

# **DB USA Corporation**

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

**For the quarter ended September 30, 2018**

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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 period of significant stress. 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.

## 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.

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

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

### Main drivers of LCR

The table below summarizes the Firm's average LCR for the three months ended September 30, 2018.

**Table 1: Liquidity Coverage Ratio**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2018
HQLA <sup>1</sup>	27,029
Net cash outflows	13,876
<b>LCR</b>	<b>195%</b>
Excess HQLA <sup>1</sup>	13,153

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

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, 2018 was 195%, which is largely driven by:

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

### 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, 2018.

**Table 2: High Quality Liquid Assets**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2018
Eligible Reserve Bank Balances <sup>1</sup>	20,181
Eligible Level 1 Securities <sup>2</sup>	18,702
Less: Excess HQLA held at subsidiaries and are not transferable <sup>3</sup>	(11,854)
<b>Total Eligible Level 1 Assets</b>	<b>27,029</b>

(1) Comprise of deposits with Federal Reserve Bank

(2) Represents U.S. Treasury Securities

(3) Comprise 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, 2018 was 195% which represents a strong average LCR position and well above the required minimum of 100%. The average LCR for the quarter ended September 30, 2018 slightly decreased to 195% compared to 210% for the June 30, 2018 quarter-end due to increase in modeled net cash outflows partly offset by increase in the consolidated HQLA. The increase in net cash outflows is primarily driven by lower secured lending inflows partially offset by lower secured funding outflows.

### Other Liquidity Sources

In addition to the above mentioned HQLA, the Firm had approximately \$11.9 billion of HQLA held at subsidiaries that are not transferable. The Firm can use these Level 1 liquid assets to raise liquidity, if required.

Even though the Firm has significant holdings in other LCR asset classes, those assets are not considered under the control of the Firm's liquidity management function, which is one of the eligibility criteria set forth in the LCR rule, hence such asset holdings are not considered eligible HQLA and are not part of the liquidity buffer currently. These assets can also be sold to generate liquidity.

### Concentration of funding sources

The Firm has a wide range of funding sources, including retail and institutional deposits, secured and unsecured wholesale funding and funding from DB Group. The Firm's most stable funding sources come from equity, retail, and transaction banking clients. Other customer deposits, secured funding and shorts are additional sources of funding.

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, 2018
Cash outflows from:	
Non-Operational deposits	8,021
Operational deposits	2,695
Brokered deposit	57
Retail deposit	50
<b>Total deposit cash outflows</b>	<b>10,823</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 implements a number of 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, 2018
Cash outflows from:	
Secured funding	15,446
Unsecured funding <sup>1</sup>	11,233
Off Balance sheet commitments	647
Other	53
<b>Total other cash outflows</b>	<b>27,379</b>

(1) Includes non-operational and operational 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 two purposes; 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, 2018.

**Table 5: Derivatives**

Average Weighted Amounts (\$ in millions)	Three months ended September 30, 2018
Outflows from derivative exposures and other collateral requirements	1,752
Less: Inflows from derivatives	61
<b>Net derivatives cash outflows</b>	<b>1,691</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 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 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 \$15.4 billion which is lesser of the cumulative cash inflows and 75% cap of the cumulative cash outflows.

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, 2018
Cash inflows from:	
Secured lending	13,705
Unsecured lending	1,578
Other	3
Total cash inflows	15,286

### Liquidity Management

Liquidity risk is the risk arising from the potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs. 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 implements a number 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 control 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 and liabilities which are identified to have liquidity risk. Stress testing is run daily and models the Firm's net liquidity position 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, 2018.



**Table 7:**

For the quarter ended September 30, 2018 (\$ in millions)		Average Unweighted Amount	Average Weighted Amount
<b>HIGH-QUALITY LIQUID ASSETS <sup>(1)</sup></b>			
1	Total eligible high-quality liquid assets (HQLA), of which:	27,029	27,029
2	Eligible level 1 liquid assets	27,029	27,029
3	Eligible level 2A liquid assets	-	-
4	Eligible level 2B liquid assets	-	-
<b>CASH OUTFLOW AMOUNTS</b>			
5	Deposit outflow from retail customers and counterparties, of which:	641	107
6	Stable retail deposit outflow	5	-
7	Other retail funding outflow	497	50
8	Brokered deposit outflow	139	57
9	Unsecured wholesale funding outflow, of which:	20,444	11,233
10	Operational deposit outflow	10,793	2,695
11	Non-operational funding outflow	9,129	8,021
12	Unsecured debt outflow	522	517
13	Secured wholesale funding and asset exchange outflow	72,397	15,446
14	Additional outflow requirements, of which:	4,033	2,399
15	Outflow related to derivative exposures and other collateral requirements	1,752	1,752
16	Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments	2,281	647
17	Other contractual funding obligation outflow	-	-
18	Other contingent funding obligations outflow	62	53
19	<b>TOTAL CASH OUTFLOW</b>	<b>97,577</b>	<b>29,238</b>
<b>CASH INFLOW AMOUNTS</b>			
20	Secured lending and asset exchange cash inflow	90,456	13,705
21	Retail cash inflow	94	47
22	Unsecured wholesale cash inflow	1,591	1,578
23	Other cash inflows, of which:	64	64
24	Net derivative cash inflow	61	61
25	Securities cash inflow	-	-
26	Broker-dealer segregated account inflow	-	-
27	Other cash inflow	3	3
28	<b>TOTAL CASH INFLOW</b>	<b>92,205</b>	<b>15,394</b>
29	<b>HQLA AMOUNT <sup>(1)</sup></b>		<b>27,029</b>
30	<b>TOTAL NET CASH OUTFLOW AMOUNT EXCLUDING THE MATURITY MISMATCH ADD-ON</b>		<b>13,844</b>
31	<b>MATURITY MISMATCH ADD-ON</b>		<b>32</b>
32	<b>TOTAL NET CASH OUTFLOW AMOUNT</b>		<b>13,876</b>
33	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>195%</b>

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

2 Numbers may not add due to rounding