Deutsche Bank

Annual Report 2017
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, including Tier II capital, amounts to approximately € 6 billion.
- The Bank employs 340 people from 30 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:

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Deutsche Bank Luxembourg S.A.

Management Board

Nathalie Bausch, Frank Krings, Jürgen Fiedler (from left to right)

Frank Krings

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

Nathalie Bausch (until 31 January 2018)

Chief Operating Officer
Nationality: Luxembourgish
Business address: 2, boulevard Konrad Adenauer, L-1115 Luxembourg

Werner Burg (until 17 March 2017)

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

Jürgen Fiedler (since 17 March 2017)

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

Dr. Daniel Zapf (since 1 February 2018)

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

Supervisory Board

Ashok Aram
Chairman
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee

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

Ernst Wilhelm Contzen
External member of the Supervisory Board, Luxembourg

Karin Dohm
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee

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

Marzio Hug
Deutsche Bank AG, London, United Kingdom
Bank employee

Carsten Kahl
Deutsche Bank (Suisse) S.A., Zurich, Switzerland
Bank employee

Rainer Rauleder
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee

Frank Rückbrodt
Deutsche Bank AG, Frankfurt am Main, Germany
Bank employee

Peter Wharton-Hood
Deutsche Bank AG, London, United Kingdom
Bank employee

Audit Committee*

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

Karin Dohm
Deutsche Bank AG, Frankfurt am Main, Germany

Frank Rückbrodt
Deutsche Bank AG, Frankfurt am Main, Germany

Peter Wharton-Hood
Deutsche Bank AG, London, United Kingdom

Risk Committee*

Marzio Hug
Chairman
Deutsche Bank AG, London, United Kingdom

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

Carsten Kahl
Deutsche Bank (Suisse) S.A., Zurich, Switzerland

Rainer Rauleder
Deutsche Bank AG, Frankfurt am Main, Germany

* Membership as at 31 December 2017

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, including Tier II capital, amounts to approximately € 6 billion as at 31 December 2017 (previous year: € 5 billion).

Corporate Governance

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

Business model

The Bank has a business model that is diversified, client-focused and international, i.e. geared to cross-border business. For many years – and across economic, business and product-related cycles – this has enabled the Bank to make a 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 client perspective, is the long-term nature of the Bank's chosen areas of activity:

Corporate Finance (Corporate & Investment Bank)

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

Structured Finance (Corporate & Investment Bank)

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 clients 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. The Strategy section contains further information on upcoming changes affecting the aforementioned service offerings.

Partly in light of the Luxembourg Stock Exchange’s role (“Lux SE”) as a world-leading listing venue, other services for issuers focus primarily on debt securities.

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. 2017 was the last year in which, in addition to financial interests that change over time, the Bank also had a significant company interest in the form of Deutsche Asset Management S.A., in which it held 50% until the second quarter of 2017 and with which it was until that time affiliated as the controlling company in a tax group. This interest was sold in a cross-border transaction in the second quarter of 2017 in the course of preparations for the partial flotation of Deutsche Bank Group’s Asset Management division sought by the Parent. Nevertheless, the Chairman of the Bank’s Management Board continues to be 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 reviews its sustainability on an ongoing basis, particularly in light of the continuous changes in client, bank regulatory, technological and legal requirements as well as 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.

In financial year 2017, in the course of the aforementioned ongoing reviews, the Bank’s Management Board decided to divest itself of two of the Bank’s non-core activities in *Investor & Issuer Services*. In September 2017, an agreement was signed for the sale and transfer of the Bank’s corporate services and domiciling business to a Luxembourg-based subsidiary of VISTRA Group. In October 2017, an agreement was signed for the sale and transfer of the Bank’s alternative fund services business to a Luxembourg branch of APEX Group. Both disposals are embedded in parallel sale transactions being conducted by other Deutsche Bank Group companies with the same aim and are subject to regulatory approvals and other closing conditions. Both transactions are expected to close in the course of calendar year 2018.

In addition to the aforementioned strategic adjustments, one of the Bank’s main points of focus in calendar year 2017 was its expansion as an EU service centre in Wealth Management and the related fundamental upgrades to information technology in its core areas of activity. When the year turned from 2017 to 2018 – and therefore at the same time as MiFID II (Markets in Financial Instruments Directive) was introduced in the European Union – the Bank successfully migrated from its almost four-decades-old local core banking system to the Avaloq platform also used internationally in other Deutsche Bank Group companies. This migration was preceded by an ambitious 18-month change, development and implementation project. In this context, the Bank invested a total of around € 30 million in its future.

On the basis of the aforementioned strategic focus and investments, the Bank's plan for financial year 2018 is to consolidate more of Deutsche Bank Group's EU business activities in Wealth Management in Luxembourg and thus further expand the EU service centre. In parallel, it will need to follow the course taken by the negotiations regarding the United Kingdom's withdrawal from the European Union, especially in light of the activities in the Corporate & Investment Bank.

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 2017, it employed 340 members of staff (end of 2016: 312) from 30 countries (end of 2016: 28). Luxembourg residents make up 28% (2016: 27%) of the Bank's workforce; a total of 25 (2016: 24) members of staff are Luxembourg nationals. Cross-border commuters from neighbouring Belgium, Germany and France represent 72% (2016: 73%) of the workforce.
Fifty-four percent (2016: 55%) of the total workforce and 26% (2016: 26%) of executives (Managing Director, Director, Vice President) are female. At the end of 2017, the average length of service of the total workforce was 13 years (end of 2016: 13 years). During financial year 2017, 68 new members of staff (2016: 31 new members of staff) joined the Bank, 55 (2016: 27) of them on permanent contracts, and five long-serving employees of the Bank retired.

For many years, the Bank has made a continuous and sustained contribution to students' development through its intern programme throughout the year, which is widely known and recognised by universities. In 2017, the Bank gave 61 (2016: 47) students from 16 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, through a number of private tours of art collections and as a venue for forums and seasonal concert performances, the Bank has for many years made a relevant contribution to dialogue around economic and social issues as well as to cultural life in the Grand Duchy of Luxembourg.

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Management Report

Management Report

Profit and Loss Account (P&L)

Deutsche Bank Luxembourg S.A. generated net income of € 218 million in financial year 2017 (2016: € 1.067 million).

In addition to ongoing client operations, the following transactions in ownership interests had a significant impact on the financial position, net assets and results of operations in financial year 2017:

The interest in Deutsche Asset Management S.A. (50% shareholding) was sold in a cross-border transaction in the course of preparations for the partial flotation of Deutsche Bank Group's Asset Management division sought by the Parent. The resulting gain on disposal amounted to € 124 million in total in financial year 2017. In the same context, the interest in DB Vita S.A. (25% shareholding) was also sold in a cross-border transaction, generating a total gain on disposal of € 3.4 million in financial year 2017.

As part of various measures to reduce complexity in the structure and management of the Bank's participating interests, the restructuring of the Apex financing arrangement ("Apex") initiated in 2015 was successfully completed in financial year 2017 by liquidating DB Apex (Luxembourg) S.à r.l. (100% shareholding). The liquidation resulted in a one-time loss on liquidation of T€ 225 in financial year 2017. The interest in Cabarez S.A. (95% shareholding) was sold outside the Group and a loss of T€ 125 recognised in financial year 2017. In addition, the interest in Deutsche Haussmann S.à r.l. (100% shareholding) was liquidated in the current year. Overall, the liquidation generated one-time income of € 3.9 million in financial year 2017, due mainly to the reversal through profit or loss of a write-down recognised in prior periods. The interest in Aqueduct Capital S.à r.l. (100% shareholding) was liquidated in the current financial year, generating liquidation proceeds of € 10.1 million for undistributed prior-period profits. The interest in DB Re S.A. (1% shareholding) was sold in a cross-border transaction and a gain on disposal of T€ 989 generated in financial year 2017.

In November 2016, the interest in Hua Xia Bank Company Limited (9.28% shareholding) was sold at a net gain of € 741 million. This one-time effect on the 2016 Profit and Loss Account led to a corresponding year-on-year decline in income in financial year 2017.

The participation right issued in financial year 2011 in the total amount of € 850 million, which was classified as Upper Tier II Capital under bank supervisory regulations, was repaid in full in December 2016 due to the maturity structure, and the coupon payment of € 84 million due for financial year 2016 was settled. Year-on-year, this had an easing effect on the Profit and Loss Account in 2017. In return, at the beginning of 2017, the Bank issued € 1 billion in subordinated capital, which qualifies as Upper Tier I Capital under bank supervisory regulations and was used to measure regulatory own funds. Interest is linked to the operating profit of Deutsche Bank Luxembourg S.A. in each case (including the item "Other income/expenses including dividends"). Interest expense for the pro-rated financial year amounted to € 75 million, which was recognised in the 2017 Profit and Loss Account.

The fair value portfolio of the Credit Portfolio Strategies Group (CPSG) in the Corporate & Investment Bank (CIB) division once again made a positive contribution to Deutsche Bank Luxembourg S.A.'s total earnings in financial year 2017. The portfolio's net contribution to earnings, consisting of the recognised individual components of the credit transactions and the associated credit security instruments (guarantees, collateralised loan obligations, credit default swaps) in the application area of the portfolio strategy amounted to € 159 million (2016: € 214 million) in the 2017 Profit and Loss Account.

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

Net results

in T€	2017	2016
Net interest income	204,693	306,492
Net commission income / loss	–68,112	–91,221
Net profit on financial operations	–6,675	–1,261
General administrative expenses	–122,721	–92,476
Depreciation of tangible and intangible assets	–499	–532
Operating profit I	**6,686**	121,002
Income from transferable securities including value adjustments	5,426	172,569
Value adjustments in respect of securities held as financial fixed assets and participating interests	–71,054	0
Other operating net income	335,963	929,294
Operating profit II	**277,021**	1,222,865
Net change in provision for risk including release of special items	71,211	4,782
Taxes	–54,745	–76,052
Payments for participation rights	–75,250	–84,256
Net income	**218,237**	1,067,339

The year-on-year decrease in net interest income of € 102 million to € 204.7 million at the end of the 2017 financial year resulted from lower interest income, which amounted to € 649.7 million at the balance sheet date (2016: € 825.8 million). The main driver of the decline was lower negative interest in the amount of € 76 million compared with the prior year that the Bank charged other credit institutions for their deposits during the 2017 financial year. In financial year 2017, interest income contained negative interest in the amount of € 36.3 million (2016: € 112.3 million). Interest income also contained interest from the CPSG fair value portfolio that was € 13.2 million lower year-on-year. Total interest income from the fair value portfolio amounted to € 84.5 million (2016: € 97.7 million) in financial year 2017 and primarily comprised interest payments received from loans in the portfolio in the amount of € 20.5 million (2016: € 21.0 million) and guarantee fees received in the amount of € 61.2 million (2016: € 72.3 million). Interest expenses totalled € 445.0 million at the end of the 2017 financial year (2016: € 519.3 million). The decline totalling € 74 million year-on-year resulted mainly from lower negative interest for the Bank's cash deposits held at other credit institutions in financial year 2017. The Bank paid negative interest in the amount of € 27.9 million to other credit institutions during the reporting period (2016: € 100.6 million). The year-on-year decline in interest expenses was partially offset by higher expenses for loan guarantees drawn on and credit default swaps received in connection with hedging credit risk in the CPSG fair value portfolio. Expenses for loan guarantees in the fair value portfolio that were drawn on by the respective beneficiaries rose by € 4.6 million year-on-year to € 24.4 million in 2017. Interest expenses in the fair value portfolio for credit default swaps received likewise rose by € 21.3 million year-on-year to a total of € 43.5 million at the end of the 2017 financial year.

Net interest and commission income was negative in financial year 2017, with an improvement of 34% compared with the prior year to € –68.1 million (2016: € –91.2 million). Commission income declined by € 16.4 million year-on-year to € 98.8 million in 2017 (2016: € 115.2 million). That figure includes commission income received for loans issued in the CPSG fair value portfolio in the amount of € 57.2 million during the reporting period (2016: € 60.1 million). Net commission expenses declined slightly year-on-year to € 166.9 million (2016: € 206.4 million); the expenses were incurred mainly for transfer pricing payments within the Group related to corporate finance (Corporate & Investment Bank). The figure for commissions payable includes expenses relating to risk hedging through collateralised loan obligations (CLOs), which declined by € 4 million year-on-year to € 124 million in financial year 2017 (2016: € 128 million). Of that figure, € 81.9 million is attributable to CLO hedges in the CPSG fair value portfolio for 2017 (2016: € 97.0 million). By contrast, refinancing costs for guarantees and loans held in the fair value portfolio but not yet drawn on registered an increase of € 4.3 million year-on-year to € 31.7 million in 2017.

Administrative expenses rose by € 30 million year-on-year to € 123 million at the end of the 2017 financial year. The increase was mainly due to expenses for upgrading the Bank's IT systems.

The year-on-year decrease of € 610.6 million in other operating income to € 348.5 million as at the reporting date (2016: € 959.1 million) resulted mainly from the sale of the Bank's interest in Hua Xia Bank Company Limited in financial year 2016. The sale of the interest generated a net gain of € 741 million in 2016 (non-recurring income). Other operating income in financial year 2017 included total non-recurring effects of € 138.5 million from the sale of the participating interests in Deutsche Asset Management S.A., DB Vita S.A., DB Re S.A. and Aqueduct Capital S.à r.l. The remaining € 210 million in other operating income in financial year 2017 largely reflects income collected by the Corporate & Investment Bank as compensation for the imputed first day loss (shortfall) on loans in the CPSG fair value portfolio in the amount of € 188 million (2016: € 206 million). This income comprises a market- and risk-appropriate compensation payment by the Deutsche Bank Group unit responsible for the specific client or 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.

The year-on-year decline of € 17.3 million in other operating expenses to € 12.5 million (2016: € 29.8 million) in financial year 2017 was due mainly to the provisions for legal disputes recognised in the prior-year comparative period.

Actual drawings on collateralised loan obligations (CLO) 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 € 15.5 million being released from corresponding risk provisions in financial year 2017 (2016: € 25.4 million released).

Adequate provisions have been made for other discernible risks in loan and securities business (including participating interests). Ultimately, a net amount of € 55.7 million was released from provisions for risks in financial year 2017 (2016: € –20.6 million allocated). An integral component was release of a specific valuation allowance in the amount of € 75 million recognised in prior periods for the interest in Deutsche Haussmann S.à r.l. (100% holding), which is directly related to the write-down in the amount of € 71 million recognised on that same interest as part of the liquidation proceedings in financial year 2017. These two effects are presented in two different items of the Profit and Loss Account and resulted in a net positive effect of € 3.9 million in 2017.

A total of € 3.8 million was added to risk provisions in financial year 2017, not counting the release of the specific valuation allowance recognised for Deutsche Haussmann S.à r.l.

Further details on lump-sum provisions are provided in the notes (Section D, Risk Report).

Distribution of a dividend in the amount of € 98 million, allocation of the remaining profit of € 120 million to "Other reserves" and distribution of retained earnings in the amount of € 82 million will be proposed to the General Meeting. The proposed amount to be distributed therefore totals € 180 million.

Balance Sheet

Total assets declined by 27% compared with the previous year (2016: € 52 billion) to € 38 billion as at 31 December 2017. The decline in total assets reflects the Bank's efforts to reduce the carrying amounts of selected balance sheet items and was driven primarily by the repayment of interbank receivables and liabilities in the amount of € 7 billion. Net exchange rate fluctuations had a positive impact on total assets, resulting in a change of € 338 million (2016: € 605 million).

Due to the current interest rate levels balances with central banks were impacted by negative interest rates and decreased by € 3.6 million year-on-year to € 7.1 billion at the reporting date (€ 7 billion of which qualify as high-quality liquid assets).

Loans and advances to credit institutions and clients amounted to € 30 billion (2016: € 39 billion) at the balance sheet date. The decline was mainly due, as already explained, to the repayment of investments in the amount of € 7 billion held by Deutsche Bank Luxembourg S.A. at other credit institutions.

Total securities, comprising debt securities and other fixed-income securities as well as shares and other non-fixed-income securities, declined by 18% year-on-year to € 433 million at the end of the 2017 financial year.

The shares reported under participating interests decreased by T€ 105 year-on-year to T€ 110 at the end of the 2017 financial year. The decrease is related to the sale of shares in Cabarez S.A. during the 2017 financial year. Shares in affiliated undertakings were down by € 5.3 million year-on-year to T€ 500 as at the balance sheet date due to intragroup sales and mergers during financial year 2017 (please refer to paragraphs 3 and 4 of the Management Report for more information).

Other assets declined by € 1 billion year-on-year to € 99 million as at the reporting date. The sharp drop reflects the final purchase price payment at the start of 2017 from the sale of Hua Xia Bank Company Limited of € 620 million, the full amount of which could not be transferred internationally in 2016 due to currency transfer regulations. The decline in other assets is moreover due to the settlement of tax allocations from the tax group to which the Bank is allocated in the amount of € 353 million in financial year 2017.

Amounts owed to credit institutions and clients declined by € 15 billion year-on-year to € 30 billion at the balance sheet date. As on the assets side, the decline is due to the repayment of cash deposits held by other credit institutions at Deutsche Bank Luxembourg S.A.

All of the debts evidenced by certificates were repaid in full in financial year 2017 (2016: T€ 43).

Subordinated liabilities increased to € 1 billion as at the balance sheet date (2016: € 0) due to the issue of subordinated capital (classified as Upper Tier I capital) in the first quarter of 2017.

The regulatory own funds of Deutsche Bank Luxembourg S.A. rose to € 6.4 billion as at the balance sheet date compared with the prior-year figure of € 5.3 billion. Regulatory own funds and the associated indicators were bolstered mainly by the aforementioned issue of subordinated capital in the amount of € 1 billion in financial year 2017 as well as by a reduction in risk-weighted assets (RWAs) at the balance sheet date. The EU solvency ratio under CRD IV was 22.1% as at the balance sheet date (compared with 16.7% in 2016). The Tier I capital ratio stood at 22.1% as at 31 December 2017 (compared with 16.7% in 2016). Further details are outlined in the Risk Report (Section D, regulatory risk position).

The profitability of capital as quotient of net income and total assets / liabilities amounted to 0.58% (2016: 2.06%) as at the balance sheet date.

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

Business policy 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 business divisions are incorporated into the general planning for the corporate divisions of Deutsche Bank Group.

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

For the most part, the Bank has to manage the following risk categories:
– credit risk, especially default and country risk,
– market risk, especially interest rate, currency and equity risk,
– liquidity risk,
– operational risk, as part of the newly defined “non-financial risk”,
– reputational risk.

These risks were monitored appropriately at all times during financial year 2017. 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. The Supervisory Board formed an Audit Committee and a Risk Committee from among its members in order to support it in its work and organise its activities. The Management Board has the authority to issue local credit approvals.

In addition, the Asset & Liability Committee (ALCo) set up by the Management Board meets quarterly to discuss the current liquidity, capital, risk and balance sheet situation as well as the effects of new business and of special transactions 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 2018

The world economy was robust on the whole in financial year 2017, driven primarily by continued moderate growth in the major industrial nations and in parts of Asia. The uncertainties anticipated at the start of 2017, especially in Europe, regarding implementation of the Brexit vote and the results of elections to be held in various industrial countries had no lasting overall impact on either the pace of growth or expansionary tendencies in the global economy. Growth of the world economy was supported by continuing expansionary monetary policy and the resulting historically low interest rates prevailing in financial year 2017, as in previous periods as well. In the US, the first monetary policy measures to moderately raise benchmark interest rates were already taken in 2016, an approach that continued in 2017. In the eurozone, the ECB also sent the first signals in 2017 that it would be implementing a gradual turnaround in its current monetary policy. It is conceivable in principle that the ECB could take initial steps in 2018 to raise its benchmark interest rate in the eurozone, although such a scenario is still quite uncertain. For financial year 2018, we are projecting a continuation of moderate growth for the overall world economy. However, forecasts of inflation rates vary, and it is increasingly uncertain whether the low volatility levels seen in prior periods will be sustained. The market corrections observed in the first quarter of 2018 confirm this assessment. The liquidity base of companies is good on the whole, given the past sustained phase of low interest rates. To such extent, we are projecting a continuation of cautious, albeit stable, structural demand from clients for financing and financing solutions in 2018. A positive impact could potentially come from broad-based project and acquisition financing. As a result, the financing business will continue to significantly impact the Bank's net income in the coming year as well.

As an integral part of Deutsche Bank Group, the Bank will continue to implement the remaining measures of its announced "Strategy 2020" in 2018. Focus will be placed on finalising the realignment of operational processes subsequent to the upgrade of the Bank's IT platform. The upgraded IT platform will serve as a reference point and basis for standardising and restructuring the Bank's operational process on the one hand, and will also assist in fully implementing new regulatory and client-specific requirements. It is also a prerequisite for further consolidation and centralisation in Luxembourg of selected business activities of Deutsche Bank Group within the EU. Another important task in calendar year 2018 will be executing the agreements entered into in September and October 2017 for the sale of two peripheral activities.

On the whole, the strategic, organisational and personnel measures taken over the past two years and the associated focussing and optimisation of the local banking organisation have created a forward-looking basis for stable, risk-based and controlled banking operations and efficient cost management. For the coming financial year, we expect the final/follow up costs for the complete overhaul of the Bank's IT system, the expenses associated with the implementation of new regulatory requirements (e.g. IFRS 9, AnaCredit, MiFID II) and the higher costs imposed by European and Luxembourg financial supervisors and security systems to continue to represent a significant and sustained cost factor.

The Bank strengthened its capital base in 2017 by taking out Tier II capital in the amount of € 1 billion. This is classified as "Upper Tier I capital" for the purpose of measuring regulatory own funds, and, together with a reduction in risk-weighted assets compared with 2016, contributed to a further increase in the Bank’s solvency ratio. As the quality of our credit portfolio remains satisfactory and in light of our close and continual monitoring of credit risk, we currently expect risk provisioning to remain at a stable level compared with prior periods. This assessment depends on the development of the overall geopolitical situation, however. Recent events in the Near and Middle East and parts of (central) Asia and Latin America, for instance, have resulted in expectations of a tendency towards heightened political risk and volatility in 2018. Moreover, the Bank will continue to monitor non-financial risk extremely closely, although the methods for recording and monitoring risk on an ongoing basis are still under development and will have to be adapted to new requirements.

In financial year 2018, the Bank will continue to perform and expand on its role as a centre of excellence for lending to corporates and within the Group as well as on its role as an EU service centre in international asset management.

Bearing in mind the economic, political and regulatory climate as well as the conditions necessary to compete in the market and the competitive landscape in the financial services industry, we expect to achieve sustainably positive operating income again in 2018. Business performance since the beginning of the year confirms our assessment.

Luxembourg, 15 March 2018

The Management Board

3

Financial Statements

Balance Sheet

as at 31 December 2017

Assets

in T€	[Notes]	31 Dec. 2017	31 Dec. 2016
Cash in hand, balances with central banks and post office banks	[B2]	7,145,761	10,762,623
Loans and advances to credit institutions	[B1, 2, 6]	17,981,194	25,335,148
repayable on demand		376,987	310,369
other loans and advances		17,604,207	25,024,779
Loans and advances to clients	[B1, 2, 6]	11,608,557	13,643,262
Debt securities and other fixed-income securities	[B1, 2, 3]	433,277	525,814
of public issuers		0	18,956
of other issuers	[B5, 6]	433,277	506,858
Shares and other variable-yield securities	[B2, 3]	0	803
Participating interests	[B4, 5]	110	215
Shares in affiliated undertakings	[B4, 5]	500	5,827
Tangible assets	[B5]	2,987	3,260
Other assets	[B8]	99,404	1,101,589
Prepayments and accrued income		404,591	408,857
Total assets		**37,676,381**	51,787,398

Liabilities and equity

in T€	[Notes]	31 Dec. 2017	31 Dec. 2016
Amounts owed to credit institutions	[B1, 2, 14]	20,420,966	34,196,630
– repayable on demand		4,757	183,549
– with agreed maturity dates or periods of notice		20,416,209	34,013,081
Amounts owed to clients	[B1, 2, 14]	9,453,720	10,330,062
other debts		9,453,720	10,330,062
– repayable on demand		1,306,647	1,189,884
– with agreed maturity dates or periods of notice		8,147,073	9,140,178
Debts evidenced by certificates	[B1, 9]	0	43
debt securities in issue		0	0
other debts		0	43
Other liabilities	[B8]	454,679	348,308
Accruals and deferred income		532,345	478,840
Provisions for liabilities and charges		414,332	451,413
reserves for pensions and similar obligations		2,660	1,021
provisions for taxation		188,551	221,452
other provisions		223,121	228,940
Subordinated liabilities	[B1, 10]	1,000,000	0
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]	1,133,133	1,015,794
Net income		218,237	1,067,339
Interim dividend payment	[B13]	0	–150,000
Total liabilities and equity		**37,676,381**	51,787,398

Off-balance sheet items

in T€	[Notes]	31 Dec. 2017	31 Dec. 2016
Contingent liabilities	[B2, 16]	12,428,017	13,014,762
of which:			
Guarantees and assets pledged as collateral security		12,428,017	13,014,762
Commitments	[B2, 17]	28,306,481	27,615,779
Fiduciary operations	[B2]	3,587,268	3,996,097

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 2017

Profit and Loss Account

in T€	[Notes]	1 Jan.– 31 Dec. 2017	1 Jan.– 31 Dec. 2016
Interest receivable and similar income		649,700	825,818
of which:			
from fixed-income securities		14,228	13,172
Interest payable and similar charges	[B10]	445,007	519,326
Income from transferable securities		5,426	172,569
from equities		0	0
from participating interests		0	48,216
from shares in affiliated undertakings		5,426	124,353
Commissions receivable		98,819	115,156
Commissions payable		166,931	206,377
Net profit on financial operations		–6,675	–1,261
Other operating income	[C2]	348,459	959,061
General administrative expenses		122,721	92,476
Staff costs		38,498	34,964
of which:			
– wages and salaries		31,254	26,358
– social security costs		6,385	7,896
of which: pensions		3,007	4,686
Other administrative expenses		84,223	57,512
Depreciation of and value adjustments to intangible and tangible assets		499	532
Other operating charges	[C3]	12,496	29,767
Depreciation of and value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments*	[C4]	–71,211	–4,782
Value adjustments in respect of securities held as financial fixed assets, participating interests and equities in affiliated undertakings*	[C5]	71,054	0
Release from special items with a reserve quota portion	[B11]	0	0
Taxes on profit on ordinary activities		54,102	75,403
Profit on ordinary activities after taxes and before payments for participation rights		**294,130**	1,152,244
Other taxes not shown under the preceding items		643	649
Payments for participation rights	[B10]	75,250	84,256
Net income		**218,237**	1,067,339

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

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

Notes to the Accounts

Deutsche Bank Luxembourg S.A.

A. Principles and methods

Corporate matters

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

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

Business object of the Bank

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

Annual accounts

The financial year is identical to the calendar year.

The reporting currency is the Euro.

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

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

The current Annual Report for Deutsche Bank AG can be accessed at http://www.db.com/17.

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 contingent losses is established which is reported in the balance sheet under “Other provisions”.

– Derivative financial transactions

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

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

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

The 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 fair value 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 contingent 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 credit risk”.

– Treatment of premiums/discounts

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

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

– Value adjustments in respect of debts

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

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

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

– Lump-sum provision for inherent risks

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

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

The lump-sum provision is to be allocated in proportion to the underlying elements to

– a value adjustment deducted from the respective risk-weighted asset positions, and
– a provision reported in the balance sheet under "Other provisions".

– Securities

Securities are booked at cost using the weighted average method.

– Debt securities and other fixed-income securities

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 were valued at the lower of cost and market value.

– Participating interests / equities 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 clients. The buyer then reports the transfer amount paid as an advance to the seller; the assets involved are not reported in its balance sheet.

In the event of a buy-back option on the part of 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.

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 2017.

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	10,679	5,042	1,200	683	17,604
Loans and advances at term to clients	3,815	894	5,628	1,134	11,471
Debt securities and other fixed-income securities	5	0	0	428	433
Total	14,499	5,936	6,828	2,245	29,508

For comparison 31 Dec. 2016:

in € m.					
Total	20,628	3,558	12,369	2,492	39,047

In addition to loans and advances at term to clients, loans and advances repayable on demand are reported in the amount of € 138 million (2016: € 146 million) and to credit institutions in the amount of € 377 million (2016: € 311 million).

Of the loans and advances at term to clients, loans and advances in a nominal amount of € 284 million (2016: € 329 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 clients, € 30 million (2016: € 41 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	11,878	8,051	234	253	20,416
Amounts owed at term to clients	2,100	4,335	20	1,692	8,147
Debts evidenced by certificates	0	0	0	0	0
Subordinated liabilities	0	0	0	1,000	1,000
Total	13,978	12,386	254	2,945	29,563

For comparison 31 Dec. 2016:

in € m.					
Total	24,030	12,681	3,953	2,489	43,153

In addition to amounts owed at term to clients, amounts payable on demand are reported in the amount of € 1,307 million (2016: € 1,190 million) and to credit institutions in the amount of € 5 million (2016: € 184 million).

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

2 – Geographical distribution

The table shows the geographical distribution of selected items as at 31 December 2017.

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	7,146	0	0	0	0	0	7,146
therein: balances with central banks	7,144	0	0	0	0	0	7,144
Loans and advances to credit institutions	16,354	320	420	0	2	885	17,981
Loans and advances to clients	8,348	880	294	237	1,359	491	11,609
Debt securities and other fixed-income securities	433	0	0	0	0	0	433
Shares and other variable-yield securities	0	0	0	0	0	0	0
Total	32,281	1,200	714	237	1,361	1,376	37,169

For comparison 31 Dec. 2016:

in € m.							
Total	44,920	1,084	987	270	1,970	1,037	50,268

Amounts owed

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Amounts owed to credit institutions	14,100	2,918	0	0	3,401	2	20,421
Amounts owed to clients	8,730	425	15	98	127	59	9,454
Total	22,830	3,343	15	98	3,528	61	29,875

For comparison 31 Dec. 2016:

in € m.							
Total	37,418	3,091	15	88	3,835	80	44,527

Off-balance sheet items

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Contingent liabilities	9,888	783	328	0	842	587	12,428
Commitments	23,293	2,259	1,113	28	1,077	536	28,306
Fiduciary operations	3,587	0	0	0	0	0	3,587
Total	36,768	3,042	1,441	28	1,919	1,123	44,321

For comparison 31 Dec. 2016:

in € m.							
Total	36,049	3,130	1,784	24	2,647	993	44,627

Financial transactions

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Interest rate transactions	5,481	0	0	0	0	0	5,481
Foreign exchange/gold transactions	608	17	0	0	2	4	631
Equity transactions	0	0	0	0	0	0	0
Credit derivatives*	4,707	0	0	0	0	0	4,707
Total	10,796	17	0	0	2	4	10,819

* of which a nominal amount of € 3,845 million is reported under contingent liabilities.

For comparison 31 Dec. 2016:

in € m.							
Total	13,726	2	0	0	75	6	13,809

3 – Securities

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

in € m.	Unlisted securities	Listed securities	Total
Debt securities and other fixed-income securities (held for investment purposes)	0	0	0
Debt securities and other fixed-income securities (held for liquidity purposes)	433,277	0	433,277
Shares and other variable-yield securities (held for liquidity purposes)	0	0	0

No value adjustments had been made as at the balance sheet date (2016: € 1.3m).

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

Name of the company	Registered office	Holding	Equity capital in € m.	Net income for the financial year* in € m.
DB Credit Investments S.à r.l.	Luxembourg	100%	–13.9	19.0
Magalhaes S.A.	Luxembourg	95%	0.3	0.1
VCJ Lease S.à r.l.	Luxembourg	95%	0.0	0.0

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

In financial year 2017, the interests in DB Apex (Luxembourg) S.à r.l., Aqueduct Capital S.à r.l., Deutsche Haussmann S.à r.l., Cabarez S.A., Deutsche Asset Management S.A. and DB Vita S.A. were sold.

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	20,070	0	155	–3	19,912	19,802	110
Shares in affiliated undertakings	6,148	0	5,327	0	821	321	500
Intangible assets	26,533	0	0	0	26,533	26,533	0
of which:							
goodwill	0	0	0	0	0	0	0
software	26,533	0	0	0	26,533	26,533	0
Tangible assets	17,540	795	260	–63	18,012	15,026	2,987
of which:							
office furniture and equipment	17,540	795	260	–63	18,012	15,026	2,987
Total fixed assets	70,291	795	5,742	–66	65,278	61,682	3,597

Reference: Figures may not add up due to rounding.

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

	31 Dec. 2017		31 Dec. 2016	
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Loans and advances to credit institutions	17,896	0	25,296	0
Loans and advances to clients	32	58	112	55
Debt securities and other fixed-income securities	433	0	452	0

7 – Assets denominated in foreign currencies

Assets denominated in foreign currencies amounted to the equivalent of € 9,587 million in total as at the balance sheet date.

8 – Other assets / Other liabilities

Other assets declined by € 1 billion year-on-year to € 99 million as at the reporting date. The sharp drop reflects the final purchase price payment at the start of 2017 from the sale of Hua Xia Bank Company Limited of € 620 million, the full amount of which could not be transferred internationally in 2016 due to currency transfer regulations. The decline in other assets is moreover due to the settlement of tax allocations from the tax group to which the Bank is allocated in the amount of € 353 million, which was paid in financial year 2017 by the affected controlled companies to the controlling company (bank).

Other liabilities increased by € 106 million year-on-year to € 455 million as at the balance sheet date. Individual items of note include intercompany liabilities in the amount of € 319 million in financial year 2017 (2016: € 222 million), of which € 110 million is attributable to the CPSG fair value portfolio (2016: € 102 million) and € 154 to other transfer pricing payments within the Group (2016: €79 million). As at the balance sheet date, the line item also contained proceeds from the liquidation of collateral in the amount of € 114 million (2016: € 109 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

All of the debts evidenced by certificates were repaid in full in financial year 2017 (2016: T€ 43).

10 – Subordinated liabilities

Subordinated liabilities increased to € 1 billion as at the balance sheet date (2016: € 0). At the beginning of 2017, the Bank issued € 1 billion in subordinated capital, which qualifies as Upper Tier I Capital under bank supervisory regulations and was used to measure regulatory own funds. 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 01 January 2017	396	620	0	0
Change in legal reserve/other reserve(s)	0	0	0	0
Net income for financial year 2016	0	0	0	1,067
Appropriation				
– Retained	0	167	0	–167
– Interim dividend payment	0	0	0	–150
– Dividend	0	–50	0	–750
As at 31 December 2017	396	737	0	0

Net income for the financial year 2017 amounted to € 218 million.

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

The item "Other reserves" includes an appropriation of € 564 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. 2017		31 Dec. 2016	
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Amounts owed to credit institutions	19,219	0	33,271	0
Amounts owed to clients	5,346	1	5,891	0
Debts evidenced by certificates	0	0	0	0
Subordinated liabilities	1,000	0	0	0
Other liabilities	319	0	222	0

15 – Liabilities in foreign currencies

Liabilities denominated in foreign currencies amounted to the equivalent of € 9,249 million in total as at the balance sheet date.

16 – Contingent liabilities

Contingent liabilities consist of:

	31 Dec. 2017	
in € m.		of which: to Deutsche Bank companies
Guarantees and other direct substitutes for credit	12,428	3,906
of which:		
Credit derivatives	3,845	3,845
Acceptances	0	0
Total	12,428	3,906

17 – Commitments

Commitments consist of:

	31 Dec. 2017	
in € m.		of which: to Deutsche Bank companies
Commitments, not utilised	28,305	97
Other commitments (for example, facilities for the issuance of debt instruments, etc.)	1	0
Total	28,306	97

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€	2017	2016
Income from the disposal of participating interests	138,514	741,399
Rental income	2,647	2,886
AGDL* release/refund	8,998	5,468
Income from CPSG fair value portfolio	188,311	205,811
Recoveries	3,935	2,609
Release of provisions	4,828	95
Sundry income	1,226	793
Total	**348,459**	959,061

* 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 year-on-year decrease of € 610.6 million in other operating income to € 348.5 million as at the reporting date (2016: € 959.1 million) resulted mainly from the sale of the Bank's interest in Hua Xia Bank Company Limited in financial year 2016. The sale of the interest generated a net gain of € 741 million in 2016 (non-recurring income). Other operating income in financial year 2017 included total non-recurring effects of € 138.5 million from the sale of the participating interests in Deutsche Asset Management S.A., DB Vita S.A., DB Re S.A. and Aqueduct Capital S.à r.l. The remaining € 210 million in other operating income in financial year 2017 largely reflects income collected by the Corporate & Investment Bank as compensation for the imputed first day loss (shortfall) on loans in the CPSG fair value portfolio in the amount of € 188 million (2016: € 206 million).

3 – Other operating charges

This item is made up as follows:

in T€	2017	2016
Amortisation of issuance costs Global Depositary Receipts (GDR)	2,265	2,265
Contribution to European SRF/national FRL contribution as well as FGDL contribution	8,998	5,468
Addition to other provisions	101	19,663
Sundry expenses	1,132	2,371
Total	**12,496**	29,767

The year-on-year decline of € 17.3 million in other operating expenses to € 12.5 million (2016: € 29.8 million) in financial year 2017 was due mainly to provisions for legal disputes recognised in the prior year.

The contribution due to the European Single Resolution Fund (SRF) increased by € 3.7 million year-on-year to € 8.7 million in financial year 2017 (2016: € 5 million). A contribution of T€ 328 was made to the Luxembourg deposit guarantee fund – Fonds de garantie des dépôts Luxembourg (FGDL) – in financial year 2017 (2016: T€ 448).

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

This item includes net amounts totalling € 71.2 million (2016: € 4.8 million) released in financial year 2017. They are comprised of a release from provisions for risks of € 15.5 million (2016: release of € 25.4 million) for the CPSG fair value portfolio and the release from provisions for risks for the loan and securities business of € 55.5 million (2016: allocation of € –20.6 million), both in 2017. In particular, the net amount released from the aforementioned risk provisions for the loan and securities business contains the release of a specific valuation allowance in the amount of € 75 million recognised in prior periods for the interest in Deutsche Haussmann S.à r.l. (100% holding), which is directly related to the write-down in the amount of € 71 million recognised on that same interest as part of the liquidation proceedings in financial year 2017. These two effects are presented in two different items of the Profit and Loss Account and resulted in a net positive effect of € 3.9 million in 2017.

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

For more information, please refer to Note B.4 of the Notes to the Accounts

6 – 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):	2017	2016
Audit fees	575.3	535
Audit-related fees	13.5	198
Tax advisory fees	269.0	154
Other fees	10.1	25

Such fees are presented under “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. In financial year 2017, the structure of non-financial risks was expanded to take adequate account of the increasing risk of cyberattacks in addition to operational risk as part of IT security. 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 client relationships. This definition includes legal and regulatory risks, but not general business risk or reputational risk.

Business risk

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

Reputational risk

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

Concentration risk

Risk concentrations refer to a bank's loss potential through unbalanced distribution of dependencies on specific risk drivers. Risk concentrations are not an isolated risk type; rather, they are integrated into the management of credit risk, market risk, liquidity 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.

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 loan guarantees and credit default swaps (CDSs). In both cases, the risks are first examined by the respective branches in accordance with Group standards and guidelines. Deutsche Bank Luxembourg S.A. extends these loans after a further review on the basis of its own credit guidelines 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.

Taking into account the additional risk assumed in the Credit Portfolio Strategies Group (CPSG), 86% (2016: 85%) of the total loan portfolio as at the balance sheet date was attributable to investment-grade borrowers (up to a BBB rating).

Distribution of credit risk

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

Structure of credit profile by rating category as at 31 December 2017

in € m.	Loans and advances to credit institutions	Loans and advances to clients	Securities/participating interests/affiliated undertakings	Contingent liabilities	Confirmed credits	Total
AAA/AA	25	626	0	3,056	4,452	8,159
A	4,534	1,240	0	4,894	9,069	19,320
BBB	13,420	3,610	404	3,486	11,773	32,213
BB	2	3,339	0	860	2,598	6,529
B	0	801	0	19	411	1,168
CCC	0	1,862	0	48	0	1,797
NR*	0	131	30	65	3	1,572
Total	17,981	11,609	434	12,428	28,306	70,758

* Not rated = unrated clients

Structure of credit profile by industry as at 31 December 2017

in € m.	Loans and advances to credit institutions	Loans and advances to clients	Securities/participating interests/affiliated undertakings	Contingent liabilities	Confirmed credits	Total
Banks and insurance companies	17,981	1,874	434	2,587	2,741	25,617
Households	0	560	0	0	627	1,187
Manufacturing	0	1,281	0	2,689	7,875	11,845
Corporate services	0	3,096	0	3,999	6,639	13,734
Transport and telecommunications	0	307	0	808	2,406	3,521
Power and water utilities	0	1,850	0	446	1,144	3,440
Wholesale and retail trade	0	437	0	602	2,332	3,371
Mining	0	527	0	828	825	2,180
Public sector	0	333	0	0	76	409
Commercial real estate	0	364	0	192	348	904
Construction	0	315	0	216	834	1,365
Power generation (in particular solar power)	0	125	0	60	166	351
Automotive industry	0	196	0	1	695	892
Hotel/restaurant trade, leisure industry, gaming and gambling industry	0	293	0	0	1,431	1,724
Other	0	51	0	0	167	218
Total	17,981	11,609	434	12,428	28,306	70,758

Risk provisioning

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

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

The synthetic risk assumed from the CPSG fair value portfolio (via the guarantees issued and credit default swaps) was quantified at € 8.4 billion as at 31 December 2017 (2016: € 9.4 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 of Deutsche Bank Group, taking into account certain risk tolerance and hedging parameters defined by Deutsche Bank Luxembourg S.A. in cooperation with Deutsche Bank AG's global Credit Risk Management unit.

Market risk

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

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

Deutsche Bank Luxembourg S.A. is integrated into Deutsche Bank Group's global limit system. Risks are calculated and monitored on an ongoing basis by neutral risk controlling using the Group's risk measurement programmes and hence its risk models. 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 2017

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	2,655	1,635	1,191	5,481	42	202	–160
Interest rate swaps	2,655	1,635	1,191	5,481	42	202	–160
Forward rate agreements	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0
Foreign exchange/gold transactions	602	30	0	632	7	5	2
Futures contracts with clients	57	15	0	72	2	1	1
Futures contracts with banks	545	15	0	560	5	4	1
Cross-currency swaps	0	0	0	0	0	0	0
Options	0	0	0	0	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*	833	3,650	224	4,707	104	138	–34
Other transactions	0	0	0	0	0	0	0
Total	4,090	5,315	1,415	10,820	153	345	–192

* of which a nominal amount of € 3,845 million is reported under contingent liabilities.
Reference: Figures may not add up due to rounding.

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 clients	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.

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 2017, the value-at-risk from interest rate and currency risks in the non-trading book was T€ 127. The average value for 2017 was T€ 704.5. The limit allocated locally remains unchanged at € 1.5 million.

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.

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 177.3%, meaning that the minimum requirement of 80% in effect since 1 January 2017 has been met.

Operational risk

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

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

Losses and gains due to operational risks are captured through the Group-wide db-Incident Reporting System (db-IRS), which is monitored at Deutsche Bank Luxembourg S.A. by the risk function. Besides losses actually incurred due to defective processing, the system also covers reported provisions for operational risks. Reports from the database 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 financial year 2017.

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. 2017	31 Dec. 2016
Central governments and central banks	127	57
Regional governments	0	0
Administration / non-profit institutions	0	0
Credit institutions	8,675	10,660
Corporates	18,470	18,497
Retail clients	62	42
Other assets	179	177
Secured by mortgage charges	727	724
Currency transactions	0	683
Operational risks	627	649
Past due items	132	107
Credit Value Adjustment (CVA)	1	0
Total	**29,000**	31,596

* Common Solvency Ratio Reporting (COREP)

Regulatory own funds in accordance with CRD IV amounted to € 6,403 million as at 31 December 2017 (2016: € 5,273 million) and the EU solvency ratio was 22.1% at the balance sheet date (end of 2016: 16.7%). Regulatory own funds and the associated indicators were bolstered mainly by the aforementioned issue of subordinated capital in the amount of € 1 billion in financial year 2017 as well as by a reduction in risk-weighted assets (RWAs) at the balance sheet date. For the EU solvency ratio, the minimum requirement of 11.1% was met at all times throughout financial year 2017.

At 22.1% at the end of 2017 (2016: 16.7%), the Tier I capital ratio also met the minimum requirement of 9.1% under CRD IV throughout the entire reporting period.

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

E. Other information

Deposit guarantee scheme

The law of 23 December 2016 on the 2017 tax reform 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 2026.

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 € 23.7 million per end of 31 December 2016. As a consequence, the Bank reversed part of the existing AGDL provision for an amount of € 9.0 million in the other operating income in financial year 2017 and recorded a 2017 contribution of € 0.3 million to the FGDL and € 8.7 million SRF respectively in the other operating expenses.

Staff

Number of staff

	31 Dec. 2017	Average in 2017	31 Dec. 2016
Management Board	3	3.08	3
Executives	23	22.25	21
Staff	314	303.67	288
Total	**340**	329	312

In 2017, the total remuneration of the Management Board and the executives was T€ 4,907 (2016: T€ 4,602). The allocation to pension provisions for members of the Management Board and executives was T€ 321 (2016: T€ 302).

The expense for pension obligations for former members of the Management Board was T€ 310.

As at 31 December 2017, loans, advances and other commitments to members of the Management Board and executives totalled T€ 0.

Luxembourg, 15 March 2018

The Management Board

4

Confirmations

Report of the Réviseur d'Entreprises agréé

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

Report on the audit of the annual accounts

Opinion

We have audited the annual accounts of Deutsche Bank Luxembourg S.A. (the "Bank"), which comprise the balance sheet as at 31 December 2017 and the profit and loss account for the year then ended and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Company as at 31 December 2017 and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for Opinion

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

Key audit matters

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

1.) Accounting Treatment of CPSG Portfolio

Description

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

The transactions of the CPSG portfolio are considered by the Bank as a valuation unit and are reflected in different positions of the financial statements; the net income from the portfolio amounts to EUR 159 m as of 31 December 2017.

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

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

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

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

Relevant key controls on the CPSG portfolio have been tested for effectiveness with regard to their design and implementation as well on a sample basis regarding their operating effectiveness. This included checks on the allocation of loans and hedge transactions to the portfolio and monitoring the effectiveness of existing hedging relationships, valuation of loans and derivatives, and accounting controls in the various systems of the Bank and related reconciliation processes.

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

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

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

2.) Impairment of loans to customers

Description
The carrying amount of loans and advances to customers amounts to EUR 11.6 bn as of 31 December 2017.

Loans and advances to customers include in particular Lombard loans (EUR 2.5 bn) and other loans (EUR 0.5 bn), mainly in the form of mortgage loans to private clients and loans to corporate customers and institutional clients (EUR 7.8 bn). Claims of the CPSG portfolio are included at EUR 2.7 bn. Commitments and contingent liabilities amount to EUR 40.7 bn as at the balance sheet date.

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

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

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

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

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

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

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

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

Other information

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

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

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

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

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

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

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

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of “Réviseur d'Entreprises agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

– Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

– Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on 18 April 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 20 years.

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

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014, on the audit profession were not provided and that we remain independent of the Company in conducting the audit.

We have performed the following services in addition to our audit engagement for subsidiaries of the Bank:

- Tax advisory services Deutsche Haussmann S.à r.l.
- "Commissaire à la Liquidation" DB Apex (Luxembourg) S.à r.l.

Luxembourg, 15 March 2018

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 2017.

At its regular meeting on 15 March 2018, 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 2017 amounted to € 218 million.

Of the net income, the Supervisory Board proposes to the General Meeting that a dividend in the amount of € 98 million be paid for the full financial year and an amount of € 120 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 € 82 million.

Luxembourg, 15 March 2018

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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