Deutsche Bank

Annual Report 2016
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 capital, regulatory and recognised in the balance sheet, amounts to approximately € 5 billion.

– The Bank employs 312 people from over 28 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 http://www.db.com/luxembourg or you can use the following barcode via smartphone/tablet:

You can find the Annual Report in the "Our Company" section of the website or using the following barcode via smartphone/tablet:

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English:

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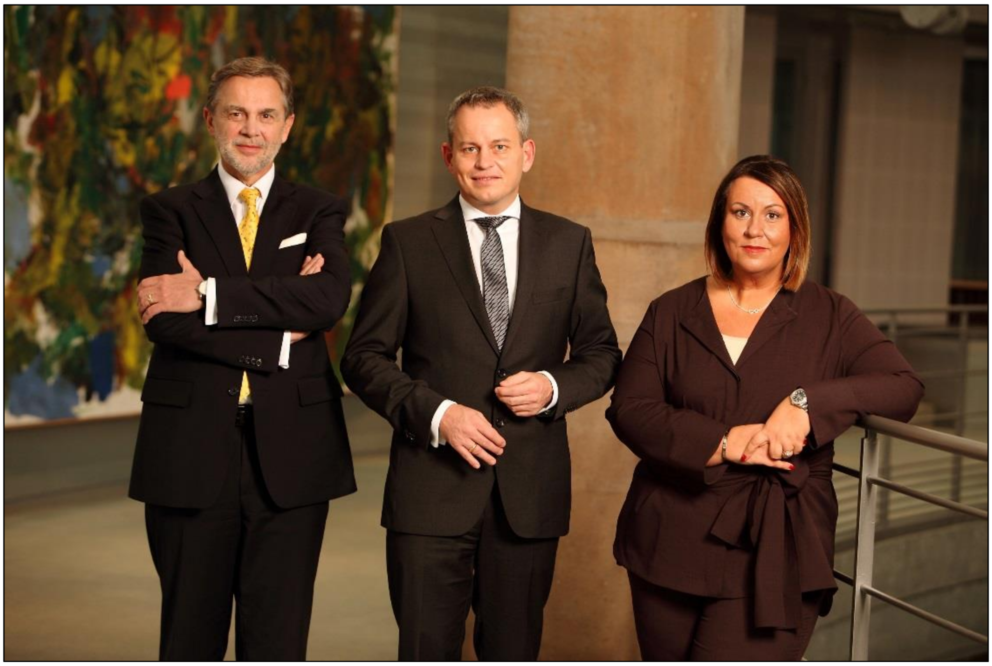
Management Board



Werner Burg, Frank Krings, Nathalie Bausch (from left to right)

Frank Krings (since 2 June 2016)

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

Nathalie Bausch

Member of the Management Board
Chief Operating Officer
Nationality: Luxembourgish
Business address: 2, boulevard Konrad Adenauer, L-1115 Luxembourg

Werner Burg

Member of the Management Board
Chief Risk Officer
Nationality: German
Business address: 2, boulevard Konrad Adenauer, L-1115 Luxembourg

Supervisory Board

Ashok Aram (since 1 September 2016)
Chairman of the Supervisory Board
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Business address: Taunusanlage 12, D-60325 Frankfurt am Main

Luc Frieden (until 31 March 2016)
Former Chairman of the Supervisory Board
Deutsche Bank AG, London, United Kingdom

Rüdiger Bronn (since 1 August 2016)
Member of the Supervisory Board
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Business address: Wilhelm-Fay-Straße 31-37, D-65936 Frankfurt am Main

Mary Campbell (until 25 May 2016)
Member of the Supervisory Board
Deutsche Bank AG, Dublin, Ireland

Ernst Wilhelm Contzen
Member of the Supervisory Board
Person of private means
Business address: 2, boulevard Konrad Adenauer, L-1115 Luxembourg

Karin Dohm (since 1 September 2016)
Member of the Supervisory Board
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Business address: Taunusanlage 12, D-60325 Frankfurt am Main

Carmen Herbstritt (until 31 May 2016)
Member of the Supervisory Board
Deutsche Bank (Suisse) S.A., Zurich, Switzerland

Kornelis Jan (Kees) Hoving
Member of the Supervisory Board
Deutsche Bank AG, Amsterdam, Netherlands
Bank employee
Business address: De Entree 99-197, NL-1101 HE Amsterdam

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Marzio Hug (since 1 September 2016)

Member of the Supervisory Board
Deutsche Bank AG, London, United Kingdom
Bank employee
Business address: 20, Finsbury Circus, UK-EC2M 1NB London

Carsten Kahl (since 1 August 2016)

Member of the Supervisory Board
Deutsche Bank (Suisse) S.A., Zurich, Switzerland
Bank employee
Business address: Hardstraße 201, CH-8005 Zürich

Rainer Rauleder (since 1 August 2016)

Member of the Supervisory Board
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Business address: Taunusanlage 12, D-60325 Frankfurt am Main

Karl von Rohr (until 15 March 2016)

Member of the Supervisory Board
Deutsche Bank AG, Frankfurt am Main, Germany

Frank Rückbrodt (since 15 March 2016)

Member of the Supervisory Board
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee
Business address: Taunusanlage 12, D-60325 Frankfurt am Main

Peter Wharton-Hood (since 1 October 2016)

Member of the Supervisory Board
Deutsche Bank AG, London, United Kingdom
Bank employee
Business address: 10 Upper Bank Street, UK-E14 5GW London

Audit Committee*

Rüdiger Bronn
Chairman of the Audit Committee
Deutsche Bank AG, Frankfurt am Main, Germany

Karin Dohm
Member of the Audit Committee
Deutsche Bank AG, Frankfurt am Main, Germany

Frank Rückbrodt
Member of the Audit Committee
Deutsche Bank AG, Frankfurt am Main, Germany

Peter Wharton-Hood
Member of the Audit Committee
Deutsche Bank AG, London, United Kingdom

Risk Committee*

Marzio Hug
Chairman of the Risk Committee
Deutsche Bank AG, London, United Kingdom

Kornelis Jan (Kees) Hoving
Member of the Risk Committee
Deutsche Bank AG, Amsterdam, Netherlands

Carsten Kahl
Member of the Risk Committee
Deutsche Bank (Suisse) S.A., Zurich, Switzerland

Rainer Rauleder
Member of the Risk Committee
Deutsche Bank AG, Frankfurt am Main, Germany

* Membership as at 31 December 2016

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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 capital, both regulatory and statutory, amounts to approximately € 5 billion as at 31 December 2016.

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, customer-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 relevant 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 customer perspective, is the long-term nature of the Bank's chosen areas of activity:

Corporate Finance (Corporate & Investment Banking)

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 and international service provider to customers 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. In addition, this area of activity is supported by a dedicated IT application in which the Bank continues to invest.

Structured Finance (Global Markets)

In the segment for high-quality capital goods (e.g. special-purpose vessels, aircraft), long-term utility and infrastructure projects (e.g. alternative forms of energy, transport routes) and cross-border working capital finance (partly emerging market-related), 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 customers in structured and property-related financing scenarios across the entire maturity spectrum. The Bank also acts as fiduciary issuer, trustee and investor.

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.

Investor & Issuer Services

The Bank assists investors (including fund companies) and issuers in a variety of roles under the mandates awarded to it, including as agent, trustee or depositary. In providing services for fund companies, long-term asset classes such as real estate and private equity capital are front and centre. Partly in light of the Luxembourg Stock Exchange’s role as a world-leading listing venue, services for issuers focus primarily on debt securities. The Bank’s prominent position as an agent and syndicate manager in finance transactions has already been mentioned.

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. In addition to financial interests that change over time, the Bank also has a significant company interest in the form of Deutsche Asset Management S.A., in which it holds 50% and with which it is affiliated as the controlling company in a tax group and through various service relationships. Members of the Bank’s Management Board are represented on the Supervisory Board of Deutsche Asset Management S.A.

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 Risk Management, please refer to the Risk Report.

Strategy

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

One of the Bank’s priorities in calendar year 2017 is its expansion as an EU service centre in Wealth Management and the related IT upgrades in its core areas of activity. Another task is to complete measures to consistently focus the Bank’s activity portfolio on its proven strengths.

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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 2016, it employed 312 members of staff (end of 2015: 312) from 28 countries. Luxembourg residents make up 27% of the Bank's workforce; of these, 24 members of staff are Luxembourg nationals. Cross-border commuters from neighbouring Belgium, Germany and France represent 73% of the workforce.
Fifty-five percent of the total workforce and 26% of executives (Managing Director, Director, Vice President) are female. At the end of 2016, the average length of service of the total workforce was 13 years (end of 2015: 14 years). During the past financial year, 31 new members of staff joined the Bank (2015: 36), 27 of them on permanent contracts, and three 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 2016, the Bank gave over 47 students from 11 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. The Bank is a member of the Luxembourg Bankers' Association (Association des Banques et Banquiers, Luxembourg (ABBL)). As a member of Private Art Kirchberg, the Bank has for many years made a relevant contribution to cultural life in the Grand Duchy of Luxembourg through a number of private tours of art collections and as a venue for seasonal concert performances. The Deutsche Bank Financial Market Reception ("Finanzmarkt-Empfang") – staged since 1991 and took place for the 25th time in the financial year 2016 as part of the Luxembourg Finanzmarkt-Forum organised together with the financial publication Börsen-Zeitung – brings as key-note speaker high-calibre business leaders and public figures to Luxembourg.

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Management Report

Management Report

Profit and Loss Account

Deutsche Bank Luxembourg S.A. generated net income of € 1,067 million in financial year 2016 (2015: € 289 million). An interim dividend in the amount of € 150 million was distributed to the Parent before the end of the financial year.

In addition to ongoing customer operations, the following transactions in ownership interests had a significant impact on the financial position, net assets and results of operations in financial year 2016:

The interest in Hua Xia Bank Company Limited (9.28% shareholding) was sold in November 2016 at a net gain of € 741 million.

The restructuring of the Apex financing arrangement ("Apex") initiated in 2015 was successfully continued during the current year as part of various measures to reduce complexity in the structure and management of the Bank's equity interests. Two companies affiliated with Apex (DB Apex Management Capital S.C.S. and DB Apex Management Income S.C.S.) were fully liquidated. In financial year 2016, the Bank received a final one-time payment of € 101 million for an Apex participation right acquired in 2013.

In addition, selected equity interests [Acacia (Luxembourg) S.à r.l., Birch (Luxembourg) S.à r.l., Cedar (Luxembourg) S.à r.l. and Durian (Luxembourg) S.à r.l.] were sold to DB Credit Investments S.à r.l., a subsidiary of Deutsche Bank Luxembourg S.A. The sale resulted in an intragroup loss on disposal of T€ 14. Furthermore, the interest in Willem S.A. was sold externally. The resulting gain on disposal amounted to T€ 6 in total in financial year 2016. The interest in Primelux Insurance S.A. was amalgamated into DB Re S.A. in the current year, generating merger proceeds of T€ 15. The Bank subsequently holds a 1% interest in DB Re S.A.

The interest in DB Finance International GmbH was restructured and sold in financial year 2015. In this connection a positive contribution to earnings of € 86 million was generated, resulting largely from the distribution of reserves from sub-participations of the company. This one-time effect on the 2015 Profit and Loss Account led to a corresponding decline in income year on year.

Due to the release of special items in financial year 2015, income for the current financial year was down by € 93 million year on year.

Of the participation rights issued in September 2010 and July 2011 in the total amount of € 2.4 billion, both of which qualify as Upper Tier II capital under bank supervisory regulations, one participation right in the amount of € 1.5 billion was repaid at the end of 2015 due to the maturity structure. The remaining participation right in the amount of € 850 million fell due in December 2016 and was repaid in full. Interest is linked to the operating profit of Deutsche Bank Luxembourg S.A. in each case (including the item "Other income/expenses including dividends"). Coupon expense on participation rights amounted to € 84 million for the current financial year (2015: € 244 million). Interest expenses on subordinated capital declined by € 160 million compared with the previous year, due to the repayment of participation rights in 2015.

The fair value portfolio of the Credit Portfolio Strategies Group (CPSG) in the Corporate & Investment Banking (CIB) division once again made a positive contribution to Deutsche Bank Luxembourg S.A.'s total earnings in financial year 2016. The portfolio's net contribution to earnings amounted to € 169 million (2015: € 127 million) in the Profit and Loss Account.

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

Net results

in T €	2016	2015
Net interest income	306,492	292,537
Net commission income/loss	–91,221	–88,732
Net profit on financial operations	–1,261	10,160
General administrative expenses	–92,476	–92,972
Depreciation of tangible and intangible assets	–532	–637
Operating profit I	**121,002**	120,356
Other income/expenses including dividends	1,101,863	316,956
Operating profit II	**1,222,865**	437,312
Net change in provision for risk including release of special items	4,782	153,114
Taxes	–76,052	–57,829
Payments for participation rights	–84,256	–243,713
Net income	**1,067,339**	288,884

The year on year increase in net interest income of € 14 million to € 306.5 million at the end of the 2016 financial year resulted from higher interest income, which amounted to a total of € 825.8 million at the balance sheet date (2015: € 664.7 million). The main driver of this growth was negative interest in the amount of € 112.3 million that the bank charged other credit institutions for their deposits during the 2016 financial year. Further, at € 35 million (2015: € 79 million), the interest rate components of the CPSG-Fair-Value-Portfolio had a positive effect on interest earned during the reporting year. This was counteracted by interest expense, which increased by € 147 million to € 519.3 million (2015: € 372.1 million) at the end of the financial year. One of the main causes of this increase was negative interest incurred in the amount of € 100.6 million for cash deposits held by Deutsche Bank Luxembourg S.A. at other credit institutions during the 2016 financial year.

Total net commission income for the 2016 financial year was negative at € –91 million, remaining close to the previous year's level (2015: € –89 million). Commission income of € 115.2 million in 2016 was € 15 million below the previous year. This is largely due to special income from large syndications in 2015 that could not be repeated on this scale in 2016. Also declining slightly year on year were commission expenses in the amount of € 206.4 million (2015: € 218.6 million), incurred mainly for transfer pricing payments within the Group (in connection with risk hedging) related to corporate finance (Corporate & Investment Banking). With a share of 62% (2016: € 128 million and 2015: € 138 million), expenses in connection with Collateralised Loan Obligations (CLO) continued to comprise the major portion of commission expenses. CLO-expenses of € 97 million are related to the CPSG-Fair-Value-Portfolio in the current financial year.

Administrative expenses dropped by T€ 496 year on year to € 92.5 million at the end of the 2016 financial year. The slight decline in expenses is due primarily to lower intragroup cost allocations recognised in other administrative expenses.

The increase in other operating income to € 959 million as at the balance sheet date (2015: € 160 million) is due mainly to the sale of the interest in Hua Xia Bank Company Limited in financial year 2016. The sale of the interest generated a net gain of € 741 million. The remaining € 218 million in other operating income largely reflects income collected as compensation for the imputed first day loss (shortfall) on loans in the CPSG portfolio, with € 206 million (2015: € 154 million) in Corporate & Investment Banking. This income comprises a compensation payment by the Deutsche Bank Group unit responsible for the customer/product to Deutsche Bank Luxembourg S.A. in its 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 internal master spread agreements.

Other operating charges of € 29.8 million (2015: € 14.3 million) are mainly related to litigation provisions of € 14 million and to the contribution of € 5 million required for the European Single Resolution Fund (SRF) for the first time.

Actual drawings on collateralised loan obligations 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 € 25.4 million being released from risk provisions (2015: € 32.2 million released).

Adequate provisions have been made for all other discernible risks in loan and securities business (including participating interests) and for operating risks. Ultimately, a net amount of € 20.6 million was added to provisions for risks in financial year 2016 (2015: € 28.2 million released). Further details on the lump-sum provision are provided in the notes (Section D, Risk Report).

In view of the interim dividend distributed before the end of the financial year in the amount of € 150 million, the Supervisory Board will propose to the General Meeting that the remaining net income be distributed in the form of a dividend totalling € 750 million, and € 167 million be allocated to "Other reserves". The Supervisory Board will also propose to the General Meeting that retained earnings be distributed in the amount of € 50 million.

Balance Sheet

Total assets declined by 35% compared with the previous year (2015: € 80 billion) to € 52 billion as at 31 December 2016. The decline in total assets reflects our efforts to reduce the carrying amounts of selected balance sheet items and was driven primarily by the repayment of intercompany receivables and liabilities in the amount of € 25 billion. Net exchange rate fluctuations had a positive impact on total assets, resulting in a change of € 605 million (2015: € 1.0 billion).

At the balance sheet date, balances of € 10.8 billion with central banks were almost on a par with the previous year (2015: € 10.9 billion). Of this total, € 10.6 billion qualify as high-quality liquid assets.

Loans and advances to credit institutions and customers amounted to € 39 billion (2015: € 67 billion) at the balance sheet date. The decline was mainly due, as already explained, to the repayment of investments in the amount of € 25 billion held by Deutsche Bank Luxembourg S.A. at other credit institutions of the Deutsche Bank Group.

Total securities, comprising debt securities and other fixed-income securities as well as shares and other non-fixed-income securities, declined by 13% year on year to € 527 million at the end of the 2016 financial year.

The shares reported under participating interests were decreased by € 641 million year on year to T€ 215 at the end of the 2016 financial year. The steep drop is primarily related to the sale of shares in the Hua Xia Bank Company Limited and of the Willem S.A. during the 2016 financial year. Shares in affiliated undertakings were down by T€ 172 year on year to € 5.8 million as at the balance sheet date due to intragroup sales and mergers during the past financial year.

Other assets rose to € 1.1 billion (2015: € 355 million) as at the balance sheet date. The rise reflects, among other things, the remaining amount of the purchase price payment from the sale of Hua Xia Bank Company Limited of € 620 million, which could not be transferred internationally in the full amount in 2016 due to currency transfer regulations as well as tax allocations from the tax group in the amount of € 353 million.

Amounts owed to credit institutions and customers declined by € 28 billion to € 45 billion. As on the assets side, the decline is due to the repayment of € 25 billion of cash deposits held by other credit institutions of Deutsche Bank Group at Deutsche Bank Luxembourg S.A.

Debts evidenced by certificates decreased by € 5.7 million to T€ 43 as at the balance sheet date. The decrease is the result of a maturing EUR Zero Coupon Bond, which was repaid in full in December 2016.

Subordinated liabilities were fully repaid at the end of December 2016 due to a maturing participation right in the amount of € 850 million (classified to date as Upper Tier II capital).

The regulatory own funds of Deutsche Bank Luxembourg S.A. rose to € 5.3 billion as at the balance sheet date compared with the prior-year figure of € 4.5 billion. They were bolstered mainly by the sale of equity interests (with the related capital deduction items therefore ceasing to apply in financial year 2016) as well as by a reduction in risk-weighted assets (RWAs) at the balance sheet date. Further details are outlined in the Risk Report (Section D, regulatory risk position).

The EU solvency ratio under CRD IV was 16.7% as at the balance sheet date (compared with 11.7% in 2015). The Tier I capital ratio stood at 16.7% as at 31 December 2016 (compared with 11.2% in 2015).

The profitability of capital as quotient of net income and total assets/liabilities amounted to 2.06% (2015: 0.36%) at year end 2016.

Business policy as well as risk and 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 local business divisions are incorporated into the planning in the corporate divisions of Deutsche Bank Group.

The Bank is integrated in organisational and IT terms into the risk and capital management as well as 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 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, currency and equity risk,
– liquidity risk,
– operational risk,
– reputational risk.

These risks were monitored appropriately at all times during the past financial year. Detailed information on the management of the main risk categories and quantitative statements on financial instruments are given 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 at the regular meetings of the Supervisory Board and of the Management Board. In financial year 2016, the Supervisory Board changed the composition and procedures of the Audit Committee and Risk Committee in order to support it in its work and thus fully implemented the recommendation from the corresponding CSSF Circular 12/552 (as amended). 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 business, risk and balance sheet situation as well as the effects of new business on the risk profile and the Bank's capital funding, 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 2017

2016 was a year of significant currency and equity volatility on the international financial markets. In the US, the first monetary policy action was taken to moderately raise benchmark interest rates. Especially in the Euro Zone, we do not expect the ECB's current monetary policy stance to change significantly in 2017. Regardless of this, there is further evidence of material client demand for financing and financing solutions, which we believe will continue in the coming year and contribute to stable net interest income at the Bank.

As part of Deutsche Bank Group, the Bank will continue to implement the communicated "Strategy 2020" in 2017. The main focus for the Bank in the coming year will be the modernisation of the local IT platform, which allows processes to be further standardised and new regulatory and customer requirements to be properly implemented in the Bank's IT systems. The restructuring measures taken in past years and the associated optimisation of the local banking organisation have created a reliable basis for stable banking operations and efficient cost management. We expect the expenditure on modernising IT and implementing new regulatory requirements (e.g. MiFID II, IFRS 9) as well as any reorganisation measures to be a material cost factor in financial year 2017.

As the quality of our credit portfolio remains satisfactory and in light of our close and continual monitoring of credit risk, necessary risk provisioning should remain on a par with previous years. Regardless of this, the monitoring of operational risks will become even more important in future.

In our capital planning, we simplified our investment portfolio and sold our interest in Hua Xia Bank Company Limited, thus we anticipate a reduction in the capital deduction items used to measure regulatory own funds and therefore an improvement in the solvency ratio. In addition, the Bank plans to issue € 1 billion of subordinated capital in 2017. With the funds recognised as Upper Tier I capital, the planned measure will help to bolster the Bank’s own funds, enabling it to perform its role as a centre of excellence for corporate lending and as an EU service centre in international asset management over the long term.

Bearing in mind economic market parameters and the competitive environment in the financial services industry, we expect to achieve sustainably positive operating income again in 2017. Business performance since the beginning of the year confirms our assessment.

Luxembourg, 1 March 2017

The Management Board

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Balance Sheet

as at 31 December 2016

Assets

in T €	[Notes]	31 Dec. 2016	31 Dec. 2015
Cash in hand, balances with central banks and post office banks	[B2]	10,762,623	10,869,168
Loans and advances to credit institutions	[B1, 2, 6]	25,335,148	51,883,430
repayable on demand		310,369	289,305
other loans and advances		25,024,779	51,594,125
Loans and advances to customers	[B1, 2, 6]	13,643,262	15,338,182
Debt securities and other fixed-income securities	[B1, 2, 3]	525,814	605,758
of public issuers		18,956	18,054
of other issuers	[B5, 6]	506,858	587,704
Shares and other variable-yield securities	[B2, 3]	803	768
Participating interests	[B4, 5]	215	640,868
Shares in affiliated undertakings	[B4, 5]	5,827	5,999
Tangible assets	[B5]	3,260	3,563
Other assets	[B8]	1,101,589	354,701
Prepayments and accrued income		408,857	320,605
Total assets		**51,787,398**	80,023,042

Liabilities and equity

in T €	[Notes]	31 Dec. 2016	31 Dec. 2015
Amounts owed to credit institutions	[B1, 2, 14]	34,196,630	60,664,799
– repayable on demand		183,549	57,630
– with agreed maturity dates or periods of notice		34,013,081	60,607,169
Amounts owed to customers	[B1, 2, 14]	10,330,062	11,819,567
other debts		10,330,062	11,819,567
– repayable on demand		1,189,884	1,711,810
– with agreed maturity dates or periods of notice		9,140,178	10,107,757
Debts evidenced by certificates	[B1, 9]	43	5,771
debt securities in issue		0	5,721
other debts		43	50
Other liabilities	[B8]	348,308	324,500
Accruals and deferred income		478,840	654,265
Provisions for liabilities and charges		451,413	405,378
reserves for pensions and similar obligations		1,021	70
provisions for taxation		221,452	178,066
other provisions		228,940	227,242
Subordinated liabilities	[B1, 10]	0	850,000
Special items with a reserve quota portion	[B11]	33,869	33,869
Subscribed capital	[B12]	3,959,500	3,959,500
Share premium account		55,600	55,600
Reserves	[B13]	1,015,794	960,909
Net income		1,067,339	288,884
Interim dividend payment	[B13]	–150,000	0
Total liabilities and equity		**51,787,398**	80,023,042

Off-balance sheet items

in T €	[Notes]	31 Dec. 2016	31 Dec. 2015
Contingent liabilities	[B2, 16]	13,014,762	12,565,053
of which:			
guarantees and assets pledged as collateral security		13,014,762	12,565,053
Commitments	[B2, 17]	27,615,779	29,877,387
Fiduciary operations	[B2]	3,996,097	4,574,245

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 2016

Profit and Loss Account

in T €	[Notes]	1 Jan.– 31 Dec. 2016	1 Jan.– 31 Dec. 2015
Interest receivable and similar income		825,818	664,675
of which:			
from fixed-income securities		13,172	11,325
Interest payable and similar charges	[B10]	519,326	372,138
Income from transferable securities		172,569	171,542
from shares		0	0
from participating interests		48,216	49,766
from shares in affiliated undertakings		124,353	121,776
Commissions receivable		115,156	129,910
Commissions payable		206,377	218,642
Net profit on financial operations		–1,261	10,160
Other operating income	[C2]	959,061	159,748
General administrative expenses		92,476	92,972
Staff costs		34,964	32,535
of which:			
– wages and salaries		26,358	26,470
– social security costs		7,896	5,502
of which: pensions		4,686	2,312
Other administrative expenses		57,512	60,437
Depreciation of and value adjustments to intangible and tangible assets		532	637
Other operating charges	[C3]	29,767	14,334
Depreciation of and value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments*		–4,782	–60,457
Value adjustments in respect of securities held as financial fixed assets, participating interests and shares in affiliated undertakings*		0	321
Release from special items with a reserve quota portion	[B11]	0	92,978
Taxes on profit on ordinary activities		75,403	57,103
Profit on ordinary activities after taxes and before payments for participation rights		**1,152,244**	533,323
Other taxes not shown under the preceding items		649	726
Payments for participation rights	[B10]	84,256	243,713
Net income		**1,067,339**	288,884

* 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 a wholly owned Group subsidiary of 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 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 majority of companies.

The current Annual Report for Deutsche Bank AG can be accessed at http://www.db.com/16.

The accounting and valuation methods 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 continent 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 customers.

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 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:

- Deutsche Bank Luxembourg S.A.’s existing CPSG loan 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. No separate examination of other risks (particularly market risks) is provided as far as 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 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 Deutsche Bank Luxembourg S.A. in cooperation with the global Credit Risk Management unit of Deutsche Bank AG.

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 continent losses are established which are reported under “Other provisions”. In connection with the CPSG portfolio, no distinction could be reasonably made, without entailing undue expense, between one-off payments made/received in the form of premiums (upfront) 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 strict 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 Luxembourg tax legislation, the Bank establishes a lump-sum provision for inherent risks in risk-bearing assets weighted pursuant to regulatory and legal requirements as well as for the credit risk equivalent from derivatives.

Pursuant to the instructions issued by the Tax Authority on 16 December 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 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

The Bank holds a portfolio designated “Other securities” which includes, in particular, securities held as a source of liquidity.

These securities are valued at the lower of cost and market value 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.

– Equity shares and other variable-yield securities

As at the 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.

– 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 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 customers. 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 the 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.

– Special items with a reserve quota portion

The special item with a reserve quota portion in the amount of € 33.8 million relates to fiscally-neutralised translation gains from the reinvestment of equity capital in DEM in accordance with Article 54 of the Luxembourg income tax law.

– 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 in accordance with IFRS rules, and secondly to adhere more closely 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.

In 2010, Deutsche Bank Luxembourg S.A. (controlling company) and Deutsche Asset Management S.A. (controlled company) formed a fiscal unit for income tax purposes. This arrangement has been effective since 1 January 2010. Under Luxembourg law, it can only be recognised once the fiscal unity has existed for more than five years. Since the controlling company acts as tax debtor vis-à-vis the tax authorities, income taxes of both companies are shown in Deutsche Bank Luxembourg S.A.'s balance sheet and profit and loss account. In return, Deutsche Asset Management S.A., in its capacity as a controlled company, pays a corresponding contribution to Deutsche Bank Luxembourg S.A. The calculation basis for this is set out in a tax allocation agreement signed by both companies.

The fiscal unit for income tax purposes was expanded in subsequent years and comprised the following individual entities at the end of December 2016: Deutsche Bank Luxembourg S.A., Deutsche Asset Management S.A., Cabarez S.A., Magalhaes S.A., VCL Lease S.à r.l., Isaac Newton S.A., Acamar Holding S.A., Adara S.A. and Agena S.A.

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 2016.

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	16,257	2,769	5,310	688	25,024
Loans and advances at term to customers	4,371	781	7,040	1,305	13,497
Debt securities and other fixed-income securities	0	8	19	499	526
Total	20,628	3,558	12,369	2,492	39,047

For comparison 31 Dec. 2015:

in € m.					
Total	39,995	12,552	8,843	6,123	67,513

In addition to loans and advances at term to customers, loans and advances repayable on demand are reported in the amount of € 146 million (2015: € 25 million) and to credit institutions in the amount of € 311 million (2015: € 289 million).

Of the loans and advances at term to customers, loans and advances in a nominal amount of € 329 million (2015: € 223 million) were deposited as collateral with Banque Centrale du Luxembourg (BCL) as at the balance sheet date.

Of the loans and advances at term to credit institutions and customers, € 41 million (2015: € 56 million) are subordinated.

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	21,123	11,629	993	268	34,013
Amounts owed at term to customers	2,907	1,052	2,960	2,221	9,140
Debts evidenced by certificates	0	0	0	0	0
Subordinated liabilities	0	0	0	0	0
Total	24,030	12,681	3,953	2,489	43,153

For comparison 31 Dec. 2015:

in € m.					
Total	56,311	11,482	1,120	2,658	71,571

In addition to amounts owed at term to customers, amounts payable on demand are reported in the amount of € 1,190 million (2015: € 1,712 million) and to credit institutions in the amount of € 184 million (2015: € 58 million).

There are 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 2016.

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	10,763	0	0	0	0	0	10,763
therein: balances with central banks	10,760	0	0	0	0	0	10,760
Loans and advances to credit institutions	23,847	381	556	0	2	549	25,335
Loans and advances to customers	9,783	703	431	270	1,968	488	13,643
Debt securities and other fixed-income securities	526	0	0	0	0	0	526
Shares and other variable-yield securities	1	0	0	0	0	0	1
Total	44,920	1,084	987	270	1,970	1,037	50,268

For comparison 31 Dec. 2015:

in € m.							
Total	72,009	1,666	972	210	2,027	1,813	78,697

Amounts owed

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Amounts owed to credit institutions	27,972	2,647	0	0	3,576	2	34,197
Amounts owed to customers	9,446	444	15	88	259	78	10,330
Total	37,418	3,091	15	88	3,835	80	44,527

For comparison 31 Dec. 2015:

in € m.							
Total	63,565	4,425	21	229	4,119	125	72,484

Off-balance sheet items

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Contingent liabilities	10,219	637	476	0	1,238	445	13,015
Commitments	21,834	2,493	1,308	24	1,409	548	27,616
Fiduciary operations	3,996	0	0	0	0	0	3,996
Total	36,049	3,130	1,784	24	2,647	993	44,627

For comparison 31 Dec. 2015:

in € m.							
Total	36,886	4,050	1,777	26	3,113	1,164	47,016

Financial transactions

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Interest rate transactions	6,130	0	0	0	0	0	6,130
Foreign exchange/gold transactions	2,954	2	0	0	6	6	2,968
Equity transactions	0	0	0	0	0	0	0
Credit derivatives*	4,642	0	0	0	69	0	4,711
Total	13,726	2	0	0	75	6	13,809

* of which a nominal amount of € 3,500 million is reported under contingent liabilities.

For comparison 31 Dec. 2015:

in € m.							
Total	9,183	103	0	0	90	5	9,381

3 – Securities

The securities included in the asset items listed below are 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)	0	0	0
Debt securities and other fixed-income securities (held for liquidity purposes)	507	19	526
Shares and other variable-yield securities (held for liquidity purposes)	1	0	1

Write-downs were unchanged year on year at € 1.3 million at the balance sheet date.

The total amount of securities pledged is € 18 million (nominal volume); all of these 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

Name of the company	Registered domicile	Holding	Shareholders' equity	Net income for the financial year* in € m.
DB Apex (Luxembourg) S.à r.l.	Luxembourg	100%	0.4	–0.9
Aqueduct Capital S.à r.l.	Luxembourg	100%	9.2	1.1
DB Credit Investments S.à r.l.	Luxembourg	100%	–16.1	21.4
Deutsche Haussmann S.à r.l.	Luxembourg	100%	–71	0.0
Cabarez S.A.	Luxembourg	95%	0.2	0.1
Magalhaes S.A.	Luxembourg	95%	0.2	0.2
VCJ Lease S.à r.l.	Luxembourg	95%	0.0	0.0
Deutsche Asset Management S.A.	Luxembourg	50%	263.5	202.3
DB Vita S.A.	Luxembourg	25%	21.0	1.8

* 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 T €	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	664,785	0	644,716	1	20,070	19,855	215
Shares in affiliated undertakings	6,320	0	133	–39	6,148	321	5,827
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	0	26,533	0
Tangible assets	17,218	473	167	15	17,540	14,280	3,260
of which:							
office furniture and equipment	17,218	473	167	15	17,540	14,280	3,260
Total fixed assets	714,856	473	645,016	–23	70,291	60,989	9,302

Reference: Figures may not add up due to rounding.

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

	31 Dec. 2016		31 Dec. 2015	
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Loans and advances to credit institutions	25,296	0	51,767	0
Loans and advances to customers	112	55	1,322	41
Debt securities and other fixed-income securities	452	0	531	0

7 – Assets denominated in foreign currencies

Assets denominated in foreign currencies amounted to the equivalent of € 13,527 million in total as at the balance sheet date.

8 – Other assets/Other liabilities

Other assets rose to € 1.1 billion (2015: € 355 million) as at the balance sheet date. The rise reflects, among other things, the remaining amount of the purchase price payment from the sale of Hua Xia Bank Company Limited of € 620 million, which could not be transferred internationally in the full amount in 2016 due to currency transfer regulations as well as tax allocations from the tax group in the amount of € 353 million.

Social security contributions and other payment obligations are reported under “Other liabilities”. Individual items of note include intercompany liabilities in the amount of € 222 million (2015: € 154 million), of which € 36 million (2015: € 27 million) is attributable to the CPSG-Fair-Value-Portfolio. As at the balance sheet date, the line item also contains proceeds from the liquidation of collateral in the amount of € 109 million (2015: € 149 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

Debts evidenced by certificates decreased by € 5.7 million to T€ 43 as at the balance sheet date. The decrease is the result of a maturing EUR Zero Coupon Bond, which was repaid in full in December 2016.

10 – Subordinated liabilities

The subordinated liabilities item was released through the repayment in full of the maturing participation right (2015: € 850 million) at the end of December 2016.

Of the participation rights issued in September 2010 and July 2011 in the total amount of € 2.4 billion, both of which qualify as Upper Tier II capital under bank supervisory regulations, one participation right in the amount of € 1.5 billion had already been repaid at the end of 2015 due to its maturity structure. The remaining participation right in the amount of € 850 million fell due in December 2016 and was repaid in full. Interest is linked to the operating profit of Deutsche Bank Luxembourg S.A. in each case (including the item “Other income/expenses including dividends”). The coupon payment for the current financial year amounted to € 84 million. Interest expenses on subordinated capital declined by 66% compared with the previous year, due to the repayment of participation rights in 2015. To take greater account of the fact that the participation right 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 to increase transparency.

11 – Special items with a reserve quota portion

The special item with a reserve quota portion relates to fiscally-neutralised translation gains from the reinvestment of equity capital in DEM for the years 1980 to 1998 in accordance with Article 54 of the Luxembourg income tax law.

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 2016	396	565	0	0
Change in legal reserve/other reserves	0	0	0	0
Net income for the financial year 2015	0	0	0	289
Appropriation				
– Retained	0	120	0	–120
– Dividend	0	–65	0	–169
As at 31 December 2016	396	620	0	0

Net income for the financial year 2016 amounted to € 1,067 million. Of this amount, an interim dividend in the amount of € 150 million was distributed to the Parent.

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

The item “Other reserves” includes an appropriation of € 502 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. 2016		31 Dec. 2015	
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Amounts owed to credit institutions	33,271	0	59,570	0
Amounts owed to customers	5,891	0	6,506	0
Debts evidenced by certificates	0	0	0	0
Other liabilities	0	0	154	0

15 – Liabilities in foreign currencies

Liabilities denominated in foreign currencies amounted to the equivalent of € 12,922 million in total as at the balance sheet date.

16 – Contingent liabilities

Contingent liabilities consist of:

	31 Dec. 2016	
in € m.		of which: to Deutsche Bank companies
Guarantees and other direct substitutes for credit	13,015	3,559
of which:		
Credit derivatives	3,500	3,500
Acceptances	0	0
Total	13,015	3,559

17 – Commitments

Commitments consist of:

	31 Dec. 2016	
in € m.		of which: to Deutsche Bank companies
Commitments, not utilised	27,614	111
Other commitments (for example, facilities for the issuance of debt instruments, etc.)	2	0
Total	27,616	111

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, central administration and depositary bank function for special funds, asset management, paying agent services, agency function, commercial representation and institutional services.

2 – Other operating income

This item is made up as follows:

in T €	2016	2015
Income from the disposal of equity interests	741,399	0
Rental income	2,886	3,048
AGDL* release/refund	5,468	1,804
Income from CPSG-Fair-Value-Portfolio	205,811	154,189
Recoveries	2,609	330
Release of provisions	95	–
Sundry income	793	377
Total	**959,061**	159,748

* 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 increase in other operating income to € 959 million as at the balance sheet date (2015: € 160 million) is due mainly to the sale of the interest in Hua Xia Bank Company Limited in financial year 2016. The sale of the interest generated a net gain of € 741 million. The remaining € 218 million in other operating income largely reflects income in the amount of € 206 million collected for the first day loss (shortfall) on loans in the CPSG portfolio in Corporate & Investment Banking.

3 – Other operating charges

This item is made up as follows:

in T €	2016	2015
Amortisation of issuance costs Global Depositary Receipts (GDR)	2,265	2,086
Contribution to European SRF/national FRL contribution as well as FGDL contribution	5,468	1,683
Addition to other provisions	19,663	10,523
Sundry expenses	2,371	42
Total	**29,767**	14,334

Other operating charges of € 29.8 million (2015: € 14.3 million) are mainly related to litigation provisions of € 14 million and to the contribution of € 5 million required for the European Single Resolution Fund (SRF) for the first time. The Fonds de Résolution Luxembourg (FRL), the fund originally set up locally, was superseded by the European SRF upon its introduction in 2016.

4 – Auditor’s fees

Fees billed to the Company by KPMG Luxembourg, Société coopérative as Réviseur d’Entreprises agréé and, as Cabinet de révision agréé, authorised to provide services during the financial year are as follows:

in T € (excluding VAT):	2016	2015
Audit fees	535	558
Audit-related fees	198	95
Tax advisory fees	154	314
Other fees	25	23

Such fees are presented unter “Other administrative expenses” in the Profit and Loss Account.

D. Risk Report

General information

Deutsche Bank Luxembourg S.A. is integrated in organisational, procedural and IT terms into the risk and capital management as well as 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 has become particularly evident during the financial market crisis. While risk and capital management in the Group continuously evolves and improves, there can be no assurance 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 as such the following principles 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 appropriately with 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 which are closely aligned with the activities of the Group divisions.

- The Group's Management Board provides overall risk and capital management supervision for the consolidated Group.
- 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 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, operational risks and risk concentrations as well as capital are managed by means of 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 classes.
- Effective systems, processes and policies are a critical component of our risk management capability.

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 operating effectiveness of our 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 is exposed are specific banking risks, reputational risks and risks arising from general business activity.

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.

- 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 three types of credit risk:
  - Default risk is the risk that 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, nationalisations and expropriation of assets, government repudiation of external debts, foreign exchange controls, the devaluation or depreciation of the national currency. Country risk also includes transfer risk; this arises when direct government intervention prevents debtors from transferring 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 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 customer 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 customer is involved.

Concentration risk

fRisk 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 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:

– The key principle of Credit Risk Management is quantitative and qualitative client due diligence, taking into account, among other things, the industry and countries in which the client operates as well as its country of domicile. In line with our country and industry portfolio strategies, prudent client selection is achieved in collaboration with our business line counterparts who stand as a first line of defence. In each of our Group divisions credit decision standards, processes and principles are consistently applied.
– We aim to ensure a diversified credit portfolio. This effectively protects the Bank's capital in all market conditions. Client, industry, country and product-specific concentrations are actively assessed and managed against our risk appetite.
– We aim to avoid large directional credit risk on a counterparty, industry and country level. To do so, we apply stringent underwriting standards combined with a proactive hedging and distribution model and collateralisation of our hold portfolio.
– We are selective in taking outright cash risk positions unless they are secured, guaranteed and/or adequately hedged. Exceptions to this general principle are lower risk, short-term transactions and facilities supporting specific trade finance business requests as well as low risk businesses where the margin allows for adequate loss coverage.
– Deutsche Bank Group aims to secure its derivative portfolio through collateral agreements and may additionally hedge concentration risks to further mitigate credit risks from underlying market movements.
– Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to 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.
– Deutsche Bank Group measures and consolidates all credit exposures to each obligor on a global basis that applies across our consolidated Group, in line with the regulatory requirements of the German Banking Act (Kreditwesengesetz).
– Deutsche Bank Luxembourg S.A.'s local credit risk management tasks and supervisory functions are governed by the policy “Credit Risk Management (CRM) Deutsche Bank Luxembourg S.A. - Key Tasks and Operating Procedures”.

Credit risk ratings

A basic and key element of the credit approval process is a detailed risk assessment of each credit-relevant counterparty. Deutsche Bank Group applies in-house assessment methodologies, scorecards and a 26-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. Several default ratings therein make it possible to incorporate the potential recovery rate of unsecured defaulted counterparty exposures. 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 judgments.

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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 bookings in Luxembourg, risks are assumed in the form of credit 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 coordinated within the Group, and assumes the risk.

Deutsche Bank Luxembourg S.A. regularly reviews the creditworthiness of its credit risks on the basis of current 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.

The assumption of additional risks in the Credit Portfolio Strategies Group (CPSG) did not have a material negative effect on the general creditworthiness of the loan portfolio. At the end of 2016, 85% (2015: 88%) of total loans were to investment grade borrowers (rated BBB or above).

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 2016

in € m.	Loans and advances to credit institutions	Loans and advances to customers	Securities/ Participating interests/ Affiliated undertakings	Contingent liabilities	Confirmed credits	Total
AAA/AA	10	1,408	19	2,592	5,280	9,309
A	4,800	778	0	5,711	8,090	19,379
BBB	20,472	4,437	462	2,923	11,073	39,367
BB	8	3,667	0	1,059	2,874	7,608
B	0	972	0	3	281	1,256
CCC	0	2,262	1	67	0	2,330
NR*	45	119	51	660	18	893
Total	25,335	13,643	533	13,015	27,616	80,142

* Not rated = unrated customers

Structure of credit profile by industry as at 31 December 2016

in € m.	Loans and advances to credit institutions	Loans and advances to customers	Securities/ Participating interests/ Affiliated undertakings	Contingent liabilities	Confirmed credits	Total
Banks and insurance companies	25,335	1,292	514	2,266	3,751	33,158
Households	0	773	0	24	623	1,420
Manufacturing	0	1,736	0	3,647	8,100	13,483
Corporate services	0	3,746	0	2,960	5,206	11,912
Transport and telecommunications	0	503	0	954	2,111	3,568
Power and water utilities	0	2,284	0	642	1,011	3,937
Wholesale and retail trade	0	505	0	632	1,751	2,888
Mining	0	149	0	849	1,500	2,498
Public sector	0	616	19	93	83	811
Commercial real estate	0	498	0	494	476	1,468
Construction	0	145	0	296	294	735
Power generation (in particular solar power)	0	665	0	0	803	1,468
Automotive industry	0	507	0	0	1,532	2,039
Hotel/restaurant trade, leisure industry, gaming and gambling industry	0	79	0	0	90	169
Other	0	145	0	158	285	588
Total	25,335	13,643	533	13,015	27,616	80,142

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.

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

The risks assumed from the CPSG-Fair-Value-Portfolio amounted to € 9.4 billion as at 31 December 2016 (2015: € 11.6 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 risk factors determining the risk provision, conducted uniformly at a central office in 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. A risk performance status is produced on a daily basis and promptly forwarded to the Management Board, the risk function and Treasury.

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. Under the CPSG portfolio agreements, netting is possible in principle. To the extent that 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 2016

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	3,264	1,676	1,190	6,130	68	240	–172
Interest rate swaps	3,264	1,676	1,190	6,130	68	240	–172
Forward rate agreements	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Foreign exchange/gold transactions	2,926	42	0	2,968	7	25	–18
Futures contracts with customers	74	20	0	93	3	1	2
Futures contracts with banks	2,850	23	0	2,873	4	24	–20
Cross-currency swaps	0	0	0	0	0	0	0
Options	2	0	0	2	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*	757	3,660	293	4,711	29	165	–136
Other transactions	0	0	0	0	0	0	0
Total	6,948	5,379	1,483	13,809	104	430	–326

* of which a nominal amount of € 3,500 million is reported under contingent liabilities.
Reference: Figures may not add up due to rounding.

Analysis of derivative financial transactions as at 31 December 2015

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	2,211	1,784	1,331	5,326	62	228	–166
Interest rate swaps	2,211	1,784	1,331	5,326	62	228	–166
Forward rate agreements	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Foreign exchange/gold transactions	1,369	24	0	1,393	14	18	–4
Futures contracts with customers	272	11	0	283	4	5	–1
Futures contracts with banks	1,094	13	0	1,107	10	13	–3
Cross-currency swaps	0	0	0	0	0	0	0
Options	3	0	0	3	0	0	0
Equity transactions	6	0	0	6	0	0	0
Futures contracts	0	0	0	0	0	0	0
Swaps	6	0	0	6	0	0	0
Options	0	0	0	0	0	0	0
Credit derivatives*	1,249	1,146	261	2,656	58	65	–7
Other transactions	0	0	0	0	0	0	0
Total	4,835	2,954	1,592	9,381	134	311	–177

* of which a nominal amount of € 986 million is reported under contingent liabilities.

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 2016, the regulatory value-at-risk from interest rate and currency risks in the non-trading book was T€ 65. The average value for 2016 was T€ 217. The limit allocated locally remains unchanged at € 1.5 million. In addition to Treasury's normal activity, there is a VaR of € 2.2 million as at year-end, which was closely coordinated with Deutsche Bank Group due to CNY hedging following the sale of the interest in Hua Xia Bank Company Limited. An increase in the limit was considered unnecessary for this temporary transaction.

In foreign exchange business, only relatively small positions in foreign currency arise from broken 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 in preparing the daily risk performance status.

All data relevant to the Group are made available to the Group 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 113.6%, meaning that the minimum requirement of 70% in effect since 1 January 2016 is met.

Operational 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 give insight into the success of risk management and into the quality of the selected risk indicators.

Amid increasing coordination and regulation at European level, the Bank continued to face queries relating to certain legacy cross-border transactions and client relationships during the past financial year.

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. 2016	31 Dec. 2015
Central governments and central banks	57	296
Regional governments	0	0
Administration/non-profit institutions	0	3
Credit institutions	10,660	13,354
Corporates	18,497	23,039
Retail customers	42	49
Other assets	177	555
Secured by mortgage charges	724	454
Currency transactions	683	0
Operational risks	649	542
Past due items	107	198
Total	**31,596**	38,490

* Common Solvency Ratio Reporting (COREP)

Regulatory own funds in accordance with CRD IV amounted to € 5,273 million as at 31 December 2016 (2015: € 4,495 million) and the EU solvency ratio was 16.7% (end of 2015: 11.7%). Regulatory own funds and the EU solvency ratio were bolstered mainly by the sale of equity interests, with the related capital deduction items therefore ceasing to apply, as well as by a reduction in Risk-Weighted Assets (RWAs) in financial year 2016. For the EU solvency ratio, the minimum requirement of 10.8% was met at all times throughout financial year 2016.

At 16.7% at the end of 2016 (2015: 11.2%), the Tier I capital ratio also met the minimum requirement under CRD IV of 8.8% 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

The law of 23 December 2016 on the tax reform 2017 has 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 2016.

On 18 January 2017, 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 follow from an accounting point view the tax treatment foreseen in the law of 23 December 2016.

The AGDL provision amounted to € 29.2 million per end of 31 December 2015. As a consequence, the Bank reversed part of the existing AGDL provision for an amount of € 5.5 million in the other operating income and recorded a 2016 contribution of € 0.5 million to the FGDL and € 5 million SRF respectively in the other operating expenses.

Staff

Number of staff

	31 Dec. 2016	Average in 2016	31 Dec. 2015
Management Board	3	3.0	3
Executives	21	22.8	22
Staff	288	285.9	287
Total	**312**	311.7	312

In 2016, the total remuneration of the Management Board and the executives was T€ 4,602 (2015: T€ 6,168). The addition to pension provisions for members of the Management Board and executives was T€ 302 (2015: T€ 408).

The expense for pension obligations for former members of the Management Board was T€ 458.

As at 31 December 2016, loans, advances and other commitments to members of the Management Board and executives totalled T€ 10.

Luxembourg, 1 March 2017

The Management Board

4

Confirmations

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Report of the Réviseur d'Entreprises agréé

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

Report on the annual accounts

Following our appointment by the Management Board dated 30 November 2016, we have audited the accompanying annual accounts of Deutsche Bank Luxembourg S.A., which comprise the balance sheet as at 31 December 2016 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's responsibility for the annual accounts

The Management Board 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, 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.

Responsibility of the Réviseur d'Entreprises agréé

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 for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 agréé, 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 agréé 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 Management Board, 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 as of 31 December 2016, 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.

Other information

The Management Board is responsible for the other information. The other information comprises the information included in 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.

Report on other legal and regulatory requirements

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

Luxembourg, 1 March 2017

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 2016.

At its extraordinary meeting on 1 March 2017, the Supervisory Board approved the annual accounts and the Management Report prepared by the Management Board, which are thus established.

Net income for the financial year 2016 amounted to € 1,067 million. Of this amount, € 150 million was already distributed prior to the end of the financial year in the form of an interim dividend paid to the Parent.

Of the remaining net income, the Supervisory Board proposes to the General Meeting that a dividend in the amount of € 750 million be paid for the full financial year and an amount of € 167 million be allocated to “Other reserves”. In addition, the Supervisory Board proposes to the General Meeting that retained earnings be distributed in the amount of € 50 million.

Luxembourg, 1 March 2017

Ashok Aram
Chairman of the Supervisory Board

Registered Office

Architect: Prof. Gottfried Böhm, Pritzker Architecture award winner
Picture: Prof. Dieter Leistner

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