Deutsche Bank

Annual Report 2019

Deutsche Bank Luxembourg S.A.

Deutsche Bank Luxembourg S.A.

- Deutsche Bank Luxembourg S.A. was established in 1970 and is a wholly owned subsidiary of Deutsche Bank AG, Frankfurt am Main.
- The Bank's Articles of Association provide for a two-tier system of corporate governance comprising the Management Board and the Supervisory Board.
- Since 1991, the Bank has had its registered office on the Kirchberg Plateau, at 2, boulevard Konrad Adenauer, L–1115 Luxembourg.
- The competent financial supervisory authority under the European Single Supervisory Mechanism is the European Central Bank (ECB) based in Frankfurt am Main (Germany); in Luxembourg, the Bank is supervised by the Commission de Surveillance du Secteur Financier (CSSF).
- The Bank is classed as an Other Systemically Important Institution (O-SII) in accordance with Article 131 (3) of Directive 2013/36/EU.
- The Bank is a non-trading book institution and one of the leading banks in the Grand Duchy of Luxembourg; its regulatory own funds – consisting of balance sheet equity and eligible subordinated liabilities – amount to approximately € 6 billion as of 31 December 2019.
- The Bank employs 302 people from 22 countries.

This Annual Report is a translation of the original German version.
In case of discrepancies the German version is binding.

Deutsche Bank Luxembourg S.A. can be reached online at www.db.com/luxembourg or you can use the following QR Code:

You can find the Annual Report in the "Company" section of the website or using the following QR Code:

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Deutsche Bank Luxembourg S.A.

Management Board

Dr Daniel Zapf, Frank Krings, Jürgen Fiedler (from left to right)

Frank Krings

Chief Executive Officer
Chairman of the Management Board
Nationalities: German, French
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

Jürgen Fiedler

Chief Risk Officer
Nationality: German
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

Dr Daniel Zapf

Chief Operating Officer
Nationality: German
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

Supervisory Board

Ashok Aram

Chairman
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Nationality: Indian

Balbir Bakhshi (since 1 August 2019)

Deutsche Bank AG, London, United Kingdom
Bank employee
Nationality: British

Rachel Blanshard

Deutsche Bank AG, London, United Kingdom
Bank employee
Nationalities: British, Irish

Rüdiger Bronn

Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Nationality: German

Ernst Wilhelm Contzen (until 15 April 2019)

External member of the Supervisory Board, Luxembourg
Nationalities: German, Luxembourgish

Karin Dohm

Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Nationality: German

Kornelis Jan (Kees) Hoving

Deutsche Bank AG, Amsterdam, Netherlands
Bank employee
Nationality: Dutch

Marzio Hug (until 31 July 2019)

Deutsche Bank AG, London, United Kingdom
Bank employee
Nationalities: Swiss, Italian

Frank Rückbrodt

Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Nationality: German

Dr Peter Schmid (until 31 January 2020)

Deutsche Bank (Suisse) S.A., Zurich, Switzerland
Bank employee
Nationality: Swiss

Peter Wharton-Hood (until 13 August 2019)

Deutsche Bank AG, London, United Kingdom
Bank employee
Nationality: South African

Jan Wohlschieß (since 1 August 2019)
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Nationality: German

Audit Committee*

Rüdiger Bronn
Chairman
Deutsche Bank AG, Frankfurt am Main, Germany

Karin Dohm
Deutsche Bank AG, Frankfurt am Main, Germany

Frank Rückbrodt
Deutsche Bank AG, Frankfurt am Main, Germany

Peter Wharton-Hood (until 13 August 2019)
Deutsche Bank AG, London, United Kingdom

Jan Wohlschieß (since 1 August 2019)
Deutsche Bank AG, Frankfurt am Main, Germany

Risk Committee*

Marzio Hug (until 31 July 2019)
Chairman
Deutsche Bank AG, London, United Kingdom

Balbir Bakhshi (since 1 August 2019)
Chairman
Deutsche Bank AG, London, United Kingdom

Rachel Blanshard
Deutsche Bank AG, London, United Kingdom

Kornelis Jan (Kees) Hoving
Deutsche Bank AG, Amsterdam, Netherlands

Dr Peter Schmid (until 31 January 2020)
Deutsche Bank (Suisse) S.A., Zurich, Switzerland

* Membership over the course of 2019 as well as on 31 December 2019

Report of the Management Board

Deutsche Bank Luxembourg S.A.

When it was founded in 1970, Deutsche Bank Luxembourg S.A. (also referred to as the "Bank") was the first foreign subsidiary to be established by Deutsche Bank AG (the "Parent") after the signing of the Treaties of Rome (1957). Today, it is one of the leading financial service providers in the Grand Duchy of Luxembourg. The Bank is under the direct, sole ownership of the Parent. In accordance with Article 131 (3) of EU Directive 2013/36/EU, the Bank is classed as an *Other Systemically Important Institution (O-SII)*. It is subject to direct prudential supervision by the European Central Bank (ECB). The Bank is a non-trading book institution; its regulatory own funds – consisting of balance sheet equity and eligible subordinated liabilities – amount to approximately € 6 billion as of 31 December 2019 (unchanged compared to the previous year).

Corporate Governance

Since 2014, the Bank's Articles of Association have provided for a two-tier system of corporate governance comprising a Management Board and a Supervisory Board. The Bank has thus taken its cue from the Parent's corporate governance system. The Management Board has overall responsibility for managing the Bank's business activities in accordance with the applicable prudential requirements and on the basis of the business allocation plan adopted by the Supervisory Board. The Supervisory Board oversees the activities of the Management Board and adopts operational objectives and strategic guidelines in line with the Parent's requirements regarding overall Group management. The Supervisory Board is supported in its work by two sub-committees: the Audit Committee and the Risk Committee. In addition, Internal Audit, the compliance function and the risk control function report independently to the Supervisory Board if and when required.

Business model

The Bank has a business model that is diversified, client-focused and international, i.e. geared to cross-border business. For many years – and across economic, business and product-related cycles – this has enabled the Bank to make a significant positive contribution to Deutsche Bank AG's consolidated earnings. At the same time, the Bank's risk-bearing capacity and risk appetite are based on its own capital and liquidity resources. One defining feature of its business model as a non-trading book institution, and of importance from a client perspective, is the long-term nature of the Bank's chosen areas of activity:

Corporate Finance (Corporate Bank)

The Bank is a proven centre of excellence in Deutsche Bank Group for the provision of medium- to long-term financing to listed, owner-managed and other relatively large businesses. Its position as a lender, agent and international service provider to clients in bilateral and syndicated lending is based on decades of expertise in the lead management of international lending syndicates, the legal formulation of credit documentation, particularly in cross-border transactions, and reliable credit administration over their lifecycle.

Structured Finance (Investment Bank)

In the segment for high-quality capital goods (e.g. special-purpose vessels, aircraft) and long-term utility and infrastructure projects (e.g. alternative forms of energy, transport routes), the Bank – in concert with other units in Deutsche Bank Group's international network – has the necessary expertise and the operational resources to reliably assist clients in structured and property-related financing scenarios across the entire maturity spectrum.

Fiduciary Issuance (Investment Bank)

The Bank regularly acts as a fiduciary issuer with regard to institutional investors (e.g. insurance companies or pension providers), especially within the framework of a € 15 billion (2018: € 10 billion) capital market issue programme registered on the stock exchange. In its role as trustee – and sometimes as investor – the Bank enables clients to access alternative financing and also provides investors with alternative investment opportunities. In so doing, the Bank is making a targeted contribution to strengthening and diversifying capital market-based financing solutions. These activities are also consistent with the goals of holistic risk management and with the ambitions of the European Union (EU) for the development of the European financial system and the Capital Markets Union.

Private Asset Management (Wealth Management)

The Bank is a service centre and centre of excellence within the EU and for selected markets in the Europe, Middle East & Africa (EMEA) region in the cross-border and cross-generation management of international private assets. Here, the Bank makes use of the freedom to provide investment advice and distribute financial products across borders within the EU single market in accordance with the applicable provisions. Besides the investment expertise in Luxembourg, wealth management activities also leverage the Bank's many years of experience and expertise as a centre for lending and financing.

Participation Management

The Bank has many years' expertise in the domestic and cross-border management and administration of company and financial interests. This is based on its experience of providing company law- and accounting-related support throughout the term of equity and financial investments, on its experience of corporate governance and risk management issues and on the Bank's capital strength. The latter allows it to address the opportunities and risks inherent in equity and financial investments and manage them over the long term in accordance with the applicable bank regulatory framework. The Bank's wholly owned subsidiary DB Credit Investments S.à r.l. currently holds and manages a large proportion of the Bank's majority shareholdings.

Balance sheet, capital, liquidity, interest rate and currency management (Treasury)

The Bank is a non-trading book institution and has its own balance sheet, capital, liquidity, interest rate and currency management function (Treasury) that operates independently of the business units. Nevertheless, the Bank is integrated into Deutsche Bank Group's overall liquidity management and funding system. In principle, therefore, the Bank is able, within a defined credit limit, to tap the Parent's funds for refinancing purposes. For further explanatory notes on liquidity and risk management, please refer to the Risk Report.

According to Deutsche Bank AG's Annual Report, the Bank also continues to operate under the auspices of its parent entity.

Strategy

Regardless of its basic long-term approach, the Bank's business and organisational model remains dynamic and forward-looking. The Management Board reviews its sustainability on an ongoing basis, particularly in light of the continuous changes in client, bank regulatory, technological and legal requirements as well as general market and competitive trends. At scheduled intervals, the Management Board, Supervisory Board and Parent discuss any need for strategic investments and adjustments.

In the period from 2016 to 2018, in the course of the aforementioned ongoing strategic review, the Bank's Management Board agreed and implemented the sale of various non-core Bank activities. This strategic adjustment of the Bank's portfolio of activities has been largely completed. Following the realignment of the business model to focus on core business, the Management Board is pursuing a business policy based on responsible qualitative growth. Further initiatives were adopted and promptly implemented in this context in 2019.

In Wealth Management, the Bank continues to expand its role as an EU service centre in Deutsche Bank Group and to gradually expand its geographical target markets and product range. In 2019, the Bank successfully implemented the targeted external recruitment and appointment of specialist staff based on the business strategy formulated and the institutional and technological arrangements put in place in the preceding years. The target markets managed from Luxembourg were extended to cover emerging European and Middle Eastern countries. New solutions were added to the range of financing products: These comprised high-volume European Mortgage Credit Directive-compliant real-estate financing products in selected target markets in the European Union and equity bridge financing of capital commitments by institutional investors for private equity funds.

In corporate banking, there was a targeted increase in capacity for loan agent activities in 2019. Moreover, the Bank is currently focusing particularly on the planned expansion of its services for multinational and owner-managed businesses to include cash management solutions.

The strategy in investment banking is guided by the business model, as described above, and in particular by the additions to the fiduciary issuance programme.

Organisation

As a stand-alone entity, the Bank has its own organisational structure and functional management system covering all relevant banking operations. At the same time, it capitalises on its membership of Deutsche Bank Group with an eye towards the benefits of economies of scale and specialisation. The Bank makes use of certain banking operation services from affiliated companies (outsourcing service recipient), while always retaining ultimate responsibility for service provider management. Similarly, affiliated companies of Deutsche Bank Group leverage the Bank's proven expertise and services in defined areas (outsourcing service provider).

Employer

The Bank is a recognised international employer. At the end of 2019, it employed 302 members of staff (end of 2018: 305) from 22 countries (end of 2018: 22). Luxembourg residents make up 27% (2018: 26%) of the Bank's workforce; a total of 25 (2018: 24) members of staff are Luxembourg nationals. Cross-border commuters from neighbouring Belgium, Germany and France represent 73% (2018: 74%) of the workforce.

Fifty percent (2018: 51%) of the total workforce and 26% (2018: 26%) of executives (Managing Director, Directors, Vice Presidents) are female. At the end of 2019, the average length of service of the total workforce was approximately 14 years (2018: 14 years). During financial year 2019, 37 new members of staff (2018: 32 new members of staff) joined the Bank, 27 (2018: 22) of them on permanent contracts, and five long-serving employees of the Bank retired.

For many years, the Bank has made a continuous and sustained contribution to students' development through its intern programme throughout the year, which is widely known and recognised by universities. In 2019, the Bank gave 79 (2018: 52) students from 21 countries the opportunity to gain practical work experience in the financial services industry.

Corporate citizen

The Bank has had its home in the Grand Duchy of Luxembourg since 1970 and at its registered office on the Kirchberg Plateau designed by the architect and Pritzker architecture award winner Prof. Gottfried Böhm (2, boulevard Konrad Adenauer, L–1115 Luxembourg) since 1991. As a member of Private Art Kirchberg (which takes place every two years, with the next event due in 2020), through a variety of private tours of art collections and special exhibitions, and as a venue for forums and seasonal concert performances, the Bank has for many years made a relevant contribution to dialogue around economic and social issues as well as to cultural life in the Grand Duchy of Luxembourg.

Memberships, interest groups and mandates (disclosure)

The Bank is a member of the Luxembourg Bankers' Association (Association des Banques et Banquiers, Luxembourg [ABBL]). The Chairman of the Bank's Management Board is represented on the ABBL Board of Directors and chairs its Audit Committee. The Bank is also a member of the Luxembourg Chamber of Commerce; the Chairman of the Bank's Management Board is a member of the Chamber's Plenary Assembly and of its Audit Committee.

As the Chief Country Officer for Luxembourg, the Bank's Chairman of the Management Board is also a member of the Supervisory Board of Luxembourg-based DWS Investment S.A. ("DWS Luxembourg"). As part of the DWS Group, which has been listed independently on the stock market in Frankfurt am Main since March 2018, DWS Luxembourg remains a Deutsche Bank Group company. The Bank acts as a service provider for DWS Luxembourg in selected areas.

A complete overview of all the mandates of members of the Management Board is provided in the following table.

Mandates

The following table provides detailed information about the mandate activities of the members of the Management Board:

Name	Mandates
Frank Krings	Deutsche Bank Luxembourg S.A.: Chairman of the Management Board
	Deutsche Bank AG, Luxembourg branch: Directeur Général
	Deutsche Bank A.Ş., Istanbul, Turkey: Chairman of the Board of Directors, Member of the Audit Committee and Chairman of the Compensation Committee
	DWS Investment S.A., Luxembourg: Member of the Supervisory Board and Member of the Audit and Risk Committee
	Deutsche Holdings (Luxembourg) S.à r.l.: Chairman of the Supervisory Board
	Association des Banques et Banquiers, Luxembourg (ABBL): Member of the Board of Directors and Chairman of the Audit Committee
	Chambre de Commerce Luxembourg: Member of the Plenary Assembly and Member of the Audit Committee
Jürgen Fiedler	Deutsche Bank Luxembourg S.A.: Member of the Management Board
	Deutsche Bank AG, Luxembourg branch: Directeur
	Deutsche Holdings (Luxembourg) S.à r.l.: Chairman of the Management Board
	Deutsche Holdings (Malta) S.à r.l.: Member of the Management Board
	DB Re S.A., Luxembourg: Member of the Board of Directors
	DB Value S.à r.l., Luxembourg: Member of the Management Board
Dr Daniel Zapf	Deutsche Bank Luxembourg S.A.: Member of the Management Board
	Deutsche Bank AG, Luxembourg branch: Directeur
	OOO "Deutsche Bank", Moscow, Russia: Member of the Supervisory Board

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Management Report

Management Report

Profit and Loss Account (P&L)

The Bank generated net income of € 88 million in financial year 2019 (2018: € 133 million). This net income takes into consideration a net risk provision that is € 48 million higher compared with the previous year.

In addition to ongoing client operations, the following changes to the business portfolio and ownership interests had a significant impact on the financial position, net assets and cash flows in financial year 2019:

In the Corporate Bank division, as part of the strategic refocussing described in the Report of the Management Board for financial year 2018, the Alternative Fund Services (AFS) and Corporate Services Division (CSD) businesses were sold externally in 2018. The transfer of the AFS and CSD business activities, including employees, began in mid-2018 and was, with the exception of a few remnants, largely completed by mid-2019. Overall, a net profit of € 0.5 million was realised in financial year 2019.

The interest in VCJ Lease S.à r.l. (95% shareholding) was increased by € 1 thousand to 100%. In addition, a capital increase of € 25 thousand was carried out in December 2019. In the context of determining the market value, the carrying amount of VCJ Lease S.à r.l. (shareholding 100%) totalling € 48 thousand was completely written off.

For the regulatory own capital and subordinated liabilities of € 1 billion issued in 2017, interest expenses of € 80.6 million were accrued in financial year 2019 and recognised in the Profit and Loss Account. The Management Board's decision on payment of interest is based on corresponding internal scenario considerations, taking significant factors into account.

The credit risk portfolio of the Credit Portfolio Strategies Group (CPSG)* with a focus on selected institutional and other corporate clients in the Corporate Bank division once again made a positive contribution to the Bank's total earnings in financial year 2019. The portfolio's net contribution to earnings, consisting of the recognised individual components of the credit transactions and the associated credit security instruments (guarantees, collateralised loan obligations, credit default swaps) within the scope of the portfolio strategy, amounted to € 175 million (2018: € 155 million) in the 2019 Profit and Loss Account.

Deutsche Bank Luxembourg S.A. does not have any branches, nor does it hold its own shares.

* Referred to hereinafter as the CPSG credit risk portfolio. This portfolio does not include leveraged loans, warehouse loans and sell-down loans managed within Deutsche Bank Group, including by CPSG.

The key components of the Bank's net income compare as follows:

Net results

in € k.	2019	2018
Net interest income	160,280	174,497
Net commission income	–44,953	–48,711
Net profit on financial operations	6,137	1,359
General administrative expenses	–127,761	–116,639
Depreciation of tangible and intangible assets	–156	–303
Operating profit I	–6,453	10,203
Income from transferable securities including value adjustments	13,482	3,706
Value adjustments in respect of securities held as financial fixed assets and participating interests	–54	0
Other operating net income	200,873	180,713
Operating profit II	207,848	194,622
Net change in provision for risk including release of special items with a reserve quota portion	-17,544	64,970
Taxes	–22,081	–47,159
Payments for participation rights	–80,625	–79,594
Net income	87,598	132,839

Net interest income declined by € 14.2 million year-on-year to € 160.3 million (2018: € 174.5 million) in financial year 2019. Interest income fell by € 192.6 million year-on-year in the reporting period to € 642.2 million (2018: € 834.8 million). This decline was mainly the result of one-time interest income of € 168.7 million in financial year 2018 in connection with the early repayment of financing provided to Italy-based Deutsche Bank S.p.A. and the early-repayment interest received in connection with this. At the same time, the hedge for the interest rate risk associated with this financing was unwound and an equal amount charged to interest expenses in financial year 2018. After netting, the two gross amounts (consisting of interest income for the repayment of the above-mentioned financing and interest expenses for the unwinding of the interest rate hedge) cancelled each other out in the Bank's net interest income. Interest income was also weighed upon by a decline in the negative interest charged to other credit institutions for their deposits with the Bank during financial year 2019. The total amount received decreased by € 14.5 million year-on-year to € 24.8 million for the reporting period. Interest income from the CPSG credit risk portfolio dropped by € 0.6 million year-on-year to € 156.8 million (2018: € 157.4 million) in financial year 2019. Interest expenses totalled € 481.9 million at the end of the 2019 financial year (2018: € 660.3 million). The year-on-year reduction of € 178.4 million in interest expenses resulted mainly from the one-time interest expense of € 168.7 million in financial year 2018 that was directly connected to the unwinding of the hedge for the above-mentioned financing for Deutsche Bank S.p.A. There was also a decline in interest expenses due to lower negative interest rate expenses for the Bank's deposits with other credit institutions. The total amount paid decreased by € 14.0 million year-on-year to € 47.5 million for the reporting period. Compared to the previous year, total interest expense in the CPSG credit risk portfolio recorded a drop of € 9.1 million to € 144.3 million (2018: € 153.4 million) in financial year 2019.

At € –45.0 million (2018: € –48.7 million), net commission income for financial year 2019 saw a year-on-year improvement of 8%. Commission income recorded a slight increase on the year of € 0.2 million to € 101.6 million (2018: € 101.4 million) in 2019. That figure includes total commission income of € 24.1 million (2018: € 23.5 million) in financial year 2019, mainly consisting of commission income for loans issued in the CPSG credit risk portfolio and income from the amortisation, in line with loan maturities, of credit commission received. Commission expenses declined by a net amount of € 3.5 million year-on-year to € 146.6 million (2018: € 150.1 million); the expenses were incurred mainly for transfer pricing payments within the Group related to Corporate Finance (Corporate Bank). The figure for commissions payable includes expenses relating to risk hedging through collateralised loan obligations (CLOs), which declined by € 7 million year-on-year to € 101 million in financial year 2019 (2018: € 108 million). Of that figure, € 74.2 million is attributable to CLO hedges in the CPSG credit risk portfolio for 2019 (2018: € 73.0 million).

Administrative expenses rose by € 11.2 million year-on-year to € 127.8 million (2018: € 116.6 million) at the end of the 2019 financial year. The rise is mainly attributable to transfer pricing payments within the Group related to Corporate Finance (Corporate Bank) and Private Asset Management (Wealth Management), which increased by a net amount of € 4.5 million. In addition, expenses of € 3.9 million were incurred in financial year 2019 in connection with the implementation of regulatory requirements and ongoing refinement of the bank's IT systems.

The € 11.7 million year-on-year boost in other operating income to € 207.7 million at the reporting date (2018: € 196.0 million) is largely due to income collected in the form of compensation for the contractual interest, which was lower than the market level, (shortfall) on loans in the CPSG credit risk portfolio, which was € 20.9 million higher on the year at € 192.8 million in financial year 2019 (2018: € 171.9 million). This income comprises a market- and risk-appropriate compensation payment by the Deutsche Bank Group units responsible for the specific client or product to Deutsche Bank Luxembourg S.A. in their capacity as lender to cover the imputed difference between the expected net margin on a loan and the market-based hedge of the credit risk. The calculation and payment methods are set out in the Group's international internal master spread agreements. One-time income from the disposal of selected business activities in financial year 2018 had an offsetting effect. The Alternative Fund Services (AFS) and Corporate Services Division (CSD) businesses in the Corporate Bank division were sold externally. Furthermore, in Private Asset Management (Wealth Management), the Bank discontinued its existing business as an insurance agency for Cardif Lux Vie S.A., and sold it externally. In total, one-time income of € 8.8 million was generated as a result of the disposal of the aforementioned business activities in 2018.

The € 8.4 million decline in other operating charges in financial year 2019 to € 6.8 million (2018: € 15.2 million) is mainly attributable to one-time expenditure in financial year 2018. This included the recognition of a provision for planned modernisation activities in the amount of € 3.5 million and the one-time expenditure of € 1.4 million in relation to the acquisition of the Austrian business activities in Private Asset Management (Wealth Management). The contribution due to the European Single Resolution Fund (SRF) declined by € 1.0 million year-on-year to € 5.5 million in financial year 2019 (2018: € 6.5 million). The contribution payable to the Luxembourg deposit guarantee fund – Fonds de garantie des dépôts Luxembourg (FGDL) – decreased by € 156 thousand year-on-year to € 155 thousand (2018: € 311 thousand) in financial year 2019. Other operating charges also include expenditure of € 7 thousand from the sale of loans in the CPSG credit risk portfolio in the 2019 reporting year. This expenditure was down € 2.3 million year-on-year.

Actual drawings on collateralised loan obligations (CLOs) and the unrealised valuation gain determined in the context of a CPSG valuation unit for the fair value loans and the related credit default swaps led to a net amount of € 19.9 million being released from corresponding risk provisions in financial year 2019 (2018: € 30.4 million released).

Adequate provisions have been made for other discernible risks in lending and securities business (including participating interests). Ultimately, a net amount of € 37.4 million boosted provisions for risks in financial year 2019 (2018: release of € 0.7 million). Further details on lump-sum provisions are provided in the notes (Section D, Risk Report).

The previous special item with a reserve quota portion was released in full through profit and loss in the amount of € 33.9 million in financial year 2018. Thus, this item is mentioned for comparative purposes for the last time this year.

The Bank's management bodies will propose to the General Meeting that no amount be distributed or dividend payment made for financial year 2019. Instead, it will propose that € 87 million of the profit from current operations for the past year be allocated to other retained reserves and the remainder of the net income be carried forward. In addition, € 110 million of previously allocated other reserves can be reclassified as other retained reserves.

Balance Sheet

At € 30 billion, total assets remained nearly unchanged compared with the previous year as at 31 December 2019 (2018: € 31 billion).

Due to the current interest rate level, balances with central banks were impacted by ongoing negative interest rates and amounted to € 4.6 billion at the reporting date (€ 4.5 billion of which qualifying as high-quality liquid assets) compared with € 6.3 billion in 2018. Another € 1.7 billion reduction in high-quality liquid assets in the past financial year is related to the continuous development of liquidity management.

At € 23 billion, loans and advances to credit institutions and clients remained unchanged year-on-year (2018: € 23 billion) at the balance sheet date.

Total securities, comprising debt securities and other fixed-income securities, increased to € 1,831 million at the end of 2019 (2018: € 573 million). This rise is attributable to the Bank's commitment to act as an investor within the framework of the capital market issue programme mentioned in the first section.

Shares in affiliated undertakings declined by € 21 thousand year-on-year to a total of € 500 thousand as at the balance sheet date. This amount includes the complete write-off of VCJ Lease S.à r.l. (see paragraph four of the Management Report).

Other assets fell by € 52 million year-on-year to € 104 million as at the reporting date. This was mainly driven by lower intercompany receivables as at the balance sheet date, primarily in connection with compensation payments from the CPSG credit risk portfolio.

As on the asset side, amounts owed to credit institutions and clients remained unchanged year-on-year at € 23 billion.

Subordinated liabilities amounted to € 1 billion as at the balance sheet date (2018: € 1 billion). At the beginning of 2017, the Bank issued € 1 billion in subordinated liabilities, which qualifies as Upper Tier I capital under bank supervisory regulations and was subsequently used to measure regulatory own funds.

At € 5.9 billion, the regulatory own funds of Deutsche Bank Luxembourg S.A. – consisting of balance sheet equity and eligible subordinated liabilities – were down on the previous year's figure of € 6.4 billion. The decline in regulatory own funds and Tier I capital is due to the distribution of retained earnings in the amount of € 0.5 million as resolved by the General Meeting of April 2019.

Notwithstanding the Bank's active year-on-year reduction in own funds, as well as the € 6.1 billion increase in risk-weighted assets (RWAs) to € 31.5 billion as at the balance sheet date – largely due to a precautionary decision not to recognise risk-minimising effects in relation to credit risk in the Credit Portfolio Strategy Group (CPSG) business – the Bank's key regulatory indicators were met with a clear margin. The EU solvency ratio under CRD IV was 18.8% as at the balance sheet date (compared with 25.1% in 2018). The Tier I capital ratio stood at 18.8% as at 31 December 2019 (compared with 25.1% in 2018). Further details are outlined in the Risk Report (Section D, regulatory risk position).

The "return on assets", according to the Luxembourg trading and regulatory definition, calculated as net income divided by total assets, amounted to 0.29% (2018: 0.43%) as at the balance sheet date.

As a wholly owned subsidiary of Deutsche Bank AG, the Bank is exempt from the requirement to prepare an institute-specific "Non-financial statement" pursuant to Article 1 of Directive 2014/95/EU in conjunction with Article 19a (3) of Directive 2013/34/EU given that it is included in the Group Management Report of the parent company. The Group Management Report of Deutsche Bank AG is prepared in compliance with Article 1 of Directive 2014/95/EU and Article 29 of Directive 2013/34/EU.

Business policy and risk & capital management strategy

As a subsidiary of Deutsche Bank AG, the Bank operates within the framework of Deutsche Bank's Group-wide business strategy. The operational and strategic objectives of the Bank's individual business divisions are incorporated into the general planning for the corporate divisions of Deutsche Bank Group.

In terms of its organisational structure and IT landscape, the Bank is integrated into the risk and capital management organisation and the finance organisation of Deutsche Bank Group and its systems. This means that the Bank manages its capital and risks on the basis of a framework of risk policies, organisational structures and processes which are standardised throughout the Group, closely aligned with the activities of the corporate divisions and which incorporate the requisite regulatory requirements. Accordingly, all defined risks have been adequately taken into account.

For the most part, the Bank has to manage the following risk categories:

– credit risk, especially default and country risk,
– market risk, especially interest rate and currency risk,
– liquidity risk,
– operational risk, as part of the "non-financial risk",
– reputational risk.

These risks were monitored appropriately at all times during financial year 2019. Detailed information on the management of the main risk categories and quantitative statements on financial instruments are provided in the notes and in the Risk Report.

The principles of business policy as well as of risk and capital management are established and monitored by the Supervisory Board and the Management Board. This takes place, inter alia, at the regular meetings of the Supervisory Board and of the Management Board. The Supervisory Board has formed an Audit Committee and a Risk Committee from among its members for the purpose of providing overall support and organising its activities. The Management Board has the authority to issue local credit approvals.

In addition, the Asset & Liability Committee (ALCo) set up by the Management Board meets quarterly to discuss the current liquidity, capital, risk and balance sheet situation as well as the effects of any new business types or activities and of special transactions on the risk profile and the Bank's capital and liquidity resources, and, if necessary, to adopt appropriate measures. It also discusses and approves the Risk and Capital Profile (RCP) report as part of the Internal Capital Adequacy Assessment Process (ICAAP). The ALCo thus performs the role of Capital and Risk Committee (CaR) in accordance with the CSSF Circular.

Outlook for 2020

As expected, general growth momentum in the world economy saw a slowdown in financial year 2019 and is becoming increasingly inconsistent. After a long growth cycle spreading across regions and industries, the world economy increasingly finds itself in a period of reorientation and consolidation. The pattern of recent years, in which the major industrial nations on both sides of the Atlantic and in parts of Asia largely grew in synch, has been replaced by an increasingly complex picture. The upward trend of the world economy in recent years was substantially underpinned by the accommodative monetary policy of central banks, which resulted in historically low interest rates. We do not anticipate any fundamental changes in the monetary policy of the major central banks for the foreseeable future. The current yield curve therefore represents the base scenario for our business outlook.

At the start of the year, we projected moderate growth for the overall world economy for financial year 2020. However, geopolitical and trade risks and recently health risks, have since further increased, thus noticeably adding to the uncertainty of this growth outlook. Moreover, declining corporate profits in a wide range of industries have not yet bottomed out. Valuation and price risks in relation to industries, companies, real estate and investment projects have grown further in comparison to previous periods and volatility has tended to rise. Idiosyncratic and disjointed developments are increasingly evident. Nevertheless, with the exception of some idiosyncratic cases, companies remain in a good liquidity position given the recent sustained period of low interest rates. Increased levels of indebtedness among companies and their owners are, however, unmistakable in some areas. Overall, we expect largely stable structural demand from clients for financing and financing solutions again in 2020. The financing business will therefore continue to significantly impact the Bank's net income in 2020, too. In this context – and given the advanced stage of the credit cycle and the industry- and company-specific developments we are observing – we nevertheless expect risk provisioning to have a growing impact on the Bank's results.

As an integral part of Deutsche Bank Group, the Bank will actively seize opportunities for responsible qualitative growth in the key fields of activity of its business model. The Bank's capitalisation, control environment and risk management provide appropriate scope to do so. However, there are no plans in this context to fundamentally change the Bank's financial or non-financial overall risk appetite beyond the market expansion and new products introduced in 2019. While this approach may curb the Bank's earnings momentum, there are no grounds, particularly in light of the economic and credit cycle and observable market practices, to significantly lower our standards in terms of risk-commensurate return on financing.

The strategic, organisational and personnel-related measures taken over the past four years and the associated focussing and continuing optimisation of the Bank's local organisation have created a forward-looking basis for implementing a business policy based on responsible qualitative growth. Nevertheless, maintaining costs at an acceptable level – not least in view of the low or negative interest rates that are set to persist for the foreseeable future – will remain a continual challenge for the Management Board. The annual contributions to be made for national and European financial supervision and associated guarantee schemes also deserve mention in this context. These will continue to represent a material cost factor in the banking business in future as well. The Management Board will need to manage the Bank's business and balance sheet in line with these circumstances, as it has done over the last four years.

Notwithstanding the satisfactory overall quality of our credit portfolio and our close and continual monitoring of credit risk, we currently expect a generally stable but increasing level of risk provisioning in 2020 compared with the elevated level in financial year 2019. This is due to the trend in the world economy and individual industries. This assessment depends on (i) the further development of the overall geopolitical, trade and health situation, (ii) the interest rate policies of central banks including the associated valuation levels of assets, and (iii) the general credit cycle and selected industry cycles. Moreover, the Bank will continue to monitor non-financial risk extremely closely, although the methods for recording and monitoring risk on an ongoing basis are still being developed and adapted to new requirements.

In financial year 2020, the Bank will continue to perform and expand on its role as a centre of excellence for lending to corporates, private institutions and extended families as well as on its role as an EU service centre in international asset management. In the coming year and beyond, the Bank will also examine offering and investing in potential new products and solutions in the interests of its clients.

Bearing in mind the economic, political and regulatory climate as well as the competitive conditions and landscape in the financial services industry, we expect to achieve a positive and qualitatively satisfactory operating result again in 2020. Business performance since the beginning of the year confirms our assessment.

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

We would like to thank our employees for the expertise, hard work and responsible, constructive approach they demonstrate every day in the interests of the Bank's clients. We would like to thank our clients, our sole shareholder, the members of the Supervisory Board and the employee representatives for the trust they continue to place in us and their steadfast cooperation.

Luxembourg, March 2020

The Management Board

3

Financial Statements

Balance Sheet

as at 31 December 2019

Assets

in € k.	[Notes]	31 Dec. 2019	31 Dec. 2018
Cash in hand, balances with central banks and post office banks	[B2]	4,598,261	6,317,795
Loans and advances to credit institutions	[B1, 2, 6]	10,785,504	11,057,646
repayable on demand		262,035	347,349
other loans and advances		10,523,469	10,710,297
Loans and advances to clients	[B1, 2, 6]	12,341,318	12,093,427
Debt securities and other fixed-income securities	[B1, 2, 3]	1,830,567	573,193
of public issuers		1,475,055	0
of other issuers	[B6]	355,512	573,193
Shares and other variable-yield securities	[B2, 3]	0	0
Participating interests	[B4, 5]	0	0
Shares in affiliated undertakings	[B4, 5]	500	521
Tangible assets	[B5]	3,420	4,561
Other assets	[B8]	103,888	155,656
Prepayments and accrued income		477,336	474,280
Total assets		30,140,794	30,677,079

Liabilities and equity

in € k.	[Notes]	31 Dec. 2019	31 Dec. 2018
Amounts owed to credit institutions	[B1, 2, 14]	18,707,019	17,286,419
– repayable on demand		6,049	11,937
– with agreed maturity dates or periods of notice		18,700,970	17,274,482
Amounts owed to clients	[B1, 2, 14]	4,403,703	5,611,487
other debts		4,403,703	5,611,487
– repayable on demand		910,645	1,411,621
– with agreed maturity dates or periods of notice		3,493,058	4,199,866
Debts evidenced by certificates	[B1, 9]	0	0
debt securities in issue		0	0
other debts		0	0
Other liabilities	[B8]	437,875	529,736
Accruals and deferred income		604,182	633,293
Provisions for liabilities and charges		202,008	296,835
provisions for pensions and similar commitments		3,652	1,909
provisions for taxation		15,568	116,367
other provisions		182,788	178,559
Subordinated liabilities	[B1, 10]	1,000,000	1,000,000
Special items with a reserve quota portion	[B11]	0	0
Subscribed capital	[B12]	3,959,500	3,959,500
Share premium account		55,600	55,600
Reserves	[B13]	683,309	1,171,370
Net income		87,598	132,839
Interim dividend payment	[B13]	0	0
Total liabilities and equity		30,140,794	30,677,079

Off-balance sheet items

in € k.	[Notes]	31 Dec. 2019	31 Dec. 2018
Contingent liabilities	[B2, 16]	6,013,693	6,461,162
of which:			
Guarantees and assets pledged as collateral security		6,013,693	6,461,162
Commitments	[B2, 17]	33,367,707	27,627,682
Fiduciary operations	[B2]	6,417,319	5,642,652

The Notes to the Accounts are an integral part of the Annual Financial Statements.

Profit and Loss Account

for the period from 1 January to 31 December 2019

Profit and Loss Account

in € k.	[Notes]	1 Jan.– 31 Dec. 2019	1 Jan.– 31 Dec. 2018
Interest receivable and similar income		642,221	834,797
of which:			
from fixed-income securities		67,731	17,537
Interest payable and similar charges		481,941	660,300
Income from transferable securities		13,482	3,706
from equities		0	0
from participating interests		0	0
from shares in affiliated undertakings		13,482	3,706
Commissions receivable		101,615	101,419
Commissions payable		146,568	150,130
Net profit on financial operations		6,137	1,359
Other operating income	[C2]	207,661	195,951
General administrative expenses		127,761	116,639
Staff costs		37,497	36,112
of which:			
– wages and salaries		27,094	27,434
– social security costs		9,553	7,784
of which: pensions		6,479	4,001
Other administrative expenses		90,264	80,527
Depreciation of and value adjustments to tangible and intangible assets		156	303
Other operating charges	[C3]	6,788	15,238
Depreciation of and value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments*	[C4]	17,544	–31,102
Value adjustments in respect of securities held as financial fixed assets, participating interests and equities in affiliated undertakings*	[C5]	54	0
Release from special items with a reserve quota portion	[B11]	0	33,868
Taxes on profit on ordinary activities		21,664	46,560
Profit on ordinary activities after taxes and before payments for participation rights		168,640	213,032
Other taxes not shown under the preceding items		417	599
Payments for participation rights	[B10]	80,625	79,594
Net income		87,598	132,839

* Due to offsetting of additions and releases, the net risk provision is recognised as a negative figure.

The Notes to the Accounts are an integral part of the Annual Financial Statements.

Notes to the Accounts

Deutsche Bank Luxembourg S.A.

A. Principles and methods

Corporate matters

The Bank was founded on 12 August 1970 in Luxembourg in the legal form of a Société Anonyme. The Bank is wholly owned by Deutsche Bank AG, Frankfurt am Main.

The Bank's business policy and valuation principles are established and monitored by the Management Board unless prescribed otherwise by Luxembourg or other applicable rules and regulations.

Business object of the Bank

The object of the Bank, in accordance with the Articles of Association, is to transact banking and financial business for its own account and for the account of third parties and all activities directly or indirectly connected thereto.

Annual accounts

The financial year is identical to the calendar year.

The reporting currency is the Euro.

Deutsche Bank Luxembourg S.A. is a parent company for the purposes of Article 77 (1) of the law of 17 June 1992 on the annual accounts and consolidated accounts of banks incorporated under Luxembourg law (in its amended version; hereinafter referred to as the law on the accounts of banks). As a subgroup, Deutsche Bank Luxembourg S.A. is exempt from the obligation to prepare its own consolidated accounts and a consolidated Management Report pursuant to Article 80 of the law on the accounts of banks.

The annual accounts of Deutsche Bank Luxembourg S.A. are included in the consolidated financial statements of Deutsche Bank Group in accordance with IFRS. Deutsche Bank AG, Frankfurt am Main, draws up the consolidated financial statements for the relevant group of companies.

The current Annual Report for Deutsche Bank AG can be accessed at www.db.com/annual-reports.

The accounting policies are described below.

Accounting and valuation principles

The Bank draws up its annual accounts in accordance with the laws and regulations of the Grand Duchy of Luxembourg under the historical cost principle and on the basis of accounting principles generally accepted in the banking sector in the Grand Duchy of Luxembourg.

In particular, the following accounting principles and valuation methods are applied:

– Foreign currencies
Transactions are accounted for in their respective currencies on the day they are concluded.

Expenses and income in foreign currency are recorded daily in the Profit and Loss Account at the prevailing exchange rates.

Assets and liabilities in foreign currency are valued at the foreign exchange mid-market rate at the balance sheet date. Historical exchange rates are used for hedged deals. Open forward exchange contracts are converted at the forward rate for the remaining term at the balance sheet date. For expected losses, a provision for contingent losses is established which is reported in the balance sheet under "Other provisions".

– Derivative financial transactions

Derivative financial transactions such as currency interest rate swaps, interest rate swaps and futures or forward rate agreements (FRAs) are used for the purpose of managing the interest rate and currency risk within the framework of asset & liability management. The Bank's obligations arising from such transactions are accounted for on the transaction date. The counterparties in such transactions are primarily companies which are members of Deutsche Bank Group.

Currency-related transactions are concluded to hedge exchange rate risks for the Bank's own account and on behalf of clients.

These derivative financial transactions form, to a very large extent, economic units with asset or liability exposures. In view of the economic objectives of such operations, year-end revaluation or provisioning is not considered necessary.

The credit risk portfolio of the Credit Portfolio Strategies Group (CPSG) is to be considered separately, with the following sub-portfolios being grouped to form one valuation unit:

- the Bank's existing CPSG credit risk portfolio,
- credit derivatives issued in the context of the assumption of risks (credit default swaps),
- credit derivatives received as collateral for the aforementioned underlying transactions (likewise credit default swaps, for the most part).

With the underlying transactions of this valuation unit, the Bank is not pursuing a trading strategy intended to generate a profit in the short term. The hedging transactions are therefore structured primarily to cover the credit default risk of the underlying transactions. There is no separate examination of other risks (particularly market risks) provided that the uncollateralised risks from the underlying and hedging transactions are considered to be comparable, subject to low volatility, and deemed to be negligible. The hedging transactions were typically concluded with the London branch of Deutsche Bank AG, primarily in the form of credit default swaps, taking into account specific risk tolerance and hedging parameters agreed by the Bank in cooperation usually with the Group-wide Credit Risk Management unit of Deutsche Bank AG. In later years it is conceivable that Deutsche Bank AG will increasingly act as the Bank's counterparty.

In balance sheet terms, these hedging transactions are treated in line with the gross hedge presentation method (Durchbuchungsmethode). For unrealised losses resulting from this valuation, appropriate risk provisions for contingent losses are established and reported under "Other provisions". In connection with the CPSG credit risk portfolio, no distinction could be reasonably made, without entailing undue expense, between one-time payments made/received in the form of (upfront) premiums for protection buyer positions and the other income components influencing the fair value of the credit default swaps in question. To this extent, therefore, it was not always possible to divide the income components into an interest rate and a creditworthiness component. Against this background, the market value-related valuation effects of the affected credit default swaps are included in full in "Provisions for contingent liabilities and for commitments".

– Treatment of premiums/discounts

Premiums and discounts on amounts receivable and amounts owed are in principle accounted for pro rata temporis.

With regard to securities, premiums are also accounted for in principle pro rata temporis. Discounts from the purchase of bonds and other fixed-income securities are not booked to the Profit and Loss Account until final maturity or sale.

– Value adjustments in respect of debts

The Bank recognises specific value adjustments in respect of doubtful and irrecoverable debts for creditworthiness and country risks in accordance with its internally defined valuation standards.

Value adjustments are deducted from the assets to which they relate. Risk provisions for contingent liabilities and commitments are reported under "Other provisions".

To determine the write-down, the net present value is calculated based on expected future cash flows. The change in net present value ("unwinding") is reported as income from the release of provisions.

– Lump-sum provision for inherent risks

In accordance with the legislation prevailing in Luxembourg, the Bank establishes a lump-sum provision for inherent risks in risk-bearing assets weighted pursuant to regulatory law including the credit risk equivalent from derivatives (Bemessungsgröße).

Pursuant to the instructions issued by the Tax Authority on 16 December 1997, lump-sum provisions are tax deductible at a maximum rate of 1.25% provided the deduction is recorded in the same period.

The lump-sum provision is to be allocated in proportion to the underlying elements to:
– a value adjustment deducted from the respective risk-weighted asset positions, and
– a provision reported in the balance sheet under "Other provisions".

– Securities

Securities are booked at cost using the weighted average method.

– Debt securities and other fixed-income securities

Securities the Bank holds for investment purposes are used for the long-term financing of external borrowers. Such securities are valued at the lower of cost or market in conjunction with the option to maintain previous value adjustments (Beibehaltungswahlrecht) (see below).

– Securities issued on a discounted basis

Such securities are accounted for at cost plus the proportionate difference between issue value and par value.

– Shares and other variable-yield securities

As at the reporting date, shares and other variable-yield securities were valued at the lower of cost and market value.

– Participating interests/shares in affiliated undertakings

Participating interests/shares in affiliated undertakings held as financial fixed assets are valued at cost or, if lower, at their market value. Value adjustments are made for permanent declines in value.

– Option to maintain previous value adjustments (Beibehaltungswahlrecht)

Value adjustments made in earlier years in respect of specific assets are maintained in accordance with Articles 56 (2) (f) and 58 (2) (e) of the law on the accounts of banks, even in cases where the market value of the assets has increased.

– Intangible assets

The Bank's corresponding, unchanged policy is to write off intangible assets in full in the year of acquisition.

– Tangible assets

Office furniture and equipment are reported at cost less depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the office furniture and equipment. If there is a permanent diminution in value, the Bank may recognise impairment losses to value these assets at the impaired valuation attributable to them as at the balance sheet date.

Low-value assets are charged as operating expenses in the year of acquisition.

– Repurchase transactions

If the buyer undertakes to transfer the assets back to the seller at a date specified – or to be specified – by the seller, the assets continue to be reported in the seller's balance sheet. In this case, the transfer amount received by the seller is shown as an amount owed to the buyer – amounts owed to credit institutions or to clients. The buyer then reports the transfer amount paid as an advance to the seller; the assets involved are not reported in its balance sheet.

In the event of a buy-back option on the part of a buyer, the seller may no longer report the assets transferred; in the notes to the balance sheet, the seller specifies a contingent liability in the amount agreed for a potential buy-back.

– Pension provisions

Pension provisions are calculated in line with the parameters relevant under the IFRS, firstly to ensure consistency with the active management of the Deutsche Bank pension fund, which is also oriented towards the IFRS approach, and secondly to appropriately adhere to the commercial law principle of prudence, which takes into account economic criteria (market-oriented actuarial interest rate, dynamics, etc.).

– Subordinated liabilities

Repurchased own bonds are deducted from subordinated liabilities.

– Income taxes

Income taxes are recorded using the accruals method based on the Profit and Loss Account for the current financial year, taking into account tax-exempt revenues and expenses with no tax effect.

B. Notes to the Balance Sheet

1 – Classification by remaining maturity

The table shows selected balance sheet items classified by remaining maturities as at 31 December 2019.

Loans and advances

in € m.	Up to 3 months	3 months up to 1 year	1 year up to 5 years	Over 5 years	Total
Loans and advances at term to credit institutions	5,530	4,745	152	97	10,524
Loans and advances at term to clients	923	1,241	8,806	1,309	12,279
Debt securities and other fixed-income securities	0	0	1,520	311	1,831
Total	6,453	5,986	10,478	1,717	24,634

For comparison 31 Dec. 2018:

in € m.					
Total	13,680	1,152	6,884	1,611	23,327

In addition to loans and advances at term to clients, loans and advances repayable on demand are recognised in the amount of € 62 million (2018: € 50 million) and those to credit institutions in the amount of € 262 million (2018: € 347 million).

Of the loans and advances at term to clients, loans and advances to the nominal amount of € 357 million (2018: € 389 million) were deposited as collateral with Banque Centrale du Luxembourg (BCL) as at the balance sheet date.

The subordinated loans and advances at term to credit institutions and clients amounted to € 0 million (2018: € 12 million) at the balance sheet date.

Amounts owed

in € m.	Up to 3 months	3 months up to 1 year	1 year up to 5 years	Over 5 years	Total
Amounts owed at term to credit institutions	4,269	12,794	1,519	119	18,701
Amounts owed at term to clients	1,466	564	1,463	0	3,493
Debts evidenced by certificates	0	0	0	0	0
Subordinated liabilities	0	0	1,000	0	1,000
Total	5,735	13,358	3,982	119	23,194

For comparison 31 Dec. 2018:

in € m.					
Total	11,637	7,544	1,389	1,904	22,474

In addition to amounts owed at term to clients, amounts payable on demand are recognised in the amount of € 911 million (2018: € 1,411 million) and those to credit institutions in the amount of € 6 million (2018: € 12 million).

There were no netting agreements for balance sheet items as at the balance sheet date.

2 – Geographical distribution

The table shows the geographical distribution of selected items as at 31 December 2019.

Loans and advances

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Cash in hand, balances with central banks and post office banks	4,598	0	0	0	0	0	4,598
therein: balances with central banks	4,597	0	0	0	0	0	4,597
Loans and advances to credit institutions	10,312	24	14	0	2	434	10,786
Loans and advances to clients	7,630	2,546	329	45	1,362	429	12,341
Debt securities and other fixed-income securities	357	0	0	0	1,474	0	1,831
Shares and other variable-yield securities	0	0	0	0	0	0	0
Total	27,494	2,570	343	45	2,838	863	34,153

For comparison 31 Dec. 2018:

in € m.							
Total	25,951	929	422	46	1,648	1,046	30,042

Amounts owed

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Amounts owed to credit institutions	12,953	2,265	0	0	3,487	2	18,707
Amounts owed to clients	2,170	1,949	0	41	148	96	4,404
Total	15,123	4,214	0	41	3,635	98	23,111

For comparison 31 Dec. 2018:

in € m.							
Total	16,136	2,993	3	89	3,613	63	22,897

Off-balance sheet items

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Contingent liabilities	2,243	2,592	136	0	1,043	0	6,014
Commitments	27,175	4,271	819	136	600	367	33,368
Fiduciary operations	5,971	446	0	0	0	0	6,417
Total	35,389	7,309	955	136	1,643	367	45,799

For comparison 31 Dec. 2018:

in € m.							
Total	33,776	2,719	1,086	2	1,466	683	39,732

Financial transactions

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Interest rate transactions	7,802	0	0	0	0	0	7,802
Foreign exchange/gold transactions	286	7	0	16	0	2	311
Equity transactions	0	0	0	0	0	0	0
Credit derivatives*	3,802	0	0	0	3	0	3,805
Total	11,890	7	0	16	3	2	11,918

* of which a nominal amount of € 3 million is reported under contingent liabilities.

For comparison 31 Dec. 2018:

in € m.							
Total	11,911	1	0	163	3	2	12,080

3 – Securities

The securities included in the asset items listed below were classified as at the balance sheet date as follows:

in € m.	Unlisted securities	Listed securities	Total
Debt securities and other fixed-income securities (held for investment purposes)	1,831	0	1,831
Debt securities and other fixed-income securities (held for liquidity purposes)	0	0	0
Shares and other variable-yield securities (held for liquidity purposes)	0	0	0

No value adjustments had been made as at the balance sheet date (2018: 0 €).

4 – Companies in which the Bank has a participating interest of 20% or more

Name of the company	Registered office	Holding	Equity capital in € m.	Net income for the financial year* in € m.
DB Credit Investments S.à r.l.	Luxembourg	100%	0.9	–0.1
VCJ Lease S.à r.l.	Luxembourg	100%	0.0	0.0

* net income for the financial year according to latest available annual accounts

In the case of individual investments of minor significance – various companies belonging to Deutsche River Group with registered offices in Luxembourg, which have been completely written off in the past – no individual figures are presented in line with Article 68 (2) of the law on the accounts of banks.

5 – Movements in fixed assets

in € k.	Gross value at beginning of financial year	Additions	Disposals	Parity changes	Gross value at end of financial year	Cumulative depreciation and value adjustments at end of financial year	Net value at end of financial year
Securities	0	0	0	0	0	0	0
Participating interests	19,822	1	23	1	19,801	19,801	0
Shares in affiliated undertakings	821	48	0	0	869	369	500
Intangible assets	26,533	0	0	0	26,533	26,533	0
of which:							
goodwill	0	0	0	0	0	0	0
software	26,533	0	0	0	26,533	26,533	0
Tangible assets	19,882	97	88	11	19,902	16,482	3,420
of which:							
office furniture and equipment	19,882	97	88	11	19,902	16,482	3,420
Total fixed assets	67,058	146	111	12	67,105	63,185	3,920

Note: Due to rounding, numbers may not add up precisely to the totals provided.

6 – Amounts due from Deutsche Bank companies and from participating interests

	31 Dec. 2019		31 Dec. 2018	
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Loans and advances to credit institutions	10,690	0	11,030	0
Loans and advances to clients	0	0	19	7
Debt securities and other fixed-income securities	356	0	384	0

7 – Assets denominated in foreign currencies

Assets denominated in foreign currencies amounted to the equivalent of € 11,075 million in total as at the balance sheet date.

8 – Other assets/Other liabilities

Other assets fell by € 51.8 million year-on-year to € 103.9 million as at the reporting date. This was particularly driven by lower intercompany receivables as at the balance sheet date, primarily in connection with compensation payments in the CPSG credit risk portfolio.

Other liabilities declined by € 91.8 million year-on-year to € 437.9 million as at the balance sheet date. Individual items of note include intercompany liabilities amounting to € 309.2 million (2018: € 452.0 million) in financial year 2019, of which € 84.3 million is attributable to the CPSG credit risk portfolio (2018: € 146.9 million) and € 163.8 million to other transfer pricing payments within the Group (2018: € 173.9 million). As at the balance sheet date, the line item also contained proceeds from the liquidation of collateral in the amount of € 103.1 million (2018: € 112.8 million) which the Bank, in its capacity as loan agent, will forward to the creditor banks upon presentation of legally enforceable instruments.

9 – Debts evidenced by certificates

There were no debts evidenced by certificates as at the balance sheet date.

10 – Subordinated liabilities

Subordinated liabilities amounted to € 1 billion as at the balance sheet date (2018: € 1 billion). At the beginning of 2017, the Bank issued € 1 billion in subordinated capital, which qualifies as Upper Tier I capital under bank supervisory regulations and was subsequently used to measure regulatory own funds. To appropriately take account of the fact that the subordinated capital is classified as equity, the expense from the regular payments was not reported under “net interest income”, but rather as a separate item above “net income” in line with the true and fair view principle for the purpose of transparency and clarity.

11 – Special items with a reserve quota portion

The previous special item with a reserve quota portion, which related to fiscally neutralised translation gains of € 33.9 million from the reinvestment of equity capital in DEM in accordance with Article 54 of the Luxembourg income tax law, was released in full through profit and loss before the balance sheet date in the fourth quarter of 2018. This item is thus mentioned for the last time in this Annual Report for purposes of comparability.

12 – Subscribed capital

As at the balance sheet date, the Bank’s subscribed and fully paid-up capital was € 3,959.5 million, composed of 15,838,000 shares.

13 – Movements in reserves and profit brought forward

in € m.	Legal reserve	Other reserves	Profit brought forward	Net income
As at 1 January 2019	396	775	0	0
Change in legal reserve(s)/other reserve(s)	0	0	0	0
Net income for financial year 2018	0	0	0	133
Appropriation:				
– Retained	0	25	0	–25
– Interim dividend payment	0	0	0	0
– Dividend	0	–513	0	–108
As at 31 December 2019	396	287	0	0

Net income for the financial year 2019 amounted to € 88 million.

The Bank fulfilled the requirement of the Luxembourg law on commercial companies to form a legal reserve of 10% of subscribed capital (€ 396 million). Distribution of the legal reserve is not permitted.

The item "Other reserves" includes an appropriation of € 212 million for the imputation of wealth tax in accordance with Article 8 (a) of the Luxembourg wealth tax law.

14 – Amounts owed to Deutsche Bank companies and participating interests

	31 Dec. 2019		31 Dec. 2018	
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Amounts owed to credit institutions	18,020	0	16,578	0
Amounts owed to clients	757	0	1,132	0
Debts evidenced by certificates	0	0	0	0
Subordinated liabilities	1,000	0	1,000	0
Other liabilities	309	0	395	0

15 – Liabilities in foreign currencies

Liabilities denominated in foreign currencies amounted to the equivalent of € 10,993 million in total as at the balance sheet date.

16 – Contingent liabilities

Contingent liabilities consist of:

	31 Dec. 2019	
in € m.		of which: to Deutsche Bank companies
Guarantees and other direct substitutes for credit	6,014	5,660
of which:		
Credit derivatives	3,587	3,587
Acceptances	0	0
Total	6,014	5,660

17 – Commitments

Commitments consist of:

	31 Dec. 2019	
in € m.		of which: to Deutsche Bank companies
Commitments not utilised	33,368	102
Other commitments (for example, facilities for the issuance of debt instruments, etc.)	0	0
Total	33,368	102

C. Notes to the Profit and Loss Account

1 – Administration and agency services

The Bank provided the following principal services for third parties in the past financial year: safe custody account administration, asset management, central administration and depositary bank function for special funds, paying agent services, agency function and commercial representation.

2 – Other operating income

This item is made up as follows:

in € k.	2019	2018
Income from the disposal of participating interests	0	31
Rental income	2,022	2,957
AGDL* release/refund	5,678	6,837
Income from CPSG credit risk portfolio	192,813	171,949
Recoveries	806	1,130
Release of provisions	0	734
Sundry income	6,342	12,313
Total	207,661	195,951

* Association pour la Garantie des Dépôts, Luxembourg (AGDL) was superseded by the European Fonds de garantie des dépôts Luxembourg (FGDL) upon its introduction on the basis of Directive 2014/49/EU and Directive 2014/59/EU.

The € 11.7 million year-on-year increase in other operating income to € 207.7 million at the reporting date (2018: € 196.0 million) is mainly due to higher income collected in the form of compensation for the contractual interest, which was lower than the market level, (shortfall) on loans in the CPSG credit risk portfolio. This rose by € 20.9 million year-on-year to € 192.8 million (2018: € 171.9 million) at the end of financial year 2019. One-time sundry income from the disposal of selected business activities in 2018, as described in the Management Report, developed in the opposite direction. The Alternative Fund Services (AFS) and Corporate Services Division (CSD) businesses in the Corporate Bank division were sold externally. Furthermore, in Private Asset Management (Wealth Management), the Bank discontinued its existing business as an insurance agency for Cardif Lux Vie S.A., and sold it externally. In total, one-time income of € 8.8 million was generated as a result of the disposal of the aforementioned business activities in 2018.

3 – Other operating charges

This item is made up as follows:

in € k.	2019	2018
Amortisation of issuance costs Global Depositary Receipts (GDR)	0	566
Contribution to European SRF/national FRL contribution as well as FGDL contribution	5,678	6,837
Addition to other provisions	1,057	3,715
Sundry expenses	53	4,120
Total	6,788	15,238

The € 8.4 million decline in other operating charges in financial year 2019 to € 6.8 million (2018: € 15.2 million) is largely attributable to one-time expenditure in financial year 2018. These included the recognition of a provision for planned modernisation activities in the amount of € 3.5 million and the one-time expenditure of € 1.4 million in connection with the acquisition of the Austrian business activities in Private Asset Management (Wealth Management). Furthermore, expenditure for contributions due to national and European financial supervisors and guarantee schemes decreased. The contribution due to the European Single Resolution Fund (SRF) declined by € 1.0 million year-on-year to € 5.5 million in financial year 2019 (2018: € 6.5 million). The contribution payable to the Luxembourg deposit guarantee fund – Fonds de garantie des dépôts Luxembourg (FGDL) – decreased by € 156 thousand year-on-year to € 155 thousand (2018: € 311 thousand) in financial year 2019. Other operating charges also include expenditure of € 7 thousand from the sale of loans in the CPSG credit risk portfolio in the 2019 reporting year. This expenditure was down € 2.3 million year-on-year.

4 – Depreciation of and value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments

This item includes net provisions totalling € 17.5 million (2018: € 31.1 million) released in financial year 2019. They are comprised of a release from provisions for risks of € 19.9 million (2018: release of € 30.4 million) for the CPSG credit risk portfolio and the addition to risk provisions for the loan and securities business of € 37.4 million (2018: release of € 0.7 million), both in 2018. Overall, the net risk provision in 2019 is € 48.6 million higher than in 2018.

5 – Value adjustments in respect of securities held as financial fixed assets, participating interests and equities in affiliated undertakings

Value adjustments in respect of participating interests and equities in affiliated undertakings amounted to € 54 thousand for financial year 2019.

6 – Auditor's fees

Fees that were recognised as Other administrative expenses and billed for services provided during the financial year to the Company by KPMG Luxembourg, Société coopérative as Réviseur d'Entreprises agréé and as authorised Cabinet de révision agréé were as follows:

in € k. (excluding VAT):	2019	2018
Audit fees	592.9	776.2
Audit-related fees	20.2	131.8
Tax advisory fees	256.7	122.7
Other fees	0	32.5

D. Risk Report

General information

In terms of its organisational structure, processes and IT landscape, Deutsche Bank Luxembourg S.A. is integrated into the risk and capital management organisation and the finance structures of Deutsche Bank Group and its systems. The following statements describe the Group's standard definitions and principles in connection with risks. The importance of a strong focus on risk management and the ongoing need to refine risk management practice became particularly evident during the financial market crisis. In financial year 2019, the organisation of non-financial risks was further intensified, meaning that within operational risk management, the increasing significance of the risk from cyberattacks in particular can be taken adequately into account as part of IT security. While risk and capital management in the Group continuously evolves and improves, there is no guarantee that all market developments, in particular those of an extreme nature, can be fully anticipated at all times.

Risk management principles

We take calculated risks in connection with our business, and the following principles therefore underpin our risk management:

– Risk is taken within a defined risk appetite.
– Every risk taken needs to be approved within the risk management framework.
– Risk is continuously monitored.
– Risks need to be adequately compensated.
– A strong risk management culture helps to reinforce Deutsche Bank's resilience.

Risk management framework

Against the background of Deutsche Bank Luxembourg S.A.'s broadly diversified business activities, it is essential to identify, measure, aggregate and manage risks. The various risks must be backed with adequate equity capital. Deutsche Bank Luxembourg S.A. manages risks with the help of an overriding set of risk principles, organisational structures and processes for the measurement and monitoring of risk. These are closely aligned with the activities of the Group divisions.

– The Group's Management Board provides overall risk and capital management supervision.
– The risk management model is based on the "three lines of defence approach" whereby business management, risk management oversight and assurance roles are played by functions independent of one another.
– Risk strategy and risk appetite are defined based on the Group's strategic plans in order to align risk, capital and performance targets.
– Reviews are conducted across the Group to verify that sound risk management practices and a holistic approach to all defined risks exist across the organisation and to help each business manage the balance between their risk appetite and reward.
– Credit risks, market risks, liquidity risks, business and reputational risks, non-financial risks and risk concentrations as well as capital requirements are managed in a coordinated process at all levels of the Bank.
– Where applicable, modelling and measurement approaches for quantifying risk and the associated capital demand are implemented across the major risk categories.
– Effective systems, processes and policies constitute critical components of our risk management approach.

Risk and capital management activities are supported by the Finance and Internal Audit functions. These units are independent of the Group divisions. Finance's role is to help to quantify the risks assumed and to ensure the quality and integrity of the risk-related data it provides. The Audit department performs risk-oriented reviews of the design and operational effectiveness of the system of internal controls.

Credit Risk Management (CRM) and Risk Control help the Chief Risk Officer (CRO) at Management Board level to aggregate the types of risk arising from the business model of Deutsche Bank Luxembourg S.A. into an overall risk profile, to regularly monitor whether risks are within the defined risk appetite and to report to both the Management Board and the Supervisory Board.

Types of risk

The most important risks to which Deutsche Bank Luxembourg S.A.'s business model is exposed are specific banking risks, risks arising from general business activity and reputational risks.

Specific banking risks

In the risk management processes, a distinction is made between four kinds of specific banking risk: credit risk, market risk, liquidity risk and operational risk as the most important form of non-financial risk.

- Credit risk arises from all transactions that create actual, contingent or potential claims against a business partner, borrower or debtor (referred to collectively as "counterparties"). A distinction is made between five types of credit risk:
  - Default risk/risk of a deterioration in credit quality is the risk of a borrower not meeting its payment obligations or suffering a material deterioration in credit quality that increases the probability of a default.
  - Country risk is the risk of a borrower that is otherwise able and willing to pay not being able to meet its obligations due to state interventions or measures.
  - Settlement risk is the risk that the settlement or clearing of transactions may fail. A settlement risk always arises whenever the exchange of cash, securities and/or other assets is not simultaneous.
  - Risk in connection with risk reduction means the risk of increased losses if measures taken for the purpose of risk reduction do not cause the anticipated risk reduction;
  - Concentration risk is the risk of a negative development on the part of an individual borrower/country/sector/product leading to a disproportionate deterioration of the risk profile of Deutsche Bank's loan receivables from that borrower/country/sector/product.
- Market risk arises from uncertainty concerning changes in market prices and rates (including interest rates, share prices, exchange rates and commodities prices) as well as in the correlations among them and their volatilities.
- Liquidity risk is the risk of being unable to meet payment obligations when they come due, or only being able to do so at excessive cost.
- Operational risk is the potential for incurring losses in connection with staff, contractual specifications and their documentation, technology, infrastructural failure or collapse, projects, external influences and client relationships. This definition includes legal and regulatory risks, but not general business risk or reputational risk.

Business risk

General business risk or strategic risk arises from changes in the Bank's operating environment. This includes, for example, the market environment, client behaviour and technological progress. Such risks can adversely affect business results if changes in this external environment are not identified in good time and effective measures not taken in response to the changed environment.

Reputational risk

For the risk management processes, reputational risk is defined as the risk that public trust in the organisation may be negatively influenced by public reporting on a transaction, a counterparty or a business practice in which a client is involved.

Concentration risk

Risk concentrations refer to a bank's loss potential through unbalanced distribution of dependencies on specific risk drivers. Risk concentrations are not an isolated risk type; rather, they are integrated into the management of credit risk, market risk, liquidity risk and operational risks. Risk concentrations are encountered within and across counterparties, regions/countries, industries and products, impacting the aforementioned risks. Risk concentrations are managed, for instance, by entering into offsetting or risk-reducing transactions. Management of risk concentration across risk types involves expert panels, qualitative assessments, quantitative instruments (such as economic capital and stress testing) and comprehensive reporting.

Credit risk

The measurement and management of credit risk are based on the following principles at Deutsche Bank Group:

- Our credit risk management function is independent from our business divisions, and credit-decision standards, processes and principles are consistently applied in each of our business divisions.
- The key principle of credit risk management is client due diligence. Our client selection is accomplished in collaboration with our partners from the business divisions, who stand as a first line of defence.
- We aim to prevent high concentration and tail risks (large unexpected losses) by maintaining a diversified credit portfolio. Client-, industry-, country- and product-specific concentrations are assessed and managed against our risk appetite.
- We use approval standards to avoid large concentrated credit risks at a borrower and portfolio level. In this regard, we have an approach regarding unsecured cash positions and actively use hedging for risk mitigation. Additionally, we strive to secure our derivative portfolio through appropriate collateral agreements and in individual cases additionally hedge concentration risks to further mitigate credit risks from underlying market movements.
- Every extension of a new credit facility or material change to an existing credit facility (such as its tenor, collateral structure or major covenants) with any counterparty requires credit approval at the appropriate authority level. Credit approval authority is assigned to individuals according to their qualifications, experience and training. These credit authorities are periodically reviewed.
- We measure our total credit exposure to a borrower and sum it across our Group on a consolidated basis, in line with regulatory requirements.
- We manage credit exposures on the basis of borrower units in which all the facilities of borrowers that are linked to each other are consolidated under one group together.
- Within Credit Risk Management – where appropriate – we have established specialist teams responsible for determining internal credit ratings, analysing and approving transactions, monitoring portfolios or covering workout clients.

Stress test scenarios for Deutsche Bank Luxembourg S.A.'s credit portfolio are simulated and evaluated for the Bank at the level of Deutsche Bank Group. The subject of the analysis is primarily the existence of a suitable economic capital base relative to the existing credit risks. To this end, a stress scenario concerning a change in the global macroeconomic scenario through a deterioration of the economic situation in the USA, the UK, Japan and Germany is analysed. In addition, an analysis of the effects of rating migrations (rating migrations matrix) on the risk-weighted assets is made on the basis of the local regulatory capital requirements for the credit risk. The stress test is conducted quarterly. The results of the aforementioned analyses are approved by the Asset & Liability Committee (ALCo) and the Supervisory Board as part of the Internal Capital Adequacy Assessment Process (ICAAP) reporting.

Credit risk ratings

A basic and key element of the credit approval process is a detailed risk assessment of every credit exposure associated with a counterparty. Deutsche Bank Group applies in-house assessment methodologies, scorecards and a 21-grade rating scale for evaluating the creditworthiness of all counterparties. The majority of the rating methodologies are authorised for use within the Advanced Internal Rating Based Approach under CRR rules. The rating scale facilitates a comparison of internal ratings with common market practice and also ensures the comparability of the Bank's different sub-portfolios. The Group generally rates all its credit exposures individually, though certain portfolios of securitised receivables are rated on a pool level. The algorithms of the rating procedures are recalibrated frequently on the basis of the default history as well as other external and internal factors and judgements.

Lending

Deutsche Bank Luxembourg S.A. operates on a large scale as a centre of excellence and lending institution working in concert with other European offices of Deutsche Bank Group. Furthermore, the Group's Credit Portfolio Strategies Group (CPSG) has largely concentrated its global credit risks at Deutsche Bank Luxembourg S.A. In addition to direct loans extended in Luxembourg, credit risks are additionally assumed in the form of loan guarantees and credit default swaps (CDSs). In both cases, the risks are first examined by the respective branches in accordance with Group standards and guidelines. Deutsche Bank Luxembourg S.A. extends these loans after a further review on the basis of its own credit guidelines agreed within the Group, and assumes the risk.

Moreover, Deutsche Bank Luxembourg S.A. regularly reviews creditworthiness in respect of its credit risks on the basis of up-to-date information largely obtained from Deutsche Bank Group's Credit Risk Management. At regular meetings, the Management Board and, if necessary, the Risk Control function inform the Supervisory Board about current developments regarding specific risks and the credit portfolio risk, also with reference to specific industry and/or country risks.

Taking into account the additional risk assumed in the Credit Portfolio Strategies Group (CPSG), 83% (2018: 84%) of the total loan portfolio as at the balance sheet date was attributable to investment-grade borrowers (up to a BBB rating).

Distribution of credit risk

The following tables provide an overview of credit exposure under the respective balance sheet item or off-balance sheet item by counterparty industry as well as by issuer and rating category. The amount of loan exposures was calculated without consideration of collateral.

Structure of credit profile by rating category as at 31 December 2019

in € m.	Loans and advances to credit institutions	Loans and advances to clients	Securities / participating interests / affiliated undertakings	Contingent liabilities	Commitments	Total
AAA/AA	20	380	1,473	214	4,410	6,497
A	3,607	1,572	0	108	11,381	16,668
BBB	7,159	3,756	358	5,684	13,386	30,343
BB	0	3,946	0	4	4,069	8,019
B	0	641	0	0	94	735
CCC	0	2,014	0	0	1	2,015
NR*	0	32	0	4	27	63
Total	10,786	12,341	1,831	6,014	33,368	64,340

* Not rated = unrated clients

Structure of credit profile by industry as at 31 December 2019

in € m.	Loans and advances to credit institutions	Loans and advances to clients	Securities / participating interests / affiliated undertakings	Contingent liabilities	Commitments	Total
Banks and insurance companies	10,786	2,295	358	5,959	6,328	25,726
Households	0	843	0	5	61	909
Manufacturing	0	1,727	0	35	9,424	11,186
Corporate services	0	2,610	0	1	4,677	7,288
Transport and telecommunications	0	403	0	1	3,110	3,514
Power and water utilities	0	1,679	0	0	1,671	3,350
Wholesale and retail trade	0	657	0	12	1,898	2,567
Mining	0	127	1,473	0	1,554	3,154
Public sector	0	524	0	0	76	600
Commercial real estate	0	901	0	0	503	1,404
Construction	0	166	0	0	318	484
Power generation (in particular solar power)	0	88	0	1	948	1,037
Automotive industry	0	201	0	0	2,464	2,665
Hotel/restaurant trade, leisure industry, gaming and gambling industry	0	64	0	0	148	212
Other	0	56	0	0	188	244
Total	10,786	12,341	1,831	6,014	33,368	64,340

Risk provisioning

Adequate provision has been made for individual risks. Deutsche Bank Luxembourg S.A. also uses the possibility of setting up a lump-sum provision in accordance with Luxembourg regulations. The lump-sum provision remains unchanged at € 291 million as at the balance sheet date.

There were only minor country risks as at the balance sheet date. The Bank does not hold any bonds issued or guaranteed by the euro countries of Portugal, Italy, Ireland, Greece and Spain.

The synthetic risk assumed from the CPSG credit risk portfolio (via the guarantees issued and credit default swaps) was quantified at € 5.7 billion as at 31 December 2019 (2018: € 6.2 billion). The risk management of the underlying or hedging transactions entered into in the course of these business activities at the Bank is, in respect of the material value-determining risk factors, conducted uniformly at a central office of Deutsche Bank Group, taking into account certain risk tolerance and hedging parameters defined by Deutsche Bank Luxembourg S.A. in cooperation with Deutsche Bank AG's global Credit Risk Management unit.

Market risk

Owing to its business orientation, Deutsche Bank Luxembourg S.A. has the regulatory status of non-trading book institution in Luxembourg.

The market risks resulting from asset/liability management – in the form of interest rate, currency and liquidity risks – are managed by the Treasury/Pool Management division. Other types of material market risk (for example, commodity price risks) do not exist. Treasury and the back-office units operate on the basis of local, internal guidelines in conformity with the applicable Deutsche Bank Group standards.

Deutsche Bank Luxembourg S.A. is integrated into Deutsche Bank Group's global limit system. Risks are calculated and monitored on an ongoing basis by neutral risk controlling using the Group's risk measurement programmes and hence its risk models.

Financial transactions

The Bank's derivative financial transactions consist exclusively of contracts forming part of the non-trading portfolio and are concluded largely with counterparties inside the Group. The following tables contain the notional volume by remaining maturity and the market values of derivative transactions. At the end of the year, there were no exchange-traded financial transactions. In principle, the CPSG credit risk portfolio agreements permit netting. Where the Bank could assume legally enforceable netting agreements were in place, corresponding effects were taken into account in the analysis of financial transactions below. Apart from this, there are no further netting agreements in derivative financial transactions.

Analysis of derivative financial transactions as at 31 December 2019

in € m. Classes of financial transaction	Up to 1 year	1 year to 5 years	More than 5 years	Total	Positive market value	Negative market value	Net value
Interest rate transactions	5,496	1,477	829	7,802	45	3	42
Interest rate swaps	5,496	1,477	829	7,802	45	3	42
Forward rate agreements	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Foreign exchange/gold transactions	309	2	0	311	1	8	–7
Futures contracts with clients	58	1	0	59	0	1	–1
Futures contracts with banks	237	1	0	238	1	7	–6
Cross-currency swaps	0	0	0	0	0	0	0
Options	14	0	0	14	0	0	0
Equity transactions	0	0	0	0	0	0	0
Futures contracts	0	0	0	0	0	0	0
Swaps	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Credit derivatives*	607	3,093	105	3,805	149	169	–20
Other transactions	0	0	0	0	0	0	0
Total	6,412	4,572	934	11,918	195	180	15

* of which a nominal amount of € 3 million is reported under contingent liabilities.
Note: Due to rounding, numbers may not add up precisely to the totals provided.

Analysis of derivative financial transactions as at 31 December 2018

in € m. Classes of financial transaction	Up to 1 year	1 year to 5 years	More than 5 years	Total	Positive market value	Negative market value	Net value
Interest rate transactions	3,813	2,588	687	7,088	35	6	29
Interest rate swaps	3,813	2,588	687	7,088	35	6	29
Forward rate agreements	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Foreign exchange/gold transactions	1,388	4	0	1,392	11	8	3
Futures contracts with clients	127	2	0	129	2	1	1
Futures contracts with banks	928	2	0	930	8	6	2
Cross-currency swaps	0	0	0	0	0	0	0
Options	333	0	0	333	1	1	0
Equity transactions	0	0	0	0	0	0	0
Futures contracts	0	0	0	0	0	0	0
Swaps	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Credit derivatives*	435	3,152	21	3,608	119	106	13
Other transactions	0	0	0	0	0	0	0
Total	5,636	5,744	708	12,088	165	120	45

* of which a nominal amount of € 3 million is reported under contingent liabilities.
Note: Due to rounding, numbers may not add up precisely to the totals provided.

Value-at-Risk

To measure and manage market risks, the Bank uses the value-at-risk model developed and maintained by the Group and approved by the German bank regulator. The value-at-risk approach is used to derive a quantitative measure for market risks in the trading book under normal market conditions. For a given portfolio, value-at-risk measures the possible future loss (in terms of market value) which, under normal market conditions, will not be exceeded with a defined probability in a certain period. Value-at-risk (VaR) enables a constant and uniform risk measure to be applied to all trading/financial transactions and products. It also allows market risk assessments over time to be compared with the actual daily results from the aforementioned transactions.

Both for internal and external reporting purposes, value-at-risk is calculated in accordance with the regulations of the Bank for International Settlements (BIS) with a confidence level of 99%. For internal reporting purposes, a holding period of one trading day is used. For regulatory reporting purposes, the holding period is ten days.

As at the end of 2019, the value-at-risk from interest rate and currency risks in the non-trading book was € 415 thousand. The average value for 2019 was € 305 thousand. The limit allocated locally was € 0.5 million.

In foreign exchange business, only relatively small positions in foreign currency arise from fractional amounts in futures contracts and from balances arising out of the Bank’s net interest and commission income in foreign currencies. These positions are closed regularly.

Liquidity risk

The principal objective of liquidity management is to guarantee the Bank's solvency at all times. The Treasury/Pool Management division handles the management of this task in Luxembourg and is involved in Group-wide liquidity management. Liquidity Risk Controlling promptly prepares the relevant data and informs the Bank's Management Board, the Risk Control function and Treasury department on a daily basis.

All local data relevant to the Group are made available to the Group's global risk control function for overall objectives.

The Liquidity Coverage Requirement (LCR) pursuant to the Commission Delegated Regulation (EU) No. 2015/61 of 10 October 2014 entered into force on 1 October 2015.

As at the balance sheet date, the Bank's LCR ratio was 154.7%, meaning that the minimum requirement of 100% in effect since 1 January 2018 has been met.

Operational risk

As a category of non-financial risk, operational risk is managed on the basis of a Group-wide framework that makes it possible to determine the operational risk profile in comparison to risk appetite and systematically identify operational risk themes and concentrations in order to define risk mitigating measures and priorities. The business divisions and infrastructure functions have primary responsibility for the management of operational risk.

Instruments are in place for the self-assessment of operational risk and for recording and monitoring qualitative and quantitative risk indicators.

Losses and gains due to operational risks are captured through the Group-wide db-Incident Reporting System (db-IRS), which is monitored at Deutsche Bank Luxembourg S.A. by the risk function. Besides losses actually incurred due to defective processing, the system also covers reported provisions for operational risks. Reports from the database provide insight into the success of risk management and the quality of the selected risk indicators.

Regulatory risk position

As a non-trading book institution, the Bank calculates the simplified coefficient. A separate report will be produced for disclosure information pursuant to section 13 Capital Requirements Regulation (CRR) and, once completed, will be published on the website of Deutsche Bank Luxembourg S.A.

The Risk-Weighted Assets (RWAs) are made up as follows:

Composition of risk-weighted assets in accordance with COREP* (CRD IV)

in € m.	31 Dec. 2019	31 Dec. 2018
Central governments and central banks	136	79
Regional governments	0	0
Administration/non-profit institutions	18	0
Credit institutions	3,630	5,980
Corporates	25,233	16,604
Retail clients	10	48
Other assets	145	280
Secured by mortgage charges	1,008	1,299
Currency transactions	0	0
Operational risks	533	670
Past due items	768	461
Credit Value Adjustment (CVA)	0	0
Total	31,481	25,421

* Common Solvency Ratio Reporting (COREP)

At € 5.9 billion, the regulatory own funds of Deutsche Bank Luxembourg S.A. – consisting of balance sheet equity and eligible subordinated liabilities – were down on the previous year's figure of € 6.4 billion. The reduction in regulatory own funds and the associated key indicators is primarily attributable to a precautionary decision not to recognise a risk-minimising effect in relation to credit risk in the Credit Portfolio Strategy Group (CPSG) business, as well as a € 0.5 million decline in Tier I capital due to the distribution of retained earnings as resolved by the 2019 General Meeting. With the Bank's own funds down year-on-year and risk-weighted assets (RWA) up by € 6.1 billion to a total of € 31.5 billion at the balance sheet date, the key regulatory ratios were again sufficiently enhanced. The EU solvency ratio under CRD IV was 18.8% as at the balance sheet date (compared with 25.1% in 2018). For the EU solvency ratio, the minimum requirement of 11.2% was met at all times throughout financial year 2019.

At 18.8% at the end of 2019 (2018: 25.1%), the Tier I capital ratio also met the minimum requirement of 9.2% under CRD IV throughout the entire reporting period.

In the context of regulations on calculating and limiting large exposures, Luxembourg's financial regulator, the CSSF (Commission de Surveillance du Secteur Financier), consented to the Bank's request to exempt companies belonging to Deutsche Bank Group from the requirement to take such risks into account. This approval was granted in accordance with CSSF Circular 06/273, Part XVI, No. 24 (revised version).

E. Other Information

Deposit guarantee scheme

On 18 December 2015, Luxembourg adopted the law on resolution, recovery and liquidation measures of credit institutions and investment firms, on deposit guarantee schemes and on investor compensation schemes ("the Law"), which serves to transpose into Luxembourg law EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and EU Directive 2014/49/EU on deposit guarantee schemes and investor compensation schemes.

Luxembourg has a contribution-based system of deposit guarantee and investor compensation, in which the Bank participates. The system protects a client's deposits up to the amount of € 100 thousand and investments up to the amount of € 20 thousand. The Law also provides for the protection of deposits in excess of € 100 thousand for a 12-month period where these deposits result from certain transactions or serve certain social or other purposes.

In accordance with Article 1 (36) of the Law, the target amount to be held in the Luxembourg Resolution Fund ("Fonds de résolution Luxembourg" ("FRL")) should reach at least 1% of the guaranteed deposits of all credit institutions in all participating member states by the beginning of 2024. This amount was and will continue to be collected from the credit institutions through annual contributions in the financial years from 2015 to 2024.

The target amount to be held in the Luxembourg Deposit Guarantee Fund ("Fonds de garantie des dépôts Luxembourg" ("FGDL")) is 0.8% of the covered deposits, as defined in Article 163 (8) of the Law, of the relevant credit institutions, to have been reached by the end of 2018. Contributions were paid annually from 2016 to 2018. Once the 0.8% has been reached, Luxembourg credit institutions are to make further contributions over the following eight years in order to build an additional safety buffer of 0.8% of covered deposits, as defined in Article 163 (8) of the Law.

The law of 23 December 2016 on the 2017 tax reform introduced a tax-neutral reversal of the existing AGDL provisions in annual tranches from 2016 to 2026, under the condition that each annual tranche is at least equal to the contributions to the FGDL and FRL. Any remaining balance of the AGDL provision not yet reversed at the end of this transitional period will be added to the taxable income in 2026.

On 18 January 2017, the CSSF issued a circular letter relating to the abrogation of the AGDL and to the consequent accounting treatment of the AGDL reversal to enable the banks to reflect the tax treatment foreseen in the law of 23 December 2016 in their financial statements.

The AGDL provision amounted to € 7.9 million at the start of the year. As a consequence, the Bank reversed part of the existing AGDL provision for an amount of € 5.7 million in the other operating income in financial year 2019 and recorded a 2019 contribution of € 0.2 million to the FGDL and € 5.5 million to the FRL respectively in the other operating expenses. The remaining AGDL provision amounted to € 2.2 million as at 31 December 2019.

Staff

Number of staff

	31 Dec. 2019	Average in 2019	31 Dec. 2018
Management Board	3	3	3
Executives	23	21	18
Employees	276	276	284
Total	302	300	305

In 2019, the total remuneration of the Management Board and the executives was € 5,615 thousand (2018: € 5,019 thousand). The allocation to pension provisions for members of the Management Board and executives was € 211 thousand (2018: € 205 thousand).

The expense for pension obligations for former members of the Management Board amounted to € 320 thousand.

As at 31 December 2019, loans, advances and other commitments to members of the Management Board and executives totalled € 0 thousand.

Luxembourg, 27 March 2020

The Management Board

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Confirmations

Report of the Réviseur d'Entreprises agréé

To the Management Board of Deutsche Bank Luxembourg S.A.

Report on the audit of the annual accounts

Opinion

We have audited the annual accounts of Deutsche Bank Luxembourg S.A. (the "Bank"), which comprise the balance sheet as at 31 December 2019 and the profit and loss account for the year then ended and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Company as at 31 December 2019 and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the «Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the annual accounts» section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of the audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1.) Accounting Treatment of CPSG Portfolio

Description

As part of the implementation of the Credit Portfolio Strategies Group ("CPSG") restructuring project in the Deutsche Bank Group, the CPSG division has largely concentrated its credit risk with the Bank. Credit risks are assumed from other lending Deutsche Bank-group companies in the form of loan guarantees, collateralised loan obligations and credit default swaps (CDS). At the same time, hedging transactions are concluded taking into account certain risk tolerance and hedging parameters, primarily in the form of CDS. In this respect, the Bank also participates in securitisation transactions of the Group. Credit risk hedging encompasses the portfolio taken over in the form of a risk transfer as well as loans of CPSG division directly booked in the accounts of the Bank.

The transactions of the CPSG portfolio are considered by the Bank as a valuation unit and are reflected in different positions of the financial statements; the net income from the portfolio amounts to EUR 175m as of 31 December 2019.

Due to the complexity of the accounting treatment and its importance to the Bank's financial statements, we have identified the presentation of the CPSG Portfolio as a particularly significant issue in the Bank's financial statements.

Please refer to the description of the accounting policies in the notes to the annual financial statements regarding "CPSG" as well as in the notes to the balance sheet (Note 8) and the notes to the income statement (Note 2) as well as the explanations in the risk report and management report.

How our audit addressed the area of focus

Our audit procedures included the assessment of the design, implementation and operating effectiveness of the internal control processes relating to the CPSG portfolio as well as substantive audit procedures over the results of the CPSG portfolio.

We have verified by inquiry of relevant client personnel and inspection of documentation whether changes have been made to the booking logic for the CPSG Portfolio during the year.

Relevant key controls on the CPSG portfolio have been tested for effectiveness with regard to their design and implementation as well on a sample basis regarding their operating effectiveness. This included in particular accounting controls in the various systems of the Bank and related reconciliation processes.

We have tested the documentation and effectiveness of the hedging relationships within the CPSG portfolio on a sample basis and tracked the need for provisions at the portfolio level.

Contractual agreements have been traced to the information in the systems of the Bank on a sample basis.

In addition, we verified the calculation of the individual components of the results and their appropriate presentation in the relevant positions of the annual financial statements.

2.) Impairment of loans to customers

Description
The carrying amount of loans and advances to customers amounts to EUR 12.3bn as of 31 December 2019 and particularly includes Lombard loans and mortgage loans to private clients and loans to corporate customers and institutional clients. Commitments and contingent liabilities amount to EUR 39.3bn as at the balance sheet date.

The identification of an impairment event and the determination of specific valuation allowances involve significant estimation uncertainty and discretionary power resulting from the borrower's financial position and performance, as well as from the valuation of collateral and the amount and timing of expected future payments.

For this reason, we identified the determination of impairment on loans to corporate customers and institutional clients as a particularly significant issue in the Bank's financial statements.

See also the description of the accounting policies in the notes to the annual financial statements concerning "Value adjustments on receivables" and the notes to the income statement (Note 4) as well as the explanations in the risk report and management report.

How our audit addressed the area of focus
Our audit approach included audit procedures relating to the Bank's internal control system for identifying and quantifying a need for value adjustment, as well as substantive audit procedures on impaired and unimpaired receivables.

Our audit procedures relating to the Bank's internal control system focused on key controls within the framework of the credit approval and credit monitoring process, as well as the identification of impaired assets and the determination of the necessary value adjustment requirements, which were tested for their design, implementation and effectiveness.

We analysed the Bank's lending and monitoring process, considering as well processes at the level of the headquarter of the Bank. To this end, we conducted surveys of the responsible employees and inspected and analysed the internal guidelines and critically examined whether they were suitable for identifying the inherent risks and deriving appropriate risk provisions in the form of value adjustments.

For a sample of loans with existing risk indicators, we verified whether impairment events were recognised in a timely and appropriate manner. Sampling was selected to a significant extent on a risk-based basis, taking into account the credit rating, the sector and the country of domicile of the borrower. We have supplemented this deliberately made selection with a random sample of exposures without special risk indicators using statistical selection approaches.

When impairment losses were identified by the Bank, we have verified as to whether the estimates made regarding the amount and timing of future customer and collateral cash flows are appropriate, and how deferrals of payments were taken into account when determining the amount of the impairment.

Other information

The Management Board is responsible for the other information. The other information comprises the information stated in the annual report including the management report but does not include the annual accounts and our report of “Réviseur d’Entreprises agréé” thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Management Board and Those Charged with Governance for the annual accounts

The Management Board is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Management Board determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. 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 accounts.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the annual accounts, 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 opinion. 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 control.

— Obtain an understanding of internal control relevant to the audit 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 the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

— Conclude on the appropriateness of the Management Board'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 our report of "Réviseur d'Entreprises agréé" to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on 16 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 22 years.

The management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Company in conducting the audit.

Luxembourg, 3 April 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Pia Schanz

Report of the Supervisory Board

The Supervisory Board reviewed the annual accounts of Deutsche Bank Luxembourg S.A. for financial year 2019.

At today's meeting, the Supervisory Board approved the annual accounts and the Management Report prepared by the Management Board, which are thereby adopted.

Net income for the financial year 2019 amounted to around € 88 million.

The Supervisory Board does not propose to the General Meeting that a dividend be distributed for the past financial year. Instead, it proposes that € 87 million be allocated to "Other reserves", with the remainder of the net income carried forward.

Luxembourg, 27 March 2020

Ashok Aram
Chairman of the Supervisory Board

Registered office

Architect: Prof. Gottfried Böhm, Pritzker Prize winner
Photo: funkbild Fotoagentur

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