

# **DB USA Corporation**

## **U.S. LIQUIDITY COVERAGE RATIO DISCLOSURES**

**For the quarter ended September 30, 2021**

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## The Liquidity Coverage Ratio (LCR)

The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30-day stress scenario. The ratio is defined as the amount of High Quality Liquid Assets (HQLA) that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, projected over a 30 calendar-day stress period. Banks are also required to take into account potential maturity mismatches between contractual outflows and inflows during the 30-day stress period.

Deutsche Bank (DB), a banking group domiciled in Germany<sup>1</sup>, is currently required to be compliant with the Liquidity Coverage Ratio (LCR) as outlined in the "Commission Delegated Regulation (EU) 2015/61 of October 10, 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions" and the corrigendum to "Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012", published on November 30, 2013.

The Basel Committee on Banking Supervision (BCBS) published the international liquidity standards in December 2010 as a part of the Basel III package and revised the liquidity standard in January 2013. On September 3, 2014, the U.S. regulators adopted a final rule that implements a quantitative liquidity requirement generally consistent with the LCR standard established by the BCBS. The final LCR rule applies to top-tier U.S. BHCs as well as depository institution subsidiaries of U.S. BHCs that meet the applicability criteria of the LCR rule.

The Enhanced Prudential Standards for Foreign Banking Organizations (FBOs) requires FBOs, including DB, with non-branch assets of \$50 billion or more to form a U.S. Intermediate Holding Company (IHC) by July 01, 2016 to serve as the top-tier holding company for their non-branch U.S. subsidiaries. DB's U.S. IHC or DB USA Corporation (the Firm) became subject to the full LCR requirements effective April 01, 2017.

Subsequently, the Federal Reserve adopted the Tailoring Rule that introduces risk-based categories for determining scope, nature and applicability of requirements under the LCR rule and modifies the LCR requirements based on the category of the banking organizations. Under the Tailoring Rule, the stringency of requirements increases based on measures of size, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets and off-balance sheet exposures. Based on these new guidelines, which are effective December 31, 2019, the firm is categorized as a Category III bank and therefore a reduced LCR minimum requirement of 85% applies.

## U.S. Disclosure Requirements

In December 2016, the Federal Reserve adopted a rule to implement public disclosure requirements (PDR) for the LCR. Under PDR, a BHC with \$50 billion or more in consolidated assets or \$10 billion or more in foreign exposure is required to disclose publicly, on a quarterly basis, quantitative information about its LCR calculation and a discussion of the factors that have a significant effect on its LCR. Presently, the Firm is the only DB U.S. entity that is subject to these disclosure requirements.

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<sup>1</sup> Deutsche Bank (DB) AG is a financial conglomerate as designated by the BaFin

The information presented in this document is calculated in accordance with the U.S. LCR rule and presented in accordance with the LCR PDR, unless otherwise stated. Table 7 (lines 1 through 33) presents the Firm's LCR in the format provided in the LCR PDR. Tables 1 through 6 present a supplemental breakdown of the Firm's LCR components.

## U.S. Qualitative Disclosures

### Main drivers of LCR

The table below summarizes the Firm's average LCR for the three months ended September 30, 2021.

**Table 1: Liquidity Coverage Ratio**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2021
HQLA <sup>1</sup>	22,297
Net cash outflows <sup>2</sup>	13,838
<b>LCR</b>	<b>161%</b>
Excess HQLA <sup>1</sup>	8,459

(1) Excludes excess HQLA held at subsidiaries that are not transferable.

(2) After application of 85% factor under the Tailoring Rule. Total average net cash outflows, including the add-on for maturity mismatches was \$16,280.

(3) Unadjusted for the 85% factor under the Tailoring Rule (i.e., at 100% of net outflows), the LCR for DB USA would be 137%.

In the table above, HQLA is calculated after applying regulatory haircuts to eligible assets as prescribed by the LCR rule. Similarly, the Firm calculates its outflow and inflow amounts by applying the standardized set of regulatory outflow and inflow rates to various asset and liability balances, including off-balance-sheet commitments, as prescribed in the LCR rule.

The firm's average daily LCR for the three months ended September 30, 2021 was 161%, which is largely driven by:

- HQLA, which consists of cash with the Federal Reserve Bank, U.S. Treasury securities purchased outright and via reverse repurchase transactions collateralized by U.S. Treasury securities;
- Net cash outflows primarily related to operational and non-operational deposits and to a lesser degree, secured wholesale funding and asset exchange transactions.

### Composition of eligible HQLA

HQLA represent the sum of eligible Level 1 liquid assets, Level 2A liquid assets, and Level 2B liquid assets, eligible for inclusion in the LCR after prescribed haircuts and asset composition limits. Eligible HQLA must also meet specific operational and general requirements, as prescribed under the LCR rule. Presently, only Level 1 liquid assets meet all the requirements, therefore the liquidity buffer is comprised of Level 1 liquid assets exclusively.

The table below presents the weighted average amounts of the Firm's HQLA segregated into cash and eligible securities components for the three months ended September 30, 2021.

**Table 2: High Quality Liquid Assets**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2021
Eligible Reserve Bank Balances <sup>1</sup>	17,071
Eligible Level 1 Securities <sup>2</sup>	20,882
Less: Excess HQLA held at subsidiaries and are not transferable <sup>3</sup>	(15,656)
<b>Total Eligible Level 1 Assets</b>	<b>22,297</b>

(1) Comprised of deposits with the Federal Reserve Bank.

(2) Represents U.S. Treasury Securities.

(3) Comprised of both Reserve Bank Balances and Treasury Securities.

### Changes in LCR

As given above in Table 1, the Firm's average LCR for three months ended September 30, 2021 was 161% which represents an average LCR position well above the required minimum. In comparison to the average LCR of 187% for the quarter ended June 30, 2021, this represents a decrease of 26 percentage points, which was driven primarily by an increase in average weighted deposits outflows of \$983 million, an increase in net average weighted secured funding outflows of \$904 million and a decrease in average HQLA of \$570 million.

### Other Liquidity Sources

In addition to the above, the Firm had approximately \$15.7 billion of HQLA held at subsidiaries that are not transferable, but are available to raise liquidity at the subsidiaries, if required.

Even though the Firm has significant holdings in other LCR asset classes (primarily level 2B), these assets are not considered under the control of the Firm's liquidity management function, which is one of the criteria for HQLA inclusion set forth in the LCR rule, hence such asset holdings are not currently considered part of the liquidity buffer. These assets can also be sold or lent as collateral for secured funding to generate liquidity.

### Concentration of funding sources

The Firm has a range of funding sources, including retail and institutional deposits, secured and unsecured wholesale funding, comprised primarily of large deposits, and funding from DB Group. The Firm's most stable funding sources come from transaction banking clients.

Below is a summary of deposit related cash outflows in accordance with the LCR rule.

**Table 3: Deposits**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2021
Cash outflows from:	
Non-Operational deposits	11,215
Operational deposits	4,151
Brokered deposit	116
Retail deposit	51
<b>Total deposit cash outflows</b>	<b>15,533</b>

The Firm manages liquidity and funding, in accordance with its specific risk appetite approved by the entities' Boards of Directors across a range of relevant metrics and utilizes several tools to monitor these and ensure compliance.

The following table summarizes cash outflows excluding deposits from retail customers and counterparties and derivatives.

**Table 4: Other Outflows**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2021
Cash outflows from:	
Secured funding	8.056
Unsecured funding <sup>1</sup>	15,533
Off Balance sheet commitments	2,173
Other	1
<b>Total other cash outflows</b>	<b>25,763</b>

(1) Includes deposits shown in Table 3 above.

*Derivatives exposures and potential collateral calls*

Derivative transaction means a financial contract whose value is derived from the values of one or more underlying assets, reference rates, or indices of asset values or reference rates. Derivative contracts include interest rate derivative contracts, exchange rate derivative contracts, equity derivative contracts, commodity derivative contracts, credit derivative contracts, forward contracts and any other instrument that poses similar counterparty credit risks.

The Firm enters into derivative transactions for market making or managing own risk exposures. These derivatives are executed with third parties and with other DB affiliates outside the IHC consolidated group. The Firm may be required to post initial or variation margin with regards to such derivative exposures. Additionally, collateral calls could also be driven as a result of a downgrade to DB's external credit ratings.

The following table summarizes derivatives related net cash outflows for the three months ended September 30, 2021.

**Table 5: Derivatives**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2021
Outflows from derivative exposures and other collateral requirements	924
Less: Inflows from derivatives	0
<b>Net derivatives cash outflows</b>	<b>924</b>

*Currency mismatch in the LCR*

In the US, HQLA and net outflows are primarily in US dollars, however a nominal portion of cash flows (less than 2% of cash flows overall) relate to currencies other than US dollars. These non-US dollar based cash flows give rise to currency mismatches, such exposures are closely monitored and hedging strategies are adopted to minimize the potential impact of such exposures.

## Cash Inflows

Allowable inflow amounts are capped at 75 percent of aggregate cash outflows to ensure that the banks must hold a minimum HQLA amount equal to 25 percent of total cash outflows that will be available during a stress period. However, there are certain exceptions which include:

- Certain foreign currency exchange derivative cash flows are to be treated on a net basis and have therefore effectively been removed from the gross inflow cap calculation, and
- The inflow cap does not apply to the calculation of the maturity mismatch add-on.

The total cash inflows amounted to \$9.6 billion which is the lesser of the cumulative cash inflows and 75% cap of the cumulative cash outflows. Given that inflows are well below 75% of cumulative cash outflows, the inflow cap is not currently binding for the Firm.

The following table summarizes cash inflows excluding retail lending and derivatives.

**Table 6: Cash Inflows**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2021
Cash inflows from:	
Secured lending	8,275
Unsecured lending	1,247
Other	25
<b>Total cash inflows</b>	<b>9,547</b>

## Liquidity Management

Liquidity risk is the risk arising from the potential inability to meet all payment obligations when they come due. The US Liquidity Management (LM) function of the Firm is responsible for ensuring that the Firm can fulfill its payment obligations at all times and can manage liquidity and funding risks within its risk appetite.

To meet the objective, the Firm executes upon its liquidity management framework. The framework is comprised of six core elements – risk appetite, risk identification, risk measurement, risk monitoring, risk management, and governance and oversight. These six elements of the liquidity management framework provide LM the processes, tools, and oversight to effectively manage the liquidity position of the Firm to meet its day-to-day payment obligations.

Treasury manages liquidity and funding, in accordance with the Management Board-approved risk appetite across a range of relevant metrics and utilizes a combination of tools to monitor these and ensure compliance. In addition, Treasury works closely with Liquidity Risk Management (LRM), and the business, to analyze and understand the underlying liquidity characteristics of the business portfolios. These parties are engaged in regular and frequent dialogue to understand changes in the Firm's position arising from business activities and market circumstances. Dedicated business targets are allocated to ensure that the Firm operates within its overall liquidity and funding appetite. LM projects the development of the key liquidity and funding metrics based on the underlying business plans to ensure that the plan is in compliance with the Firm's risk appetite.

### Liquidity Risk Management Framework

The LRM is an independent review function operating as part of the second line of defense and is responsible for overseeing and evaluating the effectiveness of the liquidity risk management activities performed by U.S. Treasury – Liquidity Management. Through executing on its oversight and validation activities, LRM plays a key role in supporting the U.S. Chief Risk Officer in overseeing and maintaining the liquidity risk management framework.

Treasury is mandated to manage the overall liquidity and funding position of the Firm. LRM acts as an independent oversight function, and is responsible for reviewing the liquidity risk framework, proposing the risk appetite to the US Risk Committees and validating liquidity risk methodologies which are developed by Treasury, to measure and manage the liquidity risk profile.

The Management Board is informed of performance against the risk appetite metrics, via a weekly Liquidity Dashboard. In addition to this, liquidity is also monitored through early warning indicators on a daily basis by senior leadership team of the Firm. Escalations are reported on a timely basis, in case of breaches on the internal limits.

### Liquidity Stress Testing

Within the risk measurement element of the liquidity management framework, liquidity stress testing is a core tool for measuring liquidity risk and evaluating the Firm's liquidity position. The Firm uses both regulatory, (i.e. LCR) and internally designed stress tests. The Firm uses stress testing to determine whether the current liquidity position is in line with the relevant risk appetite, set the liquidity reserve requirements and help identify potential future liquidity shortfalls.

Internal stress testing models calculate the Firm's net liquidity position (i.e., measured net stress cash flows against liquidity buffers held) under multiple different scenarios by applying particular contractual and behavioral assumptions to the Firm's assets, liabilities and off-balance sheet exposures which are identified to have liquidity risk. Stress testing is run daily and models the Firm's net liquidity position under stress out to one year.



## U.S. Quantitative Disclosures

The following table presents Firm's average LCR, and average unweighted and weighted amount of HQLA, cash outflows and cash inflows, for the quarter ended September 30, 2021.

**Table 7:**

For the quarter ended September 30, 2021 (\$ in millions)		Average Unweighted Amount	Average Weighted Amount
<b>HIGH-QUALITY LIQUID ASSETS <sup>(1)</sup></b>			
<b>1</b>	<b>Total eligible high-quality liquid assets (HQLA), of which:</b>	<b>22,297</b>	<b>22,297</b>
2	Eligible level 1 liquid assets	22,297	22,297
3	Eligible level 2A liquid assets	-	-
4	Eligible level 2B liquid assets	-	-
<b>CASH OUTFLOW AMOUNTS</b>			
<b>5</b>	<b>Deposit outflow from retail customers and counterparties, of which:</b>	<b>871</b>	<b>169</b>
6	Stable retail deposit outflow	71	2
7	Other retail funding outflow	510	51
8	Brokered deposit outflow	290	116
<b>9</b>	<b>Unsecured wholesale funding outflow, of which:</b>	<b>30,141</b>	<b>15,366</b>
10	Operational deposit outflow	16,611	4,151
11	Non-operational funding outflow	13,530	11,215
12	Unsecured debt outflow	-	-
<b>13</b>	<b>Secured wholesale funding and asset exchange outflow</b>	<b>113,084</b>	<b>8,056</b>
<b>14</b>	<b>Additional outflow requirements, of which:</b>	<b>6,138</b>	<b>2,171</b>
15	Outflow related to derivative exposures and other collateral requirements	3,494	924
16	Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments	2,644	1,247
<b>17</b>	<b>Other contractual funding obligation outflow</b>	<b>1</b>	<b>1</b>
<b>18</b>	<b>Other contingent funding obligations outflow</b>	<b>-</b>	<b>-</b>
<b>19</b>	<b>TOTAL CASH OUTFLOW</b>	<b>150,235</b>	<b>25,763</b>
<b>CASH INFLOW AMOUNTS</b>			
<b>20</b>	<b>Secured lending and asset exchange cash inflow</b>	<b>126,883</b>	<b>8,275</b>
<b>21</b>	<b>Retail cash inflow</b>	<b>31</b>	<b>16</b>
<b>22</b>	<b>Unsecured wholesale cash inflow</b>	<b>1,261</b>	<b>1,247</b>
<b>23</b>	<b>Other cash inflows, of which:</b>	<b>25</b>	<b>25</b>
24	Net derivative cash inflow	-	-
25	Securities cash inflow	25	25
26	Broker-dealer segregated account inflow	-	-
27	Other cash inflow	-	-
<b>28</b>	<b>TOTAL CASH INFLOW</b>	<b>128,200</b>	<b>9,563</b>
<b>29</b>	<b>HQLA AMOUNT <sup>(1)</sup></b>		<b>22,297</b>
<b>30</b>	<b>TOTAL NET CASH OUTFLOW AMOUNT EXCLUDING THE MATURITY MISMATCH ADD-ON</b>		<b>16,200</b>
<b>31</b>	<b>MATURITY MISMATCH ADD-ON</b>		<b>80</b>
<b>32</b>	<b>TOTAL NET CASH OUTFLOW AMOUNT <sup>(2)</sup></b>		<b>13,838</b>
<b>33</b>	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>161%</b>

1 HQLA figures have been adjusted for the trapped HQLA at the U.S. subsidiaries

2 The total cash outflow amount does not match the calculation using component amounts due to the application of 85% as prescribed by the Tailoring Rule

3 Numbers may not add due to rounding