- und Firmenkundenbank AG,

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

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

Sales markets and competitive position

In the area of retail banking, DB PFK conducts its business almost exclusively in Germany and is one of the major financial services providers in the country. DB PFK intends to position itself as a fair and reliable partner that utilizes differentiated approaches in client coverage to address a broad spectrum of clients. DB PFK's important competitors in the retail banking business in Germany primarily are providers from the sector of savings banks and cooperative banks as well as several major domestic and foreign banks.

In addition to its business with retail clients, DB PFK is involved in the commercial banking business. Here it offers complex advisory solutions in cooperation with the Private & Commercial Bank division of the parent 12
. In the areas of payment services and factoring, DB PFK is one of the leading providers in Germany. DB PFK also serves as a partner for commercial mortgage lending with a European orientation for its commercial clients. Providers from the sector of savings banks and cooperative banks as well as several major banks are the most significant competitors in this business segment as well.

Management Structure

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

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

Management of the company

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

Non-financial key performance indicators

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

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

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

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

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

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

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

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

Financial key performance indicators

The following information on financial key performance indicators relates to the IFRS subgroup figures of DB PFK Group relevant in terms of DB PFK's annual financial statements.

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

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

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

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

Non-financial statement

Owing to the existing parent-subsidiary relationship with Deutsche Bank AG, DB PFK AG makes use of the existing exemption option in accordance with Section 289b(2) and Section 315b(2) of the *Handelsgesetzbuch* (HGB – German Commercial Code). DB PFK Group is included in the publication of the Non-Financial Report on Deutsche Bank's website (https://www.db.com/ir).

Corporate Governance Statement in accordance with Section 289f(4) sentence 1 of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with Sections 76(4) and 111(5) of the *Aktiengesetz* (AktG – German Stock Corporation Act)

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

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

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

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

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

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

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

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

Products and services

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

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

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

Distribution channels and marketing

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

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

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

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

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

Strategy

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

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

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

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

Economic Environment

The global economy

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

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

Banking industry[1]

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

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

[1] Source: Deutsche Bank Research Forecasts

Operating and Financial Review

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

Due to the merger of Deutsche Postbank AG, Bonn, with Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, and for reasons of transparency, the prior-period figures of the former DB PGK AG, as the acquiring company, are not generally disclosed in the management report. Instead, the comparative figures are disclosed as of the merger date effective January 1, 2018. DB PGK AG's prior-year figures are presented in a separate column in the balance sheet and income statement. Because each company made separate performance projections in the prior-year period, it is not possible to compare them with this year's projected performance for the merged company.

In fiscal year 2018, DB PFK AG generated income before income tax and profit transfer of €2,128 million (prior-year period: €379 million).

Non-recurring factors must be considered in any comparison of the two periods. Profit in the comparative period was depressed in particular by high investment costs in the early stages of the integration of our two brands. On the other hand, there were higher proceeds from the realization of a corporate customer exposure. Positive factors in the reporting period related in particular to the partial reversal of the fund for general banking risks, effects from the optimization of the real estate portfolio, and higher distributions from the special funds. A further earnings contribution resulted from lower loss absorption for subsidiaries and improved net measurement gains on fixed assets.

The continued low interest rate environment in particular had a negative impact on income from the customer business. Additional negative effects resulted from new regulatory requirements for investment products. However, these negative factors were largely, albeit not entirely, offset by the continued very encouraging growth in the credit volume – especially in our product portfolio offered under the Postbank brand. Adjustments to measurement methods and lower positive special factors than in the prior-year period had a negative impact on the allowance for losses on loans and advances.

Income Statement

Net interest income fell by €202 million to €3,402 million. Interest income and expense were primarily impacted by the closing of the Wendelstein I 2015 transaction. Despite the continued impact of the low interest rate environment, the shrinking margins in the deposit business were almost entirely offset by strong growth in the lending business.

Current income of €320 million resulted from the distributions by the special funds (€292 million), VÖB ZVD (€16 million), PB Service GmbH (€5 million), and PB Direkt GmbH (€4 million).

At €1,024 million, net commissions and fee income was down €111 million year-on-year. This decrease was driven mainly by a €60 million rise in expenses for brokerage fees in the lending business, a €32 million decline in income from the brokerage of home savings contracts, and a decline in income from insurance brokerage, €28 million of which resulted from contract modifications in the reporting period.

The net expense from net measurement losses in the lending business and for securities in the liquidity reserve increased by €257 million in the reporting period to €434 million. This increase is due in particular to adjustments to measurement methods and changes in estimates as well as the reversal of provisions for risks due to the realization of a corporate customer exposure.

Net other income and other expenses amounted to €208 million (prior-year period: €–143 million). The main factors behind this increase were the income generated from the optimization of our real estate portfolio (€298 million; prior-year period: €2 million) and the remuneration for the provision of refinancing funds to Deutsche Bank for the purpose of uniform, centralized liquidity management in the Deutsche Bank Group amounting to €252 million (prior-year period: €166 million).

Personnel expenses declined by €82 million to €1,452 million because of lower pension costs.

Other administrative expenses increased by €73 million year-on-year because of higher internal costs billed by subsidiaries for IT systems and lease expenses for the lease-back of buildings sold as part of the optimization of the real estate portfolio.

Extraordinary result

The extraordinary result improved from €–148 million to €8 million because of lower expenses for restructurings in connection with the merger of Deutsche Postbank AG with Deutsche Bank Privat- und Geschäftskunden AG, as well as income from the reversal of a restructuring provision as part of Deutsche Bank Group's Strategy 2020.

Due to an overall considerable improvement in the risk situation, in particular because of the stronger integration into the Deutsche Bank Group, €2,050 million was withdrawn from the fund for general banking risks under Section 340g HGB (prior-year period: €161 million).

The income tax benefit of €3 million (prior-year period: income tax expense of €10 million) is attributable to the taxes that were legally required to be paid under the control and profit and loss transfer agreement for the Luxembourg branch, as well as to prior-period taxes.

Net profit for the period

DB PFK AG reported net profit of zero after transferring its profit of €2,131 million to Deutsche Bank AG, Frankfurt am Main.

Balance Sheet

Changes in the balance sheet structure

DB PFK AG had total assets of €274,517 million as of December 31, 2018. The €11.0 billion (3.9 %) year-on-year decline was mainly a result of the optimization of the money market business. In addition, on the assets side of the balance sheet, the reduction in the securities portfolio was continued in the course of improving the risk structure and earnings quality.

Changes in assets

Loans and advances to customers of €151,626 million were reported as of the balance sheet date, December 31, 2018. This corresponds to a €6.2 billion increase compared with the prior-year period and is primarily a result of growth in mortgage loans (+ €3.2 billion), commercial loans (+ €1.5 billion), and installment loans (+ €1.1 billion).

Money and capital market investments, comprising loans and advances to other banks, trading assets and bonds, amounted to €106.2 billion as of the reporting date (prior-year period: €122.5 billion). Loans and advances to other banks fell by 18.7 % year-on-year to €66.6 billion. This was due mainly to the reduction in term deposits related to money market activities (down €15.0 billion), although overnight money recorded an increase. Efforts to enhance DB PFK's risk structure and earnings quality saw a further reduction in the Bank's securities portfolio, which, as of December 31, 2018 was down €3.7 billion year-on-year to €39.5 billion. Trading assets were unchanged as of the reporting date at €0.1 billion and mainly comprised positive fair values of derivative financial instruments.

Changes in liabilities

Due mainly to the rise in demand deposits, amounts due to customers increased by 3.6 % to €195.9 billion as of the balance sheet date.

Money and capital market liabilities, comprising deposits from other banks, securitized liabilities and trading liabilities, amounted to €22.4 billion (prior-year period: €40.1 billion). Deposits from other banks fell by €17.5 billion to €19.2 billion. This was attributable primarily to a decline in term deposits related to money market activities (down €15.0 billion) and lower liabilities from securities repurchase agreements (down €1.6 billion). The portfolio of securitized liabilities declined by €0.1 billion to €3.1 billion due to maturing securities.

Fund for general banking risks

Following the withdrawal of €2,050 million in the reporting period, the fund for general banking risks under Section 340g HGB amounts to €417 million.

Equity

Equity amounted to €8,618 million at the reporting date. The €3,030 million increase is attributable to a contribution to the share premium by Deutsche Bank AG, Frankfurt am Main. Contributions of €20 million by silent partners were reclassified to other liabilities because of their maturity date of December 31, 2018. By exercising the waiver under Section 2a(1) of the KWG in conjunction with Article 7(1) of the CRR, DB PFK AG is exempt from complying with the CRR requirements governing own funds.

Risks and Opportunities

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

Risks

Regulatory reforms and supervisory reviews

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

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

Legal proceedings and fiscal reviews

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

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

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

Digitization

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

Competition

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

Execution of strategy

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

Opportunities

Digitization

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

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

Competition

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

Execution of strategy

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

Risk Report

Summary Overview of Risk Exposure

DB Privat und Firmenkundenbank AG (DB PFK) was created out of the merger between Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Postbank AG. The risk profile of DB PFK consequently focuses on the lending and deposit business with retail banking customers and commercial and corporate clients in Germany.

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

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

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

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

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

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

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

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

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

Integration into the Risk Management System of Deutsche Bank Group and DB PFK Group, Capital Waiver, and Status of Integration

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

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

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

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

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

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

DB PFK's risk position, its risk management system, and the measures implemented are described in detail in the following. The risk exposure of DB PFK is considered using a look-through approach for the most part within the framework of risk management for DB PFK Group. Since risk is managed at the level of DB PFK Group as part of the internal capital adequacy assessment process (ICAAP), quantitative information can be found in the Risk Report compiled for DB PFK Group.

Types of Risk

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

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

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

Market risk

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

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

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

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

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

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

DB PFK defines market risk in the broader sense as including

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

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

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

Credit risk

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

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

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

Operational risk

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

Operational risk at DB PFK comprises the following main subcategories:

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

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

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

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

Reputational risk

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

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

Risks to capital/group risk

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

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

Business risk

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

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

Liquidity risk

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

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

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

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

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

This Risk Report provides a general overview of risk management as well as a detailed presentation of market, credit, operational and liquidity risks. Risk within DB PFK is managed by units at the head office and the local units networked with them.

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. It also ensures DB PFK’s capital and liquidity adequacy.

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

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

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

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

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

Risk committees

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

Tasks of the PFK Risk Committee and its subordinate risk committees

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

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

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 Bank. 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 DB PFK's overall risk position. The CRO also reports to the CRO of Deutsche Bank Group as dictated by functional reporting lines.

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

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

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

Risk management units and tasks

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

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

Risk management by risk type

Within DB PFK, 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.

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

Liquidity risk is monitored and managed centrally in the CRO board department. The primary task of the Liquidity Risk Management department is to ensure that DB PFK remains solvent at all times, including in specific stress scenarios, and to ensure a stable funding structure. Operational management of liquidity and of the liquidity buffer necessary for managing liquidity risk is performed for the Postbank brand in the Financial Markets unit, which reports to the Corporates & Markets board department. Liquidity risk relating to the Deutsche Bank brand is managed by Group Controlling/Treasury, which is allocated to DB PFK's Finance board department.

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

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

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

Overarching Risk Management

Internal capital adequacy – economic and normative perspectives

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

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

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

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

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

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

Economic perspective: risk capital and risk limitation

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

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

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

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

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

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

For quantitative information on internal capital adequacy, please refer to the relevant section of the Risk Report included in DB PFK's Group Annual Report.

Normative perspective: risk capital and risk limitation

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

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

Risk concentrations and stress tests

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

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

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

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

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

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

New Products Process

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

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.

Bank-wide reporting

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

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

Monitoring and Managing Market Risk

Along with limiting economic capital, 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 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 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 DB PFK's exposure to equities and foreign currencies.

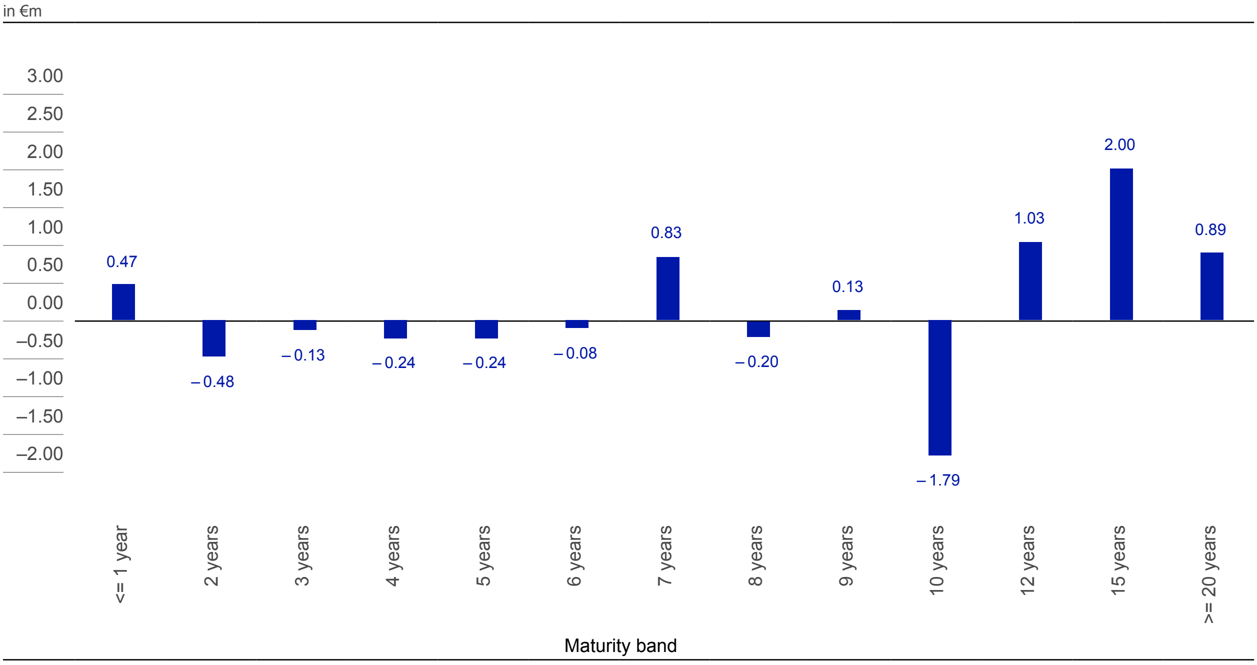
Risk indicators

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

Managing interest rate and credit spread risk

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

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



The chart shows that positive interest rate exposures predominate in the 2-year to 6-year, 8-year and 10-year maturity bands, whereas negative exposures are in the majority in all other maturity bands.

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

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

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

Managing real estate and investment risk

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

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

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

Monitoring and Managing Credit Risk

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

Managing individual risks

Credit approval procedures

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

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

Scoring and rating

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

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

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

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

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

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

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

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

Risk/return performance indicators

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

Collateral management and credit risk mitigation techniques

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

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

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

– master netting agreements;

– guarantees and trade credit insurance;

– financial collateral (cash collateral);

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

– assignments or transfers of security; and

– other eligible collateral.

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

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

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

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

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

Credit monitoring and problem loan procedures

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

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

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

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

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

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

Risk provisioning

The allowance for losses in the lending business comprises specific valuation allowances, collective valuation allowances, and global valuation allowances.

A specific valuation allowance is recognized if – taking into account any collateral – the estimated recoverable amount of the loans and advances is lower than their carrying amount, i.e., if a loan or advance is wholly or partly uncollectible and is, therefore, permanently impaired. The amount of the specific valuation allowance is calculated for the unsecured portions of the credit facilities as the difference between the carrying amount of the total exposure and the present values of expected future cash flows, including cash flows from the realization of collateral security. In general, the original effective interest rate is used to discount the cash flows, with the effective rate for the current rate-fixing period being used for variable-interest loans. The proceeds from realization of the collateral and the time of its realization are taken into account on a case-by-case basis. An ongoing review of all exposures is performed for objective evidence of impairment and impairment tests are conducted where needed. In addition, an impairment test is performed each quarter, depending on the existence of certain risk characteristics.

A collective valuation allowance is recognized for a portfolio of homogeneous loans with similar characteristics, to the extent that there is objective evidence that the loans have become impaired and the amount of the impairment for each loan can be estimated with reference to past statistics on loan performance. Collective valuation allowances are measured using flow rates and the loss given default (LGD). The combined flow rate indicates the probability of a receivable being transferred to a portfolio designated for termination. The LGD represents the size or percentage amount of the economic loss for the outstanding exposure amount. The ratio is calculated regularly on the basis of the repayments obtained from recovery proceedings. DB PFK recognizes collective valuation allowances on overdrafts, installment loans, and credit card loans, as well as on mortgage loans that have been past due for between three and six months.

Global valuation allowances are recognized for latent credit risk. DB PFK factors in expected default probabilities, loss rates, and the estimated time between when the default occurs and when this is identified (loss identification period, LIP), depending on the type of product and customer group concerned in each case. The default probabilities and the loss rates for defaults at the portfolio level are calculated at portfolio level and updated where necessary on the basis of the results of the annual validation and recalibration of the IRBA rating systems; LIP factors are estimated on an individual basis, reviewed on an annual basis, and adjusted where necessary in line with the relevant risk monitoring processes.

Uncollectible loans are written off directly through profit or loss.

Provisions are recognized for guarantees (*Bürgschaften* and other guarantees) and loan commitments involving an acute default risk.

Managing credit risk at portfolio level

Portfolio management

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

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

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

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

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

In addition to calculating economic capital, the 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.

Risk concentrations in the loan portfolio

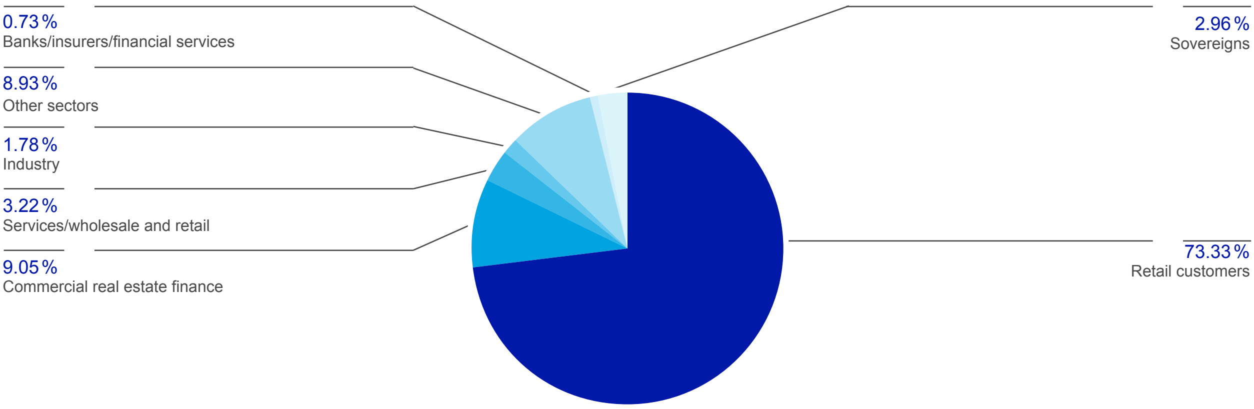
The following sections describe the composition of DB PFK's loan portfolio by sector, region, and credit quality.

Sector structure of the loan portfolio

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

The following chart illustrates the proportion of loans and advances to customers in the loan portfolio by sector.

Sector structure – loans and advances to customers



Regional distribution of the loan portfolio

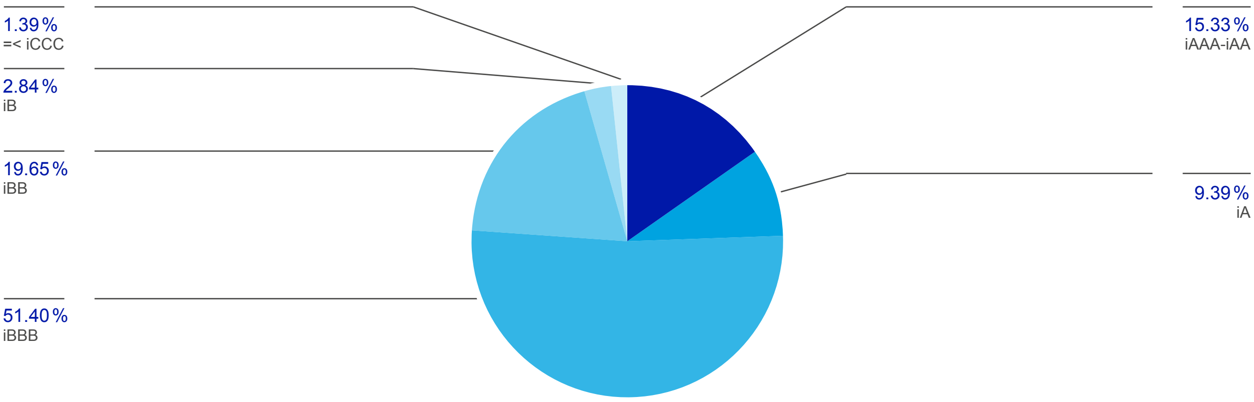
The regional distribution of credit volumes reveals a concentration in the domestic German market (approx. 95 % as of December 31, 2018) and selected exposures in Western Europe (approx. 5 % as of December 31, 2018), in line with the Bank's strategy.

Distribution of credit ratings in the loan portfolio

The good quality of DB PFK's loan portfolio can be seen in the distribution of credit ratings with regard to loans and advances to customers in the loan portfolio.

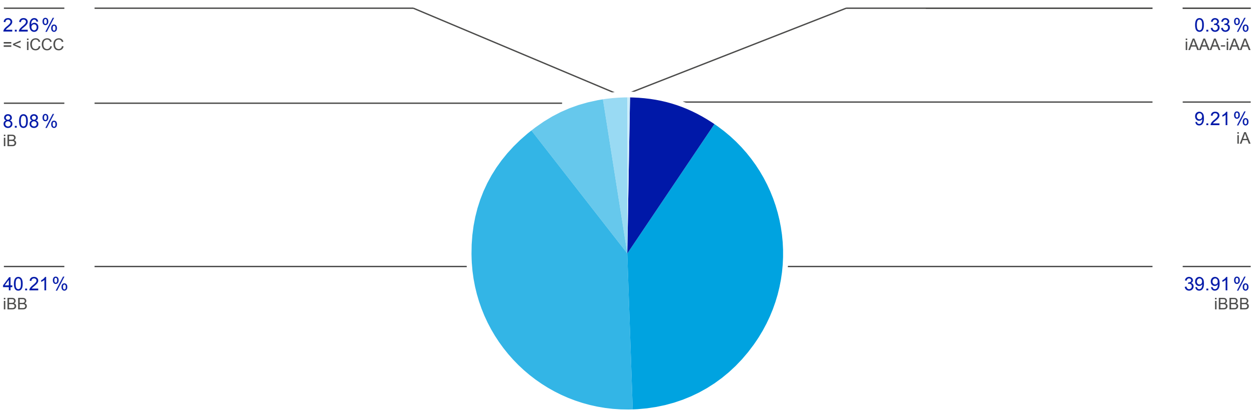
The following chart illustrates the distribution of credit ratings in the non-retail loan portfolio. Good (investment-grade) ratings of iBBB or better dominate the portfolio.

Credit ratings – loans and advances to customers (non-retail)



The chart below shows the distribution of credit ratings in DB PFK's retail loan portfolio. DB PFK's retail customer business continues to demonstrate a stable distribution of credit scores.

Credit ratings – loans and advances to customers (retail)



Environmental risk

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

Monitoring and Managing Operational Risk

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

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

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

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

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

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

– scenario analyses for evaluating specific risk situations; and

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

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

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

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

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

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

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

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

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

Monitoring and Managing Business Risk

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

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

Reputational risk management

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

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

Monitoring and Managing Liquidity Risk

ILAAP architecture and risk governance

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

Liquidity and funding planning

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

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

Managing short-term liquidity risk

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

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

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

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

Stress testing (net/surplus liquidity)

Liquidity stress scenarios cover both company-specific and general market issues and, in the MaRisk scenario, a combination of the two. A combined “MaRisk scenario” is computed each day to manage short-term liquidity risk at an operational level.

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

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

For the purpose of operationalizing this 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.

DB PFK had an LCR ratio of 181 % as of December 31, 2018.

Managing structural liquidity risk (funding risk)

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

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

Internal Control and Risk Management System for the Financial Reporting Process

The following section describes the key features of the internal control and risk management system for the financial reporting process. In this respect, DB PFK complies with the requirement set out in Section 289(5) of the *Handelsgesetzbuch* (HGB – German Commercial Code). DB PFK regards information as being material within the meaning of Section 315(4) HGB if failure to disclose the information could influence financial decisions made on the basis of the annual 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 its annual 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 establishing the internal control system. Its implementation is assured by the appropriate principles, procedures, and measures.

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

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

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 annual financial statements and the management report; and

– providing segment reporting information.

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

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

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

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

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

The Chief Risk Office performs the following tasks:

– measuring financial instruments, and particularly loan receivables;

– 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 annual financial statements. The Audit Committee formed by the Supervisory Board has the following tasks:

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

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

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

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

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

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

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

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

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

Accounting policies and other rules serve to ensure the due and proper treatment of transactions. These policies and rules are reviewed on an ongoing basis and modified as necessary. DB PFK uses SAP when preparing the annual financial statements. Separate data processing tools are also used, the setup of which is supervised in connection with monitoring end user data processing. The Bank prepares its annual financial statements using the SmartNotes system.

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

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 prepares its annual financial statements and management report in accordance with the provisions of German commercial law applicable to major stock corporations (Sections 242–256a, 264–286, and 289–289a HGB), taking into consideration the legal-form specific requirements of German stock corporations (Sections 150–160 AktG), the sector-specific requirements for credit institutions, and the requirements of the Bank's Articles of Association.

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 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.

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

Internal Audit

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

The Internal Audit function is obliged to comply with the standards issued by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Deutsches Institut für Interne Revision). It reviews the effectiveness and appropriateness of risk management in general and the internal control system in particular as well as the propriety of basically all transactions and processes. The audits take a risk-oriented and process-independent approach and are conducted in accordance with MaRisk.

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

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

Pending litigation

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

Expected Development of Earnings Situation

The following assessment of the presumed direction of business at DB PFK AG in 2019 is based on our expectations regarding macroeconomic parameters and an interest rate forecast that was generated exclusively on the basis of market data (implied forwards). Unforeseen events such as unexpected and markedly stricter regulation of the banking industry could have a significant effect on the financial position, net assets, and results of operations of DB PFK AG and have not been taken into consideration.

The income streams generated by DB PFK AG's business with retail, business, and corporate customers are the foundation of future earnings performance. The Bank will focus on improving net interest income as well as net commissions and fee income from the customer business, and reducing the cost base.

Despite the planned expansion of the lending business and the further reduction in high-interest liabilities, we are expecting a slight decline in net interest income in 2019. Our forecast is based on a further negative impact on the deposit business due to the persistently negative, albeit slightly rising interest rates in maturities up to three months, as well as the non-recurring effect of the distribution by the special funds in the reporting period. We expect net commissions and fee income to improve significantly. The basis of these expectations is the securities campaign that is being continued in 2019.

Following the impact of negative non-recurring factors on the allowance for losses on loans and advances due to the alignment with the requirements of IFRS 9 in 2018, we are expecting a significant decline in the allowance for losses on loans and advances in 2019.

Administrative expenses are expected to experience an improvement in 2019 in the low three-digit millions of euros. Following a negative result from writedowns of and reversals of writedowns of participating interests and securities in 2018 in the mid two-digit millions of euros, we are expecting a positive earnings contribution for 2019 in the mid two-digit millions of euros.

Whereas income before tax in fiscal year 2018 benefited from a withdrawal of the fund for general banking risks under Section 340g HGB, our forecast for 2019 does not anticipate any change in the fund for general banking risks that will have an effect on profit or loss.

Due to the expected developments in the above-mentioned areas of the income statement, we are expecting a considerable reduction in income before tax compared with fiscal year 2018.

Balance Sheet as of December 31, 2018

Assets

in €m		Dec 31, 2018	Jan 1, 2018	Former PGK Dec 31, 2017
1. Cash reserve				
a) Cash balance	2,046		2,004	826
b) Balances with central banks	3,256		3,012	2,992
of which: with Deutsche Bundesbank 2,743; previous year: 3,012				2,992
		5,302	5,016	3,818
2. Loans and advances to other banks				
a) Payable on demand				
b) Other loans and advances	15,539		18,520	9,902
of which:	51,102		60,591	53,748
mortgage loans				
public-sector loans: 20; previous year: 20				–
				–
		66,641	79,111	63,650
3. Loans and advances to customers		151,626	145,366	66,581
of which: mortgage loans 73,270; previous year: 62,058				
public-sector loans 4,132; previous year: 4,869				36,887
				135
4. Bonds and other fixed-income securities				
Bonds				
a) Public-sector issuers	7,089		12,682	–
of which:				
eligible as collateral with Deutsche Bundesbank 6,942;				–
previous year: 12,537				
b) Other issuers	32,435		30,541	22,726
of which:				
eligible as collateral with Deutsche Bundesbank 27,615;				
previous year: 24,653				19,357
		39,524	43,223	22,726
5. Equity shares and other variable-yield securities		–	–	3
5a. Trading assets		61	145	–
6. Participating interests		46	37	12
of which:				
in other banks 1; previous year: 1				1
in financial services providers				–
7. Investments in affiliated companies		6,111	6,157	213
of which:				
in other banks			–	–
in financial services providers 1; previous year: 1				
8. Trust assets		860	352	24
of which:				
trustee loans 282; previous year: 328				0
9. Intangible assets				
a) Internally generated industrial and similar rights and assets	–		–	–
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	2		–	–
c) Goodwill	–		–	–
d) Prepayments	–		–	–
		2	–	–
10. Tangible assets		495	647	311
11. Other assets		3,441	4,767	3,363
12. Prepaid expenses				
a) From issuing and lending business	157		226	–
b) Other	52		43	22
		209	269	22
13. Excess of plan assets over pension liabilities		199	390	166
Total assets		**274,517**	285,480	160,890

Equity and liabilities

in €m			Dec 31, 2018	Jan 1, 2018	Former PGK Dec 31, 2017
1. Deposits from other banks					
a) Payable on demand		586		1,088	527
b) With an agreed maturity or withdrawal notice		18,624		35,647	25,550
of which:					
registered mortgage *Pfandbriefe* issued 123: previous year: 128					–
registered public-sector *Pfandbriefe* issued 48; previous year: 53					–
registered mortgage *Pfandbriefe* and public-sector *Pfandbriefe* lodged with lenders as collateral for loans received					–
registered bonds (mixed cover) in accordance with DSL Bank					–
Reorganization Act (DSLBUmwG) 322; previous year: 575					–
			19,210	36,735	26,077
2. Due to customers					
a) Savings deposits	53,111			53,468	16,875
aa) With an agreed withdrawal notice of three months					
ab) With an agreed withdrawal notice of more than three months	4,453			5,642	5,547
		57,564		59,110	22,422
b) Registered mortgage *Pfandbriefe* issued		1,604		1,637	–
c) Registered public-sector *Pfandbriefe* issued		114		135	–
d) Registered bonds (mixed cover) in accordance with DSLBUmwG					
e) Other amounts due		6,949		8,511	–
ea) Payable on demand	123,573			113,440	61,658
eb) With an agreed maturity or withdrawal notice	6,112			6,197	3,836
		129,685		119,637	65,494
			195,916	189,030	87,916
3. Securitized liabilities					
a) Bonds issued:					
aa) Mortgage *Pfandbriefe*	2,305			2,363	–
ab) Public-sector *Pfandbriefe*	46			56	–
ac) Bonds (mixed cover) in accordance with DSLBUmwG	–			–	–
ad) Other bonds	800			819	0
		3,151		3,238	0
b) Other securitized liabilities		–		–	–
			3,151	3,238	0
3a. Trading liabilities			74	86	–
4. Trust liabilities			860	352	24
of which: trustee loans 282; previous year: 328					0
5. Other liabilities			43,518	44,504	43,374
6. Deferred income					
a) From issuing and lending business		18		17	–
b) Other		39		44	28
			57	61	28
7. Provisions					
a) Provisions for pensions and other employee benefits		–		–	–
b) Provisions for taxes		16		15	–
c) Other provisions		1,062		1,202	564
			1,078	1,217	564
8. Subordinated debt			1,550	2,043	–
9. Profit participation capital			68	159	–
of which: due within two years: 14; previous year: 105					
10. Fund for general banking risks			417	2,467	240
11. Equity					
a) Issued capital		550		550	550
b) Capital contributions by typical silent partners		–		20	–
c) Share premium		8,068		5,018	2,116
d) Other retained earnings		–		–	–
			8,618	5,588	2,666
Total equity and liabilities			**274,517**	285,480	160,890

1. Contingent liabilities				
Liabilities from guarantees and indemnity agreements		2,343	1,664	628
2. Other commitments				
Irrevocable loan commitments		10,027	9,822	2,907

Income Statement
for the Period from January 1 to December 31, 2018

in €m			2018	2017	Former PGK 2017
1. Interest income from					
a) Lending and money market transactions	5,340			5,006	2,395
of which: negative interest income 186; previous year: 212					140
b) Fixed-income and book entry securities	844	6,184		616	175
2. Interest expense		2,782	3,402	2,018	989
of which negative interest expenses: 92; previous year: 123					77
3. Current income from					
a) Equity shares and other variable-yield securities		–		–	–
b) Participating interests		2		2	1
c) Investments in affiliated companies		318	320	77	2
4. Income from profit pooling, profit and loss transfer agreements, or partial profit and loss transfer agreements			86	86	7
5. Commissions and fee income		1,955		1,998	1,180
6. Commissions and fee expense		931	1,024	863	329
7. Net trading income			5	6	–
of which: appropriation in accordance with section 340e(4) HGB: 0; previous year: 1					
8. Other operating income			979	607	186
9. General and administrative expenses					
a) Personnel expenses					
aa) Wages and salaries	1,143			1,121	644
ab) Social security contributions, pensions, and other employee benefits	309	1,452		413	237
of which: for pensions 138; previous year: 221					100
b) Other administrative expenses		2,873	4,325	2,800	1,380
10. Depreciation, amortization, writedowns of, and value adjustments to, intangible and tangible assets			62	62	41
11. Other operating expenses			771	750	193
12. Writedowns and value adjustments to loans and advances and certain securities, and additions to provisions for credit risks			434	177	28
13. Writedowns and value adjustments of participating interest, investments in affiliated companies, and securities treated as fixed assets (previous year: Income from reversals of writedowns of participating interests, investments in affiliated companies and securities treated as fixed assets)			66	320	9
14. Expenses from loss absorption			83	145	–
15. Result from ordinary activities			75	369	113
16. Extraordinary income		99		98	98
17. Extraordinary expenses		91		246	20
18. Extraordinary result			8	–148	78
19. Income from taxes on income (previous year: expense from taxes on income)		3		10	–
20. Other taxes not reported under item 11		5	2	3	–
21. Income from loss absorption			–	–	–
22. Profit transferred on the basis of profit pooling, profit transfer, or partial profit transfer agreements			2,131	369	152
23. Withdrawals from (appropriations to) the fund for general banking risks			2,050	161	–39
24. Net profit for the period			**–**	**–**	**–**

Notes

A. General Information

I. Information on the Company and basis of preparation of the Annual Financial Statements

DB Privat- und Firmenkundenbank AG, whose registered office is in Frankfurt am Main (until May 24, 2018: Deutsche Bank Privat- und Geschäftskunden AG) is entered in the commercial register of the Local Court in Frankfurt am Main under the number HRB 47141. The annual financial statements of DB Privat- und Firmenkundenbank (DB PFK AG) have been prepared in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code), the *Aktiengesetz* (AktG – German Stock Corporation Act), the *Pfandbriefgesetz* (PfandBG – German *Pfandbrief* Act), and the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Regulation); they cover the period from January 1 to December 31, 2018.

The net assets, financial position, and results of operations changed significantly due to the merger of Deutsche Postbank AG, Bonn, with Deutsche Bank Privat- und Geschäftskunden AG (DB PGK AG) in May 2018. Against this background, the comparative presentation with the previous year has been partly adjusted.

Merger of Deutsche Postbank AG

I. Basis of the merger

On May 25, 2018, Deutsche Postbank AG, Bonn, was merged with Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, pursuant to section 2(1) of the *Umwandlungsgesetz* (UmwG – German Transformation Act) with retroactive effect to January 1, 2018. When the announcement was made in the commercial register on May 25, 2018, Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, was renamed DB Privat- und Firmenkundenbank AG, Frankfurt am Main. All of the assets and liabilities of Deutsche Postbank AG were transferred to DB PFK AG together with all of its rights and obligations using the predecessor basis of accounting in accordance with section 24 of the UmwG.

In order to ensure the comparability of the information and amounts disclosed in the accompanying annual financial statements with the prior-period information and amounts disclosed as of December 31, 2017, the comparative figures as of the merger date (January 1, 2018) are presented in an additional column in the balance sheet.

The adjusted comparative figures are presented for the purposes of illustration. The comparative figures are based on the presumption that Deutsche Postbank AG had already been merged with DB PGK AG as of January 1, 2017. The accounting policies were not retrospectively adjusted and were not harmonized. The adjusted comparative figures should only be read in conjunction with the annual financial statements of DB PFK AG as of December 31, 2018.

II. Preparation of the adjusted comparative figures

The comparative figures were prepared on the basis of the total amounts reported in the annual financial statements as of December 31, 2017, of DB PGK AG and Deutsche Postbank AG, and reflect the accounting for subsidiaries in consolidated financial statements, the consolidation of intercompany balances, and the consolidation of income and expenses. In the income statement, the comparative figures as of the merger date are presented in a separate column with the label “2017”. Both the annual financial statements of DB PGK AG and of Deutsche Postbank AG for the fiscal year ended December 31, 2017, were audited. The prior-period figures of the former DB PGK AG are presented in the balance sheet in the column “Former PGK Dec. 31, 2017” and in the income statement in the column “Former PGK 2017”.

The prior-period figures of the former DB PGK AG, as the acquiring company, are not generally disclosed in the notes for reasons of transparency, and are replaced by the comparative figures as of the retroactive merger date, January 1, 2018.

II. Accounting policies

The general measurement principles sections 252 et seq. HGB, the specific requirements applicable to corporations (sections 279 et seq. HGB), and the specific measurement requirements applicable to credit companies (sections 340e et seq. HGB) are applied to measurement of the assets and liabilities reported in the annual financial statements.

Cash reserve

The cash reserve is carried at its principal amount. Foreign notes and coins are measured at the year-end closing rates.

Receivables

Loans and advances to other banks and to customers, as well as trust assets, including proportionate interest, are measured at their principal amount, net of any necessary writedowns. Purchased loans and advances are recognized at cost. The registered securities and promissory note loans included in loans and advances to other banks and customers are measured at their principal amounts, plus deferred interest, in accordance with section 340e(2) sentence 1 HGB. Differences between the principal amount and the issue amount are recognized as deferred income and reversed over the life of the relevant asset.

Allowance for losses on loans and advances

The allowance for losses on loans and advances comprises valuation allowances and provisions for all identifiable credit and country risks, for expected default risks, and the provision for general banking risks in accordance with section 340f HGB.

Concrete credit risks are taken into account by recognizing a specific valuation allowance, or collective specific valuation allowances in the case of a homogeneous group of loans. The Bank recognizes specific valuation allowances in the amount of the expected credit losses, based on a 100 % probability of default. Measurement of the collective specific valuation allowance is based on recovery rates that are calculated for the various past due classes.

A collective valuation allowance equal to the 12-month expected credit loss is recognized for expected default risks. The amount of the collective valuation allowance is calculated on a transaction-specific basis. In this calculation, DB PFK AG reflects the expected probability of default and loss given default depending in each case on the individual client and the product type. The client's idiosyncratic risk is reflected by using a probability of default and loss given default based either on the IRBA rating systems or the rating systems still used in the prudential reporting system. In addition, systemic risk, in particular macroeconomic factors (unemployment, trends in gross domestic product) and trends for collateral values broken down by region, especially for real estate, is included in the calculation of the allowance for losses on loans and advances.

To the extent that the transfer risk for loans to borrowers outside Germany (country risk) is not already reflected in the calculation of the valuation allowance for credit risk, DB PFK AG recognizes a valuation allowance for identifiable country risk.

Without applying other policies for determining the collective valuation allowance, DB PFK AG has refined the methodology and estimate of the parameters used to determine the collective valuation allowance. The determination of expected losses now reflects to a greater extent current information, the remaining maturity of the portfolio of loans, and intercompany receivables. At the same time, DB PFK AG now no longer considers the time that elapses between when default occurs and when it is identified.

Securities

Securities held for the long term are classified as investment securities and accounted for using the less strict principle of lower of cost or market value in accordance with section 253(1) and (3) HGB. This means that these securities are measured at cost less expected permanent impairment losses. The differences between cost and repayment amount (premiums/discounts) are amortized ratably.

Bonds and other fixed-income securities, as well as equity shares and other variable-yield securities classified as current assets (with the exception of the trading portfolio) are recognized at historical cost, taking into account the strict principle of lower of cost or market value and the requirement to reverse writedowns (section 340e(1) sentence 2 in conjunction with section 253(4) sentence 1 HGB and section 253(5) sentence 1 HGB).

Reclassification from fixed assets to the liquidity reserve requires a substantiated change in the subjective management objectives for the securities.

Market data in the form of indicative prices (arranger quotes) is used to the greatest possible extent to measure structured credit products (SCPs) such as residential mortgage-backed securities. The synthetic collateralized debt obligations (CDOs) included in these assets are structured products as defined by IDW AcP HFA 22 and are presented separately in the balance sheet.

The Wendelstein 2015-1 securitization vehicle was closed effective April 17, 2018. Following repurchase by DB PFK AG, the majority of its portfolio of mortgage-backed loans were sold to the Wendelstein 2017-1 securitization vehicle. Both transactions are own securitization transactions of DB PFK AG. Overall, closure of the Wendelstein 2015-1 securitization vehicle did not have any material effect.

Hedge accounting

DB PFK AG groups assets and liabilities into hedged items, and associated financial instruments held for hedging purposes into hedges, in accordance with the requirements of section 254 HGB and IDW AcP HFA 35.

This takes place in the form of microhedges, the aim being to hedge changes in the value of hedged items arising from fluctuations in market interest rates by using hedging instruments with matching amounts, currencies, or maturities. Hedging relationships end when the hedged item or hedging instrument expires or has been sold or exercised, or if the requirements for hedge accounting are no longer met.

Effectiveness testing for all hedges is performed prospectively by way of a sensitivity analysis of the hedged item and the hedging instrument. The changes in the fair value of the hedged item attributable to the hedged risk are compared retrospectively with the change in the fair value of the hedging instrument for each hedging relationship. If the changes in fair value offset each other (effective portion), the fair values of both the hedged item and the hedging instrument are reported in other assets/other liabilities (gross hedge presentation method). If they are negative, ineffective changes in the value of the hedging instrument are recognized in provisions for expected losses. Changes in the value of the hedged item that are not attributable to the hedged risk are recognized in accordance with general accounting rules.

When close-out payments received and paid on microswaps whose hedged items are still in the portfolio are offset against the carrying amount of the hedging instrument and, where necessary, against ineffective changes in value recognized in the provision for expected losses. Any remaining amounts are recognized in profit or loss. Changes in the value of the hedged item attributable to the hedged risk that are recognized during the term of the hedging relationship are reversed ratably over the remaining term of the hedged item and reported gross in interest income.

Determining fair value

Fair value is defined as the amount at which an asset could be exchanged or a liability could be settled between knowledgeable, willing and independent business partners. If an active market exists for a financial instrument, fair value is determined by reference to the market or quoted exchange price at the balance sheet date. A market is considered active when market prices are readily and regularly available from a stock exchange, dealer, or independent third party, and these market prices are founded on genuine, regular transactions taking place between independent business partners.

If an active market does not exist, fair value is determined using recognized valuation techniques.

Observable market data is used to the greatest possible extent when determining fair values using valuation techniques. In most cases, DB PFK AG utilizes discounted cash flow analysis, which mainly uses yield and spread curves (credit spreads, basis spreads) as inputs.

Trading portfolio

DB PFK AG allocates individual financial instruments to the trading portfolio on the basis of internal guidelines and processes. DB PFK AG's criteria for the requirements of section 340e HGB are applied here.

DB PFK AG's trading portfolio mainly comprises derivative financial instruments and is presented in the "trading assets" and „trading liabilities" balance sheet items.

Derivative netting is used to settle derivative transactions that have the same term and the same currency via a central counterparty. In the first instance, the positive and negative fair values are offset. The balance is then offset against the variation margin received or paid.

Interest income and expense from non-derivative financial instruments in trading assets/liabilities are reported in net interest income.

Financial instruments in trading assets/liabilities are measured at fair value less a risk allowance in accordance with section 340e(3) HGB.

The risk allowance is calculated using the value-at-risk method (ten-day holding period, 99 % confidence level, one-year historical analysis period), taking the correlations between risk factors and portfolios into account.

Both allowances are carried as net trading income and recognized separately in the Notes in the "trading assets" balance sheet item.

Additions to be made under section 340e(4) HGB to the "fund for general banking risks" special reserve under section 340g HGB are recognized in net trading income.

Derivatives in the non-trading portfolio

Derivatives (in particular interest rate swaps, interest rate futures, swaptions, caps, floors, forward rate agreements) that are not allocated to the trading assets/liabilities items are treated as executory contracts in accordance with the applicable principles.

Accrued interest from interest rate swaps is presented under loans and advances to other banks and customers or deposits from other banks and amounts due to customers, depending whether the accrued interest is positive or negative.

Options for which DB PFK AG is the beneficiary are initially measured in the amount of the option premium paid. They are reported in "other assets" or in "equity shares and other variable-yield securities" if they are warrants. They are subsequently measured in accordance with the general measurement rules for current assets under section 340e(1) sentence 2 HGB.

Paid margins are included in "other assets" and received margins are included in "other liabilities". If securities are pledged to hedge derivatives, they continue to be reported by DB PFK AG as the legal and beneficial owner.

Gains or losses on derivatives in the non-trading portfolio are generally recognized in net interest income. If the derivatives serve the purpose of preparing for acquisitions, the results are recognized in "writedowns and value adjustments to loans and advances and certain securities, and additions to provisions for credit risks."

If negative changes in value of interest-related components are identified in the course of subsequent measurement, derivatives are accounted for in the balance sheet in accordance with the established accounting convention at credit companies (banking book measured at net realizable value – see subchapters "Hedge accounting" and "Measurement of interest-related transactions in the banking book").

Repurchase transactions

Genuine repurchase transactions are accounted for in accordance with section 340b(4) HGB. Securities lent are still reported in DB PFK AG's balance sheet, as the beneficial ownership here has not changed. Securities borrowed are not reported in the balance sheet.

Receivables and liabilities with matching maturities, currencies and the same depositories and counterparties are offset in the area of collateralized money market trading, provided the conditions for offset are met. The net amount after offsetting is reported in the balance sheet in the items "Loans and advances to other banks" and "Deposits from other banks."

Negative interest

Negative interest from asset-side money market and repurchase transactions is reported atypically as interest income. Positive interest from negative money market and repurchase transactions is reported atypically as interest expense. In the case of derivative financial instruments, cash flows are presented on a net basis per derivative in the same way as in a normal interest rate environment.

Participating interests and investments in affiliated companies

In accordance with section 340e(1) sentence 1 HGB, participating interests and investments in affiliated companies are recognized at cost or the lower of cost or market value in accordance with the policies applicable to fixed assets at the reporting date, unless they are plan assets. Subpools of assets are measured as current assets.

As a result of the merger, there was a change in the management objectives for the shares in VISA, Inc. In line with Deutsche Postbank AG's former accounting policies, these are now classified as fixed assets and reported as participating interests. DB PFK AG had recognized the reclassified shares at €3 million in the prior-year period.

In addition, the Bank exercises the offsetting option under section 340c(2) HGB.

Intangible assets

Intangible assets are measured at cost. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets are measured at cost, less straight-line amortization over the expected useful life of the asset. Prepayments on intangible assets are recognized at their principal amount. Intangible assets are written down in the event of expected permanent impairment. Writedowns are reversed if the reason for the writedown no longer applies.

Tangible assets

Tangible assets are generally measured at cost and, in the case of depreciable assets, reduced by depreciation over the expected useful life of the asset.

Writedowns are recognized in the event of expected permanent impairment. Low-value assets are accounted for in accordance with the tax rules set out in section 6(2a) of the *Einkommensteuergesetz* (EStG – German Income Tax Act).

Other assets

Other assets are carried at their principal amount.

Excess of plan assets over pension liabilities

Assets were transferred to a trustee under a Contractual Trust Arrangement in order to secure pension and partial retirement obligations. In accordance with section 253(1) sentence 4 HGB, these plan assets are measured at fair value and offset against the underlying obligations in accordance with section 246(2) sentence 2 HGB. If this results in an excess of plan assets, they are reported in the item "Excess of plan assets over pension liabilities", or a provision is recognized in the event of an excess of liabilities. In accordance with section 246(2) sentence 2 HGB, the related expenses and income from discounting and from the plan assets are also offset. In accordance with section 268(8) HGB, the portion of plan assets measured at fair value in excess of cost is subject to a restriction on distribution.

Liabilities

Amounts due to customers and deposits from other banks, securitized liabilities, subordinated debt, trust liabilities, and other liabilities are recognized at their settlement amount in accordance with section 253(1) sentence 2 HGB.

Provisions

Provisions for pensions are measured on December 31, 2018 based on actuarial principles using the projected unit credit method. The following actuarial assumptions about demographic trends, salary and pension increases, and inflation are applied to the measurement of provisions for pensions:

	Dec 31, 2018	Jan 1, 2018 Former PGK/ Former Postbank
Discount rate	3.21 %	3.56 %/3.68 %
Inflation rate	1.70 %	1.80 %/1.90 %
Salary growth	2.20 %	2.30 %/2.40 %
Pension growth	1.60 %	1.70 %/1.80 %
Mortality, disability, etc.	Heubeck tables 2018G	Heubeck tables 2005G

New mortality tables 2018G were published by Heubeck-Richttafeln-GmbH in fiscal year 2018 that supersede the previous 2005G mortality tables and were factored into the measurement as of December 31, 2018, for the first time. This led to a €19 million increase in pension obligations.

In accordance with section 253(2) sentence 2 HGB, provisions for pensions are measured using the average market interest rate published by the Deutsche Bundesbank that results from an assumed remaining maturity of 15 years. The discounting of the pension provisions of the former DB PGK AG, which was previously calculated using a duration-dependent discount rate, was adjusted accordingly to reflect the duration of the company as a whole. This reduced provisions for pensions by €46 million. In accordance with section 253(1) HGB, measurement uses the average market interest rate for the past ten fiscal years. The difference between measurement using the ten-year average and measurement using the seven-year average is subject to the restriction on distribution (see chapter B.II. “Income Statement Disclosures,” (9) Restriction on distribution).

Provisions for taxes and other provisions are recognized on the basis of prudent commercial judgment at the settlement amount and reflect expected price and cost increases. Provisions with a remaining maturity of more than one year are measured using the average market interest rate for the past seven years corresponding to their remaining maturity published by the Deutsche Bundesbank. A remaining maturity of 15 years is assumed for jubilee provisions.

Jubilee, partial retirement and early retirement provisions (assumptions applied to the latter provisions: salary trend 2.2 %; discount rate 0.88 %) are also calculated using the projected unit credit method.

Restructuring provisions for staff-related measures are calculated on the basis of severance and early retirement arrangements, including any decision bonuses awarded to the staff groups affected and on the basis of the current measurement-related parameters, such as salary and length of service. Provisions for residual lease obligations are calculated on the basis of existing leases, based on expected assumptions such as expected rent adjustments.

Provisions for restoration obligations comprise the expected expenses for the contractually agreed restoration of the leased premises to their original condition, which mainly consist of the removal and disposal of leasehold improvements.

In subsequent periods, expenses (income) from interest accrued on (discounting) provisions are recognized as interest expense (interest income) for banking transactions and as other operating expenses (other operating income) for other transactions.

Contingent liabilities and irrevocable loan commitments

Contingent liabilities and irrevocable loan commitments were recognized at their notional amount, net of any cash collateral and provisions recognized in the balance sheet.

The risk of loss from the utilization of contingent liabilities is reduced by the existing ability to assert recourse claims against the relevant customer and is thus based on the customer's credit risk.

Irrevocable loan commitments represent the undrawn portion of lending commitments that cannot be cancelled unconditionally by DB PFK AG. They are included in credit risk monitoring. A provision is recognized if there is sufficient specific knowledge about a loss from expected utilization.

Measurement of interest-related transactions in the banking book

In accordance with the requirements of IDW AcP BFA 3 (new version), the Bank examined whether there are excess liabilities from interest-related transactions in DB PFK AG's banking book, together with a resulting recognition of provisions, liabilities, and derivatives in order to assess whether it is necessary to recognize a provision for expected losses from the banking book.

DB PFK AG compares the present value according to the banking book with the carrying amount as of December 31, 2018. In doing so, it includes interest rate derivatives entered into for interest rate risk management in the banking book. A provision for expected losses in accordance with section 340a in conjunction with section 249(1) HGB in the amount of the difference is recognized if the present value is lower than the carrying amount. This resulted in a positive surplus as of December 31, 2018, so there was no need to recognize a provision.

DB PFK AG used the income statement method in the prior-year period. For the examination the Bank initially used the income statement method, based on data from internal interest rate and liquidity management. The present value of the results of the period was compared with the administrative expenses for the existing business, determined using internal process cost accounting, as well as the risk costs expected until the final maturity of the loans, which are derived from the regulatory expected loss. There was no requirement to recognize a provision, as in the previous year.

Currency translation

Currency translation in DB PFK AG's annual financial statements follows the principles set out in sections 256a and 340h HGB and complies with the Accounting Principle "Specific features of German GAAP foreign currency translation at companies" (IDW AcP BFA 4) of August 18, 2011, issued by the Technical Committee for Banking of the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany).

All items denominated in a foreign currency and accounted for as fixed assets that are not covered in the same currency are recognized at historical cost. Other assets and liabilities denominated in a foreign currency as well as unsettled spot transactions are translated at the middle spot rate at the reporting date, and currency forwards are translated at the forward rate at the reporting date.

In accordance with section 340h HGB, currency translation gains and losses are reported net in the income statement as other operating income or other operating expenses.

As currency-related transactions are mainly entered into as a result of customer orders to close out open foreign currency positions, net gains/losses from translating foreign currency transactions are insignificant. Foreign currency positions are limited by a low notional limit.

III. Information on investors and investees

All of the fully paid-up capital of €550.0 million is held by Deutsche Bank AG, Frankfurt am Main.

DB PFK AG and its subsidiaries are included in the subconsolidated financial statements of DB Privat- und Firmenkundenbank AG, Frankfurt am Main, and the consolidated financial statements of Deutsche Bank AG, Frankfurt am Main, as the ultimate parent company.

The consolidated financial statements of DB Privat- und Firmenkundenbank AG and Deutsche Bank AG are published in the Federal Gazette.

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.

IV. Regulatory capital ratios

DB PFK AG is exempt from the requirement to comply with CRR own funds requirements due to the exercise of the waiver option under section 2a(1) of the *Kreditwesengesetz* (KWG – German Banking Act) in conjunction with Article 7(1) of the CRR.

B. Balance Sheet and Income Statement Disclosures

An explanation of the material changes in the period can be found in the Management Report.

I. Balance Sheet disclosures

(1) Loans and advances to other banks

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**66,641**	79,111
of which:		
to affiliated companies	11,012	69,741
to long-term investees and investors	0	0
used as coverage for bonds issued	11	23
Remaining maturities:		
payable on demand	15,539	18,520
up to 3 months	40,162	34,465
> 3 months < 1 year	1,835	6,013
> 1 year < 5 years	4,589	10,381
more than 5 years	4,516	9,732

(2) Loans and advances to customers

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**151,626**	145,366
of which:		
to affiliated companies	4,338	5,625
to long-term investees and investors	16	18
used as coverage for bonds issued	11,787	12,566
Remaining maturities:		
up to 3 months	9,910	9,559
> 3 months < 1 year	10,178	9,273
> 1 year < 5 years	47,978	46,963
more than < 5 years	83,489	79,505
without fixed maturity	71	66

(3) Bonds and other fixed-income securities

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**39,524**	43,223
of which:		
to affiliated companies	3,271	3,211
to long-term investees and investors	0	0
negotiable and listed securities	13,310	20,083
negotiable and unlisted securities	26,208	23,133
amounts due in the following year	4,071	4,672
used as coverage for bonds issued	1,848	2,788
negotiable securities not measured at the lower of cost or market value	29,476	28,341

Negotiable securities that are not measured at the lower of cost or market value are distinguished from those that are measured at the lower of cost or market value by means of general ledger accounts and inputs defined for the relevant portfolio.

(4) Trading assets/liabilities

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**61**	145
of which:		
Derivatives	63	145
Bonds and other fixed-income securities	1	1
Risk discount	–3	–1

(5) Participating interests

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**43**	34
of which:		
negotiable and listed securities	0	1
negotiable and unlisted securities	28	23

Equity interests in large corporations in which more than 5% of the voting rights are held are disclosed in chapter C. Other Disclosures.

(6) Investments in affiliated companies

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**6,111**	6,157
of which:		
negotiable and listed securities	0	0
negotiable and unlisted securities	1,127	1,211

Shares of domestic investment funds of more than 10 % pursuant to section 285 no. 26 HGB and contained in this balance sheet item:

in €m Fund name	Investment objective	Fair value Dec 31, 2018	Carrying amount Dec 31, 2018	Difference between fair value/carrying amount Dec 31, 2018	Dividend payment 2018
PB Spezialinvest					
TGV PB 02	Bond funds	469	468	1	43
TGV PB 08	Bond funds	783	775	8	75
TGV PB 09	Bond funds	534	529	5	50
TGV PB 11	Bond funds	612	609	3	53
TGV PB 13	Bond funds	334	333	1	15
TGV PB 14	Bond funds	334	333	1	26
TGV PB 21	Bond funds	194	193	1	21
TGV PB 26	Bond funds	301	300	1	9

All subpools of assets may be redeemed daily. The subpools of assets are measured as current assets.

Companies in which an equity interest of at least 20 % is held are disclosed in chapter C. Other Disclosures.

(7) Trust assets

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**860**	352
of which:		
Loans and advances to other banks	578	24
Loans and advances to customers	282	328

(8) Other assets

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**3,441**	4,767
of which:		
Receivables from collateral issued	998	0
Option premiums paid	899	844
Margin payments made	613	406
Compensation payments for provision of liquidity	273	64
Derivative hedging instruments (included in hedge accounting)	272	522
Receivables from subsidiaries from profit transfer	86	86
Claims to reimbursement from payment protection insurance	65	74
Trade receivables	54	46
Receivables from bank levy	32	24
Claims to tax reimbursement	31	69
Receivables arising from non-bank business	26	65
Leasehold improvements	25	42
Claims to reimbursement from life insurance	23	32
Adjustment item from currency translation	15	43
Collateral payment for “Wendelstein 2015-1 UG”	0	1,400
Upfront (balloon) payments	0	1,013

The derivative hedging instruments reported under other assets represent effective positive changes in the value of the hedging instruments included in hedge accounting using the gross hedge presentation method.

(9) Prepaid expenses

in €m	Dec 31, 2018	Jan1, 2018
Presentation in the balance sheet	**209**	269
of which:		
Premiums from receivables in acc. with section 340e(2) sentence 3 HGB	134	199
Discounts from liabilities in acc. with section 250(3) HGB	20	23

(10) Excess of plan assets over pension liabilities

in €m	Dec 31, 2018	Jan1, 2018
Obligations under retirement benefits at year-end	**3,002**	2,860
of which pension obligations	2,823	2,687
of which other liabilities	158	144
of which partial retirement	21	29
Fair value of plan assets at year-end	**3,194**	3,235
of which for partial retirement	14	14
Excess of plan assets at year-end	**192**	375
of which recognized as		
Excess of plan assets over pension liabilities	199	390
Provision for partial retirement	7	15
Cost of plan assets	2,863	2,850
of which for partial retirement	11	14
Total unrealized gains from plan assets	331	385
Offset amounts		
Interest expense for provisions	100	102
Gain (+)/expense (–) from change in discount rate	– 147	– 130
Income from plan assets	0	8
Expense from plan assets	35	26

The fair value of the plan assets is calculated on the basis of the fair values of the fund units held by Treuinvest e.V., Frankfurt am Main.

Unrealized gains from the fair value measurement of plan assets in accordance with section 253(1) HGB and the difference from the recognition of provisions using the average market interest rate for ten years instead of seven years are subject to a restriction on distribution and are described in the chapter "Income Statement Disclosures," (9) Restriction on distribution.

(11) Deposits from other banks

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**19,210**	36,735
of which:		
to affiliated companies	7,498	24,513
to long-term investees and investors	0	0
Remaining maturities:		
payable on demand	586	1,088
up to 3 months	4,098	7,463
> 3 months≤ 1 year	1,884	2,610
> 1 year ≤ 5 years	5,238	12,425
more than 5 years	7,404	13,149

(12) Due to customers

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**195,916**	189,030
of which:		
to affiliated companies	665	2,872
to long-term investees and investors	7	0
Remaining maturities:		
Sub-items:		
Savings deposits with an agreed withdrawal notice of	4,453	5,642
up to 3 months	1,847	2,336
> 3 months≤ 1 year	2,518	3,194
> 1 year ≤ 5 years	88	112
more than 5 years	0	0
Other amounts due to customers and registered mortgage *Pfandbriefe* issued, registered public-sector *Pfandbriefe* issued and registered bonds (mixed cover)	138,353	129,920
payable on demand	123,573	113,440
up to 3 months	2,859	3,385
> 3 months ≤ 1 year	4,021	3,490
> 1 year ≤ 5 years	4,250	5,435
more than 5 years	3,650	4,170

(13) Securitized liabilities

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**3,151**	3,238
of which:		
to affiliated companies	–	–
to long-term investees and investors	–	–
Remaining maturities:		
Sub-items:		
Bonds issued	3,151	3,238
of which: amounts due in the following year	210	94

(14) Trading assets/liabilities

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**74**	86
of which:		
Derivatives	74	86

(15) Trust liabilities

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**860**	352
of which:		
Deposits from other banks	1	1
Due to customers	859	351

(16) Other liabilities

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**43,518**	44,504
of which:		
Obligation to return customer receivables (*Pfandbrief*/SPV transactions)	40,081	42,669
Liabilities to DB AG under control and profit transfer agreement	2,131	369
Derivative hedging instruments (included in hedge accounting)	416	465
Option premiums received	380	359
Trade payables	246	252
Margin payments received	89	66
Liabilities from loss absorption/profit transfer	83	145
Capital contributions by typical silent partners	20	0

The derivative hedging instruments reported under other liabilities represent effective negative changes in the value of the hedging instruments included in hedge accounting using the gross hedge presentation method.

(17) Deferred income

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**57**	61
of which:		
Discount from hedged securities	7	10
Discount from receivables in acc. with section 340e(2) sentence 2 HGB	17	21
Issue costs/premiums on bonds issued	1	1

(18) Provisions

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**1,078**	1,217
Provisions for pensions	0	0
Provisions for taxes	16	15
Other provisions	1,062	1,202
of which:		
Provisions for credit risks	30	32
Staff-related provisions	498	531
Miscellaneous provisions	534	639

There are restructuring provisions of €299 million (previous year: €345 million). Of this total, €292 million (previous year: €320 million) for staff-related measures is reported in staff-related provisions and €7 million (previous year: €25 million) for residual lease obligations in other provisions.

Staff-related provisions contain €7 million for partial retirement obligations (see in this chapter (10) Excess of plan assets over pension liabilities).

The other provisions include provisions for litigation and customer redress amounting to €80 million (previous year: €121 million), which relate primarily to risks in connection with revoked loan agreements and for legal actions and complaints about investment advice, as well as provisions for restoration obligations amounting to €5 million.

The unwinding of discounted Other provisions resulted in expenses of €3 million (previous year: €1 million) in the reporting period. This relates to provisions resulting from non-bank business.

(19) Subordinated debt

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**1,550**	2,043
of which:		
to affiliated companies	1,329	1,322
to long-term investees and investors	–	–

Subordinated debt ranks equally with all other subordinated liabilities; in the event of bankruptcy or liquidation, it may be paid back only after all non-subordinated creditors have been satisfied. An early repayment obligation cannot arise. Conversion into capital or into another form of debt does not form part of the contract.

As of the balance sheet date, the following borrowings exceeded 10 % of total subordinated debt:

Designation	Currency	Amount	Interest rate	Due
Initial debt instrument Postbank LLC I	€	300,027,000	variable	Dec 2, 2034
Initial debt instrument Postbank LLC II	€	500,027,000	variable	Dec 23, 2034
Initial debt instrument Postbank LLC III	€	300,027,000	variable	June 7, 2035

Expenses for subordinated debt (including proportionate interest and premiums) amounted to €50 million (previous year: €76 million).

(20) Profit participation capital

in €m	Dec 31, 2018	Jan 1, 2018
Presentation in the balance sheet	**68**	159
of which:		
Registered profit participation certificates outstanding	68	159

Profit participation capital declined due to maturing instruments.

Under the terms of the profit participation certificates, holders of profit participation certificates receive annual compensation for the provision of capital. The compensation is not paid if and to the extent that there is a net accumulated loss for the period or such a loss would arise because of the payment.

Profit participation certificates are repaid in the event of insolvency after the complete satisfaction of all other creditors, but before shareholders and silent partners.

The following table shows the profit participation capital as of December 31, 2018:

Designation	Currency	€m	Interest rate	Maturity
Dt. Postbank Registered Profit Participation Certificate No. 017	€	10	4.725	Dec 31, 2020
Dt. Postbank Registered Profit Participation Certificate No. 028	€	14	4.530	Dec 31, 2020
Dt. Postbank Registered Profit Participation Certificate No. 032	€	20	5.250	Dec 31, 2026
Dt. Postbank Registered Profit Participation Certificate No. 033	€	10	5.100	Dec 31, 2019
Dt. Postbank Registered Profit Participation Certificate No. 034	€	4	5.100	Dec 31, 2019
Dt. Postbank Registered Profit Participation Certificate No. 038	€	10	5.500	Dec 31, 2022
Total		**68**		

(21) Fund for general banking risks

in €m	Jan 1, 2018	Withdrawals	Additions under section 340e(4) HGB	Dec 31, 2018
Fund for general banking risks	2,467	2,050	0	417

(22) Equity

in €m	Jan 1, 2018	Change	Dec 31, 2018
Issued capital	550	0	550
Contributions by typical silent partners	20	–20	0
Share premium	5,018	3,050	8,068
Retained earnings	0	0	0
– Other retained earnings	0	0	0
Net retained profit for the period	0	0	0
Equity under German GAAP	5,588	3,030	**8,618**

DB PFK AG's issued capital amounts to €550 million and is composed of 275,000,000 no-par value registered shares with a notional value of €2.00 each.

Based on the principal amount of their capital contributions, the typical silent partners receive a share of profits for every fiscal year in the amount of the percentage that DB PFK AG uses to calculate the dividend payment on its share capital, including disclosed reserves. The percentage is limited in each case by minimum and maximum rates. The contribution by typical silent partners was reclassified to Other liabilities as of December 31, 2018, due to its maturity.

The share premium was increased by €3,050 million in fiscal year 2018 by a contribution of the shareholder to the share premium.

DB PFK AG is exempt from the requirement to comply with the CRR own funds requirements due to the exercise of the waiver option under section 2a(1) of the KWG in conjunction with Article 7(1) of the CRR.

DB PFK AG's return on capital – calculated as the ratio of profit, without withdrawals from the fund for general banking risks and profit transfer, to total assets – was 0.03 % (previous year: 0.07 %).

(23) Contingent liabilities

The contingent liabilities of €2,343 million disclosed as below-the-balance sheet items mainly consist of payment guarantees to affiliated companies (€839 million) and payment guarantees on behalf of customers (€778 million). They also contain liquidity guarantees for subsidiaries (€466 million) and credit guarantees to a Group company from the provision of collateral for third-party liabilities (€248 million). Corresponding provisions are recognized if it is likely that a contingent liability will be incurred. Contingent liabilities are reported at their respective amounts as of the balance sheet date, less existing cash collateral and provisions.

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

The contingent liabilities include a guarantee in favor of the Luxembourg branch of BHW Bausparkasse AG in the amount of €12 million, unchanged as against the previous year, which will cover the first loss piece of a retail credit portfolio of the BHW Bausparkasse AG branch in Luxembourg.

The Contingent liabilities and Other commitments disclosed do not contain any individual amounts of material significance to the overall business activities of DP PFK AG.

The risk of a contingent liability or other commitment being incurred is assessed within the framework of DB PFK AG's credit monitoring process, which is described in the "Monitoring and managing credit risk" section of the risk report in the management report.

As of December 31, 2018, there were irrevocable credit commitments of €20,197 million (previous year: €21,028 million) that consist mainly of credit lines that can be called immediately.

(24) Other commitments

in €m	Dec 31, 2018	Jan 1, 2018
Irrevocable loan commitments	**10,027**	9,822
of which: building loans provided	7,006	6,598

The irrevocable loan commitments primarily relate to commitments to non-banks.

There were no placement or underwriting obligations as of the balance sheet date.

(25) Statement of changes in fixed assets

in €m	Historical cost Jan 1, 2018	Additions from merger	Additions in fiscal year	Disposals	Historical cost Dec 31, 2018	Cumulative depreciation, amortization, and writedowns Dec 31, 2018	Carrying amount Dec 31, 2018	Carrying amount Jan 1, 2018
Intangible assets	10	53	4	0	67	65	2	0
Tangible assets								
Land and buildings	0	696	19	406	309	186	123	317
Operating and office equipment	819	87	81	13	974	601	373	330
Investment securities								
Bonds and other fixed-income securities	22,710	5,637	23,241	22,106	29,482	0	29,482	22,710
of which: hedge accounting	0	749	0	377	372	0	372	0
Equity shares and other variable-yield securities	0	0	0	0	0	0	0	0
Participating interests	31	29	13	3	70	27	43	22
Investments in affiliated companies	279	7,786	44	1	8,108	1,997	6,111	6,157

Changes in cumulative depreciation, amortization, and writedowns of fixed assets:

in €m	Cumulative depreciation, amortization, and writedowns Jan 1, 2018	Additions from merger	Depreciation in fiscal year	Reversals of impairment losses	Disposals	Cumulative depreciation, amortization, and writedowns Dec 31, 2018
Intangible assets	10	54	2	0	– 1	65
Tangible assets						
Land and buildings	0	379	12	0	205	186
Operating and office equipment	497	68	47	0	11	601
Investment securities			Writedowns/reversals			
Participating interests	19	6	2	0	0	27
Investments in affiliated companies	65	1,843	89	0	0	1,997

(26) Genuine repurchase agreements

in €m	2018	2017
Carrying amount of the assets purchased under repurchase agreements	1,076	2,585

(27) Hedge accounting

The following table shows the carrying amounts at which hedged items were grouped into hedges, along with the corresponding risk being hedged by this means:

in €m	Dec 31, 2018	Hedged item hedged against	Hedging instruments	Change in fair value of hedged items	Change in fair value of hedging instruments
Assets	8,841	Interest rate risk	Interest rate swaps	11	– 12
Liabilities	– 7,411	Interest rate risk	Interest rate swaps	79	– 79

Future interest rate-related changes in the value of the hedged items are likely to be balanced out by changes in the value of hedging instruments with matching maturities until the hedged items mature. Executory contracts and transactions that are highly likely to materialize were not grouped into hedges as hedged items.

Changes in the value of the hedged items and of the hedging instruments virtually balanced each other out as of the balance sheet date.

(28) Assets and liabilities denominated in foreign currency

in €m	Dec 31, 2018	Jan 1, 2018
Translated into euros:		
from assets denominated in foreign currency	4,982	4,205
from liabilities denominated in foreign currency	2,132	2,221

These assets and liabilities do not contain any claims or obligations resulting from executory contracts. The currency risk from these holdings is almost completely covered by currency forwards and other currency products.

(29) Forward contracts

DB PFK AG primarily uses derivatives to hedge exposures as part of its asset/liability management policy, as well as to manage foreign currency exposure. In addition, a small number of derivative financial transactions is allocated to the trading assets/liabilities items.

The volume of unsettled derivatives subject to settlement risk, and currency, interest and/or market risk from open and (in the case of counterparty credit risk) from closed positions amounted to €378 billion as of December 31, 2018.

The disclosures in the following tables are based on the requirements of section 285 nos. 19 and 20 HGB in connection with section 36 of the RechKredV. The notional amounts shown represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognizable receivables or liabilities.

The fair values of the individual contracts were calculated using the valuation techniques described in the “Accounting policies” chapter. Credit/debit value adjustments were also taken into account for derivatives carried in the banking book.

A rise in the market interest rate by one basis point would lead to a change in the fair value of interest-based derivative financial instruments of approximately €21 million.

Derivatives (non-trading portfolio) not recognized at fair value

– Broken down by volume –

in €m	Notional amounts Dec 31, 2018	Positive fair values Dec 31, 2018	Negative fair values Dec 31, 2018
Interest rate risk			
OTC products			
Interest rate swaps	262,265	4,946	6,521
Interest rate options	22,446	465	94
Swaptions (long)	21,274	619	0
Swaptions (short)	10,089	0	319
Caps, floors	4,483	3	5
Total	**320,557**	**6,033**	**6,939**
Currency risk			
OTC products			
Currency forwards/swaps	4,996	22	25
Cross-currency swaps	482	32	9
Currency options (long)[1]	116	3	0
Currency options (short)[1]	226	0	3
Total	**5,820**	**57**	**37**
Total holdings	**326,377**	**6,090**	**6,976**

[1] Including gold options that are recognized under currency risk

Derivatives (non-trading portfolio) not recognized at fair value

– Remaining maturities –

in €m	Interest rate risk Dec 31, 2018	Currency risk Dec 31, 2018
up to 3 months	20,449	4,600
> 3 months ≤ 1 year	43,148	576
> 1 year ≤ 5 years	117,027	162
more than 5 years	140,415	0
Total	**321,039**	**5,338**

Derivatives (non-trading portfolio) recognized at fair value

– Broken down by counterparty –

in €m	Notional amounts Dec 31, 2018	Positive fair value Dec 31, 2018	Negative fair value Dec 31, 2018
Banks in OECD countries	319,237	5,938	6,945
Other counterparties	7,140	152	31
Total	**326,377**	**6,090**	**6,976**

Derivatives (trading assets/liabilities) recognized at fair value

– Broken down by volume –

in €m	Notional amounts Dec 31, 2018	Carrying amounts Dec 31, 2018	Positive fair values Dec 31, 2018	Negative fair values Dec 31, 2018
Interest rate risk				
OTC products				
Interest rate swaps	51,486	–13	62	75
Caps, floors	415	0	0	0
Total	**51,901**	**–13**	**62**	**75**
Total holdings	**51,901**	**–13**	**62**	**75**

Derivatives (trading assets/liabilities) recognized at fair value

– Remaining maturities –

in €m	Interest rate risk Dec 31, 2018
up to 3 months	4,958
> 3 months ≤ 1 year	14,250
> 1 year ≤ 5 years	17,400
more than 5 years	15,293
Total	**51,901**

Derivatives (trading assets/liabilities) recognized at fair value

– Broken down by counterparty –

in €m	Notional amounts Dec 31, 2018	Positive fair values Dec 31, 2018	Negative fair values Dec 31, 2018
Banks in OECD	51,901	62	75
Insgesamt	**51,901**	**62**	**75**

II. Income Statement disclosures

(1) Other operating expenses

in €m	2018	2017
Presentation in the income statement	**771**	750
of which:		
Expenses for services rendered by affiliated companies	377	392
Offset income and expenses from provisions for pensions and plan assets in accordance with section 246(2) sentence 2 HGB and effect of changes in discount rate	282	250
Expense for litigation risks and costs	37	24
Cost of operational risks	29	34
Payments made to Bundesanstalt für Post und Telekommunikation Deutsche Bundespost	17	14

(2) Other operating income

in €m	2018	2017
Presentation in the income statement	**979**	607
of which:		
Book gains on disposal of land and buildings	298	2
Liquidity premium from DB AG for the provision and acquisition of customer deposits, customer receivables and cover pool eligible loans	252	166
Reimbursements of civil servants' salaries from affiliated companies	160	169
Rental income	108	98
Income from the reversal of provisions	64	55

The item includes income of €7 million (previous year: €9 million) from separately covered forex exposures.

(3) Net gains/losses on the measurement of lending business and securities in the liquidity reserve

DB PFK AG exercises its right under section 340f(3) HGB to offset gains and losses on the measurement of its lending business with gains and losses on the measurement of securities in the liquidity reserve. The net expense amounted to €434 million (previous year: €177 million).

(4) Net gains/losses on the measurement of participating interests, investments in affiliated companies, and securities treated as fixed assets

DB PFK AG exercises the option to offset income and expenses from the measurement of participating interests, investments in affiliated companies, and securities treated as fixed assets under section 340c(2) HGB. The net expense amounted to €66 million (previous year: €320 million).

(5) Extraordinary result

The extraordinary result comprises gains and losses on the measurement of restructuring measures.

(6) Taxes on income

The income tax benefit of €3 million (previous year income tax expense of €10 million) is attributable to the taxes that were legally required to be paid under the control and profit and loss transfer agreement for the Luxembourg branch, as well as to prior-period taxes.

(7) Profit transferred on the basis of a profit transfer agreement

Based on the existing control and profit and loss transfer agreement with Deutsche Bank AG, the profit for fiscal year 2018 of €2,131 million (previous year: €369 million) will be transferred to Deutsche Bank AG.

(8) Breakdown of income by geographical area

The total of the following items reported in the income statement:

- Interest income
- Current income from equity shares and other variable-yield securities, participating interests, and investments in affiliated companies
- Commissions and fee income
- Net income from trading assets/liabilities
- Other operating income

was generated in the following geographical areas:

in €m	2018	2017
Germany	9,373	8,235
Europe (without Germany)	70	77
Total	**9,443**	8,312

(9) Restriction on distribution

in €m	2018	2017
Amounts subject to a restriction on distribution in acc. with section 268(8) HGB (section 285 no. 28 HGB)	0	0
Difference between cost of plan assets and measurement at fair value	331	385
Recognized internally generated intangible fixed assets	0	0
Excess of deferred tax assets over deferred tax liabilities	0	0
Total amounts subject to restriction under section 268(8) HGB	**331**	385
Difference from measurement of provisions for pensions subject to restriction on distribution under section 253(6) HGB	**375**	354

As there are sufficient freely available equity components that at least match the amounts subject to the restriction on distribution, the restrictions attributable to the restriction on distribution were not applied in fiscal year 2018.

C. Other Disclosures

I. Contingent liabilities and other financial obligations

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 (BAnst PT – German posts and telecommunications agency), Postbeamtenversorgungskasse (PVK – postal civil servant pension fund), 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. The cost of this was €88 million in 2018. Postbank has no further obligations for benefits paid by the pension fund.

Payment obligations for the following years from leases and rental agreements amounted €867.0 million at the reporting date (previous year: €845.5 million).

Forward transactions outstanding at the reporting date comprised in particular interest rate swaps, forward rate agreements, and options (in the form of swaptions, caps, and floors) used to hedge market risk exposures, as well as customer-originated foreign currency transactions for which back-to-back transactions were entered into with Deutsche Bank AG.

Cooperation agreements with various counterparties, in particular credit card companies, resulted in financial obligations of €31.8 million.

The intragroup IT licensing agreement (Magellan) results in payment obligations to affiliated companies of €453.9 million over the life of the agreement.

The shares in the affiliated companies TESATUR Beteiligungsgesellschaft mbH & Co. Objekt Nordhausen I KG and TESATUR Beteiligungsgesellschaft mbH & Co. Objekt Halle I KG resulted in a revival of liability amounting to €18.2 million under section 172(4) HGB.

The investments in SOLON Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Heizkraftwerk Halle KG i.L, TELO Beteiligungsgesellschaft mbH & Co. Objekt Kläranlage Waßmannsdorf, and Immobilien-Vermietungsgesellschaft Schumacher & Co. Objekt Rolandufer KG also resulted in a revival of liability under section 172(4) HGB in the amount of €36.0 million.

Additional funding obligation

The existing additional funding obligations derive from statutory provisions and other arrangements.

There are additional funding obligations in respect of the deposit protection fund of the Bundesverband deutscher Banken e.V., Berlin, in the amount laid down in its statutes, as well as in respect of the Entschädigungseinrichtung deutscher Banken GmbH, Berlin, the mandatory compensation scheme for all CRR companies in Germany, on the basis of the provisions of the *Einlagensicherungsgesetz* (German Deposit Protection Act) and the *Anlegerentschädigungsgesetz* (German Investor Compensation Act).

In the above cases, there is a risk that the Bank has to meet the obligations concerned but this is offset by the opportunity to participate in the stabilization and development of confidence in the private commercial banking sector in Germany.

Restructuring fund

The annual contribution for 2018 (€32 million) to the restructuring fund was made under the irrevocable payment obligation and collateralization agreement.

Deposit guarantee scheme

The irrevocable payment obligation of €99 million to Entschädigungseinrichtung deutscher Banken GmbH, Berlin, which forms part of the annual contribution to the statutory deposit protection scheme, was secured by a security.

Letters of comfort

The letters of comfort issued in favor of subsidiaries and 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 subsidiary. Conversely, there is the possibility of the creditors having recourse against DB PFK AG.

DB PFK AG ensures that, with the exception of political risk, its PB Factoring GmbH (Bonn) and BHW Bausparkasse AG (Hameln) subsidiaries will be able to meet their obligations.

DB PFK AG has issued subordinated letters of comfort in connection with the issuance of subordinated bonds by Deutsche Postbank Funding LLC I, Deutsche Postbank Funding LLC II, and Deutsche Postbank Funding LLC III, all of which are domiciled in Wilmington, Delaware, U.S.A.

II. Participating interests and investments in affiliated companies

	Equity interest %	Equity[1] € thousand	Profit/loss for the period[1] € thousand
Companies in which an equity interest of at least 20 % is held			
Ambidexter GmbH, Frankfurt am Main	100.0 %	–	– [3, 4]
Benefit Trust GmbH, Lützen	26.5 %	7,081,147	117,703
Betriebs-Center für Banken AG, Frankfurt am Main	100.0 %	191,182	–6,677
BHW Bausparkasse Aktiengesellschaft, Hameln	100.0 %	1,227,111	34,679
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln	100.0 %	1,161,316	0 [3]
BHW Holding GmbH, Hameln	100.0 %	727,503	0 [3]
BHW Kreditservice GmbH, Hameln	100.0 %	8,398	1,418
BSQ Bauspar AG, Nuremberg	21.1 %	29,048	4
DB Advisors SICAV, Luxembourg, Luxembourg	65.6 %	n/a	255,863
DB Direkt GmbH, Frankfurt am Main	100.0 %	539	0 [3]
DB Investment Services GmbH, Frankfurt am Main	100.0 %	46,018	0 [3]
DB VersicherungsManager GmbH, Frankfurt am Main	100.0 %	–	– [3, 4]
Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main	100.0 %	507,741	56,665
Deutsche Postbank Finance Center Objekt GmbH, Schuttrange (Munsbach), Luxembourg	100.0 %	3,563	562
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin	21.1 %	13	–2
DSL Portfolio GmbH & Co. KG, Bonn	100.0 %	4,309	61
DSL Portfolio Verwaltungs GmbH, Bonn	100.0 %	64	6
dwins GmbH, Frankfurt am Main	21.3 %	41	–16
EC EUROPA IMMOBILIEN FONDS NR. 3 GmbH & CO. KG (in insolvency), Hamburg	65.2 %	–10,390	–6,745
Finanzberatungsgesellschaft mbH der Deutschen Bank, Berlin	100.0 %	1,240	164
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Dresden »Louisenstraße« KG, Bad Homburg v.d.Höhe	30.6 %	0	–40
Fünfte SAB Treuhand und Verwaltung GmbH & Co. »Leipzig-Magdeburg« KG, Bad Homburg v.d.Höhe	41.2 %	0	–77
Fünfte SAB Treuhand und Verwaltung GmbH & Co. Suhl »Rimbachzentrum« KG, Bad Homburg v.d.Höhe	74.9 %	0	–103
giropay GmbH, Frankfurt am Main	33.3 %	0	52
Immobilien-Vermietungsgesellschaft Schuhmacher GmbH & Co. Objekt Rolandufer KG, Berlin	20.5 %	–12,055	7,126
KEBA Gesellschaft für interne Services mbH, Frankfurt am Main	100.0 %	1,299	0 [3]
KOMPASS 3 Zweite Beteiligungsgesellschaft mbH & Co. USD KG i.L., Düsseldorf	97.0 %	–39	–12
KOMPASS 3 Erste Beteiligungsgesellschaft mbH & Co. Euro KG i.L., Düsseldorf	96.1 %	526	–12
MT “CAPE BEALE” Tankschiffahrts GmbH & Co. KG, Hamburg	32.3 %	29	–883
MT “KING DANIEL” Tankschiffahrts GmbH & Co. KG, Hamburg	30.1 %	1,772	–3,396
MT “KING DOUGLAS” Tankschiffahrts GmbH & Co. KG, Hamburg	30.1 %	9,420	–2,902
PBC Banking Services GmbH, Frankfurt am Main	100.0 %	120,029	0 [3]
PB Factoring GmbH, Bonn	100.0 %	11,546	0 [3]
PB Firmenkunden AG, Bonn	100.0 %	1,100	0 [3]
PB International S.A., Schuttrange (Munsbach), Luxembourg	100.0 %	57,265	–470
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0 %	3,940,284	32,328 [2]
PCC Services GmbH der Deutschen Bank, Essen	100.0 %	1,654	0 [3]
Postbank Akademie und Service GmbH, Hameln	100.0 %	1,039	19
Postbank Beteiligungen GmbH, Bonn	100.0 %	760,970	0 [3]
Postbank Direkt GmbH, Bonn	100.0 %	19,221	3,363
Postbank Filialvertrieb AG, Bonn	100.0 %	31,135	0 [3]
Postbank Finanzberatung AG, Hameln	100.0 %	57,567	–9,717
Postbank Immobilien GmbH, Hameln	100.0 %	2,908	0 [3]
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0 %	18,874	0 [3]
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn	90.0 %	25,532	2,464
Postbank Leasing GmbH, Bonn	100.0 %	500	0 [3]
Postbank Service GmbH, Essen	100.0 %	5,100	4,975
Postbank Systems AG, Bonn	100.0 %	60,170	0 [3]
SAB Real Estate Verwaltungs GmbH, Hameln	100.0 %	37	0
SOLON Grundstücks-Vermietungs-Gesellschaft mbH & Co. Objekt Heizkraft Halle KG i. L., Halle/Saale	30.5 %	n/a	n/a
SRC Security Research & Consulting GmbH, Bonn	22.5 %	5,356	855
Starpool Finanz GmbH, Berlin	49.9 %	413	6
TESATUR Beteiligungsgesellschaft mbh & Co. Objekt Halle I KG, Düsseldorf	94.5 %	–7,606	1,071
TESATUR Beteiligungsgesellschaft mbh & Co. Objekt Nordhausen I KG, Düsseldorf	94.4 %	1,118	853
VÖB-ZVD Processing GmbH, Bonn	75.0 %	41,165	25,988 [5]
Equity interests in large corporations in which more than 5 % of the voting rights are held			
Saarländische Investitionskreditbank Aktiengesellschaft, Saarbrücken	11.8 %	65,474	1,009

[1] The data on equity and profit and loss for the year are based on the most recently adopted annual financial statements of the companies concerned.
[2] The company also includes the shares in Teilgesellschaftsvermögen PB 25 that are not held by a company belonging to the DB Privat- und Firmenkundenbank Group.
[3] Profit and loss transfer agreement in the DB Privat- und Firmenkundenbank Group.
[4] Company was formed in fiscal year 2018 so annual financial statements are not yet available.
[5] 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.

III. Employees

DB PFK AG employed the following number of employees on an annual average:

Number	2018	2017[1]
Full-time	**10,302**	7,039
Salaried employees	9,659	7,039
of which: trainees	620	581
Civil servants	643	0
Part-time	**4,373**	4,051
Salaried employees	4,204	4,051
Civil servants	169	0
Total	**14,675**	11,090

[1] The prior-period figures do not contain any employees of Deutsche Postbank AG. The 2018 average figures were calculated for the full year including the employees of the former Deutsche Postbank AG

IV. Auditor's fee

With regard to the total fee for fiscal year 2018 charged by the auditors KPMG AG Wirtschaftsprüfungsgesellschaft in accordance with section 285 no. 17 HGB, please refer to the disclosure in DB PKF AG's consolidated financial statements, which contains all the relevant figures for DB PFK AG. The fees for audit and related services include the audit of the single-entity financial statements, the audit of the consolidated financial statements, the audit of DB AG's group reporting package as of December 31, 2018, and the review of the half-yearly financial report.

In addition to the audit of the financial statements, the following non-audit services were used on the basis of the *CSR-Richtlinie-Umsetzungsgesetz* (Act Transposing the CSR Directive):

1. Securities account/audits under the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act)

2. Quality assurance services in connection with projects

3. Other agreed-upon procedures

All transactions – including those with related parties – were conducted on an arm's length basis.

V. Remuneration of the Management Board and the Supervisory Board

The aggregate remuneration of the Management Board in fiscal year 2018 was €9 million. In some cases, the remuneration was paid by Deutsche Bank AG. The aggregate remuneration contains the following components: cash bonuses, equity upfront awards, restricted equity awards, and tranches of the restricted incentive awards granted for work on the Management Board in previous years and paid out in fiscal year 2018. For fiscal year 2018, equity awards of €2 million were awarded, including an equity upfront award of €1 million. These are already included in the above-mentioned aggregate remuneration.

Severance payments in the total amount of €2 million were awarded to departing members of the Management Board.

Former members of the Management Board and their surviving dependents received pension payments of €0.5 million in fiscal year 2018.

Provisions for pension benefits amounting to €27 million have been recognized for former members of the Management Board. There are no other obligations to former members of the Management Board.

The members of the Supervisory Board received total remuneration of €0.1 million for the reporting period (or the period in which the member in question belonged to the Supervisory Board).

As of the reporting date, DB PFK granted loans of €9 million to members of the Management Board and the Supervisory Board.

Due to the merger and renaming of DB PFK AG and the resulting lack of comparability of remuneration, the Bank has not disclosed prior-period amounts.

VI. Cover for bonds outstanding

- Register B: closed registers for old issues under the *Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlichrechtlicher Kreditanstalten* (ÖPG – German Act on *Pfandbriefe* and Related Debt Instruments Issued by Public-Sector Credit Companies)
- Register C: issues under the *Gesetz über die Umwandlung der Deutschen Siedlungs- und Landesrentenbank in eine Aktiengesellschaft* (DSLBUmwG – German Act on the Reorganization of Deutsche Siedlungs- und Landesrentenbank as a Stock Corporation)
- Registers D and E: issues under the PfandBG.

in €m	Cover assets Dec 31, 2018	*Pfandbriefe* outstanding Dec 31, 2018	Excess cover Dec 31, 2018
Public-sector *Pfandbriefe* Register B			
Principal amount	86	31	55
Present value	94	32	62
Bonds Register C (mixed cover)			
Principal amount	7,722	6,752	970
Present value	8,434	7,967	467
Mortgage *Pfandbriefe* Register D			
Principal amount	5,808	3,699	2,109
Present value	6,545	4,252	2,293
Public-sector *Pfandbriefe* Register E			
Principal amount	270	170	100
Present value	280	208	72

in €m	Cover assets Jan 1, 2018	*Pfandbriefe* outstanding Jan 1, 2018	Excess cover Jan 1, 2018
Public-sector *Pfandbriefe* Register B			
Principal amount	95	31	64
Present value	104	34	70
Bonds Register C (mixed cover)			
Principal amount	9,583	8,401	1,182
Present value	10,511	9,916	595
Mortgage *Pfandbriefe* Register D			
Principal amount	5,403	3,714	1,690
Present value	6,187	4,368	1,819
Public-sector *Pfandbriefe* Register E			
Principal amount	295	205	90
Present value	313	248	65

VII. Disclosures in accordance with section 28 of the PfandBG

Section 28(1) nos. 1–3 of the PfandBG

Mortgage *Pfandbrief* issues outstanding and associated cover assets:

€m	Principal amount Dec 31, 2018	Principal amount Jan 1, 2018	Present value Dec 31, 2018	Present value Jan 1, 2018	Present value of risk[1] Dec 31, 2018	Present value of risk[1] Jan 1, 2018
Cover assets[2]	5,808	5,403	6,545	6,187	6,161	5,857
of which: derivatives	–	–	–	–	–	–
Mortgage *Pfandbriefe*	3,699	3,714	4,253	4,368	4,104	4,182
Overcollateralization in %	**57.0**	45.5	**53.9**	41.6	**50.1**	40.0

[1] Dynamic method
[2] Including additional cover assets in accordance with section 19(1) of the PfandBG

Public-sector *Pfandbrief* issues outstanding and associated cover assets:

€m	Principal amount Dec 31, 2018	Principal amount Jan 1, 2018	Present value Dec 31, 2018	Present value Jan 1, 2018	Present value of risk[1] Dec 31, 2018	Present value of risk[1] Jan 1, 2018
Cover assets[2]	270	295	280	313	288	315
of which: derivatives	–	–	–	–	–	–
Public-sector *Pfandbriefe*	170	205	208	248	222	259
Overcollateralization in %	**58.8**	43.9	**34.5**	26.2	**29.9**	21.6

[1] Dynamic method
[2] Including additional cover assets in accordance with section 20(2) of the PfandBG

Maturity structure of mortgage *Pfandbrief* issues outstanding as well as fixed-rate periods of the associated cover assets (principal amount):

in €m	Cover assets[1] Dec 31, 2018	Cover assets[1] Jan 1, 2018	Mortgage *Pfandbriefe* Dec 31, 2018	Mortgage *Pfandbriefe* Jan 1, 2018
less than 6 months	527	313	246	–
from 6 months to 12 months	360	329	55	15
from 12 months to 18 months	276	446	1,000	246
from 18 months to 2 years	436	329	40	55
from 2 to 3 years	292	500	1,125	1,040
from 3 to 4 years	266	293	55	1,125
from 4 to 5 years	415	239	83	55
from 5 to 10 years	1,645	1,717	630	688
more than 10 years	1,591	1,237	465	490
Total	**5,808**	5,403	**3,699**	3,714

[1] Including additional cover assets in accordance with section 19(1) of the PfandBG

Maturity structure of public-sector *Pfandbrief* issues outstanding as well as fixed-rate periods of the associated cover assets (principal amount):

in €m	Cover assets[1] Dec 31, 2018	Cover assets[1] Jan 1, 2018	Public-sector *Pfandbriefe* Dec 31, 2018	Public-sector *Pfandbriefe* Jan 1, 2018
less than 6 months	20	–	–	–
from 6 months to 12 months	20	–	–	35
from 12 months to 18 months	20	20	60	–
from 18 months to 2 years	10	20	–	–
from 2 to 3 years	20	30	–	60
from 3 to 4 years	180	20	–	–
from 4 to 5 years	–	205	–	–
from 5 to 10 years	–	–	50	50
more than 10 years	–	–	60	60
Total	**270**	295	**170**	205

[1] Including additional cover assets in accordance with section 20(2) of the PfandBG

Section 28(1) Nos. 4–6 of the PfandBG

Additional cover assets (principal amount) for mortgage *Pfandbriefe* by country/country of registration:

in €m	Dec 31, 2018	Jan 1, 2018
Germany		
Equalization claims within the meaning of section 19(1) no. 1 of the PfandBG	–	–
Claims within the meaning of section 19(1) no. 2 of the PfandBG	–	–
of which covered bonds within the meaning of Article 129 of Regulation (EU) No. 575/2013	–	–
Claims within the meaning of section 19(1) no. 3 of the PfandBG	440	200
Total Germany	440	200
Total	**440**	200
of which statutory overcollateralization within the meaning of section 4(1) of the PfandBG	200	200

Additional cover assets (principal amount) for public-sector *Pfandbriefe* by country/country of registration:

in €m	Dec 31, 2018	Jan 1, 2018
Germany		
Equalization claims within the meaning of section 20(2) no. 1 of the PfandBG	–	–
Claims within the meaning of section 20(2) no. 2 of the PfandBG	–	–
of which covered bonds within the meaning of Article 129 of Regulation (EU) No. 575/2013	–	–
Total Germany	–	–
Total	**–**	**–**

Section 28(1) nos. 7–11 of the PfandBG and section 28(2) no. 3 of the PfandBG

Indicators for outstanding mortgage *Pfandbriefe* and the associated cover assets:

	Dec 31, 2018	Jan 1, 2018
Interest rate structure under section 28(1) no. 9 of the PfandBG		
Percentage share of fixed-rate *Pfandbriefe* in liabilities to be covered	97.2 %	97.2 %
Percentage share of fixed-rate cover assets in the corresponding cover assets	98.0 %	98.8 %
Claims exceeding limits under section 28(1) no. 8 of the PfandBG		
Total amount of claims used for cover exceeding the limits under section 19(1) no. 2 of the PfandBG, in €m	–	–
Total amount of claims used for cover exceeding the limits under section 19(1) no. 3 of the PfandBG, in €m	–	–
Other indicators		
Total of the claims which exceed the limits under section 13(1) of the PfandBG (section 28(1) no. 7 of the PfandBG), in €m	–	–
Net present value under section 6 of the *Pfandbrief-Barwertverordnung* (*Pfandbrief* Net Present Value Regulation) for each foreign currency (section 28(1) no. 10 of the PfandBG), in €m	–	–
Volume-weighted average of the maturity of claims (seasoning) in years (section 28(1) no. 11 of the PfandBG)	6.2	6.4
Average weighted loan-to-value ratio (section 28(2) no. 3 of the PfandBG)	55.8 %	55.6 %

Section 28(1) Nos. 8–10 of the PfandBG

Indicators for outstanding public-sector *Pfandbriefe* and the associated cover assets:

	Dec 31, 2018	Jan 1, 2018
Interest rate structure under section 28(1) no. 9 of the PfandBG		
Percentage of fixed-rate *Pfandbriefe* in liabilities to be covered	100.0 %	100.0 %
Percentage share of fixed-rate cover assets in the corresponding cover assets	100.0 %	100.0 %
Claims exceeding limits under section 28(1) no. 8 of the PfandBG		
Total amount of claims used for cover exceeding the limits under section 20(2) no. 2 of the PfandBG, in €m	–	–
Other indicators		
Net present value under section 6 of the *Pfandbrief-Barwertverordnung* for each foreign currency (section 28(1) no. 10 of the PfandBG) in €m	–	–

Section 28(2) No. 1a of the PfandBG

Receivables used to cover mortgage *Pfandbrief* issues, by size category (principal amount):

in €m	Mortgage cover assets Dec 31, 2018	Mortgage cover assets Jan 1, 2018
up to and including €300,000	5,216	5,104
more than €300,000 up to €1 million	149	97
more than €1 million up to €10 million	3	2
more than €10 million	–	–
Total	**5,368**	5,203

Section 28(2) Nos. 1b and c of the PfandBG

Receivables used to cover mortgage *Pfandbrief* issues (principal amount), by country in which the mortgaged properties are located, type of property, and type of use:

	Mortgage cover assets			
in €m	Residential properties Dec 31, 2018	Residential properties Jan 1, 2018	Commercial properties Dec 31, 2018	Commercial properties Jan 1, 2018
Total	**5,368**	5,203	**–**	–

	Mortgage cover assets			
in €m	Residential properties Dec 31, 2018	Residential properties Jan 1, 2018	Commercial properties Dec 31, 2018	Commercial properties Jan 1, 2018
Germany				
Condominiums	744	736	–	–
One- and two-family houses	4,440	4,295	–	–
Multi-family houses	184	172	–	–
Office buildings	–	–	–	–
Trade buildings	–	–	–	–
Industrial buildings	–	–	–	–
Other commercial buildings	–	–	–	–
New buildings under construction not yet commercially viable	–	–	–	–
Construction sites	–	–	–	–
Total Germany	**5,368**	5,203	**–**	–

Section 28(2) No. 2 of the PfandBG

Total amount of payment arrears on mortgage receivables, past due at least 90 days (nominal amount):

in €m	Dec 31, 2018	Jan 1, 2018
Total Germany	–	–
Total	–	–

Total amount of payment arrears, insofar as the amount due in each case is at least 5 % of the mortgage receivable (principal amount):

in €m	Dec 31, 2018	Jan 1, 2018
Total Germany	–	–
Total	–	–

Section 28(2) No. 4a, b and c of the PfandBG

Receivables used to cover mortgage *Pfandbrief* issues, by number of foreclosures and compulsory administration proceedings and foreclosed property acquisitions, as well as the total amount of late interest owed by mortgagees:

	Residential properties		Commercial properties	
Number	Dec 31, 2018	Jan 1, 2018	Dec 31, 2018	Jan 1, 2018
Number of foreclosures pending at the balance sheet date	–	–	–	–
Number of compulsory administration proceedings at the balance sheet date	–	–	–	–
Number of foreclosures carried out during the fiscal year	–	–	–	–
Number of properties taken over during the fiscal year to prevent losses	–	–	–	–
in €m	Dec 31, 2018	Jan 1, 2018	Dec 31, 2018	Jan 1, 2018
Total amount of outstanding interest	–	–	–	–

Section 28(3) no. 1 of the PfandBG

Receivables used to cover public-sector *Pfandbrief* issues, by size category (principal amount):

in €m	Dec 31, 2018	Jan 1, 2018
up to and including €10 million	10	10
more than €10 million up to €100 million	260	285
more than €100 million	–	–
Total	270	295

Section 28(3) no. 2 of the PfandBG

Receivables used to cover public-sector *Pfandbrief* issues, by type of debtor/guaranteeing unit and its registered office (country):

	Public-sector cover assets	
in €m	Dec 31, 2018	Jan 1, 2018
Germany		
State	–	–
Regional authorities	250	275
Local authorities	–	–
Other debtors	–	–
Total Germany	250	275
Guaranteed or guarantees for reasons of promoting exports	–	–
Luxembourg		
State	20	20
Regional authorities	–	–
Local authorities	–	–
Other debtors	–	–
Total Luxembourg	20	20
Guaranteed or guarantees for export promotion reasons	–	–
Total	**270**	295

Section 28(3) no. 3 of the PfandBG

Total amount of payment arrears on public-sector receivables, past due at least 90 days (nominal amount):

in €m	Dec 31, 2018	Jan 1, 2018
Germany		
State	–	–
Regional authorities	–	–
Local authorities	–	–
Other debtors	–	–
Total Germany	–	–
Total	**–**	–

Total amount of payment arrears, insofar as the amount due in each case is at least 5 % of the public-sector receivable (principal amount):

in €m	Dec 31, 2018	Jan 1, 2018
Germany		
State	–	–
Regional authorities	–	–
Local authorities	–	–
Other debtors	–	–
Total Germany	–	–
Total	**–**	–

VIII. Other disclosures

In accordance with section 2(4) of the *Postumwandlungsgesetz* (German Postal Service Transformation Act – PostUmwG), the German federal government guarantees settlement of all liabilities existing at the time of Postbank AG's registration in the commercial register. This continues to apply to the legal successor DB Privat- und Firmenkundenbank AG.

The government guarantee for savings deposits expired five years after the date of the entry in the commercial register.

DB Privat- und Firmenkundenbank 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.

IX. Report on post-balance sheet date events

No reportable significant events occurred from December 31, 2018, until the preparation of the annual financial statements by the Management Board on February 27, 2019.

D. Composition of and Disclosures on Executive Bodies

Management Board

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

Members of the Management Board
Frank Strauß, Bad Nauheim (Chairman, since May 28, 2018)
Stefan Bender, Bad Vilbel
Rainer Burmester, Hamburg (until May 24, 2018)
Alp Dalkilic, Mainz (until May 24, 2018)
Philipp Gossow, Frankfurt am Main (since January 1, 2019)
Alexander Ilgen, Frankfurt am Main (since May 28, 2018)
Susanne Klöß-Braekler, Munich (since May 28, 2018)
Britta Lehfeldt, Frankfurt am Main
Ralph Müller, Bonn (since May 28, 2018)
Markus Pertlwieser, Bad Soden
Zvezdana Seeger, Berlin (since May 28, 2018)
Hanns-Peter Storr, Bonn (since May 28, 2018)
Lars Stoy, Bonn (since May 28, 2018)

Supervisory Board

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

Shareholder representatives
Christian Sewing, Osnabrück (Chairman) Chief Executive Officer, Deutsche Bank AG
Hans-Holger Albrecht, Umhausen, Austria (from May 25, 2018, until November 29, 2018) Chief Executive Officer, Deezer
Christoph Bornschein, Berlin (since November 29, 2018) Managing Director and Co-Founder, Torben, Lucie und die gelbe Gefahr GmbH
Annemarie Erhardt, Kiel (until May 25, 2018) Retiree
Carmen Herbstritt, Bad Vilbel (until January 31, 2018) Chief Financial Officer, Switzerland, Deutsche Bank (Suisse) SA
Peter Hinder, Weinfelden, Switzerland (until May 25, 2018) Head of Wealth Management EMEA (ex. Germany, Deutsche Bank (Suisse) SA)
Marzio Hug, London, UK (since May 25, 2018) Chief Risk Officer AM/Head of Credit Risk Management, Deutsche Bank AG
Anna Issel, Frankfurt am Main (since November 29, 2018) Anti-Financial Crime, Global Head of Business Line AFC for Wealth Management, Deutsche Bank AG
Hans-Werner Jacob, Schönau am Königssee (until May 25, 2018) Retiree
René Werner Keller, Eschborn (until May 25, 2018) Head of Technology PWCC Deutsche Bank AG
Karen Kuder, Frankfurt am Main Chief Governance Officer, Legal, Deutsche Bank AG
Philip Laucks, Goldbach (since May 25, 2018) Global Head HR & Divisional Control Officer PCB Deutsche Bank AG
Andreas Christian Loetscher, Berg (since November 29, 2018) Chief Accounting Officer, Deutsche Bank AG
Christiana Riley, Bad Homburg vor der Höhe (since May 25, 2018) CFO Corporate & Investment Banking, Deutsche Bank AG
Michael Spiegel, Bad Homburg vor der Höhe (since May 25, 2018) Global Head of Cash Management and Head of GTB Germany, Deutsche Bank AG
Till Staffeldt, Frankfurt am Main (until May 25, 2018) Global Business Partner Legal, Compliance & GRAD, Deutsche Bank AG
Werner Steinmüller, Dreieich-Buchschlag (since May 25, 2018) Member of the Management Board, Deutsche Bank AG

Employee representatives
Susanne Walzer, Kaiserslautern (Deputy Chair) (since May 25, 2018) Chair of the Works Council, Deutsche Bank Nordbaden Works Council
Arthur Biehler, Ettenheim (until May 25, 2018) Deputy Chairman (since January 13, 2017), Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Frank Bsirske, Berlin (since May 25, 2018) Trade Union Secretary, Chair of Vereinte Dienstleistungsgewerkschaft – ver.di
Alexander Diffenhard, Plochingen (since May 25, 2018) Chairman of the Stuttgart Works Council and Member of the General Works Council, Deutsche Bank Stuttgart
Wolfgang Ermann, Fürth Member of the Works Council, Deutsche Bank Nuremberg
Ursula Feikes-Feilhauer, Grevenbroich Retiree
Claudia Fieber, Berlin (since May 25, 2018) Chair of the Works Council, Deutsche Bank Berlin
Günter Haardt, Leubsdorf (until May 25, 2018) Managing Director, Vermögensverwaltung der ver.di GmbH
Andreas Koop, Berlin (until May 25, 2018) Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Joachim Kotthoff, Nauheim Team head HR Business, Deutsche Bank AG
Detlef Polaschek, Essen (until May 25, 2018) Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Bernd Rose, Menden/Sauerland (since December 3, 2018) Chairman of the General Works Council Postbank Filialvertrieb AG/Postbank Filial GmbH, Menden (Sauerland)
Rita Schlink, Horn-Bad Meinberg (until May 25, 2018) Employee of Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft
Eric Stadler, Markt Schwaben (since December 3, 2018) Chair of the Munich Works Council, Betriebs-Center für Banken AG (BCB AG)
Jörg Wolfram, Leipzig Deputy Chairman, General Works Council, DB Privat- und Firmenkundenbank AG

E. Offices held in Statutory Supervisory Bodies of Large Corporations

Offices held by members of the Management Board on supervisory boards or other supervisory bodies:

Stefan Bender	
Function	Company
Member of the Supervisory Board	Deutsche Bank Europe GmbH, Frankfurt am Main

Philipp Gossow	Member of the Management Board since January 1, 2019
Function	Company
Member of the Supervisory Board	Deutsche Bank Polska Spólka Akcyjna, Warsaw
Member of the Supervisory Board	Deutsche Bank Sociedad Anónima Española, Madrid

Alexander Ilgen	Member of the Management Board since May 28, 2018
Function	Company
Member of the Advisory Board	DB HR Solutions GmbH, Eschborn
Member of the Supervisory Board	Deutsche Asset Management Investment GmbH, Frankfurt am Main

Susanne Klöß-Braekler	Member of the Management Board since May 28, 2018
Function	Company
Chair of the Supervisory Board	Postbank Direkt GmbH, Bonn
Chair of the Supervisory Board	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board (until June 22, 2018)	Eurex Frankfurt AG, Frankfurt am Main
Member of the Administrative Board (until June 22, 2018)	Eurex Zürich AG, Zurich

Britta Lehfeldt	
Function	Company
Member of the Supervisory Board	Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main
Member of the Supervisory Board (until September 19, 2018)	DB Investment Services GmbH, Frankfurt am Main
Member of the Advisory Board	VÖB-ZVD Processing GmbH, Bonn
Member of the Advisory Board	DB HR Solutions GmbH, Eschborn
Member of the Supervisory Board (since November 16, 2018)	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board (since November 21, 2018)	Postbank Filialvertrieb AG, Bonn
Member of the Supervisory Board (since November 26, 2018)	Postbank Systems AG, Bonn
Member of the Administrative Board (since June 8, 2018)	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Ralph Müller	Member of the Management Board since May 28, 2018
Function	Company
Chairman of the Supervisory Board	PB Firmenkunden AG, Bonn
Member of the Supervisory Board (since August 1, 2018) Chairman of the Supervisory Board (since January 1, 2019)	PB Factoring GmbH, Bonn
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Zvezdana Seeger	Member of the Management Board since May 28, 2018
Function	Company
Chair of the Supervisory Board (until August 20, 2018)	Betriebs-Center für Banken AG, Frankfurt am Main
Chair of the Supervisory Board (until June 30, 2018)	BHW Kreditservice GmbH, Hameln
Chair of the Supervisory Board (until February 28, 2018)	Postbank Service GmbH, Essen
Chair of the Supervisory Board	Postbank Systems AG, Bonn
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln

Hanns-Peter Storr	Member of the Management Board since May 28, 2018
Function	Company
Member of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Member of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Deputy Chairman of the Supervisory Board	Postbank Systems AG, Bonn

Lars Stoy	Member of the Management Board since May 28, 2018
Function	Company
Chairman of the Supervisory Board	BHW Bausparkasse Aktiengesellschaft, Hameln
Chairman of the Supervisory Board	Postbank Finanzberatung AG, Hameln
Member of the Supervisory Board (until June 30, 2018)	BHW Kreditservice GmbH, Hameln
Member of the Supervisory Board	Postbank Filialvertrieb AG, Bonn

Offices held by members of the Supervisory Board of DB Privat- und Firmenkundenbank AG on supervisory boards or other supervisory bodies:

Shareholder representatives:

Hans-Holger Albrecht

Function	Company
Chairman of the Supervisory Board	Scout 24, Munich
Member of the Supervisory Board	AINMT Holdings AB, Stockholm

Christoph Bornschein

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

Carmen Herbstritt

Function	Company
Member of the Supervisory Board (until January 31, 2018)	Sal. Oppenheim jr. & Cie. AG & Co. KGaA, Cologne
Member of the Supervisory Board (until January 31, 2018)	Sal. Oppenheim jr. & Cie. Komplementär AG, Cologne
Member of the Supervisory Board (until January 31, 2018)	Deutsche Oppenheim Family Office AG, Grasbrunn

Peter Hinder

Function	Company
Member of the Founders Council	Kartause Ittingen Foundation, Warth
Member of the Administrative Board	FOSTAG Formenbau AG, Stein am Rhein

Marzio Hug

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

Anna Issel

Function	Company
Member of the Supervisory Board (since August 21, 2018)	Sal. Oppenheim jr. & Cie. AG & Co. KGaA, Cologne
Member of the Supervisory Board (since August 21, 2018)	Sal. Oppenheim jr. & Cie. Komplementär AG, Cologne
Member of the Supervisory Board (since August 22, 2018)	Deutsche Oppenheim Family Office AG, Grasbrunn

René Werner Keller

Function	Company
Member of the Supervisory Board	Deutsche Bank, Società per Azioni, Milan

Philip Laucks

Function	Company
Member of the Supervisory Board (until August 20, 2018)	Betriebs-Center für Banken AG, Frankfurt am Main
Member of the Supervisory Board (until November 15, 2018)	Postbank Direkt GmbH, Bonn
Member of the Supervisory Board (until November 15, 2018)	Postbank Systems AG, Bonn
Member of the Supervisory Board (until November 15, 2018)	Postbank Filialvertrieb AG, Bonn
Member of the Administrative Board (until June 7, 2018)	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost, Bonn

Till Staffeldt	
Function	Company
Member of the Supervisory Board	Deutsche Bank Società per Azioni, Milan
Member of the Supervisory Board	Deutsche Bank Europe GmbH, Frankfurt am Main

Employee representatives:

Susanne Walzer	Deputy Chair
Function	Company
Member of the Administrative Board	Betriebskrankenkasse Deutsche Bank AG and BKK Pflegekasse 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

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

Rita Schlink	
Function	Company
Member of the Administrative Board	Betriebskrankenkasse Deutsche Bank AG, Düsseldorf

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company, and the Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Frankfurt am Main, February 27, 2019

DB Privat- und Firmenkundenbank AG

The Management Board

Frank Strauß

Stefan Bender

Philipp Gossow

Alexander Ilgen

Susanne Klöß-Braekler

Britta Lehfeldt

Ralph Müller

Markus Pertlwieser

Zvezdana Seeger

Hanns-Peter Storr

Lars Stoy

Note: This is a translation of the German original. The original text in German language should be used as the authoritative source.

Independent Auditor's Report

To DB Privat- und Firmenkundenbank AG (till May 24, 2018: Deutsche Bank Privat- und Geschäftskunden AG), Frankfurt am Main

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of DB Privat- und Firmenkundenbank AG, Frankfurt am Main, which comprise the balance sheet as at December 31, 2018, and the statement of profit and loss for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of DB Privat- und Firmenkundenbank AG for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement which are included in section "Corporate Governance Statement" of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to credit companies and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 in compliance with German Legally Required Accounting Principles, and

– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the non-financial statement and the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [*Handelsgesetzbuch*: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the 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 Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company 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 annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the annual 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, please refer to the Risk Report section within the management report, section "Risk provisioning" and "Managing credit risk at portfolio level". With regard to the accounting and measurement principles applied to determine the loan loss allowance and loans to customers, we refer to the information in the Notes, section A.II "Accounting policies" and section B.II (3) "Net gains/ losses on the measurement of lending business and securities in the liquidity reserve".

The financial statement risk

As of the reporting date, the Company reported loans to customers in the amount of 151.6 bn €. A major part of the specific loan loss allowances for actual default risks relates to loans within the non-retail credit portfolios. Net expenses from the result from the valuation of the credit business and the securities in the liquidity reserve amounted to 434 mn € in 2018.

The measurement of loan loss allowances for credit-impaired loans to customers in the non-retail portfolio (SLLP), must be made in accordance with the principle of prudence pursuant to Section 252 (1) No. 4 HGB in order to take account of acute default risks. The calculation of value adjustments for credit-impaired loans to customers within 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. The assumptions made are dependent upon respective applied restructuring or liquidation strategies.

As part of our audit, it was relevant to identify processes in place to ensure appropriate criteria for the identification of credit-impaired engagements. In addition, a significant matter for our audit was to ensure that reasonable assumptions and scenarios were chosen to reflect the expected contractual cash flows and/or the cash flows from the recovery of collaterals. Inadequate assumptions and scenarios, with regard to the expected contractual cash flows or cash flows from usage of loan collateral, may result in over- or underestimation of credit risks and, thus, in an audit misstatement due to an inaccurate evaluation of loans to customers.

Our audit approach

Based on our risk assessment and our evaluation of the risk of error, we established an audit approach including control and substantive testing. Accordingly, we have performed the following audit procedures, among others:

In a first step, we obtained a comprehensive insight into the development of loans to customers, and the related credit risks as well as the internal control system with regard to the management, monitoring and valuation of non-retail loans to customers.

For the evaluation of the appropriateness of the internal control system with regard to the identification, management, monitoring and evaluation of loans to customers in the non-retail portfolio, we inspected relevant organizational guidelines and conducted inquiries. In addition, we have performed procedures to conclude on the design, implementation and the operating effectiveness of relevant controls, which have been established by the Bank to identify engagements that require loan loss allowances and those to ensure the compliant measurement of the allowance. For the IT systems used in this context, we tested the operating effectiveness of relevant application controls with the involvement of our IT specialists.

On the basis of a sample of individual engagements selected from the non-retail portfolio, we analyzed the intrinsic value of those loans taking into account materiality and risk aspects. First, we examined, whether for all of the selected engagements criteria are given which indicate a credit-impairment and whether the engagements were correctly identified as credit-impaired or not. For the credit-impaired engagements, in a second step, we evaluated, whether realistic and comprehensive probability-weighted scenarios have been used, which also consider the Bank`s respective restructuring or liquidation strategy. Based on the evidence, we reviewed and evaluated the assumptions on the expected contractual cash flows and the cash flows from the realization of collaterals as well as the estimated points in time the Bank expects those cash flows to occur. Whenever collaterals for an engagement existed, we concluded on the legal enforceability and recoverability of such loan collaterals. Within this context, we based our judgment on valuation reports from independent experts and concluded on whether their assumptions were derived from appropriate internal or external sources. For this, we relied on market studies and considered market prices as well as yield and profitability analyses. For chosen collaterals, we involved our real estate valuation experts. Finally, we concluded on the accuracy of the measurement of the required loan loss allowances.

In addition, we selected a sample of individual engagements, which have not been selected for the procedures described above, and evaluated if the criteria for the identification of credit-impaired engagements were applied on each individual engagements compliantly.

Our observations

Based on the procedures performed, we conclude that the criteria applied to identify credit-impaired loans to customers and the assumptions and scenarios used to determine loan loss allowances within the Bank`s non-retail portfolio are appropriate.

Valuation of loans to customers using a parameter-based approach

For a qualitative and quantitative description of the management of credit risks including the valuation of loans to customers, please refer to the risk report as part of the management report, sections "Risk provisioning" and "Managing credit risks at portfolio level". With regard to the accounting and measurement methods applied to determine the specific loan loss allowance for loans to customers, we refer to the information in the Notes, section A.II "Accounting policies" and Section B.II (3) "Net gains/losses on the measurement of lending business and securities in the liquidity reserve".

The financial statement risk

As of December 31, 2018, the Bank reports loans to customers in the amount of 151.6 bn € and, as part of the income statement item "Writedowns and value adjustments to loans and advances and certain securities, and additions to provisions for credit risks" and "Risk provisioning" loan loss allowances in the net amount of 434 million €. The loan loss allowances from loans to customers are largely attributable to the Bank's retail portfolio.

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 of default and the loss given default for general loan loss provisions or, in the case of collective specific loan loss provisions, assumptions regarding the expected redemption rate and the recovery rate.

Since any estimates and the exercise of judgment are subject to uncertainty and have a significant impact on the amount of loan loss allowance, we have performed procedures, throughout our audit, to ensure that the most important value-determining assumptions and parameters were derived properly on parameter-based methods for the determination of general individual and specific loan loss allowances in accordance with German commercial code of law principles.

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 Bank‘s 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 design, implementation and operating effectiveness of those controls. Our audit concentrated on procedures and controls concerning the derivation and authorization of determined parameters by the Bank, as well as the appropriateness of processing the risk data in the IT systems of the Bank, which are used to calculate the loan loss allowance based on the parameter-based approach. For each IT system in use for this purpose, we audited the design of the general IT environment and the operating effectiveness of related IT controls with recourse to our IT specialists.

In addition, we performed the substantive procedures as outlined below:

– reviewing the results of the validation of risk classification models, and recalculation of the calibration of parameters for a sample of risk classification models and parameters predominantly selected based on risk-oriented criteria;

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

– random sample-based recalculation of risk provisions for individual loans and advances to customers calculated using the parameter-based approach.

We performed our audit procedures related to models and parameters with the assistance of KPMG credit specialists.

We audited the appropriate recognition of parameter-based loan loss allowances in the accounting system and the consolidated financial statements of the Bank.

Our observations

The assumptions and parameters underlying the parameter-based approach used to determine loan loss allowances have been properly derived and are consistent with the accounting policies to be applied for the measurement of general and collective specific valuation allowances.

Other Information

Management is responsible for the other information. The other information comprises:

– the corporate governance statement, and

– the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our opinions on the annual financial statements and on the 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 annual 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 Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to credit companies, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company'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, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual 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 a 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 management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual 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 annual financial statements and on the 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 annual financial statements and this 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 annual financial statements and of the 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 annual financial statements and of arrangements and measures (systems) relevant to the audit of the 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 of the Company.

- 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 Company'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 annual 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 Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by management in the 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 annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 25, 2018. We were engaged by the supervisory board on July 23, 2018. We have been the auditor of the DB Privat- und Firmenkundenbank AG (till May 24, 2018: Deutsche Bank Privat- und Geschäftskunden AG) without interruption since the financial year 1999.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Markus Winner.

Frankfurt am Main, March 4, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Böth
Wirtschaftsprüfer
(German Public Auditor)

Winner
Wirtschaftsprüfer
(German Public Auditor)

Imprint

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