DB Privat- und Firmenkundenbank AG

Interim Report as of June 30, 2018

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On May 25, 2018, Deutsche Postbank AG, Bonn, was merged with Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, pursuant to section 2(1) of the *Umwandlungsgesetz* (UmwG – German Transformation Act) with retroactive effect to January 1, 2018. At the same time, Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, was renamed DB Privat- und Firmenkundenbank AG, Frankfurt am Main ("DB PFK AG" in the following). The company is a wholly-owned subsidiary of Deutsche Bank AG and included, together with its subsidiaries, in the consolidated financial statements of Deutsche Bank AG. This Interim Report includes the constituent parts of a semi-annual financial report as described in section 115 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). As a capital market-oriented stock corporation, DB PFK AG has prepared its own consolidated financial statements for the reporting period in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). These condensed consolidated financial statements were prepared in accordance with the requirements of IAS 34 and thus do not contain all of the information contained in complete consolidated financial statements.

These condensed consolidated financial statements represent the first-time that DB Privat- und Firmenkundenbank Group (DB PFK) has engaged in corporate reporting in accordance with IFRSs. Consequently, the preparation of these consolidated financial statements takes into account both the requirements of IAS 34 and the provisions of IFRS 1 "First-time Adoption of International Financial Reporting Standards".

Following the merger, DB PFK, with its 20+ million customers, is now the clear number one provider on the retail banking market in Germany, and its establishment lays the foundation for future business growth and efficiency gains. Its two brands – "Deutsche Bank" and "Postbank" – are longstanding institutions of the German banking market and will be preserved, allowing our customers to continue to enjoy their established banking services and avenues of contact.

Over the past few months the Deutsche Bank and Postbank brands further sharpened their respective profiles. Whereas the Deutsche Bank brand serves chiefly as a risk manager and point of contact providing in-depth advisory services to customers with individual and complex requirements, the Postbank brand covers the need for standardized daily banking services. "Two brands – one bank" is their common dictum. The merger has also opened up growth prospects in select areas of the private & commercial business such as asset management, lending, and digital banking.

Key Locations

DB PFK AG is domiciled in Frankfurt am Main. The following branches each have business addresses registered in Bonn (Friedrich-Ebert-Allee):

- Postbank: a branch of DB Privat- und Firmenkundenbank AG
- DSL Bank: a branch of DB Privat- und Firmenkundenbank AG

The former Luxembourg branch of Deutsche Postbank AG will continue to operate as the Luxembourg branch of DB PFK AG but conduct its business under the name "Postbank Luxembourg – a branch of DB Privat- und Firmenkundenbank AG".

BHW Bausparkasse AG, as the key subsidiary of the former Deutsche Postbank AG, is now a subsidiary of DB PFK AG and remains domiciled in Hameln.

Sales Markets and Competitive Position

In the area of retail banking, DB PFK conducts its business almost exclusively in Germany and is one of the major financial services providers in the country. DB PFK intends to position itself as a fair and reliable partner that utilizes differentiated approaches in client coverage to address a broad spectrum of clients.

DB PFK's important competitors in the retail banking business in Germany are primarily providers from the sector of savings banks and cooperative banks as well as several major banks.

In addition to its business with private clients, DB PFK is involved in the commercial banking business. Here it offers complex advisory solutions in cooperation with the Private & Commercial Bank division of the parent company. In the areas of payment services and factoring, DB PFK is one of the leading providers in Germany. DB PFK also serves as a partner for commercial mortgage lending with a European orientation for its commercial clients.

In this business segment as well, the most significant competitors are providers from the sector of savings banks and cooperative banks as well as several major banks.

Management Structure

In accordance with the provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act), the Management Board is responsible for the executive management of DB Privat- und Firmenkundenbank AG. Its members are appointed and dismissed by the Supervisory Board. The responsibilities of our Management Board include strategic management, corporate governance, financial accounting and reporting, resource allocation, as well as control and risk management. Functional committees provide assistance with these duties. Following the merger, the composition of the executive committees and bodies were duly modified upon entry into the Commercial Register on May 28, 2018, to take into account the altered and expanded business division.

The Management Board and the Supervisory Board work closely together for the collective good of the Company. The Management Board performs corporate management duties in keeping with its responsibilities outlined in stock corporation law. The Supervisory Board fulfills supervisory, monitoring and advisory duties. As of the reporting date, the two corporate bodies consist of the following members:

Management Board

Frank Strauss, Chief Executive Officer, Bad Nauheim (Chairman)
Stefan Bender, Head of Deutsche Bank Commercial Clients and Head of Deutsche Bank Private Clients, Bad Vilbel
Alexander Ilgen, Chief Financial Officer, Frankfurt am Main
Susanne Klöss-Braekler, Head of Postbank Private Clients I, Munich
Britta Lehfeldt, Human Resources/ Chief Regulatory Officer/ Chief Administrative Officer, Frankfurt am Main
Ralph Müller, Head of Postbank Commercial Clients, Bonn
Markus Pertlwieser, Chief Digital Officer, Bad Soden
Zvezdana Seeger, COO/ Head of IT/ Operations, Berlin
Hanns-Peter Storr, Chief Risk Officer, Bonn
Lars Stoy, Head of Postbank Private Clients II, Bonn

Senior Director:
Asoka Wöhrmann, Head of Deutsche Bank Private Clients, Bad Salzuflen

Supervisory Board

Christian Sewing, Osnabrück (Chairman)
Susanne Walzer[1], Kaiserslautern (Deputy Chair)
Hans-Holger Albrecht, Umhausen, Austria
Frank Bsirske[1], Berlin
Alexander Diffenhard[1], Plochingen
Wolfgang Ermann[1], Fürth
Ursula Feikes-Feilhauer[1], Grevenbroich
Claudia Fieber[1], Berlin
Marzio Hug, London, UK
Joachim Kotthoff[1], Nauheim
Karen Kuder, Frankfurt am Main
Philip Laucks, Goldbach
Christiana Riley, Bad Homburg vor der Höhe
Michael Spiegel, Bad Homburg vor der Höhe
Werner Steinmüller, Dreieich-Buchschlag
Jörg Wolfram[1], Leipzig

[1] Employee representatives

Current members of the DB Privat- und Firmenkundenbank AG Supervisory Board and its committees

Supervisory Board			
Christian Sewing (Chairman)	Alexander Diffenhard[1]	Marzio Hug	Christiana Riley
Susanne Walzer[1] (Deputy Chair)	Wolfgang Ermann[1]	Joachim Kotthoff[1]	Michael Spiegel
Hans-Holger Albrecht	Ursula Feikes-Feilhauer[1]	Karen Kuder	Werner Steinmüller
Frank Bsirske[1]	Claudia Fieber[1]	Philip Laucks	Jörg Wolfram[1]

Executive Committee (section 09 of the Supervisory Board Bylaws)	
Christian Sewing (Chairman)[2]	Frank Bsirske[1]
Susanne Walzer (Deputy Chair)[2]	Philip Laucks

Nomination Committee (section 12 of the Supervisory Board Bylaws)	
Christian Sewing (Chairman)[2]	Frank Bsirske[1]
Susanne Walzer[1] (Deputy Chair)[2]	Philip Laucks

Risk Committee (section 10 of the Supervisory Board Bylaws)	
Werner Steinmüller (Chairman)	Wolfgang Ermann[1]
Alexander Diffenhard[1]	Marzio Hug

Compensation Control Committee (section 13 of the Supervisory Board Bylaws)	
Christian Sewing (Chairman)[2]	Frank Bsirske[1]
Susanne Walzer[1] (Deputy Chair)	Philip Laucks

Audit Committee (section 11 of the Supervisory Board Bylaws)	
Christiana Riley (Chair)	Joachim Kotthoff[1]
Ursula Feikes-Feilhauer[1]	Karen Kuder
Claudia Fieber[1]	Michael Spiegel

Mediation Committee (section 27 of the *Mitbestimmungsgesetz* (MitbestG – German Co-determination Act)	
Christian Sewing (Chairman)[2]	Frank Bsirske[1]
Susanne Walzer[1] (Deputy Chair)[2]	Philip Laucks

[1] Employee representatives [2] appointed ex officio

Group Management

The corporate bodies and committees obtain the information required for the performance of duties primarily from reporting on current business developments differentiated according to the contributions of the Deutsche Bank and Postbank brands. Within this structure they allocate resources and assign managerial responsibility at the levels below the Group Management Board. This structure has been adapted to the management systems of the parent company (Private & Commercial Bank – PCB), which are also to be differentiated by brand. DB PFK AG and its subsidiaries and equity investments to be included in consolidation make a key contribution to PCB.

Financial and Non-financial Key Performance Indicators

Financial and non-financial key performance indicators could not yet be definitively established owing to the brief period of time between the merger of Deutsche Postbank AG, Bonn, and Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt on Main, on May 25, 2018, a process associated with substantial changes in business scope and the reporting date. During this short period of time, DB PFK is transitionally managed in relation to the factors of total income (consisting of net interest income and total non-interest income) and net income (loss) before tax as presented in the Consolidated Statement of Income in this report. Up until the merger, these institutions were managed on the basis of their own prior system of key performance indicators. In addition, earnings of the PCB business segment of our parent company, to which DB PFK makes a key contribution, are also monitored pursuant to the key performance indicators of our parent company.

Corporate Overview

Products and Services

As an institution with two brands – Deutsche Bank and Postbank – we pursue a differentiated, customer-focused approach in our advisory services and product range.

The Deutsche Bank brand offers private clients a comprehensive range of banking and financial products and services that include special and individual solutions primarily in the area of investment advice. In its positioning as the “principal banking connection” for small and medium-sized clients, Deutsche Bank offers solutions for all banking transactions – including complex products such as international financing and capital market products.

The Postbank brand offers its private clients standardized banking solutions for everyday needs, focusing on payment transactions, loans, and cash withdrawal. Postal and parcel products and services are also available in the Postbank brand branches thanks to a cooperation agreement with Deutsche Post AG. This relationship increases the number of customers who visit the branches every day and thus multiplies sales opportunities. In the area of commercial clients, the Postbank brand concentrates on payment transaction and financing solutions as well as on select core products such as factoring, commercial mortgage lending, and domestic transaction banking, to ensure a broad range of products and suitable advisory expertise for this client segment.

Distribution Channels and Marketing

To optimize accessibility and availability of services for our clients, we follow an omni-channel approach across both brands – each with its own clearly recognizable and independent brand identity. Here the expansion of our digital presence remains a high priority in all our business segments. We remain personally available to our customers through the following channels:

– Branches: In our branches, we generally offer the entire range of products and advisory services through our Deutsche Bank and Postbank brands. The branch network is supported by customer call centers and self-service terminals. Additionally, the Postbank brand has service points in around 4,200 Deutsche Post AG partner retail outlets where customers can access select Postbank financial services. In Germany, we offer cash services at more than 10,000 ATM cash points.

– Advisory centers: The advisory centers of the Deutsche Bank brand function as a link between the branches and our digital offers to ensure comprehensive support and advice for our private and commercial clients both during and outside of normal branch business hours.

– Online and mobile banking: Both brands have websites offering clients a broad variety of product information and services including interactive tools, online tutorials, access to certain media content, and options for product transactions. We also provide a powerful transaction platform for banking, brokerage, and self-services, and combine these offers with our highly popular app solutions for smartphones and tablets. Moreover, we invest in additional improvements to client-friendly end-to-end processes.

– Financial advisors/ sales and cooperation partners: Both brands utilize self-employed financial advisors and sales and cooperation partners to provide additional channels of access to banking products and financial services.

Corporate Divisions

DB PFK divides its business up into the following three corporate divisions, a structure that is also used consistently in segment information:

Deutsche Bank Brand

The results generated in this corporate division in the Private & Commercial Business in Germany are disclosed in this section. This brand is positioned with a broad range of financial and advisory services that include complex solutions for our private clients. In addition, the Deutsche Bank brand offers an integrated advisory concept for small and medium-sized enterprises in cooperation with experts from the Corporate & Investment Bank of our parent company. We make these services available to our customers on the basis of an omni-channel strategy; customers can access daily banking services and qualified advisory options through any of our channels, whether mobile or branch-based. Those contact options that are the unique province of the Deutsche Bank brand include our branch network, online banking and online brokerage, self-service terminals, mobile sales, advisory centers and DB Direkt, as well as our customer service hotlines.

The product range offered by the brand runs from transaction banking services, the current accounts and savings business, pension and investment advice including wealth advisory solutions, through mortgage lending, consumer credit financing, the home savings business, commercial mortgage lending including export financing and factoring, to cash, interest rate and currency management solutions. We also aim at becoming the recognizable trendsetter with our innovations, offering our customers new kinds of products as well as traditional banking and financial services.

For integrated earnings management purposes, we disclose net income from this business and the associated loan loss allowances as well as the direct costs of the corresponding sales organizations for the Deutsche Bank brand. Other items reported under this brand are the direct costs of the operating platforms and infrastructure units that can be directly assigned to this business as well as the related invoicing for corresponding services provided by the parent company.

Postbank Brand

The results generated by the Postbank brand are disclosed in this section. With our Postbank brand offer we target private and commercial clients in Germany. In the private client business, we focus on standardized, reasonably priced banking and financial services designed to meet typical needs. The product and service range encompasses current account and savings products, credit and debit cards, mortgage lending, installment loans, home savings, securities and securities accounts, and the sale of investment funds. The Postbank brand offers commercial clients services for payment transactions and corporate loans, commercial mortgage lending with a European orientation as well as factoring and leasing. Cash investments and solutions in the area of interest rate and currency management complete the portfolio. These products and services are offered with their own independent brand identity through a Germany-wide branch network of finance, advisory and sales centers, as well as through mobile sales, call centers, and direct banking via online sales channels.

Income and expenses from the so far largely independent money and capital market activities are also allocated to this corporate division, activities that primarily serve the management of the interest and liquidity position as well as the optimized use of resources for the businesses of this brand. Other items assigned to the Postbank brand are net income, the associated loan loss allowance, and the costs for those units through which sales under this brand are made. Moreover, costs from central and operating functions that directly support this brand are also reported in this segment.

“Other” Segment

The “Other” segment primarily shows the restructuring and investment costs related to the integration of Postbank and Deutsche Bank, costs of the infrastructural areas supporting the Deutsche Bank brand, and earnings effects from transactions with the parent company.

Strategy

In March 2017, Deutsche Bank AG announced its intention to integrate Deutsche Postbank AG and its subsidiaries – which had been separated as far as possible from Deutsche Bank – fully into the parent company. A new program, "The Bank for Germany", was developed for this purpose. Following the internal announcement of the program in October 2017, the first major milestone in its implementation was reached in May 2018 with the merger of the two legal entities of Deutsche Postbank AG and Deutsche Bank Privat- und Geschäftskunden AG into DB PFK AG. The fusion of the business into one institution and the joint management of the brands Deutsche Bank and Postbank for the Private & Commercial Business in Germany within Deutsche Bank Group are fundamental to further integration and the achievement of targeted synergies.

The unique positioning of both brands, the broad customer base and the exploitation of the complementary strengths of both brands and organizations provide a foundation for achieving significant cost and income synergies of more than € 900 million per annum starting in 2022 in Deutsche Bank Group – substantially in DB PFK AG – and ultimately create in the long term the condition for profitability above the market average. To achieve these goals, the new bank will primarily utilize efficient and standardized operating processes with a joint IT and product platform and joint overall bank management. Additional IT cost synergies can be achieved with optimized end-to-end processes and a streamlining of the product offer (e. g., in the area of home savings).

Both brands will continue to develop their products and services further in line with their own unique brands. Joint management in the future will ensure the greatest possible market success. Initiatives to realize these plans include further optimizing the branch networks of both brands depending on customer needs and further increasing the number of contact points by mutual cooperation.

The digital strategies of both brands will also be aligned with one another to achieve synergies through a shared exploitation of the digital offers. Brand-specific front-ends will be preserved and other select digital offers will be made mutually available to clients of both brands.

Operating and Financial Review

Economic Environment

The Global Economy

Economic growth (in %)	Jun 30, 2018[1]	Dec 31, 2017[2]	Main driver
Global economy	**3.9 %**[3]	3.8 %	Broad economic expansion led to robust growth. Increasing tensions in global trade were reflected in a weakening of leading indicators.
Thereof: Industrialized countries	2.3 %	2.2 %	In the industrialized countries, GDP growth was above trend, supported by nearly full employment on the labor markets in many countries.
Emerging markets	5.0 %	4.9 %	The emerging markets proved their resilience to the market trends. However, the liquidity shortage is leading to disparities between the individual countries.
Eurozone[4]	**2.3 %**	2.5 %	Several eurozone countries are on a full employment course. Growth continued in the first half of 2018 despite a downturn in cyclical momentum.
Thereof: Germany	2.2 %	2.2 %	GDP growth was above trend thanks to a very thight labor market, expansionary monetary policy, and additional fiscal stimuli. Growing trade tensions are headwind to growth.

[1] Source: Deutsche Bank Research Forecasts
[2] Source: Deutsche Bank Annual Report as of December 31, 2017
[3] Only annual forecasts available
[4] Quarterly growth rates in % compared to prior year figures

Banking Industry[1]

Momentum in the loan business with the private sector in the eurozone remained modest in the first half of 2018. The portfolio of loans to private households increased 1.1 % as compared to the end of 2017. Total credit extended to companies grew 1.2 %. On the funding side, deposits by private households increased 2.3 %. Deposits by companies rose a very modest 0.3 %.

Loan momentum in Germany remained higher than in the eurozone. Lending to private households increased 1.5 % in the first half of 2018, attributable in particular to 2.3 % growth in residential construction loans. The corporate lending portfolio expanded 3.8 %. Deposits by private households rose 1.9 %, while corporate deposits decreased by 1.5 %.

Consolidated Results of Operations

in €m (unless stated otherwise)	Jan – Jun 2018	 2017	Absolute change	Change in %
Income:				
Thereof:				
Deutsche Bank brand	1,293	1,336	−43	−3
Postbank brand	1,810	1,515	295	19
Other	50	167	−117	−70
Total income	**3,153**	3,018	135	4
Loan loss allowance	**–72**	–28	–44	–157
Non-interest expenses:				
Compensation and benefits	1,160	1,206	−46	−4
General and administrative expenses	1,319	1,218	101	8
Total non-interest	**2,479**	2,424	55	2
expenses	**602**	566	36	6
Net income (loss) before tax	–48	3	51	N/M
Income tax expense (benefit)	**554**	569	−15	−3

N/M – Not meaningful

Earnings Performance in the First Half of 2018 Compared with the Prior-year Period

DB PFK AG and its consolidated subsidiaries and investments recorded a slight year-on-year increase in net income before tax to €602 million in the first half of 2018. Profit in both periods was impacted by a range of material non-recurring factors. Positive factors for the reporting period are in particular the optimization of our real estate portfolio and the adjustment of restructuring provisions. Positive factors in the prior-year period were the unusually high proceeds from the realization of a corporate credit exposure and comparatively higher income from the adjustment of restructuring provisions. Additionally, profit was negatively impacted in the prior-year period by the early redemption of subordinated liabilities. Even without these factors, the earnings contribution of our two brands Deutsche Bank and Postbank to net income before tax was largely on a level with the prior-year period. Whereas our two brands recorded positive results in the first half of 2018, profit was reduced by the separately managed “Other” segment – mainly because of investments as part of the integration as well as earnings contributions from transactions with the parent.

At €3.2 billion, total income increased by €135 million or 4 % year-on-year. This increase was driven by the positive year-on-year contributions from the optimization of the real estate portfolio and the impact of the exercise of the call option for subordinated capital in the prior-year period, as described above. Income from the customer business of our two brands was negatively impacted by the effects of the persistently low interest rate environment on deposit products, new regulatory requirements in the investment business, and the new agreement entered into with Deutsche Post AG concerning the provision of postal services in our Postbank brand branches. The negative factors were largely, albeit not fully, offset by the continued very encouraging growth in lending volumes – in particular in the product portfolio offered under our Postbank brand.

[1] Source: European Central Bank, Statistical Bulletin as of July 25, 2018

The loan loss allowance in the first half of 2018 amounted to €72 million, representing a considerable €44 million (157 %) increase compared with the prior-year figure. Whereas there was an unusually high reversal of the loan loss allowance as a result of the realization of a corporate credit exposure and the proceeds from the sale of the portfolios of non-performing loans in the prior-year period, the positive effect from the sale of a non-performing portfolio in the reporting period was considerably lower.

At €2.5 billion, non-interest expenses in the first six months of 2018 were largely on a level with the prior-year period, with an increase of €55 million (2 %). Compensation and benefits declined by €46 million (4 %), primarily because of the successful implementation of the goals formulated in our parent company's Strategy 2020, as well as reversals of provisions in the reporting period in connection with adjustments to pension arrangements. General and administrative expenses amounted to €1.3 billion, corresponding to an increase of €101 million (8 %). This was primarily a result of the higher reversal of restructuring provisions in the prior-year period as well as additional investments in the reporting period to integrate our two brands and organizations. The savings generated by our strict cost discipline were offsetting factors that reduced general and administrative expenses.

At €554 million, net income in the first half of 2018 was down on the prior-year period (€569 million). Income tax expense in the first six months of 2018 was €48 million, compared with an income tax benefit of €3 million in the first six months of 2017.

Segment Results of Operations

The following tables show the year-to-date results of operations of the segments/divisions, including the reconciliation to the condensed IFRS consolidated financial statements, in each case for the first half of 2018 and 2017.

				Jan – Jun 2018
in €m (unless stated otherwise)	Deutsche Bank brand	Postbank brand	Other	Total Group
Net interest income	837	1,107	58	**2,002**
Loan loss allowance	4	−76	0	−72
Net interest income after loan loss allowance	841	1,031	58	**1,930**
Net commissions and fee income	437	448	30	915
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	8	−5	−44	−41
Net gains (losses) on financial assets/liabilities at fair value through other comprehensive income	0	79	0	79
Other income (loss)	11	180	6	197
Total non-interest income	456	703	−8	**1,151**
Compensation and benefits	−488	−657	−15	−1,160
General and administrative expenses	−623	−617	−79	−1,319
Total non-interest expenses	−1,111	−1,274	−94	**−2,479**
Net income (loss) before tax	186	460	−44	**602**

				Jan – Jun 2017
in €m (unless stated otherwise)	Deutsche Bank brand	Postbank brand	Other	Total Group
Net interest income	844	1,010	155	2,009
Loan loss allowance	−16	−11	0	−28
Net interest income after loan loss allowance	827	999	155	1,981
Net commissions and fee income	458	471	13	942
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	8	87	25	120
Net gains (losses) on financial assets/liabilities at fair value through other comprehensive income	0	69	0	69
Other income (loss)	27	−121	−27	−121
Total non-interest income	493	505	11	1,009
Compensation and benefits	−510	−679	−17	−1,206
General and administrative expenses	−540	−636	−42	−1,218
Total non-interest expenses	−1,050	−1,315	−59	−2,424
Net income (loss) before tax	271	187	108	566

Divisions

Deutsche Bank Brand

Net income before tax

Net income before tax at the Deutsche Bank brand was €186 million in the first half of 2018, following €271 million in the prior-year period. The main factors driving the decrease were a comparatively higher reversal of restructuring provisions in the prior-year period and higher infrastructure cost allocations from Deutsche Bank Group. Without these two effects, the income generated in the persistently challenging market environment – due in particular to the continued low level of interest rates and tougher new regulatory requirements – was at the prior-year level. The declining income was offset in particular by the successful implementation of Strategy 2020, strict cost discipline, and the sale of a non-performing loan portfolio.

Total income

At €1,293 million, total income decreased slightly year-on-year by €43 million or 3 %. This decline is attributable on the one hand to lower margins in the deposit and lending business due to the persistently low interest rate environment and the resulting high availability of liquidity. On the other, regulatory changes (including MiFID II) weighed on the investment business.

Net interest income declined by €7 million or 1 % to €837 million. The decrease was driven by the low interest rate environment and the ensuing challenges for the deposit business, as well as margin pressure in the lending business. Compared with the prior-year period, the reclassification of income from the provision of securities in the TLTRO (targeted longer-term refinancing operations) program, which was previously reported in net commissions and fee income, produced a non-recurring positive effect in this line item.

Non-interest income

Non-interest income was down €37 million or 8 % year-on-year, at €456 million. This decline was mainly driven by the change in net commissions and fee income. Net commissions and fee income was down by €20 million, at €437 million. Adjusted for the reclassification of commissions and fee income to interest income as described above, the decrease was attributable primarily to lower income from investment products due to regulatory changes (including MiFID II).

Loan loss allowance

The loan loss allowance improved by €20 million to a net reversal of €4 million, compared with a net new charge of €16 million in the prior-year period. This positive development was mainly the result of the sale of a non-performing loan portfolio in the second quarter of 2018.

Total non-interest expenses

Expenses rose by €61 million year-on-year to €1,111 million, due in large part to the higher reversal of restructuring provisions in the reporting period. Adjusted for this effect, expenses remained stable despite the impact of higher infrastructure cost allocations from Deutsche Bank Group and increased investment in digitization. This is primarily attributable to significantly lower compensation and benefit costs resulting from the successful implementation of Strategy 2020.

Postbank Brand

Net income before tax

Net income before tax at the Postbank brand was €460 million in the first half of 2018, following €187 million in the prior-year period. The main reason for the significant earnings improvement was the increase in income, which was lifted by a range of non-recurring effects. Particularly noteworthy in this context are the positive contributions in the reporting period from the optimization of our real estate portfolio, and in the prior-year period the impact of the exercise of the call option for subordinated capital and significant proceeds from the realization of a corporate credit exposure. Adjusted for these effects, net income before tax recorded a significant €40 million year-on-year increase.

Total income

At €1,810 million, total income rose by €295 million compared with the prior-year period. The main reasons for this increase in income were, in the reporting period, the contributions from the optimization of our real estate portfolio referred to above and, in the prior-year period, the impact of the exercise of the call option for subordinated capital. Even disregarding these effects, we recorded a slight increase in total income in a challenging market environment.

Interest-related income

Net interest income increased by €97 million to €1,107 million. This was due above all to the measurement of liabilities in the home savings business and increased compensation for the Postbank brand's participation in the refinancing advantage for Deutsche Bank Group resulting from the TLTRO program of the European Central Bank (ECB). The significant impact of the low interest rate environment on margins in the deposit business was almost entirely offset by strong growth in all credit products. The total volume of credit product portfolios rose in the same period by €5 billion, from €65 billion to €70 billion.

Non-interest income

At €448 million, net commissions and fee income was €24 million lower than in the prior-year period. The main reasons for this decline were the effects of the renegotiated agreement with Deutsche Post AG to provide postal services in our branch network.

At €–5 million, net gains (losses) on financial assets/liabilities at fair value through profit or loss were down €92 million on the prior-year period. The net gains (losses) reported in this item mainly result from the measurement of outstanding banking book derivatives that are used to hedge interest rate risk at portfolio level. The reported loss for this item is a result of the comparatively dynamic change in the yield curve in the relevant maturity bands in the first six months of 2017.

The collectively slightly positive growth in the items net gains (losses) on financial assets/liabilities at fair value through other comprehensive income and net gains (losses) on financial assets available for sale is primarily a result of the ongoing optimization of our portfolio of investment securities and other investments, whereby positive effects on income arose primarily from transactions in government bonds in the reporting period. The change in the presentation of the corresponding gains and losses between these two items is a result of the modification of the accounting policies applied due to the introduction of IFRS 9 as of January 1, 2018.

At €180 million, other income was considerably higher than in the prior-year period (+ €301 million). The main drivers behind this increase were the proceeds generated from the optimization of our real estate portfolio (+ €172 million) and the impact of the exercise of a contractually agreed call option for subordinated capital in the previous year (+ €118 million).

Loan loss allowance

The loan loss allowance increased significantly from €11 million in the prior-year period to €76 million. This change is largely attributable to the loan loss allowance reversal enabled by the realization of a corporate credit exposure and the sale of portfolios of non-performing loans in the reference period.

Total non-interest expenses

Non-interest expenses decreased by €41 million to €1,274 million in the first six months of 2018 despite a higher volume of business in the lending business and the impact of growing regulatory requirements. General and administrative expenses declined by €19 million to €617 million in the reporting period thanks to Postbank's strict cost management. Compensation and benefits was €22 million lower at €657 million in the first six months of 2018, despite increases in collectively agreed wages and the recognition of a provision for staff-related measures, due to reversals of provisions following the modification of pension arrangements and a sustained reduction in headcount.

“Other” Segment

Net income (loss) before tax

The segment recorded a loss before income taxes of €44 million in the first half of 2018, following income of €108 million in the previous year. The investment costs of €87 million incurred for the integration of Postbank and Deutsche Bank accounted for a significant proportion of this €152 million decrease. There were no comparable expenses in the previous year. In addition, the measurement differences reported in this segment between the net present value-based banking book management used for management reporting and IFRS financial reporting (IAS 39/IFRS 9) widened.

Total income

The considerable decrease in total income is due mainly to the above-mentioned measurement difference resulting from the application of the accrual method of accounting for customer business required under IFRSs and the net present value-based accounting for the related derivative hedging instruments. The application of fair value hedge accounting reduces these measurement differences, but hedge effectiveness could not be achieved to the fullest extent possible because of changes in the yield curve.

Total non-interest expenses

Expenses rose by €35 million to €94 million in the first half of fiscal year 2018. The investment costs incurred for the integration of Postbank and Deutsche Bank exceeded the reduction in the compensation and benefits costs of the infrastructure functions achieved by the restructuring program as part of Strategy 2020.

Financial Position

in €m (unless stated otherwise)	Jun 30, 2018	Dec 31, 2017	Absolute change	Change in %
Cash and central bank balances	13,928	14,451	−523	−4
Interbank balances (w/o central banks)	40,367	43,026	−2,659	−6
Central bank funds sold, securities purchased under resale agreements, and securities borrowed	1,223	835	388	46
Financial assets at fair value through profit or loss	5,117	9,384	−4,267	−45
Positive fair values from derivative financial instruments	4,571	6,542	−1,971	−30
Total non-trading financial assets designated at fair value through profit or loss	546	0	546	N/M
Total financial assets designated at fair value through profit or loss	0	2,842	−2,842	N/M
Loans	182,328	182,920	−592	0
Brokerage and securities-related receivables	275	270	5	2
Other assets	20,995	19,923	1,072	5
Total assets	**264,233**	270,809	−6,576	−2
Deposits	217,179	212,673	4,506	2
Central bank funds purchased, securities sold under resale agreements, and securities loaned	1,135	2,757	−1,622	−59
Financial liabilities at fair value through profit or loss	4,118	6,812	−2,694	−40
Negative fair values from derivative financial instruments	4,118	6,812	−2,694	−40
Long-term debt	29,927	35,706	−5,779	−16
Brokerage and securities-related payables	88	66	22	33
Other liabilities	4,936	5,680	−744	−13
Total liabilities	**257,383**	263,694	−6,311	−2
Total equity	**6,850**	7,115	−265	−4

Changes in Assets

Total assets were further reduced in the reporting period as a result of our strategic efforts to further optimize the balance sheet structure. Total assets as of June 30, 2018, were €264.2 billion, €6.6 billion (or 2.5 %) lower than on December 31, 2017.

Financial assets at fair value declined by €4.3 billion in particular because of maturities, expirations, and changes in the fair value of derivatives, which were offset by a corresponding reduction in liabilities.

Interbank balances (without central banks) decreased by €2.7 billion. Loans were largely unchanged because the growth in the customer lending business was offset by the reclassification to other assets of securities with a volume of €6.7 billion still reported in this category in the annual financial statements.

The increase in other assets resulting from this reclassification was more than offset by maturities of securities.

Changes in Liabilities

Total liabilities as of June 30, 2018, declined by €6.3 billion (or 2.4 %) compared with year-end 2017. This was driven largely by a €5.8 billion reduction in non-current liabilities due to maturities and transfers within Deutsche Bank Group.

Additionally, financial liabilities at fair value decreased by €2.7 billion. This change is related to the decrease in financial assets at fair value described above and is attributable to maturities, expirations, and changes in the fair value of derivatives.

Central bank funds purchased, securities sold under resale agreements and securities loaned also declined by €1.6 billion, due in particular to the maturity of a government bond loaned to the parent company.

By contrast, deposits rose by €4.5 billion, mainly because of an increase in non-interest-bearing demand deposits received from customers.

Changes in Own Funds

DB Privat- und Firmenkundenbank AG is not a superordinate entity of a group of institutions within the meaning of section 10a(1) of the *Kreditwesengesetz* (KWG – German Banking Act) and is therefore not subject to the requirements of the CRR (Capital Requirements Regulation) at subconsolidated level. As a subordinate entity of Deutsche Bank AG, DB PFK AG exercises the option in section 2a of the KWG in conjunction with Article 7(1) of the CRR (subsidiary waiver) under which it is not required to apply certain prudential requirements to the determination of own funds and capital requirements, large exposures, exposures to transferred credit risk, leverage, and disclosures on and certain requirements for risk management at single institution level. Notwithstanding this waiver, DB PFK AG and its subsidiaries are part of Deutsche Bank Group's prudential scope of consolidation.

These exemptions can only be applied to Group entities in Germany only if, among other things, Deutsche Bank AG's or the Group's risk strategy and risk management process incorporate those entities applying the exemption and there is neither a material de facto nor a legal obstacle to the transfer, without undue delay, of capital or the repayment of liabilities by Deutsche Bank AG to the relevant subsidiaries or by the subsidiaries to Deutsche Bank AG.

Nevertheless, in order to safeguard capital adequacy, the regulatory capital requirements continue to be determined for DB PFK AG as part of the risk and capital management in accordance with legal and Group-wide requirements, and will be used in the future for monitoring and management purposes.

Outlook

The Global Economy[1]

For 2018, we anticipate global economic growth to be robust. Global GDP is forecast to grow by 3.9 %, slightly above the 2017 growth rate. In the industrialized countries, GDP growth is expected to be at 2.3 %, clearly above trend and supported by labor markets in several countries close to full employment. In emerging markets, GDP should accelerate to 5.0 % after 4.8 % in 2017. We expect the global inflation rate to be at 3.3 % in 2018.

In the eurozone, GDP should grow by 2.1 %, and thus above trend. In 2018, inflation is expected to increase slowly, mainly driven by a shrinking production gap and higher energy prices. However, it is anticipated to take a few more years for inflation to fully normalize. The ECB announced the end of its asset purchase program for December 2018. We expect the first ECB key interest rate increase in the second half of 2019. Political risks could arise from the lack of confidence in the European Union (EU) as well as from the potentially unstable political situation in Italy. In Germany, GDP growth is forecast to increase to 2.0 %, mainly driven by the domestic economy. The relatively favorable wage agreements achieved in the first half of 2018 should strengthen the economic cycle. Inflation is expected to grow to 1.6 % in 2018.

Global risks have slightly increased recently due to a further escalation of trade tensions. Other important risks are an early recession in the U.S.A. given the shape of the yield curve, global imbalances, dwindling confidence in the EU, political instability in Italy, Brexit, populist movements, and geopolitical tensions between the U.S.A. and Iran. However, if any of these risks materialize in 2018, the impact on the economy and financial markets might be less severe than in previous years, as the higher economic momentum could have a protective effect. At the same time, inflation risks, which were silent for several years, have resurfaced as an economic risk. A faster than anticipated pick-up could surprise markets and lead to a sharp repricing of expected central bank interest rate rises, which could be disruptive for risk assets – similar to the “taper tantrum” in 2013. The risks of Brexit to the UK economy are not likely to easily or quickly disappear with at best a transitional deal in the near term.

The Banking Industry[1]

In the second half of 2018, the global banking industry is likely to be marked by i) rising economic uncertainty stemming from the emerging trade conflict, ii) resulting downside risks for the otherwise strong global economy and iii) continued cautious normalization of monetary policy. Nevertheless, the environment for banks is by and large expected to remain favorable.

In Europe, Brexit negotiations are expected to reach a critical stage. While the risk of an extreme scenario has not been fully eliminated, the anticipated outcome is still one in which the UK does not stray too far from the EU, which should limit the economic friction. However, Brexit could result in significant changes for the financial industry and its regional hub in London, which may well lose access to the European Single Market. Aside from Brexit, the focus is likely to be on the ECB’s gradual phase-out of its ultra-loose monetary policy. The asset purchase program is due to be terminated by the end of the year, laying the groundwork for rising key interest rates in the coming year. A slight uptick in the pace of lending is possible. Bank earnings could remain largely stable this year, with continued cost discipline and shrinking risk provisions contributing to a moderate improvement in the earnings situation.

[1] Source: Deutsche Bank Research Forecasts

For German banks, the macroeconomic environment is similar to the environment in Europe overall. However, given the excellent credit quality, lending growth is expected to remain well above the average of the eurozone.

The Basel Committee on Banking Supervision finalized the standardized approaches for RWAs ("Basel III framework agreement") at the end of 2017. This concluded one of the most significant revisions to regulatory requirements following the financial crisis. In 2018, the focus shifts to the start of a multi-year process of implementing the framework into law in the EU and the U.S.A. As the process of implementing the Basel III framework agreement begins around the globe, risk remains that implementation will differ across jurisdictions and result in inconsistent impacts across regions.

In Europe, the implications of Brexit should become clearer in the course of 2018. Government representatives on both sides of the Channel have agreed on the transitional period, which will last from Brexit day on March 29, 2019 to December 31, 2020. They continue working on a draft withdrawal treaty due to be ready for ratification by October 2018. At the same time, progress should be made toward political agreement on key regulatory items that are outstanding, including updates to the Capital Requirements Regulation (CRR), reviews of European Supervisory Authorities (ESAs) standards and European Market Infrastructure Regulation (EMIR) which should provide further clarity on the regulatory requirements for the banks in Europe in the medium term.

Consolidated Results of Operations

The following assessment of the presumed direction of business at DB PFK in the second half of 2018 is based on expectations described above with regard to the overall economic and industry-specific parameters. Divergent developments in the environment or unforeseen events such as legal decisions or unexpected stricter regulation of the banking industry could have a significant impact on the financial position, net assets, and results of operations that are not taken into account here.

The business with private and commercial customers remains the foundation of our future earnings performance. Going forward, DB PFK will focus on stabilizing the long-term income components and reducing the cost base. In the coming quarters we also want to make additional significant investments in digitization and in the integration of Deutsche Bank and Postbank.

For the second half of 2018 we anticipate substantially lower net income before tax for DB PFK compared with the reporting period. This decline will essentially be the result of the non-recurrence of one-off items whose impact was positive overall in the first half of the year.

Total income will suffer in particular from the loss of these one-off items and fall markedly. The contribution from the customer business will continue to perform positively, as continued growth in credit products in particular should more than make up for the continuing earnings decline in deposit products in the continuing low interest rate environment.

For the loan loss allowance we foresee a substantial rise in the coming six months compared with the first half of 2018. This increase will be attributable to strong growth in the loan portfolio, a normalization of the default and realization situation and the impact of positive one-off effects from the sale of non-performing loans in this position during the reporting period.

Our administrative expenses will also no longer benefit from non-recurring positive effects that occurred in the first half year, i.e., in particular from the modification of the pension scheme and the reversal of provisions for restructuring. Since the cost trend, which tends downward over the long term, will be covered by these one-off effects, we expect administrative expense to remain essentially unchanged in the next six months.

Deutsche Bank Brand

For the second half of 2018, we anticipate net income before tax for our Deutsche Bank brand to essentially remain unchanged compared with the reporting period. This development will arise primarily from an increase in the loan loss allowance together with stable total income and even further reduced costs. While positive contributions from portfolio sales in the first half of the year had an impact on the loan loss allowance, we do not expect similar contributions in the second half of 2018.

We anticipate to achieve a stable performance overall for total income because we expect greater income from the lending business and account services to compensate for negative effects from the low interest rate environment. The rise in income in our loan products will be the result, as per our forecast, of the non-recurrence of a seasonal effect in the first quarter of 2018 and the expansion of our product range in our commercial clients business. We are currently revising the fee structure in account services.

The loan loss allowance in the first half of 2018 received a boost from the sale of non-performing loan portfolios. Without comparable one-off items, our need for the loan loss allowance will be significantly greater in the second half of 2018.

For administrative expenses, we expect the positive trend to continue as a result of continued adjustments to the employee base as part of the successful execution of our Strategy 2020 and of reduced regulatory costs. This positive development will be partially covered in the reported figures by a non-recurring one-off effect from the reversal of provisions for restructuring that occurred in the reporting period. Overall, we expect administrative expenses to remain essentially unchanged in the next six months compared with the first six months of the year.

Postbank Brand

If the positive trend in the lending business and in the cost base proceeds – owing in particular to the non-recurring one-off effects that were markedly positive overall that occurred in the first half of 2018 both on the income and cost sides, continuing pressures from the low interest rate environment, and a normalization of the loan loss allowance level – we expect a substantially lower net income before tax as compared to the reporting period for the coming six months.

We expect to see essentially no change in total income from the customer products of the Postbank brand in the second half of 2018 compared with the first half. This assessment is based on our expectation that the negative impact of the on-going low interest rate level on the home savings and deposits business can be offset almost fully by expected gains in credit volumes and by the commission business (e.g., from securities brokerage among other things).

The remaining income components in the first half of 2018 were influenced essentially by the optimization of the real estate and investment securities portfolios and the transfer of sub-pools of assets, i.e., by markedly positive effects we view as unlikely to reoccur at a comparable magnitude in the second half of the year. Given that, we expect to generate markedly lower income overall in the second half of 2018 vis-à-vis its first six months.

Our loan loss allowance will probably rise compared with the first half of 2018, owing essentially to strong continued growth in the lending portfolio and a normalization of the default and realization situation, which has been very beneficial recently.

Administrative expenses will most likely remain unchanged by and large in the second half of 2018 compared with their levels in the reporting period. While we will no longer benefit from positive net contributions from the modification of the pension scheme and recognition of provisions for staff measures that occurred the year’s first six months, we do expect a continuation of the long-term downward cost trend.

"Other" Segment

For the "Other" segment we expect lower net income before tax for the second half of 2018. This "development will be attributable to rising expenses accompanied by stable total income.

The total income trend for this segment will be dominated essentially by a valuation impact from transactions with other units of our parent company. Since these valuations are very volatile and dependent on the development of market parameters, the forecast for this segment is particularly uncertain.

For non-interest expenses we expect a marked rise compared with the reporting period. Key to this development will be increased investments in the integration of processes, organizations and platforms of our two brands. These additional investments, however, will markedly cover the achievements of our restructuring program under Strategy 2020, namely lower compensation and benefits expenses for infrastructure functions.

Risks and Opportunities

Risks and opportunities that we view as probable are considered in our Outlook. The following section focuses on these future trends and events that could represent risks or opportunities vis-à-vis the expectations expressed in the Outlook.

Risks

Regulatory Reforms and Supervisory Reviews

The regulatory reforms enacted or proposed in response to shortcomings in the financial sector and heightened regulatory scrutiny and discretion will be associated with material costs for our business. They could create significant uncertainty for us and adversely affect our business plans and the execution of our strategy. Those changes that require us to maintain increased capital may significantly affect our business model, financial condition, and results of operation, as well as the competitive environment in general. Other regulatory reforms may also materially increase our forecasted operating costs. Regulatory reforms that address resolvability or resolution measures may also impact our shareholders and creditors.

Regulators may also impose capital surcharges, for example, as an outcome of the annual Supervisory Review and Evaluation Process (SREP) to cover the risks posed by deficiencies in our control environment. In extreme cases, they could even suspend our permission to operate in certain countries. Furthermore, implementing enhanced controls may result in higher regulatory compliance costs that could offset or exceed efficiency gains. Regulators may disagree with our interpretation of specific regulatory requirements when interpretative matters are discussed as part of our ongoing dialogue with regulatory authorities or as part of supervisory inspections. Changes in rule interpretations can have a material impact on the treatment of positions for Pillar 1 regulatory purposes. Similarly, the European Banking Authority's (EBA) evolving interpretations of the Capital Requirements Regulation can also negatively impact our regulatory capital, leverage or liquidity ratios.

Legal Proceedings and Fiscal Reviews

We are currently facing a number of legal disputes and are subject to regular tax audits whose outcome is difficult to estimate and which may substantially and adversely affect our planned results of operations, financial condition, and reputation. If these matters are resolved on terms that are more adverse to us than we expect – whether with regard to their costs or impact on our businesses – or if the perception of our business or prospects should worsen, we may not be able to achieve our strategic objectives or may be required to change them.

Risk Management Policies, Procedures and Methods as well as Operational Risks

DB PFK AG has geared its risk management activities toward early recognition and mitigation of material risks. Here we have employed resources in the context of our integration initiatives to further improve the adequacy of our risk management policies, procedures and methods for market, credit, liquidity and operational risks. Nevertheless these measures may not be sufficient to allow us to forecast and/or recognize every conceivable risk situation in every market environment.

Digitization

Digitization, new technologies, and altered customer expectations have had and continue to have a growing impact on the traditional banking business. These factors also pose new challenges to DB PFK AG and its subsidiaries. In response, we are continuing to pursue the digital transformation of our business to make it more digital and efficient and further improve the customer experience.

Competition

In a fragmented market with margins that are already low, retail banks in Germany face both tough competition for profitable business as well as palpable consolidation pressures. New market competitors such as FinTechs, digital banks, and foreign banks mean even tougher competition on our domestic market. To ensure our capacity for an immediate response at any time to the latest market changes, we will not only have to conduct continual analyses of the market and the competition but also continually prospect for new partners and cooperative relationships to improve our own market position.

Execution of Strategy

Our Outlook is based on the assumption that the effective implementation of the Deutsche Bank and Postbank integration initiatives will make substantial contributions to our business. The initiative-associated implementation risks must be continually monitored and assessed so that suitable countermeasures may be devised against any unfavorable developments that may arise. To ensure that these risks do not materialize, a dedicated project team with experts from both brands works systematically on the implementation of requirements.

Opportunities

Digitization

DB PFK AG finds itself in a good starting position as the digital market leader in Germany, and will continue to exploit this position by setting standards for digital offers and transforming its core business. In addition, 20 million customers will be offered new services and have their everyday banking activities made simpler.

The transformation of our core business will allow us to achieve great potential for synergies through the shared use of existing digital solutions. Moreover, shared end-to-end digitization of all core products will allow for faster and more efficient implementation.

Competition

Thanks to our high number of customers, the new bank will have a dynamic impact on the shape of the German banking market. Income synergies in sales will be generated not only from new customer relations but also from greater penetration of existing customers and from pricing measures for private and commercial clients coordinated between the two brands. Specific measures include, for example, the mutual provision of existing and complementary products and advisory offers of both brands. In the commercial clients business these products and offers include commercial real estate financing, factoring, corporate finance and capital market solutions that can now be offered reciprocally and thus to a larger range of clients.

Execution of Strategy

The successful execution of our strategy and the integration of DB PFK will open up diverse opportunities such as financial opportunities arising from synergy effects and increased profitability, opportunities for improved and more focused contact with customers, and joint digital development of both brands. For customers, it will mean the opportunity to benefit from the expertise of both brands simultaneously.

RISK REPORT

Summary Overview of Risk Exposure

The risk profile for DB Privat- und Firmenkundenbank (DB PFK) focuses on the Bank's lending and deposit business with private and commercial clients in Germany. In the first half of 2018, risk management at DB PFK was primarily concerned with executing the merger between Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Postbank AG. As part of the merger, a common system of boards and committees and uniform reporting lines were established, the definitions of risk were harmonized, and an overarching risk strategy was defined. This work was performed against the backdrop of the sustained low interest rate policy of the European Central Bank (ECB), uncertainty about political developments in Europe – for instance looking ahead to Brexit or to future Italian policy following the March elections – as well as US trade policies and ongoing regulatory change.

DB PFK nonetheless benefited from a solid economic climate. Additionally, economic growth accelerated in Germany and the rest of the eurozone in the first half of 2018. The healthy state of the current labor market, as documented by falling unemployment coupled with a rise in the number of people in work, and the upward trend in both real estate prices and German industry offer opportunities for expanding both consumer and commercial lending. At the same time, the macroeconomic environment in Germany is having a positive impact on credit risk in the Bank's existing business.

Given DB PFK's business model and its focus on customers in Germany, it expects at present that it will not be significantly impacted by developments in other European countries as a result of Brexit. Nor does DB PFK currently see any notable default or liquidity risk in this context. However, political uncertainly could increase volatility, resulting in fluctuations in present values and associated risks for the Bank's financial position.

Overall Bank Risk

Taking risk in order to generate earnings is a core part of DB PFK's business activities. The ECB has granted DB PFK a waiver within the meaning of section 2a(1) and (2) of the *Kreditwesengesetz* (KWG – German Banking Act) with respect to Deutsche Bank AG. All risks incurred are nonetheless regularly identified, measured, monitored, and allocated limits using a simplified ICAAP (internal capital adequacy assessment process), and are included in the overall performance and risk management processes via the capital adequacy statement. All Group limits, in particular those relating to market, credit and operational risks, were complied with in full during the first half of 2018. The Group's internal capital adequacy was ensured at all times. No risks that could impair the performance of DB PFK or its subsidiaries, or especially that could jeopardize their existence as going concerns, are discernible at present. The main risk types that are managed operationally at DB Privat- und Firmenkundenbank Group are addressed in the following.

Credit Risk

DB PFK expanded its lending business with private and commercial clients in the year under review. The loan loss allowance nonetheless remained well below the prior-year level in the first half of 2018 due to the continued positive trend in customer business. This was also attributable to the sustained favorable macroeconomic environment in which the Bank operates, proceeds from collateral realization, and systematic risk management.

In the period under review, customer ratings – a new method for quantifying risk in large parts of the retail banking business – entered the use test phase.

Consumption of economic capital slowed in the first half of 2018, which led to a reduction in the credit risk limit and adjustments to limits in the individual segments.

For the second half of 2018, we expect the risk situation to continue on a stable footing in line with the solid economic environment, supported by stable trends in economic growth and in the labor market.

Market Risk

Market risk at DB PFK is influenced in particular by interest rate and credit spread trends in the European capital markets. Money market interest rates remained at historically low levels, persisting nearly unchanged in negative territory during the first half of 2018 as a consequence of the ECB's continued low interest rate policy. In contrast, capital market interest rates continued to increase slightly across all maturities. Credit spreads for Italian government bonds widened significantly again due to uncertainty regarding future political developments in Italy following the March elections, in which eurosceptic parties emerged as the winners. As spreads on Italian bonds widened, investors also demanded notably larger risk premiums for holding Spanish and Portuguese government bonds. By contrast, yields on German Bunds continued to decline. Credit spreads for European banks and corporates widened slightly on average during the reporting period against the backdrop of an economic climate that, while basically solid, was clouded by the uncertainty connected with a possible trade war and Brexit, among other things. Given these market conditions, utilization of the economic capital (EC) limit for market risk and of the operational value at risk (VaR) limits for the actively managed portfolios in DB PFK's banking book was at a moderate level as of the reporting date.

Looking ahead, we expect risk capital requirements to remain at current levels in 2018. However, the political uncertainty that continues to exist as a result, for instance, of the current Brexit negotiations could also result in a renewed increase in market volatility and thus in corresponding fluctuations in present values.

DB PFK is exposed to market risk solely on the basis of its banking book positions; no trading book activities take place.

Liquidity Risk

DB PFK's stable funding structure enabled adequate liquidity buffers to be maintained at all times during the first half of 2018, ensuring both solvency and compliance with regulatory requirements. DB PFK's liquidity remains sound thanks to the Bank's stable funding base comprised of customer deposits and an extensive portfolio of highly liquid securities.

Operational Risk

DB PFK's operational risk profile is largely determined by the Bank's strategic positioning as a multichannel bank with a countrywide network of branches and service centers and a prominent position in online banking in Germany. As a result, DB PFK is inherently exposed to an increased risk of fraudulent attacks.

Recent trends in loss events have been driven primarily by the legal actions and complaints brought by customers in connection with closed-end funds – the number of which is still high compared with the long-term average – as well as actions and complaints relating to consumer protection rulings. However, the number of proceedings has declined slightly on the prior-year level. The retail lending business focused on high frequency/low impact losses, i. e., loss events that, taken separately, are only of minor significance but that occur repeatedly throughout the year. In addition, attacks on automated teller machines (ATM bombings), for instance, increased significantly during the reporting period.

Developments in Risk Management

The ECB has granted DB PFK a waiver within the meaning of section 2a(1) and (2) of the *Kreditwesengesetz* (KWG – German Banking Act) with respect to Deutsche Bank AG. Under this, the Bank is integrated with Deutsche Bank AG's risk management system in compliance with the applicable corporate law and prudential banking regulations, with the aim being to guarantee uniform, appropriate, and effective risk management at the level of Deutsche Bank Group. DB PFK is therefore included in the processes for identifying, assessing, managing, monitoring, and communicating risk that deliver an end-to-end overview of the risk situation and the system for protecting the institution as a whole, and that allow the Group to exert a corresponding influence. In addition, an established, uniform risk governance structure ensures a common risk culture throughout the Group.

DB PFK is included in the Single Supervisory Mechanism (SSM) via Deutsche Bank Group. As part of Deutsche Bank Group, DB PFK is therefore under the direct supervision of the European Central Bank (ECB), and is also included in inquiries from ECB banking supervisors that are addressed to Deutsche Bank. In addition, DB PFK is in regular communication with the German supervisor.

As part of overall Group risk management, DB PFK is included in Deutsche Bank Group's risk management system via an established network of boards and committees as well as functional reporting lines between DB PFK and Deutsche Bank. DB PFK submits regular risk reports to Deutsche Bank Group as part of comprehensive risk reporting and control. A joint reporting system has been established for the main management reports and for performance indicators.

The Group risk management functions shared with Deutsche Bank are nonetheless still performed in full and in parallel. In connection with the merger as of May 25, 2018, the risk management departments for the two former units were combined to form a single risk management function at DB PFK.

The Bank's risk position, its risk management, and the measures taken are described in detail in the following.

In the first half of 2018, DB PFK pushed ahead with implementing comprehensive regulatory changes. The merger of Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Postbank AG led to the two banks' existing projects being combined. Among other things, these involved implementing measures aimed at ensuring BCBS 239 compliance, improving IT security, and ensuring business continuity during IT outages.

DB PFK also continued working on implementation of the ECB's new Analytical Credit Dataset (AnaCredit) project as well as other new prudential reporting requirements, in addition to following the various new regulatory proposals made by the Basel Committee on Banking Supervision, which are aimed at supplementing/reforming the Basel III framework and ensuring its implementation in European law (CRR II – Capital Requirements Regulation II/CRD V – Capital Requirements Directive V).

Types of Risk

The types of risk that are tracked by DB PFK are determined on the basis of a Group-wide risk inventory.

A risk inventory is performed at least once annually to review the materiality of the individual risk types and the existence of any additional, previously untracked risks. When performing the risk inventory, DB PFK uses instruments that, in aggregate, cover all material organizational units and risk areas within the Bank. The risk types identified as material in the risk inventory comprise credit, market, business, liquidity and operational risks as well as reputational risk. These material risk types are quantified during the internal capital adequacy assessment and – with the exception of liquidity risk and risks to capital/group risk – are backed by risk capital. Reputational risk is implicitly included via the other risk categories. All material risk types are monitored on a regular basis using joint risk management standards.

The risk types captured at DB PFK are described in detail below.

Market Risk

Market risk in the narrower sense arises from uncertainty regarding changes in interest rates, credit risk premiums, exchange rates, share prices, and other relevant parameters such as market volatilities, inflation, and market-based default probabilities, and the correlations between them.

DB PFK is exposed to market risk arising from its banking book positions and its pension plans. In particular, this includes:

a) Interest rate risk in the banking book (IRRBB): the risk of the financial condition of the institution deteriorating due to changes in general market interest rates. Two measures of IRRBB are taken into account:

– earnings-based measure, i. e., the effect on net interest income for the period

– economic value measure, i. e., the effect on the economic value of equity.

b) Market risk relating to defined benefit pension plans as a result of a potential decline in the fair value of assets or an increase in the fair value of pension obligations.

DB PFK defines market risk in the broader sense as also including:

c) Potential losses that can occur as a result of volume fluctuations and that are triggered by unexpected behavior on the part of savings and current account customers

d) Collective risk: the potential negative effects on financial position, risk exposure, and results of operations due to variances between the actual and the forecast behavior of the home savings collective

e) Real estate risk: rental default risk and risk associated with losses on sales relating to properties owned by DB PFK Group

f) Investment risk: potential losses due to fluctuations in the fair value of strategic equity investments, to the extent not already included in the other risk types.

Credit Risk

Credit risk is the risk of loss arising from a deterioration in the credit quality of a borrower or obligor or as a result of non-performance of contractual or other agreements by the borrower or obligor.

Credit risk ensues from direct lending operations (loans, contingent payment obligations) as well as from trading activities (derivatives, currency and interest rate forwards) and receivables due for services rendered.

Liquidity Risk

Liquidity risk is the risk of DB PFK being unable to meet its payment obligations when they fall due or incurring excessive costs for meeting such obligations. In managing liquidity risk, DB PFK distinguishes three types of risk:

a) Short-term liquidity risk describes the risk of being unable to meet current or future payment obligations – including intraday payment obligations – in the full amount or as they fall due. Management of short-term liquidity risk focuses on the current year and on maintaining an adequate buffer of liquid assets.

b) Structural liquidity risk – also known as funding liquidity risk – describes the risk that the funding strategy will fail to deliver the expected resources in sufficient time to close any funding gaps.

c) Maturity transformation risk describes the risk of incurring higher financing costs when attempting to reduce maturity mismatches due to increases in the Bank's funding spreads on the swap rate.

When conducting its risk inventory, DB PFK identified maturity transformation risk as being immaterial for the Bank; as a result, this risk type is not backed by risk capital.

Operational Risk

In line with the regulatory standards, DB PFK AG defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk.

DB PFK breaks down operational risk as follows – likewise in line with the regulatory standards:

a) Legal risk is part of operational risk. It includes, but is not limited to, exposures to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. Legal risk can also arise as a result of changes in the legal situation following new rulings or due to legislative amendments affecting transactions that have already been entered into. It does not include the cost of modifying processes for the purpose of implementing changes in the framework. Under European Banking Authority (EBA) guidelines, compliance risk is also a part of operational risk. Compliance risk is defined as "the current or prospective risk to earnings and capital arising from violations of or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards." There is therefore significant overlap between compliance risk and legal risk.

b) Conduct risk means the current or prospective risk of losses to an institution arising from inappropriate supply of financial services, including cases of willful or negligent misconduct toward the Bank as well as its customers and employees. Conduct risk at DB PFK includes all operational risk losses attributable to the "clients, products, and business practices" and "internal fraud" event categories.

c) Model risk means the risk relating to the underestimation of own funds requirements by regulatory approved internal models and the risk of losses relating to the development, implementation, or improper use of any other models by the institution for decision making.

d) IT risk is the current or prospective risk of losses due to the inappropriateness or failure of the hardware and software or technical infrastructure, which may compromise the availability, integrity, accessibility, and security of this infrastructure or of data.

Reputational Risk

Reputational risk is defined as the risk of potential damage to DB PFK's brand or reputation and the associated risk to or impact on earnings, own funds, or liquidity arising by association or from an act or failure to act, if such association, act, or failure to act could be perceived as inappropriate, immoral or incompatible with DB PFK's values and convictions.

DB PFK also refers to operational risk and reputational risk under the combined heading of non-financial risk.

Risks to Capital/Group Risk

Risks to capital means the risk of DB PFK having insufficient regulatory or economic capital to fund its business operations and to adequately support the associated risk profile, both under normal economic conditions and in stress scenarios.

Group risk means the risk that the financial position of DB PFK may be adversely affected by its (financial or non-financial) relationships with other entities within Deutsche Bank Group.

Business Risk

Business risk is the risk of declining earnings leading to unexpected losses (e. g., negative profits) that cannot be offset by implementing timely cost reductions, and which does not fall under market, credit or operational risk.

For all quantifiable risk types, risk capital is allocated at segment level as part of the internal management process. Internal transfer pricing is used to transfer essentially all interest rate risk arising from the Bank's products to Treasury or Financial Markets.

This Risk Report provides a general overview of risk management and also discusses in detail the risk types that can be managed in the course of business operations, i. e., market, credit, operational and liquidity risks.

The Risk Management Organization

Responsibilities and Risk Strategy

The Group Management Board is responsible for the Bank's risk and capital profiles, its risk strategy, for establishing a proper risk management organization, and for managing and monitoring the risk associated with all transactions. It also ensures capital and liquidity adequacy.

The control function is exercised by the Supervisory Board and its Risk Committee. The Risk Committee advises the Supervisory Board in particular on issues related to risk appetite, the risk profile, and risk strategy, and addresses topics relating to current market developments or events that significantly impact the risk profile or individual portfolios. The Management Board regularly reports to the Supervisory Board and the Supervisory Board's Risk Committee on DB PFK's risk and capital profiles.

As stipulated by the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management), the risk strategy adopted by DB PFK and its subsidiaries is consistent with the Bank's business strategy, extends to all material areas of business and accounts for all types of risk. The nature and extent of the risks taken, as well as the strategy for managing such risks, depend on the strategies defined by the individual business units in line with DB PFK's risk appetite, risk profile, and target returns. The information is defined and documented as part of the risk strategy that is adopted each year on the basis of the business units' strategies.

In line with the Supervisory Review and Evaluation Process (SREP) guidelines, the Bank's risk strategy defines an internal liquidity adequacy assessment process (ILAAP) in addition to the simplified internal capital adequacy assessment process (ICAAP) that is required as a result of the waiver that has been granted.

The objective of risk management is to safeguard earnings and optimize the risk/return profile by improving capital allocation and ensuring operational excellence. As part of this process, the integrated risk management function strengthens DB PFK's ability to successfully face the future, and enhances the Bank's risk culture and risk discipline. The merger of Deutsche Bank Privat- und Geschäftskunden AG with Deutsche Postbank AG has not resulted in a systematic increase in the business units' risk appetite despite the addition of Deutsche Postbank AG's portfolios and products in the reporting period.

Headed up by the Chief Risk Officer (CRO), DB PFK's independent risk management function provides the basis for risk- and earnings-based performance and risk management for the Bank as a whole by identifying all key risks and risk drivers, and measuring and evaluating those risks independently. Limits for all risks are set, and all risks are managed, within the framework of DB PFK's ICAAP and ILAAP.

Risk within the Group is managed by units at the head office and the local units networked with them. Unless otherwise noted, all statements made in the Risk Report specifically refer to these Group functions. Subsidiaries of DB PFK are included in risk management in line with their materiality for the Group. Compliance with specific supervisory requirements relating to subsidiaries is always assured.

The internal risk management system in place at DB PFK ensures that all risks associated with individual business segments are independently identified, assessed, managed, and monitored. The cross-divisional processes established for that purpose aim to permanently improve the Bank's risk/return profile through efficient capital and liquidity management. In this context, selected portfolios are also subjected to a risk/return analysis as part of integrated performance and risk management. This enables DB PFK to identify opportunities to improve the business and risk strategies of its individual business units to reflect a more risk-appropriate perspective.

Risk Committees

The Management Board is supported in its tasks by the PFK Risk Committee, which serves as the central risk committee. As the Management Board's steering and monitoring committee, the PFK Risk Committee is entrusted with significant decision-making powers. The Management Board has delegated risk management for the individual risk types to additional, subordinate risk committees. The following figure illustrates the committees' areas of responsibility.

Tasks of the PFK Risk Committee and its Subordinate Risk Committees

	PFK Risk Committee	Credit Risk Committee (CRC)	Market and Liquidity Risk Committee (MLRC)	Non-Financial Risk Committee (NFRC)	Covered Bond Committee (CBC)	Model and Validation Committee (MVC)	Radar Committee (RC)
Frequency of meetings	- Monthly	- Quarterly	- Monthly	- Quarterly	- Quarterly	- Monthly	- Bi-monthly, if required
Tasks	Advise the Management Board with respect to: - Risk appetite (economic, regulatory) - Risk strategies and risk profile - Allocation of risk capital - Measures to limit and manage Bank-wide risk positions	- Allocate credit risk limits - Define limit system - Analyze and evaluate credit risk - Issue credit risk management guidelines	- Allocate market risk limits - Define liquidity risk profile - Analyze and evaluate collective risk and savings and current account risk and other pension risk - Manage strategic focus of the banking book - Discuss the Bank's earnings and risk positions	- Define minimum requirements for Group units - Define operational risk parameters - Allocate risk capital amounts to the business divisions	- Address issues relating to the cover business register - Implement regulatory requirements relating to the *Pfandbrief* business - Ensure conformity with targets relating to strategic orientation and ability to access the capital markets	- Monitor and validate all rating systems and risk classification procedures - Validate all models annually - Modify rating systems, risk classification procedures, and internal models	- Ensure proper compliance - Structure the regulatory agenda - Escalation instance

The PFK Risk Committee is a Group-wide risk committee with Management Board representation. It aggregates all risk issues and submits them to the Group Management Board. The risk management organization includes additional committees, councils and forums that make decisions and coordinate issues of relevance to risk management. The following committees are headed up by members of senior management: the Radar Committee (RC), the Covered Bond Committee (CBC), the Credit Risk Committee (CRC), the Market & Liquidity Risk Committee (MRLC), the Non-Financial Risk Committee (NFRC), and the Model and Validation Committee (MVC). The Covered Bond Committee develops input for managing DB PFK's coverage business. The Model and Validation Committee is responsible for modifying and expanding risk models and risk classification procedures, as well as for approving the validation reports. These committees perform their duties in close cooperation with the PFK Risk Committee and the units responsible for operational risk management. Like DB PFK, BHW Bausparkasse has also established a Bank Risk Committee (BHW BRC) with management board representation. The BHW BRC reports to the PFK Risk Committee and to the BHW Group Management Board.

Centralized Risk Monitoring and Management

Risk Control Function

The Chief Risk Officer (CRO) is responsible for all risk monitoring and risk management functions throughout the Group. The CRO heads up the Risk Control function and reports directly to the Group Management Board, the Supervisory Board's Risk Committee, and the Supervisory Board on the Group's overall risk position. In terms of functional reporting lines, the CRO also reports to the CRO of Deutsche Bank Group.

The organizational structure of the CRO function provides the basis for active portfolio management across different risk types and serves to bundle all credit decisions. A Chief Operating Office (COO) ensures that credit processing standards are complied with and performs central project and resource management for the CRO function. The COO is also responsible for outsourcing management, business continuity management, and authorization management for DB PFK. The Risk Management and Group Risk Control units ensure that all risk types are managed with the support of business-aligned risk management practices for the Deutsche Bank brand portfolios. The Credit Office, which comprises the Credit Analysis unit and the Credit Recovery and Workout unit, bundles all credit decisions and organizes the implementation of the business and risk strategies in close cooperation with the sales units. The Operations Financial Markets unit is responsible for trade settlement and collateral management.

The Pfandbrief Management unit, which includes the Trusteeship department, is likewise allocated to the CRO board department. The Trusteeship department ensures that the required cover is in place for the *Pfandbriefe* issued by the former Deutsche Postbank AG and maintains the cover register. The department therefore works closely together with the Coverage Management unit, which is part of DB PFK's products departments.

The following overview illustrates the roles of the individual units in the CRO board department.

Risk Management Units and Tasks

Unit	Tasks
Chief Operating Office	- Resource management and projects - Credit framework/guidelines - Internal control system (CISO) - Outsourcing management - Business continuity management (BCM) - Authorization management
Risk Management	- Overall bank risk management and reporting including internal capital adequacy, integrated stress tests, and support of the risk committees - Definition of risk strategy and risk profile - Management and reporting of market, liquidity, business and operational risks - Quality assurance of market data and fair values for risk management and financial reporting
Group Risk Control	- Responsibility for all rating and scoring procedures - Portfolio management – Group-wide and Postbank brand - Credit risk reporting - Coordination of process for loan loss allowances and watch list - Authority over risk quantification methods and models - Compliance with loan processing standards - Quality assurance
Business-aligned Risk Management	- Portfolio management – Deutsche Bank brand - Coordination of process for loan loss allowance and watch list - Authority over risk quantification methods and models - Collateral management relating to credit processes - Quality assurance
Credit Analysis	- Credit approvals, support, and credit monitoring for banks, sovereigns, corporates, and real estate finance - Collateral management relating to credit processes
Credit Recovery and Workout	- Problem loan processing - Workouts - Collection - Collateral realization - Increase in recovery rate
Operations Financial Markets	- Control and settlement of Treasury trading business - Collateral management
Pfandbrief Management	- Trusteeship - Maintenance of the cover register and monitoring of the required cover for Postbank's *Pfandbriefe*

Regular seminars, flanked by DB PFK's training offering, are held to ensure that Risk Management employees are appropriately qualified. This also includes courses that are dedicated solely to specific risk management issues (and particularly to credit risk).

Risk Management by Risk Type

Within the Group, responsibility for risk management at an operational level – in the sense of position-taking activities – is spread across a number of units. Chief among these are Operations Financial Markets, Corporate Finance, Commercial Real Estate Finance, and Banks & Capital Markets as well as the lending functions in the private clients business. In addition, Group subsidiaries BHW Bausparkasse AG, PB Factoring GmbH, and PB Leasing GmbH manage their risks independently using separately defined risk limits. The Luxembourg branch is integrated with DB PFK's management system and is subject to separate risk limits.

Market risk is managed within the Group by setting strategic targets – for example to ensure stable interest income from the margins on customer business – as well as at an operational level with the goal of optimizing present value performance in the banking book and generating additional interest income for the Bank. For the Postbank brand, management of the Group's market risk at an operational level takes place in the Financial Markets unit, which reports to the Corporates & Markets board department. For the Deutsche Bank brand, market risk is managed at an operational level by the Treasury unit, which forms part of DB PFK's Finance board department and which is responsible for all market risk positions arising in the pursuit of purely strategic goals. Limit monitoring and reporting of market risk is performed centrally by the Market Risk Management department, which is part of the Risk Management unit. BHW Bausparkasse AG manages and monitors collective risk, i. e., risk arising from the home savings collective, locally as part of operational risk management.

Liquidity risk is monitored and managed centrally in the CRO board department. The primary task of the Liquidity Risk Management department is to ensure that DB PFK remains solvent at all times, including in specific stress scenarios, and to ensure a stable funding structure. Operational management of liquidity and of the liquidity buffer necessary for managing liquidity risk is performed for the Postbank brand (formerly the Postbank subgroup) in the Financial Markets unit, which reports to the Corporates & Markets board department. In the case of the Deutsche Bank brand (formerly PGK) it is performed in the Treasury unit, which is part of DB PFK's Finance board department. BHW Bausparkasse AG manages its risk independently but is subject to Group-wide risk monitoring on the basis of uniform procedures and processes. DB PFK serves as a lender of last resort in the event of local liquidity squeezes.

Group Risk Control's Risk Modeling department develops and calibrates the Bank's rating models in cooperation with Deutsche Bank Group, whereas its Credit Risk Management department handles the credit risk limit monitoring, reporting, and steering functions. In this context, the Model Risk Management and Validation department acts as an independent validation unit (for IRBA procedures) as required by prudential regulations. The Chief Operating Office's Risk Standards department is responsible for issuing standards on the treatment of credit risk exposure.

Responsibility for managing operational risk generally lies with the respective local management levels. They are supported in this by local OpRisk managers and dedicated OpRisk contacts and function holders appointed by the various divisions and subsidiaries. Responsibility for identifying and managing legal risk lies primarily with DB PFK's Legal Affairs unit. The independent risk control function required by MaRisk is performed by the Operational Risk Management department as part of the CRO board department.

DB PFK is exposed to only minor reputational risk from its business activities. Reputational risk mainly relates to the "customer" stakeholder group in the small-scale retail banking business. At Group level, key reputational risks are managed via DB PFK's risk committee (PFK Risk Committee).

Overarching Risk Management

Internal Capital Adequacy

DB PFK is exempt from internal capital adequacy requirements based on the waiver granted. The Bank nonetheless calculates its internal capital adequacy for internal management purposes at Group level, using a confidence level of 99.9 % for determining the risk potential. The risk cover amount is calculated to equal the regulatory capital pursuant to the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV). The capital from the risk cover amount that is allocated to the various units and risk types is known as risk capital. DB PFK considers its internal capital adequacy to be adequate if the risk cover amount exceeds both the allocated risk capital and the current total exposure (VaR).

DB PFK is actively following the current regulatory discussion on modifications to banks' internal methods for calculating internal capital adequacy and ICAAP, and examining which of the modifications would make a useful addition to the Bank's current internal procedures.

Risk Capital and Risk Limitation

Risk capital allocation is reviewed and, if necessary, adjusted at least once per quarter by the Group Management Board and/or the PFK Risk Committee. Responsibility for further breaking down the risk capital allocated to the specific risk types and for adjusting individual limits where necessary lies with the risk committees.

Economic capital (EC) is allocated to all of the material risk types listed in the section entitled "Types of risk" with the exception of reputational risk, risks to capital/group risk, and liquidity risk. To hedge against short-term liquidity risk, DB PFK maintains a liquidity buffer consisting of highly liquid and liquid assets sufficient to cover a two-month survival period in a stress scenario as stipulated by MaRisk.

The allocation of DB PFK's risk cover amount by risk type, after factoring in correlation effects, was as follows for the first half of 2018 (calculated as of June 30, 2018):

Overall Risk Position – ICAAP

	Jun 30, 2018		
Risk category, in €m (unless stated otherwise)	Utilization	Risk capital	Utilization in %
Credit risk	2,255	3,000	75 %
Market risk	1,850	3,000	62 %
Operational risk	1,194	1,200	100 %
Business risk	0	310	0 %
Subtotal	5,299	7,510	71 %
Diversification effects	–457	–1,034	
Available risk cover	1,861	227	
Risk cover amount	6,703	6,703	
EC adequacy ratio	138 %	104 %	

The economic capital (EC) adequacy ratio measures internal capital adequacy and is expressed as the ratio of allocated risk capital (amount utilized/limit) to the risk cover amount after diversification. The EC adequacy ratio was 138 % as of the reporting date.

In addition to limiting risk exposure among the individual risk types on the basis of the allocated risk capital, product, volume and sensitivity limits are used to limit risk concentrations in individual positions or risk types above and beyond the risk positions themselves.

Market risk is managed by defining a Group-wide EC limit and allocating VaR and loss limits to the relevant control portfolio. To calculate market risk in the narrower sense, a stressed value at risk (SVaR) concept is used; this is a method of calculating the capital requirement for market risk during a stressed period. The historical period used to determine the stressed VaR as of the reporting date was the period from July 1, 2008, to June 30, 2009, since this represented a period of significant stress (Lehman crisis). With regard to loans to banks, corporates, and sovereigns (central and regional governments and local authorities), credit risk is primarily managed by allocating limits at portfolio level and by specifying a target portfolio. Retail business volumes are managed using variance analyses. In the case of operational risk, limits are defined both for the Bank as a whole and for each segment. The other risk types are managed using Group-wide limits.

As of June 30, 2018, utilization of the risk capital allocated to market risk in the narrower sense was 62 %. Credit risk limit utilization amounted to 75 % as of June 30, 2018.

With respect to operational risk, an internal model is used to calculate the economic capital requirement for DB PFK. This resulted in a relatively high level of utilization of operational risk limits, which are managed at the overall bank level together with business risk. The limits will be reviewed and updated again during 2018.

DB PFK is exempt from calculating and reporting its own funds requirements based on the waiver granted in accordance with section 2a(1) of the KWG. The Bank nonetheless utilizes the IRB approaches applied by Deutsche Bank AG for internal management purposes, i.e., the IRB approach is used for the Postbank brand's retail business and the Advanced IRB approach (A-IRBA) is applied to all Deutsche Bank brand portfolios and to the following Postbank brand portfolios: private clients – overdraft facilities, corporates, banks, and commercial real estate finance.

DB PFK calculates its regulatory capital requirement for operational risk using the standardized approach (SA).

DB PFK's internal capital adequacy was assured at all times.

Risk Concentrations and Stress Tests

Concentrations of credit, liquidity, market and business risks are identified and monitored using sensitivity analyses and stress tests, among other methods, and are limited using risk factor or gap limits (e.g., in the areas of interest rate risk and credit spread risk). Sensitivity analyses and stress scenarios are used to describe hypothetical future changes in the various portfolios, value drivers and risk drivers. Macroeconomic inflation and recession scenarios and other hypothetical or historical scenarios are calculated across all risk types.

Due to its business model – that of a retail bank operating primarily in Germany – DB PFK is also subject to earnings risk in the sense that the earnings generated from its customer business could be lower than projected. Such earnings risk is monitored with the help of the Group Risk Control/Treasury unit as part of the planning process. This involves monitoring earnings risk concentrations using sensitivity analyses and statistical techniques, and taking appropriate measures to manage them.

The Bank’s financial and non-financial integration with Deutsche Bank AG is of particular significance when it comes to managing concentrations of risk. What is known as “Group risk” is therefore considered separately, and presented separately in internal reports. Group risk includes aspects of credit, market and operational risks that are depicted under the respective management approaches.

Concentration risk is managed as part of the risk management process. Due to the spread risk involved, the Bank’s holdings of European government bonds are particularly relevant here.

As part of credit portfolio management, risk concentrations at both borrower unit level and sectoral level (industry, region, etc.) are systematically identified, reported, and limited using an internal process that takes risk/return factors into account in certain segments. Guidelines for improving the management of risk concentrations are laid down in DB PFK’s organizational directives. The focus is on specifically identified sectors – commercial real estate finance, banks, and sovereigns – for which additional rules exist above and beyond the limit matrix applicable to corporates. Risk concentrations are closely monitored in a timely manner using the segment-specific portfolio reports and the risk circles relevant to managing the risks.

At present, measured on an economic capital basis, a concentration of risk is particularly discernible with respect to sovereign exposures. Monthly reporting of the economic capital requirement for credit risk and risk concentrations is a key component of credit risk reporting at DB PFK.

With respect to the commercial mortgage portfolio, DB PFK pursues a strategy designed to prevent regional concentrations of specific risks. The portfolio is largely focused on Germany and the rest of Europe.

End-to-end risk assessment is ensured by regularly subjecting the key risk types to which operational limits apply (credit, market, liquidity, business and operating risks) to defined scenario analyses and stress tests. This involves conducting inverse stress tests and risk type-specific stress tests in addition to stress tests across all risk types at the level of the Bank as a whole. The stress tests are performed as dictated by market developments and are continuously and dynamically updated to reflect DB PFK’s risk profile.

New Products Process

The risk factors applicable to new and modified products are systematically identified and documented using a “new products” process. The resulting risks are integrated with DB PFK’s risk measurement and monitoring system.

Group-wide Risk Reporting

Risk reporting at DB PFK focuses on internal capital adequacy and risk utilization within the individual risk types. In addition to regular management reporting, rules have been established for an ad hoc early warning reporting system that is differentiated by risk type. This means that report recipients can be kept informed of changes in the relevant parameters in a timely manner. The following table provides an overview of the content of the key reports, their publication frequency, and their recipients, broken down by risk type.

Group-wide Reporting

Topic	Report contents	Frequency	Addressees
Cross-risk type	Risk-bearing capacity, individual risks, risk concentrations, performance calculated periodically and on a present value basis, stress test results	Quarterly	Supervisory Board, Risk Committee, Group Management Board, Bank Risk Committee
Market risk	Risk indicators, limit utilization, performance calculated on a present value basis, material transactions	Daily	Group Management Board, operational front office units
	Market development, trends in material market risk, limit utilization, performance calculated on a present value basis and risk indicators, stress test and scenario analyses, risk concentrations, backtesting results	Monthly	Group Management Board, Market Risk Committee, operational front and back office units
Credit risk	Counterparty limit monitoring	Daily	Group Management Board, operational front and back office units
	Economic capital (EC) reporting, key performance indicators, country risk, trends in loan loss allowance including variance analyses	Monthly	Operational back office units
	Portfolio development/early warning, specific portfolio analyses, key performance indicators, rating distributions, country risk, limit utilization including EC/change in the internal capital adequacy, trends in loan loss allowance including variance analyses, problem loans/watch list, risk concentrations, change in risk-weighted assets (RWA), expected loss (EL) trends, results of scenario analyses/stress tests, mandatory MaRisk disclosures	Quarterly	Group Management Board, Risk Committee, Bank Risk Committee, Credit Risk Committee
Liquidity risk	Liquidity status including limit utilization, cash flows, liquidity sources	Daily	Group Management Board, Market Risk Committee, Financial Markets
	Liquidity status including limit utilization, cash flows, liquidity sources, results of scenario analyses/stress tests	Weekly	Bank Risk Committee, operational front office units
	Liquidity status, stress test, liquidity reserve, funding structure, surplus liquidity, liquidity coverage ratio (LCR)	Monthly	Group Management Board, Market Risk Committee
Operational risk	Loss events	Weekly	Fraud Committee, Operational Risk Committee
	Loss events, risk indicators, results from scenario analyses and self-assessments, utilization of VaR limits, risk assessment related to new products and the outsourcing of functions	Monthly	Group Management Board, Operational Risk Committee
Business risk	Volume growth in customer products	Daily	Group Management Board, operational front and back office units
	Risk indicators related to savings and current account risk, stress test results related to savings and current account risk	Monthly	Group Management Board, Market Risk Committee

An ad hoc escalation requirement applies to all decision-relevant events and developments, regardless of the risk type involved.

Monitoring and Managing Market Risk

Along with limiting economic capital at Group level, DB PFK manages its market risk in the narrower sense using VaR limits and present value-based loss limits for subportfolios. Additional indicators such as sensitivity parameters and maturity structures are also used in operational risk management.

The changes in value of positions exposed to market risk are derived from observable market data, where available; valuations derived from mark-to-model data are also used. From an earnings perspective, market risk exposures are primarily managed using the present value.

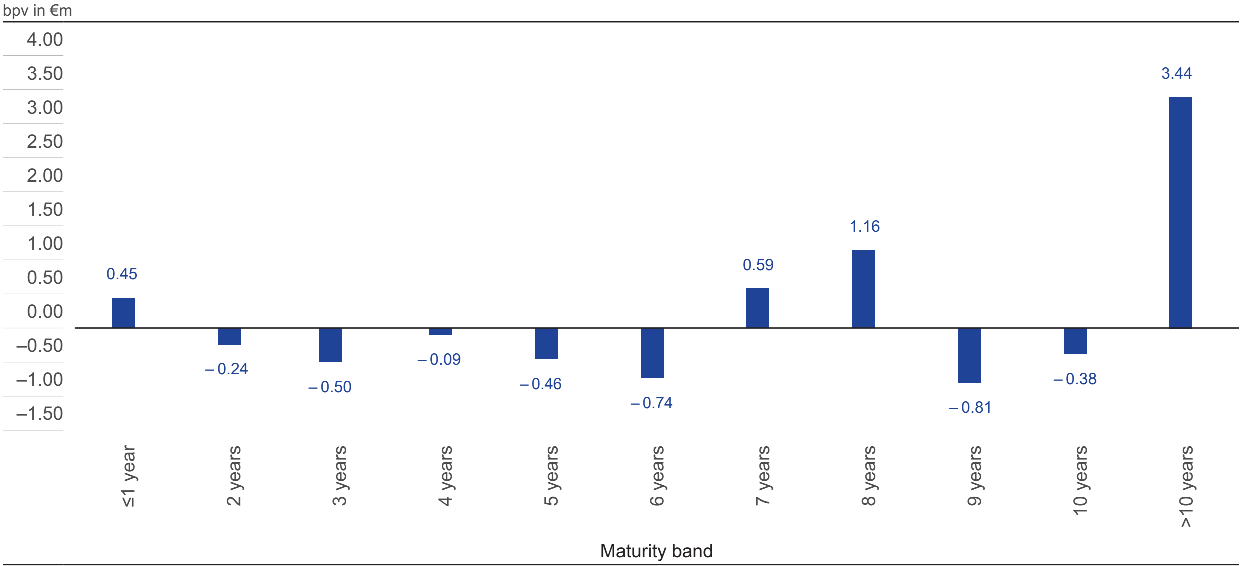
To account for the relative significance of market risk at DB PFK, escalation mechanisms have been defined for critical management parameters and for exogenous events. These mechanisms ensure a prompt reaction to situations in which limits are approached or exceeded, or to extreme market movements impacting DB PFK.

Managing Interest Rate Risk

Interest rate risk – which is a significant component of market risk – denotes the risk of a decline in the fair value of interest-sensitive financial instruments resulting from a change in the market rate of interest or the risk of a deterioration in net interest income for the period due to changes in general market interest rates.

Analyzing interest rate risk is an integral part of the daily market risk management process. The chart below offers a profile of DB PFK's interest rate exposure from active risk taking as of June 30, 2018, in the form of a basis point value (bpv) presentation. The positions include the interest rate risk arising from defined benefit pension obligations and the related plan assets. Positions with a negative value represent an asset-side interest rate risk, meaning that an increase of one basis point (0.01 %) in the yield curve for the respective maturity band would result in a corresponding loss in the present value of the position. By the same token, positions with positive values represent a liability-side interest rate risk.

Interest Rate Exposures (bpv) of DB Privat- und Firmenkundenbank as of June 30, 2018



The chart shows that negative interest rate exposures predominate in the 7 years, 8 years, and > 10 years maturity bands, whereas positive exposures are in the majority in all other maturity bands.

Open positions in the > 10 year maturity band mainly reflect long-term pension obligations. As of June 30, 2018, the total bpv of those positions was €2.4 million. The interest rate sensitivities resulted primarily from EUR positions. DB PFK mainly uses interest rate swaps to actively manage the risk of changes in interest rates. Capital components that are made available to the Bank indefinitely are not included when calculating interest rate risk.

Managing Risk Arising from Unexpected Customer Behavior among Holders of Savings Accounts and Current Accounts

Theoretical scenarios have been defined for customer transactions with non-deterministic interest rates and capital commitment periods (primarily savings and current account deposits) in order to permit interest rate risk to be managed. The scenarios appropriately reflect the repricing and capital commitment behavior associated with these customer products. Over time, unexpected volume and margin fluctuations may occur as a result of unexpected customer behavior or changes in the Bank's own repricing policy (or as a result of the inability to perform repricing in marginal areas); this could endanger the ability to generate stable net interest income in the long term and hence also impact the economic capital requirement for market risk.

For this reason, these risks are accounted for when calculating the economic capital model for market risk, and are limited in the context of the total economic capital limit for market risk.

Managing Collective Risk

BHW Bausparkasse AG uses a simulation model to quantify risk arising from the home savings collective. The model captures planned new contracts and expected home savings customer behavior, e. g., with respect to savings habits, contract terminations, the financing of existing housing stock, home loan allocation dates, and principal repayments. Taking the individual contracts as a basis, the simulation model uses a broad range of behavioral parameters to calculate the statistically expected total cash flows and income statement/balance sheet data at the level of the total home savings collective on a quarterly basis for use in planning.

The plausibility and prediction quality of the simulation model for the home savings collective has been confirmed by an audit firm in connection with exercise of the authorization provision pursuant to section 5 of the *Bausparkassenverordnung* (BausparkV – German Bausparkassen Regulation). In addition, quality assurance is performed annually on the model in the form of backtesting and variance analyses.

A complex simulation of the home savings business, which applies a wide variety of parameters, is used to derive assumptions as to the behavior of home savings customers given different interest rate scenarios from historical data series. There is a risk of incorrect assumptions being made when modeling the parameters for savers' future behavior, which could adversely affect the results of operations or financial position.

The simulation of the home savings collective incorporates both existing contracts and assumptions about new business in the coming years. Medium-term results of operations could be materially impacted if actual new business were to fall significantly below the assumptions, as in such a case BHW Bausparkasse AG would have access to a reduced volume of low-interest customer funds.

Under the model used to calculate economic capital at Group level, risk capital is therefore also set aside to cover losses arising from unexpected customer behavior within BHW Bausparkasse's home savings collective.

Economic Capital Requirement, VaR Measurement, and Risk Limitation

DB Privat- und Firmenkundenbank Group uses a value-at-risk (VaR) approach to quantify and monitor the market risk (in the narrower sense) that it assumes. The VaR of a portfolio describes the maximum potential loss in fair value of the portfolio that will occur for a given probability over a certain horizon. VaR is calculated consistently for all positions with market risk exposures, regardless of how they are presented in the financial statements.

DB PFK uses a Monte Carlo simulation to calculate VaR. Operational risk management is based on a confidence level of 99 % and a holding period appropriate to day-to-day risk management of ten days. The material risk factors taken into account when calculating VaR are interest rates and credit spreads, share prices, exchange rates, and volatilities.

Volatilities and correlations between risk factors are derived from historical data. Whereas the historical values for the past twelve months are always used to manage risk at an operational level, the "stressed" VaR used for assessing economic capital requirements is based on a historical timeframe that represents a period of significant financial stress by comparison with the position as of the reporting date.

In addition to total VaR, which reflects all diversification effects for the risk factors, VaR inputs are also calculated and analyzed daily for the four subtypes of market risk (interest rate risk, credit spread risk, share price risk, and currency risk).

Market risk is managed using a system of risk limits/thresholds. The aggregate risk capital for market risk is set by the PFK Risk Committee and allocated to the individual units or control portfolios by the Market Risk Committee in the form of operating sublimits. In addition to the risk limits for total VaR and the four main subtypes of market risk, loss limits are allocated for potential fair value losses in individual portfolios. Risks are measured and monitored on a daily basis. The economic capital and VaR limits authorized at Group level were complied with at all times during the reporting period.

In addition to the VaR limits, the Market Risk Committee has defined sensitivity limits that restrict credit spread and interest rate sensitivities in the different segments, portfolios, and maturity bands.

Stress Testing and Risk Concentrations

Scenario analyses and stress tests are used to quantify the effects of extraordinary events and extreme market conditions on the relevant DB PFK exposures. The assumptions and inputs underlying the internal stress tests are regularly reviewed for appropriateness. Stress tests comprise both scenarios derived from historical changes in risk factors and hypothetical extreme scenarios. According to the regularly performed internal stress tests for market risk, the greatest risk arising from the Bank's positioning continues to be in the area of interest rates and spreads. By contrast, sensitivities to changes in share prices, exchange rates, and volatilities are significantly less pronounced due to the small number of positions held.

When measuring market risk, particular attention is paid to the requirement to take risk concentrations into account. This is done by regularly analyzing the effects of stress testing on each exposure class and segment, and identifying existing concentrations of risk using sensitivity analyses. Instruments used in this context include interest rate gap analyses, credit spread sensitivity analyses differentiated by issuer, asset class, and credit rating, and analyses of the Group's exposure to equities and foreign currencies.

Risk Indicators

As of June 30, 2018, the VaR for market risk (confidence level of 99 %, holding period of 10 days) totaled €51 million for all positions in which risk is actively taken.

In line with DB PFK's business strategy with its clear focus on the customer loans and deposits business, the level of market risk is largely determined by the interest rate and spread risk. Currency risk is mainly incurred as a result of the Luxembourg branch's business activities. It is of relatively minor significance to market risk, since the open foreign currency positions are immaterial. The present value risks resulting from foreign currency positions are input into the daily market risk measurements and reports. Management focuses on the one hand on present value considerations, and on the other on minimizing potential income statement risk arising from foreign currency positions. Share price risk is minor since DB PFK is not currently investing in equities or equity index products as part of its financial markets activities, with the exception of strategic investments.

Managing Real Estate and Investment Risk

The real estate portfolio primarily comprises owner-occupied properties owned by DB Privat- und Firmenkundenbank and BHW Bausparkasse AG. These properties are reappraised every three years in order to monitor their value on an ongoing basis.

The term "investments" refers to all equity interests recognized in DB PFK's annual financial statements under "equity investments" and "investments in affiliated companies", as well as investments in companies pursuant to section 16(2) and (4) of the *Aktiengesetz* (AktG – German Stock Corporation Act). The majority of those holdings are strategic investments that are in keeping with DB PFK's product and service lines or that were made for the purpose of providing internal services for DB PFK. DB PFK has established procedures to ensure that key investment risks are adequately managed and monitored at Group level. The relevant lending departments at DB PFK monitor risk arising from credit-equivalent investments or from investments serving as credit substitutes. This also includes the interests held by DB PFK in special-purpose entities (SPEs). DB PFK holds no shares in special-purpose asset transfer entities. The large number of management and monitoring systems in existence, which are subject to continuous improvement, guarantees that DB PFK is at all times in a position to monitor and manage risk arising from shareholdings, including strategic investment risk.

Risks arising from DB PFK's real estate holdings and equity investments are accounted for in the form of a stressed VaR concept when calculating the economic capital model for market risk, and are limited in the context of the total economic capital limit for market risk.

Monitoring and Managing Credit Risk

DB PFK uses a target portfolio as a reference for the overall composition of its loan portfolio, which focuses on private clients, commercial clients including commercial real estate finance, banks, and sovereigns (central and regional governments and local authorities) in addition to the related concentrations of risk. The target portfolio was put together with a view to ensuring a balanced risk/return profile. Each quarter, the current portfolio of exposures is compared with the target portfolio. Individual profitability analyses of the Bank's total lending portfolio are also performed using the ratio of the risk-adjusted net margin to the regulatory capital tied up, especially when extending credit in the large-volume corporate banking business or as otherwise needed. When defining the target portfolio, the retail portfolio is not subject to proportionate limits as a matter of principle due to the high degree of risk diversification in the private client business; instead, private client business is managed using the margin ambition less the expected risk. Counterparty credit risk is managed and monitored – and hence the Bank's credit risk strategy implemented – on the basis of individual risks on the one hand and the entire portfolio on the other.

Managing Individual Risks

Credit Approval Procedures

DB PFK's credit policies contain detailed specifications for all lending transactions. They are updated on an ongoing basis and modified to meet the requirements of the lending operations performed. The Bank's back office has been assigned process ownership for the design of lending processes.

Credit approvals are subject to an established decision-making hierarchy, which acts as a framework within which decision-makers (including, in the case of loans to members of executive bodies, the Risk Committee, and/or the Executive Committee) are authorized to enter into lending transactions. Credit approval authority is defined on the basis of fixed upper limits for each group of connected clients, and takes into account the requirements for combining exposures and the "one obligor" principle. In the non-retail segment, credit approval authority additionally depends on the client credit rating and facility amount. An important feature of the credit approval procedure is the separation of front office (sales/trading) and back office functions in accordance with prudential banking regulations (MaRisk). In the case of lending transactions deemed immaterial from a risk perspective, DB PFK has exercised the simplification option provided for in BTO 1.1 No. 4 of MaRisk and has decided that only one vote is necessary in the case of "non-risk relevant lending transactions," which DB PFK defines as loans with a volume of up to €1 million to which simplified and standardized processes apply in principle.

Scoring and Rating

The internal rating systems in use at DB PFK have been approved for use of the IRB approach in accordance with the Capital Requirements Regulation (CRR) and the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation). In addition to meeting the methodological and procedural/organizational requirements, the rating systems have proven their suitability in relation to the classification of existing portfolios and new business. All lending transactions, regardless of size or type, are subjected to individual rating or scoring during the credit approval process as well as at least once annually and on an as-needed basis. The Risk Modeling department, in consultation with the rating model owners at Deutsche Bank Group, is responsible for the design, methodological supervision, and calibration of all rating procedures used as well as for implementing the internal rating procedures that have been transposed into internal IT routines. Responsibility for designing and maintaining a superordinate validation process that governs all of the Bank's (relevant) models lies with the Model Risk Management and Validation unit in consultation with the relevant Group function. All internal rating processes in particular are subject to validation by this unit on a regular and as-needed basis. A Model and Validation Committee (MVC), which was established to provide process support, is responsible for ensuring that the results of the monitoring of internal rating processes are incorporated into the Bank's internal reporting and management processes. The responsible bodies (BRC, CRC, MVC) provide the Management Board with regular information on the functioning of the rating systems as well as on the results of the ratings included in the management reporting process. The Risk Standards department, which is attached to the Chief Operating Office within the CRO function, is responsible for process monitoring. In the year to date, the Bank's Credit Risk Control function again focused its activities on updating the scoring and rating systems as well as on their ongoing validation and, where necessary, recalibration. The appropriateness of the internal rating systems, including adherence to the minimum requirements for the use of rating systems, is reviewed by Internal Audit on an annual basis.

In retail banking, the approval of loans and the definition of loan terms are based on the results of statistical scoring models and in compliance with credit approval policies. The scoring models utilized at DB PFK make use of internal and external information about the borrower and employ statistical methods to estimate the probability of default (PD) for a specific borrower or credit facility. The recovery rate is estimated when calculating the loss given default (LGD). The credit conversion factor (CCF) is calculated to estimate the degree of utilization of open credit lines at the time of default. Rating models are used to make loan decisions and define terms for customers and guarantors in the areas of corporates, commercial real estate, banks, and sovereigns. The models generally consist of a statistical balance sheet rating or a simulation of expected cash flows; they also incorporate qualitative, shorter-term information into the internal rating in the form of a heuristic component.

All internal ratings and scores are depicted using a master scale that assigns a rating category (iAAA to iCCC and below) to each rating or score and includes the probability of default calculated for that rating category. The terminology used by DB PFK in this context is based on that used by the Standard & Poor’s rating agency.

At DB PFK, explicit validation of the rating and scoring methods is performed as part of the annual model validation process as well as during ongoing monitoring. The model validation process is based in particular on standard core analyses, which include factors such as the stability of the model formula/the estimated parameters and their distributions, as well as the accuracy of the rating model and the predictive power of the models. However, the process also takes qualitative aspects of the rating process into account. This ensures that an end-to-end assessment of the appropriateness of the respective rating system is carried out. During the validation process, any changes in loss history are taken into account in subsequent recalibrations (where necessary) by adjusting the inputs.

By including the individual responsibilities for overseeing rating procedures in DB PFK’s processes, it is possible in principle to derive business policy and model-specific measures directly from the results of the core analyses. Electronic records are maintained of all relevant input factors and the results of the rating processes, enabling a seamless rating history to be kept for each customer and transaction.

In addition to supporting the credit approval process, credit ratings and scores serve, among other things, as a basis for calculating the expected loss, i. e., the loss that is to be expected over a one-year period based on statistical averages. They also serve as a starting point for designing more advanced models able to calculate lifetime ECL and loss allowances, for example. Along with other variables, the ratings and scores are factored indirectly into margin calculations using standard risk costs, as described in the following section.

Risk/Return Performance Indicators

When calculating expected defaults in DB PFK’s lending business, the average standard risk costs are factored in at the level of the individual loans, depending on the specific credit product concerned. This allows all lending transactions to be evaluated. Pricing is handled differently within the respective portfolios, but a risk-independent component is always included. Whereas the standard risk costs are priced in as a premium on the expected loss and are included in the profitability calculation in the case of exposures to corporates and private clients, other portfolios price ratings-based facility expenses, among other things, into their calculations.

Collateral Management and Credit Risk Mitigation Techniques

Collateral management is an important and integral component of the credit management process at DB PFK. Strict standards have been established regarding the quality (e. g., the legal validity and enforceability) of the collateral security accepted. The value of the collateral is continuously monitored, not only when a loan is granted but also during its term. The collateral processes are regularly reviewed for compliance with regulatory requirements and further improved.

With respect to the Postbank brand, DB PFK utilizes the following collateral instruments in particular to mitigate credit risk:

– mortgage liens as security for consumer and commercial real estate financing;

– master netting agreements;

– guarantees and trade credit insurance; and

– financial collateral (cash collateral).

For the Deutsche Bank brand, DB PFK uses the following instruments in addition:

– sureties and other assumptions of liability;
– assignments or transfers of security; and
– other eligible collateral.

Responsibility for managing collateral for DB PFK's non-risk-relevant credit transactions generally lies with the back office units. This includes the recognition of instruments as collateral, liaising with Legal Affairs, and regularly reviewing and evaluating the collateral. The collateral is entered in the Bank's systems. The amounts recognized as eligible collateral are reviewed at fixed intervals, depending on the type of security provided; as a rule, this occurs annually or at shorter intervals in the case of critical exposures.

All guarantees and other assumptions of liability as well as (for the Postbank brand) trade credit insurance policies must be irrevocable and unconditional in order to qualify as credit risk mitigation instruments when calculating the minimum capital requirements for credit and counterparty risk. Only guarantees issued by sovereigns (central and regional governments and local authorities), other public-sector entities, banks, supranational organizations, and legal persons are recognized. The collateral is realized in the event a borrower becomes more than temporarily insolvent. To provide security for private real estate financing, DB PFK uses mortgage liens as a key instrument for minimizing the risks associated with the lending business. The mortgage liens flow directly into the calculation of the supervisory LGD, especially for the retail business and the portfolios computed using the Advanced Internal Ratings-Based Approach (A-IRBA).

Loan collateral taking the form of mortgage liens is reviewed regularly – at least once annually – for impairment. In Germany, such loan collateral is additionally monitored on the basis of market developments using the fair value fluctuation concepts produced by vdpResearch GmbH (the real estate market research company of Verband deutscher Pfandbriefbanken e. V.) and, in the case of hotel properties, by the German Banking Industry Committee (Deutsche Kreditwirtschaft). In addition, the front office and back office units perform qualitative monitoring of the relevant sectors and real estate markets on an ongoing basis. In the case of loans and property values in excess of €3 million, valuations and appraisals are always reviewed after three years at the latest. For the Postbank brands, the reviews are performed by independent, qualified collateral specialists. For the Deutsche Bank brands, internal experts conduct the review or real estate experts reappraise the property in question.

Where it is not possible or advisable to immediately realize the collateral furnished to DB PFK as security for a loan for legal or financial reasons, its liquidation can be postponed until the legal situation is clarified or until a more favorable financial situation arises, in which case the collateral will be managed and developed as best as possible (active/passive retention).

In the case of credit risk mitigation using netting agreements, the underlying exposure is reduced either by netting out individual offsetting transactions or by means of net settlement arrangements. For the Postbank brand, DB PFK's collateral management activities involve the use of netting agreements for derivative transactions and repurchase agreements. The agreements used are standard international master netting agreements (MNAs) that comply with the requirements of the CRR. Netting agreements are entered into with most key trading counterparties. Collateral is managed using a computerized process that complies with specified collateral management standards. Netted positions are included in risk management for the counterparty concerned as well as for the aggregate credit risk exposure.

When managing concentrations of credit risk as part of its credit risk mitigation activities, DB PFK accounts for positive correlations between the borrower's counterparty credit risk and the risk of deterioration in the value of the collateral provided. Any credit risk concentrations identified by DB PFK upon initial recognition of the collateral are taken into account in the collateral acceptance and monitoring process. Guarantees are monitored especially closely by DB PFK, together with the guarantor's/surety giver's outstanding credit facilities.

Credit Monitoring and Problem Loan Procedures

In the case of non-standardized loans, credit risks are monitored using credit assessments performed at least once annually and whenever events occur that could affect a borrower's credit quality. The checks are made by the operational lending units in the back office in accordance with prudential requirements and, in the case of trading transactions, by Risk Control as well.

In the area of lending to individual commercial clients and mortgage lending in excess of €500,000 or €750,000 per borrower or borrower unit (depending on the portfolio), DB PFK has implemented a credit monitoring process in accordance with prudential requirements. The process enables problem exposures to be identified using defined qualitative and quantitative early warning and risk indicators (e. g., customer and account data, rating changes). The use of early warning and risk indicators to enable advance identification of an increasing risk of default enables DB PFK to take risk mitigation measures in a timely manner, to develop and implement loan restructuring plans with the borrower if necessary, or to arrange for workout.

When a problem corporate loan is identified, the borrower in question is placed on a watch list if (early warning) risk indicators are present, and may be placed in special servicing as well.

In the case of hard ("rules-based") risk indicators, placement in special servicing is mandatory; if only soft ("principles-based") risk indicators have been identified, the decision is made at the discretion of the credit specialist responsible for the account in cooperation with the workout specialists. The watch list report is produced and submitted to the relevant senior management bodies on a quarterly basis, along with the largest single exposures in the portfolio in question. The largest single exposures at DB PFK as a whole, which are submitted to the Group Management Board for approval, are included in the credit risk report presented to the Group Management Board and the Supervisory Board's Risk Committee each quarter.

Loan Loss Allowances

The provisions of IFRS 9 governing allowances for expected credit losses (ECLs) cover all assets recognized at amortized cost or at fair value through other comprehensive income as well as off-balance sheet loan commitments and financial guarantee contracts. Calculation of the loan loss allowances has switched from an "incurred credit loss model" to an "expected loss model" under IFRS 9.

"Three-Bucket" Approach to Recognition

IFRS 9 introduces a "three-bucket" approach to recognition of loss allowances for financial assets, which can be summarized as follows:

– Stage 1: Loss allowances are recognized in an amount equal to the expected credit loss over a 12-month horizon (12m ECL). The allowance is recognized upon initial recognition of the transaction. Forward-looking information is reflected in adjustments to the probability of default (PD) made on the basis of in-house research. The time horizon is set at three years. Information on the LGD also flows into certain portfolios.

– Stage 2: In the case of transactions where the credit risk has increased significantly, the loss allowance is calculated to equal the expected credit loss over the life of the financial instrument (lifetime ECL).

– Stage 3: The loss allowance is computed to equal the lifetime ECL, assuming a PD of 1 and future cash flows. Accordingly, the amount of the loss allowance is calculated for the unsecured portions of the credit facilities as the difference between the carrying amount of the total exposure and the present values of expected future cash flows, including cash flows from the realization of collateral security. In general, the original effective interest rate is used to discount the cash flows, with the effective rate for the current rate-fixing period being used for variable-interest loans. The proceeds from realization of the collateral and the time of its realization are taken into account on a case-by-case basis. Scenarios are calculated for all corporate credit exposures and then used to compute the loss allowance based on the respective probability weightings.

In addition to the three stages described, IFRS 9 requires a special procedure to be followed for purchased or originated credit-impaired (POCI) financial assets. However, DB PFK holds no such assets, nor does its risk strategy foresee the purchase of any such assets.

Description of Stage 2 Trigger Events

When evaluating whether the default risk of a financial instrument has increased significantly since initial recognition, a distinction is made between quantitative and qualitative triggers. In so doing, all reasonable and supportable information is taken into account, including information about past events and current conditions, and forecasts of future economic conditions.

A relative criterion is used as the quantitative trigger. At each closing date, a review is conducted of whether the default risk (excluding collateral) over the expected life of the financial instrument has increased significantly versus the expectations on initial recognition. This involves defining thresholds based on the specific portfolio and the initial level of default risk.

For the qualitative trigger, the days past due (DPD) and watch list statuses are consulted. Financial instruments with a DPD status of less than or equal to 30 days (homogeneous method) are allocated to Stage 2.

Assets in Stage 3

When a financial asset is classified as credit-impaired under IFRS 9, the Bank recognizes a loss allowance in the amount of the lifetime expected credit loss, using a PD of 100 % based on the present value of the future cash flows expected to be derived from the asset. The Bank's definition of credit-impaired transactions is based on the regulatory definition of "default." Allocation to Stage 3 is made without taking any collateral or financial guarantees into account. A financial asset is considered credit impaired if:

– the institution considers it unlikely that the obligor will make its interest or principal payments ("unlikely-to-pay" criterion); or

– the obligor is more than 90 days past due on contractually agreed payments of principal or interest ("90 DPD" criterion).

For mortgage loans and non-retail processes, the expected credit loss is calculated on a case-by-case basis using a present value comparison of contractual cash flows to expected cash flows. Any collateral furnished is included in the calculation. The ECL for non-retail processes is calculated using probability-weighted economic scenarios. For loans to commercial clients and consumers, the calculation is made using a homogeneous method and portfolio-specific parameters. The retail portfolios are broken down by portfolio type, similar to the control portfolios. The calculations are made on a monthly basis. Where calculations are performed on a case-by-case basis, the cash flow expectations are reviewed each quarter and adjusted as needed.

Information on DB PFK's impairment policies is provided in Note 2(d) to the consolidated financial statements ("Write-offs").

Managing Credit Risk at Portfolio Level

Portfolio Management

Above and beyond monitoring individual risks, DB PFK calculates the necessary economic capital for all Group exposures subject to credit risk. The credit portfolio model used by DB PFK takes account of internal and external risk inputs, concentration risks in the credit portfolio, and reinvestment effects in the case of terms to maturity of less than one year, and can drill down to individual debtors.

DB PFK defines economic capital (EC) as the potential negative change in the present value of the total loan portfolio resulting from actual or potential credit risk losses and ratings changes that will not be exceeded within one year with a probability of 99.90 %. Under DB PFK's Group-wide internal capital adequacy concept, economic capital – as a measure of unexpected losses arising from credit risk – must be backed by risk capital.

In contrast to economic capital, the expected credit loss (ECL) indicated in the "Maximum credit risk" table in the section of the same name represents expected losses arising from credit risk in the Group portfolio over a one-year period. It is approximately equivalent to the product of the probability of default, the total exposure amount upon default and the loss given default (LGD), and depends on the counterparty/transaction rating and the term of the transaction.

The calculation of economic capital is based on the migration behavior of borrower-specific credit ratings and correlation effects in the portfolio, and is intended to quantify risks arising from an adverse concentration of borrowers in terms of their sector, credit rating, and country. Probabilities of rating changes (migration) are continually updated and adjusted to reflect current changes observed in the economic environment. To calculate EC, all exposures are taken together with their future cash flows and discounted to the observation date. This allows both the risk of default to be measured over a one-year observation period and the present-value effects of all credit rating changes occurring outside the observation period to be quantified. Credit risk is measured using current internal and external credit ratings as well as internally and externally derived estimates of loss-given-default parameters.

External inputs used to calculate economic capital include continuously updated rating agency data, migration tables derived from that data, yield curves, and a covariance matrix for the risk factors applied in the correlation model. Homogeneous, granular exposures are aggregated when calculating EC and are not computed at individual transaction level. These exposures mostly involve retail products such as mortgage loans, consumer installment loans, and current accounts.

The updated portfolio and market data is used to calculate economic capital in the Group loan portfolio on a monthly basis. The calculation of EC in the Group loan portfolio takes diversification effects between portfolios held in different divisions into account. Utilization of the EC limits allocated to individual portfolios by the CRC and of the aggregate credit risk limit is monitored regularly.

In addition to calculating economic capital, the Group loan portfolio is subjected to regular stress testing and sensitivity analyses across all risk types with the aim of quantifying losses that could be triggered by extreme events.

The following table provides an overview of material credit risk indicators for the “Postbank brand” and “Deutsche Bank brand” segments:

Overview of the Economic Exposure, Expected Loss, and Economic Capital[1]

			Jun 30, 2018
Credit risk in €m	Economic exposure[2, 3]	Expected loss[2]	Economic capital[2]
Postbank brand	156,548	417	1,802
Deutsche Bank brand	72,572	127	453
Total	229,121	545	2,255

[1] The underlying confidence level is 99.90 %.
[2] The presentation excludes intragroup receivables from Deutsche Bank AG.
[3] Economic exposure includes both on- and off-balance sheet positions.

Quantitative Disclosures on Credit Risk pursuant to IFRS 7

The Bank is exposed to credit risk with respect to all transactions where losses could be incurred if a counterparty does not meet its contractual payment obligations. Such transactions include, but are not limited to, non-trading lending activities, which encompass loans and contingent liabilities as well direct trades with customers in over-the-counter (OTC) derivatives such as currency forwards and OTC interest rate forwards. Credit risk is also incurred in connection with equity investment positions and traded credit products such as bonds.

The following sections contain quantitative disclosures on credit risk, especially regarding

- maximum counterparty credit risk;
- credit risk concentrations;
- loan loss allowances and credit-impaired financial instruments; and
- any modifications.

IFRS 9 has been applied to the recognition of financial instruments since January 1, 2018. By contrast, the comparative figures as of the December 31, 2017, reporting date are based on the IAS 39 accounting standard. The figures are not comparable due to the significant differences between the two standards in the requirements for recognizing financial instruments and the definition and calculation of impairment. Therefore, the prior-year comparative figures have been presented in a separate section following the IFRS 9 disclosures.

Maximum Credit Risk

The table below shows, for the June 30, 2018, reporting date, the maximum credit risk (counterparty credit exposures) before accounting for loss allowances or collateral, or applying any other credit risk mitigation techniques (offsetting or hedging) that cannot be applied to the balance sheet. Collateral used to mitigate credit risk consists mainly of mortgage liens on private or commercial real estate, securities received, assignments or transfers of physical security, and cash collateral. These instruments are measured using internally calculated haircuts and the collateral values computed are capped at the level of the collateralized exposure. Where guarantees are used to reduce credit risk, the guarantees mainly consist of trade credit insurance policies, sureties, or assumptions of liability.

Maximum Credit Risk

				Jun 30, 2018
in €m	Maximum credit risk	Collateral	Guarantees and credit derivatives	Total reduction in credit risk
Cash and central bank balances	13,928	0	0	0
Interbank balances (w/o central banks)	40,369	0	0	0
Central bank funds sold and securities purchased under resale agreements[1]	1,223	1,221	0	1,221
Financial assets at fair value through profit or loss	5,117	0	0	0
Securities in the trading portfolio	0	0	0	0
Positive fair values from derivative financial instruments[2]	4,571	0	0	0
Non-trading financial assets at fair value through profit or loss	546	0	0	0
Financial assets at fair value through other comprehensive income[3]	10,587	0	0	0
Loans	183,802	123,591	1,627	125,218
Banks	7,221	0	0	0
Payable on demand	3,480	165	123	288
Term deposits	201	0	0	0
Consumer mortgage lending	129,198	110,525	177	110,702
Commercial loans	23,837	12,449	1,160	13,610
Public-sector loans	4,450	9	0	9
Installment loans	14,055	443	166	609
Promissory note loans	1,228	0	0	0
Other loans	131	0	1	1
Securities in the “hold” business model (IFRS 9)/LaR (IAS 39)	6,651	0	0	0
Other financial assets	1,317	(0)	0	(0)
Contingent liabilities	1,017	28	80	108
Irrevocable lending commitments	11,915	0	1	1
Maximum credit risk	275,926	124,840	1,709	**126,548**

[1]Item includes effects of balance sheet offsetting in the amount of €0.5 million as of the December 31, 2017, reporting date.
[2]Item includes effects of balance sheet offsetting in the amount of €4.8 billion as of the June 30, 2018, reporting date and €5.2 billion as of the December 31, 2017, reporting date.
[3]Item includes covered bonds in the amount of €3.2 billion as of the June 30, 2018, reporting date and €3.5 billion as of the December 31, 2017, reporting date.

The decline in the maximum credit risk in the first half of 2018 was primarily due to the decline of €2.7 billion in interbank business and of €4.8 billion in fixed-interest securities. However, the Bank increased its exposure in its private customer loan portfolio, with consumer mortgage lending and installment loans both up by €0.8 billion; in addition, there was an increase of €0.7 billion in the commercial lending portfolio.

Consumer Mortgage Lending Exposure, Broken down by LTV Bucket

The loan-to-value (LTV) ratio is the ratio of a mortgage loan exposure to the value of the property. DB PFK calculates the LTV ratio as the total lending exposure divided by the current value of the underlying property. The values are updated on a regular basis. The LTV calculation only includes exposures that are secured by real estate collateral. Any mortgage loans that are backed exclusively by collateral other than real estate collateral are excluded from the LTV calculation.

Consumer Real Estate Financing Portfolio, Broken Down by LTV Ratio

Loan-to-value category, in %	Jun 30, 2018	Dec 31, 2017
≤ 50 %	64	64
> 50 %, ≤ 70 %	17	17
> 70 %, ≤ 90 %	11	11
> 90 %, ≤ 100 %	3	3
> 100 %, ≤ 110 %	2	2
> 110 %, ≤ 130 %	2	2
> 130 %	1	1
Total	**100.0**	100.0

The borrower's credit rating, the LTV ratio and the quality of collateral are an integral part of risk management when originating loans and when monitoring and managing credit risk. In general, the higher the borrower's credit rating, the higher the LTV ratio that the Bank is willing to accept. As of June 30, 2018, 64 % of our total real estate financing portfolio had an LTV ratio of below or equal to 50 %, unchanged to the prior year-end.

Asset Quality

Asset quality refers to the quality of debt instruments subject to impairment, which under IFRS 9 consist of debt instruments measured at amortized cost (AC), financial instruments at fair value through other comprehensive income (FVOCI), and off-balance sheet assets such as loan commitments and financial guarantees.

The tables below provide an overview of the gross carrying amounts of and the allowances for loan losses on financial assets, broken down by concentration of risk.

Risk Concentrations by Sector

The tables below illustrate the Bank's exposure to concentrations of risk by sector, broken down into the IFRS 9 loss allowance categories. Transactions measured at amortized cost and at fair value through profit or loss are presented separately. The tables also show the current gross carrying amounts and the related loan loss allowances.

Financial Assets at Amortized Cost by Sector

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial services	66,327	254	5	66,587	(6)	(6)	(2)	(14)
Investment fund management	333	9	1	343	(0)	(0)	(0)	(1)
Manufacturing	4,193	271	97	4,560	(2)	(2)	(61)	(65)
Wholesale and retail trade	3,105	241	98	3,444	(2)	(2)	(67)	(71)
Households	126,913	10,123	1,735	138,771	(188)	(254)	(765)	(1,207)
Commercial real estate	12,144	938	118	13,201	(3)	(7)	(33)	(42)
Public sector	5,339	0	6	5,345	(0)	(0)	(3)	(3)
Other	13,704	630	112	14,446	(7)	(10)	(58)	(75)
Total	232,059	12,466	2,172	**246,697**	(209)	(280)	(989)	**(1,478)**

Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) by Sector

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial services	1,892	0	0	1,892	(0)	0	0	(0)
Investment fund management	0	0	0	0	0	0	0	0
Manufacturing	38	0	0	38	0	0	0	0
Wholesale and retail trade	0	0	0	0	0	0	0	0
Households	0	0	0	0	0	0	0	0
Commercial real estate	0	0	0	0	0	0	0	0
Public sector	7,980	0	0	7,980	(1)	0	0	(1)
Other	678	0	0	678	(0)	0	0	(0)
Total	10,587	0	0	**10,587**	(1)	0	0	**(1)**

Overall, the sector distribution of the instruments subject to credit risk, measured in terms of volume, displays a balanced structure with the exception of concentrations among banks. The loan portfolio consists mainly of loans to retail customers, with a focus on consumer mortgage lending and consumer installment loans in Germany. The portfolio also includes corporate lending exposures consisting predominantly of commercial transactions in Germany, as well as commercial real estate financing in Germany and Western Europe. The Bank's securities holdings consist mainly of its portfolio of government bonds, the majority of which are German Bunds and bonds from other European nations, as well as bonds issued by banks (including covered bonds and *Pfandbriefe*), insurers, and other financial services providers.

Risk Concentrations by Region

The regional distribution of credit volumes reveals a concentration in the domestic German market and selected exposures in Western Europe, in line with the Bank's strategy. The tables below provide a detailed overview of assets by region. They show the credit portfolio broken down by assets measured at amortized cost and assets measured at fair value through other comprehensive income (FVOCI) as well as current gross carrying amounts and the related loan loss allowances.

Financial Assets at Amortized Cost by Region

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Germany	218,556	11,635	1,971	232,161	(204)	(274)	(924)	(1,402)
Western Europe (excluding Germany)	12,148	755	191	13,094	(4)	(6)	(60)	(70)
Eastern Europe	430	31	6	467	(0)	(1)	(3)	(4)
North America	681	21	2	704	(0)	(0)	(0)	(1)
Central and South America	45	15	0	60	(0)	(0)	(0)	(0)
Asia/Pacific	180	9	2	190	(0)	(0)	(1)	(1)
Africa	8	0	0	8	(0)	(0)	(0)	(0)
Other	13	0	0	13	(0)	(0)	(0)	(0)
Total	232,059	12,466	2,172	**246,697**	(209)	(280)	(989)	**(1,478)**

Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) by Region

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Germany	3,569	0	0	3,569	(0)	0	0	(0)
Western Europe (excluding Germany)	6,920	0	0	6,920	(0)	0	0	(0)
Eastern Europe	98	0	0	98	(0)	0	0	(0)
North America	0	0	0	0	0	0	0	0
Central and South America	0	0	0	0	0	0	0	0
Asia/Pacific	0	0	0	0	0	0	0	0
Africa	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Total	10,587	0	0	**10,587**	(1)	0	0	**(1)**

Portfolio Rating Structure

The following tables show the credit quality of the risk-bearing financial instruments by rating category, broken down into assets measured at amortized cost and assets measured at fair value through other comprehensive income (FVOCI). The tables also show the current gross carrying amounts and the related loan loss allowances.

Financial Assets at Amortized Cost by Rating Category

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
iAAA–iAA	23,420	10	0	23,430	(1)	(0)	(0)	(1)
iA	20,122	154	2	20,277	(2)	(1)	(0)	(3)
iBBB	120,867	1,819	31	122,718	(24)	(15)	(4)	(42)
iBB	58,450	4,279	167	62,896	(86)	(46)	(36)	(168)
iB	8,616	4,943	478	14,037	(89)	(125)	(124)	(337)
iCCC and below	584	1,261	1,493	3,338	(7)	(95)	(825)	(927)
Total	232,059	12,466	2,172	**246,697**	(209)	(280)	(989)	**(1,478)**

Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) by Rating Category

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
iAAA–iAA	7,673	0	0	7,673	(1)	0	0	(1)
iA	891	0	0	891	(0)	0	0	(0)
iBBB	2,023	0	0	2,023	(0)	0	0	(0)
iBB	0	0	0	0	0	0	0	0
iB	0	0	0	0	0	0	0	0
iCCC and below	0	0	0	0	0	0	0	0
Total	10,587	0	0	**10,587**	(1)	0	0	**(1)**

Overall, the tables indicate that the credit quality of DB PFK's portfolio is good. More than two-thirds of lending exposures have an investment grade rating of BBB or better. Only 1.4 % of the loans have a rating of below B–.

Loan Loss Allowance: Reconciliation

The tables below present a reconciliation of the opening to the closing balances of the loan loss allowance pursuant to IFRS 7.35H and the change in the corresponding gross carrying amounts over the year pursuant to IFRS 7.35I. The reconciliation is made for all positions where loan loss allowances and provisions are relevant.

Change in Receivables Measured at Amortized Cost and Loan Loss Allowance in the Current Reporting Period

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	230,178	13,046	2,040	**245,264**	(198)	(304)	(937)	**(1,439)**
Changes in financial assets including new business	12,029	(1,595)	(46)	10,388	58	(65)	(73)	(80)
Transfers due to deterioration in credit quality	(2,120)	1,700	421	0	(81)	84	(4)	0
Increase/(decrease) due to modifications (no derecognition of assets)	(0)	(0)	(0)	(0)	0	0	0	0
Utilization	(8,029)	(684)	(243)	(8,956)	0	0	61	61
Recoveries on loans written off	0	0	0	0	0	0	(45)	(45)
Model updates	0	0	0	0	0	0	0	0
Foreign exchange movements and other changes	1	0	0	1	12	5	8	25
Balance at end of period	232,059	12,466	2,172	**246,697**	(209)	(280)	(989)	**(1,478)**

Change in Off-balance Sheet Receivables and Loan Loss Allowance in the Current Reporting Period

								Jun 30, 2018
	Gross carrying amount				Loan loss allowance			
in €m	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	11,442	250	45	**11,738**	(6)	(9)	(17)	**(33)**
Changes in financial assets including new business	1,198	5	(9)	1,194	7	1	1	8
Transfers due to deterioration in credit quality	(95)	90	5	(0)	(6)	6	(0)	0
Model updates	0	0	0	0	0	0	0	0
Foreign exchange movements and other changes	0	0	0	0	(6)	(7)	2	(11)
Balance at end of period	12,545	346	41	**12,932**	(11)	(9)	(15)	**(36)**

Credit-impaired Volumes

The following table shows all credit-impaired financial assets as of June 30, 2018.

Maximum Risk for Credit-impaired Financial Assets

				Jun 30, 2018
in €m	Maximum credit risk	Collateral	Guarantees and credit derivatives	Total reduction in credit risk
Cash and central bank balances	0	0	0	0
Interbank balances (w/o central banks)	0	0	0	0
Central bank funds sold and securities purchased under resale agreements	0	0	0	0
Financial assets at fair value through profit or loss	10	0	0	0
Securities in the trading portfolio	0	0	0	0
Positive fair values from derivative financial instruments	0	0	0	0
Non-trading financial assets at fair value through profit or loss	10	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0	0
Loans	2,172	1,073	8	1,081
Banks	0	0	0	0
Payable on demand	261	4	0	4
Term deposits	0	0	0	0
Consumer mortgage lending	1,032	928	1	929
Commercial loans	214	101	3	104
Public-sector loans	6	0	0	0
Installment loans	616	4	3	7
Promissory note loans	5	0	0	0
Other loans	38	36	1	37
Securities in the “hold” business model (IFRS 9)/LaR (IAS 39)	0	0	0	0
Other financial assets	1	0	0	0
Contingent liabilities	3	0	0	0
Irrevocable lending commitments	29	0	0	0
Maximum credit risk	2,215	1,073	8	**1,081**

Financial instruments with outstanding contractual volumes of €56 million were written off in the reporting period. The assets remain subject to enforcement proceedings.

Modified Assets (not Derecognized)

A financial asset is considered modified when its contractual cash flows are renegotiated or otherwise modified. Renegotiation or modification can either lead to derecognition (of the old and recognition of the new financial instrument) or not. This section covers modified financial assets that have not been derecognized. Under IFRS 9, when the terms of a financial asset are renegotiated or modified and the modification does not result in derecognition, a gain or loss is recognized in the income statement as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate (EIR). For modified financial assets, the determination of whether the asset's credit risk has increased significantly reflects a comparison of:

– the remaining lifetime probability of default (PD) at the reporting date based on the modified terms; with

– the remaining lifetime PD, based on the data at initial recognition and the original contractual terms.

The following table shows the amortized cost before modification and the associated net gain or loss pursuant to IFRS 7.35J for the contracts modified in the current reporting period. It also shows modified business that demonstrated an improvement in the current reporting period.

Modified Assets at Amortized Cost

in €m	Stage 1	Stage 2	Stage 3	Jun 30, 2018 Total
Amortized cost before modifications	0	0	0	0
Changes in the income statement from modifications	0	0	0	0

Asset Quality (Comparative Period as Reported under IAS 39)

This section provides information on the comparative figures as of December 31, 2017, in accordance with IAS 39 for maximum credit risk and for risk concentrations by sector, region, and credit quality. It should be noted that the figures are only comparable with the current figures to a limited extent due to the significant differences in the requirements for recognizing financial instruments and for calculating impairment resulting from the introduction of IFRS 9 as of the start of the year. In addition, the introduction of IFRS 9 led to financial assets being reclassified. More information on this can be found in Note 2 to the consolidated financial statements.

Asset Quality (Comparative Period as Reported under IAS 39) – Maximum Credit Risk

				Dec 31, 2017
in €m	Maximum credit risk	Collateral	Guarantees and credit derivatives	Total reduction in credit risk
Cash and central bank balances	14,451	–	–	–
Interbank balances (w/o central banks)	43,026	–	–	–
Central bank funds sold and securities purchased under resale agreements	835	835	–	835
Financial assets at fair value through profit or loss	9,384	2,800	–	2,800
Positive fair values from derivative financial instruments	6,541	–	–	–
Non-trading financial assets at fair value through profit or loss	2,842	2,800	–	2,800
Financial assets at fair value through other comprehensive income	16,855	–	–	–
Loans	184,011	119,795	1,526	121,321
Banks	6,590	0	–	0
Payable on demand	3,247	166	107	273
Term deposits	126	–	–	–
Consumer mortgage lending	125,569	107,225	178	107,404
Commercial loans	23,173	11,918	1,019	12,936
Public-sector loans	5,069	7	–	7
Installment loans	13,275	478	163	641
Promissory note loans	1,597	–	–	–
Other loans	134	0	59	59
Securities in the “hold” business model (IFRS 9)/LaR (IAS 39)	5,231	–	–	–
Other financial assets	1,278	–	–	–
Contingent liabilities	1,042	133	38	172
Irrevocable lending commitments	11,093	–	1	1
Maximum credit risk	281,975	123,563	1,566	125,128

Asset Quality (Comparative Period as Reported under IAS 39) – Financial Assets by Sector

						Dec 31, 2017
	Gross carrying amount			Loan loss allowance		
in €m	Non-credit-impaired assets	Credit-impaired assets	Total	Non-credit-impaired assets	Credit-impaired assets	Total
Financial services	68,204	2	68,206	0	0	–1
Investment fund management	335	1	336	0	0	0
Manufacturing	3,856	96	3,953	–9	–71	–80
Wholesale and retail trade	3,326	71	3,397	–1	–43	–44
Households	132,273	1,357	133,630	–208	–645	–853
Commercial real estate	12,721	119	12,840	–9	–40	–49
Public sector	6,985	6	6,991	0	–3	–3
Other	13,550	92	13,642	–10	–51	–61
Total	241,250	1,745	242,995	–238	–853	–1,091

Asset Quality (Comparative Period as Reported under IAS 39) – Financial Assets by Region

						Dec 31, 2017
	Gross carrying amount			Loan loss allowance		
in €m	Non-credit-impaired assets	Credit-impaired assets	Total	Non-credit-impaired assets	Credit-impaired assets	Total
Germany	230,003	1,512	231,514	–234	–787	–1,021
Western Europe (excluding Germany)	9,879	232	10,111	–4	–66	–70
Eastern Europe	442	0	442	0	0	0
North America	622	1	622	0	0	0
Central and South America	56	0	56	0	0	0
Asia/Pacific	230	1	231	0	0	0
Africa	8	0	8	0	0	0
Other	10	0	10	0	0	0
Total	241,250	1,745	242,995	–238	–853	–1,091

Asset Quality (Comparative Period as Reported under IAS 39) – Financial Assets by Rating Category

						Dec 31, 2017
	Gross carrying amount			Loan loss allowance		
in €m	Non-credit-impaired assets	Credit-impaired assets	Total	Non-credit-impaired assets	Credit-impaired assets	Total
iAAA–iAA	24,404	0	24,404	0	0	0
iA	14,434	1	14,436	–3	0	–4
iBBB	116,074	17	116,090	–23	–2	–25
iBB	68,090	145	68,236	–67	–62	–129
iB	15,576	249	15,825	–90	–89	–179
iCCC and below	2,671	1,332	4,004	–55	–699	–755
Total	241,250	1,745	242,995	–238	–853	–1,091

Securitized Assets not Included in the Consolidated Financial Statements

Asset securitization makes it possible to transfer underlying credit risk to third parties. Usually, entire exposure pools consisting of two or more subclasses of risk (tranches) entailing varying degrees of risk are transferred. As the following originator securitization transactions have been terminated and are now in deferred redemption, they are disregarded for regulatory purposes. The following amounts (class principal amount after distribution) were outstanding as of the reporting date:

- Provide Blue 2005-1 €6.4 million (BHW Bausparkasse AG)
- Provide Blue 2005-2 €20.5 million (BHW Bausparkasse AG)
- PB Domicilio 2007-1 €29.0 million (BHW Bausparkasse AG)
- PB Domicile 2006-1 €15.4 million (DB PFK)

DB PFK has limited investments in redeemed residential mortgage-backed securities. The portfolio had a carrying amount of €6 million as of June 30, 2018 (December 31, 2017: €8 million); the decrease is due to repayments. The portfolio is valued periodically using arranger quotes or an internal valuation model.

Environmental Risk

Following a review conducted most recently in December 2017, DB PFK received a management certification report in accordance with the ISO 14001:2015 environmental management systems standard from DNV GL Business Assurance Zertifizierung und Umweltgutachter GmbH, located in Essen, Germany. The review deemed the Bank’s management system to be both effective and compliant with the ISO standard. The scope of certification encompasses business with private and commercial clients as well as B2B business and central functions, including facilities management.

Monitoring and Managing Liquidity Risk

ILAAP Architecture and Risk Governance

Liquidity risk is monitored and managed centrally in the CRO board department. The primary task of liquidity risk management is to ensure that DB PFK is solvent at all times, including in specific stress situations, and to guarantee a stable funding structure. To achieve this, DB PFK has defined an overarching risk strategy detailing how liquidity risk should be handled at the level of the parent company/the Group as well as for the Postbank brand (formerly the Postbank subgroup) and the Deutsche Bank brand (formerly PGK).

Liquidity and Funding Planning

As a part of DB PFK's Group-wide integrated planning process, liquidity planning involves identifying all anticipated liquidity needs and surplus liquidity over a specific planning horizon, taking the overall business plan as the basis. The liquidity needs or surpluses identified can result from different liquidity perspectives. They can occur in the cash balance and/or net or surplus liquidity on the one hand and in the LCR buffer or available stable funding (ASF) surplus on the other.

Where necessary, the information on potential funding sources supplied by the market managers is used to develop a package of measures that takes all economic and regulatory targets into account in the best manner possible and ensures that planning adheres to the risk strategy adopted. The package of measures is targeted at achieving the best funding mix from the liquidity sources specified in the funding strategy, which is an integral component of the Bank's risk strategy.

Managing Short-term Liquidity Risk

To ensure the viability of the Bank, short-term liquidity risk is primarily managed and limited at Group level using stress tests.

To safeguard solvency, the risk strategy defines and limits the management parameters of net liquidity, surplus liquidity, and the LCR buffer. The parameters are reviewed at each reporting date, and monthly forecasts indicate the forward-looking projections. This ensures that any liquidity shortages are identified at an early stage so that countermeasures can be promptly initiated. The Deutsche Bank brand will be added to the forecasts in the follow-up to the merger.

In addition, a reserve balance for intraday settlement will be maintained at the ECB in the form of cash or securities. The liquid assets held for this purpose will be flagged as encumbered in the daily measurement of liquidity risk and will not be available for funding purposes or for any other daily liquidity needs. The adequacy of the reserve for managing intraday liquidity is monitored on a daily basis and assessed each month.

All of the aforementioned limits are monitored progressively using a traffic light system. Escalation processes have been defined for use where a limit is breached, and these can in turn trigger a liquidity shock. In such case, the Liquidity Crisis Committee led by the CRO decides on the action to be taken on the basis of the relevant liquidity contingency plan.

Stress Testing (Net/Surplus Liquidity)

Liquidity stress scenarios cover both institution-specific and general market issues and, in the MaRisk scenario, a combination of the two. A combined “MaRisk scenario” is computed each day to manage short-term liquidity risk at an operational level.

DB PFK's business model is used as the basis for determining the primary drivers in the institution-specific stress scenario. The model focuses in particular on the lending and deposit business with private and commercial clients (mainly in Germany and in EUR). This permits the model to reflect changes in a variety of market factors, panic reactions by customers, and structural changes in funding resources (e.g., due to a decline in market liquidity). The MaRisk scenario simulates severe outflows of savings deposits, demand deposits, and corporate customer deposits, restricted access to the uncollateralized money market, and increased haircuts on central bank-eligible securities. In addition, all stress scenarios require the customer loan portfolio to be maintained at existing levels at a minimum, even in times of stress. To guard against unexpected cash outflows, the Bank maintains cash holdings, balances with central banks, and an extensive portfolio of unencumbered, highly liquid, central bank-eligible securities.

This actively ensures access to the secured money market in order to enable the Bank to tap the repo markets (an important consideration) as a potential source of liquidity reserves in a stress scenario, in addition to increasing the diversification of funding sources and optimizing buffer costs.

For the purpose of operationalizing this internal risk management concept, net liquidity is defined as the available liquidity buffer less the required minimum buffer under the “MaRisk scenario.” The internally defined survival period is two months, i.e., longer than the minimum period under supervisory law. To avoid MaRisk coverage breaches, an additional (amber) buffer is also defined: If coverage falls below it, an “amber” status is triggered. Specifying a strategic amber buffer assists in defining the Bank’s risk appetite in concrete terms.

In addition to net liquidity, surplus liquidity is another management indicator used by DB PFK. Surplus liquidity is a measure of the liquidity that is available over and above the amber buffer. It is calculated both retrospectively as a monthly net liquidity minimum (less the amber buffer), as well as together with the monthly 12-month liquidity forecasts.

The minimum surplus liquidity in the forecast is limited and is used as an early warning indicator that is subjected to monthly monitoring. The forecast is based on expected increases or decreases in volumes as estimated by the managers in charge of the products concerned.

Both the results of the daily stress tests performed since the merger and the LCR ratio confirm DB PFK’s solid liquidity position. Even after taking into account the combined stress effects in the MaRisk scenario, comfortable surpluses existed in the net liquidity position and in surplus liquidity at all times, underlining the Bank’s comfortable liquidity position.

At Group level, DB PFK had a net liquidity (minimum within the survival period) of €12.5 billion and a Group LCR ratio of 411 % as of June 29, 2018.

Managing Structural Liquidity Risk (Funding Risk)

Due to its strategic focus as a bank for private and commercial clients, DB PFK enjoys a broad and stable funding base from its customer business and is therefore largely independent of the money and capital markets. The stability of the funding structure is regularly reviewed on the basis of internal analyses and is also guaranteed by limiting the net stable funding ratio (NSFR). For this purpose, the NSFR for DB PFK Group is calculated and monitored in accordance with the requirements of the Basel Committee on Banking Supervision’s Quantitative Impact Study (QIS).

In addition, the monthly liquidity forecasts calculate the available stable funding (ASF) factor (QIS). This ensures that any undesired changes in funding structure stability are identified at an early stage so that countermeasures can be promptly initiated if necessary. The Deutsche Bank brand will be added to the forecasts in the follow-up to the merger.

The following table shows DB PFK's financial liabilities as of June 30, 2018, and December 31, 2017, broken down into residual maturity bands:

Liabilities by Residual Maturity

	Payable on demand		≤ 3 months		> 3 months and ≤ 1 year		> 1 year and ≤ 5 years		> 5 years		Total	
in €m	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017	Jun 30, 2018	Dec 31, 2017
Non-derivative liabilities	117,095	111,843	62,234	64,806	26,950	27,990	17,892	20,105	26,388	30,621	250,559	255,364
Contingent liabilities from guarantees (accessory and non-accessory)	1,017	1,042	0	0	0	0	0	0	0	0	1,017	1,042
Other payment obligations	33,249	31,627	0	0	0	0	0	0	0	0	33,249	31,627
Derivative liabilities	5,029	5,151	25	46	17	34	41	46	198	195	5,310	5,473
Hedging derivatives	1,184	593	1	1	1	0	2	1	4	1	1,191	595
Trading liabilities	3,845	4,558	24	46	16	34	39	46	194	194	4,118	4,878
Total	**156,389**	149,663	**62,258**	64,853	**26,967**	28,024	**17,933**	20,151	**26,586**	30,816	**290,134**	293,506

The contractual cash flows from on- and off-balance sheet liabilities have been assigned to the respective maturity bands. In conformity with the requirements, the contractual cash flows for the financial liabilities are presented in accordance with the worst-case scenario, meaning that if the financial liabilities involve options or termination rights that could affect their maturity date, the most unfavorable case from a liquidity perspective is assumed. This is particularly relevant for demand deposits and savings deposits that are held at call or that have a short maturity (usually three months) but that are available to the Bank for a significantly longer period of time, statistically speaking.

Monitoring and Managing Operational Risk

As of the reporting date, the economic capital set aside for operational risk consisted of the capital allocated to DB PFK under the DB Advanced Measurement Approach – Group model. The calculation is based on internal and external loss events obtained from the Operational Riskdata eXchange Association (ORX) as well as hypothetical loss events developed in connection with scenario analyses. Analysis of OpRisk scenarios at DB PFK involves a structured assessment of clearly defined, unusual, and plausible OpRisk events. The analysis is only conducted for loss events that have a low probability of occurrence but are associated with high losses. The results of the scenario analyses are used in two ways: Firstly, the estimates are used as inputs when modeling risk capital and thus supplement the loss data collection. Secondly, the results are used to implement specific risk management measures and hence serve to improve the risk situation. The various methods and review processes applied ensure that all material risks are captured and taken into account in modeling risk capital.

In addition to its regular calculations of economic capital, DB PFK uses the following qualitative instruments in particular to manage operational risk:

– structured capture of internal losses of €1,000 or more (fraud cases starting at €0) in dbIRS;

– regular determination of risk indicators as an early warning instrument;

– separate risk assessments for the Postbank brand and the Deutsche Bank brand for evaluating internal control structures and processes;

– scenario analyses for evaluating specific risk situations; and

– lessons-learned analyses in the event of serious losses.

The reporting process is supported by longstanding, proven IT applications that systematically capture risk and losses Group-wide in line with uniform standards. The large collection of data that has been amassed over many years facilitates operational risk management.

Responsibility for OpRisk management lies with the local management at divisional and subsidiary level. It is supported by a networked organization of local OpRisk managers and dedicated OpRisk contacts that has been established in a number of divisions and subsidiaries. The OpRisk managers and contacts are responsible for promptly identifying and reporting risk and losses as well as for initiating appropriate preventive measures. The Divisional Control Officer (DCO) organization established within Deutsche Bank's Private & Commercial Clients division plays a crucial role in managing operational risk at DB PFK. The DCO organization assists in the identification, analysis, and measurement of risk and losses, and advises the management levels in defining risk-mitigating measures.

The independent risk control function required by MaRisk is performed by the Operational Risk Management department that forms part of the CRO board department. The OpRisk Management department is also responsible for providing timely reports to the Group Management Board and the relevant DB PFK risk committees. Each week, for instance, a report on losses incurred is submitted to the Group Management Board to ensure that the top management level is informed and involved at an early stage in the case of any unwanted developments that are identified. Risk reporting is based on the previous structures established under the Postbank and the Deutsche Bank brands (e. g., the organizational structures and workflows, policies, etc.). An integration project has been established with the goal of deciding on and implementing harmonization of these structures.

Losses from operational risk declined significantly in the reporting period to approximately €55.7 million compared with €75.8 million in the first half of 2017. Loss trends for both brands have been driven primarily by the still-high level of legal actions and complaints brought by customers in connection with purchases of closed-end funds. Losses arising from cases of fraud, the majority of which had external causes, were up significantly year-on-year to approximately €33.3 million in the first half of 2018 (H1 2017: €7.4 million). The increase was mainly due to a major case of fraud in the commercial clients business as well as to losses from ATM bombings. The Bank has already defined a number of technical and organizational anti-fraud measures in recent years in order to guard against external fraud attacks. These anti-fraud measures are regularly reviewed and updated to reflect the current situation. In addition, the battle against fraud continues to focus on communicating all material cases of fraud promptly throughout the Bank, as well as on raising awareness among the employees involved in the relevant processes in order to ensure systematic, comprehensive, and early identification of fraud.

DB PFK assumes that losses from operational risk will gradually decline over the coming years as a result of the measures that have either been initiated or already implemented. However, consumer protection issues could again negatively impact the Bank in 2018; such issues relate to the calculation of bank fees as well as model proceedings under the *Kapitalanleger-Musterverfahrensgesetz* (KapMuG – Capital Investors Model Proceedings Act).

As part of the identification and management of legal risk, the Legal Affairs department regularly reports to the Management Board and prepares analyses to ensure that the business divisions have access to detailed and sophisticated assessments for decision-making purposes. Legal Affairs uses various individual measures to identify legal risk. It assists in assessing the Bank's tolerance for legal risk, among other things. The steps necessary to eliminate or mitigate potential legal risk arising from the Bank's business activities are agreed between the Legal Affairs department and the corporate divisions.

DB PFK performs business continuity management (BCM), which comprises both preventive and reactive measures, along its value chain. The preventive measures include identifying critical business processes, developing and establishing adequate BCM plans (known as contingency plans), and subjecting them to regular review. The objective is to develop and then implement contingency plans in the prevention stage in order to improve the continuity, propriety, and robustness of the Bank's business operations and thus enable a quicker response to emergencies or crises. Regular BCM risk identification and assessment (RIA) exercises and business impact analyses (BIA), which focus on the Bank's main tasks and business processes, are used as the basis for planning. The proper functioning of the contingency planning processes is reviewed, monitored, and documented on an ongoing basis.

Monitoring and Managing Business Risk

Business risk is the risk of declining earnings leading to unexpected losses (e.g., negative profits) that cannot be offset by implementing timely cost reductions, and which does not fall under market, credit or operational risk. Business risk is managed via the system of boards and committees at DB PFK.

The procedures used to quantify business risk correlate directly with the method used to calculate profit forecasts. Business risk is estimated on the basis of variance analyses for the periods in question. DB PFK calculated a business risk of “zero” as of the reporting date.

Scenario analyses are also used to quantify and monitor business risk, with the methods used being reviewed for accuracy at regular intervals. The limits are formally established by the PFK Risk Committee. The Risk Management unit of DB PFK is responsible for limit monitoring and reporting, which must be performed at least quarterly.

The risk control function and the business divisions act as an early warning system by gathering and analyzing data on markets and competitors on an ongoing basis in order to identify potential risks and develop the appropriate countermeasures.

Reputational Risk Management

The core element of DB PFK’s reputational risk management is the prophylactic treatment of issues relevant to reputational risk resulting from specific transactions, business partners, or business practices relating to customers. Primary responsibility for the identification, assessment, and escalation of such issues rests with the management of the relevant board departments and subsidiaries. The principle of local management responsibility applies, with the local units being assisted in the performance of their tasks by the central infrastructure units.

The relevant reputational risk committee acts as the escalation instance and must be consulted on issues concerning serious reputational risk. This committee supports the Group Management Board in monitoring and managing reputational risk as part of overall risk management. The main management objective is to prevent reputational risk entirely if possible or, failing that, to minimize the effects of any reputational damage that has occurred by responding with appropriate measures.

Internal Control and Risk Management System for the Financial Reporting Process

As required by section 315(4) in conjunction with section 264d of the *Handelsgesetzbuch* (HGB – German Commercial Code), the key features of the internal control and risk management system for the Group financial reporting process are described in the following. DB PFK regards information as being material within the meaning of section 315(4) of the HGB if failure to disclose it could influence financial decisions taken on the basis of the consolidated financial statements or other components of financial reporting. Materiality cannot be determined in general terms, but is established on the basis of the nature and scope of the issues involved. DB PFK assesses the materiality of an issue in terms of its significance for the consolidated financial statements.

Tasks of the Internal Control and Risk Management System Relevant for Financial Reporting

DB PFK sets high standards in regard to the correct presentation of transactions in its financial reporting. One of the tasks of the internal control system is to ensure due and proper financial reporting.

DB PFK’s internal control and risk management system comprises rules for managing corporate activities (internal management system/risk management system) as well as rules for monitoring compliance with those rules (internal monitoring system).

DB PFK's internal control system performs the following tasks:

- safeguarding the effectiveness and economic efficiency of business activities in line with corporate strategy;
- ensuring the propriety and reliability of both internal and external financial reporting; and
- ensuring compliance with the legal provisions applicable to the Bank.

DB PFK's Management Board is responsible for establishing the internal control system. Its implementation is assured by the appropriate principles, procedures, and measures.

Structure of the Internal Control and Risk Management System Relevant for Financial Reporting

The Management Board is responsible for preparing the annual and consolidated financial statements and the (Group) management report. The Management Board has prepared organizational policies that clearly define the responsibilities for the individual components of financial reporting and the financial reporting workflow and has assigned those responsibilities to individual organizational units. The Finance, CEO, Resources, and Chief Risk Office board departments are the main units involved in the preparation of the policies.

DB PFK prepares its consolidated financial statements in compliance with the IFRSs as endorsed by the European Union. Its financial statements are supplemented by the disclosures required by German commercial law pursuant to section 340i of the HGB in conjunction with section 315e(1) of the HGB, the German Accounting Standards (GASs), the sector-specific requirements for credit institutions, and the legal form requirements for German stock corporations (sections 150–160 of the AktG).

Consolidated subsidiaries and special-purpose entities prepare reports at Group level (Group reporting packages) in accordance with the Bank's group accounting policies.

Financial reporting is performed primarily by the units reporting to the Finance board department, whose main tasks are as follows:

- monitoring new legislation;
- preparing and updating accounting policies;
- due and proper capture and processing of financial reporting data/transactions in IT applications;
- preparing the consolidated financial statements and the Group management report; and
- providing segment reporting information.

In addition, certain activities are handled by the CEO board department, which has the following key task:

- preparing specific disclosures for the notes to the financial statements.

With regard to the financial reporting process, the Resources board department primarily performs the following tasks:

- creating the conditions for recognition, measurement (best estimate), and ongoing review of the provisions for pensions and other employee benefits as well as preparing the relevant notes disclosures; and
- preparing any additional relevant disclosures for the notes or the risk report.

The Chief Risk Office performs the following tasks:

- measuring financial instruments, and particularly loan receivables, in accordance with IFRS 9;
- providing the information required to be disclosed on market, credit liquidity and operational risks and
- providing the relevant disclosures for the notes or the risk report.

The Supervisory Board is tasked with overseeing the Management Board. In the area of financial reporting, it is responsible for approving DB PFK's consolidated financial statements and annual financial statements. The Audit Committee formed by the Supervisory Board has the following tasks:

- offering advice and supervision with respect to financial reporting, the internal control system, risk management and risk control (insofar as the Risk Committee is not responsible for this), internal auditing, and compliance;
- dealing with matters relating to the auditor independence requirement; and
- engaging the auditors, determining the areas of emphasis for the audit, and establishing the fee.

The Audit Committee makes use of its right to have the Internal Audit function provide it with the information for the purpose of performing its duties.

In addition, DB PFK's Internal Audit function plays a process-independent monitoring role. It performs audits in all areas of the Company on behalf of the Management Board and is directly assigned to the Management Board, to which it also reports. In addition to reviewing the propriety and functional reliability of the processes and systems, it assesses in particular the effectiveness and appropriateness of the internal control system and of risk management in general.

The consolidated financial statements and the group management report must be audited by the auditor elected by the Annual General Meeting before the consolidated financial statements are approved.

The audit report to be prepared by the auditor must be submitted to the Supervisory Board of DB Privat- und Firmenkundenbank.

Components of the Internal Control and Risk Management System Relevant for Financial Reporting

DB PFK's control environment, as a component of the internal control and risk management system relevant for financial reporting, is the framework within which the rules applicable at DB PFK are introduced and applied. It is determined by management's basic attitude, problem awareness, and behavior toward the internal control system, and it materially influences employee awareness of control procedures. A favorable control environment is a precondition for an effective internal control system.

Accounting policies and other rules serve to ensure the due and proper treatment of business transactions; these policies and rules are reviewed on an ongoing basis and modified as necessary. DB PFK uses an SAP system to account for transactions. End user data processing tools are also used, the design of which is supervised in connection with monitoring end user data processing. The Group reporting packages submitted by the companies to be included in consolidation are loaded into the SAP SEM BCS system by the companies or entered manually in specific cases. This data, together with other information provided by the companies to be included in consolidation, is used by the Bank to prepare its consolidated financial statements in the SmartNotes system.

The risk of non-compliant financial statements is addressed by corresponding instructions in the policies. Group reporting packages are checked for conformity with Group manuals. The annual and consolidated financial statements are prepared and their quality is assured by the Accounting and Tax department. The subsidiaries are informed each month of the deadlines for, and changes relating to, the preparation of the consolidated financial statements. Group policies are updated at regular intervals and the updated versions communicated to the subsidiaries.

Generally accepted measurement procedures are used. The procedures used and the underlying inputs are reviewed at regular intervals and modified as necessary.

The core principle behind the design of these processes is the clear separation of irreconcilable activities. All transactions are processed in line with the principle of dual control. Dual control can be exercised at the technical or organizational level, or a combination of the two.

The financial reporting process for the annual and consolidated financial statements comprises technical support for business transactions, data capture and processing, reporting, and publication of the financial reporting components. In addition, preparation of the consolidated financial statements comprises in particular determining the basis of consolidation, processing reports from the companies included in consolidation, intercompany reconciliations, currency conversion, automated and manual consolidation entries and, ultimately, generating the consolidated financial statements.

The entire financial reporting process is IT-based. Both standard applications and custom software are used. Rules and procedures, which are based on DB PFK's IT strategy and risk strategy, have been established for program development and modifications, data backups, and access control, thus ensuring the propriety of financial reporting.

Internal Audit

Internal Audit is a key element of DB PFK's business and process-independent monitoring system. In terms of the Bank's organizational structure, it is assigned to the CEO's area of responsibility and reports independently to the Group Management Board.

The Internal Audit function is obliged to comply with the standards issued by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Deutsches Institut für Interne Revision). It reviews the effectiveness and appropriateness of risk management in general and of the internal control system in particular, along with the propriety of all activities and processes as a matter of principle, in a risk-oriented and process-independent manner, in line with MaRisk. The responsibilities of Internal Audit also extend, in a scaled-down form, to DB PFK's subsidiaries. Its activities for these subsidiaries range from acting in an advisory capacity to conducting full-scale internal audits.

In line with Deutsche Bank Group's methodology, Internal Audit bases its audit planning on a dynamic process. The inherent risks associated with the business divisions and core processes as well as the corresponding internal control measures are analyzed and assessed as part of a continuous risk assessment. Together with the statutory audits, this assessment is used to draw up a risk-oriented audit plan for the fiscal year with audit intervals of no more than three years for material issues. The Management Board formally instructs Internal Audit to implement the audit plan.

In addition to its regular audits, Internal Audit performs special examinations in certain circumstances and provides audit and consulting services relating to the introduction and implementation of significant projects. The Bank's audit concepts are continuously adapted to reflect risk assessment findings. For instance, new products, changes in the internal control system, or organizational changes in the way audits are performed are all taken into account, as are any changes in the legal framework.

Pending Litigation

On October 20, 2017, the Cologne Regional Court ruled in the first instance in favor of the actions for annulment and avoidance brought against the resolution passed by the Annual General Meeting on August 28, 2015, on the transfer of the shares held by the minority shareholders of Deutsche Postbank AG to Deutsche Bank Aktiengesellschaft in return for payment of an appropriate cash settlement. Deutsche Postbank AG has appealed the decision to the Higher Regional Court in Cologne. The proceedings will be continued by DB PFK under "Postbank – a division of DB PFK."

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS OF JUNE 30, 2018

Consolidated Statement of Income

			Jan–Jun
in €m	Note	2018	2017
Interest and similar income[1]		2,541	2,742
Interest expense		−539	−733
Net interest income	6	**2,002**	2,009
Loan loss allowance	18	−72	−28
Net interest income after loan loss allowance		**1,930**	1,981
Net commissions and fee income	7	915	942
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	6	−41	120
Net gains (losses) on financial assets/liabilities at fair value through other comprehensive income	6	79	N/A
Net gains (losses) on financial assets available for sale	6	N/A	69
Other income (loss)	8	198	−122
Total non-interest income		**1,151**	1,009
Compensation and benefits	9	−1,160	−1,206
General and administrative expenses	10	−1,320	−1,218
Total non-interest expenses		**−2,480**	−2,424
Net income (loss), before tax		**602**	566
Income tax expense (benefit)		−48	3
Net income (loss)		**554**	569
Net income (loss) attributable to non-controlling interests		0	0
Consolidated net income (loss)		**554**	569

[1] Interest and similar income included €2.4 billion calculated based on the effective interest rate method.

Earnings per share were €2.01 as of June 30, 2018 (June 30, 2017: €2.07).

Earnings per share are calculated by dividing consolidated net income (loss) by the weighted average number of shares outstanding during the reporting period. The average number of shares outstanding in the reporting period was 275,000,000.

Basic earnings per share are the same as diluted earnings per share in the reporting period and the prior-year period because no conversion or option rights are outstanding and hence there is no dilutive effect.

Consolidated Statement of Comprehensive Income

	Jan–Jun	
in €m	2018	2017
Net income (loss) recognized in the income statement	**554**	569
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) related to defined benefit plans, before tax	−104	26
Total income tax related to items that will not be reclassified to profit or loss	4	1
Items that are or may be reclassified to profit or loss		
Financial assets available for sale	N/A	−121
Unrealized net gains (losses) arising during the period, before tax		
Realized net (gains) losses arising during the period (reclassified to profit or loss), before tax	N/A	−68
Financial assets at fair value through other comprehensive income		
Unrealized net gains (losses) arising during the period, before tax	−53	N/A
Realized net (gains) losses arising during the period (reclassified to profit or loss), before tax	−79	N/A
Other comprehensive income (loss), net of tax	−232	−162
Total comprehensive income (loss), net of tax	**322**	407

Consolidated Balance Sheet

Assets

in €m	Note	Jun 30, 2018	Dec 31, 2017	Jan 1, 2017
Cash and central bank balances	11	13,928	14,451	10,574
Interbank balances (w/o central banks	11	40,367	43,026	35,756
Central bank funds sold and securities purchased under resale agreements (reverse repos)		1,223	835	5,839
Financial assets at fair value through profit or loss	12	5,117	9,384	14,225
Financial assets at fair value through other comprehensive income	14	10,587	N/A	N/A
Financial assets available for sale	13	N/A	17,175	20,223
Loans at amortized cost	17, 18	182,328	182,920	177,684
Property and equipment	19	822	1,012	977
Intangible assets	20	277	257	203
Other assets	21	9,227	1,424	1,953
Current tax assets		27	74	146
Deferred tax assets		330	251	184
Total assets		**264,233**	270,809	267,764

Liabilities and Equity

in €m	Note	Jun 30, 2018	Dec 31, 2017	Jan 1, 2017
Deposits	22	217,179	212,673	199,109
Central bank funds purchased and securities sold under resale agreements		1,135	2,757	3,149
Financial liabilities at fair value through profit or loss	12	4,118	6,812	11,116
Other liabilities	21	4,306	4,037	4,543
Provisions	23	645	741	849
Current tax liabilities		29	39	99
Deferred tax liabilities		44	14	6
Long-term debt	24	29,927	35,706	40,320
Trust preferred securities		0	915	1,352
Total liabilities		**257,383**	263,694	260,543
Issued capital		550	550	550
Additional paid-in capital		4,867	4,856	4,855
Retained earnings		1,288	1,347	1,203
Accumulated other comprehensive income (loss), net of tax		145	362	613
Total equity		6,850	7,115	7,221
Total liabilities and equity		**264,233**	270,809	267,764

Consolidated Statement of Changes in Equity

in €m	Common shares (no par value)	Additional paid-in capital	Retained earnings	Unrealized net gains (losses): On financial assets available for sale, net of tax and other adjustments	Unrealized net gains (losses): On financial assets at fair value through other comprehensive income, net of tax and other adjustments	Accumulated other comprehensive income, net of tax	Total equity
Balance as of January 1, 2017	550	4,855	1,203	613	0	613	**7,221**
Total comprehensive income (loss), net of tax	0	0	569	−189	0	−189	380
Remeasurement gains (losses) related to defined benefit plans, net of tax	0	0	27	0	0	0	27
Net change in share awards in the reporting period	0	1	0	0	0	0	1
Other	0	0	−227	0	0	0	−227
Balance as of June 30, 2017	550	4,856	1,572	424	0	424	**7,402**
Balance as of December 31, 2017 (IAS 39)	550	4,856	1,347	362	0	362	**7,115**
IFRS 9 Introduction Impact	0	0	−454	−362	277	−85	−539
Balance as of January 1, 2018 (IFRS 9)	550	4,856	893	0	277	277	**6,576**
Total comprehensive income (loss), net of tax	0	0	554	N/A	−132	−132	422
Remeasurement gains (losses) related to defined benefit plans, net of tax	0	0	−100	N/A	0	0	−100
Net change in share awards in the reporting period	0	11	0	N/A	0	0	11
Other	0	0	−59	N/A	0	0	−59
Balance as of June 30, 2018	550	4,867	1,288	N/A	145	145	**6,850**

Condensed Consolidated Statement of Cash Flows

in €m	Jan–Jun 2018	2017
Net income (loss), net of tax	**554**	569
Cash flows from operating activities:		
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loan loss allowance	72	27
Restructuring activities	–25	–69
Gain on sale of financial assets available for sale and securities held to maturity	0	–70
Gain on sale of financial assets at fair value through other comprehensive income, equity method investments and other	–237	2
Deferred income taxes, net	40	–17
Impairment, depreciation and other amortization, and accretion	150	125
Share of net income (loss) from equity method investments	0	0
Income (loss), net of tax, adjusted for non-cash charges, credits and other items	**554**	567
Adjustments for net change in operating assets and liabilities:		
Interest-earning time deposits with central banks and banks	1,379	–7,896
Central bank funds sold, securities purchased under resale agreements, securities borrowed	–388	4,122
Non-trading financial assets at fair value through profit or loss	–530	0
Financial assets designated as at fair value through profit or loss	588	443
Loans at amortized cost	–1,913	–2,905
Other assets	–1,364	295
Deposits	5,566	6,393
Central bank funds purchased, securities sold under resale agreements and securities loaned	–1,622	–392
Other short-term borrowings	46	–57
Other liabilities	–1,433	–138
Senior long-term debt	–6,348	–2,231
Trading assets and liabilities, positive and negative fair values from derivative financial instruments, net	–724	–116
Other, net	109	–516
Net cash provided by (used in) operating activities	**–6,080**	–2,431
Cash flows from investing activities:		
Proceeds from:		
Sale of financial assets at fair value through other comprehensive income	1,495	0
Maturities of financial assets at fair value through other comprehensive income	2,890	0
Sale of debt securities held to collect at amortized cost	2	365
Maturities of debt securities held to collect at amortized cost	519	1,825
Sale of financial assets available for sale	0	998
Maturities of financial assets available for sale	0	1,804
Sale of property and equipment	270	21
Purchase of:		
Financial assets at fair value through other comprehensive income	–304	0
Debt securities held to collect	0	0
Financial assets available for sale	0	–1,898
Property and equipment	–61	–68
Other, net	–46	–43
Net cash provided by (used in) investing activities	**4,765**	3,004
Cash flows from financing activities:		
Repayments and extinguishments of subordinated long-term debt	–486	–23
Repayments and extinguishments of trust preferred securities	0	–398
Net change in non-controlling interests	0	7
Net cash provided by (used in) financing activities	**–486**	–414
Net effect of exchange rate changes on cash and cash equivalents		
Net increase (decrease) in cash and cash equivalents	–1,801	158
Cash and cash equivalents at beginning of period	21,860	23,197
Cash and cash equivalents at end of period	20,059	23,355
Cash and cash equivalents comprise		
Cash and central bank balances (not included interest-earning time deposits with central banks)	13,928	12,897
Interbank balances (w/o central banks) (not included: term deposits of €36 million as of June 30, 2018, and €44 million as of June 30, 2017)	6,131	10,458
Total	**20,059**	23,355

CONDENSED NOTES

1 – Significant Accounting Policies and Critical Accounting Estimates

Basis of Preparation

Deutsche Postbank AG, Bonn, was merged with Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, on May 25, 2018, effective January 1, 2018, in accordance with section 2(1) of the *Umwandlungsgesetz* (UmwG – German Reorganization Act). At the same time, Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt am Main, was renamed DB Privat- und Firmenkundenbank AG, Frankfurt am Main.

The parent company of DB Privat- und Firmenkundenbank AG (hereinafter DB PFK AG) is Deutsche Bank AG, Frankfurt am Main. The companies of DB Privat- und Firmenkundenbank Group (hereinafter DB PFK, Group, Bank) are included in Deutsche Bank AG's consolidated financial statements.

The accompanying interim report contains the components of a half-yearly financial report in the meaning of section 115 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). As a publicly traded stock corporation, DB PFK AG has prepared its consolidated financial statements for the reporting period in accordance with the International Financial Reporting Standards (IFRSs), as adopted in the European Union (EU). The accompanying condensed consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting" and do not therefore include all of the information that would be contained in full-year consolidated financial statements.

The accompanying condensed consolidated financial statements constitute the first IFRS consolidated financial report issued by DB PFK. As a result, besides the requirements of IAS 34, the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" were also applied to the preparation of these consolidated financial statements.

In accordance with IFRS 1, three balance sheets were prepared, whereby the balance sheet as of January 1, 2017, represents the opening consolidated balance sheet. As a general principle, the accounting policies applied as of June 30, 2018, were applied to all of the periods presented in the consolidated financial statements.

The merger of Deutsche Postbank AG with DB Privat- und Geschäftskundenbank AG was accounted for as a business combination under common control using the predecessor basis of accounting. In accordance with the principles applicable to common control transactions, this merger is accounted for at the carrying amounts at the transaction date. The consolidated financial statements were prepared in accordance with the requirements of IFRS 1.D16(a). In line with the predecessor basis of accounting, DB PFK measured its assets and liabilities in the opening balance sheet for the first IFRS reporting period as of January 1, 2017, at the carrying amounts – after adjustment for any necessary consolidation adjustments – at which they were included in the consolidated financial statements of Deutsche Bank AG as the ultimate parent. The prior-year amounts and the period up to the transaction date were adjusted as if the transaction had occurred as of January 1, 2017.

Accounting and measurement are based on the going concern principle.

The consolidated financial statements comprise the statement of income, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the condensed statement of cash flows, and the condensed notes.

Unless otherwise indicated, all amounts are shown in millions of euros (€m).

The abbreviation "N/A" (not applicable) is used in the tables if the item is not relevant in this form in the respective period. As a general rule, the abbreviation "N/A" is used for changes in the categories of financial instruments and the associated changes in the structure of reporting instruments and notes resulting from the initial application of IFRS 9.

Certain IFRS disclosures included in the Management Report are an integral part of the consolidated financial statements. Such disclosures relate to the segment results at company level in accordance with IFRS 8 "Operating segments" presented in the "Segment Results of Operations" section in the Management Report. Additionally, the Risk Report contains disclosures in accordance with IFRS 7 "Financial instruments: Disclosures" on the nature and extent of risks attributable to financial instruments.

Consolidation Methods

The financial information in the consolidated financial statements relates to data of DB PFK AG together with its consolidated subsidiaries, including certain structured entities, presented as a single economic entity. The Group's subsidiaries are the entities it controls directly or indirectly. The Group controls an entity if it has exposure to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of those returns.

A range of control factors must be assessed in order to establish whether an entity must be consolidated. These include an assessment of the purpose and design of the entity, the relevant activities and how decisions about those activities are made, whether the rights of the Group give it the ability to direct the relevant activities, whether the Group is exposed, or has rights, to variable returns from its involvement, and whether the Group has the ability to use its power to affect the amount of its returns.

If voting rights are decisive, the Group controls an entity if it directly or indirectly holds more than half of the voting rights of the entity, unless there are indications that another investor has the practical ability to direct the relevant activities unilaterally.

Subsidiaries are consolidated from the date on which the Group obtains control. Consolidation ends on the date when the Group is no longer able to exercise control.

In accordance with IFRS 10.19, the consolidated financial statements of DB PFK have been prepared in accordance with uniform Group accounting and measurement policies.

Subsidiaries are accounted for in the consolidated financial statements in accordance with IFRS 10.B86. The carrying amounts of the shares in subsidiaries at the parent entity level are replaced by the assets and liabilities of the consolidated companies.

Intercompany receivables and liabilities, income and expenses from intercompany transactions, and intercompany profits within the Group were eliminated in accordance with IFRS 10.B86.

Interests in the equity of subsidiaries not attributable to the parent that are puttable financial instruments within the meaning of IAS 32 are reported under the Other liabilities item.

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent's reporting date.

Critical Accounting Estimates

All assumptions, estimates, and assessments required for recognition and measurement in accordance with the IFRSs are in conformity with the respective standards, are regularly reassessed, and are based on past experience as well as other factors, including expectations as to future events that appear reasonable under the given circumstances. The assumptions and estimates refer primarily to the fair value measurement of certain financial instruments, including the assessment of whether an active or inactive market exists, the recognition and measurement of the loan loss allowance, of intangible assets and of provisions, and the ability to realize deferred taxes. When determining the intention to hold financial instruments, business strategy and current market conditions are also taken into account.

Foreign Currency Translation

In accordance with IAS 21.23, all foreign currency monetary items and equities denominated in foreign currencies that are classified as non-monetary items in accordance with IAS 21.8 are translated into euros at the closing rate at the end of the period. There were no material non-monetary items at the reporting date measured at (amortized) cost (in particular property and equipment, prepaid expenses, and deferred income) and translated at the historical rate in accordance with IAS 21.23(b). Foreign currency income and expenses are generally translated at the closing rate of the relevant month of the business transaction.

Gains and losses resulting from the translation of monetary assets and liabilities are recognized in the statement of income. Gains and losses on the translation of non-monetary items are either recognized directly in the revaluation reserve or in profit or loss as net gains (losses) on financial assets at fair value, depending on the item's underlying measurement category.

2 – Significant Accounting Policies

The following chapters present the significant accounting policies applied to the preparation of all reporting periods in these consolidated financial statements.

Recognition and Measurement of Financial Instruments in Accordance with IFRS 9

(a) Recognition and Derecognition of Financial Instruments

A financial asset or a financial liability is generally recognized when the Bank becomes a party to a financial instrument. As a general rule, a financial asset or a financial liability is initially recognized at its fair value, which usually corresponds to the transaction price.

Financial assets and liabilities designated as at fair value through profit or loss are recognized or derecognized at the trade date provided there is a standard market settlement period for the instrument. The trade date is the date on which the Bank commits itself to purchase or sell the relevant assets or to issue or repurchase the financial liabilities. Financial instruments measured at amortized cost are recognized at the settlement date. Financial assets are derecognized when the contractual entitlement to cash flows arising from the financial asset expires. Additionally, financial assets are derecognized when the contractual entitlement to cash flows arising from the financial asset is transferred, or when an obligation to forward such cash flows has been accepted and this obligation meets the criteria of a pass-through arrangement. Thus, derecognition occurs as soon as substantially all the risks and rewards of ownership of the financial assets have been transferred. In the event that substantially all the risks and rewards of ownership of the assets are neither retained nor transferred, assets are derecognized if the control of the assets is relinquished. Otherwise, the assets continue to be accounted for according to the extent of the continuing exposure. If an existing financial asset is replaced by another financial asset of the same counterparty at significantly different contractual terms and conditions, the existing financial asset is derecognized and a new financial asset recognized. The difference between the two carrying amounts is recognized through profit or loss. The analysis whether the contractual terms were significantly modified is done on a case-by-case basis. In addition to the criteria applicable to the individual case, this analysis also features a comparison of the present value of the new and old cash flows (e.g., due to changes in interest rates or terms), and the difference thus calculated is factored into the determination of materiality.

A financial liability is derecognized if the associated obligation is discharged, is canceled, or expires. The reacquisition of own debt instruments also leads to the derecognition of the financial obligations. Any differences between the carrying amount of the obligation (including premiums and discounts) and the purchase price on reacquisition are recognized through profit or loss. If an existing financial liability is replaced by another financial liability to the same lender with significantly different contractual terms, or if the contractual terms of the existing liability are significantly modified, the original liability is derecognized and a new liability is recognized. The difference between the two amounts is recognized through profit or loss. The analysis whether contractual terms were significantly modified follows the same principles as the analysis for assets.

(b) Securities Resale and Lending Agreements

The Bank enters into genuine securities resale agreements. Securities sold under securities resale transactions (repos) are carried as securities in the consolidated balance sheet. Cash inflows from such transactions are carried in the balance sheet as deposits from other banks. These cash inflows are disclosed in the amount of the purchase price received (net); prepaid expenses are recognized ratably for the repo rate to be paid. Interest payments are recognized as interest expenses or positive interest on financial liabilities.

Reverse repos are accounted for as receivables. The securities purchased are not carried in the balance sheet; interest arising from such transactions is carried under interest income or negative interest on financial assets.

IFRSs only require an obligation to return the securities to be recognized by the borrower if the securities are passed on to another party. The lender continues to recognize the securities.

(c) Categorization and Measurement of Financial Assets and Liabilities

IFRS 9 requires the classification of financial assets to be determined based on both the business model used for managing the financial assets and the contractual cash flow characteristics of the financial asset (also known as "solely payments of principal and interest" or SPPI).

Business Model

Three business models are possible under IFRS 9:

- Hold to Collect – Financial assets held with the objective of collecting contractual cash flows.
- Hold to Collect and Sell – Financial assets held with the objective of both collecting contractual cash flows and selling the assets.
- Other – Financial assets held with trading intent or that do not meet the criteria of either "Hold to Collect" or "Hold to Collect and Sell."

The assessment of the business model requires judgment based on facts and circumstances at the date of the assessment (e. g., if there is a change in the individual business model). DB PFK has considered quantitative factors (e. g., the expected frequency and volume of sales) and qualitative factors, such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to DB PFK's key management personnel; the risks that affect the performance of the business model and the financial assets held within that business model, in particular, the way in which those risks are managed; and how managers of the business are compensated (e. g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

All financial assets in the customer lending business are assigned to the Hold to Collect business model. Despite allocation to this business model, unplanned sales to the extent permitted by IFRS 9 do not affect this classification. Compliance with these limits is monitored in a controlled process that uses defined thresholds relating to balance sheet or statement of income factors (e. g., share of sold gross volume or realized gains or losses) and analyzes the reasons for the sale.

Solely Payments of Principal and Interest (SPPI)

If a financial asset is held in either a Hold to Collect or a Hold to Collect and Sell business model, then an assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification.

Contractual cash flows that are SPPI on the principal amount outstanding are consistent with a simple lending arrangement. In such lending arrangements, interest in particular represents consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e. g., liquidity risk) and costs (e. g., administrative costs) associated with holding the financial asset for a particular period of time, as well as a profit margin that is consistent with a simple lending arrangement. Termination rights and prepayment penalties, among other factors, are also taken into consideration.

The International Accounting Standards Board (IASB) issued an amendment to IFRS 9 in October 2017 addressing "Prepayment Features with Negative Compensation." This clarifies or amends the existing requirements in IFRS 9.B4.1.10 and IFRS 9.B4.1.11(b). The amendment classifies cash flows for instruments that could lead to negative compensation in the event of prepayment as SPPI. The amendment was endorsed by the EU and is applicable to fiscal years beginning on or after January 1, 2019. Early application is permitted. DB PFK has exercised the early application option and applied the amendment in the reporting period. Because DB PFK does not have any use cases, there were no effects on the accompanying financial statements.

Financial Assets at Amortized Cost

A financial asset in the form of a debt instrument is classified and subsequently measured at amortized cost, unless designated under the fair value option, if it is held in a Hold to Collect business model and the contractual cash flows are SPPI.

Under this measurement category, the financial asset is measured at fair value at initial recognition. Subsequent measurement uses the effective interest method, adjusted for any impairment losses.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

A debt instrument is classified and measured as at FVOCI (fair value through other comprehensive income), unless designated under the fair value option, if it is held in a Hold to Collect and Sell business model and the contractual cash flows are SPPI.

Under FVOCI, a debt instrument is measured at its fair value with any changes in fair value recognized in other comprehensive income in the statement of changes in equity and is tested for impairment under the expected credit loss (ECL) model. The foreign currency translation effect for FVOCI assets is recognized in profit or loss, as is the interest component (using the effective interest method). The amortization of premiums and the accrual of discounts are recorded in net interest income.

Unrealized gains and losses on FVOCI assets are reported in net gains (losses) on financial assets/liabilities at fair value through other comprehensive income and reclassified to profit or loss when the financial asset is derecognized.

At DB PFK, equity instruments are assigned to the FVtPL category, with the result that the option to categorize them as FVOCI is not currently used.

For financial instruments that have a low credit risk at the reporting date, DB PFK uses the exemptions in IFRS 9.5.5.10 and IFRS 9.B5.5.22ff. for parts of its financial assets at fair value through other comprehensive income (FVOCI), under which it can be assumed that credit risk moves within the prescribed rating classes and that there will thus be no transfer to another stage.

Financial Assets at Fair Value through Profit or Loss

Any financial asset that is held for trading or that does not fall into the Hold to Collect or Hold to Collect and Sell business models is assigned to the Other business model and is measured at fair value through profit or loss (FVtPL).

Additionally, any instrument for which the contractual cash flow characteristics are not SPPI must be measured at FVTPL, even if held in a Hold to Collect or Hold to Collect and Sell business model.

Financial instruments are included in the Other business model and held for trading if they have been originated, acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Financial Liabilities

With the exception of derivative financial instruments that are measured at fair value through profit or loss and that are reported as financial liabilities in the case of a negative fair value, financial liabilities are measured at amortized cost using the effective interest method.

(d) Impairment and Loan Loss Allowance

The impairment requirements of IFRS 9 apply to debt instruments that are measured at amortized cost (AC) or at fair value through other comprehensive income (FVOCI), and to off-balance-sheet lending commitments such as loan commitments and financial guarantees (hereinafter collectively referred to as “impairment-relevant financial instruments”).

The determination of impairment losses and loan loss allowances is moving from an incurred loss model, in which credit losses are recognized when a defined loss event occurs under IAS 39, to an expected credit loss (ECL) model under IFRS 9, in which a loan loss allowance is recognized upon initial recognition of the impairment-relevant financial instrument, based on expectations of potential credit losses at the time of initial recognition.

Three-stage Approach to the Determination of Expected Credit Losses

IFRS 9 introduces a three-stage approach for the impairment of impairment-relevant financial instruments that are not classified as credit-impaired at the date of origination or purchase. This approach can be summarized as follows:

Stage 1: The Bank recognizes a loan loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected loan losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.

Stage 2: The Bank recognizes a loan loss allowance at an amount equal to lifetime expected credit losses (LTECLs) for those impairment-relevant financial assets that are considered to have experienced a significant increase in credit risk since initial recognition. This requires a time slice-based calculation of ECLs using the lifetime probability of default (LTPD) of the expected exposure at default (EAD) and loss given default (LGD) curve, applying the effective interest rate to discounting. The loan loss allowance for credit risk in this stage is therefore higher compared with Stage 1. The expected EAD curves take contract-specific circumstances into account. The underlying LGD profiles are portfolio-specific and are calculated using individual collateral, if appropriate. Depending on the portfolio, scenario-type collateral curves are also used.

Stage 3: The Bank recognizes a loan loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100 %, based on the recoverable cash flows for the asset, for those financial assets that are classified as credit-impaired.

Significant Increase in Credit Risk

Under IFRS 9, when determining whether the credit risk (i. e., risk of default without collateral positions) of a financial asset has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information based on the Bank’s historical experience, credit risk assessment, and forward-looking information (including macroeconomic factors). The assessment of significant credit deterioration is key in determining when to move from measuring an allowance based on 12-month ECLs to one that is based on lifetime ECLs (i. e., Stage 1 to Stage 2). The procedure for assessing a significant increase in the Bank’s credit risk is based on the internal credit risk management process and includes rating-based (relative deterioration of PD) and process-based indicators (including days past due).

Impairment-relevant Financial Instruments in Stage 3

The Bank recognizes a loan loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100 %, based on the recoverable cash flows for the asset, for those financial assets that are classified as credit-impaired in accordance with the IFRS 9 requirements. The Bank’s definition of credit-impaired transactions is based on the prudential definition of default. Allocation to Stage 3 does not consider the effects of credit risk mitigants such as collateral or guarantees. The following points are indicators of credit impairment:

– the Bank regards it as unlikely that the debtor will be able to discharge its liabilities to the Bank in full. This definition may include forbearance actions in cases where a concession has been granted to the borrower for economic or legal reasons that are qualitative indicators of credit impairment; or

– one of the debtor’s liabilities to the Bank is more than 90 days past due.

For impairment-relevant financial assets in Stage 3, the loan loss allowance covers the amount of loss the Bank expects to suffer. The loan loss allowance is estimated on a case-by-case basis for non-homogeneous portfolios, or by applying portfolio based parameters to individual financial assets in those portfolios using the Bank's ECL model for homogeneous portfolios. The evidence that a loan is credit-impaired applies irrespective of whether the portfolio is homogeneous or non-homogeneous.

Forecasts of future economic conditions are considered when calculating ECLs. The expected losses are estimated based on the probability-weighted present value of the difference between (i) the contractual cash flows that are due to the Bank under the contract, and (ii) the cash flows that the Bank expects to receive. A range of different scenarios with different probability weights are applied.

The Bank's engine-based ECL calculation is conducted on a daily and/or monthly basis, whereas the case-by-case assessment of ECLs in Stage 3 for our non-homogeneous portfolio is performed on at least a quarterly basis.

Write-offs

The Bank reduces the gross carrying amount of a financial asset if there is no reasonable expectation of recovery, e.g., considering the current market situation and the criteria defined for the relevant portfolio. Write-offs can relate to a financial asset in its entirety, or to a portion of it, and constitute a derecognition event.

Loans that are individually significant and for which a loan loss allowance was recognized are measured at least quarterly on a case-by-case basis. For this category of loans, the number of days a loan is past due is an indicator for a write-off. A write-off is ultimately recognized once all relevant information has been considered, such as the occurrence of a significant change in the borrower's financial position such that it is no longer able to discharge its obligations, or that the proceeds from realizing the collateral are not sufficient to cover the current carrying amount of the loan.

In the case of collectively assessed loans, which consist mainly of real estate and consumer loans, the timing of the write-off depends on whether collateral is available, how the Group estimates the recoverable amount, and the legal requirements applicable in the jurisdiction of loan origination.

Interest Income Calculation

For financial assets in Stages 1 and 2, the Bank calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount (i.e., without deducting any loan loss allowance). Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortized cost (i.e., the gross carrying amount less the loan loss allowance).

(e) Derivatives and Hedging

Derivatives are used to manage interest rate, currency, credit and other market risk, including risks from planned transactions. All freestanding contracts that are classified as derivatives for accounting purposes are recognized at fair value in the consolidated balance sheet – regardless of whether they are held for trading or for other purposes.

Changes in fair value of derivatives held for trading or of derivatives not included in hedge accounting are reported in net gains (losses) on financial assets/liabilities at fair value through profit or loss.

Hedge Accounting

DB PFK exercises the option to continue using the IAS 39 hedge accounting requirements when it applies IFRS 9.

Hedge accounting distinguishes between three types of hedges that are each accounted for differently:

- Fair value hedges of assets, liabilities, or firm commitments (fair value hedge)
- Cash flow hedges of highly probable forecast transactions and variable interest rate assets and liabilities (cash flow hedge)
- Hedges of foreign currency risk from the translation of financial statements of foreign operations into the parent's reporting currency (hedges of net investments in a foreign operation).

The Bank only uses fair value hedges in its hedge accounting.

When it applies hedge accounting, the Bank designates and documents the relationship between the hedging instrument and the hedged item. The Bank also documents the risk management objective and strategy underlying the hedging relationship, as well as the nature of the hedged risk. This documentation includes a description of how the Bank measures the effectiveness of the hedging instrument in offsetting risks from changes in the fair value of the hedged item that are attributable to the hedged risk. Effectiveness is determined for each hedging relationship both at inception of the hedge and during the term of the hedge. Hedge effectiveness is calculated even if the contractual terms of the derivative match those of the hedged item.

Derivatives held for hedging purposes are reported as other assets or liabilities. If a derivative is subsequently no longer used for hedging purposes, it is transferred to financial assets/liabilities at fair value.

In a fair value hedge, the changes in the fair value of the hedged item attributable to the hedged risk, or a portion of those changes, are recognized in the consolidated statement of income together with the entire change in the fair value of the hedging derivative. In a hedge of interest rate risk, interest accrued or paid on the derivative and the hedged item is reported as interest income or expense. Unrealized gains or losses from fair value adjustments attributable to hedge accounting are recognized in the Other income (loss) item in the statement of income. Hedge ineffectiveness is recognized in Other income. It is measured as the balance of changes in the fair value of the hedging instrument and the hedged item that are attributable to the changes in fair value or market prices underlying the hedged risk or risks.

If a hedging relationship used to hedge fair value is terminated before the maturity of the instrument because the underlying derivative is terminated early or used for other purposes, the interest-related adjustments to the fair value of the terminated hedging relationship contained in the carrying amount of the hedged debt instrument are amortized over the remaining maturity of the hedged item and offset against the interest income or expense. In the case of other types of fair value adjustments, or in the case of the sale or other derecognition of assets or liabilities hedged by a fair value hedge, the fair value adjustments are included in the determination of the derecognition gain or loss.

Differing Accounting Policies for Financial Instruments in Prior-year Periods

(f) Categorization and Measurement of Financial Instruments in Accordance with IAS 39

Until the adoption of IFRS 9, the Bank classified its financial assets and liabilities into the following categories in accordance with IAS 39: assets and liabilities at fair value, financial assets at amortized cost, financial assets available for sale, and other financial liabilities. The appropriate classification of financial assets and liabilities is determined at the time of initial recognition.

(g) Financial Assets and Liabilities at Fair Value

The Bank classifies certain financial assets and liabilities at the time of initial recognition either as held for trading or as at fair value. Such financial assets and liabilities are recognized at fair value and presented as financial assets and liabilities at fair value. The corresponding realized and unrealized gains/losses are contained in net gains (losses) on financial assets/liabilities at fair value through profit or loss. In the case of financial instruments at fair value, interest on debt securities and dividends on shares are reported in interest and similar income.

(h) Financial Assets and Liabilities Designated as at Fair Value

Certain financial assets and liabilities that do not meet the definition of trading assets or liabilities are designated as at fair value in accordance with the fair value option.

DB PFK applies the fair value option in accordance with IAS 39 exclusively to specific loan portfolios in the mortgage lending business that are hedged by interest rate derivatives. In accordance with this, financial assets may be designated as at fair value through profit or loss if this leads – among other things – to the elimination or significant reduction of inconsistencies in measurement or recognition (accounting mismatches). Application of the fair value option is designed to avoid accounting mismatches. In accordance with IFRS 13.61ff. in conjunction with IFRS 13.B12ff., loans are measured on the basis of discounted cash flow analysis using a current swap yield curve and loan-specific risk or cost premiums. Changes in the fair value of the portfolios are recognized in net gains (losses) on financial assets/liabilities at fair value through profit or loss. The interest on portfolios allocated to the fair value option and the related interest rate swaps are reported in net interest income.

(i) Financial Assets Available for Sale

Financial assets that are classified as available for sale are initially recognized at fair value plus directly attributable transaction costs associated with the purchase. The amortization of premiums and the accrual of discounts are recorded in net interest income. Future changes in fair value are reported in other comprehensive income – unless they are hedged by a fair value hedge. In that case, changes in fair value attributable to the hedged risk are reported in other income (loss) in the statement of income. In the case of monetary available-for-sale financial assets (debt securities), changes in fair value attributable to exchange rate changes are recognized in profit or loss, while other changes in the carrying amount are reported in other comprehensive income, as described above. In the case of non-monetary available-for-sale financial assets (equity instruments), the fair value changes recognized in other comprehensive income also include the foreign currency component.

Equity instruments classified as available-for-sale financial assets are tested for impairment if there is objective evidence of a significant or prolonged decline in the fair value of the investment. In the case of debt instruments classified as available-for-sale financial assets, the existence of impairment is determined on the basis of the same criteria applied to loans.

If there is evidence of impairment, all amounts previously recognized in other comprehensive income are reclassified to the statement of income for the reporting period and recognized in net gains (losses) on financial assets available for sale. The impairment loss for the reporting period to be reclassified from accumulated other comprehensive income corresponds to the difference between cost (minus principal repayments and amortization) and current fair value, less impairment losses on this asset previously recognized in profit or loss.

Subsequent declines in the fair value of an impaired available-for-sale debt instrument are recognized in profit or loss as they are considered to be further impairments. Subsequent increases in fair value are also recognized in profit or loss until the asset is no longer considered to be impaired. An available-for-sale debt instrument is no longer considered to be impaired if its fair value has recovered as a minimum to the amount of its amortized cost, excluding any impairment loss. Subsequent changes in fair value are recognized in other comprehensive income.

Impairment losses on available-for-sale equity instruments are not reversed to profit or loss; increases in fair value following impairment are recognized in other comprehensive income.

Realized gains and losses are reported in net gains (losses) on financial assets available for sale.

Generally, the weighted-average cost method is used to determine the cost of available-for-sale financial assets. When an available-for-sale financial asset is sold, unrealized gains and losses previously recognized in other comprehensive income are recognized in the consolidated statement of income and reported in net gains (losses) on financial assets available for sale.

(j) Embedded Derivatives

Some hybrid contracts contain both derivative and non-derivative components. In such cases, the derivative component is termed an embedded derivative and the non-derivative component the host contract. If the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and the hybrid contract in question is not recognized at fair value, the embedded derivative is separated from the host contract and recognized at fair value, with changes in fair value reported in net gains (losses) on financial assets/liabilities at fair value through profit or loss. The host contract continues to be accounted for in accordance with the applicable accounting standard. The carrying amount of an embedded derivative is reported in the balance sheet together with the host contract. Some hybrid instruments are classified as at fair value under the fair value option.

(k) Loans

Loans are generally accounted for at amortized cost.

The Bank has applied the fair value option in accordance with IAS 39 exclusively to specific loan portfolios in the mortgage lending business that are hedged by interest rate derivatives. In accordance with this, financial assets may be designated as at fair value through profit or loss if this leads – among other things – to the elimination or significant reduction of inconsistencies in measurement or recognition (accounting mismatches). In accordance with IFRS 13.61ff. in conjunction with IFRS 13.B12ff., loans are measured on the basis of discounted cash flow analysis using a current swap yield curve and loan-specific risk or cost premiums. Changes in fair value are reported in profit or loss. The interest on portfolios allocated to the fair value option and the related interest rate swaps are reported in net interest income.

Impairments of loans due to changes in credit risk that are not designated at fair value through profit or loss are recognized separately in the loan loss allowance, and deducted from assets.

The carrying amount of collateralized loans for which hedge accounting is used is adjusted for the gains and losses from changes in fair value attributable to the hedged risk.

Premiums and discounts including transaction costs and fees to be included, as well as hedge premiums, are recognized in net interest income over the term of the loans using the effective interest method. Deferred interest on loans, as well as premiums and discounts, are reported together in the relevant balance sheet items.

The fair value of financial instruments measured at amortized cost or at the hedge fair value is determined using observable market prices or discounted cash flow analysis using swap yield curves and credit spreads currently observable in the market.

Financial instruments are grouped into classes as required by IFRS 7.6 at DB PFK on the basis of allocation to the categories of financial instruments and product types.

(l) Loan Loss Allowance

Identifiable credit risks are covered by recognizing specific valuation allowances (or collective specific valuation allowances). Additionally, in the case of risks that have arisen but not yet been identified, portfolio-based valuation allowances are recognized for groups of financial assets with similar default risk profiles, the amounts of which are determined on the basis of the parameters of loss given default, probability of default, and a loss identification period factor (LIP).

A potential need to recognize impairment losses is assumed in the case of defined qualitative and rating-related trigger events such as delinquency over a certain period, the initiation of enforcement measures, imminent insolvency or over-indebtedness, the application for or opening of insolvency proceedings, or the failure of restructuring measures.

A financial asset is impaired if its estimated recoverable amount is lower than its carrying amount, i. e., if a loan is presumed to be (partly) uncollectible. If this is the case, the loss on financial assets carried at amortized cost must be recognized through a loan loss allowance or by writing down the asset directly and recognizing the loss in profit or loss (IAS 39.63).

In accordance with IAS 39.63ff., recoverable amount is determined using the following methods:

– the discounted present value of estimated future cash flows (interest and principal payments as well as payments received from the liquidation of collateral) from the financial asset;

– an observable market price, where there is an observable market price for the financial instrument, because marking-to-market reflects the increased counterparty credit risk.

Uncollectible loans are written off directly against income in the appropriate amount; recoveries on loans previously written off are recognized in income.

Credit risk provisions are recognized for liabilities under bank guarantees, other guarantees, and loan commitments involving a default risk.

Effects of Changes in the Recognition and Measurement of Financial Instruments

IFRS 9 “Financial Instruments”

The Bank adopted IFRS 9 “Financial Instruments” as of January 1, 2018. IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement”. It contains in particular revised requirements on the classification and measurement of financial instruments, impairment, and general hedge accounting (not including macrohedge accounting).

Financial instruments are classified by reference to the two criteria of “business model” and “solely payments of principal and interest” (SPPI).

There has been no change in the measurement of DB PFK’s portfolios of financial liabilities under IFRS 9 compared with IAS 39.

With regard to impairment, the previous incurred loss model has been replaced by an expected credit loss model, which allows expected default risk to be accounted for in a more timely manner. These requirements will apply in future to assets at amortized cost and assets at fair value through other comprehensive income.

The IFRS 9 requirements governing general hedge accounting are intended to achieve a stronger correlation between the accounting treatment and internal risk management. However, IFRS 9 does offer an accounting option to postpone the application of the IFRS 9 hedge accounting rules and continue to use the rules of IAS 39. The Bank has decided to exercise this accounting option. The new disclosures on hedge relationships required to be provided in the notes will be taken into account in the future and implemented in this context.

The Bank has decided to exercise the initial application option in IFRS 9, which allows it not to restate comparative periods in accordance with IFRS 9 for the periods prior to initial application. As a result, the initial adoption effect will be reflected in the opening balance of equity for fiscal year 2018. In the following disclosures on the statement of income and the balance sheet, disclosures relating to prior-year periods are presented in the IAS 39 structure.

Reconciliation – Classification and Measurement

The following table shows an overview of the effects of the change in classification and measurement on assets, excluding impairment losses for recognized and off-balance-sheet items affected by IFRS 9, from IAS 39 as of December 31, 2017, to IFRS 9 as of January 1, 2018.

in €m	Dec 31, 2017 IAS 39 carrying amounts	Reclassifications	Remeasurements	Jan 1, 2018 IFRS 9 carrying amounts
Financial assets at FVtPL (IFRS 9)				
From AFS (IAS 39)	0	327	0	0
From AC (IAS 39)	0	230	– 14	0
To AC (IFRS 9)	0	– 2,842	0	0
To FVOCI (IFRS 9)	0	0	0	0
Total financial assets at FVtPL	9,457	– 2,285	– 14	7,158
Financial assets at FVOCI (IFRS 9)				
From AFS (IAS 39)	0	13,412	0	0
From AC (IAS 39)	0	1,352	40	0
From FVtPL (IAS 39)	0	0	0	0
To AC (IFRS 9)	0	0	0	0
To FVtPL (IFRS 9)	0	0	0	0
Total financial assets at FVOCI	0	14,764	40	14,804
Financial assets at AC (IFRS 9)				
From AC (IAS 39)	0	0	– 2	0
From AFS (IAS 39)	0	3,436	– 94	0
From FVtPL (IAS 39)	0	2,842	– 199	0
To FVOCI (IFRS 9)	0	– 1,351	0	0
To FVtPL (IFRS 9)	0	– 230	0	0
Total financial assets at AC	243,673	4,697	– 295	248,075
Tax assets	325	0	87	412
Financial assets AFS (IAS 39)	17,175	– 17,175	0	0
Financial assets HTM (HTM)	0	0	0	0
Total assets affected by IFRS 9, reclassifications and remeasurements	270,630	0	– 181	270,449
Other (non-financial instruments)	1,269	0	0	1,269
Total assets (before impairment)	271,899	0	– 181	271,718

With the introduction of IFRS 9, the Bank reassigned the mortgage lending portfolio previously designated as at fair value under the fair value option to the amortized cost category, which corresponds to the primary IFRS 9 transition effect attributable to classification and measurement.

Reconciliation – Impairment

The following table shows an overview of the effects of the changes in impairment losses for recognized and off-balance-sheet items affected by IFRS 9.

in €m	Dec 31, 2017 IAS 39 loan loss allowance	Change due to reclassifications	Changes due to ECL model	Jan 1, 2018 IFRS 9 loan loss allowance
Financial assets at FVtPL (IFRS 9)				
From AFS (IAS 39)	0	0	0	0
From AC (IAS 39)	0	0	0	0
To AC (IFRS 9)	11	– 11	0	0
To FVOCI (IFRS 9)	0	0	0	0
Total financial assets at FVtPL	11	– 11	0	0
Financial assets at FVOCI (IFRS 9)				
From AFS (IAS 39)	0	0	1	1
From AC (IAS 39)	0	0	0	0
From FVtPL (IAS 39)	0	0	0	0
To AC (IFRS 9)	0	0	0	0
To FVtPL (IFRS 9)	0	0	0	0
Total financial assets at FVOCI	0	0	1	1
Financial assets at AC (IFRS 9)				
From AC (IAS 39)	1,080	0	350	1,430
From AFS (IAS 39)	0	0	0	0
From FVtPL (IAS 39)	0	0	8	8
To FVOCI (IFRS 9)	0	0	0	0
To FVtPL (IFRS 9)	0	0	0	0
Total financial assets at AC	1,080	0	358	1,438
Total balance sheet items affected by IFRS 9 ECL model	1,091	– 11	359	1,439
Off-balance-sheet commitments	22	0	10	32
Total balance sheet items and off-balance-sheet commitments affected by IFRS 9 ECL model	1,113	– 11	369	1,471

€181 million of the IFRS 9 initial adoption effect of €539 million is attributable to classification and measurement effects, and €358 million to loan loss allowances. Please refer to the statement of changes in equity for information on the effects of IFRS 9 on the individual components of equity.

Other Accounting Policies

(a) Intangible Assets

Intangible assets comprise internally generated and purchased intangible assets.

Intangible assets are only recognized in accordance with IAS 38.21–23 if it is probable that the expected benefit will flow to the entity and the cost can be reliably determined. Development costs for internally generated software are capitalized if the evidence required under IAS 38.57 (a)–(f) can be provided. If the criteria for capitalization are not met, the expenses are recognized immediately in the statement of income for the period in which they arise.

Intangible assets are recognized at amortized cost.

Intangible assets with a finite useful life are generally amortized over a period of five to ten years using the straight-line method. The amortization period for intangible assets with a finite useful life is reviewed at least at the end of each fiscal year. Changes to expected useful lives are accounted for as changes in accounting estimates. No changes were made in the reporting period with respect to expected useful lives with a material impact on the profit and loss of this or future periods. Intangible assets with a finite useful life are reviewed at the reporting date for evidence of possible impairment. If this is the case, the impairment loss is determined. This is done by determining whether the respective carrying amount of the asset exceeds its recoverable amount, taking into account the possibility of a complete writedown and/or disposal of the asset. Intangible assets not yet ready for use are tested for impairment annually.

Certain intangible assets have an indefinite useful life. They are not amortized, but are tested for impairment at least once a year. They are tested for impairment more frequently if events or changes in conditions indicate that they could be impaired.

(b) Property and Equipment

Property and equipment includes real estate, leasehold improvements, and operating and office equipment. Real estate is recognized at cost less accumulated depreciation and impairment losses. Depreciation is generally charged over the expected useful life of the asset using the straight-line method. The expected standard useful life is generally 25 to 50 years for buildings and three to ten years for operating and office equipment. Leasehold improvements are depreciated using the straight-line method over the shorter of the lease term and the expected standard useful life of the improvements, which is as a rule three to 18 years. Depreciation of buildings and operating and office equipment is reported in general expenses and other expenses. Maintenance and repair costs are recognized as expenses. Gains and losses on sales are reported in other income (loss).

Property and equipment is regularly tested for indications of impairment. If impairment is established, the recoverable amount is determined, i. e., the higher of fair value less costs to sell and value in use. An impairment loss is recognized if the asset's recoverable amount is lower than its carrying amount. Value in use is the present value of estimated future cash flows from the asset. After an impairment loss is recognized, the impairment expense is adjusted in future periods in order to appropriately reflect the change in the asset's carrying amount. The impairment expense is adjusted prospectively if the impairment loss is subsequently reversed.

(c) Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4.

In accordance with IAS 17, leases are allocated to and recognized by the lessor or the lessee, and the leases are classified as a finance or operating lease, on the basis of the risks and rewards incidental to ownership.

Where the Bank is the lessee in a finance lease, it capitalizes the leased asset at the fair value amount applicable at the beginning of the lease or at the lower present value of the minimum lease payments under property and equipment and writes it down over the lease term.

Where the Bank is the lessor in a finance lease, it reports the receivable at the net investment value. The lease installments due are broken down into the interest component, which is recognized as interest income in profit or loss, and the principal redemption component, which is deducted from the receivables reported in other comprehensive income. The Bank has not entered into any finance leases relating to real estate either as a lessor or as a lessee.

Where the Bank is the lessee in an operating lease, it recognizes the lease installments paid as rental expense using the straight-line method over the term of the lease.

Where the Bank is the lessor in an operating lease, it reports the leased asset at amortized cost under property and equipment or intangible assets. The lease installments received in the period are recognized as income and writedowns of the leased assets are recognized as expenses.

(d) Provisions

Provisions are recognized if the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount of the provision is the best estimate of the amount required to settle the obligation at the reporting date. Risks and uncertainties are taken into account in measuring the provision.

Where the effect of the time value of money is material, provisions are discounted and recognized at the present value of the expenditure required to settle the obligation. A pre-tax discount rate is used that reflects current market assessments of the time value of money.

Provisions for litigation are recognized if there is a more than 50 % probability that current legal disputes will lead to a cash outflow and a reliable estimate of the obligation can be made. The Bank takes into account a large number of factors to determine whether the probability of the cash outflow is greater than 50 % and to estimate the amount of the potential obligation. These factors include the nature of the claim and the underlying circumstances, the status and progress of the individual proceedings, court and arbitration board decisions, the experience of the Bank and third parties in similar cases (where the Bank is aware of such cases), preliminary settlement discussions, available exemptions, and the opinions and assessments of legal advisors and other experts. Since the assessment of the probability and the amount of the obligation arising from legal disputes involves a level of uncertainty, the actual obligation at the end of the legal proceedings or out-of-court settlement may differ from the provisions recognized.

Restructuring provisions arise out of restructuring activities. The restructurings disclosed in Note 23 relate to the provisions recognized as part of the planned staff-related measures and the reorganization of the sales organization.

(e) Pensions and Other Employee Benefits

There are commitments to provide occupational pension benefits at DB PFK AG and its subsidiaries. The commitments are classified as either defined contribution plans or defined benefit plans depending on the terms and conditions of the plans concerned.

Along with other sponsoring employers, the Group is a member of BVV Versicherungsverein des Bankgewerbes a. G. (BVV) for a considerable number of its employees. BVV provides pension benefits to entitled employees in addition to the Group's direct commitments. Both the employer and the employees concerned make regular contributions to BVV. BVV's plans provide for fixed pension payments with profit sharing. For BVV, employers have a subsidiary liability for occupational pension commitments to its own employees. The Group is not liable for third-party obligations. The Group classifies the BVV plan as a defined benefit multi-employer plan and treats it as a defined contribution plan since the information available is not sufficient to allocate the assets and the pension obligations to current and former employees to the individual member companies. This is mainly because BVV does not fully allocate its assets to either the beneficiaries or the member companies.

The existing defined benefit pension commitments provide for different benefits for different groups. The majority of the benefits are granted in the form of direct pension commitments. There are also indirect pension commitments via BHW Bausparkasse VVaG's Pensionskasse (occupational pension fund).

Direct pension commitments provide for old-age, disability, and survivors' benefits, in some cases in the form of lifelong pension payments and in others as lump sum benefits.

DB PFK AG directly assumed the commitments to the pensioners and employees who were previously insured with Versorgungsanstalt der Deutschen Bundespost (VAP – Postal Service Institution for Supplementary Retirement Pensions).

The Pensionskasse is a legally independent occupational pension provider in the form of a mutual insurance association (VVaG – Versicherungsverein auf Gegenseitigkeit), which grants beneficiaries a legal right to their pension benefits. As a regulated Pensionskasse, it is supervised in full by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) on the basis of the *Versicherungsaufsichtsgesetz* (VAG – German Insurance Supervision Act). The pension scheme is funded by the sponsoring employers, who make regular contributions to the Pensionskasse. The solvency of the Pensionskasse was confirmed vis-à-vis BaFin for the prior-year reporting date. The employees and pensioners insured by the Pensionskasse generally also have direct pension commitments that are credited toward the occupational pension fund insurance.

The Group established a contractual trust arrangement (CTA) to finance previously unfunded direct obligations that are not covered via the Pensionskasse. The assets held in the CTA qualify as plan assets under IAS 19.

Obligations resulting from other short-term and long-term employee benefits are recognized in accordance with the requirements of IAS 19. This applies in particular to partial retirement and early retirement benefits.

Liabilities to pay employee benefits are reported in Other liabilities.

(f) Assets Held for Sale

Non-current assets (and disposal groups) are classified as assets held for sale and discontinued operations in accordance with IFRS 5 if their carrying amount is recovered principally through sale and their sale is highly probable.

Assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are reported in the Other assets balance sheet item. According to IFRS 5.5 exceptions to this measurement rule are, among other things, applied to financial instruments. The liabilities associated with these assets are reported in the Other liabilities balance sheet item if these are also to be transferred.

Either the purchase prices quoted in the active market, if available, or existing bids or agreed prices are used to calculate the fair value of assets held for sale whose measurement falls within the scope of IFRS 5.

Assets whose measurement does not fall within the scope of IFRS 5 continue to be measured using the applicable standards.

(g) Revenue Recognition

Interest and Similar Income

In accordance with IFRS 9, interest from interest-bearing financial assets that are classified as AC or FVOCI and financial liabilities is recognized using the effective interest method and reported in interest income or interest expense. When the effective interest method is used, the expected cash flows are discounted with the effective interest over the entire term of the asset or liability. All transaction costs and fees directly attributable to the financial instrument and other payments made or received are included in the calculation of the effective interest rate.

Dividend income is recognized when the legal entitlement to the dividend arises, provided that it is probable that the associated economic benefits will be accrued to the Bank and the amount of the dividend can be reliably estimated.

Commissions and Fees in Accordance with IFRS 15 “Revenue from Contracts with Customers”

Since January 1, 2018, the Group has applied the IFRS 15 revenue recognition model to the recognition of commissions and fees, under which income must be recognized when control of goods and services is transferred and hence the contractual performance obligations to the customer have been satisfied.

At DB PFK, IFRS 15 applies in particular to the fees and charges reported under “Net commissions and fee income” in the Bank’s statement of income. This income arises in connection with services that are directly related to DB PFK’s ordinary business activities (core banking business) and hence fall within the scope of IFRS 15.

The Bank applies the IFRS 15 five-step model to assess revenue recognition. After a contract with a customer has been identified in the first step, the performance obligation – or a series of distinct performance obligations – to the customer is identified in the second step. The Bank must examine whether the service is capable of being distinct and is actually distinct within the context of the contract. A promised service is distinct if the customer can benefit from the service either on its own or together with other resources that are readily available to the customer, and the promise to transfer the service to the customer is separately identifiable from other promises in the contract.

The amount of income is measured on the basis of the contractually agreed transaction price for the performance obligations defined in the contract. Income is not recognized in profit or loss until the identified performance obligation has been satisfied.

Non-recurring fees and commissions or acquisition commissions, including in payment transactions, brokerage activities, and fees for lending activities, that are not part of the effective interest method, are recognized in profit or loss when the service is rendered. These mainly involve event-driven services and hence services at a point in time. Control of the promised services is transferred to the customer directly when the service is rendered, even if the services are partly billed to the customer before or after the service is rendered. In its brokerage activities, the Bank also generates sales commissions in addition to acquisition commissions, which are recognized at their present value after provision of the brokerage service, taking future cancellations into account. Commissions for brokering payment protection insurance payable to the Bank over the term of the related insurance policies are recognized on the basis of a reliable estimate of the expected present value.

Fees for services that are rendered over time, including in the area of payment transactions (e.g., annual fees for current account and card business) are recognized at the reporting date corresponding to the progress toward satisfaction of the performance obligation.

In the case of contracts for which several separate performance obligations were identified, the total fee received is split up for revenue recognition purposes and allocated to the various components of the contract.

Differing Requirements for Recognizing Fees and Commissions in Accordance with IAS 18 “Revenue” in Prior-year Periods

Income is measured on the basis of the contractually agreed transaction price. The compensation is normally due when the service has been provided.

If services are rendered over several periods, income from services transactions are recognized by reference to the stage of completion of the performance obligation applying to the transaction at the reporting date.

Effects of Changes in Recognition Requirements for Commissions and Fees

The Bank adopted IFRS 15 “Revenue from Contracts with Customers” effective January 1, 2018. IFRS 15 is a new standard on revenue recognition that brings together the numerous requirements previously contained in various standards and interpretations and provides a single, principle-based five-step model that applies to customer contracts. Under IFRS 15, the amount of the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer must be recognized as revenue.

As a general rule, the standard applies to all contracts with customers that agree on the sale of goods and services from the entity’s ordinary business activities.

At DB PFK, IFRS 15 applies in particular to the fees and charges reported under “Net commissions and fee income” in the Bank’s statement of income. This income arises in connection with services that are directly related to DB PFK’s ordinary business activities (core banking business) and hence fall within the scope of IFRS 15.

DB PFK has exercised the initial application relief allowed by IFRS 15 “Revenue from Contracts with Customers” and applies this standard to reporting periods beginning on or after January 1, 2018. Fees and commissions in the two prior-year periods are recognized and measured in accordance with IAS 18 “Revenue”. The initial application of IFRS 15 did not have any material effects on the recognition of fees and commissions charged in the Group. As a consequence, there are no material differences between revenue recognition under IFRS 15 in the reporting period and under IAS 18 in the prior-year period.

DB PFK has decided to exercise the option for the initial application method, which allows it not to restate comparative periods in accordance with IFRS 15 for the periods prior to initial application.

(h) Income Taxes

Income taxes are recognized and measured in accordance with IAS 12, with the consolidated income tax group with Deutsche Bank being taken into account from a formal legal perspective. Under this approach, income taxes are not recognized at the level of the DB PFK tax group because they are owed by the tax group parent, Deutsche Bank AG. The entity-specific tax rate is used for consolidated subsidiaries that are not part of the DB PFK tax group.

The assessment of income tax assets and liabilities requires certain estimates to be made. A differing assessment by the tax authorities cannot be ruled out. Account is taken of the associated uncertainty by recognizing uncertain tax assets and liabilities if the Bank considers their probability to be greater than 50 %. A change in the assessment, for example based on final tax assessments, would affect the current and deferred tax items. The uncertain income tax items recognized are based on the best estimate of the expected tax payment.

The following applies to the taxes owed by companies not belonging to the DB PFK tax group:

Deferred taxes are recognized for all temporary differences between the carrying amounts in the IFRS financial statements and the carrying amounts in the tax accounts (tax base). Deferred tax assets are recognized for tax loss carryforwards and temporary differences in the amount of their probable future utilization. Deferred tax assets are recognized for tax loss carryforwards based on future taxable income within a planning period that generally covers five years.

Current and non-current deferred tax assets and liabilities are offset in accordance with IAS 12.74.

Income and expenses from deferred taxes are recognized under income tax separately from current tax income and expenses. Recognition depends on the accounting treatment of the underlying item. For example, deferred taxes are recognized in profit or loss when the balance sheet item is itself recognized in profit or loss. Deferred taxes are credited or charged to other comprehensive income or in equity when the balance sheet item is itself credited or charged directly to other comprehensive income or in equity (IAS 12.61A).

(i) Statement of Cash Flows

In the consolidated statement of cash flows, the Group's cash and cash equivalents comprise highly liquid assets that are directly convertible into cash and are exposed to an insignificant risk of a change in value. This relates to cash and demand deposits with banks.

The Group classifies cash flows into the categories operating activities, investing activities, or financing activities, based on the business model (management approach). The Group's operating activities primarily consist of managing financial assets and liabilities.

The Group classifies the issuance of senior long-term debt to operating activities. Senior debt consists of mortgage *Pfandbriefe*, unsecured debt instruments, and other long-term liabilities.

The difference between cash flows from subordinated long-term debt and trust preferred securities and cash flows from senior long-term debt is that the former are managed as components of capital, in particular in order to be able to meet prudential capital requirements. For this reason, they cannot be substituted by other operating liabilities, but only by equity, so they are classified as cash flows from financing activities.

The amounts shown in the consolidated statement of cash flows correspond only to a limited extent to changes in the balance sheet that can be observed by comparing a reporting period with the next period, as they do not reflect non-cash items such as changes in the basis of consolidation.

Changes in balance sheet items measured at fair value are attributable to changes that affect the carrying amount, i.e., both market changes and receipts and expenditures. Changes in balance sheet items measured at fair value are generally classified as cash flows from operating activities.

3 – Amendments Resulting from Standards and Interpretations to be Applied in Future Fiscal Years

IFRS 16 "Leases"

IFRS 16 governs the recognition, measurement, presentation, and disclosure obligations with respect to leases, and replaces the current IAS 17 "Leases." The new accounting model requires the lessee to recognize all assets and liabilities relating to leasing arrangements. This means that the distinction between financing and operating leases (previously the case with IAS 17) no longer applies at all to the lessee. With regard to the lessor, the regulations of IFRS 16 do not differ significantly from those contained in the current IAS 17 accounting model. DB PFK is currently examining the potential effects on its consolidated financial statements.

IFRS 16 takes effect for fiscal years beginning on or after January 1, 2019. The standard has been endorsed by the EU.

"Plan Amendment, Curtailment, or Settlement" (amendments to IAS 19)

The amendment to IAS 19 "Employee Benefits" means that it is mandatory in the future for the current service cost and the net interest for the rest of the fiscal year to be remeasured if a plan is amended, curtailed, or settled. It also clarifies how a plan amendment, curtailment, or settlement affects the asset ceiling.

The amendments will be effective for annual periods beginning on or after January 1, 2019. They have not yet been endorsed by the EU.

IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies the accounting of uncertainty over income tax treatments. The interpretation applies to taxable profit (loss), tax bases, unused tax losses, unused tax credits, and tax rates if there is uncertainty about the treatment of income tax under IAS 12.

The interpretation is not expected to have a material effect on the net assets, financial position, and results of operations of DB PFK.

The interpretation takes effect for fiscal years beginning on or after January 1, 2019. It has not yet been endorsed by the EU.

Annual Improvements 2015–2017
The IASB has implemented clarifications, amendments, and additions to existing standards as part of its Annual Improvements 2015–2017 project. The new requirements are not expected to have a material effect on the net assets, financial position, and results of operations of DB PFK.

The amendments will be effective for annual periods beginning on or after January 1, 2019. They have not yet been endorsed by the EU.

4 – Basis of Consolidation

In addition to the parent company DB Privat- und Firmenkundenbank AG, 28 subsidiaries that are presented in the following overview are included in the consolidated financial statements as of June 30, 2018.

Name and Registered Office

	Jan–Jun 2018	
in %	Equity interest direct	Equity interest indirect
Betriebs-Center für Banken AG, Frankfurt am Main	100.0	
BHW Holding GmbH, Hameln	100.0	
BHW Kreditservice GmbH, Hameln	100.0	
DSL Portfolio GmbH & Co. KG, Bonn	100.0	
DSL Portfolio Verwaltungs GmbH, Bonn	100.0	
PB International S.A., Munsbach, Luxembourg	100.0	
PB Spezial-Investmentaktiengesellschaft mit Teilgesellschaftsvermögen, Bonn	100.0	
PBC Banking Services GmbH, Frankfurt am Main	100.0	
Postbank Beteiligungen GmbH, Bonn	100.0	
Postbank Direkt GmbH, Bonn	100.0	
Postbank Filialvertrieb AG, Bonn	100.0	
Postbank Immobilien und Baumanagement GmbH, Bonn	100.0	
Postbank Leasing GmbH, Bonn	100.0	
Postbank Service GmbH, Essen	100.0	
Postbank Systems AG, Bonn	100.0	
BHW Bausparkasse Aktiengesellschaft, Hameln		100.0
BHW - Gesellschaft für Wohnungswirtschaft mbH, Hameln		100.0
DB Direkt GmbH, Frankfurt am Main		100.0
DB Investment Services GmbH, Frankfurt am Main		100.0
Deutsche Postbank Finance Center Objekt GmbH, Munsbach, Luxembourg		100.0
KEBA Gesellschaft für interne Services mbH, Frankfurt am Main		100.0
PB Factoring GmbH, Bonn		100.0
PB Firmenkunden AG, Bonn		100.0
PCC Services GmbH der Deutschen Bank, Essen		100.0
Postbank Immobilien GmbH, Hameln		100.0
Postbank Finanzberatung AG, Hameln	23.3	76.7
Postbank Immobilien und Baumanagement GmbH & Co. Objekt Leipzig KG, Bonn		90.0
VÖB-ZVD Processing GmbH, Bonn	100.0	

Eight subpools of assets and one securitization vehicle are included in the basis of consolidation in accordance with IFRS 10. All of the subpools of assets and securitization vehicles are structured entities in accordance with IFRS 12.

The Wendelstein 2015-1 securitization vehicle was closed effective April 17, 2018. Following resale by DB PFK, the majority of its portfolio of mortgage-backed loans were sold to the Wendelstein 2017-1 securitization vehicle included in the consolidated financial statements. Because the transactions relate to the Group's own securitization, no material effect arose from the deconsolidation within the Group of the Wendelstein 2015-1 securitization vehicle.

5 – Segment Information

The Group's segment information is based on the management approach. This requires segment information to be presented on the basis of internal management reporting. The Management Board of DB PFK reviews this regularly in order to allocate resources to the various segments and to assess their performance.

Business Segments

The Group's segment information follows the organizational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to them.

The segments in DB PFK Group are: the Deutsche Bank brand, the Postbank brand, and Other.

Measurement of Segment Profit or Loss

Segment information shows the segment results of operations on the basis of the management reporting. The segment information is based on the internal management reporting on segment profit or loss, as well as other information that is reviewed regularly by the Management Board.

As the Group has integrated a range of different business activities in its operating units, the allocation of income and expenses to the segments is subject to certain assumptions and estimates.

Segment Results of Operations

For information on the results of the business segments, including the reconciliation to the IFRS consolidated financial statements, please see the "Management Report: Segment Results of Operations" in this Interim Report.

Consolidated Statement of Income Disclosures

6 – Net Interest Income and Net Gains (Losses) on Financial Assets/Liabilities at Fair Value through Profit or Loss

		Jan–Jun
in €m	2018	2017
Net interest income[1]	2,002	2,009
Net trading income	−48	175
Net gains (losses) on non-trading financial assets at fair value through profit or loss	7	0
Net gains (losses) on financial assets/liabilities designated as at fair value through profit or loss	0	−55
Total net gains (losses) on financial assets/liabilities at fair value through profit or loss	−41	120
Total net interest income and net gains (losses) on financial assets/liabilities at fair value through profit or loss	**1,961**	2,129

[1] Net interest income includes interest income of €2.4 billion calculated using the effective interest method.

7 – Net Commissions and Fee Income

				Jan–Jun 2018
in €m	Deutsche Bank brand	Postbank brand	Other	Total Group
Type of service:	Total			
Commissions for administration	47	2	16	65
Brokerage fees	197	52	0	249
Commissions for local payments	190	241	0	431
Commissions for foreign commercial business	11	47	0	58
Commissions for loan processing and guarantees	69	33	0	102
Intermediary fees	82	116	0	198
Commissions and fees for other customer services	18	87	0	105
Total commissions and fee income	614	578	16	**1,208**
Commissions and fee expenses				−293
Net commissions and fee income				915

Prior to the adoption of IFRS 15, commissions and fee income and expenses were presented only on a gross basis. In the first six months of 2017, net commissions and fee income was broken down as follows: fiduciary activities (€58 million), securities business (€259 million), domestic and foreign payments transactions (€399 million), lending and guarantees (€72 million), and other services (€154 million).

8 – Other Income (Loss)

in €m	Jan–Jun 2018	2017
Rental income	5	6
Gains (losses) on the sale of real estate	171	0
Gains (losses) on the sale of loans	0	12
Gains (losses) on hedges that meet the criteria for hedge accounting	–83	–97
Miscellaneous	105	–43
Total	**198**	–122

9 – Compensation and Benefits

in €m	Jan–Jun 2018	2017
Salaries	882	919
Additional benefits	249	284
Other compensation and benefits	29	4
Total	**1,160**	1,206

10 – General and Administrative Expenses

in €m	Jan–Jun 2018	2017
IT costs	232	218
Occupancy, furniture, and equipment expenses	276	271
Professional service fees	99	111
Communication and data services	19	19
Travel and representation expenses	20	21
Banking and transaction charges	101	112
Marketing expenses	63	51
Other expenses	510	415
Total	**1,320**	1,218

Consolidated Balance Sheet Disclosures

11 – Cash and Interbank Balances

in €m	Jun 30, 2018	Dec 31, 2017
Cash		
Cash-on-hand	1,766	2,068
Central bank balances	12,162	12,383
Total	**13,928**	14,451
Interbank balances (w/o central banks)		
Non-interest-bearing interbank balances	38	29
Interest-bearing interbank balances	40,329	42,997
Total	**40,367**	43,026

12 – Financial Assets/Liabilities at Fair Value through Profit or Loss

in €m	Jun 30, 2018	Dec 31, 2017
Trading financial assets		
Positive fair values from derivative financial instruments	4,571	6,542
Total trading financial assets	**4,571**	6,542
Non-trading financial assets at fair value through profit or loss:		
Loans	208	N/A
Other financial assets at fair value	338	N/A
Non-trading financial assets at fair value through profit or loss	**546**	N/A
Financial assets designated as at fair value through profit or loss		
Loans	0	2,842
Total financial assets designated as at fair value through profit or loss	**0**	2,842
Total financial assets at fair value through profit or loss	**5,117**	9,384

in €m	Jun 30, 2018	Dec 31, 2017
Financial liabilities classified as held for trading:		
Negative fair values from derivative financial instruments	4,118	6,812
Total financial liabilities classified as held for trading	**4,118**	6,812
Total financial liabilities at fair value through profit or loss	**4,118**	6,812

13 – Financial Assets Available for Sale

in €m	Jun 30, 2018	Dec 31, 2017
Debt securities	N/A	16,856
Equity securities	N/A	29
Other equity interests	N/A	290
Loans	N/A	0
Total	**N/A**	17,175

14 – Financial Assets at Fair Value Through Other Comprehensive Income

in €m	Jun 30, 2018	Dec 31, 2017
Debt securities	10,587	N/A
Total	**10,587**	N/A

15 – Financial Instruments at Fair Value

Measurement Policies and Controls

As part of the measurement process, the Group has an established system of controls, comprising internal control standards, policies, and methods.

The fair value of financial instruments quoted in active markets is measured on the basis of quoted prices, provided that those prices constitute the prices used in regular, current transactions.

The Group uses valuation techniques to determine the fair value of financial instruments for which no quoted prices in an active market are available, or for example if a price quotation or another quoted input is available instead of a price. They are generally measured using modeling techniques that are customary in the industry, such as DCF models and commonly used option pricing models. These models are independent of estimated future cash flows, discount factors, and volatility.

To the extent possible, the inputs are based on observable information or are derived from relevant financial instruments traded in active markets. If no observable information is available for the inputs, other market information is taken into account.

The system of controls for measurements is continuously enhanced: On an ongoing basis, the Bank reviews the measurement control methods and techniques and the elaboration and management of measurement policies. The assumptions and techniques used in the model for financial instruments whose fair value is determined using valuation models are validated.

Prices and inputs for individual transactions are provided by external sources. The price sources are validated and assessed in order to assess the quality of the resulting fair value, and to give those sources that offer greater measurement reliability and relevance more weight.

The prices and inputs, assumptions, and value adjustments used in valuation models are verified using independent sources or examined for appropriateness using suitable methods.

Fair Value Hierarchy

The allocation of financial instruments measured at fair value to the three-level fair value hierarchy in accordance with IFRS 13.72ff. is presented in the following. In line with the Standard, the Bank assigns its portfolios as follows to Levels 1 to 3:

Level 1: Quoted market prices for the identical asset or the identical liability exist for the instruments classified as Level 1. In other words, Level 1 fair value measurement is based solely on quoted market prices in an active market for an identical financial instrument. Level 1 therefore mainly consists of highly liquid securities and exchange-traded derivatives.

Level 2: Level 2 fair values are measured either with the help of quoted prices in active markets for similar instruments or using techniques whose inputs are based solely on directly or indirectly observable market data. This includes non-exchange-traded derivatives (e.g., swaps, caps, and floors) as well as bonds and promissory note loans that are valued using yield and spread curves and/or volatilities.

Level 3: Level 3 fair values are determined using valuation models whose significant inputs are not observable in the market. Such valuation techniques are used in particular to measure structured credit products.

Total Financial Instruments at Fair Value

	Jun 30, 2018				Dec 31, 2017			
in €m	Fair value	Quoted prices in active market (Level 1)	Valuation technique based on observable inputs (Level 2)	Valuation technique not based on observable inputs (Level 3)	Fair value	Quoted prices in active market (Level 1)	Valuation technique based on observable inputs (Level 2)	Valuation technique not based on observable inputs (Level 3)
Financial assets at fair value:								
Positive fair values from derivative financial instruments	4,571	0	4,533	38	6,542	0	6,523	19
Non-trading financial assets at fair value through profit or loss	546	0	457	89	N/A	N/A	N/A	N/A
Financial assets designated as at fair value through profit or loss	0	0	0	0	2,842	0	2,842	0
Financial assets at fair value through other comprehensive income	10,587	4,177	6,410	0	N/A	N/A	N/A	N/A
Financial assets available for sale	N/A	N/A	N/A	N/A	17,175	7,517	9,586	72
Other financial assets at fair value	88	0	88	0	73	0	73	0
Total financial assets at fair value	**15,792**	**4,177**	**11,488**	**127**	26,632	7,517	19,024	91
Financial liabilities at fair value:								
Negative fair values from derivative financial instruments	4,118	0	4,081	37	6,812	0	6,775	37
Other financial liabilities at fair value	1,191	0	1,191	0	595	0	595	0
Total financial liabilities at fair value through profit or loss	**5,309**	**0**	**5,272**	**37**	7,407	0	7,370	37

The decline in Level 1 and Level 2 instruments compared with the prior-year period is mainly due to maturities and disposals. The change in Level 1 and Level 2 holdings relate in particular to effects from the mandatory initial application of IFRS 9. A result of IFRS 9 was that holdings that were previously recognized at fair value are now recognized at amortized cost because of the business model and the fact that the underlying transactions are solely payments of principal and interest (SPPI). At the same time, however, holdings that were previously accounted for at amortized cost are now recognized at fair value because of the IFRS 9 requirements (see also Note 2 Effects of Changes in the Recognition and Measurement of Financial Instruments – IFRS 9 "Financial Instruments"). Based on liquidity testing procedures, there was a transfer into Level 2 amounting to €159 million in the reporting period due to prices that are no longer quoted in an active market.

Valuation Techniques

As a rule, the fair value of OTC derivatives on the assets and liabilities side of the balance sheet is measured using generally accepted valuation techniques (such as discounted cash flow models) that use only inputs that are observable in the market. Additionally, index prices and volatilities are used in option pricing models.

For securities, both fair values that are directly observable in the market (Level 1) and discounted cash flow models (Level 2) are used, provided that they cannot be measured by reference to transactions for identical or similar financial instruments that are observable in the market. Bonds may be measured using both market prices and yield curves that take spreads into account. A decision is taken on which technique to use, depending on market liquidity. Instruments for which no market prices are quoted, such as repos and swaps, are measured using inputs that are observable in the market. The main inputs for discounted cash flow analysis are yield and spread curves (credit spread, basis spread). The standard swap rates are used for the yield curves. The spread curves are also obtained from market data providers. Interest rate volatilities are normal volatilities for caps and swaptions. Where credit derivatives are an inherent component of securities, CDS spreads or hazard rates are additionally used.

Valuation techniques whose inputs mean they are allocated to Level 3 are used for both assets and liabilities. For example, structured credit products are allocated to Level 3. The same applies to structured derivatives.

in €m	Valuation technique	Fair value as of Jun 30, 2018	Fair value as of Dec 31, 2017
Bonds and equities	Mark-to-market Reuters and Bloomberg prices, otherwise DCF	10,925	17,175
Interest rate derivatives	DCF, Black 76 if they contain options	–637	–763
Currency	DCF, Garman-Kohlhagen for currency options	23	8
Loans	DCF	171	2,805

Analysis of Financial Instruments with Fair Value Derived from Valuation Techniques Containing Significant Unobservable Inputs (Level 3)

Financial assets and liabilities allocated to Level 3 changed as follows in the reporting period:

Reconciliation of Financial Instruments in the Level 3 Category

					Jun 30, 2018
in €m	Balance at beginning of year	Total gains/ losses[1]	Sales	Settlements	Balance at end of period
Financial assets at fair value:					
Positive fair values from derivative financial instruments	19	19	0	0	38
Non-trading financial assets at fair value through profit or loss	84	9	−2	−2	89
Total financial assets at fair value	103	28	−2	−2	**127**
Financial liabilities at fair value:					
Negative fair values from derivative financial instruments	37	0	0	0	37
Total financial liabilities at fair value	37	0	0	0	**37**

[1] All gains and losses are recognized in net gains (losses) on financial assets at fair value in the statement of income.

Financial assets and liabilities allocated to Level 3 changed as follows in the prior-year period:

in €m	Balance at beginning of year	Total gains/ losses[1]	Purchases	Sales	Settlements	Dec 31, 2017 Balance at end of period
Financial assets at fair value:						
Positive fair values from derivative financial instruments	61	−42	0	0	0	19
Financial assets available for sale	68	4	7	−2	−5	72
Total financial assets at fair value	129	−38	7	−2	−5	91
Financial liabilities at fair value:						
Negative fair values from derivative financial instruments	39	−2	0	0	0	37
Total financial liabilities at fair value	39	−2	0	0	0	37

[1] The amount comprises unrealized gains and losses of €8 million from financial assets available for sale that are recognized in other comprehensive income.

Sensitivity Analysis of Unobservable Inputs

Structured credit products within non-trading financial assets at fair value that are allocated to Level 3 are currently measured using arranger/dealer quotes (price range: min. 13.9 % – max. 99.7 %) that are validated by means of an internal valuation technique (DCF model). The internal valuation technique also takes the illiquidity of the markets for structured products into account in addition to the impact of default on expected cash flows. This is done by adding a premium to the risk-free interest rate for the same maturity when discounting the previously calculated cash flows. Assuming a change in arranger/dealer quotes by +/–100 basis points, the fair value would change by +/–€0.2 million.

Level 3 holdings of non-trading financial assets at fair value include preferred shares of Visa Inc. When measuring the fair value, assumptions with respect to the conversion rate (common share conversion ratio) and the liquidity of the shares are taken into account. Any change in the assumptions with respect to the conversion rate of 13.888 by +1 % and the illiquidity discount of 35 % by –15 % would lead to a positive change in the fair value of €+3.47 million. Based on calculation in accordance with prudent valuation principles, there would be a negative change in the fair value of €–0.9 million.

Holdings of closed-end funds within non-trading financial assets at fair value are measured using DCF models that take into account risk-adjusted planning assumptions for the individual funds. If the planning assumptions deviate from the assumptions made when calculating the fair value (price range: min. 0 % – max. 48.1 %), this would result in a fair value change of +/– €0.9 million. Equity investments continue to be measured using DCF models. If the planning assumptions deviate from the assumptions made when calculating the fair value (price range: min. 0 % – max. 48.1 %), this would result in a fair value change of +/– €0.5 million.

DCF models and option pricing models are used to measure Level 3 structured derivatives within positive fair values from derivative financial instruments. Because of the option components in the Black Scholes option pricing model and the long maturities, assumptions have to be made about the interest rate volatilities (range: min. 64.5 % – max. 90.2 %) that are not observable in the market in this form. If the assumptions deviate from the assumptions made when calculating the fair value, this would result in a fair value change of +/– €7.6 million. Additionally, assumptions have to be made about expected customer behavior in the case of structured derivatives with negative fair values from derivative financial instruments. The possible scenarios for customer behavior range between 0 % (customer does not trade another product) and 100 % (customer trades product in full). A change in the assumptions would result in a fair value change of +/– €1.8 million.

The fair value of loans at fair value within non-trading financial assets at fair value is measured on the basis of an internal valuation technique (DCF model). This involves assumptions about expected cash flows (range: min. €1.2 million – max. €2.8 million). Taking into account a 1 % fluctuation in these assumptions, this results in a fair value change of +/– €0.1 million.

Unrealized Gains or Losses on Level 3 Instruments Held at the Reporting Date

Unrealized gains and losses are not based exclusively on unobservable inputs, as many of the inputs that are used to measure financial instruments in this category are observable. Changes in the gains and losses are thus based in part on changes in observable inputs that occur over the course of the reporting period. Many of the positions in this level of the hierarchy are economically hedged by instruments that are categorized in other levels of the fair value hierarchy. In accordance with IFRS 13, the following table contains only those gains and losses that result from Level 3 instruments held at the reporting date. The unrealized gains and losses on Level 3 instruments are included in net interest income and net gains (losses) on financial assets/liabilities at fair value through profit or loss in the consolidated statement of income.

	Jan–Jun	
in €m	2018	2017
Financial assets at fair value:		
Positive fair values from derivative financial instruments	19	−26
Non-trading financial assets at fair value through profit or loss	8	0
Financial assets available for sale	N/A	−1
Total financial assets at fair value	**27**	−27
Financial liabilities at fair value:		
Negative fair values from derivative financial instruments	0	2
Total financial liabilities at fair value	**0**	2
Total	**27**	−25

Recognition of Trade Date Profit

If any unobservable inputs are used in a valuation technique, the relevant financial instrument is recognized at the transaction price and any trade date profit is deferred. No day 1 profit or loss arose in the reporting period.

16 – Fair Value of Financial Instruments at Amortized Cost

The following table compares the fair values of financial instruments carried at amortized cost or hedge fair value in the balance sheet with their carrying amounts:

Estimated Fair Value of Financial Instruments not Carried at Fair Value in the Balance Sheet

	Jun 30, 2018		Dec 31, 2017	
in €m	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and central bank balances	13,928	13,928	14,451	14,451
Interbank balances (w/o central banks)	40,359	40,358	43,026	43,029
Central bank funds sold and securities purchased under resale agreements (reverse repos)	1,223	1,223	835	835
Loans	182,328	184,033	177,690	185,354
Banks	7,213	7,084	6,590	6,602
Payable on demand	3,280	3,280	3,052	3,052
Term deposits	201	201	126	126
Consumer mortgage lending	128,939	130,169	125,315	131,812
Commercial loans	23,530	23,433	23,039	23,337
Public-sector loans	4,448	4,656	5,066	5,133
Installment loans	13,357	13,845	12,771	13,534
Promissory note loans	1,229	1,234	1,597	1,623
Other loans	131	131	134	134
Securities in the “hold” business model (IFRS 9)/LaR (IAS 39)	6,649	6,824	5,230	5,384
Other financial assets	832	832	528	528
Financial liabilities:				
Deposits	217,179	217,282	212,764	213,237
Central bank funds purchased and securities sold under resale agreements	1,135	1,135	2,757	2,757
Other short-term borrowings	193	193	147	147
Other financial liabilities	1,359	1,359	958	958
Long-term debt	29,927	31,475	35,706	37,549
Trust preferred securities	0	0	915	1,051

17 – Loans at Amortized Cost

in €m	Jun 30, 2018	Dec 31, 2017
Banks	7,213	6,590
Payable on demand	3,280	3,052
Term deposits	201	126
Consumer mortgage lending	128,939	125,315
Commercial loans	23,530	23,039
Public-sector loans	4,448	5,066
Installment loans	13,357	12,771
Promissory note loans	1,229	1,597
Securities of the LaR category (IAS 39)	0	5,230
Other loans	131	134
Total	**182,328**	182,920

18 – Loan Loss Allowance for Financial Assets at Amortized Cost

IFRS 9 Loan Loss Allowance for Financial Assets at Amortized Cost

Changes in Loan Loss Allowance for Financial Assets at Amortized Cost

				Jan–Jun 2018
in €m	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	198	304	937	**1,439**
Changes in financial assets including new business	−58	65	73	80
Transfers due to change in credit quality	81	−84	3	0
Derecognition of impaired loans	0	0	−61	−61
Recoveries on loans written off	0	0	45	45
Foreign exchange movements and other changes	−12	−5	−8	−25
Balance at end of period	209	280	989	**1,478**

Changes in Loan Loss Allowance for Off-balance-sheet Exposures

				Jan–Jun 2018
in €m	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	6	9	17	**32**
Changes including new business	−7	−1	0	−8
Transfers due to change in credit quality	6	−6	0	0
Foreign exchange movements and other changes	7	7	−2	12
Balance at end of period	12	9	15	**36**

IAS 39 Loan Loss Allowance for Financial Assets at Amortized Cost

Changes in Loan Loss Allowance for Financial Assets at Amortized Cost

			Jan–Jun 2017
in €m	Individually assessed	Collectively assessed	Total
Balance at beginning of year	215	884	1,099
Changes in financial assets including new business	−35	78	43
Derecognition of impaired loans	−4	−140	−144
Recoveries on loans written off	3	26	29
Foreign exchange movements and other changes	−2	−5	−7
Balance at end of period	177	843	1,020

Changes in Loan Loss Allowance for Off-balance-sheet Exposures

	Jan–Jun 2017
in €m	Total
Balance at beginning of year	39
Changes including new business	−15
Balance at end of period	24

19 – Property and Equipment

in €m	Jun 30, 2018	Dec 31, 2017
Land and buildings	286	492
Leasehold improvements	236	232
Office equipment	212	213
Advance payments and assets under construction	88	75
Total	**822**	1,012

20 – Intangible Assets

in €m	Jun 30, 2018	Dec 31, 2017
Internally generated intangible assets	205	182
Purchased software	72	75
Total intangible assets	**277**	257

21 – Other Assets and Other Liabilities

Other Assets

in €m	Jun 30, 2018	Dec 31, 2017
Brokerage and securities-related receivables	275	270
Debt securities held to collect	6,649	N/A
Accrued interest receivable	383	452
Assets held for sale	54	0
Derivatives used as hedging instruments in fair value hedges	88	73
Receivables from collateral issued	1,000	0
Miscellaneous	778	630
Total	**9,227**	1,424

Other Liabilities

in €m	Jun 30, 2018	Dec 31, 2017
Other short-term borrowings	193	147
Total brokerage and securities-related payables	88	66
Accrued interest payable	366	439
Derivatives used as hedging instruments in fair value hedges	1,191	595
Payroll-related commitments	1,356	1,404
Miscellaneous	1,112	1,386
Total	**4,306**	4,037

22 – Deposits

in €m	Jun 30, 2018	Dec 31, 2017
Non-interest-bearing demand deposits	103,981	99,032
Interest-bearing deposits		
Demand deposits	13,065	12,661
Term deposits	23,559	23,274
Savings deposits	76,574	77,706
Total interest-bearing deposits	113,198	113,641
Total	**217,179**	212,673

23 – Provisions

in €m	Jun 30, 2018	Dec 31, 2017
Loan loss allowances for off-balance-sheet exposures	36	22
Litigation and other operational risk	103	130
Restructurings	393	449
Miscellaneous	113	140
Total	**645**	741

24 – Long-term Debt

in €m	Jun 30, 2018	Dec 31, 2017
Senior debt:	13,433	14,563
Bonds and notes		
Fixed rate	13,311	14,441
Floating rate	122	122
Subordinated debt:	1,791	1,223
Bonds and notes		
Fixed rate	551	1,033
Floating rate	1,240	190
Miscellaneous	14,703	19,920
Total	**29,927**	35,706

Other Financial Information

25 – Contingent Liabilities and Other Commitments

in €m	Jun 30, 2018	Dec 31, 2017
Irrevocable lending commitments	14,114	11,812
Revocable lending commitments	19,234	19,815
Contingent liabilities	1,017	1,042
Total	**34,366**	32,669

Contingencies and other obligations were reduced by the recognized loan loss allowance.

Other Commitments

In accordance with section 16 of the *Postpersonalrechtsgesetz* (Deutsche Bundespost Former Employees Act), DB PFK AG pays an annual contribution for civil servant pensions to the Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (BanstPT), Postbeamtenversorgungskasse (PVK) in the amount of 33 % of the gross compensation of its active civil servants and of the notional gross compensation of its civil servants on leave of absence who are eligible for pensions. DB PFG AG has no further obligations for benefits paid by the pension fund.

DB PFK AG ensures that, with the exception of political risk, its PB Factoring GmbH (Bonn) and BHW Bausparkasse AG (Hameln) subsidiaries will be able to meet their obligations.

The comfort letters issued in favor of creditors of subsidiaries of DB PFK AG primarily lead to benefits for the subsidiaries in the form of improved terms and conditions for business and finance. DB PFK AG profits from these benefits since they have a positive impact on the enterprise value of the subsidiaries concerned. Conversely, there is the possibility of the creditors having recourse against DB PFK AG.

DB PFK AG has issued subordinated comfort letters under the terms of issue of subordinated bonds issued by Deutsche Postbank Funding LLC I, II, III, and IV, all of which are domiciled in Delaware, U.S.A.

DB PFK AG is a member of the deposit protection fund of the Bundesverband deutscher Banken e.V. and of Entschädigungseinrichtung deutscher Banken GmbH's investor compensation scheme.

DB PFK AG has furnished BHW Bausparkasse AG, Luxembourg, a guarantee in the amount of €12 million which will cover the first loss piece of a retail credit portfolio of the BHW branch in Luxembourg.

26 – Related Party Transactions

In addition to the companies included in the consolidated financial statements, in the course of its ordinary business activities, DB PFK has direct or indirect relationships with Deutsche Bank AG, which controls DB PFK, and with a relatively small number of subsidiaries not included in DB PFK's consolidated financial statements. Other related parties are Deutsche Bank AG's subsidiaries, the associates and joint ventures of DB PFK and Deutsche Bank, and their subsidiaries. Related parties are defined as key management personnel (Management Board and Supervisory Board) of DB PFK AG and of Deutsche Bank AG, and the close members of their families. In the course of business activities, all transactions for the provision of goods and services entered into with the aforementioned companies and persons were conducted at standard market terms and conditions.

Transactions between Deutsche Bank AG and its subsidiaries meet the definition of related party transactions. If these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

Control and Profit and Loss Transfer Agreement

There is a control and profit and loss transfer agreement between DB PFK AG as the dependent company and Deutsche Bank AG, Frankfurt am Main, as the controlling company.

Transactions with Parent, Subsidiaries, and Other Companies

Assets

in €m	Jun 30, 2018	Dec 31, 2017
Interbank balances		
Deutsche Bank AG	40,082	42,751
Other related parties	160	165
Financial assets at fair value through profit or loss		
Deutsche Bank AG	0	151
Loans at amortized cost		
Deutsche Bank AG	992	2,020
Other related parties	6,248	5,620
Other assets		
Deutsche Bank AG	290	299
Other related parties	57	44

Liabilities and Equity

in €m	Jun 30, 2018	Dec 31, 2017
Deposits		
Deutsche Bank AG	0	10
Subsidiaries	7	11
Other related parties	6,080	5,565
Central bank funds purchased and securities sold under resale agreements		
Deutsche Bank AG	1,135	2,757
Financial liabilities at fair value through profit or loss		
Deutsche Bank AG	183	384
Other current liabilities		
Deutsche Bank AG	146	53
Other non-current liabilities		
Deutsche Bank AG	14,315	19,321
Other related parties	1,100	0
Other liabilities		
Deutsche Bank AG	323	573
Other related parties	103	115

Other liabilities to Deutsche Bank AG contain the effects amounting to €174 million (as of December 31, 2017: €389 million) from the control and profit and loss transfer agreement that were recognized in retained earnings.

Income Statement

in €m	Jan.–Jun. 2018	2017
Net interest income		
Deutsche Bank AG	1	–31
Other related parties	–23	–4
Net commissions and fee income		
Deutsche Bank AG	35	28
Other related parties	107	104
Net gains (losses) on financial assets/liabilities at fair value through profit or loss		
Deutsche Bank AG	–83	–81
Other income		
Deutsche Bank AG	97	80
Subsidiaries	–4	0
Other related parties	–2	–1
Other expenses		
Deutsche Bank AG	–363	–308
Other related parties	–7	–13

As of June 30, 2018, there were also contingent liabilities to Deutsche Bank AG of €107 million (as of December 31, 2017: €105 million).

Transactions with Key Management Personnel

As of the reporting date, DB PFK had granted loans of €44 million to key management personnel and had received deposits of €6 million from key management personnel. In addition, the Group provides banking services, such as payment transaction and account services as well as investment advice, to key management personnel and their close family members.

27 – Non-current Assets Held for Sale

Within the balance sheet, non-current assets held for sale are reported in Other assets. This section explains the nature and financial impact of non-current assets held for sale.

Real estate with a value of €54 million was classified as assets held for sale in the reporting period (no assets were classified as held for sale as of December 31, 2017). Classification resulted in a measurement gain of €0.6 million.

Real estate with a value of €0.7 was already sold after the reporting date. This did not result in any material disposal gain or loss.

In addition, another property with a value of €47 million was classified as an asset held for sale after the reporting date.

28 – Events after the Reporting Date

Mortality rates used to recognize pension obligations for employees in Germany are calculated using the 2005G version of the Heubeck mortality tables. Heubeck AG published new mortality tables on July 20, 2018. These tables contain new mortality rates that are a significant factor influencing the calculation of pension obligations. The extent to which the mortality tables published by Heubeck AG on July 20, 2018, will have to be generally used is not yet clear. When it published the mortality tables, Heubeck AG also stated that it expected pension obligations to experience a general increase in the range of 1.5 % to 2.5 %.

If the new mortality tables become generally accepted, we will have to decide whether they accurately reflect the mortality rates in the calculation of our pension obligations. As a matter of principle, any potential increase in pension obligations in connection with the updated mortality rates would change equity outside profit or loss in the form of recognized actuarial losses. The amount of the change in pension obligations as of year-end 2018 will also be driven by regular updates to other parameters such as the discount rate, salary trends, and other factors.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim half-yearly financial reporting, the condensed interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Frankfurt am Main, July 31, 2018

DB Privat- und Firmenkundenbank AG

The Management Board

Frank Strauss

Stefan Bender

Alexander Ilgen

Susanne Klöss-Braekler

Britta Lehfeldt

Ralph Müller

Markus Pertlwieser

Zvezdana Seeger

Hanns-Peter Storr

Lars Stoy

REVIEW REPORT

To DB Privat- und Firmenkundenbank AG, Frankfurt am Main

We have reviewed the condensed interim consolidated financial statements – comprising the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, condensed consolidated statement of cash flows, and selected explanatory notes – together with the interim group management report of DB Privat- und Firmenkundenbank AG, Frankfurt am Main, for the period from January 1 to June 30, 2018 that are part of the semi-annual financial report according to § 115 WpHG („Wertpapierhandelsgesetz“: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of DB Privat- und Firmenkundenbank AG's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Frankfurt am Main, July 31, 2018

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Wirtschaftsprüfungsgesellschaft

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Theodor-Heuss-Allee 72
60486 Frankfurt am Main
Phone +49 69 910-00

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db.ir@db.com

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This Interim Report contains forward-looking statements that relate to macroeconomic developments (in particular the development of money and capital market rates), the business and the net assets, financial position, and results of operations of the DB Privat- und Firmenkundenbank Group. Forward-looking statements by definition do not depict the past and are in some instances indicated by words such as “believe”, “anticipate”, “predict”, “plan”, “estimate”, “aim”, “expect”, “assume”, and similar expressions. Forward-looking statements are based on the Company’s current plans, estimates, projections, and forecasts and are therefore subject to risks and uncertainties that could cause actual development or the actual results or performance to differ materially from the development, results, or performance expressly or implicitly assumed in these forward-looking statements.

Readers of this Interim Report are expressly cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Interim Report. DB Privat- und Firmenkundenbank AG does not intend and does not undertake any obligation to revise these forward-looking statements.

The English version of the Interim Report constitutes a translation of the original German version. Only the German version is legally binding.