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Annual Report for 1997

Deutsche Bank

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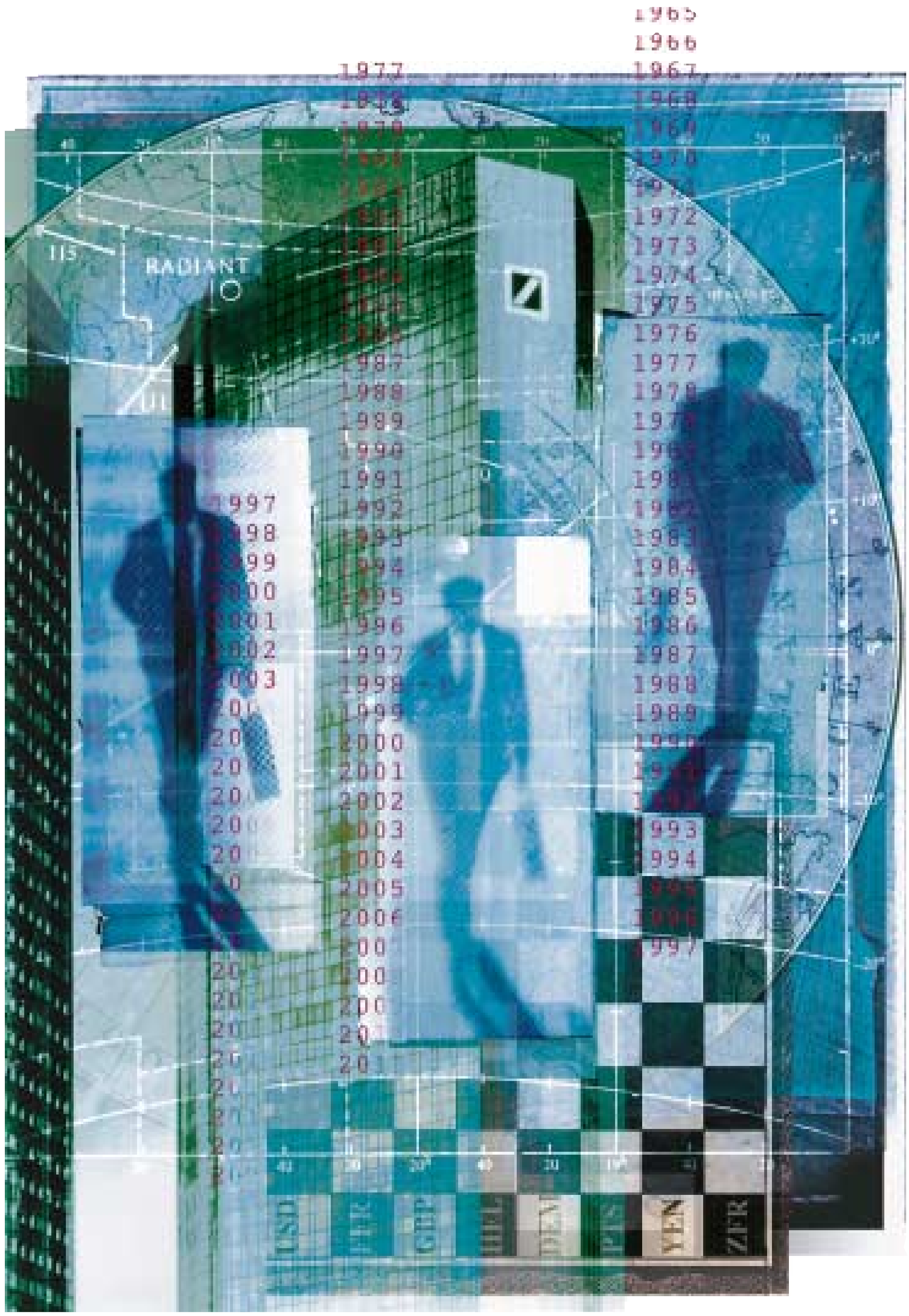


On May 20, 1997, Rolf-E. Breuer succeeds Hilmar Kopper as Spokesman of the Board of Managing Directors.
At the same time, Hilmar Kopper is successor to F. Wilhelm Christians as Chairman of the Supervisory Board.

Dear Shareholders,

Rolf-E. Breuer
Spokesman of the Board
of Managing Directors

Your Deutsche Bank share gained more than 80 % in value in 1997, outstripping the German Share Index (DAX) and the relevant sector index.

Pleased as we may be with this performance, it is clear the market was anticipating future achievements. It acted on the expectation that Deutsche Bank would position itself successfully in a competitive environment significantly changed as a result of the bank mergers in Germany and abroad. Driving these mergers is a bid to cut costs and create additional earnings potential by focusing more selectively on clients and new products.

Deutsche Bank's response to this challenge is not necessarily to merge, but to concentrate on its own strengths. This does not mean a rejection of growth through suitable acquisitions; on the contrary, we can well envisage expanding our geographical and product-related presence and are working on it. At the same time, we want to sharpen our core skills in a corporate policy based on value, bring these skills together in self-standing Group Divisions with independent responsibility and focus them on clearly defined customer groups and products.

All central staff functions in the Group will in future be handled by a streamlined "Corporate Centre". The Corporate Centre will mainly have supradivisional functions, supporting the Board of Managing Directors in its management work and ensuring uniform development based on key figures, targets and common principles.

Crucial to the five new Group Divisions will be closer alignment with the market. Here, more than in the past, the bank's expertise must translate into revenue. This applies above all to Europe, our home market. We shall only succeed globally if we excel in our home market with superior cost structures, a strong sales presence and convincing products.

The biggest challenge facing our Retail and Private Clients Division is to satisfy the constantly rising demands by customers for improved service and quality advice. We have initiated a series of measures to achieve this – in particular a reorganization of our domestic branch network.

Our product strength in portfolio and private investment, which we demonstrated again last year, has also created excellent possibilities for expansion outside Germany.

We regard business with corporate clients and commercial real estate customers as one of Deutsche Bank's key areas of expertise. Of special concern is to prove this more clearly than in the past. We want to capture new market share, especially among small and medium-sized companies; we want to speak the language of our clients and offer them more products. This is especially true in Germany and the other European markets where Deutsche Bank has branches. The launch of the euro will change this business and create new opportunities. And Deutsche Bank's regional presence will provide a stable platform from which to develop these opportunities. This applies equally to business with the public sector, which is based on long-term partnerships.

Our Global Corporates and Institutions Division combines the advantage of traditionally close business relationships with multinational corporates and the creative product diversity in investment banking. Until now, we have not succeeded in managing our competitiveness as well as we could. In future, global multinationals and financial institutions will each be covered by one Relationship Manager. This will strengthen ties with customers and open the door to more – and new – business. The name Deutsche Morgan Grenfell, used hitherto in investment banking, no longer fits the integrated approach and is being dropped.

The Asset Management Division combines the Group's institutional asset management and mutual fund businesses in a single unit. Research, experience and management capacity are to be shared. Consolidating our strengths in one division will create a foundation from which we can selectively realize the growth potential in the market for institutional and private investment.

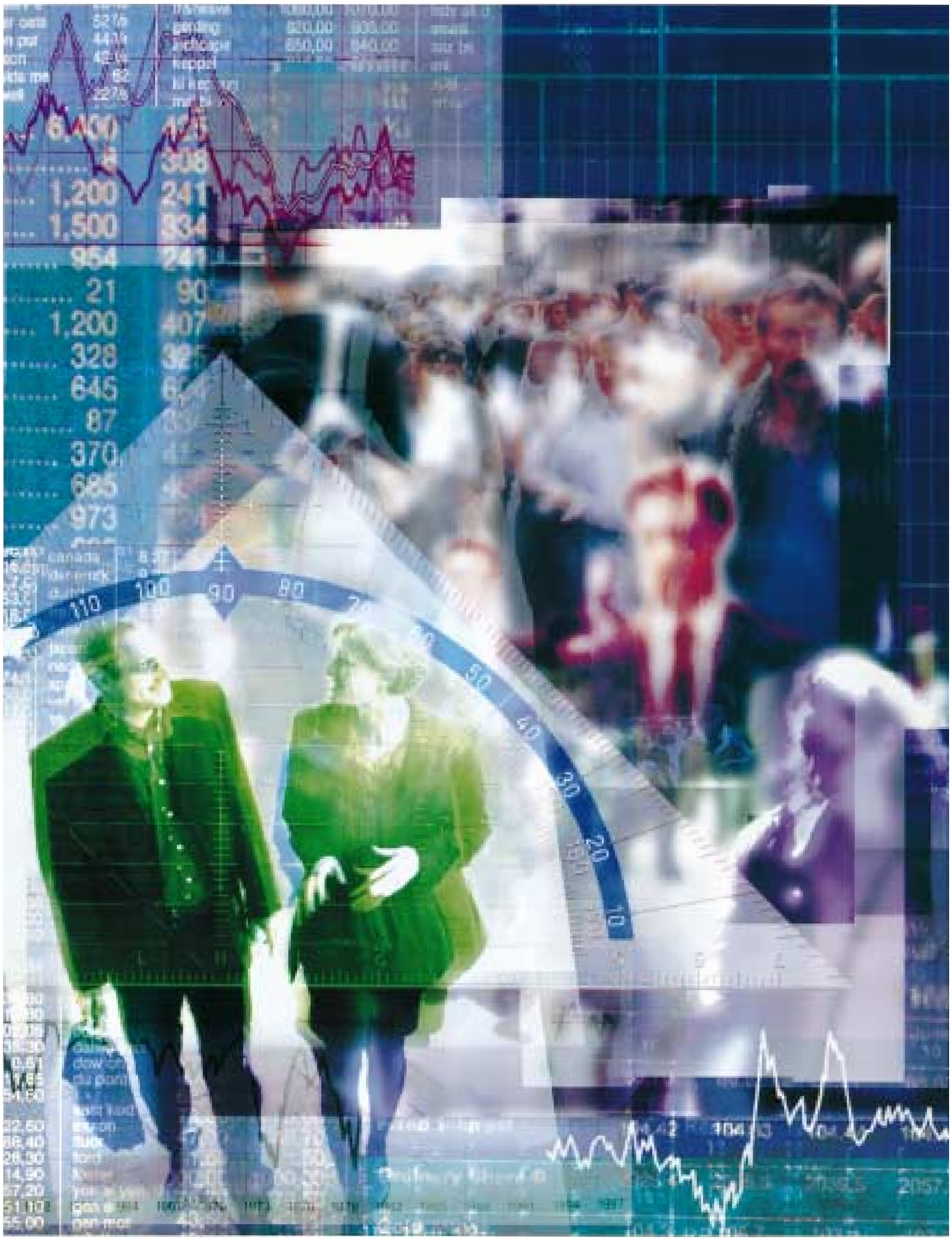
The Transaction Services Division delivers payment and securities services. It also develops IT systems and operates the bank's information technology infrastructure. A current focus is on Europe: the probable concentration effect of monetary union offers strong potential for gaining a leading position in the rapidly growing market for financial transactions.

We already have the critical mass to get through the foreseeable consolidation of the market.

To give all five Group Divisions a solid basis for the restructuring measures, we have appropriated DM 2.5 billion to cover the expenses involved. This will serve to strengthen the bank internally. At the same time, we are making no allocation to retained earnings. The foundations for successfully ensuring the bank's competitiveness have thus been laid.

We are not satisfied with the operating profit of DM 4.3 billion in 1997. Even ignoring special developments – such as the financial crisis in Asia – determined efforts must be made if Deutsche Bank is to regain its traditional strength, as reflected, for example, in a return on equity of 25 % in 1993. I am confident that the decisive action we are taking will put us firmly on this path.

Rolf-E. Breuer
Spokesman of the Board of Managing Directors
Frankfurt am Main, March 1998



Only by focusing on customers and understanding their wishes can you gain their trust. That is the basis of successful private banking. It's the essence of what Deutsche Bank understands by service.

Retail and Private Clients

With a staff of 27,100 the Retail and Private Clients Division improved its profit contribution by 36%, generating roughly 41% of the results of the three client-focused Group Divisions. The restructuring of the Group will bring a more efficient organization of workflows and a further improvement in distribution and service for customers. Given moderate cost increases, we aim to raise our revenues substantially.

Broader customer base

Encouraged by our successes with self-employed and freelance clients, the Group Division will extend its customer base within the restructuring to include small businesses currently covered by the Corporate and Institutional Banking Division. These firms will benefit strongly from the new sales and advisory structures which have been much improved in recent years; they can also be smoothly integrated into the Group Division without significant added expense.

Despite substantial progress, our production processes require more cost-cutting measures and are therefore being further centralized. On the other hand, distribution is consistently meeting the demand for greater client focus.

At year-end the division offered its services at 1,450 branches and 250 investment centres in Germany. It served 6.8 million customers there. The total credit and deposit volume of these retail and private clients amounted to DM 160 billion. Its custody account volume totalled DM 163 billion. In addition, subsidiaries worldwide managed a mutual fund volume of DM 164 billion and administered insurance and building finance agreements for a further DM 113 billion.

Leading foreign bank in Italy and Spain

Deutsche Bank has nationwide branch networks in Italy and Spain. It is the leading foreign bank in both countries, and here too its core strength lies in portfolio investment and personal finance products. We have 80 private banking locations worldwide.

As European Monetary Union (EMU) approaches, customers require more information. To meet this need we have developed an elaborate multimedia communication strategy. We offer our customers an investment-oriented "Eurotest", which enables them to obtain comprehensive, individualized information about the planned monetary union. We expect this new service to provide an additional boost to our business, particularly in our core competences of portfolio investment and personal finance. In this area, we aim to secure a significant market position in continental Europe over the medium term.

Branch Sales and Customer Service

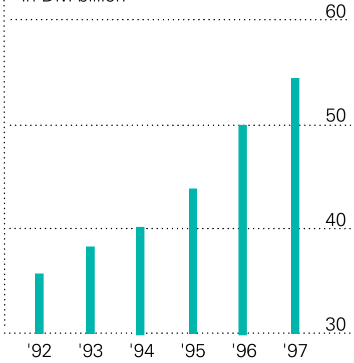
Last year we continued to make good headway towards turning our branch network into an efficient service and sales organization. The branches, relieved of administrative functions, have longer or staggered opening hours. Roughly 100 of our branches are pure service outlets, banking shops in supermarkets, or self-service units. Our 300 self-employed financial advisors are still meeting with a good response from our clients and their share of sales continues to grow.

Expanding new property finance business

New property finance business was stimulated by the low interest rates in 1997. The high pre-year result was improved. In view of the substantial portfolio growth to DM 54.5 billion, we plan to securitize parts of our property finance portfolio. This will enable us to widen our business policy latitude considerably. Advisory centres will further strengthen our position in the property finance market.

Volume of standard property finance loans

in DM billion



In its tenth year of business, Deutsche Bank Bauspar-AG almost matched its record result of 1996. The staff at branches and at Deutsche Bank's insurance group extended a property finance volume of DM 4.8 billion. Closed-end real estate funds attracted widespread interest. Among these, the Leipzig Railway Station pilot project generated a particularly strong public response.

Insurance business was satisfactory, with our branch network making a major contribution. Deutsche Bank's insurance group is preparing to meet the growing competition in Europe by implementing a comprehensive cost-cutting programme.

Good year for the stock market – good result

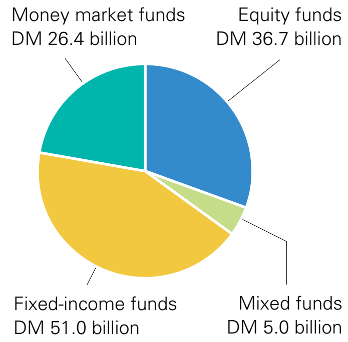
In 1997 we achieved a superb result in securities business with private customers. Buoyed by the largely bullish stock market, securities portfolios grew by 16 %, securities turnover by 27 % and mutual fund sales by 18 %. The discretionary management of private assets by Deutsche Bank Group reached DM 46 billion.

The mutual fund volume managed by DWS Group rose 20 % to DM 119 billion. This was largely attributable to equity funds, all of which achieved double-digit growth (with the exception of East Asia), the best performance exceeding 60 %. Fixed-income funds also performed well, earning in some cases double-digit returns. Inter-Renta, the world's largest international fixed-income fund with assets of DM 20 billion, delivered a performance of +13 % for investors. With a market share of 25 %, DWS continues to lead the German market.

DWS Group expanded its activities internationally. In Deutsche Fund Management Inc., New York, it now has a presence in the United States, the world's largest retail fund market. DWS Polska represented the group's first venture in central Europe. In addition to DWS, Deutsche Bank Group has eight foreign fund management companies. Including these, the Group's retail fund assets stood at DM 164 billion at the end of 1997.

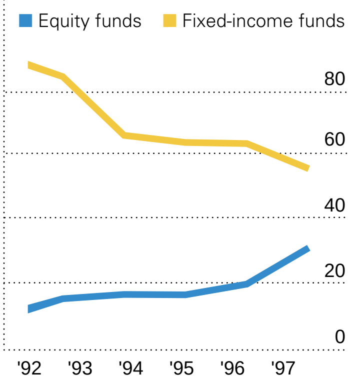
DWS Group: breakdown of fund assets

Total: DM 119.1 billion



German investment funds focus more on equities

Share in %



Private Banking

Private Banking offers its clients international asset management and advice. Its success is reflected by its gratifying new business and significantly higher contribution to profits.

A uniform style of global investment policy is ensured by coordination at Head Office. Our portfolio managers, who operate at all major financial centres, implement this strategy.

The hub of our coverage of wealthy clients in Germany is Deutsche Bank Trust AG, which is expanding its product range in the fields of venture capital, trust and foundation management, estate services, specialized real estate investment, direct equity participations and art consulting.

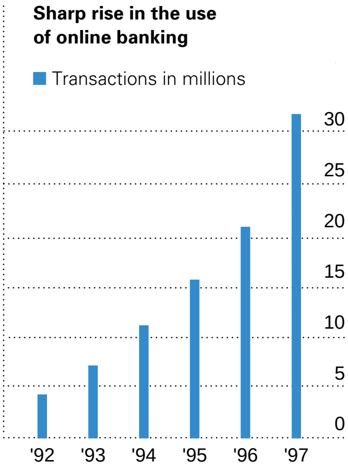
Strategic importance of private banking

Private banking is of great strategic importance to us and we shall continue to invest heavily in this area.

New Distribution Channels and Business Processing

New ways to access the market

Distribution in banking is becoming more diverse as a result of new access channels. Although most customers want to retain traditional branch services, they attach growing importance to having additional access via telephone, self-service and home banking, including the Internet. Bank 24 and our banking shops have increased our market focus. Bank 24 now has 250,000 customers – more than twice as many as last year. This growth is ahead of target and has brought us much closer to break-even point. Our supermarket outlets, with their customer-friendly opening hours, are growing rapidly. 5,400 self-service machines facilitate the transaction of day-to-day banking business. User-friendly terminals inform our customers about retail products and enable them to make an appointment with their account manager or to carry out transactions on the spot.



300,000 customers with over 700,000 current, savings and custody accounts now utilize the diverse facilities offered by Deutsche Bank's home banking service. Through its cooperation with American Online (AOL), the bank expanded its already large share of the online customer market. Deutsche Bank's Internet offering, introduced in 1995, was reorganized and supplemented with new transaction facilities. In addition to payments, securities business can now also be conducted.

Visa cards, the *Geldkarte* (electronic purse) and the *SparCard* (savings account card) were added to our range of card products. We issued a total of 4.5 million eurocheque, customer, credit and *Geldkarte* cards to our customers. We are integrating our expertise and experience in this business Europe-wide. In this connection, Deutsche Bank S.p.A., Milan, will become Centre of Competence for our credit card business.

Credit business is organized with a focus on customers. Credit Service Centres decide on large and complex loans and handle the entire credit administration for the branches. In our workflow and IT organization we compared ourselves with the world's leading banks in these areas and, in doing so, gained a competitive edge for the German market which we will use in other European markets. In order to manage our portfolio in terms of risk and return, we apply the latest international concepts, such as standard risk costs and risk-adjusted return on capital (RAROC).

Processing Service Centres relieve the branches of in-house settlement functions. Improvements in our operations organization will yield substantial cost savings.

Marketing and Product Management

2.5 million customers surveyed

The largest ever market survey in the financial services sector – covering 2.5 million of our private clients – produced a number of suggestions for improving customer service. We shall take decisive action in this respect.

SparCard successfully introduced

The positive market response to our latest product innovation, the *SparCard*, exceeded expectations. Only a few weeks after its launch, 100,000 cards had already been issued. 15% of *SparCard* holders are new customers.

We see excellent growth prospects in private pensions business. Four-fifths of Germans believe they must make some sort of private provision for retirement. To advise our clients we devised a comprehensive package that includes attractive pension products as well as special software for personal financial and investment planning. At the same time, we created Deutsches Institut für Altersvorsorge (German Institute for Retirement Provision) as a platform for discussing this problem on a scientific level. By publishing its findings in easily understandable form, the institute intends to increase understanding of the subject of providing for retirement.

Deutsche Bank is partner to small and medium-sized enterprises. In November 1997, more than 2,000 customers from this corporate segment came to Frankfurt to discuss strategic aspects of entrepreneurial activity.

Corporate and Institutional Banking

In 1997 Corporate and Institutional Banking Division generated 42 % of the results of the three client-focused Group Divisions. Worldwide it administered customer loans of DM 330 billion and deposits totalling DM 120 billion. This division employs 13,500 staff, 9,000 of them in Germany. In the wake of the restructuring we intend to strengthen our distribution capability and focus our services more closely on the needs of our customers – national and multinational companies, commercial real estate clients and public corporations.

Beyond Germany, our principal market, we will help our customers as they expand into attractive markets. By aiming for qualitative growth in clearly defined customer and product segments, we will capture higher market shares and achieve better returns. This will increase the bank's value in the long term.

Quicker loan decisions

We substantially increased the credit authorities of our staff. We are expanding our IT systems in order to enhance our workflows further. At the same time, we have improved the industry-specific expertise of our relationship managers so that they can supply customers with the necessary in-depth know-how and solutions. Special coverage groups provide support for companies in difficult phases.

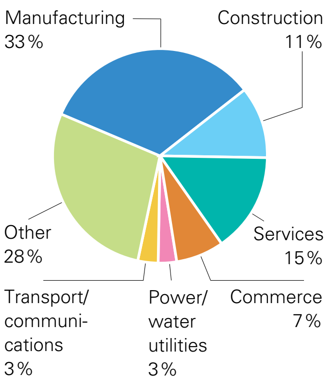
Preparing customers for the euro

We expect multinational corporates and their suppliers and customers to convert to the euro at an early stage. Euro-compatible products will therefore be needed from the start of monetary union. We shall offer them promptly.

SMEs and Sales Finance

Small and medium-sized enterprises (SMEs) are the mainstay of the German economy. In Germany, 95 % of our corporate clients are SMEs, and they contribute over 70 % to this division's profits. Our first SME Congress bore testimony to the importance of this customer group and attracted widespread interest. One of the core services we provide for our SME clients is to prepare them for European Monetary Union (EMU). An equally topical issue is how to handle the forthcoming management succession at many family-owned businesses. By cooperating with partners, we shall intensify our support for enterprises in the areas of company pensions and

DGM's SME advisory: projects by sector



investment and risk management. Together with its Deutsche Junioren Akademie, Deutsche Gesellschaft für Mittelstandsberatung (DGM) also specializes in advising companies on corporate planning for the future. Established ten years ago, DGM is today a leading advisor to SMEs. We also sponsor basic research. At Witten/Herdecke University we set up the Deutsche Bank Institute for Family-Owned Businesses, which is endowed with three professorships, and provide it with annual funding of DM 2 million over seven years.

Equity capital for innovative SMEs

We set up supra-regional coverage groups for technology companies with good growth prospects. Our Technology Atlas on CD-ROM supplies information on regional technology focal points, names cooperation partners and highlights synergies between locations and technologies. DGIB Deutsche Gesellschaft für Innovationsbeteiligung mbH offers sound equity financing and advice on technical and business management issues particularly to small, innovative and fast-growing enterprises. DGIB has so far entered into 22 equity participations with an investment volume of DM 42 million. Our partner Deutsche Beteiligungs AG (DBAG) offers larger SMEs the full range of equity financing products. With an equity participation volume of DM 712 million under management, DBAG is one of the premier venture capital companies in Germany.

Financing and services along the sales chain

With new business of DM 6 billion, GEFA Group – including ALD Auto-Leasing D GmbH – was again German market leader in non-captive sales finance. Deutsche Financial Services Corporation, St. Louis, tapped new markets in the United States and, with new business of over DM 59 billion, expanded its leading position. GEFA and DFS will operate jointly to provide special-purpose financing and services in the European market.

MNCs and Public-Sector Entities

Tailored solutions for MNCs

In keeping with the wishes of large multinational corporations (MNCs), our group account management approach is being developed into relationship management. The relationship manager is the customer's prime contact and also coordinates the products offered by the various divisions. This will eliminate overlaps. The new structure will enable us to provide a better service, for example with stock market listings or structured finance, by presenting one face to the client. In future a select group of global MNCs will be covered by our new Global Corporates and Institutions Division.

Partner to the public sector

For several years now, Deutsche Bank has engaged in business with public-sector entities, which include private enterprises that perform public functions. Seven branches spread across Germany house advisory centres for this purpose. These also employ coverage officers who have professional experience with public authorities. This business is now supplemented with new activities, such as preparing local authorities for EMU, cross-border transactions by DB Export-Leasing GmbH in the field of transport companies and utilities, and sophisticated financing strategies for capital investment by public-sector enterprises. We intend to expand our business with public-sector entities.

Financial Institutions

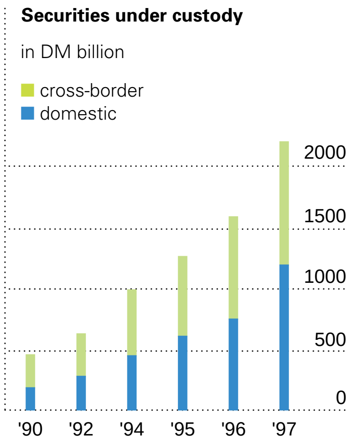
Business relationships with over 6,000 financial institutions

Deutsche Bank Group maintains business relationships with over 6,000 financial institutions. A current focus of our activities is to support our international clients in their preparations for EMU. As responsibility for client relationships continues to be decentralized, our relationship managers are increasingly assisted by product specialists. We placed responsibility for insurance companies under one management.

In order to create a uniform product structure worldwide, we have combined our distribution in Trade Services, Cash Management and Custody Services into one unit.

Ready for EMU

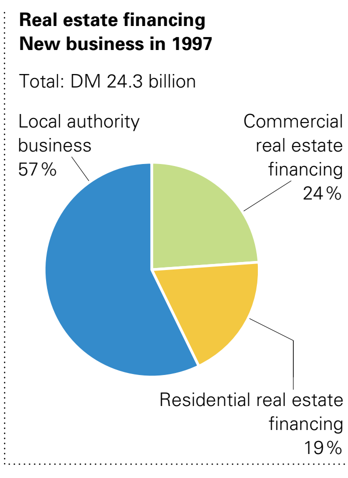
Trade Services makes a substantial contribution to the profits generated by the Corporate and Institutional Banking Division. In Germany our market share of this business is 30 %. Although the advent of EMU will mean a loss of income from foreign exchange dealing, it will also present new opportunities.



We already provide valuable assistance to our customers in their preparations for monetary union. We offer tailored solutions for cash management and standard euro-compatible products internationally. Over 30,000 corporate customers correspond with us electronically, primarily to carry out their funds transfers.

Our Global Custody Services turned in a gratifying performance. 3,000 institutional investors in over 70 markets use our products and services. We maintain our own units in 24 markets. Measured by total volume of securities under custody we are one of the world's five largest providers and rank third in terms of cross-border securities volume.

Commercial Real Estate



The Real Estate Division raised its sales and income markedly. In 1997 it committed property financings totalling DM 10.5 billion, DM 4.8 billion of which was at Deutsche Bank AG and DM 5.7 billion at Frankfurter Hypothekenbank Centralboden AG (FHC) Group. The mortgage banks' new public-sector business grew 18 % to DM 13.8 billion. By issuing foreign-currency and global Pfandbriefe, FHC gained direct access to capital markets outside Germany, thus enhancing its strong domestic funding base.

The bank's sound market and competitive position is due not least to the close link between Deutsche Bank and FHC. Moreover, the Real Estate Centres set up in the previous year are now firmly established.

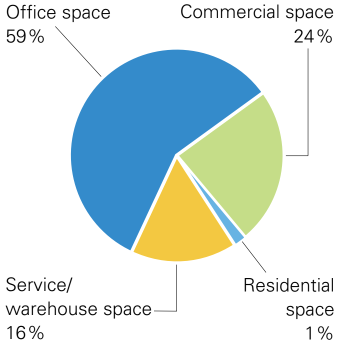
Subject to approval by the relevant bodies, we intend to merge FHC with Lübecker Hypothekenbank in 1998 to form Eurohypo Aktiengesellschaft Europäische Hypothekenbank der Deutschen Bank. We believe this move will strengthen our position in the European market.

Real estate products for structured portfolio investment

On the investment side we achieved a placement volume of approximately DM 1 billion in closed-end investment funds. By investing in the City Centre fund (capital of DM 250 million), for example, investors can benefit from the growth potential in retail properties. The international orientation of the Real Estate Division is illustrated by its Midtown Manhattan fund (capital of U.S.$ 215 million), which is financing a New York building leased long term to Deutsche Bank.

Types of property in the grundbesitz-invest fund

Total floor area: 1,122,000 m^2

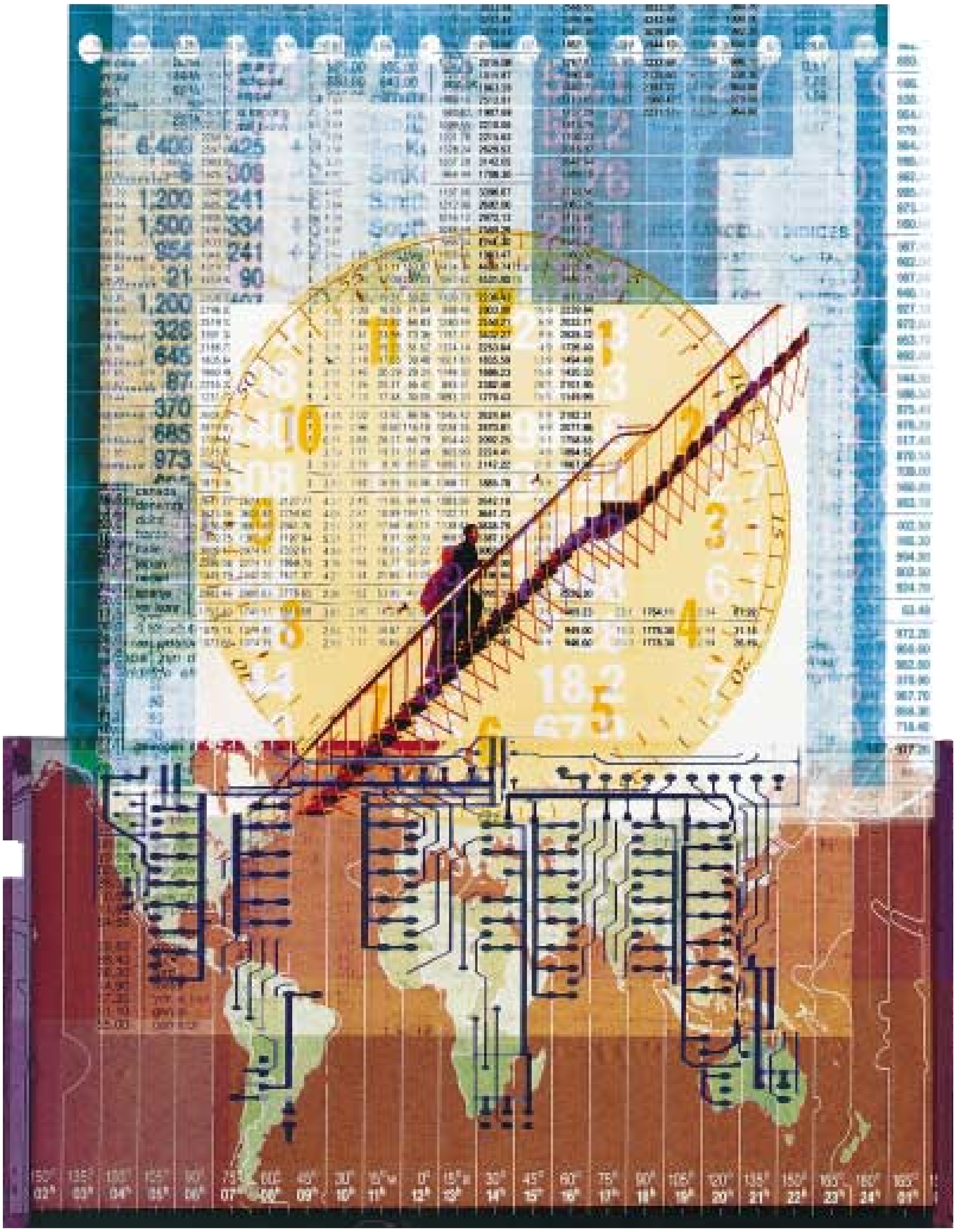


Together with VEBA Immobilien AG we acquired Gemeinnützige Deutsche Wohnungsbaugesellschaft mbH "Deutschbau" for over DM 2 billion. Through its subsequent placement the Real Estate Division was able for the first time to offer a product suited to institutional investors.

With a volume of DM 8.9 billion, the grundbesitz-invest open-end investment fund managed by Deutsche Grundbesitz Investmentgesellschaft is one of the biggest in the sector. It yielded a return of 5 % in the 1996/97 financial year. The expansion of the real estate portfolio from DM 5.4 billion to DM 6.4 billion reduced its liquidity to 36 %.

Combined real estate expertise

We merged Deutsche Immobilien Anlagegesellschaft mbH and DEBEKO Immobilien GmbH to form Deutsche Grundbesitz Management GmbH. In the market we now operate under the name of "Deutsche Grundbesitz". We expect our competitive situation to improve as early as 1998.



Global presence, international products and the experience
of a big universal bank – those are the foundations in investment banking.

Investment Banking

1997 was a year of mixed developments for this Group Division and its 7,600 staff. The good results achieved in the first nine months in Investment Banking came under pressure during the fourth quarter as repercussions from the crisis on the Asian financial markets were felt. Emerging Markets recorded very positive business developments. Structured Finance and Asset Management also did well. Up to and including the third quarter, the year developed satisfactorily for Global Markets and Equities. The Investment Banking Division, by contrast, reported disappointing results. All in all, profits for 1997 fell short of the previous year's level. The share in the results of the three client-focused Group Divisions was 17%.

Integrated advisory concept and product range

The Group Division still managed to strengthen the competitive position of nearly all its businesses in 1997. In some areas, such as Global Markets, both internal structures and market penetration reached targeted levels. In others, such as the Investment Banking Division, there is still work to be done. The past separation of investment banking and the lending business proved to be ineffective. Our clients expect comprehensive advice and services under one roof. This prompted us to create the new Global Corporates and Institutions Division in 1998, marking the next stage in the development of Investment Banking. Deutsche Morgan Grenfell and Deutsche Bank's corporate banking activities will be integrated in a single organizational unit. This move underscores our commitment to this key area of banking business, in Europe as well as in America and Asia.

New trading floor in the run-up to EMU

With the advent of European Monetary Union, the biggest financial market for foreign exchange, equity and debt trading outside the United States is emerging. So for Investment Banking, too, the financial year was strongly influenced by preparations for the euro. This included getting our European trading and distribution facilities ready for a common currency. Another milestone was set in January 1998 with the opening of our new trading floor in Frankfurt. From this new Investment Banking Centre we will trade in all the euro products of the future. Later this year we will also open new headquarters in London to house the majority of our investment banking activities. We have begun a consolidation of our worldwide trading activities, basing operations in our hub cities of Frankfurt, London, New York, Singapore and Tokyo.

Global Markets

In the Global Markets division with its staff of 2,400, Deutsche Bank ranks as one of the world's leading debt, currency and risk management houses. The traditional strengths of Deutsche Bank have been significantly enhanced in the past three years. This combination of "traditional" and "new" was reflected in 1997 in a higher market share in seven international product areas: Debt Capital Markets; Fixed Income; Foreign Exchange; Futures and Options; Metals and Commodities; Money Markets and Repo; and OTC Derivatives.

Strategies tailored to customers' needs

Today Deutsche Bank is recognized as one of the premier derivatives houses in the world. Particular attention has been paid to expanding our Institutional Client Group, which is dedicated to providing customers with tailor-made strategies to match their specific requirements. As a result of our progress in offering these complex advisory products, we have established ourselves as an important partner for clients in the development and use of risk hedging as part of their investment strategies.

Geared to the euro

As the No. 1 fixed income house in Europe, Deutsche Bank is also leading the development of a wide range of credit and fixed-income products as investors adapt their strategies to the forthcoming monetary union. These include asset-backed and mortgage-backed securities and high-yield fixed-income securities. We have also made significant progress in our traditional businesses, enhancing our rankings in foreign exchange, government bond and eurobond trading.

Equities

Consolidation and expansion of equity capabilities

We intend to step up our efforts in the Equities division, which employs 1,700, to achieve a leading position in the European equities market. During 1997 the division consolidated existing regional equities operations into a single global business. We acquired the global equity derivatives and programme trading businesses of NatWest Markets at the end of 1997. This move expanded our capabilities in the important U.S. and Asian equity markets. We continued to build our position in European equity research. In the United Kingdom we commenced equities trading in 1997 and have already achieved a notable market position.

Emerging Markets Proprietary Trading

The former Emerging Markets division was restructured in the course of the year with the customer business in these markets transferred to other business units, such as the Investment Banking Division, Equities and Global Markets. A significant Emerging Markets Proprietary Trading capability has been retained as a self-standing division and, notwithstanding the difficulties in the fourth quarter, had a very successful year overall.

Investment Banking Division

The Investment Banking Division, which is still in a build-up phase, has invested a great deal in upgrading its expertise in certain industries and strengthening its regional presence. Although substantial progress was made in gaining attractive mandates, financial results in 1997 were not satisfactory. Bucking this trend was our California-based Technology Group, which provides global coverage of the computer and software industry. In its first full financial year, it captured a significant market share and turned in good results.

Financing and advisory projects in many countries ...

In the United Kingdom we acted as advisor on the conversion of the Halifax Building Society into a listed commercial bank; the transaction was valued at £ 19.4 billion. In Russia we advised on the privatization of Svyazinvest, the holding company for the majority of local Russian telephone companies. We were involved in a number of elements of the deal, as a 25 % share of the company worth U.S.$ 1.85 billion was issued in a combination of equity and debt capital. Here, we formed an international consortium and also acquired shares of our own.

... such as France, Russia, the U.K. and the United States

In France, we advised the French Government on the privatization of France Telecom, the largest transaction of its kind ever undertaken in France. Cross-border in Europe, we advised on the £ 3 billion merger between the British company Amersham and Nycomed, the Norwegian medical diagnostics group. In Germany, we advised on 36 domestic transactions worth DM 33 billion and several cross-border deals including Gehe's acquisition of Lloyds Chemists for £ 650 million. In the U.S.A. we were advisor to Ascend Communications in its U.S.$ 3.7 billion merger with Cascade Communications.

The new divisional structure will enable us to expand and improve the productivity of our corporate finance activities, with a special emphasis on Europe, in the newly formed Global Corporates and Institutions Division.

Structured Finance

Growing number of buy-out financings

Structured Finance had another very successful year in 1997. In the project and export finance area, we were again leaders in Asia and Australia. In Europe, we participated in innovative transactions such as the first privately financed hospital for the U.K. National Health Service. In Leveraged Finance, we financed a greater number of buy-outs, and we are now one of the leaders in this field. An example of our activities was the subordinated bond floated for Italy's Seat, Europe's biggest buy-out financing in 1997.

Institutional Asset Management

Institutional Asset Management also had another very successful year. Funds under management at the end of 1997 reached the equivalent of DM 259.3 billion, which was 32 % higher than a year earlier.

Growth by nearly a third in funds under management

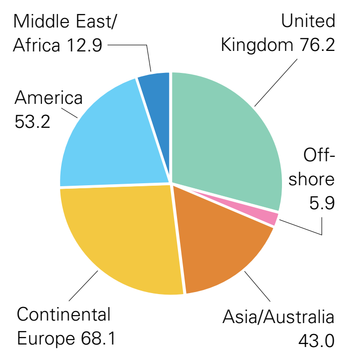
We continue to expand our business internationally – about 50 % of the assets we manage today come from clients outside Germany and the United Kingdom.

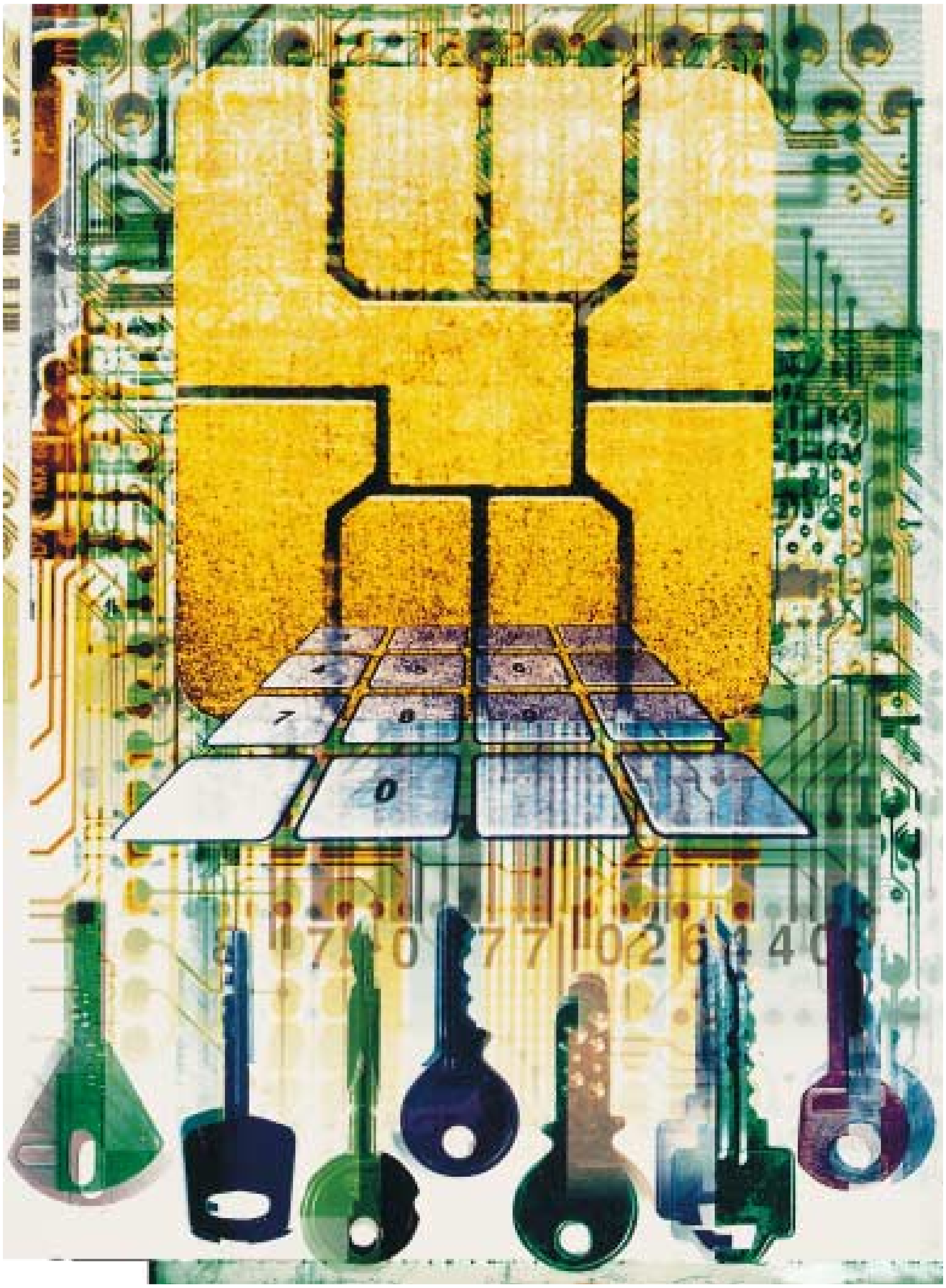
In May 1997 we acquired Axiom Funds Management in Australia from the New South Wales State Government. The acquisition of this asset manager, with 200 employees and funds under management of A$ 20 billion, has made us one of the leaders in the fast-growing Australian market.

Growth opportunities in Asset Management abound, not least given the increasing importance of private retirement schemes. We are well placed to participate in this trend: our institutional and retail fund management arms were integrated in 1998 to form a single Group Division. This new division combines the expertise of institutional asset management and mutual fund business, enabling Deutsche Bank to provide a more focused service to clients.

Geographic distribution of funds under management

in DM billion





Electronic networks allow customers to access their bank in a variety of ways.
It can thus offer a high level of convenience, flexibility and efficiency.

Group Services

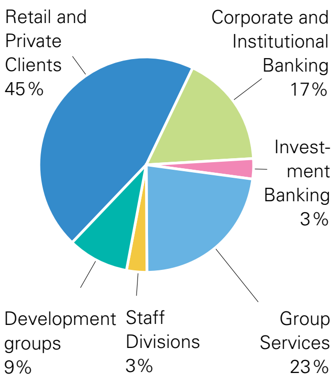
Decisive steps are being taken to advance the bank's market orientation. Services are made available by self-standing units with independent operational responsibilities wherever there is a good outlook for improving our corporate value. The Group Services Division combines marketable services – such as the core business of Information Technology/Operations (IT/O) – and fundamental staff functions. The reorganization of Group Services follows this distinction: Personnel will be organized as an independent Staff Division, while Information Technology/Operations will approach the market as Group Division Transaction Services.

Our Staff

Competitive and technological constraints in international finance demand a continued adjustment of staff levels. On the one hand, that will mean preserving jobs with a direct impact on bank-client relationships. Job cuts, on the other hand, will primarily affect administrative duties where there is scope for rationalization.

Personnel distribution by division

Deutsche Bank AG domestic, Deutsche Bank Lübeck AG, Deutsche Bank Saar AG



So, in our domestic operations, the employment trend of the last few years has been sustained. Since 1992 the workforce in Germany has decreased by 10,830 while the number of staff in our foreign organization increased by 12,715. The Group employed a total of 76,141 staff (previous year: 74,356) at the end of the year. The focus of recruitment in 1997 was outside Germany (2,369), while the corresponding figure for Germany fell by 584 to 49,086. The biggest growth in our foreign workforce was registered in London (888) and the United States (778). A total of 27,055 staff members worked outside Germany (previous year: 24,686). That corresponds to 35.5 % of our entire staff.

Motivated staff increase corporate value

Staff motivation is a cornerstone of personnel management. Human Resources and the bank's executives have a responsibility to safeguard the personal and professional development of its staff. Fair, performance-related pay is also a motivating factor. Therefore, together with the issues of corporate culture and knowledge management, a progressive remuneration policy is a major focus of our personnel work. In 1997 a scheme of agreed objectives was added to the bank's career and remuneration system for all non-tariff staff. It, in turn, is linked to a variable bonus system. So we now have a central management instrument in place which combines our corporate targets with our staff's commitment and wish to assume greater personal responsibility.

Part-time employment over 55 offers advantages

The new part-time employment model is designed to help staff members over 55 make a gradual transition from working life into retirement. It also secures job opportunities for younger people recruited to fill the job vacancies. Since early retirement schemes are more expensive, this model has distinct cost advantages for the bank.

DM 360 million invested in vocational and advanced training

As at year's end, 3,366 young people (pre-year: 3,254) were enrolled in vocational training in the Group. In 1997 we hired 1,732 apprentices and plan to offer all appropriately qualified candidates a regular employment contract on conclusion of their training. Our new "Vocational Training 2000" concept includes innovative learning methods such as teach-yourself computer programmes and specially designed business courses. We spent DM 360 million on vocational and advanced training in the Group, which corresponds to 4.1 % of the total payroll. Overall, more than 42,000 staff took part in 8,400 seminars. All these forms of investment in our staff will have a lasting and positive effect on our corporate value.

Thanks to our staff

Thanks and acknowledgement are due to our staff, who through their work and personal commitment contributed to the Group's result. These words of thanks also go to all Staff Councils and their committees, and to the Group Committee of Spokesmen and the Committee of Spokesmen for Senior Executives for their constructive cooperation, even in turbulent times.

Information Technology

Active on a new market

Today, information technology is a major factor of production for bank services. In view of widespread constraints to reduce costs, it is not always productive for banks themselves to furnish all the services they need; this has led to the creation of a new market. In addition to transaction-based services, a new Group Division Transaction Services provides cross-functional software systems as well as computer centres and telecommunications as a service. It also develops and offers a wide range of services in the fields of payment business and securities settlement. Achieving competitive prices and high settlement quality calls for an efficient infrastructure. So this division focuses on its core capabilities of transaction processing and related technological development. This has benefits for the entire bank in the form of greater flexibility and faster response on the market.

Information technology at Deutsche Bank made considerable headway in 1997. In one of its biggest EDP projects ever launched, the bank upgraded its domestic branch infrastructure. Good progress was also made in concentrating the settlement of cross-border transactions. With the expansion of our Internet banking services, we are now among Europe's top contenders in this field.

New Operating Systems introduced

By the end of 1997, 40,000 workplaces had been modernized in Germany, thus marking the completion of a broad-based technical overhaul of our branch network. Building on this state-of-the-art infrastructure, we introduced our New Operating Systems for client information management and fully automated transaction settlement. They are due to be launched in Italy and Spain, too, in 1998.

Our electronic distribution channels gained further importance. The number of point-of-sale terminals in the retail sector more than doubled. Our acquisition of easycash, a card service provider, helped promote this growth.

Top rank in Internet banking

Developments in online banking were particularly dynamic – owing in part to the broader applications available in Internet banking. In October we began a test run with electronic money on the Internet (ecash). We are also ready to use this medium for credit card and direct debit settlement.

Better quality and higher volumes

Volumes in payment business and securities settlement were in some cases twice as high as in the previous year. We again managed to reduce costs and improve service quality, especially in Germany. For this we received the ISO standard 9001 classification. We also achieved strong growth in invoice settlement for multinational companies based on the Edifact clearing system for the exchange of formatted data.

All set for monetary union and the year 2000

Preparing for European Monetary Union and adjusting to the turn of the millennium will again be a focus of this division's activities in 1998. Project groups have been created to make sure deadlines are met.

Our major foreign units are now equipped with SAP R/3 standard business management software. The launch of this uniform system worldwide has laid the groundwork for improved global cost management.

Compliance

Deutsche Bank paves the way

Client and investor confidence in the integrity of the bank and its staff is essential for a client relationship to be a success. Customers must be able to depend on the bank to protect their interests and to give them top priority whenever interests clash. That is why Deutsche Bank was the first German bank to set up a worldwide compliance organization seven years ago. Originally a term used in securities trading, the compliance concept today relates to market participants conducting their affairs in accordance with applicable laws and regulations.

International business management calls for uniform codes and organizational guidelines to ensure that global transactions comply with both international standards and local regulations. We have an independent team of compliance officers at work in 50 countries to assist the divisions and their staff in dealing with market-sensitive information and potential conflicts of interest.

Safeguarding confidentiality

Compliance advises the divisions on how to set up so-called Chinese walls to safeguard confidentiality and how to organize current business flows; it also uses computer systems to monitor securities business and internal information flows with the help of watch lists and restricted lists.

Integrity and fairness in dealings with clients

The compliance organization is designed to protect the bank and its staff against – even unintentional – misconduct. Compliance documents conclusively that the rules have been observed, so that customers can rely on being treated honestly and fairly at all times.

From Selected Staff Divisions

The Staff Divisions of the bank perform advisory, supervisory and steering functions for the entire Group.

Risk Management

Risk management as core task

Deutsche Bank sees efficient and far-sighted risk management as being a core task. The risks taken by a globally operating universal bank are complex and diverse. The primary goal of Risk Management is not to avoid or minimize risks which are inherent in banking business, but rather to steer them consciously and actively and ensure that the bank generates income adequate to the assumption of risks. From the customer's point of view, the bank's assumption of risk is an important service which is rewarded accordingly; currency-hedging transactions are an example. Thanks to the bank's presence on international financial markets, it can offset these risk positions. Today, leading banks play an essential part in the functioning of the market economy by assuming and managing risk.

When managing risk, we differentiate between credit risk, market risk, liquidity risk and operations risk. Risk Management is responsible for setting and monitoring risk limits, continuously analyzing the bank's risk position, and influencing risk positions through instructions and recommendations. The management of all risk types was integrated and placed under the responsibility of one member of the Board of Managing Directors in 1997. This helps to network risk information and facilitate early action as soon as changes in risk become apparent.

Bank supervisory office approves internal models

In 1997, the models and systems used globally to measure risk were expanded, consolidated and fine-tuned. Since the beginning of the year, market risk models, already in use for internal risk management, have become more important since they are now used to determine regulatory capital requirements. Since December 31, 1997, in accordance with the recommendations of the Basle Committee on Banking Supervision, market risks, too, have had to be backed by capital. In connection with this, Deutsche Bank has been seeking approval for its own internal models for some years in order to create an environment for banks in which the development of advanced risk measurement models is rewarded, at the same time eliminating the need for the inefficient parallel development of internal and external models. In November 1997 the Federal Banking

Supervisory Office granted Deutsche Bank permission to use its own internal models to determine capital requirements.

Credit risk management

Credit risk forms the largest part of Deutsche Bank's risk portfolio. This includes credit risk from traditional lending business and from investment banking. Staff Division Credit Risk Management has global responsibility for managing these risks. This involves in particular formulating and implementing credit principles and process parameters, enhancing internal rating procedures, and global portfolio management. The Staff Division is also involved in large Group exposures.

Sovereign risk is particularly important in view of the fact that Deutsche Bank operates worldwide. The management of these risks is analyzed and steered by a Sovereign Risk Committee established specifically for this purpose.

Enhanced procedures

The procedures for quantifying credit exposures from trading business were enhanced and expanded to include new financial market products. The replacement costs arising out of derivatives trading business amounted to DM 109 billion as at December 31, 1997. An average of 85 % of our counterparty risk from derivatives trading in 1997 was concentrated on the best ratings (AAA, AA, A, according to Standard & Poor's equivalent).

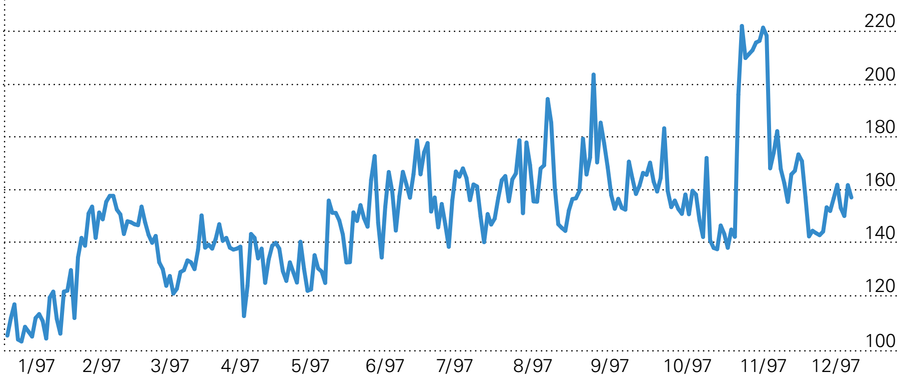
Market risk management

Risk limits for each Group Division

Staff Division Group Market Risk Management is responsible for managing market risk Group-wide. The consistent expansion of investment banking has made independent market risk management, reporting directly to the Board of Managing Directors, indispensable. Market risks are measured and monitored using the value at risk (VAR) concept. A VAR limit hierarchy, in place throughout the Group, limits the risk potential for each business area and region. This procedure is supported by stress tests which determine the effects of potential, extreme market fluctuations on the market values of the bank's business portfolio.

Daily value at risk in 1997

in DM million



VAR, calculated in accordance with the requirements of the Bank for International Settlements, shows the maximum loss which can be incurred with 99 % probability over a holding period of 10 trading days. In the fourth quarter of 1997, fluctuations were evident which reflect the drastic market developments, particularly in Asia. Throughout the Asian crisis, Group Market Risk Management used information from all areas of business on the risks involved for each individual country to identify large risks and restructure trading positions at short notice. This enabled us to keep the risks from the Asian crisis within bounds.

Treasury

Optimum capital allocation

Staff Division Treasury is responsible Group-wide for monitoring and steering risks relating to interest rate changes and liquidity, for the provision of equity and debt capital resources to the bank worldwide, and the optimum allocation of capital according to regulatory and economic criteria. Under the value-oriented company management approach, Treasury is also responsible for capital ratios and balance sheet structure. To fund assets, issues in the amount of DM 29.5 billion with an average weighted maturity of 7.4 years were floated in 1997.

In 1997, the Deutsche Bank share was among
investors’ favourites and had the highest turnover of all shares in Germany.

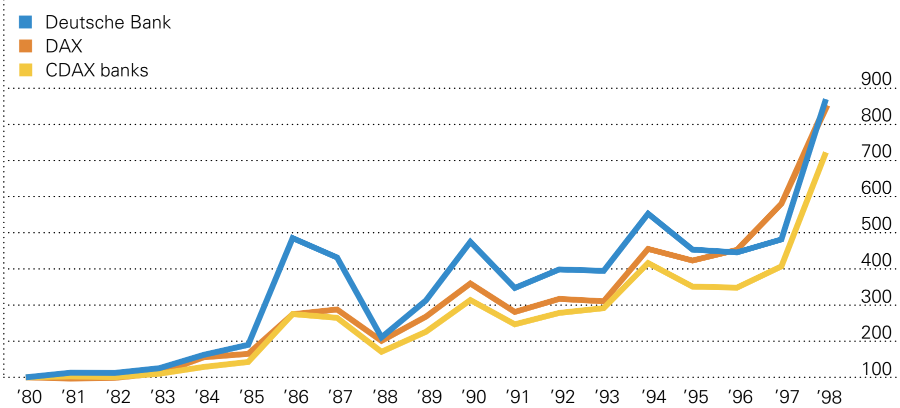
The Deutsche Bank Share

Deutsche Bank's market value rose sharply in the 1997 reporting year. This was apparent in the performance of the Deutsche Bank share whose value (increase in share price plus reinvested dividend) appreciated by 80.5 % in 1997. In contrast to the previous year, Deutsche Bank outperformed the German share index (DAX) and the CDAX for banks, which gained 47.1 %, and 77.4 % respectively over the same period.

Strong share performance

Since the bank was reconstituted in 1957, 1985 was the only year in which our share posted a higher percentage gain. The development of our share price in 1997 was largely related to expectations of consolidation in the global banking industry. However, it also reflected the perception among many market participants that Deutsche Bank will emerge as one of the winners of European Monetary Union.

Long-term price development



(Total Return Index,1980 = 100, based on figures as at Jan. 1st)

The extraordinary development of our share price in 1997 also significantly improves the performance of Deutsche Bank shares on a long-term comparison. For example, an investor who bought DM 10,000 worth of Deutsche Bank shares at the beginning of 1980, used the cash dividends to buy more shares and took advantage of capital increases without injecting additional funds, had a portfolio worth DM 86,916 at the end of 1997, which had amounted to DM 48,158 only at the end of 1996. Over the past 18 years, since the beginning of 1980, our share has yielded an average annual return of 12.8 % compared with gains of 12.7 % in the German share index (DAX) and 11.6 % in the CDAX for banks.

Market volume leader

For the first time since 1994, the Deutsche Bank share was again the most actively traded share on all German stock exchanges, including electronic Xetra/Ibis trading, after ranking third in 1996. In the reporting year it accounted for 7.5 % (1996: 6.5 %) of total domestic equity trading volume and for an even higher 10.2 % in Xetra/Ibis trading. Deutsche Bank was also the most popular share on the DTB, the German futures and options exchange, where options on Deutsche Bank shares were number one after ranking second in 1996.

Market capitalization nearly doubled

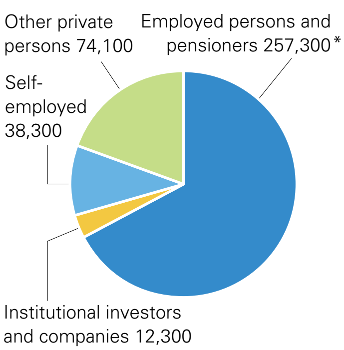
At the end of 1997, 531,316,095 shares of DM 5 par value were in issue. At DM 67.5 billion, the market value of Deutsche Bank shares at this time was nearly twice the amount reported at the end of 1996 (DM 36.0 billion). In terms of the market capitalization of German equities, Deutsche Bank was third after ranking tenth in the previous year, accounting for 4.7 % (1996: 3.5 %) of Germany's total stock market capitalization. Our share is listed on all German stock exchanges as well as on the Amsterdam, Antwerp, Brussels, London, Luxembourg, Paris, Tokyo, Vienna and Swiss bourses.

New key figure Earnings per share

Earnings per share for 1997 were DM 1.97 (1996: DM 4.44). This figure shows net income including minority interests, in relation to the average number of shares, and already conforms to the earnings per share disclosure requirement under International Accounting Standards as from the 1998 reporting year. Diluted earnings per share, also reported, take account of the maximum possible dilution due to a higher number of shares resulting from subscription rights granted. At the end of 1997, there were no option or conversion rights outstanding at Deutsche Bank AG.

Shareholder structure

382,000 shareholders



* thereof 49,800 staff shareholders

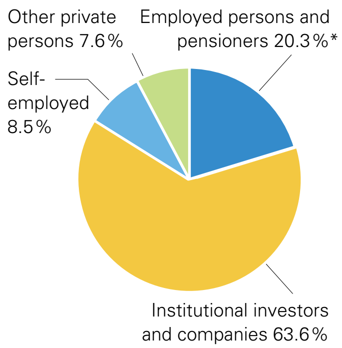
By December 1997, the number of our shareholders had risen by 84,000 to 382,000 against the previous year. Such a dramatic increase within a single year is unprecedented at Deutsche Bank. Nearly all new shareholders are German retail investors. The number of our domestic shareholders with up to 100 shares, for example, rose by more than 53,000 by the end of the year. Apparently, Deutsche Bank also benefited from the growing popularity of equity investment in Germany, mainly triggered by the launch of the Telekom issue in November 1996. The above-average performance of our share and continued speculation about restructuring measures in the banking industry also helped raise the popularity of our share.

The share of equity held by institutional investors declined slightly from 64.1 % to 63.6 %, which was largely attributable to insurance companies and pension funds, whereas investment funds, among whom Deutsche Bank is already a favourite, increased their share. Conversely, the share held by foreign investors increased from 37 % in 1996 to 39 %, thus approaching its long-term average of about 40 %. Among these countries, our share concentration increased in the U.K., Switzerland and the U.S.A. Overall, close to 90 % of Deutsche Bank’s share capital is held by European shareholders, which means that Deutsche Bank is a European bank in terms of ownership structure, too. With a 5.03 % stake in the bank's equity, Allianz Holding AG continues to be the only major shareholder reported under § 21 German Securities Trading Act.

The number of shareholders and shareholder representatives who attended our General Meeting on May 20, 1997 increased by almost 20 % to 4,500 compared to the previous year. 48 % of the bank's share capital was represented, which was above the 1996 level (47 %).

Distribution of share capital

Total: 2,656 million



* thereof 2.2 % staff shareholders

Unchanged dividend proposed

It will be proposed to the General Meeting on May 20, 1998 that an unchanged dividend of DM 1.80 per DM 5 share be paid. Including the tax credit of DM 0.77, the total income for our domestic shareholders will be DM 2.57. In relation to the Deutsche Bank share price of DM 127 as at December 30, 1997 in Frankfurt, this corresponds to a dividend yield of 2.0 %, or 1.4 % excluding the tax credit. The total dividend appropriation for 1997 will increase by 6.2 % to DM 956 million.

Consolidated Financial Statements according to IAS

Management Discussion

The net income reported for the 1997 financial year was strongly influenced by two measures which become effective in the drawing up of the annual financial statements. To reorganize the Group's activities, we have introduced a comprehensive three-year global programme for which expenses in a total amount of DM 2.5 billion have been included in the financial statements for 1997. The restructuring measures have the express aim of preparing the Group for the changing business environment of the next decade and further increasing its focus on markets and customers. With that, we are laying the basis for successfully positioning the bank in competition. Furthermore, we formed an additional provision of DM 1.4 billion, which burdened operating profit, due mainly to the credit risk which became apparent in Asia in the fourth quarter of 1997.

Owing to these measures, we made no appropriation for retained earnings. We propose to the General Meeting on May 20, 1998 that an unchanged dividend of DM 1.80 per DM 5 share be resolved on the share capital increased by DM 156 million to DM 2,657 million.

Income Statement
Increase in regular income by DM 3.0 billion to DM 24.3 billion

We recorded a gratifying increase in net income in interest and commission business and in trading by a total of DM 3.0 billion or 14.8 % in the reporting year. The outstanding contribution came from commission business.

The 5.5 % improvement in net interest income to DM 11.1 billion stems from strong volume growth. The low level of interest rates had a downward effect on net interest income due to the high share of non-interest-bearing liabilities. Net interest income from trading activities is included in trading profit.

Provision for losses on loans and advances led to expense of DM 2.2 billion in 1997 after DM 0.7 billion in the year before. Owing in particular to the development in Asia, we formed additional provision for losses on loans and advances in the amount of DM 1.4 billion. The addition of DM 0.2 billion to the general value adjustment was required owing to the growth in total credit extended.

Provision had already been made in the preceding years for most of the credit write-offs totalling DM 1.5 billion. Only a small unforeseeable part was charged to 1997 results. The default ratio (in relation to total credit extended) of 0.31 % was the lowest in the last few years.

In 1997, the Group achieved its highest ever net commission income at DM 8.9 billion. All sectors contributed to this gratifying result; income in securities business and asset management, representing 70 % of the growth in total net commission income, deserves special emphasis. Both sectors profited from the good overall state of the market. The total volume in asset management, including the capital investments of Deutsche Bank's insurance group, came to DM 503 billion, which was DM 123 billion higher than one year before.

The trading profit of DM 3.6 billion was 11.6 % above the comparative figure for the previous year. After profit of roughly DM 1 billion in each of the first three quarters, the result weakened in the fourth quarter to DM 0.6 billion. Equities, derivatives and foreign exchange trading made the highest contributions to trading profit in 1997.

General administrative expenses increased strongly in 1997 by 20.8 % to DM 18.4 billion. The growth compared to the previous year is, however, influenced by a special effect, as the adjustment of the actuarial calculation of the pension provision in 1996 reduced the basis for comparison. In addition, our costs abroad increased owing to the rise in exchange rates, especially for the British pound and the U.S. dollar. Adjusted for these two effects, general administrative expenses rose by 12.4 %. The cost increase took place largely abroad in the course of the further expansion of investment banking.

About 60 % of general administrative expenses is attributable to staff expenses. The growth of 18.7 % is mainly due to the adjustment of salaries and to bonus payments. The average number of staff over the year rose by 1.6 % to 67,895, due solely to the increase in the Group's foreign branches and subsidiaries.

The rise in other administrative expense was determined above all by the higher costs in the IT sector – an increased transaction volume, the building-up of three trading floors, an upgrading of systems – and also including the expense for preparations for European Monetary Union and the turn of the millennium.

We are not satisfied with the cost/income ratio of 75.8 %, despite the burden of capital investment expenses. The restructuring measures initiated will play a major part in reducing the ratio to a level comparable to that at internationally operating banks.

Operating profit decreased by 26.8 % to DM 4.3 billion owing to the additional risk-provisioning requirement.
Operating profit before provision for losses on loans and advances was only just short of the 1996 result.

The performance of Group Division Retail and Private Clients improved to DM 1.8 billion in the reporting year. On the other hand, the performance of Group Divisions Corporate and Institutional Banking (DM 1.9 billion) and Investment Banking (DM 0.8 billion) was below the comparative figure for the previous year owing to higher costs.

We obtained income of DM 1.2 billion from the sale of investments. It stems largely from the sale of our shares in Karstadt AG, Essen, and in Bayerische Vereinsbank AG, Munich.

Expenses of DM 2.5 billion for the strategic Group restructuring measures were included in the financial statements for 1997. We have thus given the five Group Divisions the possibility of achieving the targets set for the next three years. Part of these expenses is not tax-deductible in 1997. Deferred tax assets have been formed for the expenses which will become effective for tax purposes in the following years only.

Net income before tax was DM 2.0 billion, which was DM 2.8 billion below the comparative figure for the previous year, due in particular to the costs for the restructuring measures. After deduction of taxes, net income of DM 1.0 billion remains for 1997.

Balance sheet
Total assets exceed one trillion

After crossing the trillion mark, total assets have entered a new dimension. The strong growth by DM 156.9 billion in 1997 related to investment banking, owing to the growth in assets held for dealing purposes and money market business, as well as to commercial banking, owing to the expansion of total credit extended.

As a result of the increase in holdings of fixed-income securities, assets held for dealing purposes rose to DM 231.6 billion; they account for 22 % (1996: 20 %) of total assets. The share of reverse repos in total assets also grew further to 17 %.

Total credit extended increased by DM 36.6 billion to DM 447.9 billion, in particular owing to credits to enterprises and financial institutions.
Total provisions for losses on loans and advances in the amount of DM 14.0 billion correspond to 3.1 % of total credit extended.

The growth of total credit extended and assets held for dealing purposes was funded primarily with banks' deposits. Amounts owed to other depositors came to DM 438.6 billion.

The market value of holdings of listed securities held as financial fixed assets totalled DM 73.1 billion. Compared with a respective total book value of DM 40.8 billion, this leaves a price reserve of DM 32.3 billion, which is DM 8.9 billion higher than at the end of 1996.

Capital and reserves were strengthened by DM 2.4 billion to DM 32.1 billion above all by the exercise of option rights which matured as at June 30, 1997.

The strategic restructuring measures initiated will enable us to broaden the capital base by allocation to retained earnings. Our special attention is devoted to the management of risk-bearing assets. In this respect, we shall make selective use of the possibility of debt securitization.

Balance Sheet of Deutsche Bank Group

Assets in millions of DM	*(Notes)*	31.12.1997	31.12.1996	Change in %
Cash reserve	*(13)*	20,091	23,157	– 13.2
Placements with, and loans and advances to, other banks	*(3, 14)*	162,418	136,001	+ 19.4
Loans and advances to customers	*(3, 15)*	518,486	460,068	+ 12.7
Total provisions for losses on loans and advances	*(4, 18)*	– 14,036	– 13,202	+ 6.3
Assets held for dealing purposes	*(5, 19)*	231,578	177,172	+ 30.7
Investments	*(6, 20)*	66,717	55,400	+ 20.4
Property and equipment	*(7, 21)*	11,530	10,375	+ 11.1
Insurance companies' capital investments	*(22)*	28,142	24,323	+ 15.7
Other assets	*(23)*	18,038	12,796	+ 41.0
Total Assets		**1,042,964**	**886,090**	**+ 17.7**

Liabilities in millions of DM	*(Notes)*	31.12.1997	31.12.1996	Change in %
Deposits from other banks	*(9, 26)*	286,786	213,953	+ 34.0
Amounts owed to other depositors	*(9, 27)*	438,614	375,629	+ 16.8
Promissory notes and other liabilities evidenced by paper	*(28)*	152,441	141,610	+ 7.6
Provisions	*(10, 29)*	51,617	43,053	+ 19.9
Other liabilities	*(30)*	67,876	71,125	– 4.6
Subordinated capital	*(31)*	12,937	10,425	+ 24.1
Minority interests		607	605	+ 0.3
Capital and reserves	*(32)*	32,086	29,690	+ 8.1
Subscribed capital		2,657	2,501	+ 6.2
Capital reserve		13,993	12,201	+ 14.7
Retained earnings		14,480	14,088	+ 2.8
Consolidated profit		956	900	+ 6.2
Total Liabilities		**1,042,964**	**886,090**	**+ 17.7**

Income Statement of Deutsche Bank Group

Income Statement in millions of DM	*(Notes)*	1.1. - 31.12. 1997	1.1. - 31.12. 1996	Change in %
Interest and similar income		48,949	41,566	+ 17.8
Interest expenses and similar charges		37,822	31,023	+ 21.9
Net interest income	*(33)*	11,127	10,543	+ 5.5
Provision for losses on loans and advances	*(18, 34)*	2,205	715	
Net interest income after provision for losses on loans and advances		8,922	9,828	– 9.2
Fee and commission income		10,344	7,893	+ 31.1
Fee and commission expense		1,407	1,043	+ 34.9
Net commission income	*(35)*	8,937	6,850	+ 30.5
Gains less losses arising from dealing activities (trading profit)	*(36)*	3,601	3,226	+ 11.6
Net income from insurance business	*(37)*	608	620	– 1.9
General administrative expenses	*(38)*	18,392	15,219	+ 20.8
Other income	*(39)*	2,572	2,348	+ 9.5
Other expenses	*(40)*	4,205	2,763	+ 52.2
Net income before tax		**2,043**	**4,890**	**– 58.2**
Income taxes	*(41)*	1,024	2,672	– 61.7
Net income		**1,019**	**2,218**	**– 54.1**

Appropriation of net income in millions of DM	1997	1996	Change in %
Net income	1,019	2,218	– 54.1
Profit attributable to minority interests	67	92	
Loss attributable to minority interests	4	8	
Addition to retained earnings	–	1,234	
Consolidated profit	**956**	**900**	**+ 6.2**

Cash Flow Statement of Deutsche Bank Group

Cash Flow Statement in millions of DM *(Note 43)*	1997	1996
Net income	**1,019**	**2,218**
Non-cash positions in net income and adjustments to reconcile net income with net cash provided by operating activities		
Write-downs, depreciation, adjustments, write-ups and change in provisions	11,477	9,840
Change in other non-cash positions	– 2,087	– 91
Profit from the sale of investments, property and equipment	– 1,184	– 1,893
Other adjustments (net)	– 9,811	– 9,149
Sub-total	**– 586**	**925**
Change in assets and liabilities from operating activities after correction for non-cash components		
Amounts receivable	– 83,162	– 77,014
Securities held for dealing purposes	– 57,146	– 38,544
Other assets from operating activities	– 4,806	– 3,320
Liabilities	138,328	106,867
Promissory notes and other liabilities evidenced by paper	11,031	14,403
Other liabilities from operating activities	– 2,016	2,053
Interest and dividend receipts	48,949	41,566
Interest payments	– 37,822	– 31,023
Extraordinary proceeds	30	20
Extraordinary payments	– 577	– 350
Income tax payments	– 1,686	– 1,179
Net cash provided by operating activities	**10,537**	**14,404**
Proceeds from the sale of		
investments	26,081	31,552
property and equipment	461	684
Payments for the acquisition of		
investments	– 35,680	– 35,810
property and equipment	– 4,028	– 3,465
Effects of the change in the group of companies included in consolidation	– 307	– 51
Other investing activities (net)	– 3,819	– 3,659
Net cash used by investing activities	**– 17,292**	**– 10,749**
Proceeds from the issuance of shares	1,948	122
Dividends paid	– 900	– 897
Other financing activities (net)	2,512	2,125
Net cash provided by financing activities	**3,560**	**1,350**

Cash and cash equivalents at end of previous period	**23,157**	**17,913**
Net cash provided by operating activities	10,537	14,404
Net cash used by investing activities	– 17,292	– 10,749
Net cash provided by financing activities	3,560	1,350
Effects of exchange rate changes on cash and cash equivalents	129	239
Cash and cash equivalents at end of period	**20,091**	**23,157**

Notes

The Consolidated Financial Statements of Deutsche Bank AG for the 1997 financial year are in accordance with the International Accounting Standards (IAS). The figures in these Consolidated Financial Statements in accordance with IAS are expressed in principle in millions of D-Mark for reasons of clarity.

Accounting and valuation principles

(1) Companies included in consolidation

The Consolidated Financial Statements include, besides Deutsche Bank AG, 107 domestic enterprises (1996: 101) and 280 foreign enterprises (1996: 278). 11 domestic enterprises and 30 foreign enterprises were consolidated for the first time; 5 domestic enterprises and 28 foreign enterprises were excluded from the group of consolidated companies.

Within the sub-group Deutsche Morgan Grenfell Group, there were additions of 11 enterprises and disposals of 24 companies. Furthermore, 15 companies of Deutsche Immobilien Leasing GmbH, Düsseldorf, and 4 enterprises of Deutsche Australia Ltd. were consolidated for the first time; 4 enterprises of Deutsche Australia Ltd. were excluded from the group of consolidated companies.

The enterprises consolidated for the first time are in particular the newly founded subsidiaries

- Dumas Participações S/C Ltda., São Paulo,
- Deutsche Holding S.A., Buenos Aires,
- Deutsche Bank/DB Ireland plc., Dublin,

the enterprises acquired in the first half of 1997

- Axiom Funds Management Ltd., Sydney,
- Ganis Credit Corporation, Newport Beach/U.S.A.,

as well as

- Deutsche Bank Fondi S.p.A., Milan,
- Finanza & Futuro Vita S.p.A., Milan,
- DB Service Uruguay S.A., Montevideo,

Deutsche Bank S.A. – Banco Alemão, São Paulo, formed a sub-group for the first time for the Consolidated Financial Statements, including the companies newly consolidated for 1997

- DB Service S/C Ltda., São Paulo,
- Deutsche Morgan Grenfell S.A. – Corretora de Valores, São Paulo,
- DB Capital Investment S/C Ltda., Barueri/São Paulo,
- IMOBAL – Imobiliária e Administradora Ltda., São Paulo.

Moreover, the following Group companies were merged with retroactive effect as at January 1, 1997:

- Deutsche Financial Services Holding Corp., St. Louis, with Deutsche Financial Services Corp., St. Louis,
- Morgan Grenfell GmbH, Frankfurt am Main, with Deutsche Bank AG,
- Deutsche Morgan Grenfell Holding Canada Ltd., Toronto, with Deutsche Bank Canada, Toronto,
- DEBEKO Immobilien GmbH, Eschborn, with Deutsche Immobilien Anlagegesellschaft mbH, Frankfurt am Main, which was renamed Deutsche Grundbesitz Management GmbH, Eschborn.

The following companies were excluded from consolidation:

- EFGEE Gesellschaft für Einkaufs-Finanzierung mbH, Düsseldorf,
- DEUBA Verwaltungsgesellschaft mbH, Frankfurt am Main,
- Deutsche Gesellschaft für Immobilien Leasing mbH, Cologne.

The change in the companies included in consolidation did not have a substantial influence on the situation of the Group.

Owing to their minor importance for the assets, liabilities, financial position and profit situation, a total of 537 domestic and foreign related companies were not consolidated; their share in aggregated total assets of the Group is roughly 0.3 %. A further 93 companies were excluded from consolidation pursuant to IAS 27, as the exercise of voting rights is restricted or the shares are held for reasons of subsequent disposal.

The group of companies valued at equity was extended to include Deutsche Financial Capital Limited Liability Company, Greensboro/North Carolina. The domestic companies Deutsche Beteiligungs AG Unternehmensbeteiligungsgesellschaft, Königstein/Taunus, and Deutsche Beteiligungsgesellschaft mbH, Frankfurt am Main, were excluded from the group of companies valued at equity. Since the acquisition of the remaining shares (1996: 50 %), the company Deutsche Morgan Grenfell (Pty) Ltd., Johannesburg, is no longer valued at equity, but fully consolidated in the sub-group Deutsche Morgan Grenfell Group. A total of 13 enterprises have been reported in accordance with the equity method; the financial statements of these enterprises were not adjusted to uniform accounting policies of the Group. Owing to minor importance, 34 holdings in associated companies were not valued at equity.

The complete list of shareholdings is filed with the Commercial Register in Frankfurt am Main. It can be ordered free of charge using the form on page 104.

(2) Principles of consolidation

Capital consolidation was carried out using the book value method. For companies consolidated for the first time in 1997, the basis taken was the respective time of acquisition. Goodwill is amortized on a straight-line basis.

Intra-Group claims and liabilities, expenses and profits as well as interim results are eliminated, unless they are of minor significance. The financial statements of the insurance companies are included in the Consolidated Financial Statements without any adjustments, except fluctuation provisions. Owing to the special nature of this business, intra-Group positions of the insurance companies, in principle, were not offset.

The Consolidated Financial Statements according to IAS contain no special depreciation or valuations permissible solely under provisions of tax law.

(3) Loans and advances

Placements with, and loans and advances to, other banks as well as loans and advances to customers are reported at their nominal amount or at cost, where necessary less write-offs. Premiums and discounts are deferred in line with maturity and reported under interest. Pre-maturity compensation payments are booked to revenue over 4 years (average remaining life).

Despite the existence of a legal claim, interest income is not booked to revenue in cases where realization of the interest income is almost certainly not to be expected.

(4) Total provisions for losses on loans and advances

Provision for risks in lending business comprises value adjustments and provisions for all discernible creditworthiness and country risks and for latent default risks.

Creditworthiness risks are provisioned in accordance with prudent standards applied uniformly throughout the Group in the amount of the expected default.

The transfer risk from exposures to borrowers in foreign states (country risk) is valued using a rating system which takes into account the respective economic, political and regional situation.

The latent credit risk is provided for by general value adjustments based on empirical values of Group companies relating to past defaults.

The amount added to total provisions for losses on loans and advances is determined by estimates of loan defaults to be expected in the future, the economic situation, the composition, quality and performance of the various loan portfolios and other significant factors. This valuation covers cash drawings and off-balance-sheet positions, e.g. interest rate or currency deals, guarantees and letters of credit.

(5) Assets held for dealing purposes

All dealing activities are reported at fair values in the balance sheet.

(6) Investments

Shares in related companies which are not consolidated are shown at cost. Associated enterprises are valued at equity in the Consolidated Financial Statements; in case of minor significance, valuation is at cost. Write-downs are made for declines in value which are other than temporary.

Bonds and other fixed-income securities, equities and other variable-yield securities as well as other shareholdings – serving investment purposes – are reported at cost; write-downs are deducted for permanent declines in value. If the reasons which led to a write-down cease to apply, the position is written up.

(7) Property and equipment, intangible assets

Property and equipment, as well as intangible assets acquired for consideration are accounted for at cost of acquisition or manufacture, where applicable reduced by scheduled depreciation.

The respective assets are depreciated on a straight-line basis over their estimated useful lives:

	Normal useful life in years
Land and buildings	25–50
EDP equipment	2– 6
Office furniture and equipment	3–10
Goodwill	15

In determining the useful life of an item of property or equipment, the physical life, technical obsolescence as well as contractual and legal restrictions are taken into account.

Goodwill is amortized on a straight-line basis over the probable useful life of 15 years.

In case of declines in value which are probably other than temporary, unscheduled write-downs are made.

Measures to maintain property and equipment are recorded as expense, as long as they do not change the nature of the asset and recur regularly.

(8) Leasing

The Group as lessee

Lease payments for assets under leasing agreements where the risks and rewards incident to ownership of an asset rest with the lessor (operating lease) are treated as rental expense.

The Group as lessor

Leasing assets to be allocated in accordance with IAS principles to the lessee (finance lease) are reported under loans and advances in the amount of the present values of the contractually agreed payments and any residual values.

Leasing assets to be attributed in accordance with IAS principles to the lessor (operating lease) are reported under property and equipment. Depreciation is made in accordance with the principles applicable to the respective fixed assets. Lease payments are booked to revenue in accordance with usage.

(9) Deposits, amounts owed, liabilities evidenced by paper

These items are valued at their repayment or nominal amount. Bonds issued on a discounted basis and similar liabilities are reported at present value.

(10) Provisions

Pension obligations

Provisions for pensions and similar obligations are calculated using the projected unit credit method in accordance with actuarial principles. As a principle, the rates used for salary development, pension adjustment and interest discounting reflect specific country conditions. Some Group companies comply with national regulations by forming benefit funds.

Other provisions

Tax provisions and other provisions are formed in the amount of uncertain liabilities or possible losses from pending transactions.

(11) Currency translation

Assets and debts denominated in foreign currency and spot deals not yet settled are translated in principle at the spot mid-rate on balance sheet date; forward exchange deals at the forward rate on balance sheet date.

In the Consolidated Financial Statements, the items in the balance sheet and the income statement of foreign consolidated companies are translated into D-Mark at Frankfurt mid-rates on the respective balance sheet date (reporting date method). Translation profits and losses from capital consolidation are offset with retained earnings. Translation profits and losses resulting from the consolidation of debts, expenses and income are treated neutrally for profit purposes.

(12) Deferred taxes

In accordance with IAS 12, deferred taxes are formed for timing differences between accounting income pursuant to IAS and taxable income. Permanent differences, i.e. differences which do not reverse within three years or for which, as at reporting date, there is no concrete indication that they will definitively reverse over a longer period, do not lead to deferred taxes.

Deferred taxes are computed using the specific country rates which are to be expected upon reversal of the timing differences (liability method). In case of changes to tax rates, the deferred taxes formed are adjusted accordingly.

Information on the Balance Sheet of the Group

(13) Cash reserve

The cash reserve of the Group is composed as follows:

in DM m.	31.12.1997	31.12.1996
Cash on hand and balances with central banks	8,932	10,846
Debit instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	11,159	12,311
Treasury bills, discountable Treasury notes and similar debt instruments of public-sector entities	6,746	7,778
Bills of exchange	4,413	4,533
Total	**20,091**	**23,157**

Analysis of loans and advances by customer groups and types of credit:

(14) Placements with, and loans and advances to, other banks

	Domestic banks		Foreign banks	
in DM m.	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Current/clearing accounts	4,306	3,647	27,797	17,903
Money market	9,202	7,243	94,932	88,256
Loans and advances	11,142	8,972	15,039	9,980
Total	**24,650**	**19,862**	**137,768**	**116,139**
thereof: reverse repos	1,727	1,858	66,264	55,971

(15) Loans and advances to customers

in DM m.	31.12.1997	31.12.1996
Domestic customers	273,737	262,160
Enterprises and financial institutions	109,847	105,824
Retail and private clients	118,206	113,357
Public sector	45,018	42,316
Other	666	663
Foreign customers	244,749	197,908
Enterprises and financial institutions	223,177	179,262
Retail and private clients	11,828	8,635
Public sector	9,229	7,387
Other	515	2,624
Total	**518,486**	**460,068**
thereof: reverse repos	105,311	76,268

Loans and advances to related companies and companies with which a participation relationship exists

	Related companies		Companies with which a participation relationship exists	
in DM m.	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Loans and advances to banks	2	1	302	363
Loans and advances to customers	1,982	1,680	2,592	2,169
Other assets of the insurance companies	31	20	–	–

(16) Discounts

(unless reported under loans and advances)

in DM m.	31.12.1997	31.12.1996
Domestic customers	**4,438**	**4,464**
Enterprises and financial institutions	4,204	4,112
Retail and private clients	–	–
Banks	234	352
Other	–	–
Foreign customers	**4,122**	**4,142**
Enterprises and financial institutions	3,878	4,127
Retail and private clients	13	1
Banks	231	14
Other	–	–
Total	**8,560**	**8,606**

(17) Total credit extended

At year's end 1997, total credit extended by the Group amounted to DM 447.9 billion (1996: DM 411.4 billion) and was made up as follows:

in DM m.	31.12.1997	31.12.1996
Loans and advances to customers*	413,175	383,800
Discounts**	8,560	8,606
Placements with, and loans and advances to, other banks	26,181	18,952
Total	**447,916**	**411,358**

* excl. reverse repos in the amount of DM 105.3 bn. (+DM 29.0 bn.)
** unless reported under loans and advances

Of total credit extended, DM 289.3 billion (1996: DM 275.3 billion) or 64.6 % related to domestic borrowers and DM 158.6 billion (1996: DM 136.1 billion) or 35.4 % to foreign borrowers.

Leasing business

Total credit extended includes finance leases totalling DM 6,504 million (1996: DM 6,194 million). The gross investment in leases reported as finance leases is DM 7,920 million (1996: DM 7,264 million) and the related unearned finance income is DM 1,416 million (1996: DM 1,070 million).

(18) Total provisions for losses on loans and advances

Total provisions for losses on loans and advances developed as follows:

in DM m.	Creditworthiness risks 1997	Creditworthiness risks 1996	Country risks 1997	Country risks 1996	Latent risks (general value adjustment) 1997	Latent risks (general value adjustment) 1996	Total 1997	Total 1996
As at 1.1.	**11,174**	**11,933**	**1,030**	**1,248**	**998**	**1,133**	**13,202**	**14,314**
Additions								
formed to the debit of P&L	3,581	3,269	604	60	197	–	4,382	3,329
Deductions								
write-offs	1,407	2,061	105	1	–	–	1,512	2,062
released to the credit of P&L	2,017	2,103	59	278	–	151	2,076	2,532
Difference from currency translation	+ 29	+ 136	+ 1	+ 1	+ 10	+ 16	+ 40	+ 153
As at 31.12.	**11,360**	**11,174**	**1,471**	**1,030**	**1,205**	**998**	**14,036**	**13,202**

Analysis of total provisions for losses on loans and advances

Total provisions for losses on loans and advances of DM 14,036 million (1996: 13,202 million) are divided up as follows:

in DM m.	31.12.1997	31.12.1996
Placements with, and loans and advances to, other banks	846	829
Loans and advances to customers	11,642	11,223
Discounts (unless reported under loans and advances)	5	6
Other positions (endorsement liabilities, guarantees, letters of credit, etc.)	1,543	1,144

The loan portfolio includes non-accruing value-adjusted exposures in the amount of DM 5.6 billion (1996: DM 5.4 billion).

(19) Assets held for dealing purposes

The assets held for dealing purposes are made up as follows:

in DM m.	31.12.1997	31.12.1996
Bonds and other fixed-income securities	**155,773**	**100,092**
Money market instruments	8,136	6,728
Bonds and notes issued by		
public-sector issuers	109,863	55,724
other issuers	37,774	37,640
thereof: own bonds	1,762	1,680
including:		
securities eligible for stock exchange listing	155,773	100,092
thereof: listed	134,519	89,628
Equity shares and other variable-yield securities	**14,261**	**12,026**
Equity shares	11,733	10,206
Investment certificates	584	452
Other	1,944	1,368
including:		
securities eligible for stock exchange listing	14,099	11,634
thereof: listed	13,234	10,686
Positive market values from derivative financial instruments	**60,756**	**64,572**
Other assets held for dealing purposes	**788**	**482**
Total	**231,578**	**177,172**

The current replacement costs for derivatives transactions from dealing activities still outstanding amount to DM 109.1 billion as at year's end.

Taking into account enforceable netting agreements in the amount of DM 48.3 billion, the positive market values from derivative financial instruments amount to DM 60.8 billion.

(20) Investments

The position Investments, reported at DM 66,717 million (1996: DM 55,400 million), includes shares in non-consolidated related companies and in companies valued according to the equity method, as well as other investments.

Structure and development

The following table shows in detail the structure and development of Investments:

in DM m.	**Shares in non-consolidated related companies**	**Shares in companies valued at equity**	**Other investments** Bonds and other fixed-income securities	Equity shares and other variable-yield securities	Other share-holdings
Acquisition cost					
as at 1.1.1997	1,137	1,857	34,720	17,921	724
exchange rate changes	+ 10	– 17	+ 960	+ 35	+ 8
additions	225	24	32,173	2,984	298
transfers	– 9	– 19	–	+ 25	+ 3
disposals	213	40	21,615	3,102	101
as at 31.12.1997	1,150	1,805	46,238	17,863	932
Write-ups in the reporting year	0	–	0	–	–
Cumulative changes from valuation at equity		– 380			
Write-downs					
as at 1.1.1997	117	–	24	431	99
exchange rate changes	+ 2	–	– 1	0	0
current write-downs	83	–	134	14	34
transfers	–	–	–	–	–
disposals	4	–	13	27	2
as at 31.12.1997	198	–	144	418	131
Book values					
as at 31.12.1997	952	1,425	46,094	17,445	801
as at 31.12.1996	1,020	1,569	34,696	17,490	625
including:					
securities eligible for stock exchange listing	–	–	46,094	5,711	–
securities listed on the stock exchange	–	–	35,498	4,801	–

The cumulative changes from valuation at equity include the balance of proportionate retained earnings and losses as well as dividends of minus DM 92 million in 1997.

Syndication commitments amounted to DM 36 million (1996: DM 25 million). Over and above that, there were no restrictions on disposal or on the receipt of income from disposal.

The list of shareholdings shows all non-consolidated related companies, associated companies and other shareholdings of 20 % or more.

Significant associated companies in the non-banking sector valued at equity

	Share of capital in % 31. 12. 1997
AIH Agrar-Industrie-Holding GmbH	25.0
Consortia Versicherungs-Beteiligungsgesellschaft mbH	30.0
DBG Vermögensverwaltungsgesellschaft mbH	45.0
Deutsche Beteiligungsgesellschaft mbH & Co. Fonds I KG*	92.5
Deutsche Financial Capital L.L.C.	50.0
Deutsche Interhotel Holding GmbH & Co. KG*	45.6
Energie-Verwaltungs-Gesellschaft mbH	25.0
GROGA Beteiligungsgesellschaft mbH	50.0
ILV Immobilien-Leasing Verwaltungsgesellschaft Düsseldorf mbH	50.0
K & N Kenanga Holdings Bhd.	22.5
Rhein-Neckar Bankbeteiligung GmbH**	49.1
SEBA Beteiligungsgesellschaft mbH	50.0

* different voting share: 45.5%; ** different voting share: 50.0%

Securities held as financial fixed assets

Securities held as financial fixed assets are made up as follows:

in DM m.	31.12.1997	31.12.1996
Bonds and other fixed-income securities	**46,094**	**34,696**
Money market instruments	2,260	2,037
Bonds and notes issued by		
public-sector issuers	15,712	12,951
other issuers	28,122	19,708
thereof: own bonds	3,917	3,629
Equity shares and other variable-yield securities	**17,445**	**17,490**
Equity shares	6,724	8,708
Investment certificates	10,626	8,739
Other	95	43
Total	**63,539**	**52,186**

Market value of investments

The market value of securities listed on the stock exchange (including securities held by intermediary holding companies) totalled DM 73.1 billion. This amount results from the market values of shares in non-banking enterprises of DM 35.8 billion (see page 57), other shareholdings of DM 1.5 billion – mostly less than 5 % – and bonds and other fixed-income securities of DM 35.8 billion. The corresponding book values are DM 35.5 billion for bonds and DM 4.8 billion for equity shares (see page 55) as well as DM 0.5 billion for intermediary holding companies, resulting in a price reserve of DM 32.3 billion (1996: DM 23.4 billion).

Significant shareholdings in the non-banking sector …

With regard to significant shares held by Deutsche Bank AG and Group companies in non-banking enterprises of 5% or more in the companies' share capital, the total percentages and market values directly and/or indirectly attributable to Deutsche Bank AG are as follows:

… listed companies

… unlisted companies

	Share of capital in %	Market value 31.12.1997 in DM m.
Allianz AG	10.0	10,448
Continental AG	8.4	389
Daimler-Benz AG	21.8	14,152
Deutsche Beteiligungs AG Unternehmensbeteiligungsgesellschaft	15.0	47
Deutz AG	38.2	303
Fuchs Petrolub AG Oel + Chemie (Share in voting capital 5.3%)	7.2	35
Hapag-Lloyd AG*	10.0	255
Heidelberger Zement AG	10.1	602
Philipp Holzmann AG	25.0	509
Hutschenreuther AG	28.9	32
Leifheit AG	10.0	29
Leonische Drahtwerke AG	9.4	34
Linde AG	10.1	923
Metallgesellschaft AG	13.0	574
Münchener Rückversicherungs-Gesellschaft AG (Share in voting capital 9.9%)	10.0	5,585
Nürnberger-Beteiligungs-AG	26.0	566
Phoenix AG	10.0	48
Südzucker AG (Share in voting capital 12.9%)	10.1	442
VERSEIDAG AG	10.0	18
VEW AG (Share in voting capital 3.9%)	6.3	728
Vossloh AG	7.5	56
WMF Württembergische Metallwarenfabrik AG (attributable total share in voting capital 13.7%)	9.2	36
Total		**35,811**
Gerling-Konzern Versicherungs-Beteiligungs-AG (Share in voting capital 24.9%)	30.0	
Mannesmann Arcor AG & Co. KG	5.0	

* Disposal became effective in March 1998

With regard to the above-mentioned shareholdings, we pursue no entrepreneurial objectives and exert no influence on financial and operating decisions. The shares are therefore valued at cost.

(21) Property and equipment

in DM m.	Land and buildings	Office furniture and equipment	Leasing equipment
Cost of acquisition/ manufacture			
as at 1.1.1997	5,466	5,416	4,171
effects of exchange rate changes	+ 37	+ 115	+ 1
additions	825	1,809	1,394
transfers	0	0	–
disposals	347	545	875
as at 31.12.1997	5,981	6,795	4,691
Write-ups in the reporting year	–	–	1
Depreciation			
as at 1.1.1997	741	2,331	1,606
effects of exchange rate changes	+ 17	+ 48	0
current depreciation	270	1,256	779
transfers	0	0	–
disposals	144	443	523
as at 31.12.1997	884	3,192	1,862
Book values			
as at 31.12.1997	5,097	3,603	2,830
as at 31.12.1996	4,725	3,085	2,565

The additions to property and equipment include DM 6 million (1996: DM 2 million) resulting from the acquisition of assets in connection with first-time consolidations.

Office furniture and equipment includes DM 435 million (1996: DM 272 million) in capitalized development costs; in the financial year, DM 214 million (1996: DM 136 million) was written off according to schedule.

Land and buildings with a book value totalling DM 3,600 million (1996: DM 3,300 million) are used within the scope of our own activities.

Rental income from property and equipment amounted to DM 104 million (1996: DM 113 million) in the financial year.

Prepayments of DM 198 million (1996: DM 183 million) were made for property and equipment.

Insurance companies' capital investments are made up as follows:

(22) Insurance companies' capital investments

in DM m.	Balance sheet value 31. 12. 1996	Additions	Transfers	Disposals	Write-ups	Write-downs	Balance sheet value 31. 12. 1997
Land and buildings	1,270	118		3		27	1,358
Participating interests and shares in related companies	254	10		1			263
Equity shares, investment certificates and other variable-yield securities	4,637	4,031		1,605	5	50	7,018
Bearer bonds and other fixed-income securities	1,451	1,968		1,585	2	4	1,832
Registered bonds, Schuldschein claims and loans*	11,864	2,855		2,049			12,670
Claims from mortgages, land charges and annuity land charges	2,790	1,607		1,289	1		3,109
Deposits with banks	529	66		437			158
Other	1,990	203		232	373	1	2,333
Total	**24,785**	**10,858**		**7,201**	**381**	**82**	**28,741**
Offsetting	– 468						– 599
Capital investments after offsetting	**24,317****						**28,142**

*including loans to related companies
**after adjustment of DM 6 million due to exchange rate changes

The insurance companies' capital investments include placements with consolidated related companies in the sum of DM 907 million (1996: DM 1,567 million). The offsetting relates largely to registered securities not eligible for stock market listing and shares in consolidated companies.

(23) Other assets

in DM m.	31.12.1997	31.12.1996
Intangible assets	2,990	2,942
Sundry assets	11,395	6,337
Other assets of the insurance companies	1,610	1,480
Deferred items	2,043	2,037
Total	**18,038**	**12,796**

Intangible assets

The following table shows the development of intangible assets:

in DM m.	As at 1.1.1997	Effects of exchange rate changes	Additions	Disposals	As at 31.12.1997
Cost of acquisition/ manufacture	3,749	+ 5	391	9	4,136
Depreciation	807	+ 1	346*	8	1,146
Book value	**2,942**				**2,990**

*current depreciation

Intangible assets include goodwill in the amount of DM 2,959 million (1996: DM 2,919 million).

The additions to intangible assets relating to the cost of acquisition/manufacture include in particular the goodwill from the acquisition of the remaining 50 % in the broker firm Deutsche Morgan Grenfell (Pty) Ltd., Johannesburg, Axiom Funds Management Ltd., Sydney, and Ganis Credit Corp., Newport Beach, U.S.A.

Sundry assets

Sundry assets contain claims to tax rebates against tax authorities, option premiums as well as cheques and matured bonds.

Other assets of the insurance companies

Other assets of the insurance companies mainly include claims arising from insurance business, current balances with banks, as well as interest and rental claims.

(24) Subordinated assets

in DM m.	31.12.1997	31.12.1996
Placements with, and loans and advances to, other banks	16	12
Loans and advances to customers	739	693
Bonds and other fixed-income securities	226	312
Equity shares and other variable-yield securities	33	33
Insurance companies' capital investments	1,190	790

(25) Business subject to repurchase agreements

As at December 31, 1997, the book value of assets reported in the balance sheet and sold subject to a repurchase agreement amounted to DM 48,643 million (1996: DM 31,702 million).

Composition of liabilities by customer groups:

(26) Deposits from other banks

as at 31.12. in DM m.	Domestic banks 1997	1996	Foreign banks 1997	1996
Repayable on demand	16,450	14,088	136,755	55,210
With agreed period or period of notice	30,896	38,427	102,685	106,228
Total	**47,346**	**52,515**	**239,440**	**161,438**

(27) Amounts owed to other depositors

Savings deposits and building saving deposits

as at 31.12. in DM m.	Savings deposits with agreed period of notice of three months 1997	1996	Savings deposits with agreed period of notice of more than three months 1997	1996	Building saving deposits 1997	1996
Domestic customers	**14,996**	**18,432**	**22,695**	**19,702**	**4,015**	**3,781**
Enterprises and financial institutions	28	17	31	34	85	86
Retail and private clients	14,895	18,281	22,435	19,511	3,881	3,660
Public sector	4	22	21	6	43	31
Other	69	112	208	151	6	4
Foreign customers	**2,482**	**2,686**	**2,509**	**2,389**	**33**	**29**
Enterprises and financial institutions	0	0	3	3	0	0
Retail and private clients	2,340	2,608	2,500	2,380	33	29
Public sector	0	8	1	1	–	–
Other	142	70	5	5	–	–
Total	**17,478**	**21,118**	**25,204**	**22,091**	**4,048**	**3,810**

Other liabilities

as at 31.12. in DM m.	Other liabilities repayable on demand 1997	1996	Other liabilities with agreed period or period of notice 1997	1996
Domestic customers	**52,877**	**57,029**	**91,126**	**84,010**
Enterprises and financial institutions	29,422	31,989	62,524	56,139
Retail and private clients	22,247	20,887	25,380	24,582
Public sector	474	3,296	1,629	1,847
Other	734	857	1,593	1,442
Foreign customers	**125,613**	**78,895**	**122,268**	**108,676**
Enterprises and financial institutions	113,021	66,969	99,966	89,502
Retail and private clients	10,856	9,731	14,487	11,925
Public sector	1,113	1,733	6,584	2,766
Other	623	462	1,231	4,483
Total	**178,490**	**135,924**	**213,394**	**192,686**

Liabilities to related companies and companies with which a participation relationship exists

as at 31.12. in DM m.	Related companies 1997	1996	Companies with which a participation relationship exists 1997	1996
Deposits from other banks	48	45	121	94
Amounts owed to other depositors	415	250	2,238	1,631
Liabilities evidenced by paper	10	–	–	–
Other liabilities of the insurance companies	12	9	–	–

(28) Liabilities evidenced by paper

in DM m.	31.12.1997	31.12.1996
Bonds in issue	106,693	94,663
Money market instruments in issue	36,624	39,729
Own acceptances and promissory notes in circulation	889	515
Other	8,235	6,703
Total	**152,441**	**141,610**

(29) Provisions

in DM m.	31.12.1997	31.12.1996
Provisions for taxes	4,686	5,288
Current taxes	3,436	3,369
Deferred taxes	1,250	1,919
Other provisions	46,931	37,765
Provisions for pensions and similar obligations	6,561	6,518
Provisions in insurance business	27,283	23,627
Other provisions	13,087	7,620
Total	**51,617**	**43,053**

Provisions for taxes

Provisions for current taxes contain payment obligations towards the public sector. Deferred taxes show future tax burdens from timing differences between accounting income according to IAS and taxable income as computed at Group companies.

Pension obligations

As a result of commitments with regard to company retirement pensions, there are obligations to a large proportion of the employees of Group companies. Besides internal commitments, they also include commitments from external institutions.

The pension commitments are largely direct commitments and individual agreements for which provisions have been formed in the amount of DM 6,561 million (1996: DM 6,518 million).

The expenses in the 1997 financial year in the amount of DM 394 million (1996: DM 94 million) consist of the increase of the obligation owing to growth in years of service in the financial year (current service costs), from the increase owing to commitment enhancements relating to previous years of service (past service costs) and expense corrections resulting from adjustments and changes to the actuarial assumptions (experience adjustments). The calculations are made on the basis of the projected unit credit method.

These calculations are presently based on interest rates of 5% to 9%, a salary development of 2.5% to 5% and a pension adjustment of 2% to 4%. The actuarial calculations are updated annually.

Other commitments have been separated into external benefit funds.

Provisions in insurance business

in DM m.	31.12.1997	31.12.1996
Provisions in life insurance business*	1,358	970
Other provisions in insurance business		
Cover reserve	22,932	19,855
Reserve for pending claims etc.	384	350
Reserve for premium refunds	1,890	1,695
Other provisions	719	757
Total	**27,283**	**23,627**

* provided the investment risk is borne by policyholders

Provisions in life insurance business represent the insurance company's obligations towards policyholders and beneficiaries and must be covered by corresponding capital investments on the assets side of the balance sheet.

Other provisions

Other provisions include, among other things, provisions for end-of-year special payments and early retirement obligations as well as restructuring measures.

(30) Other liabilities

in DM m.	31.12.1997	31.12.1996
Liabilities from dealing activities	57,061	62,365
Deferred items	5,626	3,747
Sundry liabilities	2,856	3,018
Other liabilities of the insurance companies	2,333	1,995
Total	**67,876**	**71,125**

Liabilities from dealing activities

Liabilities from dealing activities include the negative market values from derivative financial instruments.

Sundry liabilities

Sundry liabilities include, among other things, the distribution for 1997 on participatory capital, accrued, but not yet matured interest for subordinated liabilities and taxes to be paid over.

The portion of sundry liabilities which relates to leasing agreements amounts to DM 172 million (1996: DM 161 million).

Other liabilities of the insurance companies

Other liabilities of the insurance companies chiefly include liabilities from insurance business towards policyholders.

(31) Subordinated capital

in DM m.	31.12.1997	31.12.1996
Subordinated liabilities	10,237	7,725
Participatory capital	2,700	2,700
Total	**12,937**	**10,425**

Subordinated liabilities

Important subordinated liabilities:

Amount		Issuer/type	Interest rate	Maturity
DM	600,000,000.–	Deutsche Bank AG bearer bonds (series 2) of 1990 with warrants	8.00 %	11. 4. 2000
DM	600,000,000.–	Deutsche Finance (Netherlands) B.V., Amsterdam, bond issue of 1992	8.00 %	6. 2. 2002
DM	500,000,000.–	Deutsche Finance (Netherlands) B.V., Amsterdam, bond issue of 1992	8.125%	6. 5. 2002
DM	2,000,000,000.–	Deutsche Finance (Netherlands) B.V., Amsterdam, bond issue of 1993	7.50 %	10. 2. 2003
U.S.$	1,100,000,000.–	Deutsche Bank Financial Inc., Dover/U.S.A., "Yankee" Bond of 1996	6.70 %	13. 12. 2006
U.S.$	550,000,000.–	Deutsche Bank Financial Inc., Dover/U.S.A., Medium Term Note of 1997	7.50 %	25. 4. 2009
U.S.$	250,000,000.–	Deutsche Bank Finance N.V., Curaçao/Netherlands Antilles, Floating Rate Note of 1997	6.039 %	30. 4. 2009

For the above-mentioned subordinated liabilities, there is no premature redemption obligation on the part of the issuers. In the case of liquidation, bankruptcy, composition or any other procedure to avoid bankruptcy, the claims and interest claims resulting from these liabilities are subordinate to those claims of all creditors of the issuers which are not also subordinated. These conditions also apply to the subordinated borrowings not specified individually.

Interest expenses for the entire subordinated liabilities amounted to DM 665 million (1996: DM 421 million). Accrued, but not yet matured interest of DM 325 million (1996: DM 295 million) included in the figure is reported under Sundry liabilities.

Participatory capital

The issued participatory capital is made up of the following issues:

– DM 1.2 billion bearer participatory certificates with warrants of 1991, maturing on December 31, 2002. Redemption will be on June 30, 2003, subject to the stipulations on loss participation. The participatory certificate entitles the bearer to an annual dividend of 9 % of par value, which ranks prior to the profit share attributable to shareholders.

– DM 1.5 billion bearer participatory certificates with warrants of 1992, maturing on December 31, 2003. Redemption will be on June 30, 2004, subject to the stipulations on loss participation. The participatory certificate carries an annual dividend, which ranks prior to the profit share attributable to shareholders, of 8.75 % of par value.

Interest on the participatory capital for 1997 in the total amount of DM 239 million (1996: DM 239 million) is reported under Sundry liabilities.

The General Meeting on May 19, 1993 authorized the Board of Managing Directors to issue participatory certificates with warrants or bonds with warrants once or more than once by up to a total of DM 2 billion on or before April 30, 1998.

The Board of Managing Directors was authorized by the General Meeting on May 20, 1997 to issue participatory certificates with warrants and/or convertible participatory certificates, bonds with warrants and convertible bonds once or more than once by up to a total of DM 3 billion on or before April 30, 2002.

(32) Capital and reserves

Calculation of change in capital and reserves

The Group's capital and reserves developed as follows:

in DM m.	1997	1996
Capital and reserves of Deutsche Bank Group as at end of previous period	**29,690**	**28,043**
Distribution by Deutsche Bank AG	– 900	– 897
Increase in subscribed capital of Deutsche Bank AG	+ 156	+ 9
Allocation of share premium from the increase in subscribed capital to capital reserve	+ 1,792	+ 113
Allocation to retained earnings from net income	–	+ 1,234
Consolidated profit	+ 956	+ 900
Changes in group of consolidated companies	+ 30	0
Difference from currency translation	+ 362	+ 288
As at end of period	**32,086**	**29,690**

Group capital and reserves according to BIS, including a non-active equity investment (stille Einlage) of U.S.$ 715 million (supplementary capital), amounted to DM 48,294 million (1996: DM 43,789 million).

Development of subscribed, authorized and conditional capital

The core capital ratio amounts to 5.2 % (1996: 5.4 %). Market risks were taken into account for the first time in the calculation of the core capital ratio.

in DM	Subscribed capital	Authorized capital	Authorized capital excluding shareholders' pre-emptive rights	Conditional capital
As at 31.12.1996	2,500,886,435.–	600,000,000.–	40,000,000.–	387,499,100.–
Issue of staff shares	+ 8,347,240.–		– 8,347,240.–	
Increase according to resolution of General Meeting on May 20,1997		+ 500,000,000.–		+300,000,000.–
Shares subscribed against submission of warrants	+ 147,346,800.–			–147,346,800.–
Expiry of exercise period of option rights				– 152,300.–
As at 31.12.1997	**2,656,580,475.–**	**1,100,000,000.–**	**31,652,760.–**	**540,000,000.–**

Subscribed capital is divided up into shares of DM 5 par value each. The 500,177,287 shares in issue at the beginning of the reporting year increased in 1997 by the issue of 1,669,448 staff shares in May and by the subscription of 29,469,360 shares from option rights – mainly in June – to 531,316,095 shares as at December 31, 1997. The average number of shares in circulation in 1997 was 518,532,206 (1996: 499,341,387).

Authorizations by the General Meeting

By resolution of the General Meeting on May 20, 1997, the Board of Managing Directors was authorized to increase the share capital with the consent of the Supervisory Board, once or more than once, by up to a total of DM 500 million on or before April 30, 2002 through the issue of new shares against cash payments, and to grant pre-emptive rights to shareholders with restrictions (authorization to exclude pre-emptive rights for fractions and to grant pre-emptive rights to holders of warrants, convertible bonds and participatory certificates with warrants in issue).

By resolution of the General Meeting on May 20, 1997, the conditional capital was increased by DM 300 million in connection with the authorization, valid until April 30, 2002, to issue participatory certificates with warrants, convertible participatory certificates, bonds with warrants and convertible bonds.

Of the total reported conditional capital, DM 40 million is designated to cover option rights from interest-bearing bonds with warrants for executives. This conditional capital is not yet registered in the Commercial Register; it is the subject of a legal action before the Regional Appeal Court (Oberlandesgericht), Frankfurt am Main.

The authorized capital of DM 31.7 million, for which the pre-emptive rights of shareholders are excluded, is designated for the issue of staff shares.

Own shares

At the end of 1997, Deutsche Bank AG and its related companies had no Deutsche Bank shares in their holdings.

On December 31, 1997, 4,283,309 Deutsche Bank shares of DM 5 par value each were pledged to Deutsche Bank AG and its related companies as security for loans (1996: 3,387,987); that was 0.81 % (1996: 0.68 %) of share capital.

Information on the Income Statement of the Group

(33) Net interest income

Net interest income is made up as follows:

in DM m.	1997	1996
Interest income from		
Lending and money market business	44,441	37,264
Fixed-income securities	1,788	1,678
Current income from		
Equity shares and other variable-yield securities and other equity rights	1,020	796
Shares in related companies	42	51
Interest expenses and similar charges for		
Deposits	26,462	20,890
Promissory notes and other liabilities evidenced by paper	9,145	8,478
Subordinated capital	1,190	660
Profit from leasing business		
Current income from leasing business	1,658	1,777
Depreciation of leasing assets	779	742
Other expenses from leasing business	246	253
Total	**11,127**	**10,543**

(34) Risk provisioning

in DM m.	1997	1996
Provisions formed to the debit of P&L	4,382	3,329
Provisions released to the credit of P&L	2,076	2,532
Amounts received against claims written off	101	82
Total	**2,205**	**715**

From 1997, amounts received against claims written off are reported under risk provisioning with adjustment of the comparative pre-year figure.

(35) Net commission income

in DM m.	1997	1996
Securities business	2,808	2,121
Asset management	2,196	1,429
Local payments	1,168	1,125
Foreign commercial business, travel payment media	732	699
Loan processing and guarantees	773	637
Other activities	1,260	839
Total	**8,937**	**6,850**

Services provided for third parties

The following administration and agency services were provided for third parties: custodian, asset management, administration of assets held on trust, referral of mortgages, insurance policies and property finance agreements as well as mergers and acquisitions.

(36) Trading profit

Trading profit is calculated at mark-to-market. A market risk deduction is made in line with the value-at-risk concept of the Basle Committee on Banking Supervision. Interest and dividend income, funding costs and commissions corresponding to trading activities are included in trading profit.

in DM m.	1997	1996
Proprietary dealing in securities	**1,853**	**1,508**
Debt instruments and related derivatives	269	1,246
Equities and related derivatives	1,584	262
Proprietary dealing in foreign exchange, metals and foreign note/coin	**953**	**626**
Foreign exchange	916	591
Metals and foreign note/coin	37	35
Other proprietary dealing activities	**795**	**1,092**
OTC interest rate derivatives/swaps	531	586
Other financial instruments	264	506
Total	**3,601**	**3,226**

(37) Net income from insurance business

Insurance business reports net income of DM 608 million (1996: DM 620 million) in 1997. It is made up as follows:

in DM m.	1997	1996
Net premiums earned	5,016	4,324
Contributions from gross provision for premium refunds	327	345
Income from capital investments	2,072	1,749
Other income	403	213
Total Income	7,818	6,631
Expenses for claims	2,376	1,805
Change in net provisions in insurance business	3,312	2,926
Expenses for insurance operations	376	399
Expenses for capital investments	110	78
Other expenses	339	265
Net income before premium refund allocation	1,305	1,158
Expenses for premium refunds	697	538
Net income from insurance business	**608**	**620**

Owing to the higher income from capital investments, net income from insurance business increased by DM 147 million (+12.7%) to DM 1,305 million before the allocation to the provision for premium refunds. As a result of this, policyholders received an amount DM 159 million higher than in the previous year (DM 37 million) through expenses for premium refunds.

(38) General administrative expenses

General administrative expenses are made up as follows:

in DM m.	1997	1996
Staff expenses	**11,078**	**9,336**
Wages and salaries	8,798	7,537
Compulsory social security contributions	1,173	1,077
Expenses for pensions and other employee benefits	1,107	722
Other administrative expenses	**5,744**	**4,653**
Depreciation and adjustments	**1,570**	**1,230**
Office furniture and equipment	1,256	1,039
Land and buildings	270	149
Other sundry assets	44	42
Total	**18,392**	**15,219**

(39) Other income

Other income contains:

in DM m.	1997	1996
Profits/losses/write-downs from investments (net)	917	1,336
Other operating income	1,625	992
Extraordinary income	30	20
Total	**2,572**	**2,348**

Other operating income

Other operating income mainly includes income from the writing back of provisions not related to lending or securities business, and from other securities positions.

(40) Other expenses

Other expenses are made up as follows:

in DM m.	1997	1996
Write-downs to intangible assets	346	300
Other taxes	274	328
Other operating expenses	1,048	485
Result from shares in associated companies	43	162
Expenses from assumption of loss	8	0
Extraordinary expenses	2,486	1,488
Total	**4,205**	**2,763**

Write-downs to intangible assets

Write-downs to intangible assets include write-downs to goodwill in the sum of DM 330 million (1996: DM 298 million).

Other operating expenses

Other operating expenses include, among other things, DM 284 million (1996: DM 169 million) in additions to provisions for uncertain liabilities and possible losses not relating to lending or securities business.

Extraordinary expenses

Extraordinary expenses of DM 2,486 million correspond to the expenses for restructuring measures.

(41) Income taxes

The following table shows the relationship between the income taxes derived from net income before tax and income taxes actually reported. The derived income taxes were calculated at the corporation tax rate valid in Germany of 45% plus the solidarity surcharge of 7.5 % (= 48.4 % total burden).

in DM m.	1997	1996
Derived income taxes from net income before tax	**989**	**2,367**
Tax rate differences relating to profit subject to taxation abroad	+ 83	– 127
Tax effects due to different legal norms	+ 151	+ 184
Permanent differences	– 151	+ 229
Other	– 48	+ 19
Reported income taxes	**1,024**	**2,672**

Tax effects due to different legal norms consist mainly of the trade tax imposed especially in Germany on certain components of profit and the tax deductions allowable under German corporation tax law on pay-outs by domestic Group companies. The tax position benefited especially as a result of extraordinary expenses in the amount of DM 1,270 million.

(42) From the Income Statement of the Group

in DM m.	1997	1996		Change in %
Interest and similar income[1]	48,949	41,566	+7,383	+ 17.8
Interest expenses and similar charges[2]	37,822	31,023	+6,799	+ 21.9
Net interest income	**11,127**	**10,543**	**+ 584**	**+ 5.5**
Provision for losses on loans and advances	2,205	715	+1,490	
Net interest income after provision for losses on loans and advances	**8,922**	**9,828**	**– 906**	**– 9.2**
Fee and commission income	10,344	7,893	+2,451	+ 31.1
Fee and commission expenses	1,407	1,043	+ 364	+ 34.9
Net commission income	**8,937**	**6,850**	**+2,087**	**+ 30.5**
Trading profit	**3,601**	**3,226**	**+ 375**	**+ 11.6**
Income from insurance business	7,818	6,631	+1,187	+ 17.9
Expenses from insurance business	7,210	6,011	+1,199	+ 19.9
Net income from insurance business	**608**	**620**	**– 12**	**– 1.9**
Wages and salaries	8,798	7,537	+1,261	+ 16.7
Compulsory social security contributions[3]	2,280	1,799	+ 481	+ 26.8
Other administrative expenses[4]	7,314	5,883	+1,431	+ 24.3
General administrative expenses	**18,392**	**15,219**	**+3,173**	**+ 20.8**
Balance of other operating income/expenses	577	507	+ 70	+ 13.8
Operating profit	**4,253**	**5,812**	**–1,559**	**– 26.8**
Balance of other income/expenses	– 2,210	– 922	–1,288	
Net income before tax	**2,043**	**4,890**	**–2,847**	**– 58.2**
Income taxes	1,024	2,672	–1,648	– 61.7
Net income	**1,019**	**2,218**	**–1,199**	**– 54.1**

1) from lending and money market business, current income from investments (incl. profit and loss transfer agreements), and income from leasing business
2) including depreciation and other expenses from leasing business
3) including expenses for pensions and other employee benefits
4) other administrative expense and depreciation and adjustments to tangible assets and other sundry assets

Information on the Cash Flow Statement

(43) Size and development of cash and cash equivalents

The Cash Flow Statement provides information about the size and development of the Group's cash and cash equivalents. Payment flows are allocated to operating activities in line with the deferral of operating profit. The change in other non-cash positions contains the positive and negative market values from derivative financial instruments, net allocations to deferred taxes, the change in claims to tax rebates and the profit attributable to minority interests (net). A total of DM 328 million (1996: DM 51 million) was spent in the current financial year for the acquisition of shares in fully consolidated companies; DM 21 million was received from the disposal of fully consolidated companies. Changes in cash and cash equivalents resulting from movements in the group of companies included in consolidation are reported separately in the Cash Flow Statement. There were no non-cash investing and financing activities. The reported amount of cash and cash equivalents comprises in detail cash on hand, balances with central banks, and debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks.

Other information

(44) Reporting segment information
… by geographical regions

The following allocation in the reporting of segment information is determined by the domicile of the Group company or the branch office:

in DM m.	31.12. 1997	Total assets 31.12. 1996	31.12. 1997	Total credit extended 31.12. 1996	31.12. 1997	Liabilities* 31.12. 1996	Operating income 1997	1996
Germany	493,691	473,986	319,694	284,525	385,677	372,297	18,039	15,508
Europe (excluding Germany)	533,697	452,627	106,430	97,943	476,627	399,618	5,525	5,921
Asia/Pacific	197,700	124,709	57,615	40,389	190,397	112,152	1,690	1,315
North America	291,436	174,927	71,574	50,870	269,082	154,309	2,826	1,812
South America	26,048	19,512	23,864	17,518	23,912	18,487	453	258
Consolidation of intra-Group transactions	– 499,608	– 359,671	– 131,261	– 79,887	– 467,854	– 325,671	– 3,683	– 3,068
Total	**1,042,964**	**886,090**	**447,916**	**411,358**	**877,841**	**731,192**	**24,850**	**21,746**

*to banks and other depositors as well as liabilities evidenced by paper

Operating income comprises net interest income, net commission income, trading profit, net income from insurance business and the balance of other operating income/expenses.

… by Group Divisions

In Deutsche Bank's divisional management structure, the divisional profitability calculation has paramount importance as a central steering and control instrument.

in DM m.	Retail and Private Clients	Corporate and Institutional Banking	Investment Banking	Group Services	Other/ Consolidation	Total Group
Income						
1997	8,665	6,329	7,586	– 12	2,282	24,850
1996	7,899	6,213	5,700	67	1,867	21,746
Change in %	+ 9.7	+ 1.9	+ 33.1			+ 14.3
Costs						
1997	– 6,585	– 3,879	– 6,708	– 499	– 721	– 18,392
1996	– 6,296	– 3,530	– 4,762	– 475	– 156	– 15,219
Change in %	+ 4.6	+ 9.9	+ 40.9	+ 5.1		+ 20.8
Risk costs						
1997	– 237	– 527	– 101	– 1	– 1,339	– 2,205
1996	– 249	– 223	– 43	– 3	– 197	– 715
Change in %	– 4.8	+ 136.3	+ 134.9	– 66.7		
Performance						
1997	1,844	1,922	777	– 512	222	4,253
1996	1,353	2,459	896	– 412	1,516	5,812
Change in %	+ 36.3	– 21.8	– 13.3	+ 24.3		– 26.8
Cost/income ratio in %						
1997	76	61	88			
1996	80	57	84			
Change in %-age points	– 4	+ 4	+ 4			
Risk-weighted assets						
1997	71,115	260,662	94,083	–	27,195	453,055
1996	66,816	248,404	107,401	–	20,644	443,265
Change in %	+ 6.4	+ 4.9	– 12.4	–		+ 2.2
Staff						
1997	27,107	13,489	7,647	17,767		
1996	27,604	12,877	6,462	15,072		
Change in %	– 1.8	+ 4.8	+ 18.3	+ 17.9		

Structural changes and methodological improvements were taken into account; the pre-year figures were adjusted.

In reconciling the performance of Group Divisions with the reported operating profit in accordance with IAS, Staff Divisions, participating interests, and other assets and liabilities which cannot be directly allocated to Group Divisions as well as valuation differences were recorded in the column Other/Consolidation.

Income of Group Division Retail and Private Clients includes for the most part the commission result from securities and mutual fund business and local payments business. Furthermore, net interest income from lending, deposits and money market business is reported here as well as under the income of Group Division Corporate and Institutional Banking. Besides this important profit component in both Group Divisions, net commission income from international business and payments also represents an increasingly important component of the income of

Group Division Corporate and Institutional Banking. Besides the results of proprietary trading in bonds and equities, foreign exchange, precious metals and strategic positions held in trading, Investment Banking income also includes the results of issuing and M&A business, Structured Finance and Asset Management. Group Division Group Services, in the personnel sector, reports for the most part the costs of resource planning, personnel development, staff communications and staff information; in Information Technology and Operations, in particular the cost of internal advisory and control, development, maintenance and support of IT applications and of building up the computer centres.

Risk costs include credit risks, market risks and operations risks. The risk-weighted assets are the assets weighted for bank-regulatory purposes in accordance with BIS. The figures for staff relate in each case to the annual average number of employees (including part-time staff).

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft comments that the calculated performance is plausible and the reconciliation with operating profit, in accordance with IAS, is demonstrable.

(45) Fair value of financial instruments

In DM bn.	31.12.1997		31.12.1996	
Assets	Fair value	Book value	Fair value	Book value
Cash reserve	20.1	20.1	23.2	23.2
Placements with, and loans and advances to, other banks	161.8	161.6	135.4	135.2
Related derivatives	0	–	0	–
Loans and advances to customers	517.5	506.7	461.8	448.9
Related derivatives	0.4	–	0.3	–
Assets held for dealing purposes	231.6	231.6	177.2	177.2
Investments	61.8	58.9	47.4	44.9
Related derivatives	– 0.9	–	– 0.4	–
Liabilities				
Deposits from other banks	287.2	286.8	214.1	214.0
Related derivatives	0	–	0.2	–
Amounts owed to other depositors	441.2	438.6	379.3	375.6
Related derivatives	– 0.5	–	– 0.1	–
Liabilities evidenced by paper	158.9	152.4	147.4	141.6
Related derivatives	0.1	–	0.2	–
Liabilities from dealing activities	57.1	57.1	62.4	62.4
Subordinated capital	14.1	12.9	11.3	10.4
Other positions				
Contingent liabilities	58.7	58.7	56.0	56.0
Credit commitments and placement obligations	114.5	114.3	85.5	85.3
Non-allocatable derivatives	+ 1.3	–	– 0.6	–

The fair value of undated and short-term amounts receivable and liabilities with maturities or fixed-interest periods of up to 180 days was calculated, depending on product and market situation, either at book value or at present value.

The stated values correspond in our opinion to the amounts at which the financial instruments could have been traded on a fair basis on balance sheet date between knowledgeable, willing parties in arm's-length transactions. In calculating the values, we proceeded as follows: Market prices were taken where available. This was largely the case for securities and derivatives traded on stock exchanges and on active markets. For other financial instruments, we used internal valuation models, in particular the present value procedure. Shareholdings in the non-bank sector as well as insurance companies' assets and liabilities were not taken into account.

As at December 31, 1997, the aggregate difference between the fair value and the book value of financial instruments amounts to DM 4.6 billion (1996: DM 4.3 billion). The development of this figure over time depends on movements in the market parameters which are included in the valuation, as well as additions to and disposals of financial instruments.

(46) Foreign currency

The total amount of assets denominated in foreign currency at balance sheet date was the equivalent of DM 586,700 million (1996: DM 453,100 million); the figure for liabilities was the equivalent of DM 595,800 million (1996: DM 441,700 million).

in DM m.	31.12.1997	31.12.1996
Foreign-currency assets	586,700	453,100
thereof U.S.$	261,500	164,900
Foreign-currency liabilities (excl. capital and reserves)	595,800	441,700
thereof U.S.$	278,900	182,500
Change in total assets owing to parity changes for foreign currencies*	+ 27,800	+ 19,000
thereof due to U.S.$	+ 23,000	+ 10,000

* based on the assets side

Exchange rate changes

Effects of exchange rate changes on important positions in the Income Statement of the Group:

in DM m.	Effects	Adjusted changes	in %
Net interest income	+ 147	+ 437	+ 4.1
Net commission income	+ 210	+ 1,877	+ 26.6
Trading profit	+ 49	+ 326	+ 10.0
General administrative expenses	+ 557	+ 2,616	+ 16.6

(47) Information on significant concentrations of assets, liabilities and off-balance-sheet business

The Group's total portfolio from business in loans, advances, placements and deposits has a heterogeneous structure and shows no dependence on particular sectors. Over and above that, there were no large-scale exposures as at 31.12.1997 which could have led to a concentration of assets, liabilities or off-balance-sheet business.

Analysis of business involving credit risk by industry and product

The Group's business involving credit risk was divided up as at 31.12.1997 over the following industries and products:

in DM m.	Cash receivables, bills of exchange and guarantees	Repos, reverse repos and securities lending	OTC derivatives	**Total**
Banking and insurance	96,106	3,283	57,405	**156,794**
Manufacturing	73,122	4	1,644	**74,770**
Households	67,646	–	48	**67,694**
Public sector	41,361	–	506	**41,867**
Trade	40,926	–	186	**41,112**
Property and residential	37,244	–	–	**37,244**

While cash receivables, bills of exchange and guarantees are reported with their nominal amounts, repos, reverse repos, securities lending and OTC derivatives are reported at net replacement costs, which are calculated using positive market values. The net replacement costs and the money market credits contained in cash receivables take into account netting agreements. They state the amount which would have to be spent to replace contracts if the counterparties in an industry defaulted on reporting date.

(48) Derivatives business

Counterparty type in DM bn.	Default risk in derivatives business* 31.12.1997	31.12.1996
OECD central governments	0.1	1.1
OECD credit institutions	27.5	77.2
OECD financial services institutions**	1.7	6.8
Others (e.g. enterprises, private individuals)	27.3	20.1
Non-OECD central governments	–	–
Non-OECD credit institutions	4.2	2.2
Non-OECD financial services institutions**	0	0.2

* Net replacement costs are reported for 1997. For 1996, the credit equivalent volume was published using the original exposure method before credit risk weighting according to BIS.
** 1996 financial institutions

The following table shows the derivatives transactions by product area from our trading activities still outstanding on balance sheet date:

in DM m.	Notional amount with remaining life of up to 1 year	1–5 years	over 5 years	Total	Replace-ment costs*
Interest-rate-related transactions	**2,165,364**	**1,799,656**	**821,438**	**4,786,458**	**49,679**
OTC products					
FRAs	449,794	20,793	–	470,587	279
interest rate swaps (same currency)	772,812	1,063,088	659,134	2,495,034	41,891
interest rate option purchases	97,504	231,353	60,065	388,922	7,509
interest rate option sales	96,530	233,604	102,239	432,373	
other interest rate trades	101	–	–	101	0
Exchange-traded products					
interest rate futures	535,588	250,318	–	785,906	
interest rate options	213,035	500	–	213,535	
Currency-related transactions	**2,012,717**	**129,457**	**42,228**	**2,184,402**	**52,915**
OTC products					
forward exchange trades	1,628,784	41,743	464	1,670,991	38,290
cross currency swaps	33,421	79,157	41,764	154,342	10,059
forex option purchases	170,834	3,266	–	174,100	4,553
forex option sales	173,916	5,074	–	178,990	
other forex trades	855	217	–	1,072	13
Exchange-traded products					
forex futures	2,394	–	–	2,394	
forex options	2,513	–	–	2,513	
Equity/index-related transactions	**40,159**	**20,656**	**23,795**	**84,610**	**3,782**
OTC products					
equity/index swaps	2,506	1,923	600	5,029	119
equity/index option purchases	7,838	9,123	7,269	24,230	3,663
equity/index sales	8,093	7,898	15,926	31,917	
other equity/index trades	–	–	–	–	–
Exchange-traded products					
equity/index futures	6,604	6	–	6,610	
equity/index optionen	15,118	1,706	–	16,824	
Other transactions	**78,403**	**7,379**	–	**85,782**	**2,701**
OTC products					
precious metal trades	21,789	980	–	22,769	1,792
non-precious metal trades	38,810	4,940	–	43,750	909
Exchange-traded products					
futures	16,266	1,422	–	17,688	
optionen	1,538	37	–	1,575	
Total	**4,296,643**	**1,957,148**	**887,461**	**7,141,252**	**109,077**

* Since exchange-traded products and short positions in options do not involve counterparty risk, no replacement costs are to be given here.

In the 1997 financial year, too, there was an expansion of derivatives business due to the continued growth of investment banking activities. Replacement costs in derivatives business increased to DM 109.08 billion (1996: DM 64.57 billion). After taking into account enforceable netting agreements, the net replacement costs are DM 60.76 billion.

Rating classification

The classification of trading activities belonging to the OTC derivatives portfolio by creditworthiness categories allows a more detailed analysis of the counterparty structure.

Creditworthiness category or equivalent (Standard & Poor's rating)	Notional amount in DM bn. with remaining life of up to 1 year	1-5 years	over 5 years	Total notional amount in DM bn.	Net replace-ment costs in DM bn.	In % of notional amount
AAA	218.33	91.45	79.70	389.48	5.28	1.36
AA	1,409.32	640.81	371.93	2,422.06	24.63	1.02
A	1,187.64	603.16	266.57	2,057.37	14.69	0.71
BBB	122.31	42.12	17.91	182.34	3.56	1.95
Non-investment grade	45.08	44.05	16.48	105.61	2.24	2.12
Others	242.36	35.00	16.70	294.06	10.36	3.52
Total	**3,225.04**	**1,456.59**	**769.29**	**5,450.92**	**60.76**	**1.11**

The table shows that, as at 31. 12. 1997 – measured in terms of net replacement costs – 73 % of the portfolio belongs to rating categories AAA, AA or A (excluding netting agreements as at 31. 12. 1997: 84 % and as at 31. 12. 1996: 85 %).

Hedging interest rate and currency risks

Derivatives transactions were also used outside trading activities. They were applied, among other things, as an instrument to reduce the interest rate risk in our asset/liability management.

(49) Market risk and credit risk

Deutsche Bank calculates market risk on the basis of the value-at-risk concept. Including historical correlations, the value at risk of the trading units in accordance with BIS parameters (confidence interval of 99 % and holding period of 10 days) as at 31. 12. 1997 was DM 157.07 million.

Market risk

The value-at-risk figures for the trading units are shown below. The minimum and maximum value-at-risk figures mark the band within which the value-at-risk figures fluctuated in the 1997 financial year.

Trading units in DM m.	Fixed Income	Money Market	Debt Capital Markets	OTC Deri-vatives	Foreign Exchange	Commo-dities	Proprietary Trading	Emerging Markets*	Emerging Markets Proprietary Trading**	Equities	**Total*** **
Value at risk as at											
31. 12. 1997	71.45	19.34	2.22	64.54	31.32	13.48	6.34	72.84	30.14	63.47	**157.07**
31. 12. 1996	43.91	13.48	5.12	45.94	15.47	3.72	40.78	35.26	–	53.71	**103.89**
Minimum value at risk											
1997	31.43	7.71	2.22	46.74	9.21	0.50	4.05	59.31	28.04	24.80	**102.78**
1996	29.47	8.25	1.25	14.81	7.52	2.28	22.58	19.27	–	19.23	**63.81**
Maximum value at risk											
1997	97.66	31.24	22.10	116.78	41.63	13.48	55.26	181.62	68.08	75.77	**221.74**
1996	98.73	25.16	11.49	45.94	27.96	7.26	40.78	57.80	–	79.61	**121.17**
Average value at risk											
1997	61.30	19.89	9.12	84.94	19.89	4.93	34.63	101.68	52.10	49.01	**150.43**
1996	49.99	16.80	4.53	24.17	15.18	4.57	28.88	32.09	–	30.69	**81.31**

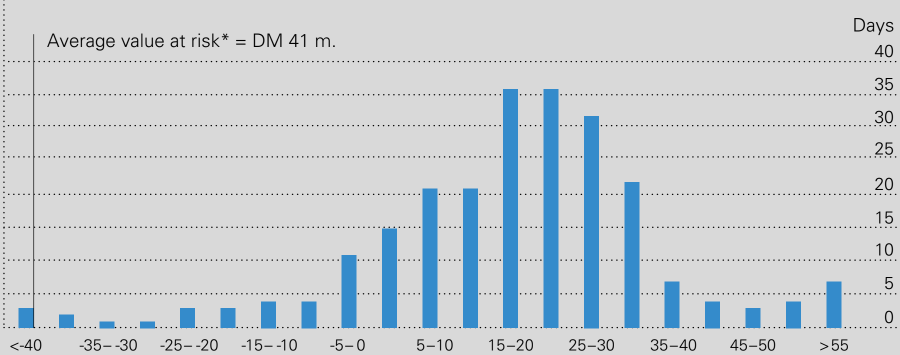
* Owing to the restructuring of "Emerging Markets" in 1997, the figures are not comparable with 1996.
** "Emerging Markets Proprietary Trading" was newly formed in 1997. Comparative figures for 1996 are therefore not published.
*** Including historical correlations.

Quality of risk management

Back-testing is used to control the value-at-risk models. This is done by comparison of daily profit and loss with the calculated value-at-risk figures.

Daily trading income in 1997

in DM m.



* The average value at risk was calculated according to internal parameters with a confidence interval of two standard deviations and a holding period of one day.

The graph opposite shows the dispersion of daily trading income in 1997. A positive trading income was achieved on almost 90 % of trading days. Despite the high volatility of the markets, especially in the fourth quarter, losses exceeding DM 40 million and higher than the average value at risk (according to internal parameters) were limited to 1.2 % of trading days in the 1997 financial year. A comparison of trading income with the corresponding value-at-risk figures on a daily basis reveals that losses exceeded the corresponding value at risk (according to internal parameters) on only three trading days. This shows that the market risks in Deutsche Bank's trading units (measured in terms of value at risk) are well managed.

Stress-testing

Stress tests are carried out to estimate the economic effects of extreme market fluctuations on the trading portfolio. They are conducted weekly for global interest rate, equity and currency risks. Country-related stress tests highlight the changes in value of trading portfolios by simulating scenarios for country groups.

Credit risk

Credit risks are measured and analyzed throughout the Group at the level of individual transactions and multi-product portfolios with regard to concentration, expected average losses, and the economic capital required for the risks. The portfolio-based approach is compatible with the measurement methods used for market risks (value-at-risk approach) and represents the basis for active risk management. The risk ratios are used for risk limitation and capital allocation, and ensure proper risk-adjusted return.

(50) Operations risks

Operations risks are risks which can lead to unexpected losses owing to defective systems, incorrect processing, insufficient controls, inadequate processes, or events that cannot be influenced. Group-wide risks are estimated within the framework of the calculation of economic capital and on the basis of robust top-down models which are compatible with the market and credit risk measurement methods. The enhancement of these models, especially with regard to capital allocation, is, as before, one of the main elements in our work.

(51) Relevant maturity groupings based on the remaining period

Assets in DM m.	up to 3 months		> 3 months – 1 year		> 1 year – 5 years		more than 5 years	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Loans and advances to customers	244,101	210,862	48,429	35,264	102,511	90,989	123,445	122,953
Dated placements with, and loans and advances to, other banks								
Loans and advances	7,839	4,400	2,441	2,976	6,279	6,015	8,943	5,321
Money market	67,562	80,801	9,775	6,337	511	179	95	87
Total	**319,502**	**296,063**	**60,645**	**44,577**	**109,301**	**97,183**	**132,483**	**128,361**

Liabilities in DM m.	up to 3 months 31.12.1997	31.12.1996	> 3 months – 1 year 31.12.1997	31.12.1996	> 1 year – 5 years 31.12.1997	31.12.1996	more than 5 years 31.12.1997	31.12.1996
Time deposits from other banks	95,121	108,594	17,012	16,893	8,415	9,679	13,033	9,489
Savings deposits and building saving deposits	26,689	21,404	9,672	16,934	9,561	7,841	808	840
Other dated amounts owed to other depositors	161,005	144,301	14,170	13,542	19,100	17,184	19,119	17,659
Promissory notes and other liabilities evidenced by paper	33,727	40,420	23,531	18,260	63,178	54,754	32,005	28,176
Subordinated capital	0	0	0	200	3,651	1,154	9,286	9,071
Total	**316,542**	**314,719**	**64,385**	**65,829**	**103,905**	**90,612**	**74,251**	**65,235**

(52) Contingent liabilities and other obligations

in DM m.	31.12.1997	31.12.1996
Contingent liabilities	58,707	55,953
from rediscounted bills of exchange	4,089	4,021
from guarantees and indemnity agreements	54,618	51,932
Other obligations	226,976	135,105
Placement and underwriting obligations	1,703	465
Irrevocable credit commitments	112,599	84,878
Netted repo business	70,447	27,146
Delivery obligations from securities lending	37,702	18,726
Other obligations	4,525	3,890
Total	**285,683**	**191,058**

Placement and underwriting obligations

The placement and underwriting obligations not utilized amounted to DM 1,703 million. DM 2 million was utilized at the end of 1997.

Irrevocable credit commitments

Of the irrevocable credit commitments, DM 101,307 million relates to commitments to non-banks in respect of book credits and discounts.

Netted repo business

On the basis of enforceable rights of set-off (master netting agreements) repo business in the sum of DM 70,447 million had to be set off.

Other obligations

The annual payment obligations resulting from rental agreements total DM 528 million, with a remaining period of up to 24 years. Contingent liabilities and other obligations in connection with leasing agreements amounted to DM 265 million.

Liabilities for possible calls on not fully paid-up shares in public and private limited companies and other shares amounted to DM 338 million at the end of 1997 and other liabilities for possible calls to DM 93 million. Joint liabilities pursuant to § 24 GmbH Act amounted to DM 60 million. Where other joint liabilities exist, the standing of the co-shareholders is beyond doubt in all cases.

In connection with our participating interest in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, there is an obligation to pay further capital of up to DM 128 million and a proportionate contingent liability to fulfil the capital obligations of other shareholders belonging to the Bundesverband deutscher Banken e. V., Cologne.

Liabilities for possible calls on other shares and an existing indemnity obligation amounted to a total of DM 2.4 million on December 31, 1997.

Pursuant to § 5 (10) of the Statute of the Deposit Insurance Fund, Deutsche Bank has undertaken to indemnify the Bundesverband deutscher Banken e. V., Cologne, for any losses incurred through measures taken in favour of banks majority-held by Deutsche Bank.

Within the framework of our business activity, collateral security was required in a total amount of DM 2,212 million as a result of legal stipulations.

Obligations from transactions on futures and options exchanges and towards clearing centres, for which securities had to be deposited as collateral, amounted to DM 768 million as at December 31, 1997.

DB Investment Management S.A., Luxembourg, has given performance guarantees for specified periods for some of the funds it manages.

In connection with the resale of the trading house Klöckner & Co. AG, Duisburg, there are contingent liabilities totalling DM 131 million.

(53) Assets transferred as collateral security

Assets were transferred in the amounts stated for the following liabilities and contingent liabilities:

in DM m.	31.12.1997	31.12.1996
Deposits from other banks	11,954	11,990
Amounts owed to other depositors	6,078	4,728
Contingent liabilities	28	–
Total	**18,060**	**16,718**

The assets transferred as security are made up as follows:

in DM m.	31.12.1997	31.12.1996
Placements with, and loans and advances to, other banks	187	203
Loans and advances to customers	11,896	11,813
Assets held for dealing purposes	5,949	4,682
Investments	28	19
Property and equipment	–	1
Total	**18,060**	**16,718**

(54) Declaration of backing

For the following companies, Deutsche Bank AG ensures, except in the case of political risk, that they are able to meet their contractual liabilities:

ALD AutoLeasing D GmbH, Hamburg
DB Fund Management Ltd., Singapore
DB Investment Management S.A., Luxembourg
DB Investments (GB) Ltd., London
Deutsche Asset Management GmbH, Frankfurt am Main
Deutsche Australia Ltd., Melbourne
Deutsche Bank Bauspar-Aktiengesellschaft, Frankfurt am Main
Deutsche Bank Canada, Toronto
Deutsche Bank (C.I.) Ltd., Guernsey
Deutsche Bank de Bary N.V., Amsterdam
Deutsche Bank de Investimento, S.A., Lisbon
Deutsche Bank Finance N.V., Curaçao
Deutsche Bank Financial Inc., Dover/U.S.A.
Deutsche Bank France S.A., Paris (formerly: Deutsche Bank France S.N.C.)
Deutsche Bank Lübeck Aktiengesellschaft vormals Handelsbank, Lübeck
Deutsche Bank Luxembourg S.A., Luxembourg
Deutsche Bank (Malaysia) Bhd., Kuala Lumpur
Deutsche Bank North America Holding Corp., Dover/U.S.A.
Deutsche Bank OOO, Moscow
Deutsche Bank Polska S.A., Warsaw
Deutsche Bank Rt., Budapest
Deutsche Bank S.A., Buenos Aires
Deutsche Bank S.A. – Banco Alemão, São Paulo
Deutsche Bank Saar AG, Saarbrücken
Deutsche Bank, Sociedad Anónima Española, Barcelona
Deutsche Bank Società per Azioni, Milan
Deutsche Bank (Suisse) S.A., Geneva
Deutsche Bank Trust AG Private Banking, Frankfurt am Main (formerly: Grunelius KG Privatbankiers)
Deutsche Finance (Netherlands) B.V., Amsterdam
Deutsche Fonds Holding GmbH, Frankfurt am Main
Deutsche Gesellschaft für Fondsverwaltung mbH, Frankfurt am Main
Deutsche Grundbesitz-Investmentgesellschaft mbH, Frankfurt am Main
Deutsche Grundbesitz Management GmbH, Eschborn (formerly: Deutsche Immobilien Anlagegesellschaft mbH)
Deutsche Morgan Grenfell Capital Markets Ltd., Hong Kong
Deutsche Morgan Grenfell – Equities S.A., Paris (formerly: Deutsche Morgan Grenfell SdB S.N.C.)
Deutsche Morgan Grenfell Futures Ltd., London
Deutsche Morgan Grenfell Futures Pte Ltd., Singapore
Deutsche Morgan Grenfell Group plc, London
Deutsche Morgan Grenfell Holdings Australia Ltd., Sydney
Deutsche Morgan Grenfell Research Pte Ltd., Singapore
Deutsche Morgan Grenfell (Singapore) Ltd., Singapore
Deutsche Morgan Grenfell Trust Bank Ltd., Tokyo
Deutsche Sharps Pixley Metals Ltd., London
DWS Deutsche Gesellschaft für Wertpapiersparen mbH, Frankfurt am Main
Frankfurter Hypothekenbank Centralboden Aktiengesellschaft, Frankfurt am Main
Lübecker Hypothekenbank Aktiengesellschaft, Lübeck
Schiffshypothekenbank zu Lübeck Aktiengesellschaft, Hamburg
Süddeutsche Bank GmbH, Frankfurt am Main
Versicherungsholding der Deutschen Bank Aktiengesellschaft, Berlin and Bonn
Vertriebsgesellschaft mbH der Deutschen Bank für Privatkunden, Frankfurt am Main

Companies with which a profit and loss transfer agreement exists are marked in the List of Shareholdings.

(55) Trust activities

The following tables show the volume of trust activities not reported in the consolidated balance sheet:

Trust assets

Trust assets in DM m.	31.12.1997	31.12.1996
Placements with, and loans and advances to, other banks	1,971	1,557
Loans and advances to customers	1,306	1,024
Bonds and other fixed-income securities	90	59
Equity shares and other variable-yield securities	240	–
Participating interests	925	799
Total	**4,532**	**3,439**

Trust liabilities

Trust liabilities in DM m.	31.12.1997	31.12.1996
Deposits from other banks	247	142
Amounts owed to other depositors	4,285	3,297
Total	**4,532**	**3,439**

(56) Our staff

The average number of effective staff employed during the financial year totalled 67,895 (1996: 66,833), of whom 29,650 (1996: 29,666) were women. Part-time staff are included in these figures proportionately. An average of 25,259 (1996: 23,049) members of staff worked abroad.

(57) Emoluments of the Board of Managing Directors and Supervisory Board, and loans granted

In 1997 the total emoluments of the Board of Managing Directors amounted to DM 26,780,324.49. Former members of the Board of Managing Directors of Deutsche Bank AG or their surviving dependents received DM 12,804,400.79. In addition to a fixed payment of DM 296,700, the Supervisory Board received dividend-related emoluments totalling DM 1,840,000.

Provisions for pension commitments to former members of the Board of Managing Directors and their surviving dependents totalled DM 134,600,691.

At the end of 1997 advances and loans granted and liabilities assumed for members of the Board of Managing Directors amounted to DM 13,442,730.65 and for members of the Supervisory Board of Deutsche Bank AG to DM 6,064,005.59.

(58) Board of Managing Directors in the reporting year

Members of the Board of Managing Directors in the reporting year:

Josef Ackermann

Carl L. von Boehm-Bezing

Rolf-E. Breuer

Ulrich Cartellieri
(until May 20, 1997)

Michael Dobson

Michael Endres

Tessen von Heydebreck

Hilmar Kopper
(until May 20, 1997)

Jürgen Krumnow

Georg Krupp

Ronaldo H. Schmitz

Ulrich Weiss

Outlook

Since the last quarter of 1997, the world economy has been influenced by the turbulence on the Asian financial markets. Nevertheless, business activity in the U.S.A. will probably remain strong. There seems to be no threat to the recovery process in Europe, either. Despite generally slower growth in exports, they will remain the principal support for business activity in Germany. Stronger impulses are also to be expected from domestic demand. In particular, somewhat brisker capital investment activity at companies should play a part here.

The biggest risk to global financial markets is the continuing crisis in Asia. The countermeasures taken in the meantime should help to stabilize the situation. In Europe, attention is focused on the euro. While the new currency will not be introduced in cash form until the beginning of 2002, the financial markets will make wide use of the euro as book money from the beginning of European Monetary Union on January 1, 1999. Monetary union will thus create a single money and capital market operating in euro right from the beginning.

As the bank for Europe, we shall convert our entire product range to euros and offer all bank services in D-Mark and euros in the transition phase up to the end of 2001. The necessary conversion measures are well under way and will be completed in 1998. The costs incurred by the Group for this conversion will be more than DM 500 million. We shall submit the first annual report in euro at the earliest possible time for the 1999 financial year.

We intend to meet the challenge of tougher competition on global financial markets by concentrating on our own strengths. Here, extensions of our geographical and product-related presence are part of our planning. At the same time, our core competences are being brought together in self-standing Group Divisions with independent responsibility. In five redefined Group Divisions, we shall focus on our customers' wishes and market requirements. Expense of DM 2.5 billion for the restructuring is included in the Financial Statements for 1997. No capital measures are foreseen at the present time.

We are planning to reduce costs substantially in the Group, with a saving of roughly DM 1 billion from 1998. At the end of the decade we want to report a cost/income ratio of 65%. In the same period, we are seeking a pre-tax return on equity of 25%. We do not consider pure volume growth, measured, say, in terms of total assets, as a target. Much more important in the long run is the achievement of a BIS capital ratio of over 10%. We are confident that we can reach these goals in the period envisaged in order to bring about a sustained improvement in overall results.

Statement by the Board of Managing Directors

The Board of Managing Directors of Deutsche Bank AG is responsible for the preparation and presentation of the Consolidated Financial Statements. The Consolidated Financial Statements have been prepared in accordance with the International Accounting Standards and also comply with the European Union's disclosure requirements, which are partially more extensive. The information in the Annual Report is consistent with that in the Consolidated Financial Statements.

The responsibility for correct accounting requires the implementation and maintenance of an efficient internal management and control system and a functioning audit apparatus. Deutsche Bank's internal control system is based on written communication of policies and procedures governing structural and procedural organization, the establishment of time-critical risk controlling for counterparty and market risks as well as the segregation of duties. The internal control system covers all business transactions, assets and records. Deutsche Bank's audit is carried out in accordance with the extensive audit plans covering all divisions of the Group and also including compliance with the organizational terms of reference.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the Consolidated Financial Statements in accordance with the International Standards on Auditing and issued a corresponding report.

We granted KPMG Deutsche Treuhand-Gesellschaft and the Auditing Department of Deutsche Bank free access to all documents needed in the course of their audits for an evaluation of the Consolidated Financial Statements and for an assessment of the appropriateness of the internal control system.

Frankfurt am Main, March 17, 1998

Deutsche Bank AG

Rolf-E. Breuer

Jürgen Krumnow

Auditor's Report

To the Supervisory Board and Board of Managing Directors of Deutsche Bank AG.

We have audited the Consolidated Financial Statements of Deutsche Bank AG as at December 31, 1997, as well as the Consolidated Cash Flow Statement for the 1997 financial year. The preparation and content of these Consolidated Financial Statements are the responsibility of the company's Board of Managing Directors. Our responsibility is to express an opinion, having conducted an audit, on the compliance of these Consolidated Financial Statements with the International Accounting Standards.

We conducted our audit in accordance with the International Standards on Auditing as set by the International Federation of Accountants (IFAC). These Standards require that we plan and perform the audit on the Consolidated Financial Statements to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement. Performing an audit on the Consolidated Financial Statements includes examining, on a test basis, evidence supporting the preparation of accounts and the disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements. We are confident that our audit provides a sufficiently sound basis on which to make an assessment.

In our opinion, the Consolidated Financial Statements and Consolidated Cash Flow Statement give a true and fair view of the company's net assets and financial position as at December 31, 1997, and of the income and cash flow situation of the financial year then ended and are in accordance with the standards set by the International Accounting Standards Committee (IASC).

Frankfurt am Main, March 20, 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rolf Nonnenmacher	Reinhard Prahl
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board was kept informed about the bank's situation as well as current and fundamental questions of business policy at its five meetings last year. Individual matters were also discussed in regular talks. The current development of business and, in particular, strategic aspects of the Group Division Retail and Private Clients were the subject of intensive discussion, as were credit business and structural change in the Group's Credit Risk Management, business in the new federal states, and specific business matters of importance.

The general economic and business situation was also discussed along with questions relating to the monetary situation and developments in Asia.

Changes in the bank's portfolio of participating interests were discussed. The relevant proposals of the Board of Managing Directors were closely examined and approved, where required by German law or the Articles of Association. The Supervisory Board was also informed about experiences with the Group Divisions and discussed in detail the status of preparations for the introduction of the euro.

At its six meetings, the Credit Committee of the Supervisory Board discussed with the Board of Managing Directors in the set periods all commitments subject to mandatory approval under German law and the Articles of Association, as well all larger loans and loans entailing greater risks and, where necessary, gave its approval. Here, market and country risks and the loan portfolio in Asia were discussed in particular detail. The Presiding Committee of the Supervisory Board met twice in the reporting period; the Mediation Committee was not convened.

With effect from May 20, 1997, Dr. F. Wilhelm Christians and Dr. Horst Burgard resigned from the Supervisory Board of Deutsche Bank. We wish to thank them for their commitment and valuable cooperation. At the Annual General Meeting, Dr. Ulrich Cartellieri and Hilmar Kopper, both of whom resigned from the Board of Managing Directors with effect from that day, were elected to take their place. The Supervisory Board elected Hilmar Kopper as its Chairman.

Representatives of the bank's auditors attended the balance sheet meetings of the Supervisory Board and its Credit Committee and gave explanations.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, elected auditor of the Annual Financial Statements at last year's General Meeting, has audited the accounting, the Annual Financial Statements and the Management Report, and issued a corresponding report. The auditor's report was given to us for inspection. We agree with the results of this audit.

Moreover, we have examined the Annual Financial Statements as at December 31, 1997, the Management Report and the proposed appropriation of profits. We have no objections to them. The Consolidated Financial Statements, the Management Report of the Group, and the report of the auditor of the Consolidated Financial Statements were submitted to us.

The Consolidated Financial Statements for 1997 were also drawn up in accordance with the regulations issued by the International Accounting Standards Committee (IASC). These Consolidated Financial Statements were explained to us in detail.

The Annual Financial Statements prepared by the Board of Managing Directors have been approved by us today, and are thus established. We agree with the proposed appropriation of profits.

Frankfurt am Main, March 31, 1998

Chairman of the Supervisory Board

Hilmar Kopper

Supervisory Board

Hilmar Kopper
Chairman
Frankfurt am Main
from May 20, 1997

Dr. F. Wilhelm Christians
Chairman
Düsseldorf
until May 20, 1997

Hagen Findeisen*
Deputy Chairman
Deutsche Bank AG
Hamburg

Jürgen Bartoschek*
Deutsche Bank AG
Frankfurt am Main

Professor Dr. Marcus Bierich
Chairman of the Supervisory Board
of Robert Bosch GmbH
Stuttgart

Dr. Horst Burgard
Frankfurt am Main
until May 20, 1997

Dr. Ulrich Cartellieri
Frankfurt am Main
from May 20, 1997

Heidrun Förster*
Deutsche Bank AG
Berlin

Dr. Ing. E. h. Hermann Oskar Franz
Siemens AG
Munich

Louis R. Hughes
President
General Motors
International Operations
Glattbrugg/Zürich

Ulrich Kaufmann*
Deutsche Bank AG
Düsseldorf

Dr. Elmar Kindermann*
Deutsche Bank AG
Frankfurt am Main

Adolf Kracht
Consultant
Munich

Professor Dr.-Ing. E. h. Dipl.-Ing. Berthold Leibinger
Chairman of the Board of Management
of TRUMPF GmbH + Co.
Ditzingen

Dr. Klaus Liesen
Chairman of the Supervisory Board
of Ruhrgas AG
Essen

Margret Mönig-Raane*
First Chairperson of the Gewerkschaft
Handel, Banken und Versicherungen
Düsseldorf

Heinz-Jürgen Neuhaus*
Deutsche Bank AG
Frankfurt am Main

Dr. Michael Otto
Chairman of the Board of Management
of Otto-Versand (GmbH & Co.)
Hamburg

Gerhard Renner*
Member of the National Executive of
Deutsche Angestellten-Gewerkschaft
Hamburg

Herbert Seebold*
Deutsche Bank AG
Stuttgart

Lothar Wacker*
Deutsche Bank AG
Cologne

Dipl.-Ing. Albrecht Woeste
Chairman of the Supervisory Board
and the Shareholders' Committee
of Henkel KGaA
Düsseldorf

* elected by the staff

Advisory Board

Dr.-Ing. E. h. Werner H. Dieter
Chairman
Lohr

Dipl.-Volkswirt Dr. h. c. Tyll Necker
Deputy Chairman
President of
Hako-Werke GmbH & Co.
Bad Oldesloe

Hans H. Angermueller
Attorney
New York

Dr. rer. oec. Karl-Hermann Baumann
Chairman of the Supervisory Board
of Siemens AG
Munich

Dr. Horst Burgard
Frankfurt am Main
from May 20, 1997

Sir John Craven
London
from March 13, 1997

Dr. jur. Walter Deuss
Chairman of the Executive Board
of Karstadt AG
Essen

Dr. Joachim Funk
Chairman of the Executive Board
of Mannesmann AG
Düsseldorf

Ulrich Hartmann
Chairman of the Board of Managing
Directors of VEBA Aktiengesellschaft
Düsseldorf

Max Dietrich Kley
Member of the Board of Executive
Directors of BASF Aktiengesellschaft
Ludwigshafen
from May 20, 1997

Yoh Kurosawa
Chairman of the Board of Directors
IBJ The Industrial Bank
of Japan, Ltd.
Tokyo

Dr. h. c. André Leysen
Chairman of the Supervisory Board
of Agfa-Gevaert Group
Mortsel/Belgium

Helmut Loehr
BAYER AG
Leverkusen

Francis Mer
Président Directeur Général
d'Usinor Sacilor
Paris

August Oetker
General Partner
Dr. August Oetker
Bielefeld

Eckhard Pfeiffer
President and Chief Executive Officer
Compaq Computer Corporation
Houston
from May 16, 1997

Dr. techn. h. c. Dipl.-Ing. ETH
Ferdinand Piëch
Chairman of the Board of Management
of Volkswagen AG
Wolfsburg

Professor Dr. Hans-Jürgen
Quadbeck-Seeger
Former Member of the Board
of Executive Directors
of BASF Aktiengesellschaft
Ludwigshafen
until May 20, 1997

Dr. rer. pol. Dipl.-Kfm.
Gerhard Rüschen
Bad Soden am Taunus

Jürgen E. Schrempp
Chairman of the Board of Management
of Daimler-Benz AG
Stuttgart

Lord Simon of Highbury
Minister for Trade and
Competitiveness in Europe
London
until May 7, 1997

Dipl.-Ing. Hans Peter Stihl
Chairman and
Chief Executive Officer
of Andreas Stihl
Waiblingen

Dr. Frank Trömel
Chairman of the Board of Managing
Directors of DELTON Aktiengesellschaft
für Beteiligungen
Bad Homburg v. d. Höhe

Marcus Wallenberg
Executive Vice President
INVESTOR AB
Stockholm

Dr. Mark Wössner
President and Chief Executive Officer
of Bertelsmann AG
Gütersloh

Dr. Herbert Zapp
Frankfurt am Main

Dr. Jürgen Zech
Chairman of the Board of Management
of Gerling Group
Versicherungs-Beteiligungs-
Aktiengesellschaft
Cologne

Board of Managing Directors*

Rolf-E. Breuer
(Spokesman)

Group Investments
Strategic Planning
Senior Management Development
Communications

Josef Ackermann

Global Corporates and Institutions
Economics

Asia/Pacific
Luxembourg

Carl L. von Boehm-Bezing

Corporate Banking and Real Estate

North-West Region
Central Region

France

Michael Dobson

Asset Management

United Kingdom, Ireland
Near and Middle East

Michael Endres

Transaction Services
Legal

Southern Region

Southeastern Europe, Israel

Tessen von Heydebreck

Retail and Private Clients

Western Region

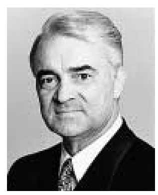
Belgium, Netherlands
Switzerland

Jürgen Krumnow

Treasury
Market Risk Management
Credit Risk Management
Controlling
Taxes

Northern Region

Africa, Scandinavia



Georg Krupp

Retail and Private Clients

North-East Region
Eastern Region

CIS Republics, Poland, Baltics

Ronaldo H. Schmitz

Global Corporates and Institutions

North and South America

Ulrich Weiss

Personnel
Compliance
Auditing

South-West Region

Italy, Portugal, Spain

* Planned responsibilities from April 1, 1998

Group Executive Committee*

Group Divisions	Members of the Divisional Boards	
Retail and Private Clients		
Branch Sales and Customer Service	Richard Steinig	
Private Banking	Bernd-Albrecht von Maltzan	
New Distribution Channels/Business Processing	Burkhardt Pauluhn	
Marketing/Product Management	Hans J. Lange	
Special Assignments	Peter Thelen	
Corporate Banking and Real Estate		
SMEs and Sales Finance	Klaus Juncker	
MNCs and Public-Sector Entities	Jürgen Bilstein	
Commercial Real Estate	Lutz Mellinger	
Global Corporates and Institutions		
Global Markets	Edson Mitchell	
Equities	Michael Philipp	
Corporate Advisory	Bill Harrison	
Emerging Markets Proprietary Trading	Rick Haller	
Relationship Management	Friedrich Schmitz	
Financial Institutions	Jürgen Fitschen	
Asset Management		
Mutual Fund Management	Christian Strenger	
Institutional Fund Management	Robert Smith	
Transaction Services		
Transaction Services	Peter Gerard	
IT/O Global Corporates and Institutions	Marc Sternfeld	

Staff Divisions	Heads of Staff Divisions	
Auditing		Jürgen Schuricht
Communications		
Investor Relations		Manfred ten Brink
Group Staff Communications		Siegfried Guterman
Press Department		Dierk Hartwig
Marketing Communications		Hans-Dieter Liesering
Cultural Affairs		Brigitte Seebacher-Brandt
Compliance		Dieter Eisele
Controlling	Manfred Timmermann	
Economics		Axel Siedenberg, Norbert Walter
Credit Risk Management	Otto Steinmetz	
Group Investments	Hans-Peter Ferslev, Axel C. Pfeil	
Legal	Klaus Kohler	
Market Risk Management	N. N.	
Personnel	Heinz Fischer	
Senior Management Development	Heinz Fischer	
Strategic Planning	Tillmann C. Lauk	
Taxes		Horst Langel, Erhard Ullrich
Treasury	Detlef Bindert	

Regions	Regional Chief Executive Officers	
Asia/Pacific	John Ross	
North and South America	Robert Allardice	

* Structure planned from April 1, 1998; the Group Executive Committee includes, besides the Members of the Board of Managing Directors, the Members of the Divisional Boards, Heads of Staff Divisions and the Regional Chief Executive Officers.

Group Long-Term Record

Group Long-Term Record in DM million

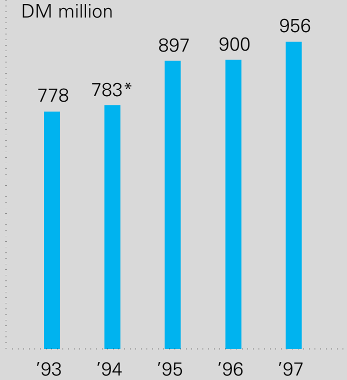
Figures according to IAS[1]					Figures according to German CommC							
1997	**1996**	**1995**	**1994**	**Balance Sheet**	**1993[2])**	**1992[2])**	**1990**	**1985**	**1980**	**1975**	**1970**	**1967[4])**
1,042,964	886,090	721,665	592,634	**Total Assets**	556,636	498,711	399,850	237,227	174,594	91,539	38,398	22,133
				Assets								
20,091	23,157	17,913	12,697	Cash reserve	7,522	8,948	6,541	7,956	8,006	5,106	3,021	1,553
162,418	136,001	109,218	101,133	Placements with, and loans and advances to, other banks	97,940	95,646	93,530	43,741	33,549	15,587	4,317	2,269
518,486	460,068	409,529	353,161	Loans and advances to customers	309,262	294,560	246,799	153,076	111,198	54,688	20,703	9,015
– 14,036	– 13,202	– 14,314	– 14,796	Total provisions for losses on loans and advances								
231,578	177,172	110,837	65,629	Assets held for dealing purposes								
66,717	55,400	49,372	40,609	Investments								
11,530	10,375	9,062	8,996	Property and equipment	12,341	11,136	7,838	3,185	2,039	1,415	540	364
447,916	411,358	379,411	348,531	**Total credit extended[3])**	332,793	321,521	273,324	174,583	127,707	65,208	27,443	14,144
				Liabilities								
286,786	213,953	178,853	123,857	Deposits from other banks	106,984	98,874	82,986	57,450	53,059	21,574	7,598	3,168
438,614	375,629	301,386	263,875	Amounts owed to other depositors	275,954	242,218	204,444	104,919	74,658	44,243	24,871	17,010
46,730	47,019	46,407	45,111	thereof: savings deposits and building saving deposits	46,740	45,430	37,615	24,773	22,243	18,367	9,030	6,542
178,490	135,924	96,754	82,390	repayable on demand	82,862	70,152	51,709	23,669	15,769	12,735	7,454	6,335
213,394	192,686	158,225	136,374	with agreed period or period of notice	146,352	126,636	115,120	56,477	36,646	13,141	8,387	4,133
152,441	141,610	126,895	114,015	Promissory notes and other liabilities evidenced by paper	109,489	100,467	81,838	55,397	34,832	19,209	3,355	15
51,617	43,053	36,014	29,714	Provisions	25,067	22,082	8,894	5,866	2,911	1,460	626	431
12,937	10,425	8,300	8,215	Subordinated capital	8,185	5,765						
32,086	29,690	28,043	25,875	Capital and reserves	21,015	19,324	15,566	9,392	5,365	3,325	1 ,462	1,111
				Derivatives								
5,823,137	3,384,436	1,968,506	1,781,683	Notional volume pursuant to BIS	1,341,414	1,107,113	601,991					
42,878	26,710	14,749	17,500	Credit risk equivalent pursuant to BIS	15,896	12,002	6,809					
1997	**1996**	**1995**	**1994**	**Income Statement**	**1993**	**1992**	**1990**					
11,127	10,543	10,810	11,299	Net interest income	11,706	10,899	8,773					
2,205	715	1,266	2,204	Provision for losses on loans and advances	3,286	1,910	2,257					
8,937	6,850	5,602	5,596	Net commission income	5,846	4,630	3,930					
608	620	608	559	Net income from insurance business	511	92	32					
3,601	3,226	2,035	1,039	Trading profit	1,997	1,134	606					
18,392	15,219	13,636	12,531	General administrative expenses	11,731	10,420	8,163					
4,253	5,812	4,242	3,629	**Operating profit**	5,266	4,553	2,971					
1,024	2,672	1,445	1,822	Income taxes	2,059	1,574	1,128					
1,019	2,218	2,120	1,715	**Net income**	2,243	1,830	1,067					
1997	**1996**	**1995**	**1994**	**Key figures**	**1993**	**1992**	**1990**					
DM 1.80	DM 1.80	DM 1.80	DM 1.65[5])	Dividend per DM 5 share	DM 1.65	DM 1.50	DM 1.40					
956	900	897	783[5])	Dividend appropriation Deutsche Bank AG	778	695	618					
DM 1.97	DM 4.44	DM 4.34	DM 3.63	Earnings per share[6])	DM 4.60	DM 3.90	DM 2.35					
DM 1.92	DM 4.40	DM 4.23	DM 3.54	Diluted earnings per share[6])								
6.4 %	17.1 %	13.7 %	14.1 %	Return on equity before tax (RoE)	24.5 %	21.0 %	16.2 %					
75.8 %	71.7 %	71.6 %	67.8 %	Cost/income ratio	58.5 %	62.2 %	61.2 %					
10.6 %	9.9 %	10.1 %	10.4 %	BIS capital ratio	11.3 %	10.5 %	10.7 %					
48,294	43,789	39,908	37,540	Capital and reserves pursuant to BIS	40,740	34,910	29,075					
76,141	74,356	74,119	73,450	Staff at year's end	73,176	74,256	69,272	48,851	44,128	40,839	36,957	28,800

1) Owing to the application of the IAS, the figures from the Balance Sheet, the Income Statement and the key figures for 1994 to 1997 are only to a certain extent comparable with the previous years.
2) Owing to the application of bank accounting law, the Balance Sheet figures for 1992 and 1993 are only to a certain extent comparable with the previous years; in the Income Statement the comparative figures have been adjusted as from 1990.
3) Excluding reverse repos (money market business backed by securities).
4) First Consolidated Financial Statements.
5) Excluding anniversary bonus of DM 0.30 per DM 5 share, or DM 142 million.
6) Owing to the application of a new standard, earnings per share and diluted earnings per share can be reported for the first time on an IAS basis in 1997. The comparative figures according to IAS for the previous year have been adjusted.

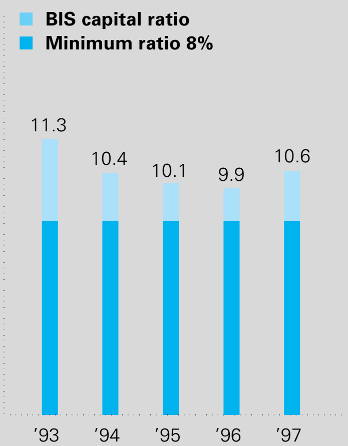
Deutsche Bank Group Highlights according to International Accounting Standards (IAS)

Dividend appropriation of Deutsche Bank AG

DM million

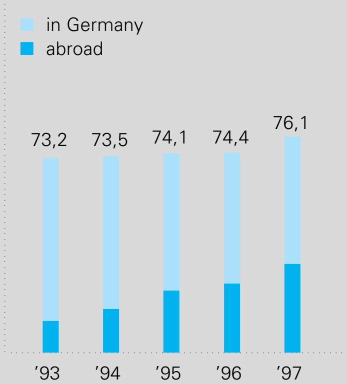


* excluding anniversary bonus of DM 142 million



Staff at year's end

in thousands



	1997	1996
Dividend per DM 5 share	DM 1.80	DM 1.80
Dividend appropriation Deutsche Bank AG	DM 956 m.	DM 900 m.
Earnings per share	DM 1.97	DM 4.44
Diluted earnings per share	DM 1.92	DM 4.40
Return on equity (RoE) before tax	6.4 %	17.1 %
Cost/income ratio	75.8 %	71.7 %
BIS capital ratio	10.6 %	9.9 %
BIS capital	DM 48.3 bn.	DM 43.8 bn.
	DM million	DM million
Net interest income	11,127	10,543
Provision for losses on loans and advances	2,205	715
Net commission income	8,937	6,850
Trading profit	3,601	3,226
General administrative expenses	18,392	15,219
Operating profit	4,253	5,812
Net income before tax	2,043	4,890
Income taxes	1,024	2,672
Net income	1,019	2,218
Total assets	1,042,964	886,090
Loans and advances to customers	518,486	460,068
Amounts owed to other depositors	438,614	375,629
Liabilities evidenced by paper	152,441	141,610
Derivatives		
notional volume pursuant to BIS	DM 5,823 bn.	DM 3,384 bn.
credit risk equivalent pursuant to BIS	DM 42.9 bn.	DM 26.7 bn.
	Number	Number
Branches	2,355	2,417
in Germany	1,584	1,627
abroad	771	790
Staff	76,141	74,356
in Germany	49,086	49,670
abroad	27,055	24,686
Long-term rating		
Moody´s Investors Service, New York	Aa1	Aa1
Standard & Poor´s, New York	AAA*	AAA
IBCA, London	AA+**	AAA

* on credit watch since January 29, 1998
** since January 28, 1998

Deutsche Bank 100 Years Ago

The share capital was increased by half so that share exchange offers could be made to shareholders of Bergisch Märkische Bank and Schlesischer Bankverein.

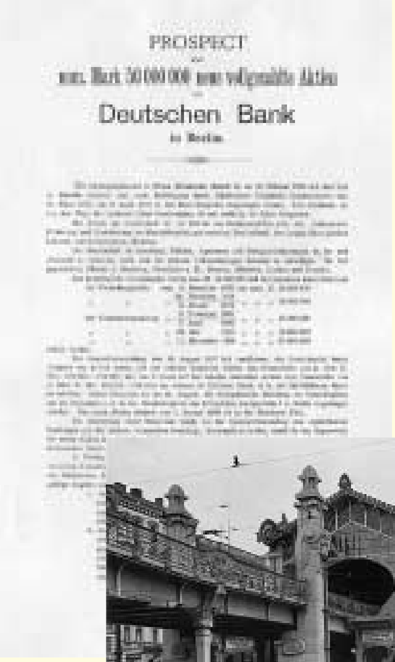
Achtundzwanzigster Geschäfts-Bericht

der Direction der

Deutschen Bank

für die Zeit vom

1. Januar bis 31. December 1897.



PROSPECT

Deutschen Bank

Berlin city transport at the turn of the last century: Deutsche Bank provided part of the finance.

Highlights for 1897

Total assets:	M. 721,600,882
Share capital:	M. 150,000,000
Profit:	M. 15,082,616
Staff:	1,441

The year 1897 was a fairly good one.

German Stock Exchange business continued to suffer from the changes introduced in the Bourse Laws. Whatever may be the opinion entertained as to the desirability of time bargains, there can be no doubt that smaller means sufficed for their settlement, and it may be that some time may yet have to elapse before the extra Capital now necessary is accumulated and people have become accustomed to the innovations lately introduced.

The general position of business favouring the prospect of advantageous employment of new funds, many Joint Stock Banks increased their capital. The Deutsche Bank has increased its own capital by Fifty Millions of Marks = £2,500,000, fully paid.

The increasing concentration of business in Berlin, which had already induced a number of Provincial Banking Institutions to open Branch Establishments in Berlin, made it appear advisable to strengthen our connections with the Provinces. We therefore proposed to the Shareholders of the Bergisch Märkische Bank and the Schlesischer Bankverein – Institutions which cultivate a similar class of business and pursue the same general policy as ourselves – to exchange their shares on certain terms for new shares of the Deutsche Bank. The proposal was accepted by upwards of 75 per cent. of all the shareholders. Whilst by our action in the matter the independence of the two institutions in question will not be impaired, we assure to our Bank a continuance of their connection with us and acquire a community of interest which places the arrangement on a very firm basis.

Amongst new financial transactions entered into by the Bank may be mentioned our participation in the Company for Electric Elevated and Underground Railways in Berlin. Experience shows the difficulty of dealing with the growth of the street traffic of large Cities to be increasing. The solution of the difficulty lies in the direction of establishing means of circulation, either over or under the streets, which do not interfere with their ordinary use and permit of traffic being carried at a greatly increased speed. The construction of the first section of the Electrical Elevated Railway is being carried out by the Siemens & Halske Company and is making good progress. The best results are anticipated from this experiment.

Domestic Business.

The Bavarian Branch has made further progress. The new banking premises in Munich will be occupied in the course of 1898. The Frankfurt Branch has also made satisfactory progress this year.

The new premises in Berlin are progressing. We consider it expedient to set aside M. 600,000 again for this purpose from the profit of the year 1897 so that our Premises Account does not increase excessively.

Overseas Business.

Our business with the United States of America has continued to develop satisfactorily. The favorable position created by the result of the Presidential election has been enhanced during the past year by a second good harvest. Both the Northern Pacific Railway Company and the Oregon Railroad and Navigation Company have commenced the payment of dividends on their preferred shares.

Glossary: technical terms used in the Annual Report for 1997

BIS capital ratio
Ratio used by international banks to cover their default risks (risk-weighted assets including off-balance-sheet transactions) and → market risks by regulatory capital (core capital, supplementary capital and Tier III capital → Capital and reserves according to BIS). There is a minimum ratio of 8 % for Tier I, Tier II and Tier III capital to risk-weighted assets and the market risk positions multiplied by a factor of 12.5. A minimum ratio of 4 % is prescribed for the ratio of core capital to risk-weighted assets.

Capital Adequacy Directive
EU directive on the availability of adequate capital and reserves with respect to the market risks resulting from the trading operations of securities firms and banks. Basis for the 6th Amendment to the German Banking Act and the revised Principle I.

Capital and reserves according to BIS
Regulatory capital and reserves according to the Basle Capital Adequacy Accord of 1988 (last amended in January 1996) for international banks. They consist of core capital (especially share capital and reserves), supplementary capital (primarily participatory capital, subordinated liabilities and revaluation reserves in quoted securities such as bonds,equity and participating interests) and Tier III capital (mainly short-term, subordinated liabilities).

Cash flow statement
Calculation and presentation of the cash flow a company has generated or consumed during a financial year as a result of its business, investing and financing activities, and reconciliation of holdings of cash and cash equivalents at the beginning and end of a financial year.

Confidence level
The probability of a potential loss arising within the interval stated by the → Value at risk.

Cost/income ratio
In general: a ratio for assessing a company's cost efficiency which expresses operating expenses in relation to operating income.
Here: general administrative expenses as a percentage of → Regular income.

Credit risk
Risk that a borrower may not be able to meet its obligations towards the creditor; also known as counterparty or default risk.

Credit risk equivalent
Figure showing the credit risk for regulatory purposes (risk-weighted assets) that must be backed by capital and reserves (corresponding to the product of the risk-equivalent volume [credit equivalent] and a weighting depending on credit standing).

Derivative
Product whose value derives largely from the price, price fluctuations or price expectations of an underlying instrument (e.g. share, bond, foreign exchange or index). Derivatives include swaps, options and futures.

Earnings Per Share
Key figure determined according to IAS which expresses a company's net income after tax (including profits attributable to outside shareholders) in relation to the average number of ordinary shares. Apart from basic earnings per share, diluted earnings per share must also be shown if subscription rights granted have led or could lead to an increase in the total number of shares (dilution).

Equity method
Valuation method for holdings in companies whose business policy can be significantly influenced (associated companies) and where the pro rata share of the company's net income/loss for the year is reflected in the book value of the holding. For distributions the value is reduced by the pro rata amount.

Fair value
Amount at which assets or liabilities would be traded fairly between knowledgeable, willing and independent counterparties (IAS 32). Fair value is often identical to market price.

Futures
Forward contracts standardized with respect to quantity, quality and delivery date, in which an instrument traded on the money, capital, precious metal or foreign exchange market is to be bought or sold at an agreed price at a certain future date. Cash settlement is often stipulated for such contracts (e.g. those on equity indices) to meet the obligation (instead of physical delivery or purchase of securities).

Home banking
Facility for carrying out banking transactions from home around the clock via an electronic network (T-Online, Internet) or by telephone via a remote bank, such as Bank 24.

IAS (International Accounting Standards)
Accounting standards developed by international associations of accountants, preparers of financial statements and financial experts; these standards ensure comparability of balance sheets and disclosure not just within the European Union but worldwide. The main objective of such reporting is to present information needed for decision-making by a broad group of parties interested in annual financial statements, especially investors. The body of rules contains general accounting principles and, at present, over 30 standards.

Internet banking
Facility for customers to use the Internet, a decentralized electronic network with worldwide access, to obtain account/custody account information and to place payment and securities orders. Safe data transmission channels protect the confidentiality of the information conveyed. Internet banking is one form of → Home banking.

Mark to market
Valuation of a bank's proprietary dealing activities (→ Trading profit) at current market prices irrespective of acquisition costs, with unrealized capital gains booked to revenue.

Market risk
Risk of incurring loss as a result of changes in market parameters such as interest rates, equity prices and exchange rates.

Mergers & acquisitions (M&A)
Company amalgamations and takeovers.

Netting agreement
An arrangement reached between two parties that under certain circumstances – insolvency for instance – mutual claims from pending business can be offset against each other. The inclusion of a legally binding netting agreement reduces the default risk from a gross to a net amount.

Operating profit
Key figure for presenting a bank's earnings from its operating business:

	net interest income (after loan-loss provisioning)
+	net commission income
+	trading profit
+	net income from insurance business
–	general administrative expenses
+	balance of other operating income/expenses
=	operating profit.

Operations risk
Risk of an unexpected loss resulting from specific events which may be caused by faulty information systems, inappropriate organizational structures or inadequate control mechanisms (also known as event risk) as well as the risk of cost increases or profit cuts as a result of unfavourable macroeconomic or sectoral trends (known as business risk).

Option
Right to purchase (call option) or sell (put option) a particular asset (e.g. security or foreign exchange) from a contracting party (seller) at a predetermined price at or before a specific future date.

OTC derivative
Non-standardized financial instrument (→ Derivative) not traded on a stock exchange but directly between market participants (over the counter).

Portfolio
In general: part or all of a securities investment held by a customer or company (securities book).
Here: similar deals, in particular securities and/or derivatives, grouped together under price risk aspects.

Proprietary trading
Trading carried out by a bank for its own account in securities, financial instruments, foreign exchange or precious metals (→ Trading profit).

Rating
Standardized evaluation of issuers' credit standing and debt instruments by specialized agencies.

Regular income
At banks: net interest income, net commission income and trading profit.

Repo
An agreement to repurchase securities sold (genuine repurchase agreements where the asset is still to be allocated to the seller). From the buyer's viewpoint, the transaction is a reverse repo.

Return on equity (RoE)
In general: ratio showing the income situation of a company or bank, relating profit (net income) to capital employed.
Here: net income (before tax) as a percentage of average capital employed over the year – excluding minority interests.

Securitization
In general: rights evidenced by securities (e.g. shares or bonds).
Here: replacing loans or financing various kinds of claims by issuing securities (such as bonds or commercial paper).

Segment information
Disclosure of a company's assets and income, analyzed by activity (Group divisions) and geographical area (regions).

Shareholder value
Management concept that focuses strategic and operational decision-making on steadily increasing a company's value. The guiding principle is that only returns above the cost of capital create shareholder value.

Swap
In general: exchanging one payment flow for another.
Interest rate swap: exchanging interest payment flows in the same currency with different terms and conditions (e.g. fixed or floating).
Currency swap: exchange of interest payment flows and capital amounts in different currencies.

Trading profit
Balance of income and expenses from proprietary trading in securities, financial instruments (especially → Derivatives), foreign exchange or precious metals valued at market prices (→ Mark to market). This item also includes the proportion of interest accruing, dividends and funding components allocated to trading activities, plus commissions from proprietary trading.

Value at risk (VAR)
Method for calculating the potential loss from price movements. The risk value is calculated on the basis of changes in market prices. Value at risk states the maximum loss to a certain predetermined level of probability (e.g. 97.7 %) for a given holding period (e.g. one day).

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Publications

We would be pleased to send you these additional publications

☐ **Annual Report of Deutsche Bank Group (IAS)**
☐ German ☐ French ☐ Spanish
☐ Japanese (due at mid-year)

☐ **Consolidated Financial Statements and Management Report of Deutsche Bank for 1997 (CommC)**
☐ German ☐ English ☐ French

☐ **Annual Financial Statements and Management Report of Deutsche Bank AG for 1997**
☐ German ☐ English ☐ French

☐ **List of Shareholdings 1997** (German/English)

☐ **List of Advisory Council Members**

☐ **Directory of Deutsche Bank Offices worldwide** (German/English)

☐ **Portrait of the Group for 1998 on CD-ROM** (German/English; available from mid-May)

☐ **Brochure "Initiative fördern – das Umweltengagement der Deutschen Bank"** (available in German only)

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Financial calendar for 1998/1999

May 7, 1998	Interim Report as at March 31, 1998
May 20, 1998, 10 a.m.	**General Meeting Festhalle, Frankfurt am Main (Exhibition Centre)**
May 22, 1998	Dividend payment
July 28, 1998	Interim Report as at June 30, 1998
October 29, 1998	Interim Report as at September 30, 1998
February 17, 1999	Publication of key figures for the 1998 financial year
March 18, 1999	Annual Press Conference and publication of the Annual Report for 1998
May 5, 1999	Interim Report as at March 31, 1999
May 17, 1999, 10 a.m.	**General Meeting Festhalle, Frankfurt am Main (Exhibition Centre)**

Nanette Hoogslag, Amsterdam, illustrated this Annual Report. The motifs selected were events of importance for the bank.

Title page:
The euro is coming – with many open questions. Deutsche Bank gives customers individual answers.

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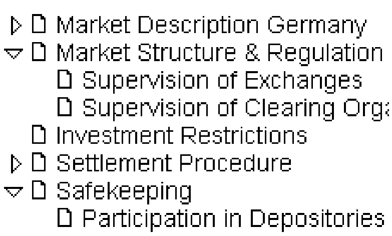

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