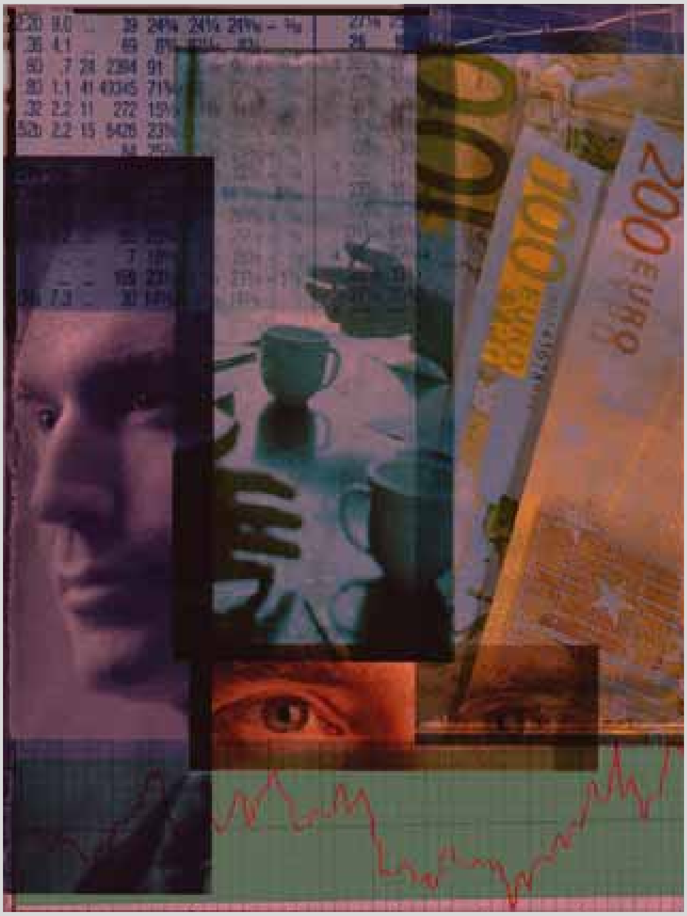
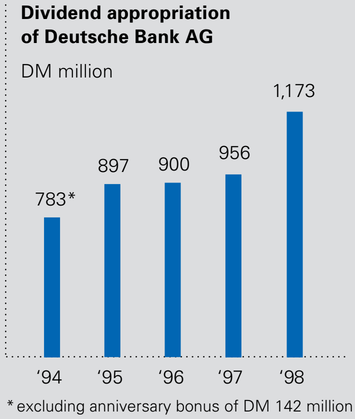
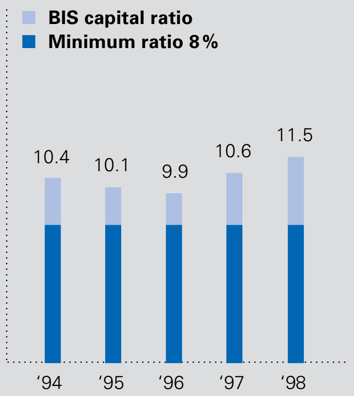
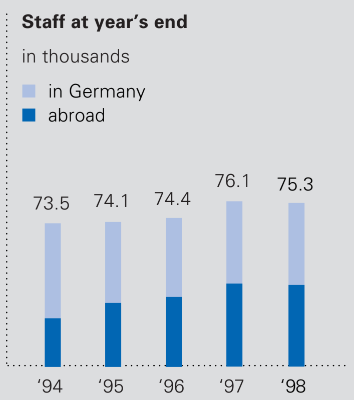
Annual Report for 1998



Deutsche Bank







Deutsche Bank Group
according to International Accounting Standards (IAS)

	1998	1997
Dividend per share	DM 2.20	DM 1.80
Dividend appropriation Deutsche Bank AG	DM 1,173 m.	DM 956 m.
Earnings per share	DM 6.34	DM 1.97
Diluted earnings per share	DM 6.33	DM 1.92
Return on equity (RoE) before tax	24.8 %	6.4 %
Cost/income ratio	78.1 %	75.3 %
BIS capital ratio	11.5 %	10.6 %
BIS capital	DM 57.4 bn.	DM 48.3 bn.
	DM million	DM million
Net interest income	10,833	11,127
Provision for losses on loans and advances	1,525	2,205
Net commission income	10,387	8,937
Trading profit	3,469	3,601
General administrative expenses	19,794	18,281
Operating profit	4,377	4,364
Net income before tax	7,885	2,043
Income taxes	4,509	1,024
Net income	3,376	1,019
	DM million	DM million
Total assets	1,225,530	1,042,964
Loans and advances to customers	537,510	518,486
Total credit extended	486,190	447,916
Assets held for dealing purposes	330,542	231,578
Amounts owed to other depositors	451,537	438,614
Liabilities evidenced by paper	201,347	152,441
Derivatives		
notional volume pursuant to BIS	DM 6,859 bn.	DM 5,823 bn.
credit risk equivalent pursuant to BIS	DM 47.4 bn.	DM 42.9 bn.
	Number	Number
Branches	2,310	2,355
in Germany	1,566	1,584
abroad	744	771
Staff	75,306	76,141
in Germany	48,742	49,086
abroad	26,564	27,055
Long-term rating		
Moody's Investors Service, New York	Aa1	Aa1
Standard & Poor's, New York	AA+	AAA
Fitch IBCA, London	AA+	AAA

Contents

Tom Collicott, Seattle, illustrated this Annual Report. The motifs selected were events of importance for the bank.

Title page: "One face to the Customer" is the motto under which Group Division Global Corporates and Institutions conducts forward-looking, international investment banking.

Information on Tom Collicott on the Internet: www.deutsche-bank.com/collicott

Corporate Profile

Deutsche Bank has been successful internationally for over a century. Today, it has transformed itself into a new-style universal bank. This means we offer a large number of financial products, but concentrate on those areas in which we can exploit our market leadership to deliver outstanding customer services. We do this from a position of strength.

Europe as the basis for a balanced global presence

Our business is characterized by a leading position in our domestic European market, a planned strong platform in the United States and a balanced presence in Asia. We operate globally wherever it is appropriate to do so; otherwise, we selectively omit certain markets. Our shareholders are as international as the bank: over forty percent of our equity capital belongs to investors outside Germany.

The market determines our structure

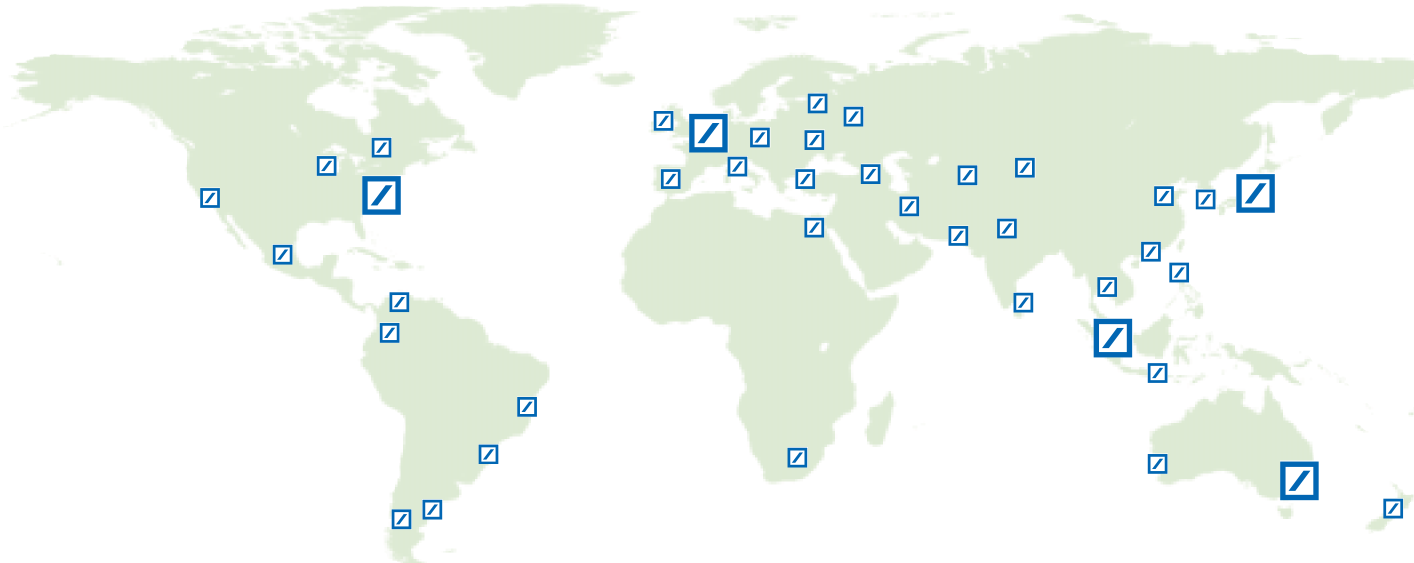
The Board of Managing Directors runs Deutsche Bank as a virtual holding company: they decide the Group's strategy and define its targets. They are also responsible for senior management development, allocate capital, determine the bank's risk policy and coordinate the business policy of the five self-contained Group Divisions, whose client-focused structure enables the bank to provide over seven million customers with sophisticated products. In each Group Division, the business units set market trends, whatever their legal form. As the common thread running through this virtual holding company, the Corporate Centre ensures a uniform, Group-wide policy. All units work towards the success of our bank, which employs over 75,000 people and is represented in more than sixty countries.*

Our success is based on a clearly defined value system

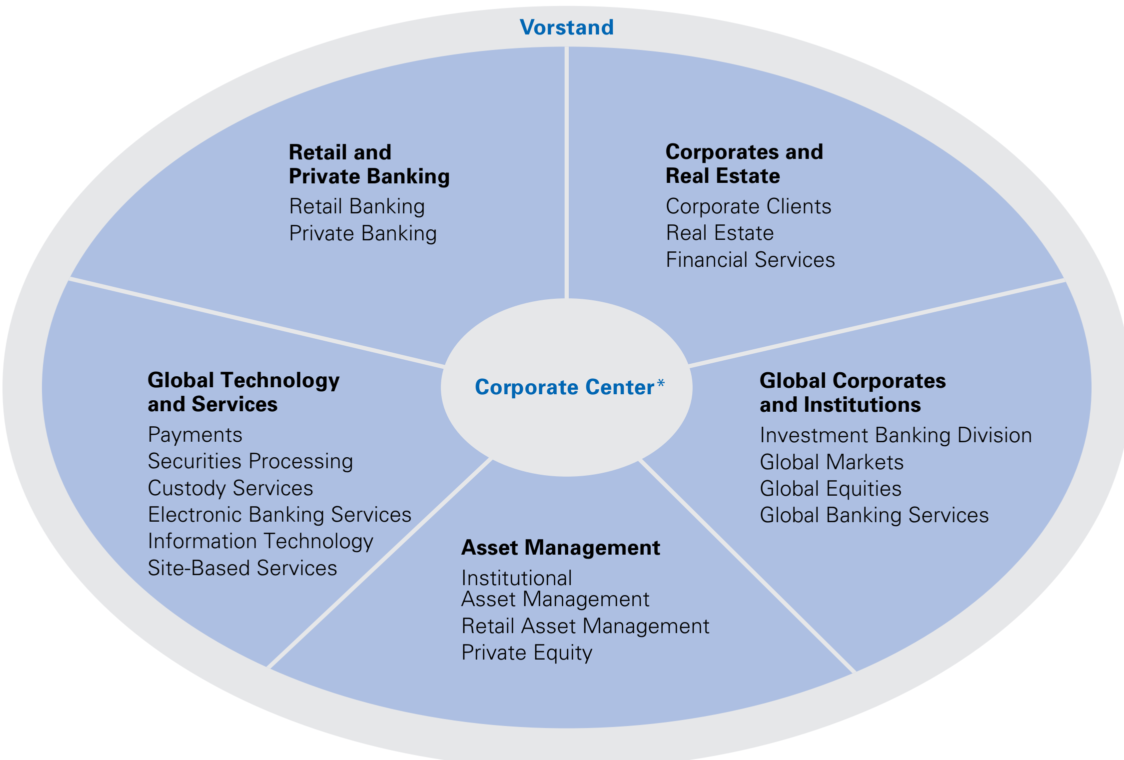
Building on a forward-looking strategy, we aim to achieve long-term growth in the value of the company. We see this as our prime obligation to our shareholders. It is inextricably linked with our other goals: customer satisfaction, staff motivation and social commitment. This "quartet" of goals characterizes the self-image of today's Deutsche Bank, whose identity also embodies openness, trust, integrity, loyalty and achievement. These values are essential in view of the pace and impact of developments in the financial services industry, for they help us shape the future. The name of Deutsche Bank will continue to symbolize quality, reliability, change and success.

* Directory of Deutsche Bank Offices: order form on page 140
Internet: www.deutsche-bank.com/offices

Close to our customers



Universal bank with clear corporate structure



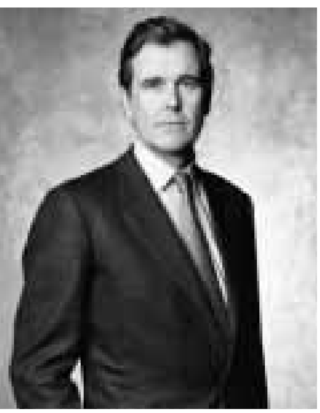
*Corporate Centre: Audit, Controlling, Corporate Strategy, Credit Risk Management, Economic Research, Group Marketing and Communications, Holdings, Human Resources, Legal and Compliance Services, Market Risk Management, Press, Senior Management Development, Taxes, Treasury

Board of Managing Directors

Rolf-E. Breuer
born 1937,
Board member since 1985,
Spokesman of the Board of Managing Directors,
responsible in the Corporate Centre for Corporate Strategy, Holdings,
Group Marketing and Communications, Press,
Legal and Compliance Services,
Senior Management Development and Economic Research

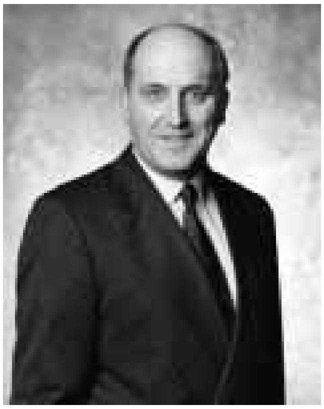
Josef Ackermann
born 1948,
Board member since 1996,
responsible for Group Division Global Corporates and Institutions

Carl L. von Boehm-Bezing
born 1940,
Board member since 1990,
responsible for Group Division Corporates and Real Estate



Michael Dobson
born 1952,
Board member since 1996,
responsible for Group Division Asset Management

Thomas R. Fischer
born 1947,
Board member since January 1999,
responsible in the Corporate Centre for Treasury and Market Risk Management



Tessen von Heydebreck

born 1945,
Board member since 1994,
responsible for Group Division
Retail and Private Banking
and in the Corporate Centre
for Human Resources

Jürgen Krumnow

born 1944,
Board member since 1988,
responsible in the Corporate Centre
for Controlling, Taxes,
Credit Risk Management and Audit

Ronaldo H. Schmitz

born 1938,
Board member since 1991,
responsible for Group Division
Global Corporates and Institutions

Hermann-Josef Lamberti

born 1956,
Board member from October 1999,
responsible for Group Division
Global Technology and Services

Deutsche Bank becomes the Bank for Europe.
Great expectations accompany the start of monetary union.

Dear Shareholders,

1998 was a successful year for Deutsche Bank. Net income before tax rose by DM 5.8 billion to DM 7.9 billion. An important contribution to this was the special dividend from Daimler-Benz. In the course of the year we had to report a disappointing 3rd quarter in the wake of the Russian crisis, but this was followed by a good result in the final three months.

The proposed dividend increase from DM 1.80 to DM 2.20 signals confidence: by concentrating on our strengths and expanding our presence in major markets, we have laid the foundations for sustainable growth in the value of the company. This is particularly true of the planned acquisition of Bankers Trust. Our common strengths will put us among the industry's global leaders in important areas of business.

The approval of the planned acquisition is unfortunately overshadowed by new findings regarding the bank's involvement with the National-Socialist regime. On behalf of the bank, I would like to reiterate that we deeply regret the misery and injustice suffered and that we acknowledge the bank's ethical and moral responsibility. We are working hard to help find a comprehensive settlement.

The measures taken last year to restructure our Group into a multi-specialist organization with five independent Group Divisions and a lean Corporate Centre have given us the tools to face the new competitive challenges, which have further intensified with the launch of the euro. As part of a virtual holding company, our Group Divisions compete with the best specialists in their respective market segments.

Changing customer preferences have prompted us to adjust our distribution system. The planned merger of our branch banking business in Germany with Bank 24 in a separate legal entity is a forward-looking step towards a new relationship between the bank and its customers. Our branches' product range and advisory services will be coupled with a round-the-clock tele-banking facility. We are confident that we will substantially improve our market position with this client-focused approach and achieve even greater customer satisfaction.

The geographical focus of our strategy is on Europe. Here, we intend to leverage our traditional strengths and exploit the opportunities offered by the new euro capital markets, to the benefit of our customers. We are selectively expanding our presence in this attractive market, taking into account the local conditions in each country. We seize opportunities as they arise and apply our capital wherever we can expect a return which meets our targets. For example, we were able to enhance our strong position in Europe – we are already the biggest foreign bank in Italy and Spain – through the acquisition of Crédit Lyonnais Belgium, through the strategic alliance with EFG Eurobank in Greece, and through our cooperation with the Spanish Post Office.

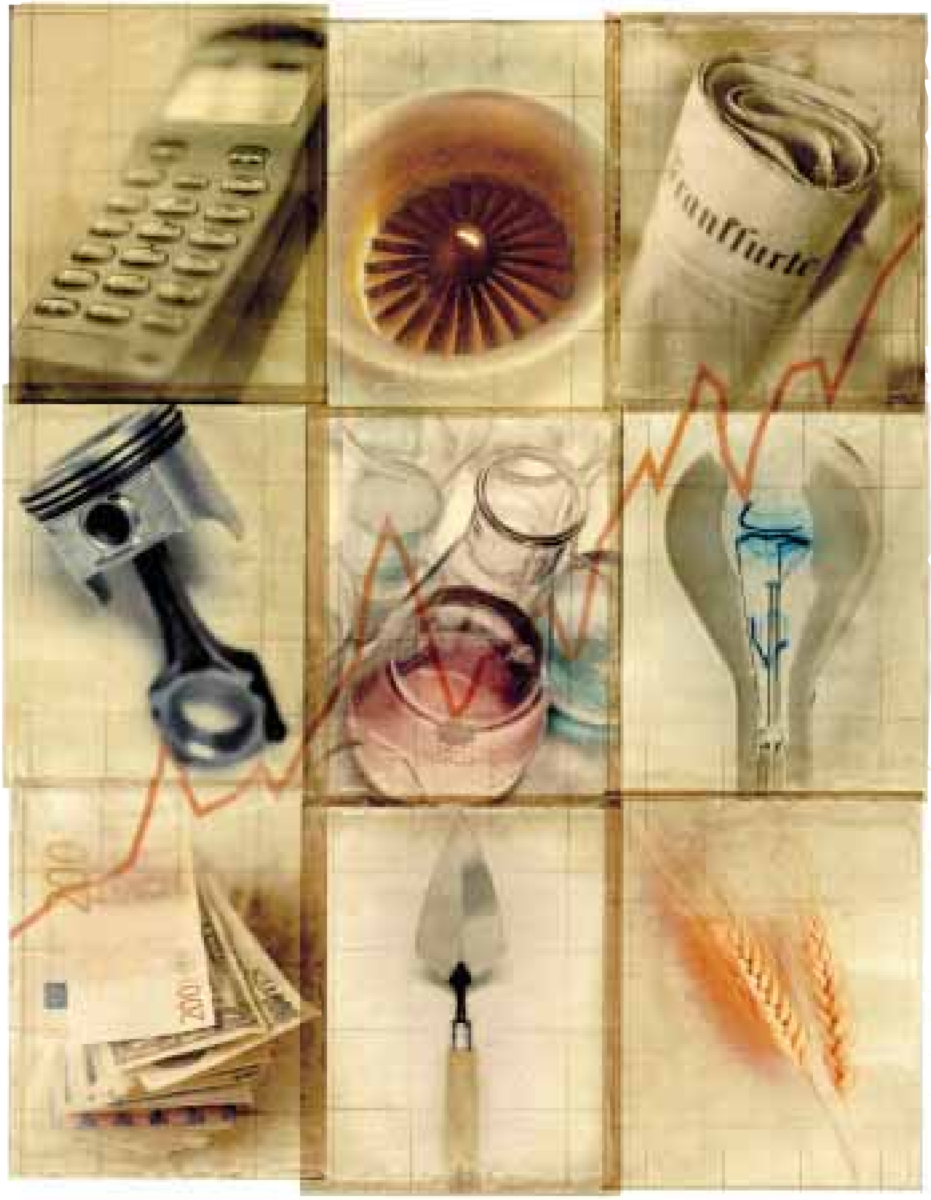
Thanks to our strong position in Europe, our home market, we can operate globally in those areas where our customers expect us to do so. Besides the important expansion of our presence in the U.S.A. through the planned acquisition of Bankers Trust, we considerably strengthened our position in Asia by intensifying our cooperation with Nippon Life, one of the world's biggest insurance companies.

At the end of the year, we transferred a large part of our direct industrial holdings with a market value of more than DM 42 billion to independent subsidiaries. As a further consistent step in the ongoing process of divisionalization, this creates a legally separate profit centre for active industrial portfolio management. The result is a clear distinction between the contributions to results and company value from banking business, on the one side, and the holdings on the other. The new company law structure allows us to manage the holdings more favourably from a tax point of view. This underlines the target of managing the company with a clear orientation to value.

The successful result achieved in 1998 is attributable to the outstanding commitment of our staff. We would like to thank them once again for their contribution to the bank's success.

Great efforts will be needed in future, too, to achieve our strategic goals and further improve our operating profitability. The value-driven management of our business is the foundation for an attractive result for our shareholders. Thank you for your lasting confidence!

Rolf-E. Breuer, Spokesman of the Board of Managing Directors
Frankfurt am Main, March 1999



We are the only German bank stock in the new European
blue chip index, the Dow Jones Euro Stoxx 50.

The Deutsche Bank Share

It will be proposed to the General Meeting on May 17, 1999 that a dividend of DM 2.20 per share be paid, marking a 22% increase compared to the previous year. Including the tax credit of DM 0.94, the total income for our domestic shareholders will rise to DM 3.14 (1997: DM 2.57). In relation to the Deutsche Bank share price* of DM 98.05 on December 30, 1998 in Frankfurt, this corresponds to a dividend yield of 3.2%, or 2.2% excluding the tax credit. At DM 1,173 million, the dividend appropriation for 1998 is well above the one billion mark for the first time (1997: DM 956 million).

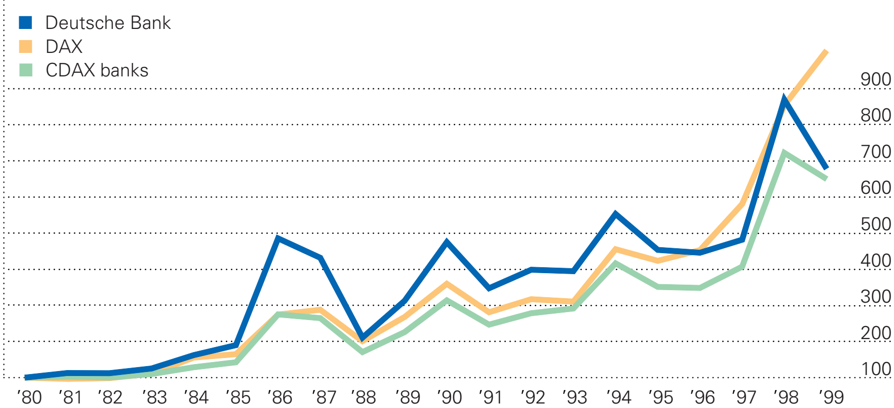
Market turmoil weighs on share price

The sharp rise in Deutsche Bank's share price in the 1997 financial year was followed by a decline in 1998. After reaching an all-time high of DM 162.20 on May 22, 1998 (Frankfurt closing price), our share price remained at a high level for approximately ten weeks. In the wake of the market turmoil which began in Russia, it then fell by half within just over two months. Our share recovered in the fourth quarter, closing the year at DM 98.05 (end of 1997: DM 127). The value of our share thus declined by 21.9 % (drop in share price plus reinvested dividend) in the course of 1998. While the CDAX index for German banks declined as well (–10.0 %), the German share index DAX gained 17.7 % over the same period.

Less risk appetite

The weaker performance of most bank stocks in Germany and abroad compared to the market as a whole reflects investors' sharply diminished appetite for risk following the announcement of the Russian debt moratorium. There was a sudden widespread fear that the crisis in the emerging markets would above all impair the results of banks exposed to the region. This temporarily dampened the previously heightened consolidation speculation in the banking industry.

Long-term price development



(Total Return Index,1980 = 100, based on figures as at the beginning of each year)

* Current price: www.deutsche-bank.com/share

Long-term performance

On a long-term comparison, our share performance looks as follows: 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 67,845 at the end of 1998. Over the past 19 years since the beginning of 1980, our share has yielded an average annual return of 10.6 % compared with gains of 10.4 % in the CDAX for banks and 12.9 % in the German share index DAX.

No. 2 in trading volume

The Deutsche Bank share was again one of the most liquid equities, achieving the second-highest turnover of all shares traded on all German stock exchanges, including electronic Xetra trading. Deutsche Bank also ranked second, in terms of premiums paid, in trading in options on its shares on the Eurex (formerly: Deutsche Terminbörse, the German futures and options exchange).

Only German bank stock in the Euro Stoxx 50

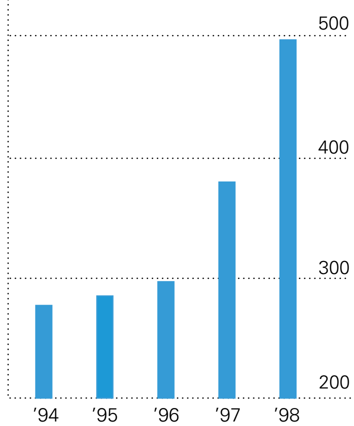
Our share is the only German bank stock in the increasingly tracked Dow Jones Euro Stoxx 50, an index comprising 50 blue chip stocks from the member countries of the European Monetary Union and used by many investors as the benchmark for the performance of their equity investment in the new currency area. At the start of 1999, the Deutsche Bank share had a weighting of 1.8 % in this index.

At the end of 1998, 532,985,214 shares were in issue. At DM 52.3 billion, the market value of Deutsche Bank was 22.5 % lower than one year earlier. In terms of the market capitalization of all German shares, Deutsche Bank ranked 8th at the end of 1998, accounting for 2.9 % of the German market's total stock market capitalization.

At the end of 1998, Deutsche Bank had roughly half a million shareholders. Within one year, this number had increased by 116,600, after rising by 84,000 in 1997. Both the increase and the overall figure are new records. The majority of new shareholders are domestic retail investors. This increase reflects the fast-growing popularity of investment in equities in Germany, a trend which benefits Deutsche Bank in particular as a large and well-known joint stock corporation.

Sharp rise in number of shareholders

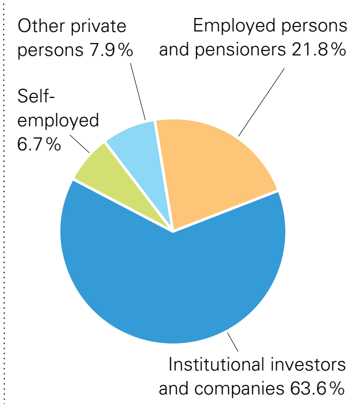
in thousands



The share of equity held by institutional investors is unchanged at 63.6 %, or DM 2,665 million. An upward trend which began in the eighties has thus not continued since the end of 1996. The share held by foreign investors increased from 39 % to 41 %, with the U.S.A. and the U.K. accounting for the strongest rises in the number of shareholders. With a 5.03 % reported stake in the bank's equity, Allianz AG continues to be the only major shareholder of Deutsche Bank reported under § 21 German Securities Trading Act.

Shareholder structure

Share of equity in %



New design concept for General Meeting

Our General Meeting on May 20, 1998 was held in a new form, featuring a design concept which was more open and more conducive to communication than in the past. A survey among those attending showed that nearly all welcomed the new concept. The number of shareholders who came to Frankfurt rose from 4,500 in 1997 to 4,800. Close to 45 % of the bank's share capital was represented, which was below the pre-year level (48 %). In addition, more than 1,000 shareholders followed part of the General Meeting at our branches via our in-house business television.

Free shareholder hotline

To serve the needs of our many private shareholders, we set up a free shareholder hotline in 1998, enabling shareholders to obtain direct information on their company. Also, our Investor Relations Team* will gladly answer more detailed questions on the Deutsche Bank share. A telephone service has also been set up to provide information on Deutsche Bank's General Meeting.**

* Shareholder Hotline: 0800-9108000 (Germany only), Investor Relations: +49 (69) 910-38080
** General Meeting Service: 0800-1004798 (Germany only)

The Planned Acquisition of Bankers Trust

On November 30, 1998, the agreement was signed on the acquisition of Bankers Trust* by Deutsche Bank. The acquisition of Bankers Trust will give Deutsche Bank, already a leading institution in Europe, a similarly strong position in the U.S.A. This step will put Deutsche Bank among the world's leaders in Global Markets, Global Equities, Investment Banking (M & A, Advisory), Global Banking Services, Asset Management and Private Banking. At the same time, the acquisition extends the product range of Global Technology and Services, especially in custody.

Bankers Trust in brief

Bankers Trust is
- **the eighth-largest U.S. bank holding company**
- **the sixth-largest asset manager in the U.S.A.**
- **the tenth-ranked global asset manager**

Bankers Trust, with its long and rich tradition, is among the most important banking institutions in the U.S.A. The bank is today embedded in the holding company Bankers Trust Corporation which, with assets of roughly U.S.$ 133 billion and offices in more than 50 countries, ranked 8th among American banks when the agreement was signed. The corporation employs more than 20,000 staff worldwide.

Founded in 1903 by Henry Davison, the bank – in keeping with its name – provided trust services to a consortium of American commercial banks. During the first ten years of its existence, the New York bank grew initially in its domestic market, acquired several competitors and subsequently expanded its activities into the securities business.

After the Second World War, the bank continued to grow and gradually developed into a wholesale bank. By the seventies, it transacted business in more than thirty countries. Bankers Trust has operated in Germany since 1973 through its holding in the former Unionbank AG, renamed Bankers Trust GmbH in 1980, before being integrated as a branch into Bankers Trust International PLC in 1994.

In the early eighties, Bankers Trust changed its business mix. After specializing first in leveraged buy-outs (LBOs), it focused on trading in structured instruments, such as derivatives.

* Information on the Internet: www.bankerstrust.com

Investment banking franchise strengthened

1996 marked the beginning of a new era for the U.S. bank. Bankers Trust initiated several acquisitions to strengthen the bank's franchise in traditional investment banking.

Bankers Trust conducts its business through six organizational units. The staff in Investment Banking offer a broad range of services, including mergers and acquisitions, strategic advisory and distribution. Major acquisitions strengthened these capabilities – Wolfensohn & Co. in 1996, Alex. Brown Incorporated in 1997 and NatWest's equities business in 1998. Through this expansion, Bankers Trust became a leader in the key product lines of investment banking – equities, debt, loans and strategic advisory.

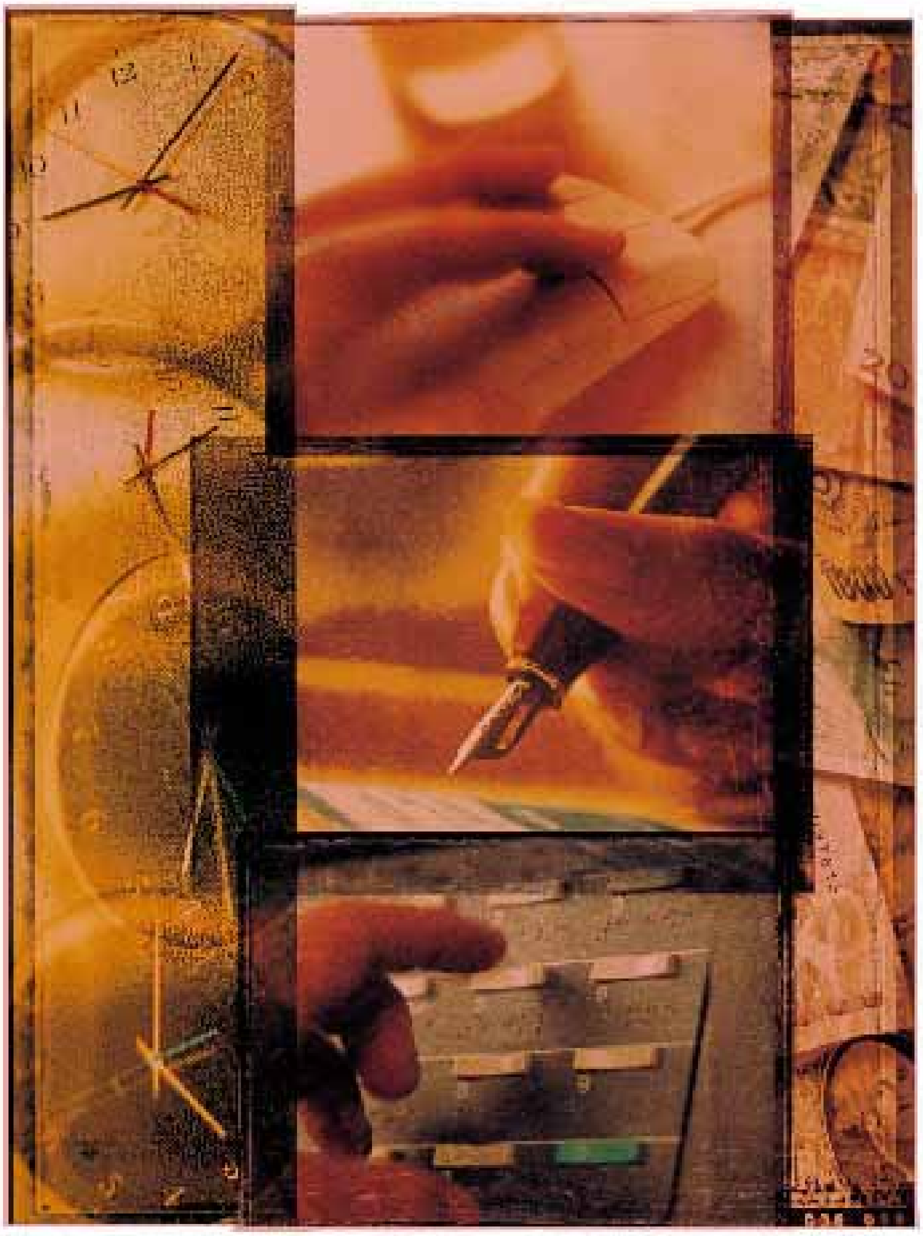
Through its trading departments in New York, London, Tokyo and other major financial centres, Trading and Sales supports its clients worldwide by providing a wide range of financial products and services including fixed income securities, currency, foreign exchange and structured transactions.

Broad product range, great expertise and innovation

Global Institutional Services has an extremely broad product range featuring great expertise and innovation: Asset Management Services has comprehensive experience as a leading institutional money manager and as a provider of trustee services; Corporate Trust & Agency Services is well known for its market innovation and expertise in complex financings; thanks to its state-of-the-art technology and strong product management, Cash and Trade has the necessary flexibility to respond immediately to industry trends. Drawing on the most productive investment representatives in the industry, Private Client Services offers high-net-worth individuals and selected institutions fund, trustee, securities clearing and trading and investment management services.

Integration into Deutsche Bank's divisional structure

In addition, there are regional units – Australia/New Zealand, Asia, Eastern Europe, Middle East and Africa (EEMA), and Latin America – which cover the aforementioned business areas to varying degrees. Once the transaction closes, Bankers Trust will be integrated into Deutsche Bank's global divisional structure.



Our new branch concept provides customers with quick,
convenient service under the distinctive Deutsche Bank brand.

Retail and Private Banking

The 26,000 staff in the Retail and Private Banking Division achieved by far the best annual result to date from their business with some seven million customers. At DM 1,757 million, profits were up 10% on the previous year. The cost/income ratio was 76%. The division generated 24% of the profits of the five Group Divisions. With this result the Group Division has laid the basis for further strong expansion in the coming years, which is to be achieved largely through organic growth.

Entering growth markets with a new structure

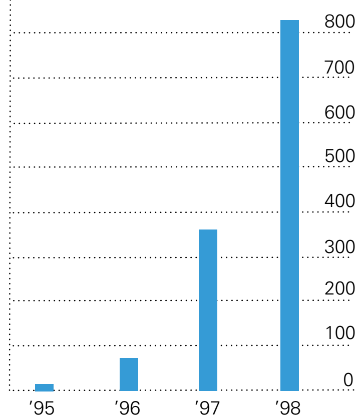
Since its 1998 restructuring which, among other things, transferred DWS to Asset Management, the division's business has focused on private banking and retail banking. International private banking concentrates on high-net-worth clients abroad. In private banking in Germany Deutsche Bank is already a major player with a market share of approximately 15%. It engages in retail banking in Germany, Italy and Spain. Our decisive strategy of modernization and growth now has the necessary organizational framework.

Retail and Private Banking was very successful in 1998. Its revenues were higher than planned, and its costs slightly lower. In all customer segments securities business easily outperformed what had been an outstanding previous year. Income from business in equities, fixed income and mutual funds exceeded DM 1.7 billion for the first time. The record pre-year result in housing finance was matched again, as it was in insurance, building saving and the sale of closed-end real estate and leasing funds.

Bank 24*, founded in 1995, extended its market lead. With roughly 390,000 customers, it is well ahead of comparable competitors. The prospect of breaking even with roughly 500,000 clients after five years in business is realistic. The cooperation agreed in 1998 with Ameritrade, a leading Internet broker, is beginning to bear fruit: the settlement of equity trades in the American market has become quicker and cheaper.

Bank 24: securities business multiplied

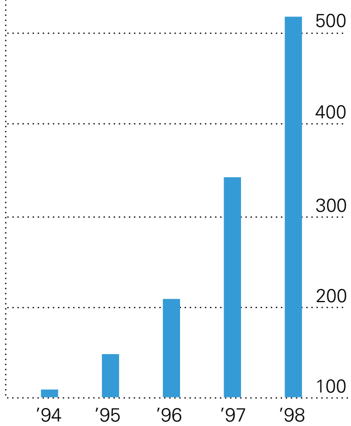
Securities orders in thousands



*Information on the Internet: www.bank24.de

More and more online customers

Number of online customers in thousands*



* Deutsche Bank AG, Deutsche Bank Lübeck AG, Deutsche Bank Saar AG; incl. Bank 24 from 1995

In retail banking, customers increasingly value the availability of diverse delivery channels. Branch offices, previously the only point of contact for the customer, now have competition: including Bank 24, over 500,000 customers already use online banking*. Our Internet offering was rated one of the best in several independent tests. We regard the ongoing enhancement of our self-service and home-banking products, particularly on the Internet, as a priority. Since most customers prefer to maintain at least some personal contact with their bank, however, our retail banking services are being expanded into a multi-channel offering.

Concept for the branch of the future

The redesigned branch of the future – we have been testing it in Germany since summer 1998 – is where customers will go for their day-to-day banking needs and advice on standard products. To supplement our 1,400 branches**, which offer a streamlined range, we are setting up roughly 250 finance centres to serve small businesses and advise on complex building financings. The number of branches will fall to approximately 1,250 by the end of 2000 because we will be able to combine certain outlets, particularly in conurbations. The number of cash dispensers that our customers can use free of charge rose to 6,000 as the result of a cooperation agreement between Germany's four largest private-sector banks. Furthermore, we now guarantee that our own cash dispensers are available at all times.

Our customers are now more satisfied

The latest customer survey confirms that our clients have become much more satisfied over the past two years, and customer loyalty has grown stronger. Our branches and banking shops were remodelled as pure customer service and sales outlets, while internal processing functions were centralized. Business processing times, costs and risk expenses decreased. We are adding staff in growth areas such as call centres, Internet services and private banking in Germany. The preliminary conclusion of this process will be when we merge our German branches' retail business with Bank 24 in a separate legal entity.

Our international private banking business was again very successful. It expanded its presence in Japan, Australia and South America, among others, and now employs more than 1,000 staff at over 100 locations in 34 countries. Assets under management rose 18% to DM 85 billion. The

* Online banking on the Internet: www.deutsche-bank.com/banking

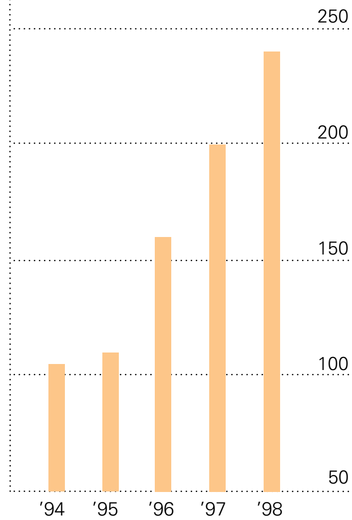
** Directory of Deutsche Bank Offices on the Internet: www.deutsche-bank.com/offices standardized organization and the capital spending have paid off, since this business has tripled its profit contribution in three years. Now that European Monetary Union has been launched, we will increase our European onshore business in particular. Apart from organic growth, we aim to expand through acquisitions or equity participations.

The planned takeover of Bankers Trust will put our international private banking business in the world premier league. Their good coverage of the American market will complement our presence today, while Bankers Trust's product innovations will benefit Deutsche Bank’s large customer base.

Fee income from business with high-net-worth and capital-accumulating clients in Germany grew 13 % to DM 1.4 billion. We achieved this strong profit increase with only a slightly larger amount of capital. We will continue to enhance our attractive offering by adding products, sharpening our client focus and providing selective advanced training for our staff. The number of private banking centres in Germany will be increased from 250 to 300.

Private banking on the advance

Assets under management in DM billion



Acquisition of Crédit Lyonnais Belgium

In Europe we see promising opportunities in the euro zone. We aim to prove our expertise in advising on equity, fixed-income and mutual fund investments and in trading these securities for high-net-worth and capital-accumulating clients in the major western European markets as well. The acquisition of Crédit Lyonnais Belgium, completed in February 1999, takes us in this direction. Similarly, we will continue to step up our private banking activities in Italy and Spain, where we are the largest foreign bank. In entering new markets, we seek acquisitions and cooperation agreements, such as the one signed at the end of 1998 with the Greek EFG Eurobank, in which we took a 10% stake.

"Eurohypo AG – Europäische Hypothekenbank der Deutschen Bank": since the middle of 1998, our entire mortgage banking business has been combined under this name.

Corporates and Real Estate

The Corporates and Real Estate Division serves the needs of national and multinational companies, in particular SMEs, real estate clients and the public sector. It comprises the three business units Corporate Clients, Real Estate and Financial Services and employs 11,600 staff. In 1998 the division achieved profits of DM 2,270 million and a cost/income ratio of 53%. It contributed 31% to the profits of the five Group Divisions.

The bank for entrepreneurs

In 1998 we began to recast ourselves as a bank for entrepreneurs, concentrating on four factors: achieving greater client focus by strengthening our distribution and expanding commission business on the one hand, and by decentralizing responsibilities and streamlining processes on the other.

Differentiated strategy in Europe

In Europe, we aim to capture further market share and grow our business by adopting country-specific strategies. We concentrate on multinational corporate clients and, on a more selective basis, local clients in Italy, Spain and Belgium, where we have extensive distribution networks. The acquisition of Crédit Lyonnais Belgium has strengthened our presence in the euro zone. We also have the capability to serve European companies doing business outside Europe.

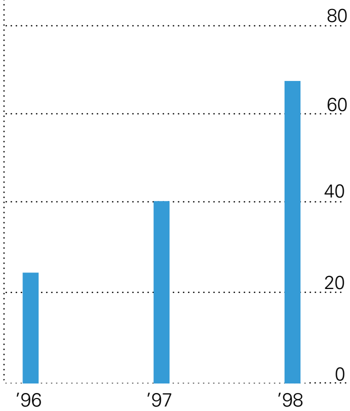
Expert advice, quick decision-making

In Germany, we aim to strengthen our position in clearly defined customer groups. For this purpose, our relationship managers at 236 locations have been given significant market responsibility. To be able to take loan decisions as quickly as possible, we have largely shifted the relevant discretionary powers to the units serving clients. A new sector information system enables us to offer our clients more specialized advice. Relieved of administrative functions, our relationship managers can devote more time to covering our mainly small and medium-sized clientele.

In Germany, we have set up five supraregional innovation teams to serve the needs of companies involved in the field of innovative technologies. Via DVCG, Deutsche Venture Capital GmbH, we provide these firms with equity capital in their start-up phase. DVCG has already invested venture capital of DM 102 million in 32 companies. To round off our offering for technology start-ups, we are establishing a “business angel network“ in cooperation with other partners.

Arrangement of cross-border leasing for German regional transport companies

Market share in %



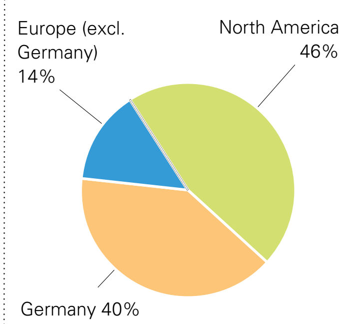
In business with the public sector – local authorities, the German federal states and their companies – we deliver customized solutions. We offer these clients a wide range of services for areas such as corporate planning, competition among international business locations and strategies to promote industry in Europe. These range from traditional public-sector loans, leasing and operator models, factoring and cross-border leasing to advising clients on liquidity, interest rate and debt management.

One important goal is the expansion of our corporate finance business. At six different locations we offer a decentralized problem-solving capability in investment banking products. Relationship managers and product specialists cooperate closely, providing our clients with the full range of corporate finance products.

Competitive advantage through product innovations

New business opportunities opened up for Trade & Payment Services in 1998. With our new service, Global Trade Management, we perform tasks in import and export business previously handled by our clients. Here, we have a clear competitive edge. By the end of 1998, we had gained over 300 mandates for joint projects in documentary business. We will continue to expand our services in the settlement of foreign trade and the hedging of pertinent risks. We were able to achieve a gratifying increase in income from structured foreign exchange trading and interest rate hedging products.

Financial Services: assets under management



Our Financial Services business, in which Deutsche Financial Services Corp.* , St. Louis, GEFA Group, Wuppertal, ALD Group, Hamburg, and Group subsidiaries in Italy, Spain and Portugal operate under one management, specializes in property-based financing and services for manufacturers, dealers and end-users along the distribution chain. With a staff of more than 2,600, it contributed approximately 22% of the division's results. In 1998 we focused on serving North American manufacturers and dealers from the technology sector in Europe and on meeting our European customers' growing demand for cross-border solutions. In 1999 we will continue our expansion to become one of the leading financial services providers in selected areas.

* More information on the Internet: www.dfsc.com

Strong contribution to results from real estate business

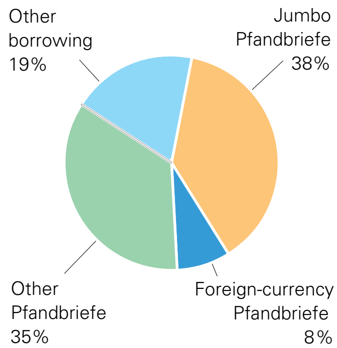
The Real Estate Division is a product specialist for commercial real estate finance and real estate investment, contributing around 13% of the division's results in 1998. Business was strongly influenced by Germany's stabilizing real estate market, investors' growing international focus and the greater interest, in particular among institutional investors, in indirect real estate investment.

International, innovative real estate investments

We enhanced our offering of real estate investments. The open-ended fund "grundbesitz-invest" continued to diversify its investments in Europe. In addition to individual properties and traditional closed-end funds, we offered equity investments in real estate companies tailored to specific investor interests. With our real estate fund "Primus", an equity holding in listed U.S. real estate companies, we created a new possibility to diversify assets internationally. The placement volume of funds, equity investments and direct investments totalled DM 1.4 billion in 1998.

Eurohypo: funding becomes more international

Total DM 31.6 bn.



With Eurohypo*, we are one of the largest institutions in real estate finance. The name underscores its strategic focus on Europe: it has offices in Amsterdam, London, Luxembourg, Madrid, Dublin and Paris. In 1998 Eurohypo increased its market share substantially. In Germany, its share of new mortgage business among private mortgage banks rose to 8.2 %, and to 12.3 % in Europe (excluding Germany). Our funding has also become more international, with Jumbo and foreign-currency Pfandbriefe accounting for over half of our Pfandbrief sales.

Optimizing effective use of capital

To make more effective use of our capital, we securitized, among other things, a corporate client's loan portfolio for a total of DM 5.2 billion through two asset backed transactions, thus freeing up resources for new capital-intensive business. Further transactions of this kind are planned for 1999. We are on track to meet our targets for the year 2001.

* More Information on the Internet: www.eurohypo.de

Our relationship managers provide large corporates with a comprehensive, one-stop service range.

Global Corporates and Institutions

1998 brought several challenges for our Global Corporates and Institutions Division. First, it was the year of final preparations for the launch of the euro; second, our product areas had to operate in what were often crisis-ridden financial markets; and third, competition for multinational clients intensified further. We responded to this changing environment by combining our global commercial banking and investment banking activities, which strengthened our market position. The division's profits were 17% up on the previous year at DM 2,155 million and accounted for 29% of the profits of the five Group Divisions. The planned acquisition of Bankers Trust is intended to provide the bank with a stronger platform in the U.S. market.

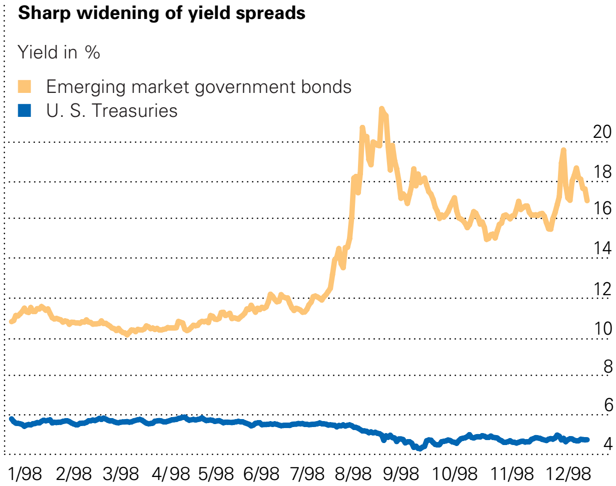
Exploiting market potential

The division was reorganized as a wholesale bank in 1998. Worldwide it focuses on roughly 1,000 – 1,200 of the biggest, mainly global corporates and institutions. The far-reaching changes, which relate to the restructuring of the Group, will help exploit market potential better while optimizing the bank's risk profile. To this end, our trading units were concentrated in the Equities and Global Markets product groups, while the product groups previously combined in Structured Finance were absorbed into the Investment Banking Division, Global Markets and Global Banking Services.

Our aspiration in the GCI Division is to establish ourselves as one of the world's top five providers of integrated financial solutions to customers in each product line in which we compete. Today, with 90% of Europe's multinationals and 60% of multinational clients worldwide as customers of Deutsche Bank, an essential component of the success of this strategy is our uniform relationship management concept.

Strong revenue growth

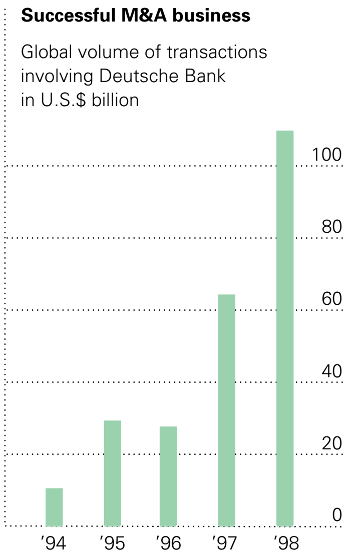
Despite the crisis on the world's financial markets, the cooperation between relationship managers and product units helped raise revenues to DM 9.7 billion. In Global Markets, dealing results in derivatives (OTC), foreign exchange, money markets, repo and government bonds were extremely successful. On the other hand, mortgage backed security



trading and proprietary and client-related emerging markets activities failed to meet expectations in the face of drastically increased yield spreads and substantially lower liquidity in the respective market segments.

Equity trading up 60 %

Overall, our market position continued to improve in these areas too. This is underlined by our leading position in euro-zone fixed-income securities, derivatives and foreign exchange. Following the integration of the business we acquired from the U.K. firm NatWest Markets in 1997, equity trading also performed extremely well. The Global Equity product range was extended and the revenue platform diversified, stabilizing the entire business.



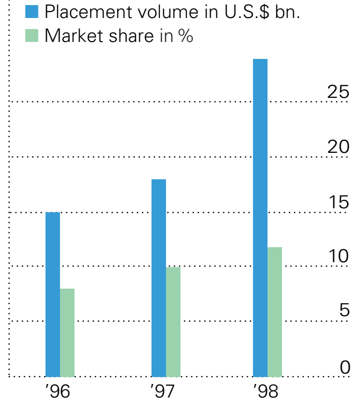
We also made good progress in our traditional investment banking business. By concentrating on profitable business and improving our cost controls, we increased our results strongly. Deutsche Bank played a leading role in over 100 equity capital market transactions, including capital increases at Allianz, Mannesmann and Olivetti and the secondary offering by France Télécom. One of the outstanding M&A deals was the merger of Daimler-Benz and Chrysler, with a transaction volume of roughly U.S.$ 75 billion. Deutsche Bank acted as an advisor to Daimler-Benz on this project.

Market leadership in euro clearing

An important contributor to GCI is Global Banking Services – which includes credit business, trade finance, structured finance and cash management. We provide our clients with products to solve day-to-day needs as well as complex financing solutions. We have market leadership in euro clearing for financial institutions and the many cash management mandates won in Asia and Europe for multinationals such as Siemens, Ciba Specialities, IBM and Bridgestone underscore our strong competitiveness in corporate cash management. We are No. 1 worldwide in project and export finance as well as in European leveraged finance and syndicated loans. Not least by setting up a portfolio management team for its own credit portfolio, Global Banking Services has become a mainstay of this division.

By strengthening its trading activities in the core areas of Global Markets and Equities and limiting its cost growth, GCI managed – thanks to its excellent competitive position – to sustain its earning power in what was a difficult environment. While we are working on a more efficient allocation of capital amongst product areas, the main task for 1999 is likely to be the rapid integration of Bankers Trust.

Again market leader in international bonds in the euro zone*



* Currencies of 11 EMU member countries and ECU

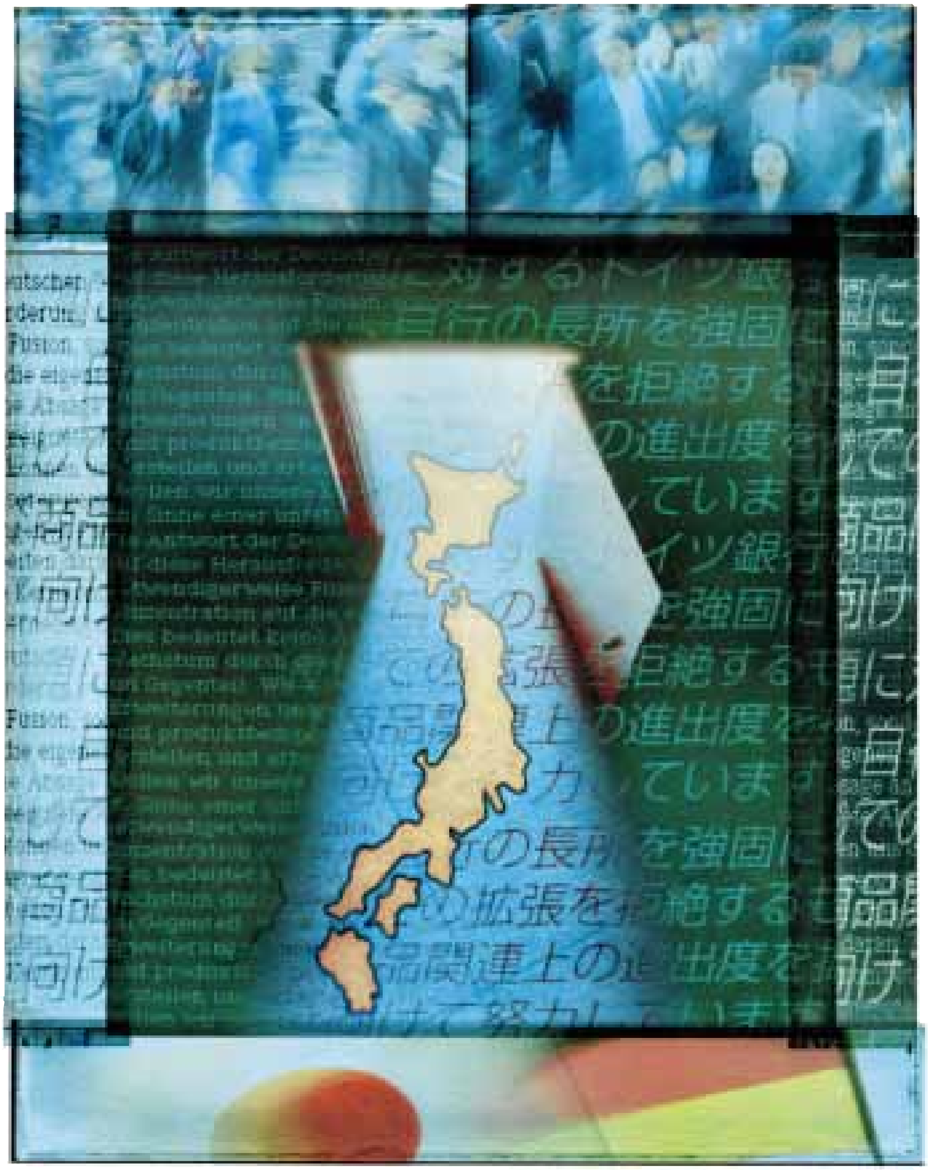
Rapid integration of Bankers Trust planned

The merger of Bankers Trust and Deutsche Bank will strengthen all product areas, particularly investment banking (including M&A advisory in North America), equity research, and high yield in North America and Europe, which is important for MBOs and LBOs. Industry know-how in advisory business will become much stronger in North America and Europe, focusing on industries such as telecoms, media, technology, chemicals/ pharmaceuticals and capital goods. The merger will allow significant cost and revenue synergies as well as savings on capital investment in infrastructure. Overall, this deal will add value for our shareholders.

Global Markets in the top five

Since our reorganization, Global Markets and Structured Finance have achieved their target of being among the top five in all major markets. In advisory, we occupy leading positions in certain areas. We will continue to invest selectively here to ensure that for the target sectors we have a capacity commensurate with equity trading. A further advantage of the merger is that we will be able to exploit better the cross-selling potential of our client relationships. Our product areas will continue to focus their efforts on broadening their revenue base by adding new products and extending their regional offerings.

Value management will remain a key objective in 1999. Further strategic goals are the ongoing diversification of our revenue platform and tight cost and capital management. These are the preconditions for being able to achieve our ambitious targets.



Asset management is widely seen as a growth market with a great future.
Our partnership with Nippon Life opens up enormous opportunities.

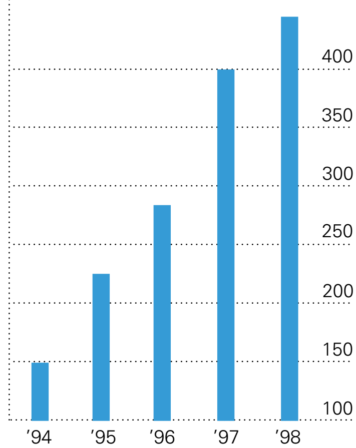
Asset Management

In 1998 Deutsche Bank combined its institutional and retail fund management operations as well as the private equity business into a new Asset Management Division. The Division, which employs 2,500 staff, enjoyed a successful year, despite considerable volatility in investment markets. Total funds under management grew by 12 % to DM 448 billion and profits increased 27 % to DM 924 million. The Division thus contributed 13 % to the profits of the five Group Divisions. The forthcoming acquisition of Bankers Trust and the resulting significant increase in assets under management will position us among the leading fund management groups in retail and institutional asset management worldwide.

Institutional asset management, which operates in Germany as Deutsche Asset Management and overseas under the name Morgan Grenfell, continued to expand with growth of 12 % in assets under management to DM 285 billion. Our global presence played a substantial part in our ability to provide the increasingly broad range of investment solutions required by our clients.

Growing investment volume in asset management
(Group Division Asset Management)

in DM bn.



We manage DM 182 billion on behalf of European- based clients. Our investment products, together with a new series of euro-denominated mutual funds for institutional investors, have been designed to meet structural changes in European investment following the implementation of European Monetary Union. In Germany, our business grew from DM 74 billion to DM 85 billion with a clear shift from domestic bonds to European equities.

High growth in United Kingdom

The UK business grew very strongly on the back of continued excellent performance, winning a record DM 14 billion of new business in 1998. An increasing interest in defined contribution structures for savers led to a number of initiatives which are expected to add significant value in future years, including the launch of a new U.K. life assurance company as the vehicle for a wide range of investment products, and the expansion of our pooled funds range for smaller clients.

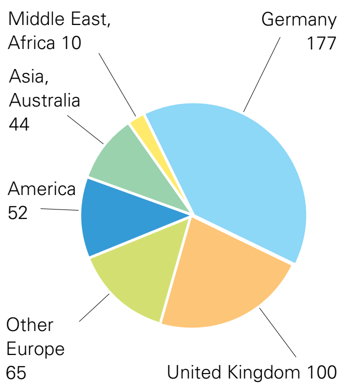
In North America, our business experienced strong growth in domestic fixed income assets, up from DM 13 billion to DM 22 billion, again following good and consistent performance. In international mandates, bonds were also favoured by our clients.

Nippon Life: strong partner in Japan

In Japan, deregulation in the financial services industry is offering new opportunities. In trust banking, asset management and mutual funds management, we are well placed to meet the changing requirements of Japanese investors. We are expanding our traditional co-operation with Nippon Life, one of the world's biggest insurance companies: Nippon Life will distribute our investment products in Japan, while we will contribute know-how to Nippon Life's European asset management subsidiary.

Asset management by region
(Group Division
Asset Management)

Total: DM 448 bn.



With Axiom, an excellent asset management business was acquired in Australia in 1997 and has been rapidly integrated into our institutional asset management operations, with the equivalent of DM 21 billion under management. In Singapore, we have one of the largest fund management companies and are developing further marketing representation in Asia.

Keen demand for DWS Group's retail funds

DWS Group's retail fund business continued to grow rapidly. By year-end 1998, assets under management had increased by 15% to a total of DM 163 billion worldwide. Apart from the market performance, this rise was attributable to substantial investor purchases of our mutual funds totalling a net DM 11 billion. In Germany, investors were particularly attracted to European equity funds; money market funds were also in demand.

DWS maintained market leading position

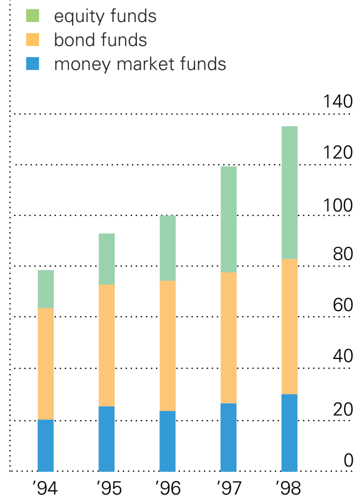
In 1998, DWS Group won further awards from independent research institutions in Germany and other European countries for its performance. A large number of our no-load funds comfortably outperformed the market average. Our German blue-chip equity funds outperformed their benchmark indices, as did most country and sector funds. DWS managed to maintain its leading market position in Germany – and as a result of competition from foreign money managers and domestic insurers, a growing number of clients are being accessed through intermediaries other than Deutsche Bank.

The declining coverage provided by state pensions is leading to brisk interest in high-yielding, fund-based private pension products. The DWS *Investmentrente,* a pension product based on equity funds, has received a warm reception with more than 60,000 savings plans and a target volume of roughly DM 3 billion. The new special pension funds (so-called "AS funds") also offer substantial sales potential.

Internationally, the DWS Group is now represented in ten countries by fund companies offering a broad range of products and with more than DM 44 billion under management for foreign investors. In Europe overall, we enjoy a leading position with a market share of over 5% with Italy and Spain becoming increasingly important to us. In countries with a smaller retail banking network, such as France, we are growing our European sales activities through our Private Banking units as well as other banks and intermediaries. In the United States, our European funds met with good interest, as American investors recognize our high level of expertise. In Japan, we will sell retail funds through Nippon Life's strong distribution network.

Growing importance of equity funds
DWS Group

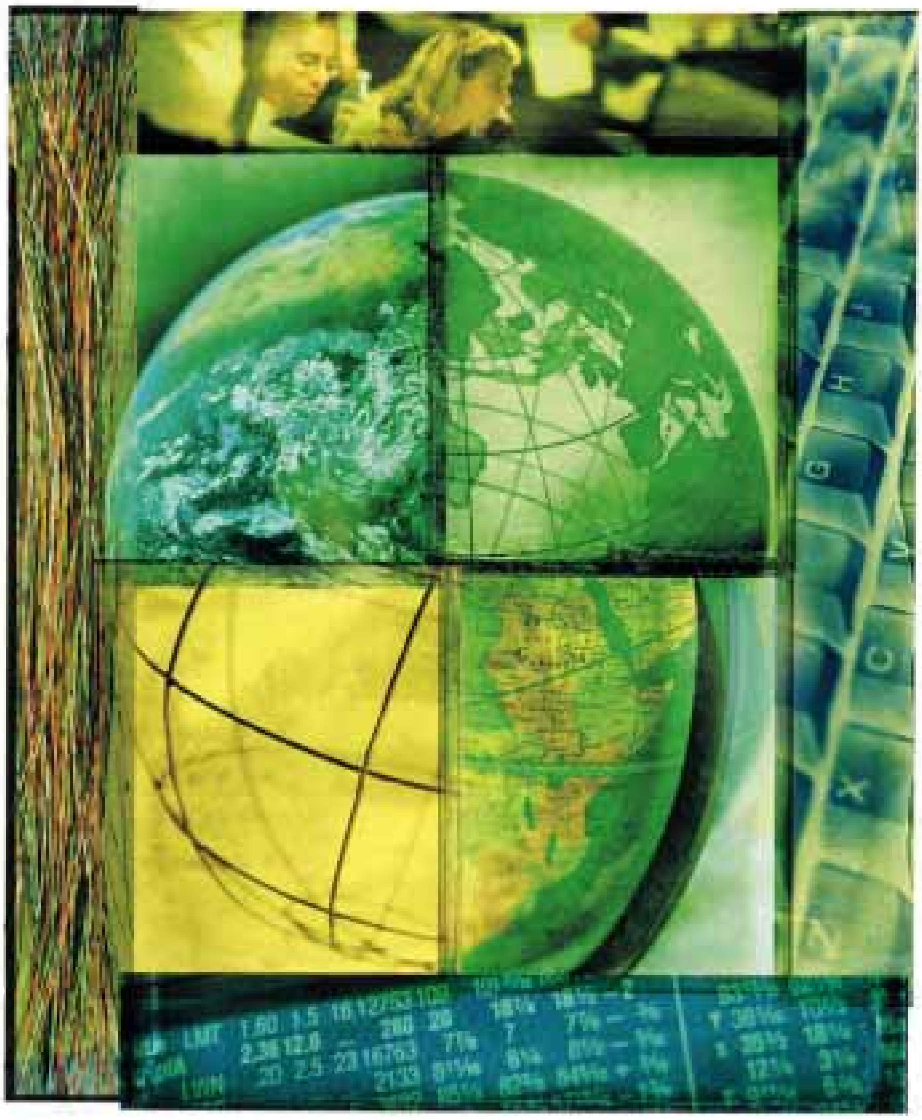
in DM bn.



Private Equity arranged and financed five corporate buy-outs in 1998. A DM 900 million investment in Vianova, a German synthetic resin producer acquired from Hoechst, will, we believe, be the first of many opportunities in the rapidly expanding private equity market in Germany. We intend to raise a DM 2.5 billion fund in 1999, in which Deutsche Bank will be a substantial investor. The investment focus of the fund will be medium to large corporate buy-outs across Europe.

Bankers Trust: considerable strengthening

In Asset Management, the intended acquisition of Bankers Trust will lead to an improvement in our global market position. Actively managed assets will increase by approximately DM 170 billion. In Australia, we will be placed number one in both institutional and retail business. In Tokyo, the combined group will be the leading non-Japanese asset management firm. In the U.S.A. our position will also be substantially strengthened by the inclusion of Bankers Trust's expertise in active and quantitative asset management products, serving both institutional and retail markets. The increase in the volume of funds under management will lead to higher profitability in the Division.



Securities services are a core business of
Group Division Global Technology and Services.

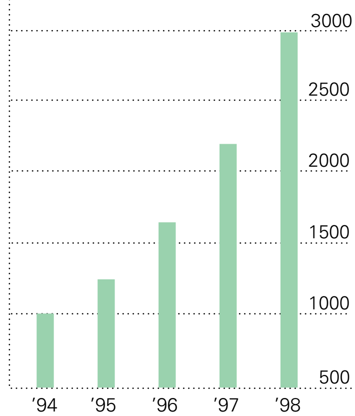
Global Technology and Services

Group Division Global Technology and Services has been evolving rapidly since 1998 from an internal services provider into a leading supplier in a banking market of the future. Four product groups make up its business: Payments, Securities Processing, Custody Services and Electronic Banking Services. Income from Global Technology and Services continues to grow steadily. We recognize that we have so far only exploited a small part of the profit potential. The Group Division, with its 13,300 staff, contributed 3% to the profits of the five Group Divisions in the year ended.

One focus in our work in the reporting year was on capturing new customers. The results to date are impressive. In Custody Services, for example, our volume growth of more than 36% to DM 2,983 billion is well above market. We further expanded our traditionally good market position in payments and securities processing, having prepared early for the euro.

Custody Services expanding

Assets under custody in DM billion



New customers through market focus

In future, too, we shall take the opportunities created by the far-reaching changes in the financial industry. The number of transactions in the United States, Asia and Europe will rise by 50 billion to 170 billion by the year 2002. Growth in cross-border payments is accelerating, assets under custody in Custody Services will be boosted by new retirement pension schemes and internationalization. Modern technology, such as the Internet, will influence traditional added-value chains and create new business possibilities, such as e-commerce.

Safe smartcards stimulate e-commerce

Here, we expect two to three-digit growth rates in the coming years. Transaction volume on the Internet is doubling every 100 days. Chip cards, especially the new generation of smartcards, will make a major contribution to the success of e-commerce. They permit remote use of the data network and offer totally new possibilities for personal identification; this will greatly increase the security of "electronic trades".

The single European monetary region will considerably raise volumes in payments and securities processing. Hand in hand with this, many banks are concentrating on their core business, which entails a growing readiness to outsource cost and investment-intensive processing activities to specialized service providers.

Good opportunities in growth markets

The market for transaction services is programmed for double-digit growth rates; its pace of innovation is extremely high. Based on our strong position in Germany and Europe, where we are market leader in cross-border payments and custody services, we shall seize the opportunities which arise globally.

Capacities for external growth

Deutsche Bank already operates the world's biggest clearing network and has technology allowing flexible clearing and processing services extending to real-time execution. The market-focused restructuring of the Group Division has fostered new attitudes in Global Technology and Services. Direct responsibility for profits is a key concept here. With this in mind, we are placing processing capacities on an independent footing to be able to handle other banks' volumes as white label services, i.e. outside Deutsche Bank AG. The planned acquisition of Bankers Trust – in 4th place among payments processors in the American market – will be a major step towards our goal of joining the global suppliers.

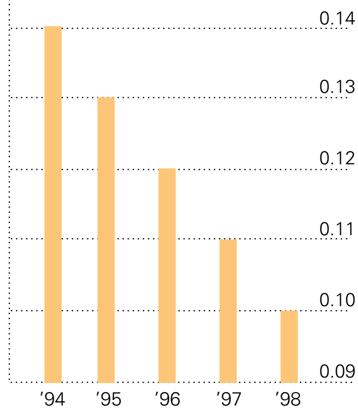
In Custody Services, too, we have adopted ambitious targets. Working from our leading position in Europe, we want to climb to a top three ranking worldwide. Client focus, business competence, global presence in 90 markets and ongoing technical innovation are the relevant factors for success. Our excellent result in the year ended is proof that we are on the right path. The planned integration of Bankers Trust's also very efficient custody business will give us a much stronger basis in America, the world's biggest market, and also create additional income for the bank by using the existing infrastructure.

Good cards in competition

In card issuing, credit card transaction processing and POS card payments, e.g. at retail outlets, we are among the market leaders, especially in Germany and Italy. Few suppliers match our full card service capability, including clearing. Building on our card know-how, acquired especially in Italy, we are now starting to compete with the market leaders from France and the United Kingdom. From this base, we shall expand our activities in online business and smartcards so as to leverage selectively the highly promising income potential in e-commerce.

Costs per IT transaction

in DM



With steadily improved processes and the bank's continuously enhanced IT infrastructure, we help to strengthen the competitiveness of all Group Divisions. Global Technology and Services is responsible Group-wide for gearing-up IT systems for European Monetary Union and Y2K. The outstanding work done by our staff allowed us to convert our IT systems, after extensive testing, in time for the introduction of the euro. Since the beginning of 1999 we have offered customers an account service and almost all other products in local currency and euro.

Euro and Y2K: on a safe track

Our Y2K project work is progressing according to plan. The final project phase has begun, as we intend to complete the remaining adjustments in the second quarter of 1999. After extensive testing, we shall re-integrate the converted systems into our business operations.

All units in our new Corporate Centre
cooperate in a spirit of mutual trust.

Corporate Centre

The Corporate Centre assumes a cross-divisional function within Deutsche Bank Group. It supports the Group Divisions in their independent activities and helps the Board of Managing Directors perform its management responsibility. Deutsche Bank is guided by the interests of the "quartet" consisting of its shareholders, customers, staff and society. Numerical models already exist for value-driven corporate management.

Uniform Group management

To ensure uniform management of the divisionalized Deutsche Bank Group, all supradivisional functions were brought together in 1998 in a Corporate Centre. Staff assignments closely linked with business are allocated to Group Divisions, where they can be performed with client focus and an orientation to product and results. The Corporate Centre supports the Board of Managing Directors in making sure that the five Group Divisions direct their activities towards the Group's corporate targets. It also ensures optimum allocation of financial resources between the Divisions and makes an important contribution to the exchange of information between operating units. Uniform Group management ultimately guarantees the high quality of all products offered worldwide under the Deutsche Bank brand.

In material terms, the Corporate Centre comprises the following functions: Audit, Controlling, Corporate Strategy, Credit Risk Management, Economic Research, Group Marketing and Communications, Holdings, Human Resources, Legal and Compliance Services, Market Risk Management, Press, Senior Management Development, Taxes and Treasury. The Corporate Centre is managed directly by members of the Board of Managing Directors. The heads of the units have material rights of direction vis-à-vis the operating units.

Broad field of activity

The Corporate Centre's mission is defined by the "quartet": the Corporate Centre develops the necessary concepts, takes decisions, and ensures their implementation. The aim is to strengthen the ties linking the bank to its shareholders, customers, staff and society. The Corporate Centre's responsibilities range from transparency in reporting and customer opinion polls to the design of modern employment models and selective management development. The timely integration of environmental protection into the bank's processes and the ability to engage in open dialogue with all social groups are also part of the management capacity required of the Corporate Centre at all times. All these tasks reflect Deutsche Bank Group's self-perception, corporate culture and corporate policy.

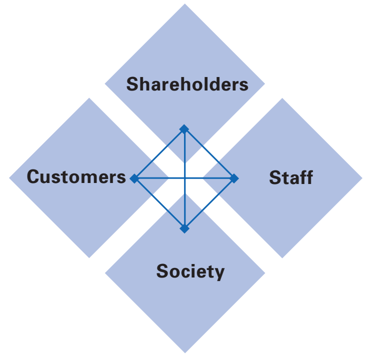
Value-driven corporate management

Value-driven management reflects the bank's responsibility towards shareholders to ensure its long-term growth in value and helps to safeguard the future of the bank. We moved towards this goal in the past financial year by developing and introducing a value-driven management concept. It supports the Group Divisions in optimizing the application of their resources and in measuring the return on the resources used. This value-based management approach aligns with the current demands of the capital market.

Strategic and operational planning

Strategic five-year planning and one-year operational planning are two elements of our value-driven management: first, a, discounted cash flow model supports the bank's strategic portfolio management at Group level. This makes it possible to analyze business activities for their share in Deutsche Bank's portfolio value and to assess how efficiently capital is being used. For periodic value-driven management, the model is supplemented by the concept of economic profit as the second key element. Economic profit measures operating profit after deduction of capital costs. Here, capital costs correspond to the yield which the shareholder could obtain from the alternative investment of the tied economic capital with the same risk on the capital market.

Serving a network of stakeholder interests: the "quartet"



The basic consensus between the four interest groups in their relations with the bank does not mean that each group's priorities are the same. But the bank depends on the entire quartet, just as the quartet's members depend on each other, and it must therefore satisfy the interests of all four groups. For only if cooperation works at all levels can we protect our leading market position and our earning power in the long run.

Basic consensus of interests

The network of relationships is complex, as just a few examples show: Deutsche Bank needs capital from shareholders to transact business and expand profitably. But capital can only be used profitably in the long term if customers are satisfied with the bank's offering. This, in turn, calls for excellent services which are not possible without motivated staff. Only if it fulfils all these requirements can Deutsche Bank raise the value of the company, as shareholders can rightly expect it to do. But business success, which is reflected in a high company value, makes jobs more competitive and hence safer. As diverse as the four groups' special interests may sometimes be, they ultimately coincide in most cases.

But a company like Deutsche Bank cannot reach its targets simply through good relations with shareholders, customers and staff. It must also enjoy acceptance by society. Acceptance is used here in a broad sense. It must include the readiness to uphold or create appropriate general conditions for worthwhile economic activity. In turn, Deutsche Bank is aware of its social responsibility and proves it in various ways: "Worldwide Young Researchers for the Environment", a competition supported by the bank, has mobilized young people beyond the boundaries of Europe for the cause of environmental protection. With Deutsche Guggenheim, a museum of high repute has been opened in Berlin. The Alfred Herrhausen Society promotes a dialogue on key social topics of our time in and outside the bank.

Quartet of Stakeholders – Basic Model

Shareholders

			1998	1997
Structural Data	Shareholders by group as % of share capital	Institutionals and corporates	63.6 %	63.6 %
		Employed persons and pensioners	21.8 %	20.3 %
		Self-employed	6.7 %	8.5 %
		Other private individuals	7.9 %	7.6 %
Key Figures	Change in value of Deutsche Bank share (total return)		**1998** -21.9 %	**1997** +80.5 %
	Share of Deutsche Bank equity in total stock market turnover in Germany		**1998** 6.6 %	**1997** 7.5 %
	Dividend yield (including tax credit)		**1998** 3.2 %	**1997** 2.0 %
Special Projects	Enhancement of segment information reporting	*Aim: to improve the relevance of reporting for shareholders.*		
	Shareholder survey at General Meeting	*Aim: to identify shareholders' ideas on form and content of the General Meeting.*		

Customers

			1998	1997
Structural Data	Customers in Group Division Retail and Private Banking* (Germany)	Retail Banking	6,947,039	6,793,478
		Private Banking	293,854	247,335
		Total	7,240,893	7,040,813
	Bank 24 customers		386,672	248,853
Key Figures			**1998**	**1996**
	Client satisfaction index for Retail Banking (Germany)**		70	66
	Client satisfaction index for Private Banking (Germany)**		76	69
			1998	**1996**
	Client loyalty index for Retail Banking (Germany)**		72	68
	Client loyalty index for Private Banking (Germany)**		81	76
Special Projects	Complaint management	*Aim: to use complaints for product and process improvements.*		
	Customer poll	*Aim: to determine client satisfaction, client loyalty and a suitable strategy in quality management. Customer polls take place every two years.*		

* This Division was chosen for its large number of customers. ** Rounded figures, on a scale of 0–100 points

Staff

			1998	1997
Structural Data	Education (Group)	University	32.6 %	32.5 %
		Highest school certificate*	32.8 %	32.7 %
		Other school certificates**	34.6 %	34.8 %
	Regional deployment (Group)	Total	75,306	76,141
		Germany	48,742	49,086
		Rest of Europe	15,478	14,512
		North America	4,971	4,696
		South America	425	1,542
		Africa	190	171
		Asia/Australia	5,500	6,134
Key Figures	Absentee rate (absences due to sickness in relation to standard working hours)		**1998** 2.7 %	**1997** 2.7 %
	Share of employees leaving the bank for a new job (in relation to annual average number of employees)		**1998** 5.7%	**1997** 5.0 %
	Expenses for training and advanced training in DM million (Group)		**1998** 394.5	**1997** 360.0
Special Projects	Polls on staff motivation	*Aim: to obtain feedback as the basis for Human Resources measures.*		
	Mosaic for employment	*Aim: to ensure the employability of our staff.*		
	Global Equity Plan	*Aim: to enhance executive remuneration model (APIPS*** for 1995–1997: DM 8.18, for 1996–1998: DM 8.12).*		

* Abitur, "A"Level, etc. ** Mittlere Reife, "O" Level, etc. *** Adjusted Pretax Income Per Share as reference figure for Global Equity Plan

Society

			1998	1997
Structural Data	Number of countries in which Deutsche Bank operates		66	60
Key Figures	Spending by Stiftungsfonds Deutsche Bank (in DM m.)		9.6	10.0
	Spending by Kultur-Stiftung der Deutschen Bank (in DM m.)		6.1	6.9
	Spending by Stiftung "Hilfe zur Selbsthilfe" (in DM m.)		10.5	6.9
Special Projects	Certification under DIN EN ISO 14001	*Aim: to integrate the Group Divisions' environmental activities into an environmental management system.*		

What cannot be measured, cannot be managed. This is the basic problem facing corporate management aspiring to go beyond business management ratios and use a strategic model which integrates not only the growth of value for shareholders, but also the expectations of customers, staff and society. Research and practice certainly offer no coherent approaches to translating what is known about the quartet's interests into a manageable quantitative model.

Basic model for realistic corporate management

However, a promising basic model can be obtained by combining older concepts such as social balance sheets and eco-audits with modern management methods, such as the balanced score card. It incorporates structural data, key figures and creative project-based measures for all stakeholders in the quartet. Transparency, for example, is a justified expectation of shareholders which we can try to fulfil with broader reporting of segment information and with shareholder-focused general meetings. To increase customer satisfaction, we have to know their wishes and respond quickly to their complaints. Employees' relationships with the bank, as reflected for example in absentee rates and job fluctuation, can be strengthened by flexible employment models and progressive development work. Social responsibility, finally, is shown, say, in an environment management system.

These examples highlight areas of possible conflict, but also opportunities deriving from mutually complementary interests. The model is not the solution to the problem. In its basic structure, though, it maps out the route we must follow to accommodate the quartet while managing the company in accordance with the dictates of reality.

Management Discussion

Deutsche Bank Group was successful in the 1998 financial year. Despite the financial crisis in the emerging markets in the third quarter and the turmoil on the international financial markets, operating profit improved slightly to DM 4.4 billion.

The net income for 1998 is influenced substantially by the extraordinary sector, both by income, in particular the special dividend from Daimler-Benz AG in the amount of DM 3.2 billion, and by negative factors.

The introduction of the euro and preparations for the year 2000 caused extraordinary expenses of DM 750 million in 1998. Furthermore, we have already expensed, in the 1998 financial year, the entire non-recurring expense of DM 445 million due to application of the new accounting principles (standard tables 1998) for the valuation of pension commitments.

In December 1998, we spun off most of the industrial holdings held by Deutsche Bank AG into separate subsidiaries. The transfers took place with no tax effect by way of contribution to newly founded partnerships. With this new structure, we hope to be able to manage our industrial holdings more actively and more flexibly. Of the undisclosed reserves in the shareholdings, roughly one-third was realized at Deutsche Bank AG through the transfer. These profits were eliminated in the Consolidated Financial Statements.

We propose for resolution by the General Meeting on May 17, 1999, that the distributable profit of Deutsche Bank AG be used to pay a dividend raised from DM 1.80 to DM 2.20 per share (DM 1.2 billion) and to add DM 2.1 billion to other revenue reserves.

Including imputable corporate tax of DM 0.94 per share, the total income for our domestic shareholders is DM 3.14 per share (1997: DM 2.57).

Income Statement
Regular income rises by DM 1.1 billion to DM 25.3 billion

We are satisfied with the development of income in the Group in 1998 under the given market conditions. Regular income, comprising net interest and commission income, net income from insurance business and trading profit, showed a good increase of more than DM 1 billion. The structure of income continued to shift in 1998 in favour of commission business, the contribution from which (DM 10.4 billion) clearly exceeded for the first time the contribution from interest business after risk provisioning

(DM 9.3 billion). The stronger accentuation of non-interest-rate-related business has special importance in times of a narrowing interest margin. The income contribution from traditional interest rate business fell to 43%, having been 61% in 1994.

Net interest income was 2.6% below the comparative figure for the previous year. The decrease is partly due to the sale of Deutsche Bank Argentina S.A., Buenos Aires, which contributed DM 130 million to Group net interest income in 1997. Exchange rate effects, at DM 90 million, also had a negative impact on net interest income. The overall interest margin continued to narrow due to weakening terms and conditions for lending. Net interest income of DM 0.8 billion attributable to trading activities is included in trading profit.

Taking into account the changed international risk situation, provision for losses on loans and advances required DM 1.5 billion, which is DM 0.7 billion or 31% less than in the previous year. The provision in the previous year had, however, been particularly burdened by risk provisioning for credit exposures in Asia. The addition of DM 107 million to the general value adjustment was required due to the growth in total credit extended. Total provisions for losses on loans and advances of DM 14.0 billion cover 2.9% of total credit extended.

Net interest income after provision for losses on loans and advances improved by 4.3% to DM 9.3 billion.

Write-offs taken for defaults in credit extended totalled DM 1.5 billion, which was DM 57 million less than in the previous year. These write-offs only represent a small burden on 1998 results, as the respective provisions had already been formed in the previous years. The default ratio (in relation to total credit extended) of 0.30% is the lowest since 1993.

Net commission income exceeded our expectations. We achieved a record result in 1998 at DM 10.4 billion (+DM 1.5 billion or +16.2%). Together with the growth of DM 2.1 billion in 1997, net commission income has risen more than 50% in the last two years. Commissions in credit processing and guarantee business, and especially in securities business and asset management, contributed to this considerable growth. Commissions in payments business, foreign commercial business and travel payment media did not quite match the previous year's figures.

Net income in insurance business increased by 8.1 % to DM 657 million.

The trading profit of DM 3.5 billion almost equalled the pre-year figure. After the drop in the third quarter of 1998, income stabilized in the fourth quarter. The turmoil in the international financial markets had a negative impact on emerging markets business. On the other hand, trading in OTC interest rate derivatives/swaps and foreign exchange developed very successfully. Equities trading again made a substantial contribution to trading profit following the successful integration of the business acquired from the British NatWest Markets.

General administrative expenses rose 8.3 % in 1998 to DM 19.8 billion (1997: +20.8 %). While the growth rate in the first half of 1998 was still a good 10 %, it fell to 5.9 % in the second half. The measures initiated in 1998 to restructure the Group are beginning to take effect and will lead to cost savings. Of the provision for restructuring formed in the 1997 financial statements, DM 0.7 billion was used for personnel and infrastructure measures. The remaining portion of this provision of DM 1.1 billion will continue to be used to carry out the outstanding measures of this strategic program.

The 9.8 % rise in staff expenses is due largely to bonus payments and to the increased addition to the pension provision. The annual average number of staff in the Group fell 0.5 % to 67,578. In the German part of the Group, the number of employees fell by 1.7 % compared with an increase of 1.5 % abroad, which was mainly due to the integration of staff from NatWest Markets.

Other administrative expenses rose 10.0% to DM 6.2 billion. This reflects the investments in information technology and also the additional expenses for advertising and customer communications.

Due to the fall in trading profit in the third quarter of 1998, the cost increase for the full year could not be balanced out by the rise in income. Consequently, the cost/income ratio, i.e. the percentage ratio between general administrative expenses and regular income, deteriorated to 78.1 %. We are seeking a long-term improvement in this figure through cost savings and higher income.

The net profit from investments was DM 2.3 billion. This includes the profit from the sale of our shares in Hapag-Lloyd AG, Hamburg/Bremen, and income from the revaluation of Allianz shares, which are now the responsibility of our trading section. These shares serve as cover stocks for outstanding exchangeable bonds, particularly for the 2 % bond for EUR 1.8 billion issued in 1998.

We reported expenses for the introduction of the euro and preparations for the year 2000 in the extraordinary sector so as not to impair the comparability of operating profit. This applies equally to the non-recurring expense from application of the new accounting principles (standard tables 1998) for the valuation of pension commitments.

Net income before tax was DM 7.9 billion. This result, which was DM 5.8 billion above the previous year and is due partly to special income, was generated, for the most part, in Germany. Owing to the high tax burden of 56.7 % in Germany on retained profits, the total tax burden is DM 4.5 billion. This leaves net income of DM 3.4 billion. Earnings per share are DM 6.34 after DM 1.97 in the previous year; the return on equity before tax also increased strongly from 6.4 % to 24.8 %.

All Group Divisions achieved an improvement of their performance after risk against the comparative figures of the previous year. The highest contributions to profit were made by Corporates and Real Estate, at DM 2,270 million (+ 19 %), and Global Corporates and Institutions, at

DM 2,155 million (+17%). Asset Management recorded an above-average increase of 27% in performance after risk to DM 924 million.

Total assets DM 1.2 trillion

Total assets in the Group rose by DM 182.6 billion (+17.5%) in 1998. Most of this volume growth occurred in the first half of 1998. In the second half, the expansion was restricted to DM 10 billion (+0.8%).

The growth rate in risk-weighted positions according to BIS (risk-weighted assets and market risk positions) was much lower in 1998, at 8.9%. We used the instrument of asset backed securities in order to reduce risk-weighted assets, and thus create room for new business and internal growth.

Assets held for dealing purposes rose through the increase in holdings of fixed-income securities (+DM 49.4 billion) and of shares and other variable-yield securities (+DM 34.6 billion) to DM 330.5 billion; they account for 27% (1997: 22%) of total assets.

Total credit extended rose by DM 38.3 billion to DM 486.2 billion. The 8.5% growth is roughly equal to the previous year, with more than half coming from higher borrowings by companies and financial institutions.

Deposits from other banks increased strongly by DM 85.2 billion (+29.7%), one-half repayable on demand and one-half at term. Amounts owed to other depositors rose to DM 451.5 billion (+DM 12.9 billion).

We made greater use of funding through issued bonds and money market paper. As a result, promissory notes and other liabilities evidenced by paper increased by DM 48.9 billion to DM 201.3 billion.

The market value of holdings of listed securities held as financial fixed assets totalled DM 98.7 billion. Compared with a respective total book value of DM 61.0 billion, this leaves a price reserve of DM 37.7 billion, which is DM 5.4 billion higher than at the end of 1997.

Capital and reserves were strengthened by the higher Group profit to DM 34.5 billion (+DM 2.4 billion).

Balance Sheet of Deutsche Bank Group

Assets in millions of DM	(Notes)	31.12.1998	31.12.1997	Change in %	€ 31.12.1998 millions of euro
Cash reserve	(14)	39,459	20,091	+ 96.4	20,175
Placements with, and loans and advances to, other banks	(3, 15)	181,300	162,418	+ 11.6	92,697
Loans and advances to customers	(3, 16)	537,510	518,486	+ 3.7	274,825
Total provisions for losses on loans and advances	(4, 19)	– 14,000	– 14,036	– 0.3	– 7,158
Assets held for dealing purposes	(5, 20)	330,542	231,578	+ 42.7	169,003
Investments	(6, 21)	88,617	66,717	+ 32.8	45,309
Property and equipment	(7, 22)	11,427	11,530	– 0.9	5,843
Insurance companies' capital investments	(23)	32,698	28,142	+ 16.2	16,718
Other assets	(24)	17,977	18,038	– 0.3	9,191
Total Assets		**1,225,530**	**1,042,964**	**+ 17.5**	**626,603**

Liabilities in millions of DM	(Notes)	31.12.1998	31.12.1997	Change in %	€ 31.12.1998 millions of euro
Deposits from other banks	(9, 27)	371,955	286,786	+ 29.7	190,178
Amounts owed to other depositors	(9, 28)	451,537	438,614	+ 2.9	230,867
Promissory notes and other liabilities evidenced by paper	(9, 29)	201,347	152,441	+ 32.1	102,947
Liabilities from dealing activities	(10, 30)	79,700	57,061	+ 39.7	40,750
Provisions	(11, 31)	56,568	51,617	+ 9.6	28,923
Other liabilities	(32)	15,339	10,815	+ 41.8	7,842
Subordinated capital	(33)	14,055	12,937	+ 8.6	7,186
Minority interests		527	607	– 13.2	269
Capital and reserves	(34)	34,502	32,086	+ 7.5	17,641
Subscribed capital		2,665	2,657	+ 0.3	1,363
Capital reserve		14,209	13,993	+ 1.5	7,265
Retained earnings		14,342	14,480	– 1.0	7,333
Consolidated profit		3,286	956		1,680
Total Liabilities		**1,225,530**	**1,042,964**	**+ 17.5**	**626,603**

Income Statement of Deutsche Bank Group

Income Statement in millions of DM	(Notes)	1.1. - 31.12. 1998	1.1. - 31.12. 1997	Change in %	€ 1.1. - 31.12.1998 millions of euro
Interest and similar income		54,620	48,949	+ 11.6	27,927
Interest expenses and similar charges		43,787	37,822	+ 15.8	22,388
Net interest income	(35)	**10,833**	**11,127**	– **2.6**	**5,539**
Provision for losses on loans and advances	(19, 36)	1,525	2,205	– 30.8	780
Net interest income after provision for losses on loans and advances		**9,308**	**8,922**	+ **4.3**	**4,759**
Fee and commission income		11,699	10,344	+ 13.1	5,982
Fee and commission expense		1,312	1,407	– 6.8	671
Net commission income	(37)	**10,387**	**8,937**	+ **16.2**	**5,311**
Gains less losses arising from dealing activities (trading profit)	(38)	**3,469**	**3,601**	– **3.7**	**1,774**
Net income from insurance business	(39)	**657**	**608**	+ **8.1**	**336**
General administrative expenses	(40)	**19,794**	**18,281**	+ **8.3**	**10,121**
Balance of other operating income/expenses	(41)	350	577	– 39.3	179
Operating profit		**4,377**	**4,364**	+ **0.3**	**2,238**
Balance of other income/expenses	(42)	3,508	– 2,321		1,794
Net income before tax		**7,885**	**2,043**		**4,032**
Income taxes	(43)	4,509	1,024		2,306
Net income		**3,376**	**1,019**		**1,726**

Appropriation of net income in millions of DM	(44)	1998	1997	€ 1998 millions of euro
Net income		3,376	1,019	1,726
Profit attributable to minority interests		74	67	38
Loss attributable to minority interests		4	4	2
Addition to retained earnings		20	–	10
Consolidated profit		**3,286**	**956**	**1,680**

Earnings per share figures in DM	(45)	1998	1997	€ 1998 euro
Earnings per share		6.34	1.97	3.24
Diluted earnings per share		6.33	1.92	3.24

Cash Flow Statement of Deutsche Bank Group

Cash Flow Statement in millions of DM *(Note 46)*	1998	1997
Net income	**3,376**	1,019
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	7,840	11,477
Change in other non-cash positions	7,624	– 2,087
Profit from the sale of investments, property and equipment	– 395	– 1,184
Other adjustments (net)	– 10,229	– 9,811
Sub-total	**8,216**	– 586
Change in assets and liabilities from operating activities after correction for non-cash components		
Amounts receivable	– 39,701	– 83,162
Securities held for dealing purposes	– 84,093	– 57,146
Other assets from operating activities	409	– 4,806
Liabilities	97,512	138,328
Promissory notes and other liabilities evidenced by paper	48,617	11,031
Other liabilities from operating activities	4,497	– 2,016
Interest and dividend receipts	54,620	48,949
Interest payments	– 43,787	– 37,822
Extraordinary proceeds	3,231	30
Extraordinary payments	– 1,580	– 577
Income tax payments	– 2,255	– 1,686
Net cash provided by operating activities	**45,686**	**10,537**
Proceeds from the sale of		
investments	23,206	26,081
property and equipment	1,289	461
Payments for the acquisition of		
investments	– 43,204	– 35,680
property and equipment	– 3,343	– 4,028
Effects of the change in the group of companies included in consolidation	10	– 307
Other investing activities (net)	– 4,556	– 3,819
Net cash used by investing activities	**– 26,598**	**– 17,292**
Proceeds from the issuance of shares	224	1,948
Dividends paid	– 956	– 900
Other financing activities (net)	1,118	2,512
Net cash provided by financing activities	**386**	**3,560**

Cash and cash equivalents at end of previous period	**20,091**	**23,157**
Net cash provided by operating activities	45,686	10,537
Net cash used by investing activities	– 26,598	– 17,292
Net cash provided by financing activities	386	3,560
Effects of exchange rate changes on cash and cash equivalents	– 106	129
Cash and cash equivalents at end of period	**39,459**	**20,091**

Notes

The Consolidated Financial Statements of Deutsche Bank for the 1998 financial year are in accordance with the International Accounting Standards (IAS) and thus fulfil the conditions of § 292a German Commercial Code for exemption from preparation of consolidated financial statements in accordance with German commercial law. Moreover, the disclosure requirements of the European Union are satisfied.
The figures in these Consolidated Financial Statements in accordance with IAS are expressed in millions of DM for reasons of clarity.

Accounting and valuation principles

There are appreciable differences between consolidated financial statements in accordance with the International Accounting Standards and consolidated financial statements according to the German Commercial Code. Consolidated financial statements according to IAS offer far greater transparency, leading to significantly greater business management relevance.

The IAS reporting rules are issued by the International Accounting Standards Committee (IASC), a voluntary, private association comprising well over 100 business associations from over 80 countries which deal with reporting issues. The IASC is thus the most important institution dealing with the global harmonization of external reporting.

The IAS are based on an accounting objective that is fundamentally different from the German Commercial Code. It is the supply of relevant information to a broader set of interested parties, in particular investors. The usefulness of information for economic decision-making is paramount. The principles of full information and periodic profit calculation are of central importance.

Consolidated financial statements according to IAS are governed by the basic principles of clarity, relevance, comparability and reliability. The principle of the supply of reliable information is applied through the preparation of accurate, objective, prudent and complete data. Accordingly, consolidated financial statements according to IAS give true international comparability.

In contrast to German reporting, the idea of creditor protection is served through transparent and economically relevant information rather than through conservative accounting and valuation rules which tend to understate assets and also permit the formation of undisclosed reserves. Purely tax-induced values are not allowed according to IAS. Owing to the different objectives of the IAS, they at times require different accounting and valuation methods or different reporting within the consolidated financial statements.

Differences between the consolidated financial statements according to IAS and German reporting are detailed in the Reconciliation Notes on page 100.

(1) Companies included in consolidation

The Consolidated Financial Statements included, besides Deutsche Bank AG, 134 domestic enterprises (1997: 107) and 280 foreign enterprises (1997: 280). 34 domestic enterprises and 15 foreign enterprises were consolidated for the first time; 7 domestic enterprises and 15 foreign enterprises were excluded from the group of consolidated companies.

The enterprises consolidated for the first time are the newly founded subsidiary

– Deutsche Bank OOO, Moscow

as well as

– BOJA Beteiligungs Aktiengesellschaft, Frankfurt am Main,
– KARU Beteiligungsgesellschaft mbH, Frankfurt am Main, and 16 limited partnerships (sub-holding firms).

Further newly consolidated companies were
– DB Investments (AXM) Ltd, London,
– DB Overseas Finance Deutschland Aktiengesellschaft, Eschborn,
– DBS Technology Ventures L.L.C., Wilmington,
– DB Vita Compagnia de Assicurazioni e Riassicurazioni sulla Vita S.p.A., Milan,
– DEUBA Verwaltungsgesellschaft mbH, Frankfurt am Main,
– Deutsche Vermögensbildungsgesellschaft mbH, Bad Homburg v.d.H.

Within the sub-group Deutsche Morgan Grenfell Group, there were additions of 10 and disposals of 9 companies. Furthermore, 14 companies of Deutsche Immobilien Leasing GmbH, Düsseldorf, were consolidated for the first time; 9 companies of Deutsche Immobilien Leasing GmbH, Düsseldorf, were excluded from the group of consolidated companies.

The following companies were also excluded from consolidation:

– DB Finanziaria S.p.A., Milan,
– Deutsche Bank Argentina S.A., Buenos Aires,
– Deutsche Morgan Grenfell Paris S.A., Paris.

Lübecker Hypothekenbank Aktiengesellschaft, Lübeck, was merged with retroactive effect as at January 1, 1998, with Frankfurter Hypothekenbank Centralboden Aktiengesellschaft, Frankfurt am Main, which was renamed EUROHYPO Aktiengesellschaft, Europäische Hypothekenbank der Deutschen Bank, Frankfurt am Main.

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 571 domestic and foreign related companies were not consolidated; their share in aggregated total assets of the Group is roughly 0.3 %. A further 127 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 DBG Osteuropa-Holding GmbH, Frankfurt am Main, and Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main. In addition, the formerly fully consolidated Deutsche Morgan Grenfell & Partners Securities Pte. Ltd., Singapore, is now valued at equity following the sale of 51 % of the shares. A total of 16 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, 30 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 140.

(2) Principles of consolidation

Capital consolidation is carried out using the book value method. For companies consolidated for the first time in 1998, 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, are not offset.

(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 four 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

Provisions for losses on loans and advances comprise 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 credits 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 default risk in lending business 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. Assets held for dealing purposes and liabilities from dealing activities are netted if there is an enforceable netting right and the netting reasonably reflects expectations of actual future cash flows.

(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	5 or 15

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

Software developed in-house is reported if the bank is likely to derive an economic benefit from it and production costs can be determined in reliable measure. Software is amortized on a straight-line basis over the probable useful life of 3 to 5 years.

Goodwill from corporate acquisitions is amortized on a straight-line basis over the probable useful life of 15 years. If goodwill stems from economically separate business units acquired, it is amortized on a straight-line basis over 5 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 recur regularly and do not change the nature of the asset.

(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 for the lessee.

The Group as lessor …
… finance lease

In accordance with the IAS, finance lease is involved if nearly all risks and rewards incident to ownership of an asset are transferred to the lessee. For the lessor, a claim vis-à-vis the lessee is reported in the amount of the present values of the contractually agreed payments, taking into account any residual values.

… operating lease

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) Liabilities from dealing activities

All dealing activities are reported at fair values. Liabilities from dealing activities include negative market values from derivative financial instruments if these are not netted with assets held for dealing purposes.

(11) 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

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

(12) Deferred taxes

As from the 1998 reporting year, the revised standard governing income taxation is to be applied when computing deferred taxes. The previous – earnings-related – timing concept is replaced by the balance sheet-related temporary concept which compares the carrying amounts of assets and liabilities with the tax bases relevant for the respective Group company. Differences in these valuations lead to temporary differences in value for which – regardless of the date of their release – deferred tax claims or deferred tax obligations must be formed. Deferred taxes are computed according to the liability method using future tax rates applicable in the specific countries. Deferred tax claims are netted against deferred tax obligations if income taxes are collected by the same tax office.

(13) 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). The impact of exchange rate fluctuations on major positions of the income statement is set forth in the Notes. Translation profits and losses from capital consolidation are offset with retained earnings. Translation of goodwill is effected at the exchange rate as at the time of acquisition. Translation profits and losses resulting from the consolidation of debts, expenses and income are treated neutrally for profit purposes.

Information on the Balance Sheet of the Group

(14) Cash reserve

The cash reserve of the Group was composed as follows:

in DM m.	31.12.1998	31.12.1997
Cash on hand and balances with central banks	6,631	8,932
Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks	32,828	11,159
Treasury bills, discountable Treasury notes and similar debt instruments of public-sector entities	17,234	6,746
Bills of exchange	15,594	4,413
Total	**39,459**	**20,091**

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

Analysis of loans and advances by customer group and type of credit:

in DM m.	Domestic banks 31.12.1998	Domestic banks 31.12.1997	Foreign banks 31.12.1998	Foreign banks 31.12.1997
Current/clearing accounts	6,243	4,306	36,987	27,797
Money market	10,649	9,202	95,063	94,932
Loans and advances	16,291	11,142	16,067	15,039
Total	**33,183**	**24,650**	**148,117**	**137,768**
thereof:				
reverse repos	7,472	1,727	68,635	66,264

(16) Loans and advances to customers

in DM m.	31.12.1998	31.12.1997
Domestic customers	290,252	273,737
Enterprises and financial institutions	116,489	109,847
Retail and private clients	127,434	118,206
Public sector	45,501	45,018
Other	828	666
Foreign customers	247,258	244,749
Enterprises and financial institutions	224,369	223,177
Retail and private clients	12,672	11,828
Public sector	9,314	9,229
Other	903	515
Total	**537,510**	**518,486**
thereof:		
reverse repos	83,188	105,311
mortgage banks' mortgage loans	50,106	45,044
loans to public-sector entities	55,376	56,386
other claims secured by mortgage charges	54,461	49,112

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

in DM m.	Related companies 31.12.1998	Related companies 31.12.1997	Companies with which a participation relationship exists 31.12.1998	Companies with which a participation relationship exists 31.12.1997
Loans and advances to banks	19	2	538	302
Loans and advances to customers	4,214	1,982	2,693	2,592
Other assets of the insurance companies	41	31	–	–

(17) Discounts

(unless reported under loans and advances)

in DM m.	31.12.1998	31.12.1997
Domestic customers	**3,728**	**4,438**
Enterprises and financial institutions	3,461	4,204
Banks	267	234
Foreign customers	**287**	**4,122**
Enterprises and financial institutions	163	3,878
Retail and private clients	–	13
Banks	122	231
Other	2	–
Total	**4,015**	**8,560**

(18) Total credit extended

At year's end 1998, total credit extended by the Group amounted to DM 486.2 billion (1997: DM 447.9 billion) and was made up as follows:

in DM m.	31.12.1998	31.12.1997
Loans and advances to customers*	449,817	413,175
Discounts**	4,015	8,560
Placements with, and loans and advances to, other banks	32,358	26,181
Total	**486,190**	**447,916**

* excl. reverse repos, cash collateral and securities spot deals
** unless reported under loans and advances, excl. banker's acceptances

Of total credit extended, DM 309.9 billion (1997: DM 289.3 billion) or 63.7 % related to domestic borrowers and DM 176.3 billion (1997: DM 158.6 billion) or 36.3 % to foreign borrowers.

Leasing business

Total credit extended included finance leases totalling DM 6,475 million (1997: DM 6,504 million). The gross investment in leases reported as finance leases was DM 7,683 million (1997: DM 7,920 million) and the related unearned finance income was DM 1,208 million (1997: DM 1,416 million).

(19) Total provisions for losses on loans and advances

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

in DM m.	Creditworthiness risks 1998	Creditworthiness risks 1997	Country risks 1998	Country risks 1997	Latent risks (general value adjustment) 1998	Latent risks (general value adjustment) 1997	Total 1998	Total 1997
As at 1.1.	**11,261***	**11,174**	**1,471**	**1,030**	**1,187****	**998**	**13,919**	**13,202**
Additions								
formed to the debit of P&L	3,171	3,581	601	604	107	197	3,879	4,382
Deductions								
write-offs	1,352	1,407	103	105	–	–	1,455	1,512
released to the credit of P&L	1,979	2,017	304	59	–	–	2,283	2,076
Difference from currency translation	– 50	+ 29	0	+ 1	– 10	+ 10	– 60	+ 40
As at 31.12.	**11,051**	**11,360**	**1,665**	**1,471**	**1,284**	**1,205**	**14,000**	**14,036**

* after adjustment of DM 99 million owing to change in group of consolidated companies
** after adjustment of DM 18 million owing to change in group of consolidated companies

Analysis of total provisions for losses on loans and advances

Total provisions for losses on loans and advances of DM 14,000 million (1997: 14,036 million) were divided up as follows:

in DM m.	31.12.1998	31.12.1997
Placements with, and loans and advances to, other banks	1,148	846
Loans and advances to customers	11,587	11,642
Discounts (unless reported under loans and advances)	9	5
Other positions (endorsement liabilities, guarantees, letters of credit, etc.)	1,256	1,543

The loan portfolio included non-accruing value-adjusted exposures in the amount of DM 6.1 billion (1997: DM 5.6 billion).

(20) Assets held for dealing purposes

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

in DM m.	31.12.1998	31.12.1997
Bonds and other fixed-income securities	**205,192**	**155,773**
Money market instruments	15,527	8,136
Bonds and notes issued by		
public-sector issuers	101,626	109,863
other issuers	88,039	37,774
thereof: own bonds	4,208	1,762
including:		
securities eligible for stock exchange listing	205,192	155,773
thereof: listed	184,502	134,519
Equity shares and other variable-yield securities	**48,813**	**14,261**
Equity shares	47,661	11,733
Investment certificates	578	584
Other	574	1,944
including:		
securities eligible for stock exchange listing	48,537	14,099
thereof: listed	47,927	13,234
Positive market values from derivative financial instruments	**76,122**	**60,756**
Other assets held for dealing purposes	**415**	**788**
Total	**330,542**	**231,578**

The current replacement costs for derivatives transactions from dealing activities still outstanding amounted to DM 152.4 billion as at year's end (1997: DM 109.1 billion).

Taking into account enforceable netting agreements in the amount of DM 76.3 billion (1997: DM 48.3 billion), the positive market values from derivative financial instruments amounted to DM 76.1 billion (1997: DM 60.8 billion).

(21) Investments

The position Investments, reported at DM 88,617 million (1997: DM 66,717 million), included 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 1.1.1998	1,150	1,805	46,238	17,863	932
exchange rate changes	– 21	– 4	– 248	– 18	– 2
additions	761	102	35,172	4,991	2,178
transfers	0	5	–	0	– 5
disposals	78	284	18,441	1,769	160
as at 31.12.1998	1,812	1,624	62,721	21,067	2,943
Write-ups in the reporting year	–	–	0	–	–
Cumulative changes from valuation at equity		– 373			
Write-downs					
as at 1.1.1998	198	–	144	418	131
exchange rate changes	– 3	–	+ 1	0	0
current write-downs	28	–	173	28	109
transfers	–	–	–	–	–
disposals	1	–	19	28	2
as at 31.12.1998	222	–	299	418	238
Book values					
as at 31.12.1997	952	1,425	46,094	17,445	801
as at 31.12.1998	1,590	1,251	62,422	20,649	2,705
including:					
securities eligible for stock exchange listing	–	–	62,422	7,730	–
securities listed on the stock exchange	–	–	50,455	6,682	–

Of the shares in non-consolidated related companies, DM 70 million related to shares in banks. Other investments included equity investments in the amount of DM 5,982 million, of which DM 1,258 million was in banks.

The cumulative changes from valuation at equity included the balance of proportionate retained earnings and losses as well as dividends of DM 7 million in 1998.

Syndication commitments amounted to DM 21 million (1997: DM 36 million). Over and above that, there were no restrictions on disposal or on the receipt of income from disposal.

The non-consolidated related companies, associated companies and other major shareholdings of 20 % or more are shown in the list of shareholdings after the consolidated companies. The list of shareholdings is deposited with the Commercial Register in Frankfurt am Main, but can also be ordered free of charge using the form on page 140.

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

	Share of capital in % 31.12.1998
AIH Agrar-Industrie-Holding GmbH	25.0
CONSORTIA Versicherungs-Beteiligungsgesellschaft mbH	30.0
DBG Osteuropa-Holding GmbH	50.0
DBG Vermögensverwaltungsgesellschaft mbH	45.0
Deutsche Beteiligungsgesellschaft Fonds III GmbH	33.3
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
Deutsche Morgan Grenfell & Partners Securities Pte. Ltd.	49.0
Energie-Verwaltungs-Gesellschaft mbH	25.0
GROGA Beteiligungsgesellschaft mbH	33.3
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 were made up as follows:

in DM m.	31.12.1998	31.12.1997
Bonds and other fixed-income securities	**62,422**	**46,094**
Money market instruments	4,891	2,260
Bonds and notes issued by		
public-sector issuers	18,105	15,712
other issuers	39,426	28,122
thereof: own bonds	6,471	3,917
Equity shares and other variable-yield securities	**20,649**	**17,445**
Equity shares	9,000	6,724
Investment certificates	11,518	10,626
Other	131	95
Total	**83,071**	**63,539**

Information on price reserves

The market value of securities listed on the stock exchange (including securities held by intermediary holding companies) totalled DM 98.7 billion. This amount resulted from the market values of shares in non-banking enterprises of DM 45.7 billion (see table below), other shareholdings of DM 2.3 billion – mostly less than 5 % – and bonds and other fixed-income securities of DM 50.7 billion. The corresponding book values were DM 50.5 billion for bonds and DM 10.0 billion for equity shares as well as DM 0.5 billion for intermediary holding companies, resulting in a price reserve of DM 37.7 billion (1997: DM 32.3 billion).

Significant shareholdings in the non-banking sector …

With regard to significant shares held by Deutsche Bank Group 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 were as follows:

… listed companies

	Share of capital in %	Market value 31.12.1998 in DM m.
Allianz AG*	9.3	13,891
BHS tabletop AG	28.9	22
Continental AG	8.4	445
DaimlerChrysler AG	12.0	19,732
Deutsche Beteiligungs AG Unternehmensbeteiligungsgesellschaft	15.0	94
Deutz AG	25.8	240
Fuchs Petrolub AG** (Share in voting capital 5.8 %)	7.7	30
Heidelberger Zement AG	10.1	630
Philipp Holzmann AG***	20.9	310
Leonische Drahtwerke AG	6.3	20
Linde AG	10.1	855
Metallgesellschaft AG	13.0	480
Münchener Rückversicherungs-Gesellschaft AG (Share in voting capital 9.9 %)	10.0	7,114
Nürnberger Beteiligungs-AG**	26.3	631
Phoenix AG	10.0	47
Südzucker AG (Share in voting capital 12.9 %)	10.1	396
VEW AG (Share in voting capital 3.9 %)	6.3	633
Vossloh AG**	8.2	58
WMF Württembergische Metallwarenfabrik AG** (Share in voting capital 14.4 %)	9.6	40
Total		**45,668**
DIVACO AG & Co. KG (Share in voting capital 19.4 %)	38.9	
Gerling-Konzern Versicherungs-Beteiligungs-AG (Share in voting capital 24.9 %)	30.0	
Mannesmann Arcor AG & Co. KG	7.5	

… unlisted companies

* including shares held in trading stock
** partly insurance companies' capital investments
*** partly sold in January 1999; new share in capital 15.1 %

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

(22) Property and equipment

in DM m.	Land and buildings	Office furniture and equipment	Leasing equipment
Cost of acquisition/ manufacture			
as at 1.1.1998	5,981	6,795	4,691
effects of exchange rate changes	– 31	– 111	– 7
additions	267	1,624	1,452
transfers	+ 30	–	– 30
disposals	500	902	1,338
as at 31.12.1998	5,747	7,406	4,768
Write-ups in the reporting year	–	0	0
Depreciation			
as at 1.1.1998	884	3,192	1,861
effects of exchange rate changes	– 5	– 40	– 2
current depreciation	188	1,206	807
transfers	+ 3	–	– 3
disposals	44	594	959
as at 31.12.1998	1,026	3,764	1,704
Book values			
as at 31.12.1997	5,097	3,603	2,830
as at 31.12.1998	4,721	3,642	3,064

Office furniture and equipment included DM 554 million (1997: DM 435 million) in capitalized development costs; in the financial year, DM 212 million (1997: DM 214 million) was written off according to schedule.

Land and buildings with a book value totalling DM 3,400 million (1997: DM 3,600 million) were used within the scope of our own activities.

Rental income from property and equipment amounted to DM 115 million (1997: DM 104 million) in the financial year.

Prepayments of DM 32 million (1997: DM 198 million) were made for property and equipment.

Insurance companies' capital investments were made up as follows:

(23) Insurance companies' capital investments

in DM m.	Balance sheet value 31.12.1997	Additions	Transfers	Disposals	Write-ups	Write-downs	Balance sheet value 31.12.1998
Land and buildings	1,357	30	–	4	–	44	1,339
Participating interests and shares in related companies	263	2	–	7	–	–	258
Equity shares, investment certificates and other variable-yield securities	7,014	4,249	–	1,444	112	158	9,773
Bearer bonds and other fixed-income securities	1,824	2,896	–	2,287	2	7	2,428
Registered bonds, Schuldschein claims and loans*	12,670	5,171	–	4,082	–	–	13,759
Claims from mortgages, land charges and annuity land charges	3,109	1,770	–	1,786	–	1	3,092
Deposits with banks	158	428	–		–	–	586
Other	2,333	231	–	399	192	1	2,356
Total	**28,728**	**14,777**		**10,009**	**306**	**211**	**33,591**
Offsetting	– 599						– 893
Capital investments after offsetting	**28,129****						**32,698**

*including loans to related companies
**after adjustment of DM 13 million due to exchange rate movements

The insurance companies' capital investments included placements with consolidated related companies in the sum of DM 769 million (1997: DM 907 million). The offsetting related largely to registered securities not eligible for stock market listing and shares in consolidated companies.

(24) Other assets

in DM m.	31.12.1998	31.12.1997
Intangible assets	2,878	2,990
Tax claims	6,073	1,742
Sundry assets	4,217	9,653
Other assets of the insurance companies	1,858	1,610
Deferred items	2,951	2,043
Total	**17,977**	**18,038**

Intangible assets

The following table shows the development of intangible assets:

in DM m.	As at 1.1.1998	Effects of exchange rate changes	Additions	Disposals	As at 31.12.1998
Cost of acquisition/ manufacture	4,136	– 6	243	–	4,373
Depreciation	1,146	– 1	350*	–	1,495
Book value	**2,990**				**2,878**

*current depreciation

Intangible assets included goodwill in the amount of DM 2,830 million (1997: DM 2,959 million).

The additions to intangible assets relating to the cost of acquisition/manufacture included in particular the goodwill from the acquisition of the equity derivatives business of NatWest and the remaining 49 % in Bain Unit Trust, Sydney.

Tax claims

in DM m.	31.12.1998	31.12.1997
Actual taxes	3,237	1,742
Deferred taxes	2,836	–
Total	**6,073**	**1,742**

The deferred tax claims are stated after having been offset against the respective deferred tax obligations. Deferred tax claims for 1997 would be DM 2,479 million under the revised standard.

Before the offsetting, the deferred tax claims were spread over the following positions:

in DM m.	31.12.1998	31.12.1997
Investments	305	552
Property and equipment	470	546
Finance leasing	2,891	3,277
Other assets	173	211
Tax losses carried forward	1,072	422
Provisions for losses on loans and advances	351	355
Pension provisions	1,418	1,057
Other provisions	766	810
Mark to market valuation	328	1,059
Sundry liabilities	516	578
Deferred tax claims (gross)	**8,290**	**8,867**

No deferred taxes were stated for the DM 421 million in tax losses carried forward for no fixed period because, in our current estimation, the resulting tax benefit is unrealizable. New information in future financial years may require the deferred tax claims to be adjusted accordingly.

Sundry assets

Sundry assets contain option premiums, unless attributable to trading business, 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.

(25) Subordinated assets

in DM m.	31.12.1998	31.12.1997
Placements with, and loans and advances to, other banks	9	16
Loans and advances to customers	643	739
Bonds and other fixed-income securities	430	28
Equity shares and other variable-yield securities	28	33
Insurance companies' capital investments	1,085	1,190

(26) Business subject to repurchase agreements

As at December 31, 1998, the book value of assets reported in the Balance Sheet and sold subject to a repurchase agreement amounted to DM 62,199 million (1997: DM 48,643 million).

(27) Deposits from other banks

Composition of liabilities by customer group:

as at 31.12. in DM m.	Domestic banks 1998	1997	Foreign banks 1998	1997
Repayable on demand	22,002	16,450	173,450	136,755
With agreed period or period of notice	40,159	30,896	136,344	102,685
Total	**62,161**	**47,346**	**309,794**	**239,440**

Deposits from other banks included registered mortgage Pfandbriefe in issue in the amount of DM 1,781 million (1997: DM 1,908 million), registered public-sector Pfandbriefe in issue in the amount of DM 1,231 million (1997: DM 1,366 million) and repos in the amount of DM 46,379 million (1997: DM 52,719 million).

(28) 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 1998	1997	Savings deposits: with agreed period of notice of more than three months 1998	1997	Building saving deposits 1998	1997
Domestic customers	**14,030**	**14,996**	**25,192**	**22,695**	**4,117**	**4,015**
Enterprises and financial institutions	21	28	35	31	88	85
Retail and private clients	13,946	14,895	24,902	22,435	3,987	3,881
Public sector	5	4	11	21	37	43
Other	58	69	244	208	5	6
Foreign customers	**1,885**	**2,482**	**2,686**	**2,509**	**39**	**33**
Enterprises and financial institutions	0	0	1	3	0	0
Retail and private clients	1,883	2,340	2,674	2,500	39	33
Public sector	1	0	1	1	–	–
Other	1	142	10	5	–	–
Total	**15,915**	**17,478**	**27,878**	**25,204**	**4,156**	**4,048**

Other liabilities

as at 31.12. in DM m.	Other liabilities repayable on demand 1998	1997	with agreed period or period of notice 1998	1997
Domestic customers	**59,234**	**52,877**	**84,902**	**91,126**
Enterprises and financial institutions	32,828	29,422	56,892	62,524
Retail and private clients	24,951	22,247	24,060	25,380
Public sector	554	474	1,545	1,629
Other	901	734	2,405	1,593
Foreign customers	**114,346**	**125,613**	**145,106**	**122,268**
Enterprises and financial institutions	102,219	113,021	122,583	99,966
Retail and private clients	10,302	10,856	13,705	14,487
Public sector	1,454	1,113	8,480	6,584
Other	371	623	338	1,231
Total	**173,580**	**178,490**	**230,008**	**213,394**

Amounts owed to other depositors included registered mortgage Pfandbriefe in issue in the amount of DM 15,747 million (1997: DM 15,596 million), registered public-sector Pfandbriefe in issue in the amount of DM 10,605 million (1997: DM 10,427 million) and repos in the amount of DM 86,765 million (1997: DM 79,539 million).

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

as at 31.12. in DM m.	Related companies 1998	1997	Companies with which a participation relationship exists 1998	1997
Deposits from other banks	45	48	963	121
Amounts owed to other depositors	766	415	1,546	2,238
Liabilities evidenced by paper	–	10	–	–
Other liabilities of the insurance companies	21	12	–	–

(29) Liabilities evidenced by paper

in DM m.	31.12.1998	31.12.1997
Bonds in issue	125,640	106,693
Money market instruments in issue	63,839	36,624
Own acceptances and promissory notes in circulation	1,494	889
Other	10,374	8,235
Total	**201,347**	**152,441**
thereof:		
mortgage Pfandbriefe	18,509	18,956
public-sector Pfandbriefe	50,037	37,082

(30) Liabilities from dealing activities

Liabilities from dealing activities included the negative market values from derivative financial instruments, unless they were netted with positive market values from assets held for dealing purposes.

(31) Provisions

in DM m.	31.12.1998	31.12.1997
Tax obligations	**9,302**	**4,686**
Actual taxes	5,679	3,436
Deferred taxes	3,623	1,250
Other provisions	**47,266**	**46,931**
Provisions for pensions and similar obligations	7,539	6,561
Provisions in insurance business	32,143	27,283
Restructuring provision	1,068	1,790
Other provisions	6,516	11,297
Total	**56,568**	**51,617**

Tax obligations

The tax obligations for actual taxes refer to current payments of arrears to the public sector. After offsetting with the respective deferred tax claims, deferred tax obligations were reported at DM 3,623 million. For 1997 they would amount to DM 2,802 million under the revised standard.

The deferred taxes are future tax burdens resulting – before offsetting – from the termination of value differences in the following positions:

in DM m.	31.12.1998	31.12.1997
Finance leasing	3,208	3,161
Mark to market valuation	2,524	1,959
Investments	645	886
Property and equipment	969	960
Sundry liabilities	1,731	2,223
Deferred tax obligations (gross)	**9,077**	**9,189**

Deferred tax obligations were not calculated on subsidiaries' retained earnings amounting to DM 1,463 million (1997: DM 957 million), since this would incur a disproportionate expense.

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 7,539 million (1997: DM 6,561 million).

The expenses in the 1998 financial year in the amount of DM 1,261 million (1997: DM 394 million) consisted 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). Here, the new calculation basis for Germany (standard tables 1998), which assume a longer life expectancy, had a particular effect. 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 carried out annually.

Other commitments have been separated into external benefit funds.

Provisions in insurance business

in DM m.	31.12.1998	31.12.1997
Provisions in life insurance business*	1,700	1,358
Other provisions in insurance business		
Cover reserve	27,242	22,932
Reserve for pending claims etc.	406	384
Reserve for premium refunds	2,104	1,890
Other provisions	691	719
Total	**32,143**	**27,283**

* 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.

Restructuring provision

The Consolidated Financial Statements for 1997 reported extraordinary expenses of DM 2,486 million for restructuring measures as part of the Group's strategic reorganization. Of this amount, DM 696 million was charged to the 1997 accounts and the remaining amount of DM 1,790 million was set aside for the measures to be implemented by the end of the year 2000. DM 1.4 billion of this was designated for staff measures and DM 0.4 billion for infrastructure.

The restructuring provision developed as follows during the 1998 financial year:

in DM m.	1998
As at 1. 1.	1,790
Designated for	
staff measures	494
infrastructure measures	228
As at 31. 12.	**1,068**

Staff measures cover the termination of employment contracts by means of severance agreements, early-retirement agreements and pre-retirement part-time employment contracts. Owing to the necessary agreements with Staff Councils beforehand, we could not start to implement these measures in Germany until the second half of the year.

Infrastructure measures include in particular the cost of terminating tenancy agreements and building projects owing to the vacation of premises as well as write-offs of hardware and software no longer needed after the restructuring of processes and/or the discontinuation of the businesses concerned.

Other provisions

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

(32) Other liabilities

in DM m.	31.12.1998	31.12.1997
Deferred items	4,977	5,626
Sundry liabilities	7,903	2,856
Other liabilities of the insurance companies	2,459	2,333
Total	**15,339**	**10,815**

As from the 1998 financial year, liabilities from dealing activities are reported as a separate balance sheet item. The figures for previous years have been adjusted accordingly.

Sundry liabilities

Sundry liabilities include, among other things, the distribution for 1998 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 amounted to DM 119 million (1997: DM 172 million).

Other liabilities of the insurance companies

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

(33) Subordinated capital

in DM m.	31.12.1998	31.12.1997
Subordinated liabilities	10,159	10,237
Participatory capital	2,700	2,700
Capital contributions of silent partners	1,196	–
Total	**14,055**	**12,937**

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	5.54 %	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 695 million. Accrued, but not yet matured, interest of DM 339 million included in the figure is reported under Sundry liabilities (Other 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 carries 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 of 8.75% of par value, which ranks prior to the profit share attributable to shareholders.

Interest on the participatory capital for 1998 in the total amount of DM 239 million is reported under Sundry liabilities (Other liabilities).

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 up to a total of DM 3 billion once or more than once on or before April 30, 2002.

Equity investments of silent partners

The non-active equity investment issued by Deutsche Bank Luxembourg S.A. consists of two tranches with a total volume of U.S.$ 715 million:

- U.S.$ 340 million with a non-cumulative annual profit share of 6.825 % of par value ranking prior to the profit share attributable to shareholders. Redemption will be on December 28, 2007, subject to the stipulations on loss participation.
- U.S.$ 375 million with a variable profit share based on 12-month Libor plus 0.80 % related to par value. The non-cumulative profit share ranks prior to the profit share attributable to shareholders; redemption will be on December 28, 2007, subject to the stipulations on loss participation.

The interest expense for the non-active equity investment totalled the equivalent of DM 77 million: accrued, but not yet matured, interest included here in the sum of DM 0.7 million is reported under Sundry liabilities (Other liabilities).

(34) Capital and reserves

The Group's capital and reserves developed as follows:

Calculation of change in capital and reserves

in DM m.	1998	1997
Capital and reserves of Deutsche Bank Group as at end of previous period	**32,086**	**29,690**
Adjustment of retained earnings owing to recalculation of deferred taxes according to new standard	+ 100	–
Distribution by Deutsche Bank AG	– 956	– 900
Increase in subscribed capital of Deutsche Bank AG	+ 8	+ 156
Allocation of share premium from the increase in subscribed capital to capital reserve	+ 216	+ 1,792
Allocation to retained earnings from net income	+ 20	–
Consolidated profit	+ 3,286	+ 956
Changes in group of consolidated companies	– 8	+ 30
Difference from currency translation	– 250	+ 362
As at end of period	**34,502**	**32,086**

Regulatory capital and capital ratios

The regulatory BIS capital calculated according to IAS of DM 57,389 million (1997 based on German Commercial Code: DM 48,294 million) comprised core capital of DM 31,251 million and supplementary capital of DM 26,138 million. The core capital includes the addition of DM 2.1 billion to other revenue reserves presented to the General Meeting on May 17, 1999 for resolution. Based on risk-weighted positions of DM 497,157 million (1997: DM 456,493 million), the BIS capital ratio amounts to 11.5 % (1997: 10.6 %) and the core capital ratio is 6.3 % (1997: 5.2 %).

Core and supplementary capital

The components of core and supplementary capital for the group of companies consolidated for regulatory purposes are as follows at year-end 1998:

in DM m. Core capital	31.12.1998	Supplementary capital	31.12.1998
Subscribed capital of Deutsche Bank AG	2,665	Unrealized reserves in listed securities (weighted 45%)	13,949
Capital reserve of Deutsche Bank AG	14,209	General value adjustments	1,284
Retained earnings incl. minority interests*	13,229	Participatory capital	2,700
Capital contributions of silent partners	1,196	Subordinated liabilities, if eligible according to IAS	8,205
Intangible assets (excl. goodwill)	– 48		
Total	**31,251**	**Total**	**26,138**

* including addition – proposed to the General Meeting – of DM 2.1 billion to other revenue reserves

The group of companies consolidated for regulatory purposes includes all credit, financial services and financing companies as well as companies providing auxiliary banking services in Deutsche Bank Group; it does not include insurance companies, fund management companies or companies outside the finance sector.

Development of subscribed, authorized and conditional capital

in DM	Subscribed capital	Authorized capital	Authorized capital excluding shareholders' pre-emptive rights	Conditional capital
As at 31.12.1997	**2,656,580,475**	**1,100,000,000**	**31,652,760**	**540,000,000**
Issue of staff shares	+ 8,345,595		– 8,345,595	
Increase pursuant to resolution of General Meeting on 20. 5. 1998		+ 250,000,000		+ 150,000,000
Revocation of General Meeting resolution of 28. 5. 1996				– 40,000,000
Expiry of General Meeting resolution of 19. 5. 1993		– 500,000,000		– 200,000,000
As at 31.12.1998	**2,664,926,070**	**850,000,000**	**23,307,165**	**450,000,000**

Subscribed capital is divided up into no par value shares. The 531,316,095 shares in issue at the beginning of the reporting year increased in 1998 by the issue of 1,669,119 staff shares in May to 532,985,214 shares as at December 31, 1998. The average number of shares in circulation in 1998 was 532,428,841 (1997: 518,532,206).

Authorizations by the General Meeting

By resolution of the General Meeting on May 20, 1998, 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 250 million on or before April 30, 2003 through the issue of new shares against cash payment or non-cash capital contributions, and at such time(s) to grant pre-emptive rights to shareholders with restrictions (authorization to except pre-emptive rights for broken amounts and to grant pre-emptive rights to holders of warrants, convertible bonds and convertible participatory rights in issue). Furthermore, the Board of Managing Directors was authorized, with the consent of the Supervisory Board, to exclude pre-emptive rights provided the capital increase against non-cash capital contributions was made with the intent of acquiring a company or holdings in companies.

The General Meeting on May 20, 1997 authorized the Board of Managing Directors 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 broken amounts and to grant pre-emptive rights to holders of warrants, convertible bonds and convertible participatory rights in issue).

Furthermore there is authorized capital in the amount of DM 100 million stemming from the authorization of the General Meeting on May 18, 1995 to issue new shares against cash payment, on or before April 30, 2000, once or more than once with the consent of the Supervisory Board. Shareholders are to be granted pre-emptive rights with various restrictions (authorization to except fractions from shareholders' pre-emptive rights and to grant pre-emptive rights to holders of issued warrants and convertible bonds and pursuant to § 186 (3) Sentence 4 Joint Stock Corporation Act).

The authorized capital in the amount of DM 23.3 million, for which shareholders' pre-emptive rights have been excluded, is intended for the issue of staff shares.

The resolution taken by the General Meeting on May 28, 1996, authorizing the Board of Managing Directors to issue interest-bearing bonds with warrants to executives once or more than once on or before April 30, 2001 up to a par value of DM 40 million, has been revoked.

The General Meeting on May 20, 1998 authorized the Board of Managing Directors to increase conditional capital by DM 150 million in connection with the authorization, valid until May 10, 2003, to issue interest-bearing convertible bonds to executives.
In this connection a 3 % registered convertible bond (bullet maturity 2001) was issued in 1998 with a total par value of DM 28 million. Bondholders have the right to convert their convertible bonds into new, no par value shares of Deutsche Bank AG, which each correspond to a proportionate share capital amount of DM 5. 200 shares will be granted for each bond of a par value of DM 1,000. The conversion right may only be exercised for any bond in total and within a period of fifteen trading days. The conversion period begins with the sixth trading day at the Frankfurt Stock Exchange after the General Meeting to which the Annual Financial Statements as at December 31, 2000 are presented.
If a conversion right is exercised, an additional cash payment must be made equivalent to the amount by which the conversion price exceeds the corresponding par value of the bond to be converted. The conversion price is fixed according to criteria that have already been established, taking into account the results of the financial years up to and including 2000.

Own shares

At the end of 1998, Deutsche Bank AG and its related companies had no Deutsche Bank shares in their holdings.

On December 31, 1998, 3,996,047 Deutsche Bank shares were pledged to Deutsche Bank AG and its related companies as security for loans (1997: 4,283,309); that was 0.75 % (1997: 0.81 %) of share capital.

Information on the Income Statement of the Group

(35) Net interest income

Net interest income was made up as follows:

in DM m.	1998	1997
Interest income from		
Lending and money market business	49,028	44,441
Fixed-income securities	2,267	1,788
Current income from		
Equity shares and other variable-yield securities	864	707
Equity investments	417	313
Shares in companies valued at equity	75	–
Shares in related companies	23	42
Interest expenses and similar charges for		
Deposits	31,207	26,462
Promissory notes and other liabilities evidenced by paper	10,471	9,145
Subordinated capital	1,011	1,190
Profit from leasing business		
Current income from leasing business	1,946	1,658
Depreciation of leasing assets	829	779
Other expenses from leasing business	269	246
Total	**10,833**	**11,127**

(36) Provision for losses on loans and advances

in DM m.	1998	1997
Provisions formed to the debit of P&L	3,879	4,382
Provisions released to the credit of P&L	2,283	2,076
Amounts received against claims written off	71	101
Total	**1,525**	**2,205**

(37) Net commission income

in DM m.	1998	1997
Securities business	3,933	2,808
Asset management	2,419	2,196
Local payments	1,133	1,168
Foreign commercial business, travel payment media	643	732
Loan processing and guarantees	1,062	773
Other activities	1,197	1,260
Total	**10,387**	**8,937**

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 & acquisitions.

(38) 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.	1998	1997
Proprietary dealing in securities	**1,874**	**1,853**
Debt instruments and related derivatives	341	269
Equities and related derivatives	1,533	1,584
Proprietary dealing in foreign exchange, metals and foreign note/coin	**1,186**	**953**
Foreign exchange	1,111	916
Metals and foreign note/coin	75	37
Other proprietary dealing activities	**409**	**795**
OTC interest rate derivatives/swaps	992	531
Other financial instruments	– 583	264
Total	**3,469**	**3,601**

(39) Net income from insurance business

Insurance business reported net income of DM 657 million (1997: DM 608 million). It was made up as follows:

in DM m.	1998	1997
Net premiums earned	6,307	5,016
Contributions from gross provision for premium refunds	379	327
Income from capital investments	2,567	2,072
Other income	416	403
Total Income	**9,669**	**7,818**
Expenses for claims	2,838	2,376
Change in net provisions in insurance business	4,260	3,312
Expenses for insurance operations	479	376
Expenses for capital investments	300	110
Other expenses	309	339
Net income before premium refund allocation	**1,483**	**1,305**
Expenses for premium refunds	826	697
Net income from insurance business	**657**	**608**

Owing to the higher income from capital investments, net income from insurance business increased by DM 178 million (+13.6 %) to DM 1,483 million before the allocation to the provision for premium refunds. As a result of this, policyholders received an amount that was DM 129 million higher than in the previous year (DM 159 million) through expenses for premium refunds.

(40) General administrative expenses

in DM m.	1998	1997*
Staff expenses	**12,119**	**11,040**
Wages and salaries	9,378	8,760
Compulsory social security contributions	1,201	1,173
Expenses for pensions and other employee benefits	1,540	1,107
Other administrative expenses	**6,236**	**5,671**
Depreciation and adjustments	**1,439**	**1,570**
Office furniture and equipment	1,206	1,256
Land and buildings	188	270
Other sundry assets	45	44
Total	**19,794**	**18,281**

* After adjustment of DM 111 million for costs connected with the conversion to euro and the year 2000, reported from 1998 under extraordinary expenses.

(41) Balance of other operating income/expenses

in DM m.	1998	1997
Other operating income	1,190	1,625
Other operating expenses	840	1,048
Total	**350**	**577**

Other operating income

Other operating income mainly included income from the writing back of provisions not related to lending or securities business, as well as profits from the sale of property and equipment and from the sale of Deutsche Bank Argentina S.A., Buenos Aires.

Other operating expenses

Other operating expenses included, among other things, DM 109 million (1997: DM 284 million) in additions to provisions for uncertain liabilities and possible losses not relating to lending or securities business as well as losses of DM 107 million from exchange-rate hedging for DM-denominated provisioning for currency exposures.

(42) Balance of other income/expenses

in DM m.	1998	1997
Other income	**5,542**	**947**
Profit/losses/write-downs to investments (net)	2,311	917
Extraordinary income	3,231	30
Other expenses	**2,034**	**3,268**
Depreciation on intangible assets	350	346
Other taxes	202	274
Result from shares in associated companies	–	43
Expenses from assumption of loss	6	8
Extraordinary expenses	1,476	2,597
Total	**3,508**	**– 2,321**

Profits/losses/write-downs to investments (net)

The profit on investments included above all the profit on the sale of shares in Hapag-Lloyd AG, Hamburg/Bremen, and income from the revaluation of Allianz shares, which have been transferred to the area of responsibility of our trading section. The shares serve as cover stocks for outstanding exchangeable bonds, particularly for the 2 % bond for EUR 1.8 billion issued in 1998.

Extraordinary income

The extraordinary income results from a special dividend paid by Daimler-Benz AG in the amount of DM 3,214 million (including corporate tax credit).

Depreciation on intangible assets

Depreciation on intangible assets included write-downs to goodwill in the amount of DM 345 million (1997: DM 330 million).

Extraordinary expenses

Extraordinary expenses, with due adjustment of the comparative figure, consisted primarily of costs incurred in connection with the conversion to the euro and preparations for the year 2000. Furthermore, this item also included non-recurrent expenses from the application of new accounting principles (standard tables 1998) for the valuation of provisions for pensions. In the previous year, expenses for restructuring measures in the amount of DM 2,486 million were reported under this position.

Information on taxes on extraordinary results

Taxes on extraordinary results amounted to DM 1,540 million in tax expenses for extraordinary income and DM 780 million tax income for extraordinary expenses.

Income taxes are made up as follows:

(43) Income taxes

in DM m.	1998	1997
Actual taxes	4,078	1,625
Deferred taxes	431	– 601
Total	**4,509**	**1,024**

Actual taxes were calculated on the basis of the tax results for the 1998 financial year, using the relevant country tax rates to be applied by the various Group companies.

In Germany, a solidarity surcharge of 5.5% (1997: 7.5%) has been levied since 1998 on the corporate tax rate of 45% for retained earnings. This reduces the effective corporate tax rate from 48.375% to 47.475%. Together with the effective tax on trade earnings of 9.237% (1997: 9.017%), the total domestic tax liability in 1998 amounted to 56.7% (1997: 57.4%). Under German corporate tax law, the initial 47.475 % burden on profits is reduced for dividend payments to 31.65 % (30 % corporate tax plus 5.5 % solidarity surcharge). Alongside this reduction in corporate tax, which is part of the pay-out, shareholders liable to pay tax in Germany also receive a tax credit that can be offset against their personal tax liability, which corresponds to the remaining tax liability of 31.65% applicable to the company making a pay-out (imputation method).

The formation and dissolution of temporary value differences produced deferred tax expenses of DM 431 million. Had the revised standard been applied in 1997, there would have been deferred taxes in the amount of DM 571 million.

The following table shows the relationship between the income taxes derived from pre-tax profits and income taxes for 1998 actually reported in the Income Statement (reconciliation). The derived income taxes are based on the total domestic tax liability of 56.7%.

in DM m.	1998
Derived income taxes from pre-tax profits	4,471
Reduction of domestic income tax on dividends	– 336
Tax rate differences on foreign results	179
Non-deductible expenses	152
Tax-exempted income	– 508
Adjustments in value to deferred tax claims	230
Amortization of goodwill	249
Other	72
Reported income taxes	**4,509**

Owing to the first-time application of the standard on income taxes, which has been totally revised against the previous year, no comparison was made with the 1997 reconciliation.

(44) Appropriation of net income

It will be proposed to the General Meeting on May 17, 1999 that a dividend distribution of DM 1.2 billion be made out of the distributable profit of Deutsche Bank AG of DM 3.3 billion, which corresponds to a dividend increase from DM 1.80 to DM 2.20 per share, and that DM 2.1 billion be allocated to other revenue reserves.

(45) Earnings per share figures

The earnings per share figure as defined by IAS is net income after taxes, including profit attributable to minority interests, in relation to the average number of ordinary shares. Diluted earnings per share are also reported; this figure indicates the maximum dilution effect possible if the number of shares has increased, or may increase, as a result of rights issued.

The newly reported figure, "DVFA earnings per share", can be used to assess long-term earning power. In accordance with a joint recommendation issued in 1999 by the German Society of Investment Analysts and Asset Managers (DVFA) and the Balance Sheet Committee of the Federal Association of German Banks, the figure is based on net income after taxes excluding special influences. The eliminated special influences include above all extraordinary income from the special dividend of Daimler-Benz AG. "Diluted DVFA earnings per share" reflect the dilution effect on this figure of rights issued which have resulted, or may result, in an increase in the number of shares.

The following table gives the key figures and the share numbers on which they are based:

	1998	1997
Earnings per share	DM 6.34	DM 1.97
Diluted earnings per share	DM 6.33	DM 1.92
DVFA earnings per share	DM 2.16	
Diluted DVFA earnings per share	DM 2.16	
Average number of shares in issue	532,428,841	518,532,206
Number of shares including increases which have resulted, or may result, from rights issued	532,985,214	531,316,095

Information on the Cash Flow Statement

(46) 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 486 million (1997: DM 328 million) was spent in the current financial year for the acquisition of shares in fully consolidated companies and of economically separate business units; DM 496 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

(47) Reporting segment information

Principles of reporting segment information

The aim of reporting segment information is to provide a comprehensive picture of the sources of income, growth and risk in business segments (Group Divisions), on the one hand, and geographical segments, on the other. The basis is the internal management information system "Divisional Profitability Calculation", which systematically collects Group business data relevant for corporate management and is thus the foundation for portfolio and allocation decisions and the performance of controlling tasks.

The criterion for segmentation into Group Divisions is the organizational structure of Deutsche Bank, which was redefined at the beginning of 1998 and has meanwhile been implemented. The new structure comprises five Group Divisions which focus on our customers' needs and a Corporate Centre with supra-divisional responsibilities.

Reporting segment information by geographical region

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

	Total assets		Total credit extended		Liabilities*		Operating income	
in DM m.	31.12. 1998	31.12. 1997	31.12. 1998	31.12. 1997	31.12. 1998	31.12. 1997	1998	1997
Germany	573,689	469,095	320,355	309,425	445,055	368,044	17,556	16,703
Europe (excluding Germany)	531,114	421,053	115,048	99,618	450,579	369,276	5,706	5,451
Asia/Pacific/Africa	160,786	155,097	24,459	33,584	148,672	148,161	2,140	1,690
North America	266,647	241,018	58,125	39,844	248,010	223,323	2,820	2,829
South America	22,250	25,696	20,040	23,587	20,901	23,560	189	453
Consolidation of intra-Group transactions	– 328,956	– 268,995	– 51,837	– 58,142	– 288,378	– 254,523	– 2,715	– 2,276
Total	**1,225,530**	**1,042,964**	**486,190**	**447,916**	**1,024,839**	**877,841**	**25,696**	**24,850**

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

As from 1998, the geographical regions are shown on a consolidated basis. The reported consolidation of intra-Group transactions then includes supra-regional Group-internal items. The comparative figures have been adjusted accordingly.

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

Reporting segment information by Group Divisions

The yardstick for the success of Group Divisions is performance after risk costs. Here, the Group Divisions are presented as if they were legally independent units with their own risk capital. Structural changes and improvements in method are taken into account in the reporting on the current financial year and – as far as possible – in the comparisons with the previous financial year. Here, the comparative figures for 1997 are based on pro forma estimates for the new organizational structure.

Income stems from the segments' operational business and consists largely of net interest income, calculated according to the market interest rate method, net commission income, trading profit and net income from insurance business. Furthermore, the position includes the return on the capital allocated to Group Divisions and other operating profit.

The criterion for allocation of direct costs (staff and other operating costs) is the principle of responsibility. Indirect costs are caused by internally provided services and products and are, as a rule, recorded under the causation principle as a cost reduction for provider and a cost increase for recipient. Staff are, in principle, allocated to the providing Division.

Risk costs include credit risks in particular. They contain net new provisions for creditworthiness risks, amounts received under claims written off, country risk provisions and global value adjustments. This position also includes operational risks.

Performance after risk costs is calculated on the basis of the components set out above and can be reconciled with operating profit according to IAS in the Income Statement for the Group.

The column Other/Consolidation contains for the most part notional funding costs for asset positions not attributable to segments.

The cost/income ratio is a yardstick for measuring the efficiency of Group Divisions and compares resource input (cost) with resource output (income).

RAROC (risk-adjusted return on capital) is a yardstick for the return on equity at Group Divisions. It compares the performance of Group Divisions including expected loss (performance after standard risk costs) with the economic capital allocated to the Group Divisions.

Economic capital is the amount of capital needed, from a business management point of view, to cover unexpected losses from credit, market and operational risks. It must therefore be distinguished from capital reported in the Group Balance Sheet according to IAS. A very high confidence level of 99.98 % is used to calculate the probability of unexpected losses.

Risk positions are calculated in accordance with the Basle risk principle (BIS) and contain, in addition to risk-weighted assets, the notional amounts for market risk positions.

The number of staff is reported as an annual average excluding external contractual partners.

in DM m.	Retail and Private Banking	Corporates and Real Estate	Global Corporates and Institutions	Asset Management	Global Technology and Services	Corporate Centre (if not offset)	Other/ Consolidation	Total Group
Income*								
1998	8,576	5,601	9,688	1,907	494	187	– 757	25,696
Costs								
1998	– 6,555	– 2,974	– 7,398	– 979	– 291	– 1,218	– 379	– 19,794
Risk costs								
1998	– 264	– 357	– 135	– 4	– 11	– 64	– 690	– 1,525
Performance after risk costs								
1998	1,757	2,270	2,155	924	192	– 1,095	– 1,826	4,377
1997**	1,599	2,014	1,838	728	– 82	– 583	– 1,150	4,364
Change in %	10	13	17	27	n.a.	n.a.	n.a.	0.3
Cost/income ratio in %								
1998	76	53	76	51	59			
1997**	77	56	76	56	n.a.			
RAROC in %								
1998	53	21	14	201	31			
Economic capital								
1998	3,287	9,233	12,593	462	649			
Risk-weighted positions								
31.12.1998	73,995	178,615	190,972	3,593	38	16,245	33,699	497,157
Staff (annual average)								
1998	25,946	11,563	9,658	2,496	13,251	6,493		
1997**	25,800	11,709	9,224	2,621	14,046	7,276		
Change in %	+ 1	– 1	5	– 5	– 6	– 11		

* Including notional return on economic capital prescribed for 1998 and Treasury result allocated to segments; column "Other/Consolidation" largely consists of notional funding costs for assets not attributable to segments.

** Comparative figures for 1997 were reconciled with the new structure. Comparisons with the previous year are only partially relevant owing to the structural enhancement in 1998; in 1997 not all components of the Treasury result from Corporate Centre had been allocated to segments.

(48) Fair value of financial instruments

in DM bn.	31.12.1998 Fair Value	Book value	31.12.1997 Fair Value	Book value
Assets				
Cash reserve	39.5	39.5	20.1	20.1
Placements with, and loans and advances to, other banks	181.2	180.2	161.8	161.6
Related derivatives	– 0.3	–	0	–
Loans and advances to customers	542.1	525.9	517.5	506.7
Related derivatives	– 0.6	–	0.4	–
Assets held for dealing purposes	330.5	330.5	231.6	231.6
Investments	80.2	76.1	61.8	58.9
Related derivatives	– 2.3	–	– 0.9	–
Liabilities				
Deposits from other banks	372.6	372.0	287.2	286.8
Related derivatives	0	–	0	–
Amounts owed to other depositors	454.7	451.5	441.2	438.6
Related derivatives	– 1.0	–	– 0.5	–
Liabilities evidenced by paper	207.7	201.3	158.9	152.4
Related derivatives	– 0.4	–	0.1	–
Liabilities from dealing activities	79.7	79.7	57.1	57.1
Subordinated capital	14.9	14.1	14.1	12.9
Other positions				
Contingent liabilities	59.2	59.2	58.7	58.7
Credit commitments and placement obligations	120.2	120.1	114.5	114.3
Non-attributable derivatives	– 2.0	–	+ 1.3	–

The fair value of undated and short-term amounts receivable and liabilities with maturities or fixed-income 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, 1998, the aggregate difference between the fair value and the book value of financial instruments amounted to DM 6.4 billion (1997: DM 4.6 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.

(49) Foreign currency

The total amount of assets denominated in foreign currency at balance sheet date was the equivalent of DM 710,900 million (1997: DM 586,700 million); the figure for liabilities was the equivalent of DM 740,100 million (1997: DM 595,800 million).

in DM m.	31.12.1998	31.12.1997
Foreign-currency assets	710,900	586,700
thereof U.S.$	315,600	261,500
Foreign-currency liabilities (excl. capital and reserves)	740,100	595,800
thereof U.S.$	349,500	278,900
Change in total assets owing to parity changes for foreign currencies*	– 17,800	+ 27,800
thereof due to U.S.$	– 15,900	+ 23,000

* 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	– 90	– 204	– 1.8
Net commission income	– 235	+ 1,685	+ 19.4
Trading profit	– 68	– 64	– 1.8
General administrative expenses	– 476	+ 1,989	+ 11.2

The exchange rate risk connected with the purchase price for Bankers Trust has been hedged – partly in the 1998 financial year – by appropriate forward exchange and option transactions.

(50) Relevant maturity groupings based on the remaining period

Assets in DM m.	up to 3 months 31.12.1998	up to 3 months 31.12.1997	> 3 months – 1 year 31.12.1998	> 3 months – 1 year 31.12.1997	> 1 year – 5 years 31.12.1998	> 1 year – 5 years 31.12.1997	more than 5 years 31.12.1998	more than 5 years 31.12.1997
Loans and advances to customers	250,168	244,101	52,455	48,429	104,154	102,511	130,733	123,445
Dated placements with, and loans and advances to, other banks								
Loans and advances	4,814	7,839	3,538	2,441	8,041	6,279	11,674	8,943
Money market	85,253	67,562	11,661	9,775	21	511	80	95
Total	**340,235**	**319,502**	**67,654**	**60,645**	**112,216**	**109,301**	**142,487**	**132,483**

Liabilities in DM m.	up to 3 months 31.12.1998	up to 3 months 31.12.1997	> 3 months – 1 year 31.12.1998	> 3 months – 1 year 31.12.1997	> 1 year – 5 years 31.12.1998	> 1 year – 5 years 31.12.1997	more than 5 years 31.12.1998	more than 5 years 31.12.1997
Time deposits from other banks	139,176	95,121	14,182	17,012	4,804	8,415	18,341	13,033
Savings deposits and building saving deposits	25,722	26,689	13,107	9,672	8,310	9,561	810	808
Other dated amounts owed to other depositors	142,313	161,005	48,504	14,170	17,230	19,100	21,961	19,119
Promissory notes and other liabilities evidenced by paper	59,683	33,727	31,334	23,531	63,212	63,178	47,118	32,005
Subordinated capital	0	0	0	0	7,669	3,651	6,386	9,286
Total	**366,894**	**316,542**	**107,127**	**64,385**	**101,225**	**103,905**	**94,616**	**74,251**

(51) Contingent liabilities and other obligations

in DM m.	31.12.1998	31.12.1997
Contingent liabilities	59,162	58,707
from rediscounted bills of exchange	2,945	4,089
from guarantees and indemnity agreements	56,217	54,618
Other obligations	258,828	226,976
Placement and underwriting obligations	969	1 703
Irrevocable credit commitments	119,226	112,599
Netted repo business	73,572	70,447
Delivery obligations from securities lending	58,224	37,702
Other obligations	6,837	4,525
Total	**317,990**	**285,683**

Placement and underwriting obligations

The placement and underwriting obligations not utilized amounted to DM 969 million. DM 2 million was utilized at the end of 1998.

Irrevocable credit commitments

Of the irrevocable credit commitments, DM 105,761 million related 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 amount of DM 73,572 million had to be set off.

Other obligations

The annual payment obligations resulting from rental agreements totalled DM 526 million, with a remaining period of up to 23 years. Contingent liabilities and other obligations in connection with leasing agreements amounted to DM 506 million.

Liabilities for possible calls on not fully paid-up shares in public and private limited companies and other shares amounted to DM 230 million at the end of 1998, and other liabilities for possible calls to DM 94 million. Joint liabilities pursuant to § 24 GmbH Act amounted to DM 60 million. Where other joint liabilities exist, the standing of 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 amounted to a total of DM 0.3 million on December 31, 1998.

Pursuant to § 5 (10) of the Statute of the Deposit Insurance Fund, Deutsche Bank AG 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 2,969 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 2,206 million as at December 31, 1998.

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

In connection with the resale of the trading house Klöckner & Co. AG, Duisburg, there were contingent liabilities totalling DM 118 million.

(52) Assets transferred as collateral security

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

in DM m.	31.12.1998	31.12.1997
Deposits from other banks	13,802	11,954
Amounts owed to other depositors	6,862	6,078
Contingent liabilities	95	28
Total	**20,759**	**18,060**

The assets transferred as security were made up as follows:

in DM m.	31.12.1998	31.12.1997
Placements with, and loans and advances to, other banks	165	187
Loans and advances to customers	12,416	11,896
Assets held for dealing purposes	6,700	5,949
Investments	1,478	28
Total	**20,759**	**18,060**

(53) 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 International GmbH, Frankfurt am Main (formerly: Deutsche Asset Management GmbH)
Deutsche Asset Management Investmentgesellschaft mbH vormals DEGEF Deutsche Gesellschaft für Fondsverwaltung mbH, Frankfurt am Main
Deutsche Australia Ltd., Melbourne
Deutsche Bank Americas Holding Corp., Dover/U.S.A. (formerly: Deutsche Bank North America Holding Corp.)
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
Deutsche Bank Lübeck Aktiengesellschaft vormals Handelsbank, Lübeck
Deutsche Bank Luxembourg S.A., Luxembourg
Deutsche Bank (Malaysia) Bhd., Kuala Lumpur
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 S.A./N.V., Antwerp/Brussels
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 Aktiengesellschaft Private Banking, Frankfurt am Main
Deutsche Capital Singapore Ltd., Singapore (formerly: Deutsche Morgan Grenfell (Singapore) Ltd.)
Deutsche-Equities S.A., Paris (formerly: Deutsche Morgan Grenfell-Equities S.A.)
Deutsche Finance (Netherlands) B.V., Amsterdam
Deutsche Fonds Holding GmbH, Frankfurt am Main
Deutsche Futures London Ltd., London (formerly: Deutsche Morgan Grenfell Futures Ltd.)
Deutsche Futures Singapore Pte Ltd., Singapore (formerly: Deutsche Morgan Grenfell Futures Pte Ltd.)
Deutsche Grundbesitz-Investmentgesellschaft mbH, Frankfurt am Main
Deutsche Grundbesitz Management GmbH, Eschborn
Deutsche Morgan Grenfell Group plc, London
Deutsche Morgan Grenfell Trust Bank Ltd., Tokyo
Deutsche Securities Ltd., Hong Kong (formerly: Deutsche Morgan Grenfell Capital Markets Ltd.)
Deutsche Securities Asia Ltd., Hong Kong
Deutsche Sharps Pixley Metals Ltd., London
DWS Deutsche Gesellschaft für Wertpapiersparen mbH, Frankfurt am Main
EUROHYPO Aktiengesellschaft Europäische Hypothekenbank der Deutschen Bank, Frankfurt am Main (formerly: Frankfurter Hypothekenbank Centralboden Aktiengesellschaft)
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.

(54) Trust activities

The following tables show the volume of trust activities not reported in the Consolidated Balance Sheet:

Trust assets in DM m.	**31.12.1998**	**31.12.1997**
Placements with, and loans and advances to, other banks	768	1,971
Loans and advances to customers	1,684	1,306
Bonds and other fixed-income securities	–	90
Equity shares and other variable-yield securities	361	240
Participating interests	1,660	925
Total	**4,473**	**4,532**

Trust liabilities in DM m.	**31.12.1998**	**31.12.1997**
Deposits from other banks	1,764	247
Amounts owed to other depositors	2,709	4,285
Total	**4,473**	**4,532**

(55) Our staff

The average number of effective staff employed during the financial year totalled 67,578 (1997: 67,895), of whom 29,456 (1997: 29,650) were women. Part-time staff are included in these figures proportionately. An average of 25,647 (1997: 25,259) members of staff worked abroad.

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

In 1998, the total emoluments of the Board of Managing Directors amounted to DM 30,990,232.63. Former members of the Board of Managing Directors of Deutsche Bank AG or their surviving dependents received DM 14,994,578.23. In addition to a fixed payment of DM 299,280.00 the Supervisory Board received dividend-related emoluments totalling DM 2,319,999.85.

Provisions for pension commitments to former members of the Board of Managing Directors and their surviving dependents totalled DM 179,151,548.00.

At the end of 1998, advances and loans granted and liabilities assumed for members of the Board of Managing Directors amounted to DM 14,809,168.24, and for members of the Supervisory Board of Deutsche Bank AG to DM 1,613,015.73.

(57) Board of Managing Directors

Members of the Board of Managing Directors:

Josef Ackermann	**Michael Endres** (until December 31, 1998)	**Georg Krupp** (until May 20, 1998)
Carl L. von Boehm-Bezing	**Thomas R. Fischer** (since January 1, 1999)	**Hermann-Josef Lamberti** (from October 1, 1999)
Rolf-E. Breuer	**Tessen von Heydebreck**	**Ronaldo H. Schmitz**
Michael Dobson	**Jürgen Krumnow**	**Ulrich Weiss** (until May 20, 1998)

(58) Mandates in the reporting year

The List of Mandates, which can be obtained free of charge using the order form on page 140, gives details of mandates in Germany and abroad.

Reconciliation Notes

Deviating methods in the Consolidated Financial Statements: IAS compared with German Commercial Code (HGB)

In contrast to German accounting, the International Accounting Standards seek creditor protection by providing relevant information rather than by conservative reporting and valuation rules. In the following cases, the different objective of the IAS leads to different accounting and valuation methods or to different reporting in the Consolidated Financial Statements:

Loans and advances

... from leasing business

Leasing assets, which IAS principles attribute to the lessee (finance lease), are reported in the Consolidated Financial Statements under Loans and advances to customers – instead of Property and equipment – provided the Group is lessor and the criteria for a finance lease have been fulfilled. Tax aspects are ignored here.

Netting of claims and liabilities

Claims and liabilities, which have the same due date, are in the same or a freely convertible currency and have been concluded with the same counterparty are netted, provided the conditions for netting set out in the IAS have been fulfilled. This includes in particular the existence of an enforceable netting right. Over and above that, the netting must appropriately reflect the expectation of actual future cash flows. Netting is used largely for claims and liabilities in repo business if the Group acts both as seller and as buyer.

Risk provisioning

In accordance with standard international practice, risk provisioning is disclosed on the assets side as a separate position after loans and advances. This gives a better view of risk-provisioning policy.

Assets held for dealing purposes

All trading activities are reported in the balance sheet at fair values. This leads to the inclusion of result components qualified under German law as unrealized profits. The position Assets held for dealing purposes mainly contains securities trading stocks reported at market values and the positive market values from derivatives transactions still outstanding on balance sheet reporting date.

Netting in trading activities

Trading assets and trading liabilities are netted if there is an enforceable netting right and the netting appropriately reflects the expectation of actual future cash flows.

Securities lending

In accordance with the economic content of the transactions, the security in securities lending continues to be reported in securities holdings if the Group is the lender. On the other hand, German Commercial Code reporting would require the booking of a claim. This applies analogously to cases where the Group is borrower. Here, the German Commercial Code would require reporting of a liability.

Investments

Investments also include securities which, under the German Commercial Code, are allocated to the liquidity reserve, as well as shares in (non-consolidated) related companies, shares in associated companies, and equity holdings.

Tangible and intangible assets

Tax bases are not reported in the IAS financial statements. The result is that tangible assets are usually reported at a higher value compared with German Commercial Code statements. Software produced in-house is capitalized if the economic advantages from it will probably accrue to the bank and the production costs can be determined reliably.

Provisions

... for pensions and similar obligations

The forecast development of salaries is taken into account in the actuarial calculation of pension provisions. Adjustments of current pension payments are deferred and not written off immediately in full. Market interest rates are also used.

Deferred taxes

Deferred taxes are formed in accordance with the balance sheet-related temporary concept. Here, the carrying amounts of individual assets and liabilities in the balance sheet are compared with the values for tax purposes. Deviations in these values create as temporary differences – irrespective of when they are booked out – deferred tax claims or deferred tax commitments. On the other hand, tax deferrals according to the German Commercial Code are only admissible as timing differences between commercial-law results and the profit to be calculated in accordance with tax regulations.

Liabilities held for dealing purposes

Trading liabilities comprise the negative market values from derivative financial instruments, unless they have been netted with positive market values from derivative financial instruments. The German Commercial Code would require provisions for possible losses from pending transactions to be formed here, unless these losses are balanced out by the formation of valuation units in the sense of compensatory valuation.

Minority interests

Minority interests are reported on the liabilities side outside capital in a separate position.

Trust business

In accordance with their economic content, trust business which the bank transacts in its own name, but for third-party account, is not reported in the balance sheet.

Risk Report

Risk as core competence

Risk, like income or administrative expense, is an integral element of banking. The management of credit risk and market risk – to mention just the main ones – has recently confronted the bank with growing challenges which must be tackled with new approaches to risk management or by adjusting current processes.

Deutsche Bank has taken up these challenges and developed risk management into a core competence. We at Deutsche Bank regard our ability to manage risks responsibly and with an orientation to profit as essential to mastering the growing pressure of competition, delivering a sustained good performance, and increasing the long-term value of the company for our shareholders.

With this in mind, therefore, the bank has been working consistently for several years on implementation of the RAROC risk-return-based management concept, which takes account of all risks in our business. The idea underlying the RAROC concept is the integrated consideration and quantification of income, costs and risks in one key figure.

Organization of Risk Management and Risk Controlling

Risk management – in the broadest sense – means the identification, measurement, control and management of risks assumed. In view of their diversity, to achieve the necessary transparency and avoid conflicts of interest, these tasks have been allocated to different organizational units in the bank. Regulatory requirements are another important reason for this. The Board of Managing Directors, supported by the Risk Management Committee, is responsible for formulating and implementing the bank's risk policy.

In the Group Divisions, within the framework of given limits, risk positions are assumed and decisions made on the size of open or hedged positions.

On the other hand, the independent Corporate Centre units – Controlling, Group Market Risk Management, Group Credit Risk Management and Treasury – exercise a monitoring and steering function in risk management. The heads of these units report to members of the Board of Managing Directors who are not also heads of Group Divisions.

Controlling

Controlling has responsibility for risk measurement and reporting, and for the quality assurance of risk data. This includes implementing methods in the risk measurement process, data collection and current risk measurement. It also involves checking the reliability of models every day. Another important task is the development and maintenance of a regular reporting system supplying all management levels with analyses of risks assumed.

Group Market Risk Management

Group Market Risk Management supports the Board of Managing Directors in establishing risk limits and making sure they are observed. The staff unit also develops, documents, implements and provides quality assurance for standard Group-wide methods of risk measurement and management for all risk types (market, credit, liquidity and operational risk).

The growing interrelationships between market and credit risks in the trading units is taken into account through close cooperation between Group Credit Risk Management and Group Market Risk Management.

Group Credit Risk Management

Group Credit Risk Management is responsible throughout the Group for credit risks arising from traditional and derivatives business, from structured or project finance, and for country risks. This includes, in particular, the formulation and implementation of credit policies and credit processes and their control through credit risk reviews, signing power issuance, the enhancement of credit risk analysis instruments and the RAROC method, country risk measurement and global portfolio management. The unit is also party to decisions on large Group exposures and country limits.

Group Treasury

Group Treasury is responsible for managing all interest rate and liquidity risks. This includes the management of market risks from all asset and liability-side positions in the investment book, the provision of liquidity to ensure Group solvency at all times, and the efficient application of resources in the Group through capital allocation geared to company value. Group Treasury is represented at all financial centres through a global network.

Risk Management Committee

The Risk Management units value the risks assumed from qualitative and quantitative standpoints. Where appropriate, they propose optional courses of action to the Board of Managing Directors. The Risk Management Committee, which meets on a weekly basis, plays an important part in collating information and coordinating measures to be taken. It is made up of the respective members of the Board of Managing Directors and the heads of the above-mentioned units and other units affected. There are also risk committees for special tasks, such as the Country Risk Committee.

Risk process

The following table sets out the main tasks of risk management at Deutsche Bank and the responsible units:

Risk measurement and reporting	Controlling
– Regular provision of quality-assured and up-to-date information on the Group's risk profile	
Limit determination	**Risk Management units**
– Development of a consistent limit system which reflects the bank's risk capacity – Ensuring uniform methods and procedures	
Risk assumption	**Group Divisions**
– Initiation of transactions and creation of positions (for example through granting credit, trading activities) – Optimization of risk/return ratio	
Exposure Management*	**Risk Management units**
– Activities in case of limit overruns – If necessary, initiation of risk-reducing measures	
Quality assurance	**Controlling, Risk Management units**
– Quality analysis of statistical measurement techniques (back testing) – Regular analysis of risk process	

* Exposure: maximum amount of money which the bank can lose in case of a borrower or a counterparty defaulting

Risk management components

To guarantee effective risk management, the methods and key figures used in measuring and managing risks must meet certain qualitative requirements:

– They must include all relevant risk-causing influences (risk factors).

- Regular checks ensure the reliability of methods.
- Methods must be used in daily risk measurement and management.
- Scenario analyses must be developed and implemented for unusual events not covered by methods for the "normal" course of business.

At Deutsche Bank, the following important risk-related key figures and procedures are used for management and control purposes: standard risk costs, economic capital or value-at-risk, RAROC and external management figures, such as risk-weighted assets.

Standard risk costs for credit risks

Standard risk costs are risk premiums calculated ex ante for credit business and designate the loss to be expected from credit defaults within one year based on historical empirical figures. It is calculated by multiplying default probability by loss ratio and credit equivalent. Standard risk costs are used in establishing terms and conditions at transaction level and in the overall management of the bank.

Economic capital for market, credit and operational risks

The required economic capital is measured as the estimated loss which, with a given probability (confidence level), will not be exceeded in any one year. At Deutsche Bank, this probability is 99.98% and thus meets high demands. Like the concept of regulatory capital, the calculation of economic capital aims at determining the amount of capital needed as a reserve to ensure the bank's continued existence, even in extreme situations.

Risk-adjusted return on economic capital (RAROC)

The risk-adjusted return on economic capital is an enhancement of traditional key figures, such as return on equity. It takes into account not only income, but also the risk assumed in order to achieve that income. For all types of business in the bank, RAROC is understood to be the ratio between risk-adjusted income and (economic) capital.

It allows comparative measurement of market, credit and operational risks for all products, regions and business units with unlike risk profiles.

RAROC and company value

If the return after risk costs is above our capital costs, additional value accretion can be achieved through growth of business activities. Capital costs are imposed upon us by the market in the form of shareholders' expected return. In other words, RAROC links the risk management of the bank with the goal of increasing company value.

External management figures

While these figures are used for internal risk management, the bank also produces many other figures with which the supervisory authorities monitor the bank's risk position and risk capacity. In general, the following key figures, or other figures derived from them, are relevant here:

- Risk position: this means the calculation, based on bank-regulatory principles, of the risks assumed by the bank. Risk position consists of risk-weighted assets including counterparty risks in particular, and the imputed amounts in market risk position (interest rate, currency, equity and commodities price risks). The bank's risk position must be backed by capital in accordance with the regulatory principles.
- Capital and reserves: the capital components recognized for regulatory purposes and available to back the risk position. They consist of core capital (Tier I), supplementary capital (Tier II), and Tier III capital.

Types of risk

Market, credit, liquidity and operational risks are part of banking business; their identification, analysis, management and monitoring is the task of risk management. It uses modern processes and, to quantify these risks, suitable mathematical-statistical models and procedures.

Market risk

Market risk refers to the possibility of sudden value losses in the bank's trading and Treasury portfolio due to unforeseen changes in market prices (interest rates, share prices, exchange rates, commodity prices) before the affected positions can be closed or hedged.

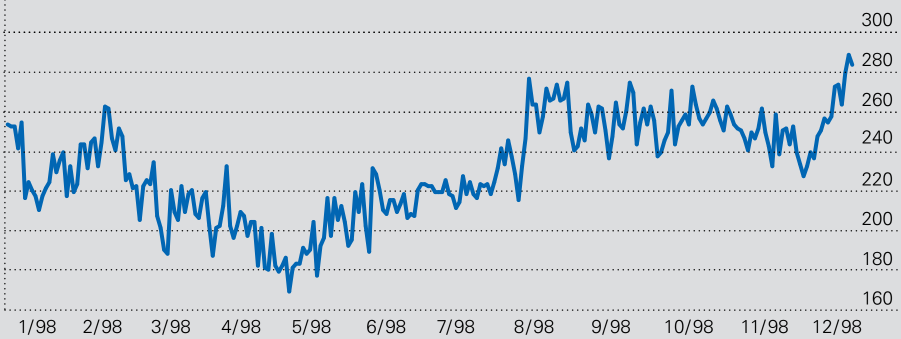
To manage market risk, Deutsche Bank uses value-at-risk procedures and stress tests.

Value-at-risk

Value-at-risk measures the possible future loss in a portfolio over the holding period considered (usually 1 day or 10 days) which, with a certain probability, will not be exceeded under normal market conditions. It quantifies the loss potential in all trading units, taking into account diversification and correlation. At total portfolio level, the value-at-risk gives the bank's aggregated market risk. Value-at-risk also serves to calculate the economic capital needed to cover market risks.

Daily value-at-risk in 1998

in DM m.



The value-at-risk of the Group's trading units, including Treasury, in accordance with BIS parameters (99 % confidence level, 10-day holding period), was DM 280 million as of December 31, 1998. The graph shows the development of daily value-at-risk in 1998.

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 1998 financial year:

Trading units in DM m.	Fixed Income	Money Market	Debt Capital Markets	OTC-Derivatives	Foreign Exchange	Commodities	Proprietary Trading	Emerging Markets	Emerging Markets Proprietary Trading	Equities	Total*
Value-at-risk as at											
31.12.1998	132.12	32.19	7.40	104.59	62.08	8.70	7.78	88.49	41.78	65.89	**280.23**
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**
Minimum value-at-risk											
1998	33.14	10.35	2.24	49.30	14.75	3.42	4.94	33.29	22.99	33.29	**173.16**
1997	31.43	7.71	2.22	46.74	9.21	0.50	4.05	59.31	28.04	24.80	**102.78**
Maximum value-at-risk											
1998	133.74	36.37	19.84	114.13	62.08	13.59	47.97	96.05	112.69	96.05	**284.45**
1997	97.66	31.24	22.10	116.78	41.63	13.48	55.26	181.62	68.08	75.77	**221.74**
Average value-at-risk											
1998	86.63	19.96	9.09	78.01	33.27	8.51	21.68	64.43	55.85	64.43	**227.30**
1997	61.30	19.89	9.12	84.94	19.89	4.93	34.63	101.68	52.10	49.01	**150.43**

* including historical correlations, incl. Treasury

Back testing to check model forecasts

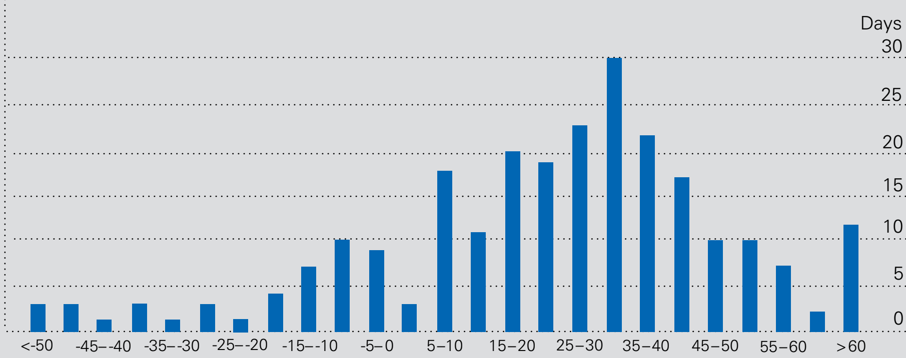
The meaningfulness of the value-at-risk procedure, based on historical market movements, is verified by back testing. Here, the profits and losses realized daily in each trading unit are compared with the values forecast using the value-at-risk procedure.

The graph below shows the dispersion of daily trading income in 1998.

A positive trading income was achieved on almost 82 % of trading days. A loss exceeding DM 57 million or the average value at risk of DM 61.7 million (97.72 % confidence level, 1-day holding period, i.e. not identical with the BIS parameters, but with the same relevance quality) was not incurred on any trading day in 1998.

Daily trading income in 1998

in DM m.



This shows that market risks, in terms of value-at-risk, are well managed at Deutsche Bank.

Stress tests simulate extreme market movements

While value-at-risk supplies forecasts for maximum losses under normal market conditions, weekly stress tests, where the trading portfolio is re-valued under diverse extreme market scenarios, are carried out to estimate the impacts of extreme market movements. Such scenarios are used in particular to value country-specific event risks. Here, sharp drops in the equity, interest rate and foreign exchange markets in various countries are simulated. Regular internal risk classifications ranging from Class 1 (lowest risk) to 10 (highest risk) determine which scenarios are used.

Internal market risk models approved by regulator

Internal market risk models at Deutsche Bank met regulatory requirements, and were therefore approved by the Federal Banking Supervisory Office for calculation of capital backing for market risks under Principle I. The value-at-risk procedure is therefore used to calculate capital backing for market risks with a confidence level of 99% and an assumed holding period of 10 days. Recognition of our models relates to general risk and issuer-specific risk. At the same time, we are working in continuous coordination with the supervisory authorities on the enhancement of our internal models.

Credit risk

Credit risk takes diverse forms and include default, country and settlement risk. Default risk consists in the partial or complete omission of contractually agreed payments by a borrower or counterparty.

Credit risk also occurs as country risk; in this case, the risk is not triggered directly by a borrower, but indirectly by official measures, thus making it impossible for a borrower to fulfil his obligations (e.g. transfer controls), or inflating borrower's obligations to such an extent (e.g. through currency devaluation) that they can no longer be fulfilled.

Besides the deregulation and globalization of business, the growing complexity of credit transactions, the pace of innovation of new products, and growing liquidity on the secondary market are special challenges to credit risk management at the present time. Deutsche Bank is tackling this development with the ongoing improvement of its instruments for valuing and managing credit risks. Use is also made of the new portfolio management alternatives offered through the market. For example, new financial instruments such as credit derivatives or securization in asset-backed securities and collateralized loan obligations are actively used in portfolio management.

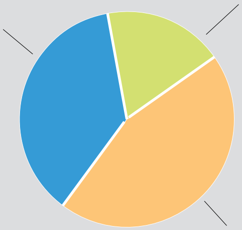
The scoring and rating procedures used in credit processes, statistical evaluation of historical data, and application of quantitative models are the basis for measuring expected and unexpected losses for credit risk. The knowledge gained about the credit portfolio from quantitative models is used to identify, and where necessary reduce, risk concentrations and to use portfolio correlations for diversification.

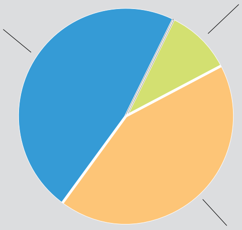
The basis of our active credit portfolio management is a credit portfolio model used to measure and manage credit risk. Based on this model, risk figures such as economic capital and RAROC are calculated monthly.

Standard risk costs and economic capital

As of the end of 1998, standard risk costs were distributed among three Group Divisions as shown in the following graph.

Credit risk exposure in 1998 by Group Division





The standard risk costs for Group credit exposure came to DM 1.7 billion in 1998. This is the amount which the bank should ideally generate as risk premium (on average in the Group 0.26 % of credit risk-bearing volume) above the interest margin as the cost of doing business.

Economic capital was DM 17.6 billion. Capital backing, expressed as the share of economic capital in credit risk-bearing volume, is 2.7 %.

Group Divisions' shares in standard risk costs and economic capital can be derived from the shares in total exposure and the different risk levels in business.

The following table shows the percentage shares of standard risk costs and economic capital in credit risk-bearing volume by Group Division:

in %	Standard risk costs	Economic capital
Retail and Private Banking	0.37	2.00
Corporates and Real Estate	0.32	3.20
Global Corporates and Institutions	0.20	2.70
Group	0.26	2.70

For credit risk, too, we are seeking regulatory approval to use internal models for bank-supervisory reports as soon as legally possible. We are cooperating with other banks in national and international working groups to develop qualitative and quantitative minimum requirements for credit risk models.

Objective: regulatory approval for internal models to account for credit risks

There are credit risks in derivatives business, as the default of a counterparty can lead to replacement costs in order to create a comparable position.

Default risks in derivatives business

The Group's credit risk bearing business in OTC derivatives (in the sum of market values) was divided up over the following selected industries:

… by industry groups

in DM m.	OTC derivatives* 31.12.1998	31.12.1997
Banking and insurance	68,871	57,405
Manufacturing	1,047	1,644
Households	23	48
Public sector	1,363	506
Trade	289	186
Property and residental	86	0
Services**/Other	4,443	971

* based on counterparty-related, enforceable netting agreements
** chiefly for companies; 31. 12. 1998: DM 2,738 million

The corresponding classification by regulatory counterparty categories looks as follows:

… by regulatory counterparty categories

Counterparty type in DM bn.	Default risk in derivates business 31.12.1998	31.12.1997
OECD central governments*	1.3	0.1
OECD credit institutions*	40.1	27.5
OECD financial services institutions*	3.8	1.7
Other (e.g. enterprise, private individuals)	28.7	27.3
Non-OECD central governments	0	–
Non-OECD credit institutions	1.7	4.2
Non-OECD financial services institutions	0.5	0

* OECD: according to definition of zone A pursuant to German banking supervisory law without Mexico, Poland and South Korea

OTC derivatives by creditworthiness categories

The classification of trading activities belonging to the OTC derivatives portfolio by creditworthiness categories (including netting) 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 replacement costs in DM bn.	In % of notional amount
AAA	252.10	158.89	147.10	558.08	13.16	2.36
AA	1,842.15	841.44	488.61	3,172.20	41.34	1.30
A	1,119.49	511.20	339.91	1,970.60	7.39	0.38
BBB	233.94	158.13	68.38	460.46	4.57	0.99
Non-investment grade	137.61	147.08	107.07	391.77	2.87	0.73
Other	228.40	107.18	73.27	408.86	6.79	1.66
Total	**3,813.69**	**1,923.92**	**1,224.34**	**6,961.97**	**76.12**	**1.09**

Measured in terms of net replacement costs, 81 % (1997: 73 %) belongs to rating categories AAA, AA, A.

Derivatives transactions are also used outside trading activities to reduce the interest rate risk in our asset/liability management.

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	**2,678,369**	**2,205,069**	**1,262,046**	**6,145,484**	**96,588**
OTC products					
FRAs	489,387	27,822	–	517,209	381
interest rate swaps (same currency)	1,354,249	1,427,515	1,059,773	3,841,537	85,109
interest rate option purchases	138,713	262,622	73,705	475,040	11,098
interest rate option sales	144,726	319,432	125,429	589,587	
other interest rate trades	–	–	–	–	0
Exchange-traded products					
interest rate futures	447,787	166,761	3,139	617,687	
interest rate options	103,507	917	–	104,424	
Currency-related transactions	**1,934,267**	**152,130**	**75,966**	**2,162,363**	**42,742**
OTC products					
forward exchange trades	1,517,649	37,823	621	1,556,093	27,738
cross currency swaps	43,816	104,280	74,836	222,932	10,635
forex option purchases	182,994	3,204	308	186,506	4,364
forex option sales	185,886	6,638	201	192,725	
other forex trades	797	185	–	982	5
Exchange-traded products					
forex future	2,365	–	–	2,365	
forex options	760	–	–	760	
Equity/index-related transactions	**135,979**	**87,866**	**15,532**	**239,377**	**11,913**
OTC products					
equity/index swaps	24,115	7,550	1,901	33,566	2,219
equity/index option purchases	27,003	22,638	3,006	52,647	9,694
equity/index sales	22,885	44,733	10,625	78,243	
other equity/index trades	192	–	–	192	–
Exchange-traded products					
equity/index futures	18,268	22	–	18,290	
equity/index options	43,516	12,923	–	56,439	
Other transactions	**45,975**	**32,709**	**10,191**	**88,875**	**1,120**
OTC products					
precious metal trades	20,031	6,369	752	27,152	496
non-precious metal trades	14,747	23,919	9,439	48,105	624
Exchange-traded products					
futures	9,181	1,442	–	10,623	
options	2,016	979	–	2,995	
Total	**4,794,590**	**2,477,774**	**1,363,735**	**8,636,099**	**152,363**

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

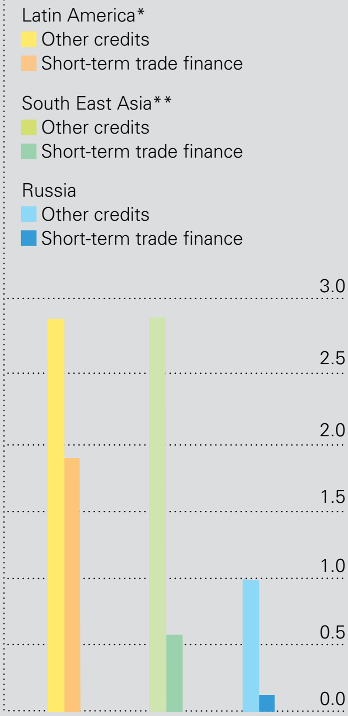
As in the previous years, there was an expansion of derivatives business due to the continued growth of investment banking activities. Replacement costs in derivatives business increased to DM 152.4 billion (1997: DM 109.1 billion). After taking into account enforceable netting agreements, the net replacement costs are DM 76.1 billion (1997: DM 60.8 billion).

Country risks

Country risk management in the Group is based on a country risk policy resolved by the Board of Managing Directors and is conducted within the framework of multiple limit structures: besides the traditional monitoring of transfer and convertibility risk in cross-border credit and margin business, the local business of Deutsche Bank's foreign offices is also included. The risks from security positions and other trading positions are managed in accordance with the so-called event risk scenario concept, stating the loss potential in these positions, over and above regular market volatilities, to allow for potential critical events of a political or economic nature.

Cross-border credit exposure for selected emerging markets

as at 31.12.1998; in DM bn.



*Latin America: Argentina, Brazil, Mexico, Venezuela
**South East Asia: Indonesia, Malaysia, South Korea, Thailand

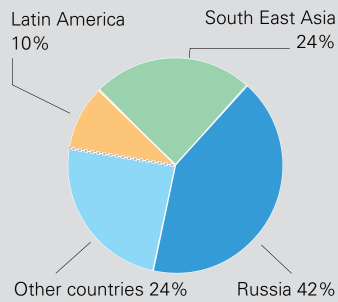
Responsibility for applying for country limits and the monitoring of compliance with them lies with the individual Group Divisions. The country limits are submitted by region to the Country Risk Committee for decision; for the big countries, the Board of Managing Directors decides on the basis of a recommendation given by the Committee.

The negative effects of the financial crisis in Asia on almost all emerging markets were sharply intensified in August 1998 by the moratorium imposed by the Russian government on large parts of local public-sector debt and the private financial sector's international liabilities in conjunction with a de facto floating of the rouble. As in 1997 in Asia, the bank's internal risk-monitoring systems gave clear warning in good time, so that the bank's risk positions - both in traditional credit business and in the trading sector - in Russia and the principal countries of Latin America could be clearly reduced before the crisis deepened. The dynamic limit management, introduced in 1997 under a new country risk policy with the downgrading of country ratings, and the functions of the Country Risk Committee have proven their worth.

The burdens on the bank from a further increase in the country value adjustment for risks in Russia and the formation of a provision for its exposure to Latin America, which consists largely of short-term trade finance, were therefore limited.

Country value adjustments

Regional distribution in %



Liquidity risk

Generally speaking, the liquidity risk for a bank is the danger that it cannot meet its present and future contractual payment obligations punctually or on the required scale. The aim of liquidity risk management, however, is also to avoid losses from borrowing funds at excessive interest rates or from investing surplus funds at rates below market. Group Treasury carries out this task worldwide. Coordination is centralized through uniform liquidity guidelines and strategies, the management of the global liquidity situation and crisis management.

Liquidity management at Deutsche Bank centres on the principal trading currencies in the Group: DM (in future euro), U.S.$ and Japanese yen. Local liquidity in individual currencies is managed in the decentralized Treasury units. To ensure liquidity in these currencies, Group Treasury maintains significant liquid securities holdings in Frankfurt, New York and Tokyo.

A further key element in managing liquidity risks is the newly developed liquidity measurement and analysis system, implementation of which has begun. The core of this system is the recording of all contractual cash flows to be expected in future from existing business, both by day and by currency. Uncertain cash flows, i.e. dependent on market conditions or counterparty decisions, are included on the basis of estimates or modelling using statistical procedures.

Operational risks

Operational risks in Deutsche Bank's risk model are understood to mean two basic types of risk:

1. The operational event risk covers all risks connected with defective processes, inadequate controls or events which cannot be influenced. Examples are IT systems breakdowns, tangible damage, incorrect processing, fraud, inadequate crisis management, and many others.

2. The business risk designates the risk of loss from unexpectedly rising costs or falling income (in particular through changes in customer preferences).

Our approach to modelling operational event risks is based on actuarial methods. Where operational risks are identified as insurable, they are insured under a modern risk-financing strategy.

Taken in total, our efforts are conducive to setting up a global early warning and reporting system.

Management of operational risks

The management of operational risks forms part of the risk process, for which – at Deutsche Bank – the Group Divisions are primarily responsible. Furthermore, the Board of Managing Directors is supported by a number of Corporate Centre units.

... Group Market Risk Management

Group Market Risk Management is responsible for developing standards that must be complied with when new products are introduced in the Group. This helps mitigate the risks that can arise from the introduction of new products.

... Controlling

By providing regular, Group-wide reporting, Controlling helps inform the Board of Managing Directors and the Group Divisions, and calculates the economic capital needed to cover the operational risks.

... Compliance

Compliance ensures that the diverse and complex worldwide capital market regulations and ethical standards of all business operations in the bank's investment and securities businesses are implemented.

... Legal Services

A major remit of Legal Services is to play a substantial part in limiting the Group's legal risks. It does so – together with other Group units – primarily by drawing up and implementing guidelines and standards for the legal structuring and documentation of the bank's business and by providing support for concrete transactions.

... Audit

As a monitoring unit independent of the business functions, Audit examines the appropriateness and effectiveness of the entire risk process. It provides the Board of Managing Directors and the Group Divisions with analyses, valuations and recommendations on the structures and activities audited.

Year 2000

The Year 2000 problem is a special operational challenge.

Year 2000 readiness disclosure

A Group-wide Year 2000 project was launched in 1996 covering all consolidated companies in Deutsche Bank Group and received top priority from the Board of Managing Directors. The project covers checking or Y2K conversion of the Group's entire IT infrastructure, including voice and data networks, all internal systems and internally developed applications, so-called end-user computing, products from external hardware and software suppliers, and also checking and/or replacement of micro processors in building management. At the same time, a global Y2K business project reports directly to the Board of Managing Directors for the management of business and operational risks arising from Y2K, including market, liquidity, credit, legal and image risks, and also covering prevention, drawing up contingency planning and the review of Y2K preparation status of major customers and business partners.

The project work is substantially on schedule; material delays in the timely completion of the project are not to be expected, although countries not occupied with euro conversion work are further advanced with preparations for Y2K. The status of Y2K preparations at Bankers Trust was reviewed as part of the acquisition negotiations. In the planned integration of IT systems for the achievement of synergy effects in the IT sector, regulatory requirements and successful conclusion of the Y2K projects at both banks will be in the foreground. Group-wide internal testing of mission-critical systems under Y2K conditions began in the second half of the year ended. This work is expected to be concluded in the second quarter of this year. Under our present timetable, it is expected that by June 30, 1999, the testing of all mission-critical systems will be complete and implementation substantially complete throughout the Group.

Cross-organisational testing began in 1998, and will be continued on a broader scale this year, with selected financial services infrastructure providers and various major customers in some countries. A global test is planned for June 1999, in which Deutsche Bank will participate jointly with other international banks, important financial services infrastructure providers, and central banks. The importance of this test lies in the validation of the Y2K compliance of global payments systems.

Preventive measures and preparation of contingency plans to reduce operational and business risks due to the Y2K problem have already begun. Contingency planning is continuously adjusted to analyses of potential operational and business risks, the results of cross-organisational tests, and situation reports on the readiness level of key infrastructure providers for the financial sector.

The total costs of the Group-wide Y2K project are expected to be in excess of DM 1 billion. Worldwide, over 1,300 people, 800 of them external advisors, are working in the Group on the IT side alone on the Y2K problem.

Successful mastering of the Y2K problem also depends on the readiness of all involved to share Y2K-relevant information. Under the Y2K project, Deutsche Bank Group is therefore in close contact with regulators, industry bodies, peer organisations and major infrastructure providers in order to support, through coordinated initiatives, the efforts in global financial markets to improve the level of readiness of all financial institutions to meet the millennium challenges successfully.

Jointly with other financial institutions, Deutsche Bank helped to form the Global Year 2000 Co-ordinating Group, an organization which evaluates information which could affect global financial markets on the readiness level of individual countries, cities and companies. The Global Year 2000 Co-ordinating Group has developed a standardized procedure for financial services providers to assess their own Y2K preparations, which is regarded internationally as an important instrument for sharing Y2K-relevant information. Since the first quarter of 1999, Deutsche Bank Group has used the standard developed by the Global Year 2000 Co-ordinating Group to assess its Y2K preparations and published the results in the Internet. The current project status will also be published in the Internet at regular intervals.*

In implementing its Group-wide Y2K project, Deutsche Bank is making all commercially reasonable efforts to minimize the risk of substantial disturbances to its normal business operations due to the Y2K problem. Like all other international financial services providers, however, Deutsche Bank cannot give an absolute assurance that the Year 2000 problem will not affect business operations at individual Group companies, and thus possibly the financial performance of the Group, owing to its dependence on utilities, the public sector and other companies and areas whose preparations it has little scope to influence.

Overall risk position

To calculate the overall risk position, the economic capital figures for all types of risk are aggregated, i.e. the basis taken is a conservative assumption that extreme losses occur simultaneously in all three types of risk.

The table below shows the contributions from the various types of risk to the Group's economic capital, which totalled DM 24.2 billion as at December 31, 1998, taking into account diversification effects. The country, liquidity and operational event risk is not yet included.

in DM m.	31.12.1998
Credit risk	17,590
Market risk	1,201
Operational risk	5,449
Total	**24,240**

Capital and risk position according to supervisory law

A similar function, comparable to that of economic capital, is performed by the risk position for the purposes of supervisory law. This is the basis for calculating the capital required by supervisory law to back the bank's assets-side business. Regulatory and economic capital differ, however, in their divergent methodic approaches – with the exception of market risk, which is calculated with internal models. The regulatory approach to credit

* Y2K project status on the Internet: www.dbgroup.com/2000

risks is very undifferentiated. The internal models, on the other hand, take account of differences in borrower creditworthiness, security, and the correlation and diversification effects in the credit portfolio. Operational risks are also included explicitly in economic capital.

Risk position

From a bank-regulatory point of view, the risk positions (risk-weighted assets including market risk equivalent) look as follows, with the calculation based on German implementation of the Basle minimum standards (BIS rules).

Risk positions (risk-weighted assets and equivalent for market positions) according to BIS (from balance sheet date 31. 12. 1998 on the basis of IAS):

in DM m.	31.12.1997	30.3.1998	30.6.1998	30.9.1998	31. 12. 1998
Risk-weighted assets	444,893	444,956	449,990	448,660	471,180
Market risk equivalent	11,600	17,413	14,350	15,525	25,977
Total	**456,493**	**462,369**	**464,340**	**464,185**	**497,157**

Capital and reserves according to BIS, which were calculated as from December 31, 1998 on the basis of IAS, are made up as shown in the following table:

in DM m.	31.12.1997	30.3.1998	30.6.1998	30.9.1998	31. 12. 1998
Core capital (Tier I)	23,815	23,973	23,828	23,594	31,251*
Supplementary capital (Tier II)	23,815	23,973	23,828	23,518	26,138
Available Tier III funds	664	386	125	0	0
Total eligible capital and reserves	**48,294**	**48,332**	**47,781**	**47,112**	**57,389**
Core capital ratio (incl. market risks)	5.2 %	5.2 %	5.1 %	5.1 %	6.3 %
BIS capital ratio	10.6 %	10.5 %	10.3 %	10.1 %	11.5 %

* including addition – proposed to the General Meeting – of DM 2.1 billion to other revenue reserves and the higher reported figure for revenue reserves owing to first-time and subsquent application of IAS compared with German Commercial Code

With a capital ratio of close on 11.5 %, Deutsche Bank is well above the 8 % figure required by BIS.

Outlook

In 1998, the world economy felt the impact of crises in Russia, Asia and Latin America. As a result, the prospects for the coming year remain subdued. There are increasing signs that growth impulses in the United States and Europe are becoming weaker. Consumer spending should prove to be the mainstay of business activity. The inflation rate is likely to remain at a low level, which should leave the European Central Bank open for further interest rate cuts.

The crises on the capital markets led to a flight into quality assets on the bond market. As the European Central Bank is expected to reduce key interest rates, it is anticipated that yields on Europe's bond markets will continue to fall, at least initially. Although there are no longer any exchange rate risks in the European Monetary Union, the differences that remain in terms of credit standing and liquidity will prevent a complete convergence of yields.

The development of the equity markets in 1998 was characterized by high volatility. Owing to the worldwide slowdown in growth, corporate profits will only expand moderately. So the risk of renewed market corrections remains. Monetary union will stimulate the integration of equity markets. Investors are tending increasingly towards industry and stock-picking. As liquidity continues to grow, trading volume – in derivatives, too – should expand again strongly.

As Bank for Europe, we have been operating since the beginning of the year on a largely uniform European capital market, which is the world's second-largest bond and equity market. Competitive pressure will increase further, partly because of the elimination of currency borders and greater transparency. Deutsche Bank has actively tackled the changed conditions and taken a number of strategic steps.

Following our acquisitions in Italy and Spain, we intend to enhance our outstanding position in European business with private clients, for example through the purchase of Crédit Lyonnais Belgium. We are targeting continued growth primarily in the market segment of high-net-worth individuals and capital-accumulating clients. To take advantage of the growing convergence of retail and remote banking business, and subject to approval by the supervisory authorities and Deutsche Bank's management bodies, we plan to combine our retail operations in Germany with our remote banking subsidiary, Bank 24 AG, to form a legally autonomous unit under the Group banner. This is an opportunity to offer all other customer groups as well reasonably-priced products that meet specific target group needs using various distribution channels.

The planned acquisition of Bankers Trust will make Deutsche Bank one of the largest global providers of financial services for institutional clients and corporations with leading positions in a number of product segments. This will enable us to participate actively in the fast growing and promising securities and capital markets business. At the same time, the integration of Bankers Trust will strengthen divisions that already have stable income flows - such as Asset Management and Private Banking.

Statement by the Board of Managing Directors

The Board of Managing Directors of Deutsche Bank AG is responsible for the Consolidated Financial Statements. They have been prepared in accordance with the International Accounting Standards and also comply with the disclosure requirements of the European Union. The information in the Annual Report is consistent with that in the Consolidated Financial Statements.

The responsibility for correct accounting requires 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, enlarged risk controlling for counterparty and market risks as well as the segregation of duties. It 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 an unqualified opinion. KPMG Deutsche Treuhand-Gesellschaft and the Audit Department of Deutsche Bank had 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 8, 1999

Deutsche Bank AG

Rolf-E. Breuer   Jürgen Krumnow

Auditor's Opinion

We have audited the Consolidated Financial Statements of Deutsche Bank AG as at December 31, 1998. The Consolidated Financial Statements include the documents required in the standards laid down by the International Accounting Standards Committee (IASC) and additional information required under European law. The Consolidated Financial Statements are the responsibility of the company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, on whether the Consolidated Financial Statements comply with the International Accounting Standards (IAS).

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 to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatements. Performing an audit includes examining, on a test basis, evidence supporting the carrying amounts 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 believe that our audit provides a sufficiently sound basis on which to issue our opinion.

Our audit led to no objections. The criteria for exempting a company from presentation of Consolidated Financial Statements under German law have also been met. In our opinion, the Consolidated Financial Statements give a true and fair view of the company's net assets and financial position as at December 31, 1998, 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 10, 1999

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rolf Nonnenmacher	Reinhard Prahl
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

Hilmar Kopper

Chairman of the Supervisory Board

The Supervisory Board was kept informed about the bank's situation and current questions of business policy at its six 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 Asset Management, credit business, questions of employment security and employability of staff and specific business matters of importance, particularly the acquisition of Bankers Trust, were the subject of intensive discussion.

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

In addition, the Supervisory Board discussed changes in the bank's portfolio of holdings. 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 in detail about the work done by the Divisional Boards and looked at developments in information technology, particularly with regard to preparations for the euro and the year 2000.

At its six meetings, the Credit and Market Risk Committee discussed all commitments subject to mandatory approval under German law and the Articles of Association, as well all loans entailing special risks. Where necessary, the Committee gave its approval to all commitments presented by the Board of Managing Directors. Here, market and country risks and exposures in the emerging markets were discussed in particular detail. The newly established Financial Statements Committee met for the first time on July 21, 1998 to examine the bank's six-month interim report. The Presiding Committee of the Supervisory Board met four times in the reporting period; the Mediation Committee was not convened.

Mr. Jürgen Bartoschek, Prof. Dr. Marcus Bierich, Dr.-Ing. E. h. Hermann Oskar Franz, Dr. Elmar Kindermann and Mr. Herbert Seebold retired from the Supervisory Board at the end of the General Meeting on May 20, 1998. We thank them for their commitment and responsible cooperation. Ms. Sabine Horn, Mr. Heinz Brülls and Mr. Peter Hahn were newly elected to the Supervisory Board as employee representatives. As representatives of the shareholders, the General Meeting elected Dr. rer. oec. Karl-Hermann Baumann and Dr. Hermann Scholl.

Mr. Hagen Findeisen retired with effect from December 31, 1998, and at the same time left the Supervisory Board, of which he had been member since 1983 and Deputy Chairman from 1988 to May 20, 1998. The Supervisory Board thanks Mr. Findeisen for his work which was characterized by a great sense of duty and responsibility.

With effect from May 20, 1998, Georg Krupp and Dr. Ulrich Weiss left the Board of Managing Directors, of which they had been members since 1985 and 1979 respectively. They entered retirement, as did Dr. Michael Endres who, upon retiring on December 31, 1998, could look back over twelve years as Member of the Board of Managing Directors. We thank the gentlemen for their many years of successful work and their valuable contributions to the bank's development.

At the meeting on October 28, 1998, the Supervisory Board resolved to appoint Dr. Thomas R. Fischer full Member of the Board of Managing Directors of Deutsche Bank AG with effect from January 1, 1999 and, with effect from December 7, 1998, appointed Hermann-Josef Lamberti Executive Vice President until September 30, 1999 and full Member of the Board of Managing Directors of Deutsche Bank AG from October 1, 1999.

The bank's auditor attended the balance sheet meetings of the Supervisory Board and its Credit and Market Risk Committee and commented on questions raised.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor of the Annual Financial Statements elected at last year's General Meeting, has audited the accounting, the Consolidated Financial Statements and the Notes, and issued an unqualified opinion. The auditor's report was given to the Supervisory Board for inspection. The Supervisory Board agrees with the results of this audit.

Moreover, the Supervisory Board examined the Annual Financial Statements as at December 31, 1998, the Management Report and the proposed appropriation of profits. We have no objections to them. The Supervisory Board also examined the Consolidated Financial Statements as at December 31, 1998 drawn up in accordance with the regulations issued by the International Accounting Standards Committee (IASC). We had no objections here either. The report of the auditor of the Consolidated Financial Statements was submitted to us.

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

Frankfurt am Main, March 17, 1999

The Supervisory Board

Hilmar Kopper

Hilmar Kopper
Chairman

Supervisory Board

Hilmar Kopper
Chairman
Frankfurt am Main

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until May 20, 1998
normal member until Dec. 31, 1998
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from May 20, 1998
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Dr. Ulrich Cartellieri
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Heinz Brülls*
Dr. Ulrich Cartellieri
Peter Hahn*

* elected by the staff

[1] until May 20, 1998
[2] from May 20, 1998

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Chief Executive Officer
of Andreas Stihl
Waiblingen

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Chairman of the Board of Managing
Directors of DELTON Aktiengesellschaft
für Beteiligungen
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Executive Vice President
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from May 20, 1998

Dr. Herbert Zapp
Frankfurt am Main

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Chairman of the Board of Management
of Gerling Group
Versicherungs-Beteiligungs-
Aktiengesellschaft
Cologne

Group Ten-Year Record in DM million

Balance Sheet	Figures according to IAS[1] 1998	1997	1996	1995	1994	Figures according to German CommC 1993[2]	1992[2]	1991	1990	1989
Total Assets	1,225,530	1,042,964	886,090	721,665	592,634	556,636	498,711	448,785	399,850	343,984
Assets										
Cash reserve	39,459	20,091	23,157	17,913	12,697	7,522	8,948	8,266	6,541	7,443
Placements with, and loans and advances to, other banks	181,300	162,418	136,001	109,218	101,133	97,940	95,646	109,948	93,530	80,167
Loans and advances to customers	537,510	518,486	460,068	409,529	353,161	309,262	294,560	272,511	246,799	211,321
Total provisions for losses on loans and advances	– 14,000	– 14,036	– 13,202	– 14,314	– 14,796					
Assets held for dealing purposes	330,542	231,578	177,172	110,837	65,629					
Investments	88,617	66,717	55,400	49,372	40,609					
Property and equipment	11,427	11,530	10,375	9,062	8,996	12,341	11,136	10,038	7,838	6,699
Total credit extended[3]	486,190	447,916	411,358	379,411	348,531	332,793	321,521	299,723	273,324	233,781
Liabilities										
Deposits from other banks	371,955	286,786	213,953	178,853	123,857	106,984	98,874	102,607	82,986	78,878
Amounts owed to other depositors	451,537	438,614	375,629	301,386	263,875	275,954	242,218	227,395	204,444	164,668
thereof: savings deposits and building saving deposits	47,949	46,730	47,019	46,407	45,111	46,740	45,430	41,647	37,615	32,566
repayable on demand	173,580	178,490	135,924	96,754	82,390	82,862	70,152	59,579	51,709	43,068
with agreed period or period of notice	230,008	213,394	192,686	158,225	136,374	146,352	126,636	126,169	115,120	99,034
Promissory notes and other liabilities evidenced by paper	201,347	152,441	141,610	126,895	114,015	109,489	100,467	83,875	81,838	37,109
Provisions	56,568	51,617	43,053	36,014	29,714	25,067	22,082	10,108	8,894	7,736
Subordinated capital	14,055	12,937	10,425	8,300	8,215	8,185	5,765	1,200	–	–
Capital and reserves	34,502	32,086	29,690	28,043	25,875	21,015	19,324	17,067	15,566	14,367
Derivatives										
Notional volume pursuant to BIS	6,858,525	5,823,137	3,384,436	1,968,506	1,781,683	1,341,414	1,107,113	701,445	601,991	448,749
Credit risk equivalent pursuant to BIS	47,383	42,878	26,710	14,749	17,500	15,896	12,002	8,883	6,809	5,406

Income Statement	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Net interest income	10,833	11,127	10,543	10,810	11,299	11,706	10,899	10,328	8,773	7,390
Provision for losses on loans and advances	1,525	2,205	715	1,266	2,204	3,286	1,910	1,660	2,257	986
Net commission income	10,387	8,937	6,850	5,602	5,596	5,846	4,630	4,157	3,930	3,050
Net income from insurance business	657	608	620	608	559	511	92	74	32	9
Trading profit	3,469	3,601	3,226	2,035	1,039	1,997	1,134	1,114	606	809
General administrative expenses	19,794	18,281	15,219	13,636	12,531	11,731	10,420	9,664	8,163	6,533
Operating profit	4,377	4,364	5,812	4,242	3,629	5,266	4,553	4,182	2,971	3,672
Income taxes	4,509	1,024	2,672	1,445	1,822	2,059	1,574	2,046	1,128	1,964
Net income	3,376	1,019	2,218	2,120	1,715	2,243	1,830	1,410	1,067	1,340

Key figures	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Dividend per share	DM 2.20	DM 1.80	DM 1.80	DM 1.80	DM 1.65[4]	DM 1.65	DM 1.50	DM 1.50	DM 1.40	DM 1.40
Dividend appropriation Deutsche Bank AG	1,173	956	900	897	783[4]	778	695	688	618	557
Earnings per share[5][6]	DM 6.34	DM 1.97	DM 4.44	DM 4.34	DM 3.63	DM 4.60	DM 3.87	DM 3.01	DM 2.32	DM 3.31
Diluted earnings per share[5]	DM 6.33	DM 1.92	DM 4.40	DM 4.23	DM 3.54					
Return on equity before tax (RoE)	24.8 %	6.4 %	17.1 %	13.7 %	14.1 %	24.5 %	21.0 %	21.3 %	16.2 %	27.2 %
Cost/income ratio	78.1 %	75.3 %	71.7 %	71.6 %	67.8 %	58.5 %	62.2 %	61.7 %	61.2 %	58.0 %
BIS capital ratio[7]	11.5 %	10.6 %	9.9 %	10.1 %	10.4 %	11.3 %	10.5 %	10.7 %	10.7 %	11.6 %
Capital and reserves pursuant to BIS[7]	57,389	48,294	43,789	39,908	37,540	40,740	34,910	33,121	29,075	27,568
Staff at year's end	75,306	76,141	74,356	74,119	73,450	73,176	74,256	71,400	69,272	56,580

[1] Owing to the application of IAS, the figures from the Balance Sheet, the Income Statement and the key figures for 1994 to 1998 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.
[3] Excluding reverse repos (money market business backed by securities), cash collateral and securities spot deals.
[4] Excluding anniversary bonus of DM 0.30 per share, or DM 142 million.
[5] Owing to the application of a new standard, earnings per share and diluted earnings per share have been reported on an IAS basis since 1997. The comparative figures according to IAS for the previous years have been adjusted.
[6] Earnings per share for 1989 to 1993 reported according to German CommC figures show net income per outstanding share. This figure is only to a certain extent comparable with the figures according to IAS.

Glossary: technical terms used in the Annual Report for 1998

AS funds
Special retail pension funds that are subject to particular statutory investment regulations. They are largely invested in equities and open-ended real-estate funds.

Asset backed securities
Particular type of securitization of payment receivables in the form of tradable securities. These securities are created by the repackaging of certain financial assets (→ Securitization).

Balanced scorecard
Tool for transforming strategic management goals into qualitative and quantitative targets. The combination of financial and non-financial figures allows a balanced performance measurement at various management levels.

BIS capital ratio
Ratio used by international banks to cover their default risk (risk-weighted assets including off-balance-sheet transactions) and → Market risk with 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 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 risk resulting from the trading operations of securities firms and banks. It forms the 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 (essentially share capital and reserves), supplementary capital (primarily participatory capital, subordinated liabilities and revaluation reserves in listed 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 effectiveness 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.

Discounted cash flow model
Model used to calculate the impact of business decisions on a company's value. Discounted cash flow captures the present value of all the company's cash flows over a certain period, discounted by a risk-adjusted interest rate.

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

Eco-audit
An official certificate documenting that a company's environmental management system complies with EU regulations. It is awarded after the company's environmental management has been audited by an official environmental expert.

E-commerce
The use of electronic networks to settle transactions. In corporate business this mainly entails the exchange of business data, while retail business generally involves the sale of goods via electronic networks (Internet, etc.).

Economic capital
Capital designated to cover unexpected losses suffered by a business unit as a result of credit, market or operational risk. It must therefore be clearly distinguished from the capital reported in the balance sheet.

Electronic banking
The transaction of banking business via electronic networks (Internet, etc.) or by data carrier exchange.

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. 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).

High-yield bond
Fixed-income security with a credit rating of BB+ or lower. Owing to their inferior credit quality, high-yield bonds offer a higher return but also contain a greater risk. Their main issuers are corporates and emerging markets.

Home banking
Facility for carrying out banking transactions from home around the clock via an electronic network (Internet) or by telephone via a direct 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 accounting 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 financial statements, especially investors. The body of rules contains general accounting principles and, at present, almost 40 standards.

Internet Services
Deutsche Bank's service offering on the Internet. Apart from the settlement of transactions, this comprises information on products and services as well as the possibility to ask the bank's staff questions over the Internet. Internet Services includes Internet Banking (account information, transfers and standing orders), Internet Broking (settlement of securities orders) and the exchange of business data.

Jumbo Pfandbrief
Pfandbrief issue of at least DM 1 billion.

Leveraged buy-out (LBO)
Takeover of a company by outside investors or members of the company. A takeover by outside management is called a management buy-in (MBI), while a takeover by the company's own management is a → Management buy-out (MBO). LBOs are characterized by their very high leverage. The majority of the capital needed to buy the company is obtained from bank loans or the issuance of bonds (usually high yield). Principal and interest repayments are largely financed out of the target company's future revenues or by the disposal of parts of the business.

Management buy-out (MBO)
Takeover of a company by its own management (→ Leveraged buy-out).

Mark to market
Valuation of a bank's proprietary dealing activities (→ Trading profit) at current market prices irrespective of acquisition cost, 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 outstanding 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.

Online banking
The transaction of banking business via electronic networks (Internet, etc.). In retail business this is called → Home banking, while the term → Electronic banking is used for corporates.

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

	net interest income after provision for losses on loans and advances
+	net commission income
+	trading profit
+	net income from insurance business
–	general administrative expenses
+	balance of other operating income/expenses
=	operating profit

Operational 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 lower profits 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 counterparty (seller) at a predetermined price at or before a specific future date.

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

Performance
Performance after risk costs measures the absolute profit contribution made by the operational business of each Group Division. It represents the difference between income plus the notional return on capital on the one hand, and costs plus risk provisioning on the other. Notional return on capital is defined as the amount resulting from the imputed return on → Economic capital allocated to a particular division.

Portfolio
In general: part or all of one or all classes of asset (e.g. securities, loans, equity participations or real estate). The formation of portfolios is intended primarily to diversify risk.
Securities: similar deals, in particular securities and/or derivatives, grouped together according to price risk criteria.

Private banking
Business with high-net-worth and capital-accumulating clients interested in investment products.

RAROC (risk-adjusted return on capital)
Yardstick for measuring return on equity. It constitutes the ratio between → Performance, taking into account the so-called expected loss, and → Economic capital.

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

Regular income
Net interest income, net commission income, trading profit plus net income from insurance business.

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

Retail banking
In general: business with private individuals, self-employed people and small businesses.
Here: branch business including complementary distribution channels such as self-service, home banking and cards.
Retail banking does not include → Private banking.

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.

Secondary offering
A further public offering of company equity already listed on the stock exchange. This is the customary procedure when shares held by major shareholders or families or other permanently held blocks of equity are to be placed with new shareholders.

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, broken down by activity (division) and geographical area (region).

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 add value for shareholders.

Social balance sheet
Generic term for various types of cost/benefit calculations concerned with the monetary quantification of the effects of business activities on certain groups, such as staff, shareholders or the state.

Structured finance
Generic term for highly customized types of financing, as distinct from standardized corporate business. Structured finance is made up primarily of asset-backed finance, export finance, international leasing, leveraged finance, project finance, syndicated finance and tax-driven finance.

Swaps
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 principal amounts in different currencies.

Trade & payment services
Services and products provided in connection with settlement, financing and risk assumption on behalf of customers' foreign trade transactions. This product area consists mainly of the global distribution of domestic and international payments (including documentary business), guarantees as well as global trade management services (insourcing of foreign trade settlement for customers).

Trading fund
No-load fund, i.e. without front-end fees.

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.

Trust banking
Generic term for all types of securities transactions. It mainly comprises financial analyses, investment advice for clients, portfolio management and securities custody and settlement.

Value at risk (VAR)
Method for calculating the potential loss from market price movements. Value at risk states the maximum loss to a certain pre-determined level of probability (e.g. 97.7 %) for a given holding period (e.g. one day) under normal market conditions.

Wholesale bank
Term used to describe a bank which focuses on business with large clients, primarily corporates and institutions.

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Deutsche Bank AG
Wertpapierdienste
Hauptversammlungen
Aktionärsservice – PKS –

D-60262 Frankfurt

From

Name

Street

Postcode Town/City

Country

Deutsche Bank Aktiengesellschaft
Taunusanlage 12
D-60262 Frankfurt am Main

For shareholder information please contact
Investor Relations:
Telephone + 49 69 9 10 - 3 80 80
Facsimile + 49 69 9 10 - 3 85 91
E-mail: db.ir@db.com

The Annual Report on the Internet:
www.deutsche-bank.com/98

Financial calendar for 1999/2000

May 5, 1999	Interim Report as at March 31, 1999
May 17, 1999	**General Meeting Festhalle, Frankfurt am Main (Exhibition Centre)**
May 18, 1999	Dividend payment
July 28, 1999	Interim Report as at June 30, 1999
October 26, 1999	Interim Report as at September 30, 1999
February 16, 2000	Publication of key figures for the 1999 financial year
April 12, 2000	Annual Press Conference and publication of the Annual Report for 1999
May 4, 2000	Interim Report as at March 31, 2000
June 9, 2000	**General Meeting Festhalle, Frankfurt am Main (Exhibition Centre)**

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Deutsche Bank