Annual Report 2006

Deutsche Bank Luxembourg

// Our identity We are a leading global investment bank with a strong and profitable private clients franchise. Our businesses are mutually reinforcing. A leader in Germany and Europe, we are powerful and growing in North America, Asia and key emerging markets.

// Our Mission We compete to be the leading global provider of financial solutions for demanding clients creating exceptional value for our shareholders and people.

// A Passion to Perform. This is the way we do business.
We pursue excellence, leverage unique insights, deliver innovative solutions and build long-term relationships.

You can reach us online at www.deutsche-bank.lu,
where the Annual Report 2006 is also available.

Board of Directors

DR. TESSEN VON HEYDEBRECK
Chairman
Member of the Management Board and
Member of the Group Executive Committee of Deutsche Bank AG

ERNST WILHELM CONTZEN
Chief Executive Officer

DETLEF BINDERT
Group Treasurer of Deutsche Bank AG

DR. HANS JÜRGEN KOCH
Chief Executive Officer of Deutsche Bank (Suisse) S.A. and
Head of Private Wealth Management International of Deutsche Bank AG

WERNER HELMUT STEINMÜLLER
Head of Global Transaction Banking of Deutsche Bank AG

Management Board

ERNST WILHELM CONTZEN
Chief Executive Officer

KLAUS-MICHAEL VOGEL
Managing Director
Treasury & Global Markets,
International Loans,
Corporate Services Division

THILO H. WENDENBURG
Managing Director
Private Wealth Management

Report of the Management Board

LUXEMBOURG

The newly enacted takeover law *(Offres Publiques d'Acquisition, OPA)* for the first-time regulation of official takeover bids supports the objective of creating level competitive conditions. This liberally oriented law will help to enhance the location's attractiveness.

The holding company legislation dating from 1929 was replaced by a successor model aimed at improving transparency and openness. Since 2007, the *Société de gestion de Patrimoine Familial (SPF)* has enabled private persons and wealth-law entities to engage in asset management.

In 2006, a new law was also enacted for specialized funds (hedge funds, real estate funds and private equity funds). With a minimum investment of T € 125, so-called "well-informed investors" – besides institutional investors – can now place their capital in this investment form.

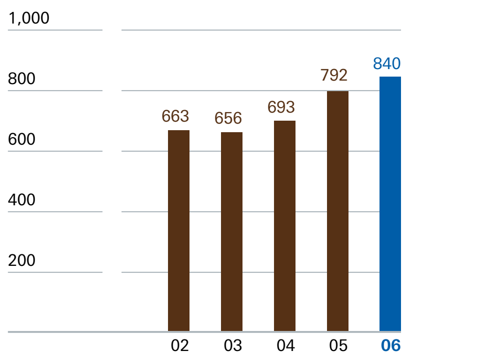
The Code of Conduct resolved in November 2006 for the clearing and settlement industry is a further step towards integrated and efficient post-trading markets in the EU. With their voluntary undertaking, the three most important industry associations have confirmed their clear commitment to greater transparency, inter-operability and competition.

The introduction of withholding tax as EU interest taxation has so far had little impact on business with private customers. In the medium term, however, this tax will support the process of standardizing the conditions for competition at Europe's financial centres.

Against the background of these developments, we expect further growth for the coming years. For 2007, gross domestic product is forecast to expand by 4.5% (2006: 5.5%).

Development of the total assets of the Luxembourg banks

in € billion



LUXEMBOURG FINANCIAL CENTRE

With 156 institutions, the banking sector continues to form directly, and also indirectly, the backbone of the Luxembourg economy. Taken in total, the financial sector employed almost 37,000 people at the end of 2006, of whom roughly 25,000 worked in the banking sector. With its population of 475,000, the country is thus successfully continuing to attract mainly highly qualified employees, also from outside the greater Luxembourg region.

There was strong growth both in the banks' results and their aggregate total assets, with the latter rising from almost € 800 billion to € 840 billion. In a year-on-year comparison, the banks' net commission income in particular improved significantly. The financial regulator *Commission de Surveillance du Secteur Financier (CSSF)* expects that net interest income will also rise compared with the previous year.

The increase in revenues was much stronger than the rise in costs. At € 6.8 billion, the Luxembourg banks' preliminary net profit before risk provisioning was more than 50% higher than in the prior year.

Thanks to their expanded business activities, the banks recruited 1,525 new members of staff in 2006. With good cost management, therefore, the increase in administrative expenses is due primarily to higher staff expenses.

Luxembourg remains the world's second largest location in the fund industry, second only to New York. The more than 8,500 funds and sub-funds in Luxembourg meanwhile control assets of roughly € 1,800 billion with an ongoing strongly rising tendency. Due mainly to the "EU Passport" *Undertakings for Collective Investment in Transferable Securities III (UCITS III),* the country has become the centre for the cross-border distribution of mutual funds.

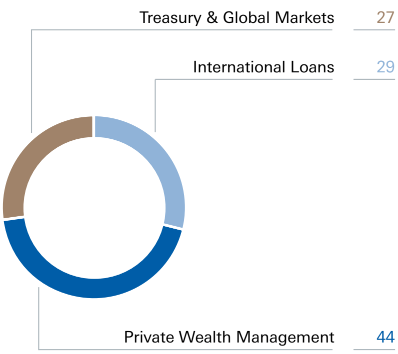
The net assets controlled by the other financial service providers *(autres Professionnels du Secteur Financier, PSF)* increased by roughly 25%, as in the previous year. The number of risk capital companies doubled to 100 firms, with a tendency towards further growth.

DEUTSCHE BANK LUXEMBOURG S.A.

In the financial year ended, Deutsche Bank Luxembourg gave renewed evidence of its operational strength. Compared with the previous year, our operating profit incl. net risk provisioning rose 13.4% to € 161 million. Due to higher revenues from participating interests, the profit for the financial year increased to € 320 million.

Distribution of the three core businesses' operating revenues

in %



Administrative expenses increased by 8% to € 64 million. More than half of this growth is attributable to staff expenses, mainly due to new recruitments. Our staff count rose in the reporting year to 352.

OUTLOOK

The outlook for 2007 is positive. Luxembourg is well aligned to consolidate its position as the world's eighth largest financial centre. The government has announced investments aimed at developing and enhancing the financial location. The stronger interest in the greater region will be boosted by the designation as cultural capital of Europe.

Our business divisions continue to strive for growth or consolidation at a high level. We have already installed the lean structures and efficient processes needed to achieve this. The customer is at the heart of our thoughts and actions. Innovative and tailored solutions coupled with continuous cooperation in a spirit of trust are the order of the day. Deutsche Bank Luxembourg looks forward with optimism to the 2007 financial year.

International Loans

Besides new lending for selected financings in favour of large international corporations, complex credit business with German small and medium-sized enterprises in particular was expanded. In a year-on-year comparison, the number of loans we handled was more than 5% above the figure for the previous year. Owing to large-scale M&A transactions, volumes over the year were well above commitments of 2005.

Cooperation with other Continental European units of Deutsche Bank Group was further intensified and used to strengthen our position as central loan processing hub. Within the scope of a Group-wide outsourcing strategy, we offshored various subordinated activities from Luxembourg to Bangalore/India.

The main lending currency continues to be the euro; as before, therefore, the effects of exchange rate developments on the loan portfolio booked at Deutsche Bank Luxembourg retain a minor importance.

In the reporting year, spreads for big international clients again remained at a low level. On the other hand, adequate spreads were obtained, in part, in business with small and medium-sized corporate customers.

The development of risk in our loan portfolio was monitored in accordance with Group policies in close coordination with Deutsche Bank Group's central risk units. Adequate provision was made for all discernible risks.

AGENCY SERVICES

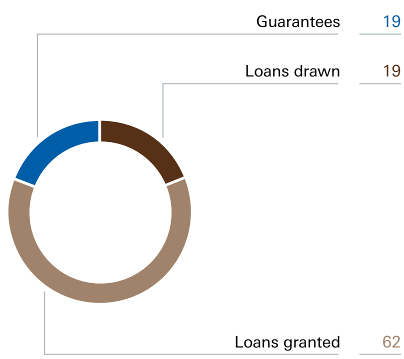
In 2006, our activities as agent for syndicated loans again expanded strongly by over 20% to more than 190 agencies. A positive feature here was the growth in business with small and medium-sized corporate borrowers from Germany.

OUTLOOK

We assume that we will further strengthen our position as central loan administration hub. In this respect, we will focus on complex loans in bilateral and syndicated business with small and medium-sized firms and large international customers. We expect to further strengthen our position as central loans administration hub.

International Loans

in %



Total credit volume covered: € 27.5 bn.

Private Wealth Management

In 2006, the Private Wealth Management (PWM) Business Division continued to develop successfully. Revenues and profit contribution both increased strongly.

Private Wealth Management delivers 44% of the operating profit of Deutsche Bank Luxembourg S.A. PWM has thus become the strongest business division.

Responsible for the outstanding results in 2006 are 132 members of staff, who, working competently and discreetly, serve 14,500 customers with an investment volume of € 6.9 billion.

In the financial year ended, we expanded the strong position of Private Wealth Management Luxembourg as an international booking centre. PWM units worldwide are making greater use of our discretion, professionalism and attention to detail. The structure of our client portfolio also reflects our internationality. With a traditional focus on the German-speaking area, PWM Luxembourg is expanding strongly in Europe, Asia and other growth markets.

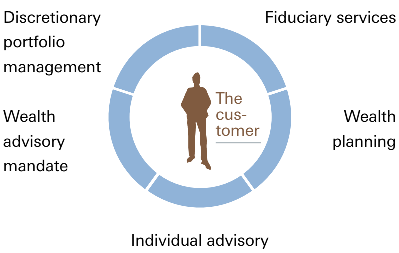
In 2006, we also adjusted our range of services to changing operating conditions, markets and customer requirements. For this purpose, we used Private Wealth Management's own innovative strength to create tailored solutions.

With our new "advisory mandate" service concept, we satisfy the sophisticated investment wishes of active customers who prefer to make their own investment decisions. With this exclusive advisory service, we offer a unique combination of risk management and portfolio optimization. By measuring the ratio between risk and return in a portfolio, we try to maximize revenue while minimizing risk. Our customers enjoy the certainty that their portfolio accords with their personal situation, risk tolerance and investment objectives.

More and more customers are using our discretionary portfolio management service to leave day-to-day responsibility for the management of their investments to our professional portfolio managers. We have therefore broadened the available product range. The new "dynamic control portfolio" is a risk-optimized discretionary portfolio management system without a benchmark orientation. This investment limits the loss risk more strongly than traditional portfolios, while at the same time leveraging the full topside potential in the markets. This is how we try to achieve attractive risk-adjusted returns for our customers.

In the current year, we will focus our efforts on offering our customers an innovative wealth management service tailored to their needs. Quality, exclusivity and innovation will continue to be the driving impulses behind everything that we do.

The PWM service range



Treasury & Global Markets

DEMANDING TARGETS EXCEEDED

For the financial year ended, Treasury & Global Markets Business Division again reports higher-than-expected operating profit.

This good performance was due to a number of factors.

Besides the bank's increased business volume, which reflects Deutsche Bank Luxembourg's central position in the Group's liquidity management activities, they also include the unit's special function with respect to complex structured transactions, both for external clients and for other business divisions of the bank.

The unit's sales-oriented activities contributed largely to the good results.

The acquisition of bank deposits, as a stable component of the bank's diversified funding concept, optimized asset/liability management in the parent company's balance sheet and gave strong support to the positive profit contribution from the transformation of maturities.

Corporate Services Division

Through the further broadening of its platform for domiciliation, management and accounting services, the Corporate Services Division (CSD) substantially increased its business volume and profit contribution in 2006.

CSD offers its services to customers in the Group and to external clients. Both product divisions, Capital Markets as well as Structured Investments and Products, are now available for the administration of property companies and, among other, for the setting-up of securitization vehicles or SICAR companies, fund management companies and other alternative investment structures.

Divisional Functions

HUMAN RESOURCES

In the reporting year, the number of staff employed by Deutsche Bank Luxembourg rose from 336 to 352.

The structure of our workforce remained stable and balanced in 2006. The average length of service was 9.2 years with an average age of 39 years. A part-time working ratio of 19% (corresponding to 67 employees) documents our continuing efforts to reach flexible working hours agreements that meet the individual and social needs of our employees, especially our female staff (52% of our workforce) and allow the bank to allocate "available working time" in accordance with its requirements.

With 16 nationalities represented in our staff, we can offer our customers a wealth of ideas and broad horizons. We can also fulfil our mission of being able to serve our customers in their national language.

In a market for qualified people, which is characterized by scarce resources, the bank was perceived as an inspiring employer. Thus, we were able at all times to provide the human resources needed to realize the business divisions' growth initiatives at short notice.

To capture the best talents, we continue to rely on local and international development prospects and on targeted investments in our own advanced training measures.

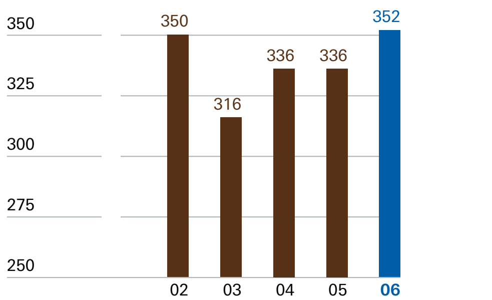
Here, our managers use a broad range of PC-based instruments for effective people management, allowing them to recognize, develop and regularly re-appraise their employees' special skills and knowledge.

Our offering in this respect comprises the transfer of functional, communication, language and sales competences as well as the systematic provision of leadership and management know-how.

In this way, we create the basis for a harmonious and successful cooperation in the immediate workplace environment and make it possible for our management team to lead their staff in a clear and realistic manner.

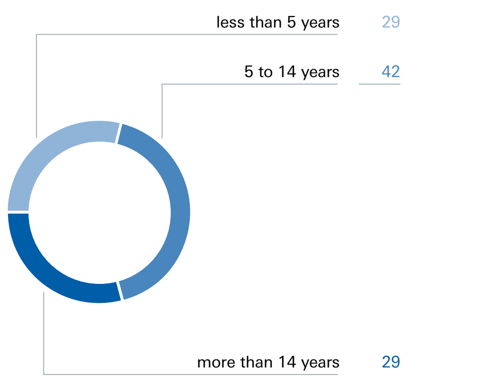
Development of total staff

absolute figures



Length of service

in %



IT

The separation of the data centres was completed with all important servers being fully mirrored.

In extensive tests carried out by the various departments at our Business Continuity Planning (BCP) Centre, the remote servers were successfully accessed.

Besides the telephone system, the dealer board and the voice recording system were replaced by modern installations.

Various extensions were implemented in our applications.

We played an important part, especially in the analysis phase, in preparing the introduction of a new IT platform for the PWM Business Division.

OPERATIONS

The main task of the Operations Department is the settlement of securities transactions and money market activities of Deutsche Bank Luxembourg.

This unit's employees guarantee the smooth performance of the internal processes linked with our business activity.

The Securities Settlement unit coordinated the planning and implementation activities for the migration of portfolio inventories to State Street Bank. The additional settlement tasks, the re-structuring of trading routes as well as the adjustment of the new service provider's work-flows led to substantial process changes and more complex procedures in this area.

Using the "Smart Stream" reconciliation system, Neutral Control monitors payment flows and bookings on nostro accounts and nostro securities accounts (storage centres).

As before, the neutral reconciliation of all balances and transactions with our customers is performed as at year's end.

CORPORATE TRUST AND AGENCY SERVICES OPERATIONS

Corporate Trust and Agency Services Operations (CTAS Ops) offers paying agency services for transactions in which Deutsche Bank AG (London and Frankfurt) acts as principal paying agent. CTAS Ops also provides listing agency services in respect of the stock exchanges in Luxembourg and Ireland. CTAS Ops was ranked second in terms of volumes listed on the Luxembourg Stock Exchange in 2006 and was also one of the principal players on the Irish Stock Exchange in Dublin.

In addition, CTAS Ops also supports Trust & Securities Services (TSS) business units in Frankfurt, London, New York and Hong Kong in the fields of registrar and fiduciary agencies and safekeeping.

AUDIT

Audit's inspection activities are defined by the Audit Charter, the Group Audit Key Operating Procedures and the Group Audit Tracking Policy. All audits of business divisions, settlement functions, service units and staff units are based on a risk-oriented analysis of the internal control system. The audit frequency lies between one and three years.

The audit mandate of the bank's Management Board as well as the tasks imposed by the bank regulator include the control of compliance with valid statutory and supervisory regulations. Furthermore, the operability, effectiveness, economic efficiency and appropriateness of the internal control system as well as the regularity of the audited operating and business processes are analyzed and assessed.

In the 2006 financial year, all units audited received a positive rating.

LEGAL

Deutsche Bank Luxembourg's Legal Department is an integral part of Deutsche Bank Group's Legal Services. Due to Deutsche Bank Luxembourg's business structure, its work is characterized primarily by support for International Loans and Agency Services, the coverage of structured transactions and the provision of counselling services for the Private Wealth Management Business Division. It specializes in particular in coverage for complex financings and all related legal aspects. Special importance attaches to supporting Private Wealth Management with the introduction of complex investment products and the implementation of new regulatory requirements.

This also includes coordinating and monitoring the use of external lawyers in many jurisdictions.

The department's international character is attributable to the bank's importance as *Lending Office* and *Centre of Competence* in Continental European lending business and to the large number of cross-border transactions.

COMPLIANCE

The neutral Compliance function oversees compliance with supervisory regulations and ethical principles at Deutsche Bank Luxembourg. For this purpose, the Compliance Department develops policies and processes, trains employees and, with the help of its monitoring systems, ensures that the regulations and standards of behaviour required by capital markets law are complied with at Deutsche Bank Luxembourg.

Compliance is integrated into the new client adoption and new product approval processes. The prevention of money laundering has special importance.

The Compliance Department employs four members of staff.

CONTROLLING AND TAXES

The Controlling Department is made up of Legal Entity Controlling and Business Area Controlling. Legal Entity Controlling comprises the Financial Accounting, Cost Controlling and Taxes units. Business Area Controlling covers the business divisions' controlling requirements as well as risk controlling. The unit's functional competence covers all operating companies of Deutsche Bank Group at the Luxembourg location. Regional Controlling Luxembourg employs 30 people.

Financial Accounting's tasks cover all regulatory aspects. Prime importance attaches to producing financial statements and reports, coordinating annual and audit reports, the tax return and the bank's entire communication with regulators, tax authorities, audit companies and consultants.

The annual accounts and divisional management information are prepared for the Group according to U.S. GAAP standards. From 2007 onwards, the consolidated accounts will be prepared according to IFRS. For reasons of comparability, IFRS accounts will therefore be prepared additionally for the 2006 financial year within the framework of Group reporting.

Cross-divisional compliance with the requirements of the Sarbanes-Oxley Act is monitored as part of the monthly management review process.

Business Development

PROFIT AND LOSS ACCOUNT

In the 2006 financial year, Deutsche Bank Luxembourg generated a profit of € 320 million (2005: € 127 million).

The Profit and Loss Account for the 2006 financial year were influenced by two special effects.

The sale and liquidation of participating interests produced dividend income and capital gains totalling € 173 million.

The settlement of a transaction within Deutsche Bank Group led to an overproportional increase in net interest income. This increase was compensated for by losses from the sale of securities.

The key profit figures are as follows:

Net results

in T €	2006	2005
Net interest income	333,440	147,702
Net commission income	60,447	56,834
Net profit on financial operations	4,662	5,073
Administrative expenses	–64,222	–59,545
Operating profit	**334,327**	**150,064**
Other income/expenses including dividends	188,733	6,788
Net addition to provisions for risk	–173,502	–8,263
Taxes	–29,558	–21,589
Profit for the financial year	**320,000**	**127,000**

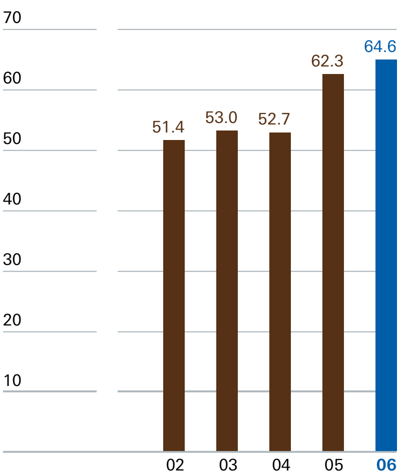
Net interest income – adjusted for the special effect – increased by 5.8% compared with 2005. The positive development of net interest income resulted from the intensive business activity of all operating divisions. Special mention must be made of the Treasury & Global Markets and International Loans divisions, which had an important influence on net interest income through the processing of structured transactions.

Net commission income was more than € 3 million above the prior year figure. Despite the high basis, commission revenues in Private Wealth Management were increased again. The aforementioned activities in International Loans also led to an improvement in net commission income. Corporate Services is becoming increasingly important for Deutsche Bank Luxembourg, as reflected in further growth in revenues.

Administrative expenses rose by € 4.7 million (+ 8.0%) compared with the previous year. The increase was in line with plan and is attributable in roughly equal parts to staff expenses (+€ 2.5 million) and other administrative expenses (+€ 2.2 million). Staff expenses were influenced in particular by the further increase in our effective staff count. The effects of the index

Development of total assets

in € billion



adjustment in December will not be fully felt until 2007. The development of other administrative expenses is due solely to the increase of Group-internal overhead costs.

There is adequate provision for all discernible risks in loan and securities business and for operational risks. Strict standards were applied in the measurement of credit risks.

The retention of the entire profit for the financial year of € 320 million will be recommended to the Ordinary General Meeting.

BALANCE SHEET

Despite adverse exchange rate movements, especially with regard to the U.S. dollar, total assets increased compared with the previous year by € 2.3 billion (= +3.8%) to € 64.6 billion.

This increase is largely due to the growth in securities holdings by € 2.1 billion.

The bank's exposed position in Deutsche Bank Group's liquidity management activities is documented by the fact that loans and advances to credit institutions increased by € 1.0 billion to € 50.8 billion, despite the negative exchange rate developments.

Loans and advances to customers, at € 9.8 billion were € 1.2 billion below the prior year level owing to decreasing loan transactions with Deutsche Bank Group companies.

International lending business was further expanded with a simultaneous improvement in portfolio quality with respect to industries and also to our borrowers' creditworthiness. The total credit volume covered by the International Loans division (loans drawn and granted, contingent liabilities) is roughly € 27.5 billion (end of 2005: € 26 billion). The increase results largely from growth in guarantee business in connection with acquisition financings. There were no significant defaults.

As at balance sheet date, Deutsche Bank Luxembourg has the following substantial participating interests and shares in affiliated undertakings:

Participating interests and shares in affiliated undertakings

Aqueduct Capital S.à r.l., Luxembourg	100 %
Manilla Limited, Cayman Islands	100 %
DWS Investment S.A., Luxembourg	50 %
Hua Xia Bank Company Limited, Beijing	3 %

The capital and reserves of Deutsche Bank Luxembourg amount to € 2,794 million. The growth of € 696 million versus the end of 2005 stems from the issuance of participatory certificates for € 700 million. The retention of profit for the 2005 financial year (€ 127 million) was offset by the negative difference in the valuation of the U.S. dollar-denominated equity investment of silent partners and the reduced imputability of subordinated funds.

The EU solvency ratio was 10.6 % (2005: 8.7 %) on balance sheet reporting date.

Credit risk is the principal component of Deutsche Bank Luxembourg's risk position. Market risks play a subordinate role. This situation is reflected in our regulatory status as non-trading institution. Risk controlling is described in detail in Section D of the Notes.

OUTLOOK FOR 2007

We are confident that we shall report a solid result again for the current financial year. The development of business in the first few months confirms our assessment.

Since the end of the 2006 financial year, there have been no events of special importance to be reported.

Balance Sheet as at December 31

Assets

in T €	[Notes]	2006	2005
Cash in hand, balances with central banks and post office banks	[B2]	9,980	8,993
Loans and advances to credit institutions	[B1, 2, 6]	50,779,902	49,810,528
repayable on demand		10,819,740	6,246,928
other loans and advances		39,960,162	43,563,600
Loans and advances to customers	[B1, 2, 6]	9,798,440	11,013,265
Debt securities and other fixed-income securities	[B1, 2, 3]	531,511	537,881
of public issuers		16,376	16,144
of other issuers		515,135	521,737
Shares and other variable-yield securities	[B2, 3]	2,078,000	0
Participating interests	[B4, 5]	59,187	149
Shares in affiliated undertakings	[B4, 5]	32,935	65,687
Tangible assets	[B5]	3,104	2,906
Other assets	[B8]	321,157	279,453
Prepayments and accrued income		1,019,611	539,913
Total Assets		**64,633,827**	**62,258,775**

Liabilities

in T €	[Notes]	2006	2005
Amounts owed to credit institutions	[B1, 2, 15]	39,194,057	37,488,966
repayable on demand		5,861,771	15,334,716
with agreed maturity dates or periods of notice		33,332,286	22,154,250
Amounts owed to customers	[B1, 2, 15]	19,466,801	18,891,027
other debts		19,466,801	18,891,027
– repayable on demand		828,265	1,385,863
– with agreed maturity dates or periods of notice		18,638,536	17,505,164
Debts evidenced by certificates	[B1, 9]	1,859,900	2,554,157
debt securities in issue		1,065,048	1,826,844
other debts		794,852	727,313
Other liabilities	[B8]	19,211	12,056
Accruals and deferred income		590,686	725,353
Provisions for liabilities and charges		132,220	173,902
provisions for pensions and similar obligations		0	0
provisions for taxation		17,349	4,844
other provisions		114,871	169,058
Subordinated liabilities	[B1, 11]	1,049,579	349,579
Special items with a reserve quota portion	[B12]	126,847	126,847
Silent participation	[B1, 10]	542,468	604,830
Subscribed capital	[B13]	215,000	215,000
Share premium account		55,600	55,600
Reserves	[B14]	1,061,458	934,458
Profit for the financial year		320,000	127,000
Interim dividend		0	0
Total liabilities		**64,633,827**	**62,258,775**

Off balance sheet items

Contingent liabilities	[B2, 17]	5,561,078	1,884,839
of which:			
guarantees and assets pledged as collateral security		5,561,078	1,884,839
Commitments	[B2, 18]	17,341,851	19,212,176
Fiduciary operations	[B2]	6,854,083	7,904,923

Profit and Loss Account for the period from January 1 to December 31

Profit and Loss Account

in T €	[Notes]	2006	2005
Interest receivable and similar income		2,733,924	1,884,106
of which:			
from fixed-income securities		3,174	1,221
Interest payable and similar charges		2,400,484	1,736,404
Current income		169,770	5,835
from shares		3,648	0
from participating interests		0	722
from shares in affiliated undertakings		166,122	5,113
Commissions receivable		105,943	105,172
Commissions payable		45,496	48,338
Net profit on financial operations		4,662	5,073
Other operating income	[C2]	23,568	4,761
General administrative expenses		63,937	59,190
Staff expenses		36,074	33,550
of which:			
– wages and salaries		28,968	26,536
– social security expenses		5,746	5,819
of which: pensions		3,320	3,201
Other administrative expenses		27,863	25,640
Depreciation of and value adjustments to intangible and tangible assets		285	355
Other operating charges	[C3]	4,605	3,808
Depreciation of and value adjustments in respect of loans and advances and securities which are neither included in the investment portfolio nor included in the trading portfolio together with provisions for contingent liabilities and for commitments		173,502	8,263
Charges in respect of special items with a reserve quota portion		0	0
Income from the writing back of special items with a reserve quota portion		0	0
Taxes on profit on ordinary activities		29,341	21,283
Profit on ordinary activities after taxes		**320,217**	**127,306**
Other taxes not shown under the preceding items		217	306
Profit for the financial year		**320,000**	**127,000**

Notes to the Accounts

A. PRINCIPLES AND METHODS

CORPORATE MATTERS

The bank was founded on August 12, 1970, in Luxembourg in the legal form of Société Anonyme. The bank is a 100% Group subsidiary of Deutsche Bank AG, Frankfurt am Main.

The bank's business policy and valuation principles, unless prescribed by Luxembourg rules and regulations, are established and monitored by the Board of Directors.

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

Deutsche Bank Luxembourg is a parent company for the purposes of Article 77 (1) of the law of June 17, 1992 on the annual accounts and consolidated accounts of banks incorporated under Luxembourg law. Since all subsidiary companies, in their entirety, are of subordinate importance for the assets, liabilities, financial and profit situation of the companies, in their entirety, to be included in principle in consolidation, we have opted in accordance with Article 83 (1) and (2) of the law not to prepare consolidated accounts.

The financial year is co-terminous with the calendar year.

The reporting currency is the euro.

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 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 balance sheet date. For pending losses, a provision is formed 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 Future 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 companies which are members of Deutsche Bank Group.

Currency-related transactions are concluded to hedge exchange rate risks for our own account and on behalf of customers.

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

– VALUE ADJUSTMENTS IN RESPECT OF DEBTS

The bank establishes specific value adjustments in respect of doubtful and irrecoverable debts for country and creditworthiness risks in accordance with strict valuation standards.

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

– LUMP-SUM PROVISION FOR INHERENT RISKS

In accordance with Luxembourg tax legislation, the bank establishes a lump-sum provision for inherent risks in risk-bearing assets weighted pursuant to regulatory law and for the credit risk equivalent from derivatives.

Pursuant to the instructions issued by the Tax Authority on December 16, 1997, a maximum rate of 1.25% may be applied for the establishment of the tax-deductible lump-sum provision.

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 under "other provisions".

– VALUE ADJUSTMENT IN ACCORDANCE WITH ARTICLE 62 OF THE LAW ON THE ACCOUNTS OF BANKS

The bank, at the discretion of the Board of Directors, has established a value adjustment, which is not tax-deductible, to take account of the specific risks associated with banking in accordance with Article 62 of the law on the accounts of banks.

This value adjustment is deducted from "Debt securities and other fixed-income securities".

– SECURITIES

Securities are booked at cost using the weighted average method.

– DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES

The bank holds a portfolio designated "other securities" which includes, in particular, securities held as a source of liquidity.

Securities are valued at the lower of cost and market value in conjunction with the principle of maintaining previous value adjustments *(Beibehaltungsprinzip)* (see below).

Securities linked to interest rate swaps in order to provide cover against market movements are regarded as forming an economic unity with the underlying interest rate swap and are valued in the same way as financial fixed assets. Value adjustments are established where necessary to take account of any impairment in the creditworthiness of the issuer.

– SECURITIES ISSUED ON A DISCOUNTED BASIS

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

– EQUITY SHARES AND OTHER VARIABLE-YIELD SECURITIES

As at reporting date, equity shares and other variable-yield securities are 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. Write-downs are made for declines in value which are permanent.

– PRINCIPLE OF MAINTAINING PREVIOUS VALUE ADJUSTMENTS (BEIBEHALTUNGSPRINZIP)

Value adjustments made in earlier years in respect of specific assets are maintained in accordance with Articles 56 (2) (f), 58 (2) (e) and Article 62 (2) 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 policy is to write off intangible assets in full in the year of acquisition.

– TANGIBLE ASSETS

Office furniture and equipment is 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 record exceptional value adjustments to value these assets at the impaired valuation attributable to them as at balance sheet date.

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

– SPECIAL ITEMS WITH A RESERVE QUOTA PORTION

The special item with a reserve quota portion comprises realized gains which initially enjoy fiscal exemption. This exemption covers gains in value realized in accordance with Articles 53 and 54 of the Luxembourg income tax law.

– 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 positions classified by remaining maturities as at December 31, 2006.

31.12.2006

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					
Loans and advances at term to credit institutions	28,100	4,504	4,913	2,443	39,960
Loans and advances at term to customers	1,976	770	4,179	2,380	9,305
Debt securities and other fixed-income securities	0	143	16	373	532
Total	**30,076**	**5,417**	**9,108**	**5,196**	**49,797**
For comparison 31.12.2005:					
Total	**30,966 ***	**5,434**	**12,718**	**5,729**	**54,847**

*Comparative figure adjusted as only loans and advances at term to non-banks are now shown in the table

In addition to loans and advances at term to customers, loans and advances repayable on demand are still booked in the amount of € 493 million.

31.12.2006

in € m.	up to 3 months	3 months up to 1 year	1 year up to 5 years	over 5 years	Total
Amounts owed					
Amounts owed at term to credit institutions	29,315	1,148	1,122	1,747	33,332
Amounts owed at term to customers	12,250	1,090	3,646	1,653	18,639
Debts evidenced by certificates	28	379	281	1,172	1,860
Subordinated liabilities	0	0	350	700	1,050
Silent participation	0	542	0	0	542
Total	**41,593**	**3,159**	**5,399**	**5,272**	**55,423**
For comparison 31.12.2005:					
Total	**26,761**	**2,496**	**10,178**	**3,733**	**43,168**

Of the loans and advances at term to credit institutions, € 185 million (2005: € 195 million) are subordinated. For liabilities where the repayable amount exceeds the amount received, there is a difference of € 3 million as at balance sheet date.

There are no netting agreements for balance sheet positions as at balance sheet date.

[2] GEOGRAPHICAL DISTRIBUTION

The table shows the geographical distribution of selected positions as at December 31, 2006.

31.12.2006

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other	**Total**
Loans and advances							
Cash in hand, balances with central banks and post office banks	10	0	0	0	0	0	10
therein balances with central banks	0	0	0	0	0	0	0
Loans and advances to credit institutions	48,820	74	3	0	1,882	1	50,780
Loans and advances to customers	6,289	437	124	457	2,474	17	9,798
Debt securities and other fixed-income securities	532	0	0	0	0	0	532
Shares and other variable-yield securities	2,078	0	0	0	0	0	2,078
Total	**57,729**	**511**	**127**	**457**	**4,356**	**18**	**63,198**

For comparison 31.12.2005:

Total	**57,298**	**279**	**1,675**	**468**	**1,648**	**3**	**61,371**

31.12.2006

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other	**Total**
Amounts owed							
Amounts owed to credit institutions	24,324	11,155	58	53	3,585	19	39,194
Amounts owed to customers	14,150	342	4,437	162	359	17	19,467
Total	**38,474**	**11,497**	**4,495**	**215**	**3,944**	**36**	**58,661**

For comparison 31.12.2005:

Total	**36,479**	**11,952**	**5,086**	**190**	**2,621**	**52**	**56,380**

31.12.2006

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other	Total
Off-balance sheet items							
Contingent liabilities	5,189	277	28	64	2	1	5,561
Commitments	15,164	1,017	579	223	323	36	17,342
Fiduciary operations	6,147	0	0	0	707	0	6,854
Total	**26,500**	**1,294**	**607**	**287**	**1,032**	**37**	**29,757**
For comparison 31.12.2005:							
Total	**23,141**	**1,254**	**1,478**	**114**	**2,891**	**124**	**29,002**

31.12.2006

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other	Total
Financial transactions							
Interest rate transactions	16,705	0	787	0	0	0	17,492
Foreign exchange/ gold transactions	11,117	141	3	2	285	0	11,548
Equity transactions	0	0	0	0	0	0	0
Credit derivatives	0	0	0	0	0	0	0
Total	**27,822**	**141**	**790**	**2**	**285**	**0**	**29,040**
For comparison 31.12.2005:							
Total	**25,263**	**59**	**1,135**	**0**	**24**	**0**	**26,481**

[3] SECURITIES

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

31.12.2006

in € m.	Unlisted securities	Listed securities	Total
Debt securities and other fixed-income securities	516	16	**532**
Shares and other variable-yield securities	2,078	0	**2,078**

In accordance with the principle of maintaining previous value adjustments *(Beibehaltungsprinzip),* provisions amounting to € 9 million have been maintained.

There are hedges for securities with a book value of € 145 million; the lower market value of these securities in the sum of € 143 million was therefore not applied. No risk provisions/write-downs were made.

The total amount of securities pledged is € 16 million; all of these pledged securities are eligible for refinancing at the European Central Bank (ECB).

[4] COMPANIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST OF 20 % OR MORE

in € m. Name of company	Registered domicile	Holding	Share-holders' equity	Profit for 2006 finan-cial year*
DB Finance International GmbH	Eschborn	100 %	1.0	– 1.0
DB Palladium S.A.	Luxembourg	100 %	0.0	0.0
DB Valence S.à r.l.	Luxembourg	100 %	0.0	0.6
DB Valence II S.à r.l.	Luxembourg	100 %	0.0	0.0
Aqueduct Capital S.à r.l.	Luxembourg	100 %	25.6	– 0.5
DWS Investment S.A.	Luxembourg	50 %	204.5	152.4
Lux Leasing S.A.	Luxembourg	50 %	0.4	0.0
DB Vita S.A.	Luxembourg	25 %	6.0	1.1
Demeure de Charme S.à r.l.	Luxembourg	25 %	6.4	0.3
Oyster International Properties S.à r.l.	Luxembourg	25 %	0.0	0.0
Faulkner Properties 1 S.à r.l.	Luxembourg	25 %	0.0	0.0
Danube Properties S.à r.l.	Luxembourg	25 %	0.0	0.0
Rhine Properties S.à r.l.	Luxembourg	25 %	0.0	0.0
Weser Properties S.à r.l.	Luxembourg	25 %	0.0	0.0
Inn Properties S.à r.l.	Luxembourg	25 %	0.0	0.0
Elbe Properties S.à r.l.	Luxembourg	25 %	0.0	0.0
Oder Properties S.à r.l.	Luxembourg	25 %	0.0	0.0

* preliminary

With the exception of the Hua Xia Bank Company Limited, Beijing, there are no further listed participating interests or listed shares in affiliated undertakings.

[5] MOVEMENTS IN FIXED ASSETS

in T €	**Partici-pating interests**	**Shares in affiliated under-takings**	**Intangible assets**	land and buildings	office furni-ture and equipment	**Tangible assets**	**Total fixed assets**
Gross value at beginning of financial year	**149**	**65,687**	**6,365**	0	12,142	**12,142**	**84,343**
Additions	**59,038**	**27,150**	**0**	0	490	**490**	**86,678**
Disposals	**0**	**59,902**	**0**	0	12	**12**	**59,914**
Parity changes	**0**	**0**	**0**	0	0	**0**	**0**
Gross value at end of financial year	**59,187**	**32,935**	**6,365**	0	12,620	**12,620**	**111,107**
Cumulative depreciation and value adjustments at end of financial year	**0**	**0**	**6,365**	0	9,516	**9,516**	**15,881**
Net value at end of financial year	**59,187**	**32,935**	**0**	0	3,104	**3,104**	**95,226**

[6] AMOUNTS DUE FROM AFFILIATED UNDERTAKINGS AND FROM PARTICIPATING INTERESTS

in € m.	Affiliated under-takings 31.12.2006	Partici-pating interests 31.12.2006	Affiliated under-takings 31.12.2005	Partici-pating interests 31.12.2005
Loans and advances to credit institutions	50,750	0	49,440	0
Loans and advances to customers	2,973	0	4,883	0
Debt securities and other fixed-income securities	518	0	520	0

[7] ASSETS DENOMINATED IN FOREIGN CURRENCIES

Assets denominated in foreign currencies amount in total to the equivalent of € 24,646 million as at balance sheet date.

[8] OTHER ASSETS / OTHER LIABILITIES

The other assets include € 304 million in option premiums resulting from the issue of the warrants reported under Note 9 and the EUR Fixed-Rate-Bond with a variable bonus interest rate.

Reported under other liabilities are social security contributions to be paid over and other payment obligations. For the 2006 financial year, as for the previous year, no interim dividend was paid.

[9] DEBTS EVIDENCED BY CERTIFICATES

The debts evidenced by certificates include the following positions:
- $ Fixed-Rate-Bond, reported value: € 3 million; due: May 1, 2012
- $ Zero Bond, reported value: € 232 million; due: May 26, 2010
- $ Zero Bond, reported value: € 33 million; due May 26, 2010
- EUR Fixed-Rate-Bond, reported value: € 797 million; due: December 21, 2012, with a fixed interest rate and a variable bonus interest rate based on the performance of the CROCI-Euro-OptiVest-Index
- Warrants, reported value: € 518 million; due: November 7, 2007 / September 7, 2017
- Warrants, reported value: € 277 million; due: January 2, 2007 to February 1, 2008

The debts are secured by loans, money market instruments and options.

[10] SILENT PARTICIPATION

The silent participation (equity investment of silent partners) consists of two tranches with a total volume of $ 715 million:

- $ 340 million with a non-cumulative annual profit share of 6.825% of par value ranking prior to the profit share attributable to shareholders. Redemption will be on December 28, 2007, subject to the stipulations on loss participation.
- $ 375 million with a variable profit share based on 12-month Libor plus 0.8% related to par value. The non-cumulative profit share ranks prior to the profit share attributable to shareholders; redemption will be on December 28, 2007, subject to the stipulations on loss participation.

The silent participation qualifies as Tier I capital until its final maturity.

The interest expense for this silent participation amounted to € 35 million.

[11] SUBORDINATED LIABILITIES

There is

- a subordinated LUF Fixed-Rate-Bond, LUF 2 billion, 5%, due 2008
- a subordinated EUR Fixed-Rate-Bond, € 200 million, 4.5%, due 2009
- a subordinated EUR FRN loan, € 100 million, due 2009
- a subordinated EUR participatory certificate, € 700 million, due 2016

The participatory certificate is classified as Upper Tier II capital, the other subordinated funds as Lower Tier II capital for regulatory purposes. In the 2006 financial year, the interest expense for subordinated liabilities was € 16 million.

The debt instruments (Notes 10 and 11) create unsecured, subordinated liabilities. The level of subordination cannot be amended and repayment cannot be effected before final maturity.

[12] SPECIAL ITEM WITH A RESERVE QUOTA PORTION

The special item with a reserve quota portion includes tax-exempt capital gains rolled over and fiscally-neutralized translation gains from the reinvestment of equity capital in DM for the years 1980 to 1998 in accordance with Article 54 of the Luxembourg income tax law. Reinvestment of € 93 million is not yet allowed for. The respective approval has been given by the tax authority.

[13] SUBSCRIBED CAPITAL

As at balance sheet date, the bank's subscribed and fully paid-up capital is € 215 million, divided into 860,000 shares.

[14] MOVEMENTS IN RESERVES AND PROFIT BROUGHT FORWARD

in € m.	Legal reserve	Other reserves	Profit brought forward
As at January 1, 2006	22	913	0
Addition to reserves from shareholders	0	0	0
Profit for the 2005 financial year	0	0	127
Appropriation:			
– Retention	0	127	127
– Dividend	0	0	0
As at December 31, 2006	**22**	**1,040**	**0**

The Luxembourg law of August 10, 1915 on commercial companies prescribes a legal reserve of 10% of subscribed capital; this requirement has been fulfilled by the bank. The legal reserve may not be distributed.

The item "other reserves" includes an appropriation of € 122 million for the imputation of wealth tax.

[15] AMOUNTS OWED TO AFFILIATED UNDERTAKINGS AND PARTICIPATING INTERESTS

in € m.	Affiliated under-takings 31.12.2006	Partici-pating interests 31.12.2006	Affiliated under-takings 31.12.2005	Partici-pating interests 31.12.2005
Amounts owed to credit institutions	32,032	0	30,179	0
Amounts owed to customers	11,427	0	12,854	0

[16] LIABILITIES IN FOREIGN CURRENCIES

The total amount of liabilities denominated in foreign currencies as at balance sheet date is the equivalent of € 22,009 million.

[17] CONTINGENT LIABILITIES

Contingent liabilities consist of:

in € m.	31.12.2006	of which: to affiliated under-takings
Guarantees and other direct substitutes for credit	5,561	326
Acceptances	0	0
Total	**5,561**	**326**

[18] CONFIRMED CREDITS

Commitments consist of:

in € m.	31.12.2006	of which: to affiliated under-takings
Confirmed credits, not utilized	17,019	307
Facilities for the issuance of debt instruments	322	0
Total	**17,341**	**307**

C. NOTES TO THE PROFIT AND LOSS ACCOUNT

[1] ADMINISTRATION AND AGENCY SERVICES

The bank provides the following principal services for third parties: safe custody account administration, asset management, paying agent services, agency function, commercial representation and institutional services.

[2] OTHER OPERATING INCOME

This position is made up as follows:

in T €	31.12.2006
Income from the sale of shares in participating interests	11,674
Income from the release of tax provisions	6,864
Income from commercial representation services	2,700
Sundry income	2,330
Total	**23,568**

[3] OTHER OPERATING CHARGES

This position is made up as follows:

in T €	31.12.2006
Addition to provisions for AGDL	2,352
Additions to provisions for advisory risks	837
Sundry expenses	1,416
Total	**4,605**

[4] AUDITOR'S FEES

Fees billed to the Company by KPMG Audit S.à.r.L., Luxembourg and other member firms of the KPMG network during the year are as follows:

in T € (excluding VAT)	2006
Audit fees	148
Audit-related fees	154
Tax fees	77
Other fees	105

Such fees are presented under other administrative expenses in the income statement.

D. RISK REPORT

GENERAL INFORMATION

Deutsche Bank Luxembourg is integrated in organizational and IT terms into the risk management and risk controlling structures of Deutsche Bank Group and its systems. The following statements describe the Group's standard definitions and principles in connection with risks.

RISK MANAGEMENT

Against the background of our broadly diversified business activities, it is essential to identify, measure, aggregate and manage risks effectively and back the various risks appropriately with equity capital. Deutsche Bank manages risks with the help of an overriding set of risk principles, organizational structures and processes for the measurement and monitoring of risk, which are closely aligned to the activities of the Group Divisions.

PRINCIPLES OF RISK MANAGEMENT

Deutsche Bank's risk management approach is based on the following principles:

– The Group Board bears overall responsibility for the Group's risks. The Supervisory Board reviews the risk profile at regular intervals.
– The management of credit, market, liquidity, operational and reputational risks is effected in a coordinated process at all levels of the bank. This also applies to complex products which we usually manage within our policy for trading exposures.
– The structure of the global risk management function is closely aligned with the structure of the Group Divisions.
– Risk management is functionally independent of the Group Divisions.

The risk management activities are supported by Controlling, Audit and the Legal Department. They operate independently of the Group Divisions and Risk Management. Controlling's role is to quantify the risk that we have assumed and to ensure the quality and integrity of risk-related data. Audit reviews the compliance of our internal control procedures with internal and regulatory standards. The Legal Department provides legal advice and support on a wide variety of topics, e. g. on collateral agreements.

TYPES OF RISK

The most important risks to which our business is exposed are specific banking risks and the risks from general business activity.

SPECIFIC BANKING RISKS

In our risk management processes, we distinguish between four kinds of specific banking risk: credit risk, market risk, liquidity risk and operational risk.

- **CREDIT RISK** arises from all transactions that create actual, contingent or potential claims against any counterparty or borrower. The credit risk is for us the biggest single risk. We distinguish between three types of credit risk:
  - *default risk* is the risk that our counterparties may fail to meet contractual payment obligations;
  - *country risk* is the risk that a loss may arise for the following reasons in any country: possible deterioration in overall economic conditions, political and social upheaval, nationalizations and expropriation of assets, government repudiation of external debts, foreign exchange controls, the devaluation or depreciation of the national currency. The country risk also includes the transfer risk. This arises when debtors, owing to direct government intervention, are unable to transfer assets in order to fulfil their matured obligations to non-residents;
  - *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.

- **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 from the correlations among them and their volatilities.

- **LIQUIDITY RISK** is the risk that we may not be in a position to meet our payment obligations when they mature.

- **OPERATIONAL RISK** is the potential for incurring losses in connection with staff, projects, contractual specifications and their documentation, technology, infrastructural failure and disasters, external influences and customer relationships. This definition includes, among other aspects, legal and regulatory risks, but not the general business risk.

REPUTATIONAL RISK

Reputational risk is the risk that public trust in an organization may be negatively influenced by public reporting on a transaction, a business partner or a business practice in which a customer is involved.

GENERAL BUSINESS RISK

General business risks are the risks arising from changes in general business conditions. These include, for example, the market environment, client behaviour and technological progress. Such risks can affect our earnings unless we adjust quickly to the changed conditions.

Credit risk is the largest component of the bank's risk exposure. The measurement and management of our credit risk are based on the following principles:

- All Group Divisions must apply consistent standards in arriving at their credit decisions.
- The approval of credit limits for our counterparties and the management of our individual credit exposures must fit within portfolio guidelines and credit strategies. Moreover, each decision is based on a risk-return analysis.
- Every extension of credit to a counterparty and all material changes to a credit facility (e. g. maturity, collateral structure or important covenants) require approval at the appropriate, pre-established seniority level.
- Credit approval powers are conferred upon members of staff who have the appropriate qualifications, experience and training. Credit approval powers are regularly reviewed.
- Credit commitments towards a borrower group are combined on a Group-wide consolidated basis. Borrowers connected with each other on the basis of at least one criterion determined by us, such as equity capital holding, voting rights, apparent exercise of control or other indicators of group membership or who have joint and several liability for loans or large parts of loans we have extended are deemed to constitute a "borrower group".

CREDIT RISK RATING

An important element of the credit approval process is a detailed risk assessment for each credit exposure to a borrower group. The risk assessment procedures applied uniformly throughout the Group take into account both the creditworthiness of the counterparty and the risks relevant to the specific credit facility or exposure.

Our internal 26-point rating scale for the assessment of loans allows comparison with market practice. This rating scale is calibrated with the range of default probabilities established on the basis of historical defaults in our portfolio. The default probabilities that a business partner will not fulfil his payment obligations are stated in per cent. They are subsequently split up into categories which we regard in principle as being comparable with those of the leading international rating agencies.

LENDING

Deutsche Bank Luxembourg operates on a large scale as lending office for loans extended by other European offices of Deutsche Bank Group. The risks are first examined by the respective branches in accordance with Group standards and guidelines. Deutsche Bank Luxembourg takes over the loans after a further review on the basis of its own credit guidelines coordinated within the Group.

Deutsche Bank Luxembourg regularly reviews the creditworthiness of its borrowers on the basis of submitted annual accounts and other current information obtained through the respective relationship managers of Deutsche Bank Group. Furthermore, compliance with covenants and ratios agreed in the loan contracts is also continuously monitored.

Management informs the Board of Directors at its regular meetings on current developments regarding specific risks and the credit portfolio risk, also with reference to specific industry and/or country risks.

The existing credit portfolio is broadly diversified from both an industry and a regional perspective; special concentrations of risk are not discernible. The creditworthiness of the portfolio of loans to the non-banking sector has improved again. More than 95% of the loans are to investment grade borrowers.

DISTRIBUTION OF CREDIT RISK

The following tables analyze credit exposure under the respective balance sheet position by counterparty industry as well as by issuer and rating category. The gross amount of loan exposures was calculated without consideration of collateral.

Structure of credit profile by rating category as at December 31, 2006

in € m.	Loans and advances to credit institutions	Loans and advances to customers	Securities	Contingent liabilities	Confirmed credits	**Total**
AAA/AA	49,967	3,683	2,610	4,390	3,660	64,310
A	733	1,155	0	535	6,392	8,815
BBB	9	2,112	0	312	5,867	8,300
BB	16	2,409	0	217	843	3,485
B	0	65	0	8	78	151
CCC or below	55	374	0	99	502	1,030
Total	**50,780**	**9,798**	**2,610**	**5,561**	**17,342**	**86,091**

Structure of credit profile by industry as at December 31, 2006

in € m.	Loans and advances to credit institutions	Loans and advances to customers	Securities	Contingent liabilities	Confirmed credits	**Total**
Banks and insurance	50,780	5,130	2,610	1,336	3,020	62,876
Manufacturing	0	1,572	0	101	5,761	7,434
Households	0	48	0	1	1	50
Public sector	0	306	0	2	475	783
Wholesale and retail trade	0	469	0	6	866	1,341
Commercial real estate	0	179	0	0	71	250
Other	0	2,094	0	4,115	7,148	13,357
Total	**50,780**	**9,798**	**2,610**	**5,561**	**17,342**	**86,091**

RISK PROVISIONING

Adequate provision has been made for individual risks. There are only minor country risks as at balance sheet date. Deutsche Bank Luxembourg also uses the possibility of setting up a lump-sum provision in accordance with Luxembourg regulations.

MARKET RISK

Owing to its business alignment, Deutsche Bank Luxembourg has the regulatory status of a non-trading institution in Luxembourg.

The market risks resulting from asset/liability management – in the form of interest rate, currency and liquidity risks – are managed by Treasury & Global Markets Business Division. Other types of market risk (e.g. share price and commodities price risks) do not exist at our bank. Within the framework of local supplements, Deutsche Bank Group's policies for trading activities, the so-called Global Markets Key Operations Policies, have been determined by Management in binding form. Our back-office applies the same procedure for the settlement of trades.

Deutsche Bank Luxembourg is integrated into Deutsche Bank Group's global limit system. Risks are calculated and monitored on a daily basis by neutral risk controlling using the Group's risk measurement programmes and hence its risk models. A risk performance status report is produced daily and forwarded to Management, the business division and the global risk controlling unit with functional responsibility.

FINANCIAL TRANSACTIONS

The derivative financial transactions consist exclusively of contracts forming part of our non-trading portfolio and are concluded largely with counterparties inside the Group. The following figures show the notional volume and market value of the derivative transactions according to remaining maturity. At the end of the year, there were neither exchange-traded deals nor netting agreements in derivative financial transactions.

Analysis of derivative financial transactions as of December 31, 2006

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 market value
Interest rate transactions	**15,144**	**818**	**1,530**	**17,492**	**29**	**35**	**–6**
Interest rate swaps	15,144	818	1,530	17,492	29	35	–6
Forward rate agreements	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Foreign exchange/ gold transactions	**8,643**	**1,862**	**958**	**11,463**	**197**	**119**	**78**
Futures contracts with customers	4,090	0	0	4,090	39	65	–26
Futures contracts with banks	4,342	0	958	5,300	74	46	28
Cross-currency swaps	210	1,862	0	2,072	84	8	76
Options	1	0	0	1	0	0	0
Equity transactions	**0**	**0**	**0**	**0**	**1**	**2**	**–1**
Futures contracts	0	0	0	0	0	0	0
Swaps	0	0	0	0	1	2	–1
Options	0	0	0	0	0	0	0
Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**23,787**	**2,680**	**2,488**	**28,955**	**227**	**156**	**71**

Analysis of derivative financial transactions as of December 31, 2005

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 market value
Interest rate transactions	**15,036**	**1,871**	**2,217**	**19,124**	**49**	**103**	**–54**
Interest rate swaps	15,036	1,621	2,217	18,874	48	102	–54
Forward rate agreements	0	0	0	0	0	0	0
Options	0	250	0	250	1	1	0
Foreign exchange/ gold transactions	**5,877**	**270**	**1,068**	**7,215**	**47**	**47**	**0**
Futures contracts with customers	2,892	28	0	2,920	19	26	–7
Futures contracts with banks	2,956	32	1,068	4,056	25	21	4
Cross-currency swaps	25	210	0	235	3	0	3
Options	4	0	0	4	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	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**20,913**	**2,141**	**3,285**	**26,339**	**96**	**150**	**–54**

VALUE-AT-RISK

To measure and manage market risks we use a value-at-risk model developed by the Group. The value-at-risk approach is used to derive a quantitative measure specifically for market risks 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.

According to the regulations of the Bank for International Settlements (BIS), the value-at-risk for market risks quantifies with a confidence level of 99%, the maximum loss which can arise as a result of market price changes during a holding period of one trading day.

As at year's end, the value-at-risk from interest rate risks and currency risks in our non-trading book was € 0.3 million. The average value in 2006 was € 0.2 million. The limit allocated by global risk management is € 0.5 million.

In foreign exchange business, only relatively small positions in foreign currency arise from broken amounts in futures contracts and from balances 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. Treasury & Global Markets Division handles the management of this task. Risk Controlling ensures prompt availability of data and informs Deutsche Bank Luxembourg's management within the scope of the daily risk performance status.

At the same time, all data relevant to the Group are supplied to Global Risk Controlling.

As at balance sheet reporting date, the Luxembourg liquidity figure was 73%. This was well above the regulatory limit of 30%.

OPERATIONAL RISK

The Group operational risk policy determines the tasks and responsibilities with regard to management and reporting. Divisional policies supplement the Group policy. The business divisions have primary responsibility for the management of operational risk.

There are instruments 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 in a Group-wide reporting system (db-irs) monitored at Deutsche Bank Luxembourg by Risk Controlling. Besides losses actually incurred due to defective processing, the system also covers pending transactions and potential risks as well as reported provisions for operational risks. Reports from the database give an insight into the success of risk management and into the quality of the selected risk indicators. Further applications for the capturing and monitoring of operational risks are being introduced successively.

REGULATORY RISK POSITION

The bank, as a non-trading institution, calculates the simplified coefficient. The risk-weighted assets are made up as follows:

Composition of risk-weighted assets

in € m.	**31.12.2006**	**31.12.2005**
Loans and advances to credit institutions	10,217	9,862
Loans and advances to customers	5,771	6,972
Other assets	2,669	283
Contingent liabilities	2,122	1,328
Confirmed credits	4,939	4,594
Interest rate transactions	95	111
Currency transactions	230	170
Total	**26,043**	**23,320**

Regulatory capital and reserves amount to € 2,763 million (end of 2005: € 2,037 million), the risk coefficient is 132% (end of 2005: 109%). The minimum requirement of 100% was fulfilled at all times during the financial year.

E. OTHER INFORMATION

DEPOSIT GUARANTEE SCHEME

The bank is a member of the *Association pour la Garantie des Dépôts, Luxembourg (AGDL),* which was founded on September 25, 1989 and provides a deposit guarantee system for its members' customers.

The guarantee covers in particular all deposits by individuals, irrespective of nationality or country of residence. Each customer of an AGDL member is covered for up to the equivalent of a maximum T € 20 per cash deposit and T € 20 per amount receivable under a securities transaction other than a cash deposit.

The bank sets up a provision in recognition of the specific risk under the guarantee as a result of a member's default. The provision is shown under "other provisions".

STAFF

Number of staff

	31.12.2006	Average in 2006
Management Board	3	3.0
Executives	21	20.3
Staff	328	321.7
Total	**352**	**345.0**

On December 31, 2006, the bank employed 184 female staff and 168 male staff.

In 2006, the total remuneration of the Management Board and executives was T € 6,102. The addition to pension provisions was T € 1,105.

The expense for pension obligations for former members of the Management Board was T € 68.

As of December 31, 2006, there were loans, advances and other commitments in the sum of T € 186 to members of the Management Board and executives.

ANNUAL REPORT FOR 2006 OF DEUTSCHE BANK GROUP

The Annual Report of the Group consists of the Annual Review and the Financial Report. Both publications can be obtained from

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Leser-Service-PKS
60262 FRANKFURT
GERMANY

and on the Internet at
www.deutsche-bank.de/ir/en

Luxembourg, February 28, 2007

Deutsche Bank Luxembourg S.A.
The Board of Directors

Report of the Réviseur d'Entreprises

TO THE BOARD OF DIRECTORS OF DEUTSCHE BANK LUXEMBOURG S.A.

REPORT ON THE ANNUAL ACCOUNTS

Following our appointment by the board of directors dated March 21, 2006, we have audited the accompanying annual accounts of Deutsche Bank Luxembourg S.A., which comprise the balance sheet as at December 31, 2006 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

BOARD OF DIRECTORS' RESPONSIBILITY FOR THE ANNUAL ACCOUNTS

The board of directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITY OF THE RÉVISEUR D'ENTREPRISES

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the réviseur d'entreprises, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the annual accounts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the annual accounts give a true and fair view of the financial position of Deutsche Bank Luxembourg S.A. as of December 31, 2006, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The management report, which is the responsibility of the board of directors, is in accordance with the annual accounts.

Luxembourg, February 28, 2007

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

T. Feld   C. Brüne

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IMPORTANT DATES 2007

Events of Deutsche Bank Luxembourg

April 26, 2007	Vernissage
September 22, 2007	Private Art Kirchberg
October 23/24, 2007	Financial Markets Forum
December 13, 2007	Christmas Concert