Deutsche Bank

Annual Report 2020
Deutsche Bank Luxembourg S.A.

Deutsche Bank Luxembourg S.A.

- Deutsche Bank Luxembourg S.A. (the “Bank”), established in 1970 as a wholly owned subsidiary of Deutsche Bank AG, Frankfurt am Main, celebrated its 50th anniversary in 2020.
- The Bank’s Articles of Association provide for a two-tier system of corporate governance comprising the Management Board and the Supervisory Board.
- Since 1991, the Bank has had its registered office on the Kirchberg Plateau, at 2, boulevard Konrad Adenauer, L–1115 Luxembourg.
- The competent financial supervisory authority under the European Single Supervisory Mechanism is the European Central Bank (ECB) based in Frankfurt am Main (Germany); in Luxembourg, the Bank is supervised by the Commission de Surveillance du Secteur Financier (CSSF).
- The Bank was classed as an Other Systemically Important Institution (O-SII) in accordance with Article 131 (3) of Directive 2013/36/EU during the entire financial year 2020. This classification no longer applies as of 1 January 2021.
- The Bank is a non-trading book institution and one of the leading banks in the Grand Duchy of Luxembourg; its regulatory own funds – consisting of balance sheet equity and eligible subordinated liabilities – amount to approximately €6bn as of 31 December 2020.
- The Bank employs 312 people from 27 countries.

Deutsche Bank Luxembourg S.A. can be reached online at www.db.com/luxembourg or you can use the following QR Code:

You can find the Annual Report in the “Company” section of the website or using the following QR Code:

English:

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Deutsche Bank Luxembourg S.A.

Management Board*

Jürgen Fiedler, Dr Marcus Stutz, Frank Krings, Dr Daniel Zapf (from left to right)

Frank Krings (until 31 December 2020)

Chief Executive Officer
Chairman of the Management Board
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

Frank Rückbrodt (as of 1 January 2021)

Chief Executive Officer
Chairman of the Management Board
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

Jürgen Fiedler (until 7 September 2020)

Chief Risk Officer
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

Dr Marcus Stutz (as of 7 September 2020)

Chief Risk Officer
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

Dr Daniel Zapf

Chief Operating Officer
Deputy Chief Executive Officer (effective 26 March 2021)
Business address: 2, boulevard Konrad Adenauer, L–1115 Luxembourg

* Membership over the course of 2020 as well as on 31 December 2020

Supervisory Board*

Ashok Aram (until 31 December 2020)
Chairman
Deutsche Bank AG, Frankfurt am Main, Germany

Dr Alexander Ilgen (as of 8 January 2021)
Chairman
Deutsche Bank AG, Frankfurt am Main, Germany

Balbir Bakhshi (until 31 December 2020)
Deutsche Bank AG, London, United Kingdom

Rachel Blanshard (until 31 December 2020)
Deutsche Bank AG, London, United Kingdom

Rüdiger Bronn
Deutsche Bank AG, Frankfurt am Main, Germany

Karin Dohm (until 27 March 2020)
Deutsche Bank AG, Frankfurt am Main, Germany

Kornelis Jan (Kees) Hoving (until 31 December 2020)
Deutsche Bank AG, Amsterdam, Netherlands

Frank Krings (as of 8 January 2021)
Deutsche Bank AG, Paris Branch, France

Dr Karen Kuder (as of 29 June 2020)
Deutsche Bank AG, Frankfurt am Main, Germany

Bas Marteijn (as of 1 January 2021)
Deutsche Bank AG, Amsterdam Branch, Netherlands

Michelle Owen (as of 8 January 2021)
Deutsche Bank AG, London Branch, United Kingdom

Frank Rückbrodt (until 31 December 2020)
Deutsche Bank AG, Frankfurt am Main, Germany

Jan Wohlschieß
Deutsche Bank AG, Frankfurt am Main, Germany

* Membership over the course of 2020 as well as on 31 December 2020

Audit Committee*

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

Karin Dohm (until 27 March 2020)
Deutsche Bank AG, Frankfurt am Main, Germany

Dr Karen Kuder (as of 29 June 2020)
Deutsche Bank AG, Frankfurt am Main, Germany

Michelle Owen (as of 8 January 2021)
Deutsche Bank AG, Frankfurt am Main, Germany

Frank Rückbrodt (until 31 December 2020)
Deutsche Bank AG, Frankfurt am Main, Germany

Jan Wohlschieß
Deutsche Bank AG, Frankfurt am Main, Germany

Risk Committee*

Balbir Bakhshi (until 31 December 2020)
Chairman
Deutsche Bank AG, London, United Kingdom

Frank Krings (as of 8 January 2021)
Deutsche Bank AG, Frankfurt am Main, Germany

Bas Marteijn (as of 1 January 2021)
Deutsche Bank AG, Frankfurt am Main, Germany

Rachel Blanshard (until 31 December 2020)
Deutsche Bank AG, London, United Kingdom

Kornelis Jan (Kees) Hoving (until 31 December 2020)
Deutsche Bank AG, Amsterdam, Netherlands

* Membership over the course of 2020 as well as on 31 December 2020

Report of the Management Board

Deutsche Bank Luxembourg S.A.

When it was founded in 1970, Deutsche Bank Luxembourg S.A. (the "Bank") was the first foreign subsidiary to be established by Deutsche Bank AG (the "Parent") after the signing of the Treaties of Rome (1957) and therefore celebrated its 50-year anniversary in 2020. Today, it is one of the leading financial service providers in the Grand Duchy of Luxembourg. The Bank is under the direct, sole ownership of the Parent. In accordance with Article 131 (3) of EU Directive 2013/36/EU, the Bank continued to be classed as an Other Systemically Important Institution (O-SII) during financial year 2020. This classification no longer applies as of 1 January 2021. It is subject to direct prudential supervision by the European Central Bank (ECB); in Luxembourg, the Bank is supervised by the Commission de Surveillance du Secteur Financier (CSSF). The Bank is a non-trading book institution having regulatory own funds – consisting of balance sheet equity and eligible subordinated liabilities as defined under Capital Requirements Regulations (CRR) – amounting to approximately €6bn as of 31 December 2020.

Corporate Governance

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

Business model

The Bank's business model is diversified, client-focused and international, i.e. geared to cross-border business. For many years – and across economic, business and product-related cycles – this has enabled the Bank to make a significant positive contribution to Deutsche Bank AG's consolidated earnings. At the same time, the Bank's risk-bearing capacity and risk appetite are based on its own capital, liquidity and operational resources. One defining feature of its business model as a non-trading book institution, and of importance from a client perspective, is the long-term nature of the Bank's chosen areas of activity:

Corporate Finance (Corporate Bank)

The Bank is a proven centre of excellence within the Deutsche Bank Group for the provision of medium- to long-term financing to listed, owner-managed and other relatively large businesses. Its position as a lender, agent and international service provider to clients in bilateral and syndicated lending is based on decades of expertise in the lead management of international lending syndicates, the legal formulation of credit documentation, particularly in cross-border transactions, and reliable credit administration over the entire transaction lifecycle. In addition to its lending activities the Bank is also a Loan Agency hub in the Europe, Middle East and Africa (EMEA) offering respective services to the Corporate and the Investment Bank, Wealth Management as well as to external clients.

Structured Finance (Investment Bank)

In the segment for high-quality capital goods (e.g. special-purpose vessels, aircraft) and long-term utility and infrastructure projects (e.g. alternative forms of energy, transport routes), the Bank – in concert with other units in Deutsche Bank Group's international network – has the necessary expertise and the operational resources to reliably assist clients in structured and property-related financing scenarios across the entire maturity spectrum. Arising from its structured finance activities, the Bank has extensive expertise in the domestic and cross-border management and administration of company and financial interests. This is based on its experience of providing company law- and accounting-related support throughout the term of equity and financial investments, on its experience of corporate governance and risk management issues and on the Bank's capital strength. The latter allows it to address the opportunities and risks inherent in equity and financial investments and manage them over the long term in accordance with the applicable bank regulatory framework. The Bank's wholly owned subsidiary DB Credit Investments S.à r.l. currently holds and manages a large proportion of the Bank's majority shareholdings.

Fiduciary Issuance (Investment Bank)

The Bank regularly acts as a fiduciary issuer with regard to institutional investors (e.g. insurance companies or pension providers), specifically within the framework of its €15bn capital market issuance programme which was listed on the Euro MTF market of the Luxembourg Stock Exchange in 2020 (previously: Irish Stock Exchange). In its role as trustee – and sometimes as investor – the Bank enables clients to access alternative financing and also provides investors with alternative investment opportunities. In so doing, the Bank is making a targeted contribution to strengthening and diversifying capital market-based financing solutions. These activities are also consistent with the goals of holistic risk management and with the ambitions of the European Union (EU) for the development of the European financial system and the Capital Markets Union.

Wealth Management (International Private Bank)

The Bank is a service centre and centre of excellence within the EU and for selected markets in the EMEA region in the cross-border and cross-generation management of international private assets for professional and ultra-high-net worth individual (UHNWI) clients. Here, the Bank makes use of the freedom to provide investment advice and distribute financial products across borders within the EU single market in accordance with the applicable provisions. In recent years the Bank has strengthened its client coverage of targeted markets in the EMEA region through its investment in specialist staff and technology. Besides the investment expertise in Luxembourg, wealth management activities also leverage the Bank's many years of experience and expertise as a centre for lending and financing.

Balance sheet, capital, liquidity, interest rate and currency management (Treasury)

The Bank is a non-trading book institution and has its own balance sheet, capital, liquidity, interest rate and currency management function (Treasury) that operates independently of the business units. Nevertheless, the Bank is integrated into Deutsche Bank Group's overall liquidity management and funding system. In principle, therefore the Bank is able within a defined credit limit, to tap the Parent's funds for refinancing purposes. For further explanatory notes on liquidity and risk management, please refer to the Risk Report.

As disclosed in Deutsche Bank AG's 2020 Annual Report, the Bank continues to operate with the support of its parent entity.

Strategy

The COVID-19 pandemic led to changes in the macroeconomic and fiscal environment over the past year. These changes impacted the Bank's operating environment, as changes in customer behaviour have significantly affected transaction volumes and the Bank's associated management of capital and risk. As a result of the Bank's strong capital and liquidity position, it was able to continue to support its clients' needs for funding and financial solutions throughout this challenging period, thereby providing valuable economic support to the markets it operates in. During this period the Bank remained prudent in its approach to risk management, with a CET1 ratio of 15.9% (2019: 15.6%), a Leverage Ratio of 12.8% (2019: 11.7%) and a Liquidity Coverage Ratio of 135.5% (2019: 154.7%) as at 31 December, all well above regulatory minimums and internal targets.

Despite the COVID-19 challenges, the Bank implemented effective risk management standards in its businesses and has continued to benefit from its transformation and business model realignment over the period from 2016 to 2019. Relevant strategic alignment, balance sheet restructuring, rationalisation and investments in technology and people in prior years allowed the Management Board in 2020 to continue pursuing a business policy of responsible qualitative growth, while still serving clients' financing needs. Progress made towards transformation and simplification of the Bank have been recognised by the competent supervisory authorities, which no longer class the Bank as an Other Systemically Important Institution (O-SII) in accordance with Article 131 (3) of Directive 2013/36/EU as of 1 January 2021. The requirement to maintain relevant O-SII capital buffers thus no longer applies to the Bank.

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

In Corporate Banking, the Bank's strategic position as Deutsche Bank Group's European loan finance and agency hub played a pivotal role in the liquidity and credit supply to and support of European corporates during the recent COVID-19 pandemic. Relevant activities, which are a strategic pillar and one of the raisons d'être of the Bank, were expansionary during 2020.

Investment Banking activities are guided by the strategic business model, as described above, which remained unchanged during 2020. The Bank will continue to pursue opportunities that leverage its expertise in the provision of structured financing solutions for high-quality capital goods (special-purpose vessels, aircraft etc.) and as a fiduciary issuer and administrator of relevant fiduciary estates for the benefit of its institutional clients under the aforementioned fiduciary issuance programme.

In the International Private Bank, the Bank continues to expand its coverage platform capabilities and its role as an EU service centre and centre of excellence within Deutsche Bank Group and to gradually expand its geographical target markets and product range.

Organisation

As a stand-alone entity, the Bank has its own organisational structure and functional management system covering all relevant banking operations. At the same time, it capitalises on its membership of the broader Deutsche Bank Group to benefit from economies of scale and specialisation. The Bank makes use of certain banking operation services from affiliated companies (outsourcing service recipient), while always retaining ultimate responsibility for service provider management. Similarly, affiliated companies of Deutsche Bank Group leverage the Bank's proven expertise and services in defined areas (outsourcing service provider).

Employer

The Bank is a recognised international employer. At the end of 2020, it employed 312 members of staff (2019: 302) from 27 countries (2019: 22). Luxembourg residents make up 32% (2019: 27%) of the Bank's workforce; a total of 32 (2019: 25) members of staff are Luxembourg nationals. Cross-border commuters from neighbouring Belgium, Germany and France represent 68% (2019: 73%) of the workforce.

51% (2019: 50%) of the total workforce and 26% (2019: 26%) of executives (Managing Director, Directors, Vice Presidents) are female. At the end of 2020, the average length of service of the total workforce was approximately 13.4 years (2019: 14 years). During the financial year 2020, 38 new members of staff (2019: 37 new members of staff) joined the Bank, 17 (2019: 27) of them on permanent contracts, and two long-serving employees of the Bank retired.

For many years, the Bank has made a continuous and sustained contribution to students' development through its intern programme, which is widely known and recognised by universities. In 2020, the Bank gave 52 (2019: 79) students from 23 countries the opportunity to gain practical work experience in the financial services industry.

Corporate citizen

The Bank has had its home in the Grand Duchy of Luxembourg since 1970, with its registered office on the Kirchberg Plateau (2, boulevard Konrad Adenauer, L–1115 Luxembourg) designed by the architect and Pritzker architecture award winner Prof. Gottfried Böhm, who recently celebrated his 100th birthday, since 1991. As a member of Private Art Kirchberg (which takes place every two years, with the next event due in 2021), through a variety of private tours of art collections and special exhibitions, and as a venue for forums and seasonal concert performances, the Bank has for many years made a relevant contribution to dialogue around economic and social issues as well as to cultural life in the Grand Duchy of Luxembourg.

Memberships, interest groups and mandates (disclosure)

The Bank is a member of the Luxembourg Bankers' Association (Association des Banques et Banquiers, Luxembourg [ABBL]) and the Luxembourg Chamber of Commerce.

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Management Report

Management Report

Review of Financial Results

The Bank's financial position and performance for financial year 2020 were influenced by the macroeconomic and fiscal environment changes resulting from the COVID-19 pandemic. Commencing in the latter part of Q1, and continuing throughout Q2, the Bank experienced significant drawings against existing facilities combined with demand for additional facilities as customer behaviour during the COVID-19 pandemic focused on liquidity requirements. This trend eased during the latter part of the year. Key benchmark interest rates were impacted as follows (source: Bloomberg):

	Minimum (%)		Maximum (%)		Average (%)	
	2020	2019	2020	2019	2020	2019
3-month Euribor (EUR)	–0.55	–0.45	–0.16	–0.31	–0.43	–0.36
3-month Libor (USD)	0.20	1.89	1.91	2.81	0.65	2.33

Key foreign exchange rates having an impact on the translation of foreign currency assets and liabilities as at 31 December:

€ 1 equals	2020	2019
United States Dollar	1.223	1.122
Great British Pound	0.895	0.848

Balance Sheet & Off-Balance Sheet

The Bank's total assets were €4.4bn lower than the previous year, as were liabilities; total own funds were slightly higher year-on-year with commitments €2.8bn up on the prior year. The key contributors to these trends were as follows:

Cash and balances with central banks (€4bn) was €0.6bn below the prior year as a result of overall balance sheet reduction and continued liquidity management. This development positively impacted on the Bank's net interest income (NII) for the period.

Loans and advances to credit institutions (€5.9bn) (primarily transacted with the Parent and fellow group entities) was €4.9bn below the prior year due to the ongoing optimisation of inter-group lending activities and the maturity of some advances during the latter part of 2020. The reduction in these positions had a minimal impact on the Bank's NII for the year.

Loans and advances to clients (€13.7bn) was €1.4bn higher than as at 31 December 2019. Peak drawings during the Q1/Q2 period were approximately €3bn higher than at year-end. These significantly higher lending volumes positively contributed to the Bank's NII result (see below).

The Bank's overall funding declined in proportion to the reduction on the asset side of the balance sheet, i.e. by €4,4bn (with own funds, including subordinated liabilities, remaining materially unchanged), which positively impacted the Bank's NII for the year. The reduction in funding was primarily from credit institutions (mainly Deutsche Bank entities/the Parent).

Off-balance sheet items were higher than in the previous year, with commitments up €2.8bn year-on-year, for the reasons described above.

Deutsche Bank Luxembourg S.A. does not have any branches, not does it hold its own shares.

Profit and Loss

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

Net results

in € k.	2020	2019
Net interest income	289,882	160,280
Net commission income/(expense)	–69,257	–44,953
Net (loss)/profit on financial operations	–31,539	6,137
General administrative expenses	–140,656	–127,761
Depreciation of tangible and intangible assets	–216	–156
Operating profit I	**48,214**	**–6,453**
Income from transferable securities including value adjustments	5,700	13,482
Value adjustments in respect of securities held as financial fixed assets and participating interests	0	–54
Other operating net income	196,971	200,873
Operating profit II	**250,885**	**207,848**
Net change in provision for risk including release of special items with a reserve quota portion	–50,539	–17,544
Taxes	–28,521	–22,081
Payments for participation rights	–80,846	–80,625
Net income	**90,979**	**87,598**

Aligned with the significant increase in loans to customers and interest rate developments during financial year 2020 (see above), the Bank's NII was significantly higher (€130m) than in 2019. Coupon payments of €81m relating to the Bank's subordinated liabilities, which qualify as Upper Tier I capital under bank supervisory regulations, are not reflected as NII in order to transparently disclose the associated cost of these equity-like instruments.

Net commission expenses for the year increased by €24m over 2019 levels. Commission income increased by €4.5m year-on-year to €106m as a result of increased business volumes (loan commitment and advisory fees earned by both the Investment and Corporate Banking divisions). Commission expenses, consisting primarily of transfer pricing costs incurred by the Corporate Bank's risk hedging activities, increased by €29m in 2020. Credit protection purchased from fellow DB Group entities (mostly in the form of collateralised loan obligations [CLO's]) amounted to approximately 73% of the total amount reflected as commissions expense for the year.

Net result from financial operations comprises premiums paid/received and valuation changes in respect of credit default swaps (hedging loans to customers carried at amortised cost), net foreign exchange result for the year and the net result from the hedging of an investment in a structured note reflected under "Debt securities" on the balance sheet. The net result for 2020 was €38m below the prior year, mostly attributable to the hedging cost of €27m related to the abovementioned Debt security position.

General administrative expenses increased by €13m year-on-year to €141m in 2020. These costs include both direct costs related to business activities conducted by the business and infrastructure functions in Luxembourg and transfer pricing (costs levied by other DB entities providing global/regional services consumed by the Bank under formally concluded transfer pricing agreements). Transfer pricing costs increased by €15m year-on-year as a result of the conclusion of a new agreement related to global Corporate Bank services consumed by the Bank (€5m) and the strong performance of the Bank relative to other consumers of Group services where relative revenues form a key input variable in the cost allocation keys. Direct costs were positively influenced by an improvement in the Bank's net social security expense in 2020 of €7m (total contributions made were slightly up year-on-year at €6m, plan assets returned positive growth with plan liabilities on a par with prior-year levels) with offsetting cost increases in unclaimable VAT and temporary staff costs.

Other operating net income declined by €4m year-on-year to €197m in 2020. The Bank was compensated in the amount of €198m in 2020 (2019: €193m) in connection with below-market interest rates earned in respect of the "relationship" lending activities of the Strategic Corporate Lending (SCL) business (refer pages 32-33 for further details regarding SCL).

Net provisions for risks increased significantly from the previous year's figure of €17m to €51m in 2020 (refer to note C6). Provisions for credit losses increased by €69m year-on-year to €113m, with offsetting recoveries from CLO hedges amounting to €54m in 2020 (2019: €27m). Net credit losses were thus €59m for the financial year (2019: €17m). Provisions held against derivative positions from prior years of €9m were released in the current period as they were no longer required.

Adequate provisions have been made for other material risks related to the lending and securities businesses (including participating interests).

Business policy and risk & capital management strategy

As a subsidiary of Deutsche Bank AG, the Bank operates within the framework of Deutsche Bank's Group-wide business strategy. The operational and strategic objectives of the Bank's individual business divisions are incorporated into the general planning for the corporate divisions of Deutsche Bank Group.

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

For the most part, the Bank has to manage the following risk categories:

– credit risk, especially default and country risk,
– market risk, especially interest rate and currency risk,
– liquidity risk,
– operational risk, as part of the "non-financial risk",
– reputational risk.

These risks were monitored appropriately at all times during financial year 2020. Detailed information on the management of the main risk categories and quantitative statements on financial instruments are provided in the notes and in the Risk Report.

The principles of business policy as well as of risk and capital management are established and monitored by the Supervisory Board and the Management Board. This takes place, inter alia, at the regular meetings of the Supervisory Board and of the Management Board. The Supervisory Board has formed an Audit Committee, a Risk Committee, a Nomination Committee and a Remuneration Committee from among its members for the purpose of providing overall support and organising its activities. The Management Board has the authority to issue local credit approvals.

In addition, the Asset & Liability Committee (ALCo) set up by the Management Board meets quarterly to discuss the current liquidity, capital, risk and balance sheet situation as well as the effects of any new business types or activities and of special transactions on the risk profile and the Bank's capital and liquidity resources, and, if necessary, to adopt appropriate measures. It also discusses and approves the Risk and Capital Profile (RCP) report as part of the Internal Capital and Liquidity Adequacy Assessment Process (ICAAP/ILAAP). The ALCo thus performs the role of Capital and Risk Committee (CaR) in accordance with the relevant CSSF Circular.

Outlook for 2021

The Bank's macroeconomic business and operating environment has been dominated by the COVID-19 pandemic since early 2020, and the associated downside risks remained elevated at the end of the year. Following the severe GDP contractions observed across major advanced economies in 2020, Deutsche Bank expects economic recovery to unfold over the course of 2021 as effective COVID-19 vaccination becomes widely available and additional fiscal stimulus provides a boost for the US and EU economies in particular. However, for the short-term economic outlook, Deutsche Bank continues to see significant downside risks rippling through the global economy resulting from elevated levels of COVID-19 infections, lockdown restrictions and heightened risk aversion.

Due to the largely unprecedented nature of the COVID-19 crisis, the forecast uncertainty is expected to remain high for some time. As a bank, the working assumption remains that lagging effects of the COVID-19 recession will continue to unfold and that the low interest rate environment in the Eurozone will persist at least for several quarters. The intensified "lower for longer" interest rate environment, as key central banks provide additional liquidity in support of their economies, can impact the Bank's net interest income and other rate sensitive businesses activities. Lower for longer rates have also supported elevated market valuations as investors search for yield, thus raising the risk of price corrections, potentially triggering wider market instability.

Higher corporate and sovereign debt will be a legacy of the COVID-19 pandemic. Currently, credit risks and defaults are partially mitigated by fiscal and monetary policy support but the eventual withdrawal thereof may increase credit pressures over time.

If the COVID-19 vaccine roll-out proceeds successfully, and continues to be boosted by significant monetary and fiscal policy support, the expected economic recovery and reflation may be subject to an upside over the medium term. This could in turn drive consumer price and asset price inflation in major advanced economies to accelerate substantially faster than anticipated. Whilst this could create some upside potential for the Bank's business activity levels and net interest income, a disorderly sharp increase in bond yields could result in a downward correction in terms of equities and other highly valued risk asset markets as well as increased credit risks on highly leveraged clients.

As an integral part of Deutsche Bank Group, the Bank will actively seize opportunities for responsible qualitative growth in the key fields of activity of its business model in 2021. The Bank's capitalisation, control environment and risk management provide appropriate scope to do so.

The strategic, organisational and personnel-related measures taken over the past five years and the associated focusing and continuing optimisation of the Bank's local organisation have created a forward-looking basis for implementing a business policy based on responsible qualitative growth. Nevertheless, maintaining costs at an acceptable level – not least in view of the low or negative interest rates that are set to persist for the foreseeable future – will remain a continued challenge for the Management Board. The annual contributions to be made for national and European financial supervision and associated guarantee schemes also deserve mention in this context. Furthermore, regulatory amendments related to minimum requirements for own funds and eligible liabilities (MREL) will be implemented during the first half of 2021 which, together with the go-live of the Net Stable Funding Ratio (NSFR) regulations in June 2021, are expected to result in an increase in the Bank's cost of funds. These will continue to represent a material cost factor in the Bank's business in future. The Management Board will need to manage the Bank's business and balance sheet in line with these circumstances, as it has done in the recent past.

Notwithstanding the satisfactory overall quality of the Bank's credit portfolio and its close and continual monitoring of credit risk, the Bank currently expects, based on its proven collateral and hedging strategies, a stabilisation and decline of the risk provisioning in 2021 compared with the increased levels in financial year 2020 before normalising in the following years. This assessment depends on the (i) further development of the overall geopolitical, trade and COVID-19 pandemic situation, (ii) interest rate policies of central banks including the associated valuation levels of assets, and (iii) general credit cycle and selected industry cycles. Moreover, the Bank will continue to monitor non-financial risk closely, although the methods for recording and monitoring risk on an ongoing basis are still being developed and adapted to new requirements.

In financial year 2021, the Bank will continue to perform and expand on its role as a centre of excellence for agency business, lending and advisory to corporates, private institutions and extended families as well as growing its client coverage platform capabilities, geographical target market, product range and its role as an EU service centre of excellence for the International Private Bank. In the coming year and beyond, the Bank will also examine offering and investing in potential new products and solutions in the interests of its clients. In addition to the above initiatives, the Bank's continued focus on process efficiency, controllable costs and effective risk mitigation techniques will enable it to take advantage of its sound capital and liquidity position in order to leverage suitable business opportunities.

Finally, the Bank will continue to act as a fiduciary issuer and administrator of relevant fiduciary estates within the framework of its €15bn capital market issuance programme listed on the Euro-MTF market of the Luxembourg Stock Exchange and selectively assist clients in structured asset-based financing solutions jointly with other structuring units and coverage entities within the DB Group.

Taking into consideration the macroeconomic environment, the political and regulatory climate as well as the competitive conditions and landscape in the financial services industry, the Bank expects to achieve a positive and qualitatively satisfactory operating result again in 2021. Business performance since the beginning of the year supports the Bank's assessment.

Events after the reporting period

After the reporting date no material events occurred which had a significant impact on the profit and loss, financial position or net assets.

We would like to thank our employees for their expertise, hard work and responsible, constructive approach they demonstrate every day in the interests of the Bank's clients, particularly during the COVID-19 pandemic. Furthermore, we would like to thank our clients, our sole shareholder, the members of the Supervisory Board and the employee representatives for the trust they continue to place in us and their steadfast cooperation.

Luxembourg, 26 March 2021

The Management Board

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Financial Statements

Balance Sheet

as at 31 December 2020

Assets

in € k.	[Notes]	31 Dec. 2020	31 Dec. 2019
Cash in hand, balances with central banks and post office banks	[B2]	3,971,137	4,598,261
Loans and advances to credit institutions	[B1, 2, 6]	5,909,981	10,785,504
repayable on demand		311,362	262,035
other loans and advances		5,598,619	10,523,469
Loans and advances to clients	[B1, 2, 6]	13,726,256	12,341,318
Debt securities and other fixed-income securities	[B1, 2, 3]	1,531,276	1,830,567
of public issuers		1,342,974	1,475,055
of other issuers	[B6]	188,302	355,512
Shares in affiliated undertakings	[B4, 5]	541	500
Tangible assets	[B5]	2,514	3,420
Intangible assets	[B5]	822	751
Other assets	[B8]	93,483	103,137
Prepayments and accrued income		463,174	477,336
Total assets		25,699,184	30,140,794

Liabilities and equity

in € k.	[Notes]	31 Dec. 2020	31 Dec. 2019
Amounts owed to credit institutions	[B1, 2, 13]	14,145,910	18,707,019
– repayable on demand		8,437	6,049
– with agreed maturity dates or periods of notice		14,137,473	18,700,970
Amounts owed to clients	[B1, 2, 13]	4,363,043	4,403,703
other debts		4,363,043	4,403,703
– repayable on demand		1,037,436	910,645
– with agreed maturity dates or periods of notice		3,325,607	3,493,058
Other liabilities	[B8]	453,497	437,875
Accruals and deferred income		606,376	604,182
Provisions for liabilities and charges		253,371	202,008
provisions for pensions and similar commitments		2,146	3,652
provisions for taxation		0	15,568
other provisions	[B9]	251,225	182,788
Subordinated liabilities	[B1, 10]	1,000,000	1,000,000
Subscribed capital	[B11]	3,959,500	3,959,500
Share premium account		55,600	55,600
Reserves	[B12]	770,309	683,309
Net income	[B12]	90,979	87,598
Profit/loss carried forward	[B12]	599	0
Total liabilities and equity		25,699,184	30,140,794

Off-balance sheet items

in € k.	[Notes]	31 Dec. 2020	31 Dec. 2019
Contingent liabilities	[B2, 14]	6,196,010	6,013,693
of which:			
Guarantees and assets pledged as collateral security		6,196,010	6,013,693
Commitments	[B2, 15]	36,180,876	33,367,707
Fiduciary operations	[B2]	6,418,062	6,417,319

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

Profit and Loss Account

for the year ended 31 December 2020

in € k.	[Notes]	1 Jan.– 31 Dec. 2020	1 Jan.– 31 Dec. 2019
Interest receivable and similar income		552,433	642,221
of which:			
from fixed-income securities		94,401	67,731
Interest payable and similar charges		262,551	481,941
Income from transferable securities		5,700	13,482
from shares in affiliated undertakings		5,700	13,482
Commissions receivable	[C2]	106,011	101,615
Commissions payable	[C3]	175,268	146,568
Net profit on financial operations		–31,539	6,137
Other operating income	[C4]	204,163	207,661
General administrative expenses		140,656	127,761
Staff costs		35,551	37,497
of which:			
– wages and salaries		31,777	27,094
– social security costs		3,003	9,553
of which: pensions		–312	6,479
Other administrative expenses		105,105	90,264
Depreciation of and value adjustments to tangible and intangible assets		216	156
Other operating charges	[C5]	7,192	6,788
Depreciation of and value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	[C6]	50,539	17,544
Value adjustments in respect of securities held as financial fixed assets, participating interests and equities in affiliated undertakings	[C7]	0	54
Taxes on profit on ordinary activities		27,990	21,664
Profit on ordinary activities after taxes and before payments for participation rights		172,356	168,640
Other taxes not shown under the preceding items		531	417
Payments for participation rights	[B10]	80,846	80,625
Net income		90,979	87,598

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

Notes to the Accounts

Deutsche Bank Luxembourg S.A.

A. Principles and methods

Corporate matters

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

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

Business object of the Bank

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

Annual accounts

The Bank's financial year is aligned with the calendar year.

The Bank's presentation and functional currency is the Euro.

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

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

The current Annual Report for Deutsche Bank AG can be accessed at www.db.com/annual-reports.

The following is a description of the significant accounting policies of the Bank. Except for the changes in accounting policies and changes in accounting estimates described previously and noted below, these policies have been consistently applied during the period covered by these accounts.

Accounting and valuation principles

The Bank draws up its annual accounts in accordance with the laws and regulations of the Grand Duchy of Luxembourg under the historical cost principle and on the basis of accounting principles generally accepted in the banking sector in the Grand Duchy of Luxembourg.

In particular, the following accounting principles and valuation methods are applied:

– Foreign currencies
Transactions are accounted for in their respective currencies on the day they are concluded.

Expenses and income in foreign currency are recorded daily in the Profit and Loss Account at the prevailing exchange rates.

Assets and liabilities in foreign currency are valued at the foreign exchange mid-market rate at the balance sheet date. Historical exchange rates are used for hedged deals. Open forward exchange contracts are converted at the forward rate for the remaining term at the balance sheet date. For expected losses, a provision for contingent losses is established which is reported in the balance sheet under “Other provisions”.

– Derivative financial transactions

Derivative financial transactions such as currency interest rate swaps, interest rate swaps and futures or forward rate agreements (FRAs) are used for the purpose of managing the interest rate and currency risk within the framework of asset & liability management. The Bank’s obligations arising from such transactions are accounted for on the transaction date. Commitments resulting from operations in relation to forward financial instruments on interest rates, foreign exchange rates or on market rates are recorded as off-balance items at the nominal value of the contracts.

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

Where the Bank concludes derivative financial transactions in line with an economic hedging strategy such derivatives form economic units in combination with the underlying asset or liability exposures. In view of the economic objectives of such operations, year-end revaluation or provisioning is not considered necessary.

The credit risk portfolio of the Strategic Corporate Lending (SCL) business division that is carried at fair value is to be considered separately, with the following sub-portfolios being grouped to form one valuation unit:
– the Bank’s existing SCL credit risk portfolio,
– credit derivatives issued in the context of the assumption of risks (credit default swaps),
– credit derivatives received as collateral for the aforementioned underlying transactions (likewise credit default swaps, for the most part).

With the underlying transactions of this valuation unit, the Bank is not pursuing a trading strategy intended to generate a profit in the short term. The hedging transactions are therefore structured primarily to cover the credit default risk of the underlying transactions. There is no separate examination of other risks (particularly market risks) provided that the uncollateralised risks from the underlying and hedging transactions are considered to be comparable, subject to low volatility, and deemed to be negligible. The hedging transactions were typically concluded with the London branch of Deutsche Bank AG, primarily in the form of credit default swaps, taking into account specific risk tolerance and hedging parameters agreed by the Bank in cooperation usually with the Group-wide Credit Risk Management unit of Deutsche Bank AG. In later years it is conceivable that Deutsche Bank AG will increasingly act as the Bank’s counterparty.

In balance sheet terms, these hedging transactions are treated in line with the gross hedge presentation method (Durchbuchungsmethode). For unrealised losses resulting from this valuation, appropriate risk provisions for contingent losses are established and reported under “Other provisions”. In connection with the SCL credit risk portfolio, no distinction could be reasonably made, without entailing undue expense, between one-time payments made/received in the form of (upfront) premiums for protection buyer positions and the other income components influencing the fair value of the credit default swaps in question. To this extent, therefore, it was not always possible to divide the income components into an interest rate and a creditworthiness component. Against this background, the market value-related valuation effects of the affected credit default swaps are included in full in “Provisions for contingent liabilities and for commitments”.

In respect of the SCL business, where the Bank hedges its credit risk from relationship lending transactions carried at amortised cost/accrual by concluding credit default swaps (“CDS”) with Deutsche Bank AG Group entities, the underlying CDS portfolio consisting of single-name swaps that directly reference underlying loan exposures is measured at fair value. Gross notional credit exposures are hedged in order to reduce the Bank’s credit risk exposure to an amount within its defined credit risk appetite.

From a balance sheet perspective, this distinct portfolio of derivatives is reported on a net basis in “Other Provisions” for the negative value and the change in fair value and premiums paid recorded in “Net profit on financial operations” in Profit and Loss. Positive market value is not recognised. This represents a change from previous years where the portfolio was reported on a gross basis, with derivatives having positive fair values being provided against, derivatives having a negative fair value reflected under “Other liabilities”. Premium flows were recorded in “Interest expense”, changes in negative fair values and provisions raised/utilised recorded in “Depreciation of and value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments”.

– Treatment of premiums/discounts

Premiums and discounts on amounts receivable and amounts owed are accounted for on a pro rata temporis basis.

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

– Loans and advances

Loans and advances are valued at their disbursement value less the repayments made. The Bank recognises specific value adjustments in respect of doubtful and irrecoverable debts for creditworthiness and country risks in accordance with its internally defined valuation standards. These value adjustments and risk provisions are not continued if the reasons for which they were made have ceased to apply

– Lump-sum provision for inherent risks

In accordance with the legislation prevailing in Luxembourg, the Bank establishes a lump-sum provision for inherent risks in risk-bearing assets weighted pursuant to regulatory law including the credit risk equivalent from derivatives (Bemessungsgröße). Such provisions are capped at 1.25% of risk weighted assets (excluding operational risk amounts).

Pursuant to the instructions issued by the Tax Authority on 16 December 1997, the above lump-sum provisions are tax deductible, provided the deduction is recorded in the same period.

The lump-sum provision is to be allocated in proportion to the underlying elements to:
- a value adjustment deducted from the respective risk-weighted asset positions, and
- a provision reported in the balance sheet under "Other provisions".

– Financial fixed assets

Participating interests, shares in affiliated companies, debt securities and other fixed income securities that the Bank intends to use on a continuing basis in the normal course of business are classified and valued as financial fixed assets.

– Securities

Securities are booked at cost using the weighted average method.

– Debt securities and other fixed-income securities

Securities the Bank holds for investment purposes are used for the long-term financing of external borrowers. Such securities are valued at the lower of cost or market in conjunction with the option to maintain previous value adjustments (Beibehaltungswahlrecht) (see below).

– Securities issued on a discounted basis

Such securities are accounted for at cost plus the proportionate difference between issue value and par value.

– Shares and other variable-yield securities

As at the reporting date, shares and other variable-yield securities were valued at the lower of cost and market value.

– Participating interests/shares in affiliated undertakings

Participating interests/shares in affiliated undertakings held as financial fixed assets are valued at cost or, if lower, at their market value. Value adjustments are made for permanent declines in value.

– Option to maintain previous value adjustments (Beibehaltungswahlrecht)

Value adjustments made in earlier years in respect of specific assets are maintained in accordance with Articles 56 (2) (f) and 58 (2) (e) of the law on the accounts of banks, even in cases where the market value of the assets has increased.

– Intangible assets

The Bank's policy is to write off intangible assets in full in the year of acquisition.

– Tangible assets

Office furniture and equipment are reported at cost less depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the office furniture and equipment. If there is a permanent diminution in value, the Bank may recognise impairment losses to value these assets at the impaired valuation attributable to them as at the balance sheet date.

Low-value assets are charged as operating expenses in the year of acquisition.

– Repurchase transactions

If the buyer undertakes to transfer the assets back to the seller at a date specified – or to be specified – by the seller, the assets continue to be reported in the seller's balance sheet. In this case, the transfer amount received by the seller is shown as an amount owed to the buyer – amounts owed to credit institutions or to clients. The buyer then reports the transfer amount paid as an advance to the seller; the assets involved are not reported in its balance sheet.

In the event of a buy-back option on the part of a buyer, the seller may no longer report the assets transferred; in the notes to the balance sheet, the seller specifies a contingent liability in the amount agreed for a potential buy-back.

– Provisions

Provisions are intended to cover clearly defined liabilities, which as at the balance sheet date are either likely to or certain to be incurred, but uncertain with respect to the amount or the date on which they will arise. Furthermore, it is allowed to set up provisions for clearly identified charges which may arise from past or present events and for which, as at the balance sheet date, uncertainties exist regarding the amount and/or time of occurrence. Provisions may not be used to adjust the values of assets.

– Pension provisions

Pension provisions are calculated in line with the parameters relevant under the IFRS, firstly to ensure consistency with the active management of the Deutsche Bank pension fund, which is also oriented towards the IFRS approach, and secondly to appropriately adhere to the commercial law principle of prudence, which takes into account economic criteria (market-oriented actuarial interest rate, dynamics, etc.).

– Subordinated liabilities

Repurchased own bonds are deducted from subordinated liabilities.

– Income taxes

Income taxes are recorded using the accruals method based on the Profit and Loss Account for the current financial year, taking into account tax-exempt revenues and non-deductible expenses.

B. Notes to the Balance Sheet

1 – Classification by remaining maturity

The tables set out hereunder reflect the remaining contractual term to maturity of selected balance sheet items as at 31 December.

Loans and advances

in € m.	On demand	Up to 3 months	3 months up to 1 year	1 year up to 5 years	Over 5 years	Total
Loans and advances at term to credit institutions	311	5,313	112	75	99	5,910
Loans and advances at term to clients	178	926	3,111	8,405	1,106	13,726
Debt securities and other fixed-income securities	0	1	0	179	1,351	1,531
Total - 2020	489	6,240	3,223	8,659	2,556	21,167
Total - 2019	324	6,453	5,986	10,478	1,717	24,958

Term loans and advances to clients having a nominal value of €446m (2019: €357m) were deposited as collateral with Banque Centrale du Luxembourg (BCL) as at the balance sheet date.

Amounts owed

in € m.	On demand	Up to 3 months	3 months up to 1 year	1 year up to 5 years	Over 5 years	Total
Amounts owed at term to credit institutions	8	5,318	7,301	1,413	106	14,146
Amounts owed at term to clients	1,037	905	2,255	160	6	4,363
Debts evidenced by certificates	0	0	0	0	0	0
Subordinated liabilities	0	0	0	1,000	0	1,000
Total - 2020	1,045	6,223	9,556	2,573	122	19,509
Total - 2019	917	5,735	13,358	3,982	119	24,111

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

2 – Geographical distribution

The tables hereunder reflect the geographical distribution of selected items as at 31 December.

Loans and advances

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Cash in hand, balances with central banks and post office banks	3,971	0	0	0	0	0	3,971
therein: balances with central banks	3,970	0	0	0	0	0	3,970
Loans and advances to credit institutions	5,873	5	29	0	1	2	5,910
Loans and advances to clients	9,014	2,297	400	150	981	884	13,726
Debt securities and other fixed-income securities	188	0	0	0	1,343	0	1,531
Total - 2020	19,046	2,302	429	150	2,325	886	25,138
Total - 2019	22,897	2,570	343	45	2,838	863	29,556

Amounts owed

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Amounts owed to credit institutions	13,029	1,111	0	0	0	6	14,146
Amounts owed to clients	2,303	1,878	0	11	105	66	4,363
Total - 2020	15,332	2,989	0	11	105	72	18,509
Total - 2019	15,123	4,214	0	41	3,635	98	23,111

Off-balance sheet items

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Contingent liabilities	2,170	2,666	162	0	1,168	30	6,196
Commitments	31,813	2,682	503	0	519	664	36,181
Fiduciary operations	6,392	0	26	0	0	0	6,418
Total - 2020	40,375	5,348	691	0	1,687	694	48,795
Total - 2019	35,389	7,309	955	136	1,643	367	45,799

Financial transactions

in € m.	European Union	Rest of Europe	North America	South America	Asia	Other countries	Total
Interest rate transactions	5,389	0	0	0	0	0	5,389
Foreign exchange/gold transactions	140	5	0	16	2	1	164
Credit derivatives*	3,935	0	0	0	3	0	3,938
Total - 2020	9,464	5	0	16	5	1	9,491
Total - 2019	11,890	7	0	16	3	2	11,918

* of which a nominal amount of € 3m is reported under contingent liabilities.

3 – Securities

Securities were classified as at the balance sheet date as follows:

in € m	2020	2019
Debt securities and other fixed-income securities (investment portfolio of financial fixed assets) - unlisted	1,531	1,831

No value adjustments had been made as at the balance sheet date (2019: €0).

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

Name of the company	Registered office	Holding	Equity capital in € m.	Net income for the financial year* in € m.
DB Credit Investments S.à r.l.	Luxembourg	100%	–12.5	13.0
VCJ Lease S.à r.l.	Luxembourg	100%	0.0	0.0

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

In the case of individual investments of minor significance – various companies belonging to Deutsche River Companies with registered offices in Luxembourg, which have been completely written off in the past – no individual figures are presented in line with Article 68 (2) of the law on the accounts of banks.

5 – Movements in fixed assets

in € k.	Gross value at beginning of financial year	Additions	Disposals	FX Revaluation	Gross value at end of financial year	Cumulative depreciation and value adjustments at end of financial year	Net value at end of financial year
Debt securities and other fixed-income securities	1,830,567	4,247	173,530	–130,008	1,531,276	0	1,531,276
Participating interests	19,801	0	0	0	19,801	19,801	0
Shares in affiliated undertakings	869	41	0	0	910	369	541
Intangible assets	27,284	538	0	0	27,822	27,000	822
of which:							
goodwill	0	0	0	0	0	0	0
software	27,284	538	0	0	27,822	27,000	822
Tangible assets	19,151	20	0	–43	19,128	16,614	2,514
of which:							
office furniture and equipment	19,151	20	0	–43	19,128	16,614	2,514
Total fixed assets	1,897,672	4,846	173,530	–130,051	1,598,937	63,784	1,535,153

Note: Due to rounding, numbers may not add up precisely to the totals provided.

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

	31 Dec. 2020		31 Dec. 2019	
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Loans and advances to credit institutions	5,821	0	10,690	0
Loans and advances to clients	17	4	0	0
Debt securities and other fixed-income securities	188	0	356	0

7 – Assets and liabilities denominated in foreign currencies

Assets denominated in foreign currencies amounted to the equivalent of €7,923m (2019: €11,075m) as at the balance sheet date. Liabilities denominated in foreign currencies amounted to the equivalent of €7,933m (2019: €10,993m) as at the balance sheet date.

8 – Other assets/Other liabilities

Other assets consist of the following:

in € k.	2020	2019
Related party receivables	56,074	75,732
Taxation receivables	13,845	0
Fee receivables from clients	18,221	18,045
Precious metals	5,313	5,098
Sundry receivables	30	5,025
Total	93,483	103,900

During the year, the Bank settled its prior period (assessed) liabilities for taxation. Prepayments made in respect of periods not yet assessed exceed estimated liabilities, therefore receivables that were previously disclosed within the net taxation liability are disclosed above in Other assets in 2020.

Other liabilities consist of the following:

in € k.	2020	2019
Related party payables	316,491	309,068
Payables for the account of third parties	101,081	103,062
VAT payables	4,209	3,140
Other payables to suppliers	23,570	18,861
Sundry payables	8,146	3,744
Total	453,497	437,875

9 – Provisions for liabilities and charges – other provisions

Other provisions consist of the following:

in € k.	2020	2019
Lump-sum provision – off-balance sheet risks	174,332	163,023
Credit default swaps liability	56,428	0
Credit provisions relating to off-balance sheet positions	4,639	1,742
Other	15,826	18,023
Total	251,225	182,788

Credit default swaps were disclosed in other liabilities in 2019 (€ 75,223 thousand included in related party payables); this change in presentation is detailed above in note A.

10 – Subordinated liabilities

The Bank issued €1bn Undated Non-Cumulative Fixed to Reset Rate Additional Tier 1 Notes on 30 January 2017. Deutsche Bank AG purchased the full issuance.

The notes bear interest at a fixed rate of 8.0625% p.a. until 29 April 2022, when the Bank has right to redeem the notes (partially or in full). Should the Bank choose not to exercise its right of redemption, interest will accrue at the 5-year swap rate (EURIBOR BASIS) plus a fixed spread. The notes qualify as Upper Tier I capital under bank supervisory regulations and are used to measure regulatory own funds. The notes shall be fully subordinated to the claims of other subordinated creditors of the Bank under certain defined resolution or winding-up actions. The notes have no equity conversion features.

To appropriately take account of the fact that the subordinated capital is classified as equity, the expense from the regular payments was not reported under “Net interest income”, but rather as a separate item above “Net income” in line with the true and fair view principle for the purpose of transparency and clarity.

11 – Subscribed capital

As at the balance sheet date, the Bank’s subscribed and fully paid-up capital was €3,959.5m, composed of 15,838,000 shares.

12 – Movements in reserves and profit brought forward

in € m.	Legal reserve	Other reserves	Profit brought forward	Net income
As at 1 January 2019	**396**	**775**	**0**	**133**
Appropriation:				
– Retained		25		–25
– Dividend		–513		–108
Net income for financial year 2019				88
As at 31 December 2019	396	287	0	88
Appropriation:				
– Retained		87	1	–88
– Dividend		0		0
Net income for financial year 2020				91
As at 31 December 2020	**396**	**374**	**1**	**91**

The Bank fulfilled the requirement of the Luxembourg law on commercial companies to form a legal reserve of 10% of subscribed capital (€396m). Distribution of the legal reserve is not permitted.

The item “Other reserves” includes an aggregate amount of €124m allocated specifically for the imputation of wealth tax in accordance with Article 8 (a) of the Luxembourg wealth tax law and is deemed restricted from distribution.

13 – Amounts owed to Deutsche Bank companies and participating interests

		31 Dec. 2020		31 Dec. 2019
in € m.	Deutsche Bank companies	Participating interests	Deutsche Bank companies	Participating interests
Amounts owed to credit institutions	13,907	0	18,020	0
Amounts owed to clients	463	1	757	0
Subordinated liabilities	1,000	0	1,000	0
Other liabilities	316	0	309	0

14 – Contingent liabilities

Contingent liabilities consist of:

in € m.	31 Dec. 2020	of which: to Deutsche Bank companies	31 Dec. 2019	of which: to Deutsche Bank companies
Guarantees and other direct substitutes for credit	6,196	5,854	6,014	5,660
of which:				
Credit derivatives	3	3	3	3
Total	6,196	5,854	6,014	5,660

15 – Commitments

Commitments consist of:

in € m.	31 Dec. 2020	of which: to Deutsche Bank companies	31 Dec. 2019	of which: to Deutsche Bank companies
Commitments not utilised	36,181	84	33,368	102
Total	36,181	84	33,368	102

Gross payments due by the bank in connection with its remaining commitments under a lease agreement related to its business premises amounted to €14.5m at 31 December 2020.

C. Notes to the Profit and Loss Account

1 – Administration and agency services

The Bank provided the following principal services for third parties in the past financial year: safe custody account administration, asset management, central administration and depositary bank function for special funds, paying agent services, agency function and commercial representation.

2 – Commissions receivable

This item comprises the following:

in € k.	2020	2019
Lending fees and commissions	82,024	67,951
Wealth Management fees	17,702	19,206
Custody fees	2,918	1,901
Other fees and commissions	3,367	12,557
Total	106,011	101,615

3 – Commissions payable

This item comprises the following:

in € k.	2020	2019
Transfer pricing payments for credit protection and liquidity transformation costs	148,807	135,233
Indemnity fees paid relating to structured finance transactions	26,461	11,335
Total	175,268	146,568

4 – Other operating income

This item comprises the following:

in € k.	2020	2019
Rental income	1,524	2,022
AGDL release	2,246	5,678
Income from SCL credit risk portfolio	198,149	192,813
Sundry income	2,244	7,148
Total	204,163	207,661

5 – Other operating charges

This item comprises the following:

in € k.	2020	2019
FRL & FGDL contributions	5,792	5,678
Increase in other provisions	450	1,057
Sundry expenses	950	53
Total	7,192	6,788

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

This item comprises the following:

in € k.	2020	2019
Credit risk provisions	113,462	44,099
CLO recoveries	–53,985	–26,555
Release of provisions	–8,700	0
Sundry	–238	0
Total	50,539	17,544

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

No value adjustments were made in respect of participating interests and equities in affiliated undertakings during the year (2019: € 54 thousand).

8 – Auditor’s fees

Fees that were recognised as Other administrative expenses for services provided during the financial year to the Company by Ernst & Young S.A. (2019: KPMG Luxembourg, Société coopérative) as Réviseur d’Entreprises agréé and as authorised Cabinet de révision agréé were as follows:

in € k. (excluding VAT):	2020	2019
Audit fees	573.8	592.9
Audit-related fees	12.0	20.2
Tax advisory fees	0	256.7
Other fees	0	0

D. Risk Report

General information

In terms of its organisational structure, processes and IT landscape, Deutsche Bank Luxembourg S.A. is integrated into the risk and capital management organisation and the finance structures of Deutsche Bank Group and its systems. The following statements describe the Group's standard definitions and principles in connection with risks. The importance of a strong focus on risk management and the ongoing need to refine risk management practice became particularly evident during the financial market crisis. In financial year 2020, the organisation of non-financial risks was further refined to ensure the operational effectiveness, considering the impact of COVID-19 and protection against cyberattacks. While risk and capital management in the Group continuously evolves and improves, there is no guarantee that all market developments, in particular those of an extreme nature, can be fully anticipated at all times.

Risk management principles

The Bank takes calculated risks in connection with its business, and the following principles therefore underpin its risk management:

– Risk is taken within a defined risk appetite.
– Every risk taken needs to be approved within the risk management framework.
– Risk is continuously monitored.
– Risks need to be adequately compensated.
– A strong risk management culture helps to reinforce Deutsche Bank's resilience.

Risk management framework

Against the background of Deutsche Bank Luxembourg S.A.'s broadly diversified business activities, it is essential to identify, measure, aggregate and manage risks. The various risks must be backed with adequate equity capital. Deutsche Bank Luxembourg S.A. manages risks with the help of an overriding set of risk principles, organisational structures and processes for the measurement and monitoring of risk. These are closely aligned with the activities of the Group divisions.

– The Group's Management Board provides overall risk and capital management supervision.
– The risk management model is based on the "three lines of defence approach" whereby business management, risk management oversight and assurance roles are played by functions independent of one another.
– Risk strategy and risk appetite are defined based on the Group's strategic plans in order to align risk, capital and performance targets.
– Reviews are conducted across the Group to verify that sound risk management practices and a holistic approach to all defined risks exist throughout the organisation and to help each business manage the balance between their risk appetite and reward.
– Credit risks, market risks, liquidity risks, business and reputational risks, non-financial risks and risk concentrations as well as capital requirements are managed in a coordinated process at all levels of the Bank.
– Where applicable, modelling and measurement approaches for quantifying risk and the associated capital demand are implemented across the major risk categories.
– Effective systems, processes and policies constitute critical components of the Bank's risk management approach.

Risk and capital management activities are supported by the Finance and Internal Audit functions. These units are independent of the Group divisions. Finance's role is to help quantify the risks assumed and to ensure the quality and integrity of the risk-related data it provides. The Audit department performs risk-oriented reviews of the design and operational effectiveness of the system of internal controls.

Credit Risk Management (CRM) and Risk Control help the Chief Risk Officer (CRO) at Management Board level to aggregate the types of risk arising from the business model of Deutsche Bank Luxembourg S.A. into an overall risk profile, to regularly monitor whether risks are within the defined risk appetite and to report to both the Management Board and the Supervisory Board.

Types of risk

The most important risks to which Deutsche Bank Luxembourg S.A.'s business model is exposed are specific banking risks, risks arising from general business activity and reputational risks.

Specific banking risks

In the risk management processes, a distinction is made between four kinds of specific banking risk: credit risk, market risk, liquidity risk and operational risk as the most important form of non-financial risk.

- Credit risk arises from all transactions that create actual, contingent or potential claims against a business partner, borrower or debtor (referred to collectively as "counterparties"). A distinction is made between five types of credit risk:
  - Default risk/risk of a deterioration in credit quality is the risk of a borrower not meeting its payment obligations or suffering a material deterioration in credit quality that increases the probability of a default.
  - Country risk is the risk of a borrower that is otherwise able and willing to pay not being able to meet its obligations due to state interventions or measures.
  - Settlement risk is the risk that the settlement or clearing of transactions may fail. A settlement risk always arises whenever the exchange of cash, securities and/or other assets is not simultaneous.
  - Risk in connection with risk reduction means the risk of increased losses if measures taken for the purpose of risk reduction do not cause the anticipated risk reduction;
  - Concentration risk is the risk of a negative development on the part of an individual borrower/country/sector/product leading to a disproportionate deterioration of the risk profile of Deutsche Bank's loan receivables from that borrower/country/sector/product.
- Market risk arises from uncertainty concerning changes in market prices and rates (including interest rates, share prices, exchange rates and commodities prices) as well as in the correlations among them and their volatilities.
- Liquidity risk is the risk of being unable to meet payment obligations when they come due, or only being able to do so at excessive cost.
- Operational risk is the potential for incurring losses in connection with staff, contractual specifications and their documentation, technology, infrastructural failure or collapse, projects, external influences and client relationships. This definition includes legal and regulatory risks, but not general business risk or reputational risk.

Business risk

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

Reputational risk

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

Concentration risk

Risk concentrations refer to a bank's loss potential through unbalanced distribution of dependencies on specific risk drivers. Risk concentrations are not an isolated risk type; rather, they are integrated into the management of credit risk, market risk, liquidity risk and operational risk. Risk concentrations are encountered within and across counterparties, regions/countries, industries and products, impacting the aforementioned risks. Risk concentrations are managed, for instance, by entering into offsetting or risk-reducing transactions. Management of risk concentration across risk types involves expert panels, qualitative assessments, quantitative instruments (such as economic capital and stress testing) and comprehensive reporting.

Credit risk

The measurement and management of credit risk are based on the following principles at Deutsche Bank Group:

– The Bank's credit risk management function is independent from the business divisions, and credit-decision standards, processes and principles are consistently applied in each of the business divisions.
– The key principle of credit risk management is client due diligence. The client selection is accomplished in collaboration with the partners from the business divisions, who stand as a first line of defence.
– The Bank aims to prevent high concentration and tail risks (large unexpected losses) by maintaining a diversified credit portfolio. Client-, industry-, country- and product-specific concentrations are assessed and managed against the risk appetite.
– The Bank uses approval standards to avoid large concentrated credit risks at a borrower and portfolio level. In this respect, it has an approach regarding unsecured cash positions and actively uses hedging for risk mitigation. Additionally, it strives to secure its derivative portfolio through appropriate collateral agreements and in individual cases additionally hedge concentration risks to further mitigate credit risks from underlying market movements.
– Every extension of a new credit facility or material change to an existing credit facility (such as its tenor, collateral structure or major covenants) with any counterparty requires credit approval at the appropriate authority level. Credit approval authority is assigned to individuals according to their qualifications, experience and training. These credit authorities are periodically reviewed.
– The Bank measures its total credit exposure to a borrower and sums it across the Group on a consolidated basis, in line with regulatory requirements.
– The Bank manages credit exposures on the basis of borrower units in which all the facilities of borrowers that are linked to each other are consolidated together under one group.
– Within Credit Risk Management – where appropriate – the Bank has established specialist teams responsible for determining internal credit ratings, analysing and approving transactions, monitoring portfolios or covering workout clients.

Stress test scenarios for Deutsche Bank Luxembourg S.A.'s credit portfolio are simulated and evaluated for the Bank at the level of Deutsche Bank Group. The subject of the analysis is primarily the existence of a suitable economic capital base relative to the existing credit risks. To this end, a stress scenario concerning a change in the global macroeconomic scenario through a deterioration of the economic situation in the USA, the UK, Japan and Germany is analysed. In addition, an analysis of the effects of rating migrations (rating migrations matrix) on the risk-weighted assets is made on the basis of the local regulatory capital requirements for the credit risk. The stress test is conducted quarterly. The results of the aforementioned analyses are approved by the Asset & Liability Committee (ALCo) and the Supervisory Board as part of the Internal Capital Adequacy Assessment Process (ICAAP) reporting.

Credit risk ratings

A basic and key element of the credit approval process is a detailed risk assessment of every credit exposure associated with a counterparty. Deutsche Bank Group applies in-house assessment methodologies, scorecards and a 21-grade rating scale for evaluating the creditworthiness of all counterparties. The majority of the rating methodologies are authorised for use within the Advanced Internal Rating Based Approach under CRR rules. The rating scale facilitates a comparison of internal ratings with common market practice and also ensures the comparability of the Bank's different sub-portfolios. The Group generally rates all its credit exposures individually, though certain portfolios of securitised receivables are rated on a pool level. The algorithms of the rating procedures are recalibrated frequently on the basis of the default history as well as other external and internal factors and judgements.

Lending

Deutsche Bank Luxembourg S.A. operates on a large scale as a centre of excellence and lending institution, working in concert with other European offices of Deutsche Bank Group. The Strategic Corporate Lending (SCL) business division in Luxembourg is one of DB Group's 3 significant central risk hubs mandated directly by the Group Management Board to centralise and risk-manage credit risk from selected lending activities. The Bank has both a direct and indirect (via the execution of internal risk transfer agreements effected through the issuance of guarantees or CDS's to fellow-DB lending institutions) role in the relationship lending activities of the DB Group. In both cases, the risks are first assessed by the respective branches in accordance with Group standards and guidelines. Deutsche Bank Luxembourg S.A. extends these loans after a further review on the basis of its own credit guidelines agreed within the Group, and assumes the risk. Own and assumed credit risk (guarantees and CDS's issued) is thus aggregated in the Bank and then hedged within defined risk appetite parameters through (primarily) the execution of credit default swaps or participation in collateralized loan obligation structures with fellow DB entities.

The Bank additionally performs a number of administrative functions relating to the Group's SCL Risk Centralisation structure that seeks to remunerate loan booking entities within the Group (DB Lux included) for below-market rate relationship lending activities on behalf of fellow DB Group entities who benefit from such relationship lending. Legal entity loan income shortfalls are topped up to equal a market return on their gross credit risk through the execution of a "spread swap" agreement concluded between the booking and benefitting entities.

Moreover, Deutsche Bank Luxembourg S.A. regularly reviews creditworthiness in respect of its credit risks on the basis of up-to-date information largely obtained from Deutsche Bank Group's Credit Risk Management. At regular meetings, the Management Board and, if necessary, the Risk Control function inform the Supervisory Board about current developments regarding specific risks and the credit portfolio risk, also with reference to specific industry and/or country risks.

Taking into account the additional risk assumed in the SCL portfolio, 80% (2019: 83%) of the total loan portfolio as at the balance sheet date was attributable to investment-grade borrowers (up to a BBB rating).

Distribution of credit risk

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

Structure of credit profile by rating category as at 31 December 2020

in € m.	Loans and advances to credit institutions	Loans and advances to clients	Securities/ participating interests/ affiliated undertakings	Contingent liabilities	Commitments	Total
AAA/AA	23	795	1,343	260	4,165	6,586
A	29	1,238	0	51	10,834	12,152
BBB	5,858	4,179	189	5,875	16,042	32,143
BB	0	4,616	0	4	4,858	9,478
B	0	864	0	0	239	1,103
CCC	0	1,961	0	0	40	2,001
NR*	0	73	0	6	3	82
Total	5,910	13,726	1,532	6,196	36,181	63,545

* Not rated = unrated clients

Structure of credit profile by industry as at 31 December 2020

in € m.	Loans and advances to credit institutions	Loans and advances to clients	Securities/ participating interests/ affiliated undertakings	Contingent liabilities	Commitments	Total
Banks and insurance companies	5,910	2,331	186	6,127	5,979	20,533
Households	0	515	0	5	57	577
Manufacturing	0	1,718	0	50	11,929	13,697
Corporate services	0	3,205	3	0	4,364	7,572
Transport and telecommunications	0	1,091	0	1	3,137	4,229
Power and water utilities	0	1,749	0	0	972	2,721
Wholesale and retail trade	0	573	0	9	1,875	2,457
Mining	0	336	0	0	2,301	2,637
Public sector	0	368	1,343	0	0	1,711
Commercial real estate	0	1,300	0	0	1,102	2,402
Construction	0	161	0	0	418	579
Power generation (in particular solar power)	0	53	0	0	352	405
Automotive industry	0	49	0	4	1,077	1,130
Hotel/restaurant trade, leisure industry, gaming and gambling industry	0	239	0	0	2,508	2,747
Other	0	38	0	0	110	148
Total	5,910	13,726	1,532	6,196	36,181	63,545

Risk provisioning

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

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

The synthetic risk assumed from the SCL credit risk portfolio (via the guarantees issued and credit default swaps) was quantified at € 5.9 bn as at 31 December 2020 (2019: €5.7bn). The risk management of the underlying or hedging transactions entered into in the course of these business activities at the Bank is, in respect of the material value-determining risk factors, conducted uniformly at a central office of Deutsche Bank Group, taking into account certain risk tolerance and hedging parameters defined by Deutsche Bank Luxembourg S.A. in cooperation with Deutsche Bank AG's global Credit Risk Management unit.

Market risk

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

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

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

Financial transactions

The Bank's derivative financial transactions consist exclusively of contracts forming part of the non-trading portfolio and are concluded largely with counterparties inside the Group. The following tables contain the notional volume by remaining maturity and the market values of derivative transactions. At the end of the year, there were no exchange-traded financial transactions. In principle, the SCL credit risk portfolio agreements permit netting. Where the Bank could assume legally enforceable netting agreements were in place, corresponding effects were taken into account in the analysis of financial transactions below. Apart from this, there are no further netting agreements in derivative financial transactions.

Analysis of derivative financial transactions as at 31 December 2020

in € m. Classes of financial transaction	Up to 1 year	1 year to 5 years	More than 5 years	Total	Positive market value	Negative market value	Net value
Interest rate transactions	3,155	1,417	817	5,389	160	55	105
Interest rate swaps	3,155	1,417	817	5,389	160	55	105
Foreign exchange/gold transactions	159	0	5	164	2	1	1
Futures contracts with clients	61	0	0	61	0	1	–1
Futures contracts with banks	75	0	0	75	2	0	2
Options	23	0	5	28	0	0	0
Credit derivatives*	1,884	2,036	18	3,938	173	124	49
Total	5,198	3,453	840	9,491	335	180	155

* of which a nominal amount of € 3m is reported under contingent liabilities; includes total return swaps.
Note: Due to rounding, numbers may not add up precisely to the totals provided.

Analysis of derivative financial transactions as at 31 December 2019

in € m. Classes of financial transaction	Up to 1 year	1 year to 5 years	More than 5 years	Total	Positive market value	Negative market value	Net value
Interest rate transactions	5,496	1,477	829	7,802	45	3	42
Interest rate swaps	5,496	1,477	829	7,802	45	3	42
Foreign exchange/gold transactions	309	2	0	311	1	8	–7
Futures contracts with clients	58	1	0	59	0	1	–1
Futures contracts with banks	237	1	0	238	1	7	–6
Options	14	0	0	14	0	0	0
Credit derivatives*	607	3,093	105	3,805	149	169	–20
Total	6,412	4,572	934	11,918	195	180	15

* of which a nominal amount of € 3m is reported under contingent liabilities; includes total return swaps.
Note: Due to rounding, numbers may not add up precisely to the totals provided.

Value-at-Risk

To measure and manage market risks, the Bank uses the value-at-risk model developed and maintained by the Group and approved by the German bank regulator. The value-at-risk approach is used to derive a quantitative measure for market risks in the trading book under normal market conditions. For a given portfolio, value-at-risk measures the possible future loss (in terms of market value) which, under normal market conditions, will not be exceeded with a defined probability in a certain period. Value-at-risk (VaR) enables a constant and uniform risk measure to be applied to all trading/financial transactions and products. It also allows market risk assessments over time to be compared with the actual daily results from the aforementioned transactions.

Both for internal and external reporting purposes, value-at-risk is calculated in accordance with the regulations of the Bank for International Settlements (BIS) with a confidence level of 99%. For internal reporting purposes, a holding period of one trading day is used. For regulatory reporting purposes, the holding period is ten days.

As at the end of 2020, the value-at-risk from interest rate and currency risks in the non-trading book was € 922 thousand and thus below the allocated limit of €1.0m. The average value for 2020 was € 812 thousand.

In foreign exchange business, only relatively small positions in foreign currency arise from fractional amounts in futures contracts and from balances arising out of the Bank's net interest and commission income in foreign currencies. These positions are closed regularly.

Liquidity risk

The principal objective of liquidity management is to guarantee the Bank's solvency at all times. The Treasury/Pool Management division handles the management of this task in Luxembourg and is involved in Group-wide liquidity management. Liquidity Risk Controlling promptly prepares the relevant data and informs the Bank's Management Board, the Risk Control function and Treasury department on a daily basis.

All local data relevant to the Group are made available to the Group's global risk control function for overall objectives.

The Liquidity Coverage Requirement (LCR) pursuant to the Commission Delegated Regulation (EU) No. 2015/61 of 10 October 2014 entered into force on 1 October 2015.

As at the balance sheet date, the Bank's LCR ratio was 135.5%, meaning that the minimum requirement of 100% in effect since 1 January 2018 has been met.

Operational risk

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

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

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

Regulatory risk position

As a non-trading book institution, the Bank calculates the simplified coefficient. A separate report will be produced for disclosure information pursuant to section 13 Capital Requirements Regulation (CRR) and, once completed, will be published on the website of Deutsche Bank Luxembourg S.A.

The risk-weighted assets (RWAs) are made up as follows:

Composition of risk-weighted assets in accordance with COREP* (CRD IV)

in € m.	31 Dec. 2020	31 Dec. 2019
Central governments and central banks	75	136
Regional governments	9	0
Administration/non-profit institutions	0	18
Credit institutions	1,886	3,630
Corporates	26,760	25,233
Retail clients	10	10
Other assets	118	145
Secured by mortgage charges	1,129	1,008
Currency transactions	0	0
Operational risks	614	533
Past due items	849	768
Credit value adjustment (CVA)	0	0
Total	31,450	31,481

* Common solvency ratio reporting (COREP)

At the end of financial year 2020, Deutsche Bank Luxembourg S.A.'s regulatory own funds, consisting of balance sheet equity and eligible subordinated liabilities, were stable at €6.0bn (2019: €5.9bn). The slight increase in regulatory own funds was primarily attributable to the appropriation of the 2019 profit of €87.6m, as resolved by the 2020 General Meeting. Total risk-weighted assets (RWA) were similarly stable year-on-year at €31.5bn as at the balance sheet date, thus ensuring that the Banks's key regulatory ratios were well in excess of minimum requirements. The EU solvency ratio under CRD IV was 19.1% as at the balance sheet date (2019: 18.8%), above the minimum requirement of 11.0%.

The Bank's CRD IV Tier I capital ratio was 19.1% at the end of 2020 (2019: 18.8%), also well above the minimum requirement of 9.0%. The Bank was in compliance with all minimum capital requirements throughout financial year 2020.

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

E. Other Information

Deposit guarantee scheme

On 18 December 2015, Luxembourg adopted the law on resolution, recovery and liquidation measures of credit institutions and investment firms, on deposit guarantee schemes and on investor compensation schemes (the “Law”), which serves to transpose into Luxembourg law EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and EU Directive 2014/49/EU on deposit guarantee schemes and investor compensation schemes.

Luxembourg has a contribution-based system of deposit guarantee and investor compensation, in which the Bank participates. The system protects a client’s deposits up to the amount of € 100 thousand and investments up to the amount of € 20 thousand. The Law also provides for the protection of deposits in excess of € 100 thousand for a 12-month period where these deposits result from certain transactions or serve certain social or other purposes.

In accordance with Article 1 (36) of the Law, the target amount to be held in the Luxembourg Resolution Fund (“Fonds de résolution Luxembourg” [FRL]) should reach at least 1% of the guaranteed deposits of all credit institutions in all participating member states by the beginning of 2024. This amount was and will continue to be collected from the credit institutions through annual contributions in the financial years from 2015 to 2024.

The target amount to be held in the Luxembourg Deposit Guarantee Fund (“Fonds de garantie des dépôts Luxembourg” [FGDL]) is 0.8% of the covered deposits, as defined in Article 163 (8) of the Law, of the relevant credit institutions, to have been reached by the end of 2018. Contributions were paid annually from 2016 to 2018. After achieving the initial 0.8%, Luxembourg credit institutions are to make further contributions over the following eight years in order to build an additional safety buffer of 0.8% of covered deposits, as defined in Article 163 (8) of the Law.

The law of 23 December 2016 on the 2017 tax reform introduced a tax-neutral reversal of the existing AGDL provisions in annual tranches from 2016 to 2026, under the condition that each annual tranche is at least equal to the contributions to the FGDL and FRL. Any remaining balance of the AGDL provision not yet reversed at the end of this transitional period will be added to the taxable income in 2026.

On 18 January 2017, the CSSF issued a circular letter relating to the abrogation of the AGDL and to the consequent accounting treatment of the AGDL reversal to enable the banks to reflect the tax treatment foreseen in the law of 23 December 2016 in their financial statements.

The Bank’s remaining AGDL provision amounted to €2.2m at the beginning of the year. This amount was fully released in 2020 to Profit & Loss, which reduced the net impact of the 2020 expense. Payments of €0.1m and €5.7m were made to the FGDL the FRL respectively.

Staff

Number of staff

	31 Dec. 2020	Average in 2020	31 Dec. 2019
Management Board	3	3	3
Executives	24	24	23
Employees	285	285	276
Total	312	312	302

In 2020, the total remuneration of the Management Board and the executives was € 6,630 thousand (2019: € 5,615 thousand). The allocation to pension provisions for members of the Management Board and executives was € 366 thousand (2019: € 211 thousand). The Supervisory Board was not remunerated by the Bank.

The expense for pension obligations for former members of the Management Board amounted to € 255 thousand.

As at 31 December 2020, loans, advances and other commitments to members of the Supervisory Board, Management Board and executives totaled € 0 thousand.

Luxembourg, 26 March 2021

The Management Board

4

Confirmations

Independent auditor’s report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Deutsche Bank Luxembourg S.A. (the “Bank”), which comprise the balance sheet as at 31 December 2020, and the profit and loss account for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the “Law of 23 July 2016”) and with International Standards on Auditing (“ISAs”) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (“CSSF”). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the “Responsibilities of the “réviseur d’entreprises agréé” for the audit of the financial statements” section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (“IESBA Code”) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Value adjustments on loans granted to customers and provisions for commitments

Description

As of 31 December 2020, the Bank reports loans and advances to customers of EUR 13,726 million. This caption mainly includes loans to corporate customers and institutional clients, structured loans to private clients and Lombard loans. Related commitments amount to EUR 36,181 million as of 31 December 2020.

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

For this reason, we identified the determination of value adjustments on loans to corporate customers and institutional clients and the related provisions for commitments as a key audit matter.
Refer to the description of the accounting policies in the notes to the financial statements concerning "Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments" and the notes to the income statement (Note C6) as well as the explanations in the risk report and management report.

How the matter was addressed in our audit

During our audit we obtained an understanding of the processes implemented by the Bank over the credit cycle, with a focus on the identification of impairment events and quantification of value adjustments.

Our audit procedures relating to the Bank's internal control system focused on key controls within the framework of the credit approval and credit monitoring process, as well as the identification of doubtful and irrecoverable debts and the determination of the necessary value adjustment requirements, which were tested for their design and implementation as well as their operating effectiveness. This included processes and controls outsourced to other entities of Deutsche Bank group.

In addition, we adopted a risk-based sampling approach to determine a sample of loans and commitments. To determine this sample, we focused on the exposure amount, the internal credit rating, the sector of the borrower including potential COVID-19-related implications and whether exposures were included on the Bank’s watchlist. For this sample, we verified whether impairment events were recognised in a timely and appropriate manner.

For value adjustments determined by the Bank, we verified as to whether the estimates regarding the amount and timing of future cashflows from the borrower and the collateral were appropriate.

Other information

The Management Board is responsible for the other information. The other information comprises the information included in the management report but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

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

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

The financial statements of the Bank for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 3 April 2020.

Responsibilities of the Management Board and of those charged with governance for the financial statements

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

In preparing the financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

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

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

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

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

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

— Conclude on the appropriateness of Management Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the “réviseur d’entreprises agréé” to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the “réviseur d’entreprises agréé”. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the General Meeting of the Shareholders on 15 April 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is one year.

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

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Bernard Lhoest

Luxembourg, 30 March 2021

Report of the Supervisory Board

The Supervisory Board reviewed the annual report of Deutsche Bank Luxembourg S.A. for financial year 2020. The Supervisory Board also acknowledged the positive conclusions reached by the Audit Committee. On that basis, the Supervisory Board has no further comments on the financial statements presented.

At today's meeting, the Supervisory Board approved the annual accounts prepared by the Management Board, which are thereby adopted.

Net income for financial year 2020 amounted to approximately €91m.

The Supervisory Board proposes to the General Meeting that no dividend be distributed for the past financial year. Instead, it proposes that the profit from current operations for the financial period 2020 be allocated to other reserves.

Luxembourg, 26 March 2021

Alexander Ilgen
Chairman of the Supervisory Board

Registered office

Architect: Prof. Gottfried Böhm, Pritzker Prize winner
Photo: funkbild Fotoagentur

Deutsche Bank Luxembourg S.A.
2, boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

Telephone:	+352-42122-1
Fax:	+352-42122-4490
E-mail:	mgt.lux@db.com
Online:	www.db.com/luxembourg