Deutsche Bank

DB USA Corporation
Pillar 3 Report 2016

Contents

Introduction

Disclosures according to Pillar 3 of the Basel 3 Capital Framework

The purpose of this Report is to provide Pillar 3 disclosures for DB USA Corporation ("DB USA Corp") as required by the regulatory framework for capital & liquidity, established by the Basel Committee on Banking Supervision, also known as Basel 3. On European level these are implemented in the disclosure requirements pursuant to Part Eight of the "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (Capital Requirements Regulation, or "CRR") and the "Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (Capital Requirements Directive 4, or "CRD 4"). Germany implemented these CRD 4 requirements into national law in Section 26a of the German Banking Act ("Kreditwesengesetz" or "KWG"). Per regulation it is not required to have Pillar 3 disclosures audited. As such the information provided in this Pillar 3 Report is unaudited.

Additional Disclosure Requirements for Significant Subsidiaries

In line with Article 13 (1) CRR significant subsidiaries and those subsidiaries which are of significance for their local market are required to disclose information to the extent applicable in respect of own funds, capital requirements, capital buffers, credit risk adjustments, remuneration policy, leverage and use of credit risk mitigation techniques on an individual or sub-consolidated basis.

In order to identify significant subsidiaries a catalogue of criteria has been developed, applied to all subsidiaries classified as "credit institution" or "investment firm" under the CRR and not qualifying for a waiver status pursuant to Section 2a KWG in conjunction with Article 7 CRR. A subsidiary is required to comply with the requirements in Article 13 CRR (as described above) if at least one criterion mentioned in the list below has been met. The criteria have been defined in relation to our business activities as well as the complexity and risk profile of the respective subsidiary. All figures referenced below are calculated on an IFRS basis as of December 31, 2016:

— Total Assets of € 30 billion or more (on individual or sub-consolidated basis)
— Five percent or more of our risk-weighted assets on group level
— 20 percent or more of the gross domestic product in its respective country, in which the subsidiary is located, but at least total assets of € five billion (on individual or sub-consolidated basis)
— Institutions directly supported by the European Stability Mechanism (ESM), European Financial Stability Facility (EFSF) or similar mechanisms
— Institutions belonging to the three largest institutions in their respective countries, in which the subsidiary is located (referring to the amount of total assets)
— Classification as "local systemically important institution" by the local competent authority

As a result of the selection process described above, DB USA Corp has been identified as "significant" for the Group and hence required to provide additional disclosure requirements as laid down in Article 13 CRR:

DB USA Corp publishes the Pillar 3 disclosure report on an annual basis in accordance with Article 13 CRR and US Basel 3 on its website at https://www.db.com/ir/en/reports-and-events.htm.

All financial information disclosed is presented in USD and is rounded to the nearest million, with exception to certain tables in the Remuneration section which are reported in Euro. The consolidated financial balance sheet is based on DB USA Corp financial statements prepared in accordance with U.S. generally accepted accounting principles (US GAAP). Regulatory capital and credit exposure disclosures are based on DB USA Corp Consolidated Financial Statements for Holding Companies (FRY-9C).

Per the U.S. regulatory requirements, DB USA Corp does not have to comply with Liquidity Coverage Ratio (LCR) disclosure requirements until April 1, 2018 and Supplementary Leverage Ratio (SLR) disclosure requirements until Q1 of 2018.

Location of Pillar 3 disclosures

The following table provides an overview of the location of the required Pillar 3 disclosures in this Pillar 3 Report.

Pillar 3 requirements topic with reference to CRR-Article	Primary location in this report
Main features of the CET1, AT1 and Tier 2 instruments, and reconciliation of filters/deductions applied to own funds and balance sheet (Article 437)	❖ "Development of regulatory capital" table ❖ "Reconciliation of Consolidated Balance Sheet according to Local GAAP to regulatory Balance Sheet" table
Compliance to own funds requirements (Article 92)	❖ "Development of regulatory capital table" table ❖ "Regulatory Capital Requirements and Risk-weighted Assets" table
Approach to assessing the adequacy of internal capital to support current and future activities (Article 438 (a)	❖ "Internal Capital Adequacy Assessment Process" section ❖ "Economic capital requirements (internal capital adequacy under Pillar 2)" table
Risk-weighted exposure amounts (Article 438 (c)-(f)	❖ "EAD gross by exposure class and geographical region" table ❖ "EAD gross by exposure class and residual maturity" table ❖ "Exposure values in the standardized approach by risk weight" table
Capital buffer (Article 440)	❖ "Minimum capital requirements and additional capital buffers" section. ❖ "EAD gross by exposure class and geographical region" table
Credit risk adjustments: information regarding exposure to credit risk and dilution risk (Article. 442)	❖ "Impairment loans, allowance for loan losses and coverage ratio by business divisions" table ❖ "Impairment loans, allowance for loan losses and coverage ratio by industry" table ❖ "Impairment loans, allowance for loan losses and coverage ratio by region" table ❖ "Development of Impaired Loans" table
Remuneration policy (Article 450)	❖ "Remuneration policy" section
Leverage (Article 451)	❖ N/A
Use of credit risk mitigation techniques (Article 453)	❖ "Credit risk management" section

Scope of Application

DB USA Corp is the US Intermediate Holding Company (IHC) of Deutsche Bank AG ("DB Group") that is implemented pursuant to Regulation YY: Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations, codified in 12 C.F.R. Part 252, and, in particular, Subpart O - Enhanced Prudential Standards for Foreign Banking Organizations with Total Consolidated Assets of $50 Billion or More and Combined U.S. Assets of $50 Billion or More" (the "FBO EPS Rule"). The FBO EPS Rule requires that a foreign banking organization ("FBO") having US non-branch assets of $50 billion or more establish in the US an IHC for its US subsidiaries that must be organized under the applicable US laws and operate under all applicable US regulatory requirements, including leverage and risk-based capital standards, stress testing, risk management and liquidity requirements. DB USA Corp consolidates all of DB Group subsidiaries in the U.S. which include Deutsche Bank Trust Corporation (DBTC), Deutsche Bank Trust Company Americas (DBTCA), Deutsche Bank Securities Inc. (DBSI), Deutsche Bank US Financial Markets Holding Corp. (DBUSH), Deutsche Bank Americas Holding Corp. (DBAH) and German American Capital Corp. (GACC).

DB Group offers a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world, organized under six corporate divisions as of December 31, 2016: Global Markets (GM), Corporate and Investment Banking (CIB), Private, Wealth & Commercial Clients (PW&CC), Deutsche Asset Management (AM), Postbank (PB) and Non-Core Operations Unit (NCOU).

Within the same divisions as DB Group, the main products and services currently offered by DB USA Corp include:

— GM, which facilitates: (i) client financing services through repo and client cash prime brokerage/securities lending for Prime Finance clients, (ii) market-making activities and secondary market liquidity to clients in U.S. cash products across Rates, Credit, Asset Backed Securities, and Equities, (iii) hedging solutions and investment products to DB clients through market-making in listed derivatives (execution, clearing and settlement), and (iv) new issue and syndication of Investment Grade, High Yield, Asset Backed Securities, equity securities and convertible bonds.
— CIB, which engages in: (i) Global Transaction Banking (GTB) business comprising of cash management (including overdraft facilities provided to clients), trade finance services (including letters of credit, financial supply chain management, accounts receivable purchasing, custom-made and performance-risk finance solutions for structured trade finance services and commodity trade finance services) and trust services, and (ii) advisory services across Mergers & Acquisitions, Equity Capital Markets (ECM), Debt Capital Markets (DCM), Leveraged Debt Capital Markets (LDCM), as well as funding and structuring client solutions.
— PW&CC Wealth Management (WM), which provides lending including Residential Real Estate (RRE), Commercial Real Estate (CRE), structured loans and Lombard (margin) loans, deposit taking, discretionary portfolio management, trust services, and custody services to High Net Worth (HNW) and Ultra High Net Worth (UHNW) individuals.
— AM, which provides active, passive and alternatives fund management to Institutional, Retail and WM clients.
— NCOU, which is a de-risking business division which will not originate new business in the future.
— PB is a German financial service provider for retail, business and corporate clients and not relevant within the DB USA Corp structure.

The above corporate divisions are supported by several infrastructure functions including Risk, Finance, Operations, Technology, Compliance, Anti-Financial Crime, Legal, Human Resources and Research.

DB USA Corp integrates into the DB Group operations, policies and procedures as part of its core risk management framework as further elaborated in the next sections.

Risk Management Framework and Governance

Risk Management Framework

The risk management at DB USA Corp is integral to DB Group's risk management framework and processes

- Core risk management responsibilities are embedded in the DB USA Corp Board ("Board"), which delegates certain responsibilities with respect thereto to the DB USA Corp Risk Committee ("RiskCo") for execution and oversight.
- DB USA Corp operates a Three Lines of Defense ("3LoD") risk management model. The 1st Line of Defense ("1st LoD") are all the business divisions and service providing infrastructure areas (within the Chief Operating Office) who are the "owners" of the risks. The 2nd Line of Defense ("2nd LoD") are all the independent risk and control infrastructure functions. The 3rd Line of Defense ("3rd LoD") is Group Audit, which evaluates design and operational effectiveness, and assures the effectiveness of the control environment. All 3LoD processes are independent of each other and accountable for maintaining structures that ensure adherence to the design principles at all levels.
- Risk strategy is approved by the RiskCo on an annual basis and is defined based on the Risk Appetite and Strategic and Capital Plan in order to align risk, capital and performance targets.
- All material risk types are managed via risk management processes, including: credit risk, market risk, operational risk, liquidity risk, compliance risk, financial crime risk, reputational risk, and model risk. Modeling and measurement approaches for quantifying risk and capital demand are implemented across the material risk types.
- Cross-risk analysis reviews are conducted to validate that sound risk management practices and a holistic awareness of risk exist.
- Monitoring, stress testing tools and escalation processes are in place for key capital and liquidity thresholds and metrics.
- Systems, processes and policies are critical components of our risk management capability.
- Recovery planning provides the escalation path for crisis management governance and supplies senior management with a list of actions designed to improve the capital and liquidity positions in a stress event.
- DB USA Corp is required under Dodd-Frank Section 165(d) to submit annually a resolution plan which sets out its strategy and plan for resolving its material entities (MEs), core business lines (CBLs), and critical operations (COs) without causing a major disruption to the U.S financial system.
- At the Group level, resolution planning is the responsibility of the resolution authority, the Single Resolution Board ("SRB"). The SRB provides a strategy to manage Deutsche Bank in case of default. The strategy is designed to prevent major disruptions to the financial system or the wider economy through maintaining critical services.

Risk Governance

DB USA Corp operations are regulated and supervised by the Federal Reserve Board (FRB). Such regulation focuses on licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organizational and reporting requirements. At the Group, the European Central Bank ("ECB") in connection with the competent authorities of EU countries which joined the Single Supervisory Mechanism via the Joint Supervisory Team, act in cooperation as primary supervisors monitoring the DB Group's compliance with the German Banking Act and other applicable laws and regulations as well as the CRR/CRD 4 framework and respective implementations into German law.

The risk management governance structure of DB USA Corp is designed to ensure clear regional accountability that is commensurate with its risk profile, structure, complexity, activities and size. The organizational structure provides clear lines of accountability for monitoring risk and capital and escalating breaches of key capital and liquidity limits and thresholds as applicable. The Chief Risk Officer, Americas has responsibility for the management of all credit, market, liquidity and operational risks as well as for the comprehensive control of risk and continuing development of methods for risk measurement.

DB USA Corp Risk Committee (“RiskCo”)

The DB USA Corp Risk Committee (“RiskCo”) is the risk committee of the Board of Directors of DB USA Corp and serves as the risk committee for DB USA Corp and the U.S. risk committee for Deutsche Bank AG`s Combined U.S. Operations (the “CUSO”).

The RiskCo assists the Board in its oversight of risk-taking tolerance and management of financial and non-financial risks, including but not limited to market, credit, liquidity, and operational risks, for DB USA Corp and the CUSO.

U.S. (Operations) Management Risk Committee (“U.S. MRC”)

The U.S. (Operations) Management Risk Committee (U.S. MRC) supports the management of the risk profile as well as the alignment of risk appetite, liquidity and funding within DB USA Corp and the CUSO. The Committee has responsibility to oversee risk and capital management, monitor the compliance to the risk appetite and limits and act upon, or escalate any issues that fall within its remit.

The committee also supports DB USA Corp with its capital adequacy planning as well as capitalization requirements and monitors the compliance with these. The Chief Risk Officer, Americas is the Chairperson of the Committee and the Chief Financial Officer, Americas is the Vice-Chairperson of the Committee.

U.S Asset and Liability Management Committee (“U.S. ALCo”)

U.S. ALCo brings together the operational elements of the risk and business strategies, and combines these with locally available resources for capital, liquidity and funding to find the optimal business mix and allocation, effectuating the most efficient asset and liability mix. Within this remit, the U.S. ALCo has the authority to work together with businesses to direct, steer, optimize and execute U.S. Operations activities and position its balances sheet within the limits set by the Delegating Authorities and the U.S. MRC. At the same time, the U.S. ALCo considers the impact of the U.S. activities on the Group’s resources as well as changes in the Group on local resources.

Risk Culture

The risk culture at DB USA Corp is fully integrated in DB Group’s risk culture framework and processes. This is underpinned in the below principles and practices.

DB Group seeks to promote a strong risk culture throughout our organization. Our aim is to help reinforce our resilience by encouraging a holistic approach to the management of risk and return throughout our organization as well as the effective management of our risk, capital and reputational profile. We actively take risks in connection with our business and as such the following principles underpin risk culture within the Group:

- Risk is taken within a defined risk appetite;
- Every risk taken needs to be approved within the risk management framework;
- Risk taken needs to be adequately compensated; and
- Risk should be continuously monitored and managed.

Employees at all levels are responsible for the management and escalation of risks. We expect employees to exhibit behaviors that support a strong risk culture. To promote this our policies require that behavior assessment is incorporated into our performance assessment and compensation processes. We have communicated the following risk culture behaviors through various communication vehicles:

- Being fully responsible for our risks;
- Being rigorous, forward looking and comprehensive in the assessment of risk;
- Inviting, providing and respecting challenges;
- Trouble shooting collectively; and
- Placing Deutsche Bank and its reputation at the heart of all decisions.

These behaviors are reinforced through a comprehensive risk culture training program, as well as targeted communications and awareness campaigns.

Risk Appetite and Capacity

To manage DB USA Corp's specific risk profile, a legal entity level risk appetite statement has been established that defines the specific level and types of risk that DB USA Corp is willing to assume within its risk capacity in order to achieve its business objectives. This Risk Appetite Statement complements the Risk Appetite defined on the DB Group level, while setting clear boundaries for the business strategy on a legal entity level based on capitalization levels and risk limits, and specific U.S. regulatory requirements and expectations. It is tailored to align with the material risks identified in DB USA Corp

The Risk Appetite Statement

— Defines appetite on an overarching legal entity level as well as the risk-type specific level;
— Articulates risk appetite for both quantitative and qualitative elements; and,
— Provides high-level guidance, whereas specific limits are detailed in policy documents within relevant risk areas.

DB USA Corp's Risk Appetite is built on five key metrics (Common Equity Tier 1 Ratio, Tier 1 Capital Ratio, Total Capital Ratio, Tier 1 Leverage Ratio, and Stressed Net Liquidity Position), leveraging the metrics at DB Group level and considering U.S. regulatory and business driven capital and liquidity requirements. Respective escalation thresholds (owned by the Board) for those metrics set clear quantitative boundaries for implementing risk strategies. These metrics are sensitive to the material risks that DB USA Corp is exposed to and function as indicators of financial health. These thresholds are complemented by risk type specific limits, tolerances or indicators.

Risk appetite is an integral element in our business planning processes via our Strategic Plan, to promote the appropriate alignment of risk, capital and performance targets, while at the same time considering risk capacity and appetite constraints from both financial and non-financial risks. Embedded within Capital Planning processes, compliance of the plan with our risk appetite and capacity is also tested under stressed market conditions. Top-down risk appetite serves as the limit for risk-taking for the bottom-up planning from the business functions.

A comprehensive risk limit protocol, aiming to align risk, capital and performance targets, is established to translate and implement the appetite in line with strategic objectives approved by the DB USA Corp Board. This matrix framework ensures compliance with the overall appetite at the legal entity level while actively managing the ongoing (re-) allocation of the risk appetite on more granular levels such as business / business unit level, as well as across risk types.

Consequently, the approval of any transaction or business strategy requires availability under all dimensions of this framework:

— Availability under DB Group's Risk Appetite and Risk Limit Framework
— Availability under DB USA Corp's financial resources allocation on business level and
— Availability under DB USA Corp's risk type specific limits, tolerances or indicators

The monitoring of the Risk Appetite metrics is performed through the regular Risk & Capital Profile Report (RCP), supplemented by more specific analysis on the business or risk type level. If key risk appetite metrics are breached under either normal or stress scenarios, an escalation governance matrix is applied.

Oversight of Risk Appetite and escalation processes are managed through the DB USA Corp's governance and committee structure, including the Board, RiskCo, U.S. MRC, and U.S. Capital Management Committee (CMC).

The risk appetite framework is reviewed at least annually and is approved by the DB USA Corp Board.

Risk and Capital Plan

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) requires banks to identify and assess all relevant risks, and to maintain sufficient capital to face these risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward looking basis.

DB USA Corp complies with the ICAAP as required under Pillar 2 of Basel III through an enterprise risk management and governance framework, methodologies, processes and infrastructure.

DB USA Corp recognizes the importance of using the ICAAP as part of its decision-making processes. As such ICAAP is embedded into business as usual activities, for example:

- Capital projections are reviewed and approved by the local Capital Management Committee (CMC), Management Risk Committee (MRC) and DB USA Corp Board. The monthly Risk & Capital Profile (RCP) Report is also used as a key tool to analyze, monitor and report DB USA Corp's risk and capital profile. It is also leveraged to oversee the development of key risk metrics compared to the established risk appetite thresholds and if necessary, escalate for management actions;
- The risk management function continually analyses and monitors the risk profile of the business to ensure adherence to the approved plan, and to thresholds set for risk appetite metrics;
- The Risk Management Framework provides documentation of the risk governance and management framework of DB USA Corp by main risk types as well as overall risk management practices in place; and
- The capital plan provides forward-looking aspects of DB USA Corp's business and risk strategy, broken down by key business activities. This overview supports the decision making processes of the relevant governance bodies over the course of the year.

Capital and Strategic Planning

Business strategy, foundational risk management and capital management are closely linked and interrelated processes at DB Group and at DB USA Corp.

DB USA Corp's capital planning process is closely linked to the Group's annual strategy setting and business planning cycle. Each business division engages in bottom-up legal entity planning to determine whether Group and divisional targets, including allocated resources, conform to entity-level constraints and risk appetite. This process provides a feedback loop in which the bottom-up entity-level planning is aligned with the top-down Group-level planning. Treasury is responsible for capital management at both DB USA Corp and the Group, and facilitates this feedback loop through dialogue with the Group's Treasurer and Group Risk Committee (GRC).

DB USA Corp conducts an annual integrated strategic planning process which lays out the development of our future strategic direction as an entity and for our business divisions. The strategic plan aims to create a holistic perspective on capital, funding and risk taking into account risk-return considerations. This process translates our long-term strategic targets into measurable short and medium-term financial targets, and enables intra-year performance monitoring and management. DB USA Corp aims to identify optimal growth options by considering the risks involved and the allocation of available capital resources to drive sustainable performance. Risk-specific portfolio strategies complement this framework and allow for an in-depth implementation of the risk strategy on a divisional level, addressing risk specifics including risk concentrations.

The strategic planning process consists of two phases: a top-down target setting and a bottom-up substantiation. In the top-down target setting, our key targets for profit and loss, capital supply, and capital demand as well as leverage, funding and liquidity are discussed for DB USA Corp and the business divisions that operate within the entity. In this process, the targets for the next five years are based on our global macro-economic outlook and the expected regulatory framework. Subsequently, targets are approved by management and the Board. In the bottom-up phase, targets are substantiated by detailed business division plans. The proposed bottom-up plans are reviewed and challenged by Finance and Risk and are discussed individually with the business heads. The specifics of the business are considered and concrete targets decided in line with DB USA Corp's strategic direction. Stress testing complements the strategic planning process by considering adverse market conditions.

Stress Testing

Stress testing is a risk measurement tool used to evaluate the potential effects of a specific event and / or a movement in a set of risk factors on an institution's financial condition. It involves translating hypothetical macroeconomic scenarios and idiosyncratic events into potential losses in existing and projected exposures and business activities. The objective of stress testing is to foster robust and forward looking planning processes that account for the legal entity's unique risks, and maintain sufficient capital and liquidity to continue operations throughout times of economic and financial distress. Stress testing is currently performed at DB USA Corp in accordance with the Stress Testing Policy - DB USA Corp.

The RiskCo assesses that the capital and liquidity stress testing frameworks and scenarios used reflect all relevant material risks as well as local regulatory requirements, approving the process and informing the DB USA Corp Board about the local stress testing framework and results. The RiskCo also assesses DB USA Corp's financial planning against the stress test results.

Management is responsible for initiating and properly documenting remedial measures and mitigating actions based on the stress test results in the context of the risk appetite, if deemed appropriate or necessary.

DB USA Corp can identify and utilize additional types of stress testing to the extent such methods adhere to the Stress Testing Policy - DB USA Corp.

Capital Stress Testing

Capital stress testing at DB USA Corp focuses on scenario analysis for Dodd-Frank Act Stress Test (DFAST) and Comprehensive Capital Analysis & Review (CCAR). The scenarios are defined both internally and by the Federal Reserve Board. The internally developed scenarios are designed to stress DB USA Corp's unique risk profile. In addition, where relevant and applicable, DB USA Corp may also incorporate idiosyncratic features into its stress testing exercises to complement the scenario testing / scenario analysis as part of DFAST / CCAR.

The capital stress testing program is integrated into the financial planning process. Stress tests of material risks and financial drivers are used to determine the impact to capital under adverse and severely adverse conditions. The results are incorporated into the strategic planning process and assessment of capital limits and targets.

Enterprise Stress Testing

In addition to CCAR and DFAST stress testing performed on Q2 and Q4 data, DB USA Corp management runs internal capital stress tests on Q1 and Q3 data. Scenarios are developed based on current or projected events or on circumstances that will provide insights into DB USA Corp's unique risk profile to assist management and the DB USA Corp Board in developing business strategy and allocating resources.

Liquidity Stress Testing

DB USA Corp is fully integrated into DB Group's Liquidity Risk Management Framework, and as such, the local stress test framework is consistent with Group's Global Liquidity Stress Testing Framework, with addendums for variances when applicable. DB USA Corp performs local daily liquidity stress tests to satisfy Regulation YY regulatory requirements and nuances of the U.S. markets at the entity level.

Risk and Capital Management

Capital Management

Group Treasury manages the solvency, capital adequacy and leverage at the Group level and locally in each region by legal entity. Treasury implements DB USA Corp's capital strategy, which is developed by management and approved by the Board of Directors, including any issuance and repurchases of capital instruments, limit setting for key financial resources. The capital management function is integrated with the Group-wide strategic planning process which lays out the development of our future strategic direction as an entity and for the business divisions operating within the entity. The capital management function is informed by a comprehensive risk identification and scenario design process, to ensure we maintain sufficient capital to face our risks and apply appropriate risk-management techniques to maintain adequate capitalization on an ongoing and forward looking basis.

Capital Adequacy Assessment

DB USA Corp manages its capital position to ensure capital is more than adequate to support its business activities and to maintain capital, risk and risk appetite commensurate with each other. DB USA Corp's capital adequacy assessment process is focused on measuring capital and liquidity and assessing whether it is sufficient given the current and future risk profile, economic environment, business outlook and regulatory requirements. DB USA Corp uses both base and stress macroeconomic and market scenario projections to manage its capital supply and demand levels over a nine-quarter projection horizon. Treasury is responsible for conducting the capital adequacy assessment and providing the necessary information for management to make recommendations to the Board regarding capital management and capital actions in line with business strategies.

DB USA Corp's capital adequacy assessment process is performed with Group-wide engagement, to ensure capital adequacy decisions are aligned with Group-wide planning and objectives as appropriate. Capital adequacy matters are discussed within Treasury, and socialized with other Group level committees such as the Group Risk Committee, a committee that also includes the Group Treasurer, Chief Financial Officer, and other senior management as members.

DB USA Corp measures capital adequacy against the Board approved risk appetite levels for post-stress capital goals, that considers not only regulatory minimums, but also the entity's risk profile, material legal entity capitalization levels, potential G-SIB surcharges, and importantly, the internal and external stakeholder expectations of our shareholder (i.e., the Group), clients, counterparties, rating agencies, creditors and regulators. Additionally, DB USA Corp maintains a stress capital buffer above its post-stress capital goals to withstand a severe economic downturn and idiosyncratic risks to the entity. The stress capital buffer is informed by (1) the level of capital consumption under an adverse economic scenario including idiosyncratic event losses as part of our enterprise stress testing process, (2) a review of DB USA Corp's liquidity and funding profile during periods of stress and inclusion of any subsequent actions needed to maintaining sufficient liquidity and funding, and (3) a review of the sensitivity analysis on capital to deviations in key assumptions and macroeconomic inputs to understand potential variability in capital supply and demand over the projection horizon.

DB USA Corp measures capital adequacy for all internal and regulatory capital and liquidity metrics defined in our capital management policy and risk appetite statement.

Capital Instruments and Distributions

Treasury manages the issuance and repurchase of capital instruments, namely Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments, as well as capital distributions from DB USA Corp to the Group, and upstream distributions to DB USA Corp from its operating subsidiaries. Prior to issuing or distributing capital in the form of regulatory capital instruments or common and preferred dividends, DB USA Corp adheres to the guidelines and dividend pay-out ratio defined in its capital management policy that is approved by the Board. The capital management policy sets forth the criteria to inform the size and form of distributions, as well as triggers for the suspension of distributions such as a breach of internal capital buffers.

Capital Contingency Plan

DB USA Corp maintains a capital contingency plan as an integral part the Group's crisis management and recovery planning framework. Treasury works with Risk and Information & Resilience Risk Management divisions to align and ensure consistency between the Group and local crisis management and recovery planning frameworks including the capital contingency plan, contingency funding plans, the U.S. resolution plan, and the Group's recovery plan. Recovery measures are defined at Group level and include measures that impact DB USA Corp's exposures. These measures are incorporated into the capital contingency and contingency funding plans, and additional measures may also be identified by the business divisions or Treasury. The capital contingency plan and our overall crisis management frameworks prepare DB USA Corp to restore its financial strength and viability during extreme stress situations. The crisis management framework's more specific purpose is to outline how we can respond to a financial stress situation that would significantly impact our capital and liquidity position. Therefore it lays out a set of defined actions aimed at restoring financial strength, protecting our customers and reputation, and preventing a potentially costly recovery or resolution event.

Capital Plan

DB USA Corp maintains and submits the Capital Plan submission to the FRB on an annual basis. The Capital Plan is a comprehensive assessment and documentation of capital adequacy and the capital planning process, prepared for the Board and submitted to the FRB. The capital adequacy assessment, proposed capital distributions, and capital contingency plan are included in the Capital Plan submission.

The Capital Plan provides management and the Board with a comprehensive assessment of the business strategy and risks as well as the risk appetite. DB USA Corp complies with the FRB's capital plan final rule requirement by including (1) an assessment of the expected uses and sources of capital over the planning horizon (at least nine projected quarters) that reflects its size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions; (2) a detailed description of DB USA Corp's process for assessing capital adequacy; (3) DB USA Corp's capital management policy; and (4) a discussion of any baseline changes to DB USA Corp's business plan that is likely to have a material impact on capital adequacy or liquidity.

Risk Identification and Assessment

The process of identifying and assessing material residual risks (the "Risk ID Process") is a foundational part of risk management and capital planning framework. The Risk ID Process identifies a comprehensive inventory of material residual risks (the Risk Inventory) to which a legal entity is exposed. For capital planning purposes, the Risk ID Process directly contributes to scenario design and supports loss and revenue projection model development.

The Risk ID Process is divided into the following key phases/steps:

Business and Business Support Segmentation

The Risk ID Process begins with a bottom-up, segment level approach that involves the close participation of the 1st LoD and 2nd LoD. Both the 1st and 2nd LoD will review and acknowledge the business segmentation, at least annually. To organize the Risk ID capability, the business and business support functions are divided into segments for assessment. These segments capture activities, services, and/or products that share a similar set of operating, revenue, and risk characteristics (i.e., risk measurement and management practices). Activities, services, and/or products which have distinct loss event profiles are considered separate segments to help accurately capture the expected losses from identified risks in U.S. Enterprise Risk Management's Frequency/Severity Grid. The Risk ID segmentation approach is aligned to the Pre-Provision Net Revenue (PPNR) and other modeling requirements. The segments also align with the financial hierarchy reporting structure. Segments will be subject to review and challenge prior to assessment commencing in Q3 of the calendar year.

Risk Taxonomy

The US Risk ID Process leverages the DB Group Risk Taxonomy, which is a granular, standardized set of definitions of key risk types. A formal Risk Taxonomy is essential for consistent categorization of risks, comprehensive risk identification, consistency in risk aggregation, and effective risk management. The Risk Taxonomy is used as a foundational building block for the Risk ID Process and provides a common understanding and lexicon for all Risk ID stakeholders. All risks in the Risk Taxonomy are evaluated as part of the Risk ID Process, but not all risks in the Risk Taxonomy will necessarily enter the Material Risk Inventory.

Initial Assessment

The 1st and 2nd LoD start the process with the Risk Taxonomy and use a workshop-based approach to identify and assess risks at a granular level. The goal of the initial workshop process is to establish the risk profile of a segment for the first time. This Initial Assessment occurs only once for each segment. Subsequent assessments follow the Periodic Refresh Assessments approach.

During the workshop, participants from the 1st and 2nd LoD review and challenge the risks relevant to their businesses that would emerge under base and stress conditions. Participants assess risk impacts to on- and off-balance sheet assets and liabilities and associated risk exposures, the vulnerability of earnings as well as regulatory and reputational implications of risks and other major determinants of an entity's capital adequacy.

Aggregation and Selection

The aggregation methodology enables comparability of expected loss characteristics across risk types. Aggregation is performed at the Business and Business Support segment level and at the DB USA Corp entity level. The Aggregation calculation uses the product of the severity and likelihood category midpoints for each risk type, aggregated across each of the segment workshops, to arrive at an annual equivalent loss (AEL). The aggregated AEL is used to produce an ordinal ranking of risks, to which the Materiality Thresholds/Principles are applied to determine the final Risk Inventory.

Materiality Principles

To ensure comprehensive coverage of risks and robust governance across the process, four principles have been established that determine the set of risks included in the final Material Residual Risk Inventory: (i) identification of risks which meet a Quantitative Threshold (quantitative threshold that is linked to a risk appetite regulatory capital metric); (ii) evaluation of Cusp Risks (below but near the Principle I quantitative threshold); (iii) mapping of External and Internal Findings (e.g. Matters Requiring (Immediate) Attention (MR(I)As), internal or external audit issues, self-identified issues) to the Risk Taxonomy; and, (iv) Governance Review by senior management.

Material Residual Risk Inventory

Prior to finalization, the Material Residual Risk Inventory is subject to senior management and governance committee review, challenge and approval. The final entity-level inventory reflects the material residual risks to which the entity is exposed on an aggregated basis. The final inventory then feeds into downstream processes, including scenario creation and stress testing model development via the capital planning process and development of risk appetite and entity level risk reporting.

Periodic Refresh Assessments

Following the Initial Baseline Assessment, risk identification is refreshed quarterly through a detailed questionnaire process. This quarterly refresh is subject to the same aggregation process, materiality assessment and governance as the initial risk inventory. Also, internal Audit issues and regulatory findings are reviewed monthly to identify any new risks that should be added to the material risk inventory.

Continuous Identification & Monitoring

DB USA Corp has a continuous risk identification capability. Various activities are led by the 1st LoD and risk management groups. Senior management from the 1st LoD functions hold periodic review meetings which identify emerging risks and monitor existing known risks. Senior operational risk managers monitor controls and provide regular feedback to line risk management to refine and enhance those controls.

Each risk type control function produces ongoing reporting that is distributed to a wide audience. Further, the Head of US Enterprise Risk Management (ERM) is a member of the U.S. Management Risk Committee ("U.S. MRC"), and considers agenda items raised at U.S. MRC meetings from a risk identification perspective.

Credit Risk Management

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower or obligor (which we refer to collectively as “counterparties”) exist, including those claims that DB USA Corp plans to distribute.

DB USA Corp understands the below dimensions as key drivers for credit risk:

- Default Risk, the most significant element of credit risk, is the risk that counterparties fail to meet contractual obligations in relation to the claims described above;
- Industry Risk is the risk of adverse developments in the operating environment for a specific industry segment leading to a deterioration in the financial profile of counterparties operating in that segment and resulting in increased credit risk across this portfolio of counterparties;
- Country risk is the risk that we may experience unexpected default or settlement risk and subsequent losses, in a given country, due to a range of macro-economic or social events primarily affecting counterparties in that jurisdiction including: a material deterioration of economic conditions, political and social upheaval, nationalization and expropriation of assets, government repudiation of indebtedness, or disruptive currency depreciation or devaluation. Country risk also includes transfer risk which arises when debtors are unable to meet their obligations owing to an inability to transfer assets to non-residents due to direct sovereign intervention; and
- Product Risk captures product-specific credit risk of transactions that could arise with respect to specific borrowers or group of borrowers. It takes into account whether obligations have similar risk characteristics and market place behaviors.

DB USA Corp manages credit risk based on credit risk management principles and policies set by DB Group, as well as policies and procedures developed by U.S. Credit Risk Management (CRM) to meet US regulatory guidance. U.S. CRM is part of the 2nd line of defense controlling credit risk and is organized in alignment with the divisions of the Bank.

CRM adheres to the following principles:

- Accept credit risk only with creditworthy clients based on proper client due diligence
- Manage concentration risk at counterparty, product, country and industry level. Actively mitigate concentration risk through collateralization, hedging and/or distribution
- Allocate CR appetite by considering sustainable risk/return

CRM is led by the Chief Credit Officer (CCO) Americas, who reports to the Chief Risk Officer, Americas regionally and the Global Head of CRM globally. The CCO Americas is responsible for establishing, implementing and maintaining DB USA Corp credit risk appetite and credit risk governance framework that support the business goals of DB USA Corp and its legal entities.

DB USA Corp adheres to the DB Group credit authority scheme, and all DB USA Corp credit decisions must be made by DB Group credit officers with the appropriate levels or categories of credit authority delegation. Furthermore, a DB USA Corp credit decision requires an additional approval from a U.S.-based credit officer to ensure that the credit exposure meets the legal entity risk appetite.

Credit Risk Measurement

To determine the risk weighted assets for regulatory capital requirement purposes, DB USA Corp measures credit risk using the standardized approach in line with US Basel 3 Standardized Approach capital rules. The standardized approach measures credit risk pursuant to fixed risk weights, which are predefined by the regulator.

Credit Risk Mitigation Techniques

Regulatory Application of Credit Risk Mitigation Techniques

In order to meet EU CRR/CRD 4 requirements, DB USA Corp is required to calculate RWA and maintain capital adequacy in accordance with US Basel 3 Standardized Approach rules. While the EU CRR/CRD 4 and US Basel regulatory frameworks differ in many aspects, the use of credit risk mitigants is recognized under both. Pursuant to the application of relevant credit risk mitigation rules and techniques, cash and securities are generally recognized as mitigants to activities such as repo and repo style transactions, receivables resulting from derivative clearing activities and other similar counterparty receivables. In such cases, the collateral is required to meet eligibility requirements and subject to a haircut based on the type of transaction and credit quality of the collateral received. Counterparty receivables and payables may also be netted for purposes of calculating capital adequacy if eligible netting agreements are in place and meet the requirements set out in the rules.

In summary, DB USA Corp and its subsidiaries use various credit risk mitigation techniques to optimize credit exposure and reduce potential credit losses. Credit risk mitigants are applied in the following forms:

- Comprehensive and enforceable credit documentation with adequate terms and conditions.
- Collateral held as security to reduce losses by increasing the recovery of obligations.
- Risk transfers, which shift the probability of default risk of an obligor to a third party including hedging executed by our Credit Portfolio Strategies Group.
- Netting and collateral arrangements which reduce the credit exposure from derivatives and repo- and repo-style transactions.

Collateral

DB USA Corp's subsidiaries regularly agree on collateral to be received from or to be provided to customers in contracts that are subject to credit risk. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. While collateral can be an alternative source of repayment, it generally does not replace the necessity of high quality underwriting standards and a thorough assessment of the debt service ability of the counterparty.

We segregate collateral received into the following two types:

- Financial and other collateral, which enables us to recover all or part of the outstanding exposure by liquidating the collateral asset provided, in cases where the borrower is unable or unwilling to fulfill its primary obligations. Cash collateral, securities (equity, bonds), and collateral assignments of other claims or inventory, equipment (i.e., plant, machinery and aircraft) and real estate typically fall into this category.
- Guarantee collateral, which complements the borrower's ability to fulfill its obligation under the legal contract and as such is provided by third parties. Letters of credit, insurance contracts, export credit insurance, guarantees, credit derivatives and risk participations typically fall into this category.

Our processes seek to ensure that the collateral we accept for risk mitigation purposes is of high quality. This includes seeking to have in place legally effective and enforceable documentation for realizable and measureable collateral assets which are evaluated regularly by dedicated teams. The assessment of the suitability of collateral for a specific transaction is part of the credit decision and must be undertaken in a conservative way, including collateral haircuts that are applied. We have collateral type specific haircuts in place which are regularly reviewed and approved. In this regard, we strive to avoid "wrong-way" risk characteristics where the borrower's counterparty risk is positively correlated with the risk of deterioration in the collateral value. For guarantee collateral, the process for the analysis of the guarantor's creditworthiness is aligned to the credit assessment process for counterparties.

Risk Transfers

Risk transfers to third parties form a key part of our overall risk management process and are executed in various forms, including outright sales, single name and portfolio hedging, and securitizations. Risk transfers are conducted by the respective business units and by our Credit Portfolio Strategies Group (“CPSG”), in accordance with specifically approved mandates.

CPSG manages the residual credit risk of loans and lending-related commitments of the institutional and corporate credit portfolio and the leveraged portfolio. Acting as a central pricing reference, CPSG provides an observed or derived capital market rate for loan applications; however, the decision of whether or not the business can enter into the credit risk remains exclusively with Credit Risk Management.

CPSG is concentrating on two primary objectives within the credit risk framework to enhance risk management discipline, improve returns and use capital more efficiently:

- to reduce single-name credit risk concentrations within the credit portfolio and
- to manage credit exposures by utilizing techniques including loan sales, securitization via collateralized loan obligations, default insurance coverage and single-name and portfolio credit default swaps.

Netting and Collateral Arrangements for Derivatives and Securities Financing Transactions

Netting is applicable to both exchange traded derivatives and over-the-counter (“OTC”) derivatives. Netting is also applied to securities financing transactions as far as documentation, structure and nature of the risk mitigation allow netting with the underlying credit risk.

In order to reduce the credit risk resulting from OTC derivative transactions, where CCP clearing is not available, DB USA Corp regularly seeks the execution of standard master agreements (such as master agreements for derivatives published by the International Swaps and Derivatives Association, Inc. (ISDA) with our counterparts. A master agreement allows for the close-out netting of rights and obligations arising under derivative transactions that have been entered into under such a master agreement upon the counterparty’s default, resulting in a single net claim owed by or to the counterparty. For parts of the derivatives business (i.e., foreign exchange transactions) we also enter into master agreements under which payment netting applies in respect to transactions covered by such master agreements, reducing our settlement risk. In our risk measurement and risk assessment processes we apply close-out netting only to the extent we have satisfied ourselves of the legal validity and enforceability of the master agreement in all relevant jurisdictions.

Also, we enter into credit support annexes (“CSA”) to master agreements in order to further reduce our derivatives-related credit risk. These annexes generally provide risk mitigation through periodic, usually daily, margining of the covered exposure. The CSAs also provide for the right to terminate the related derivative transactions upon the counterparty’s failure to honor a margin call. As with netting, when we believe the annex is enforceable, we reflect this in our exposure measurement.

Certain CSAs to master agreements provide for rating dependent triggers, where additional collateral must be pledged if a party’s rating is downgraded. We also enter into master agreements that provide for an additional termination event upon a party’s rating downgrade. These downgrading provisions in CSAs and master agreements usually apply to both parties but may also apply to us only. We analyze and monitor our potential contingent payment obligations resulting from a rating downgrade in our stress testing approach for liquidity risk on an ongoing basis.

Concentrations within Credit Risk Mitigation

Concentrations within credit risk mitigations taken may occur if a number of guarantors and credit derivative providers with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations. We use a range of quantitative tools and metrics to monitor our credit risk mitigating activities. These also include monitoring of potential concentrations within collateral types supported by dedicated stress tests.

Asset Quality

Non-Accrual Loans

Loans are placed on non-accrual status if either the loan has been in default as to payment of principal or interest for 90 days or more and the loan is neither well secured nor in the process of collection, or the accrual of interest should be ceased according to CRM's judgment as to collectability of contractual cash flows, i.e. when doubt exists as to the collectability of the remaining recorded investment in a loan then non-accrual status should be applied.

When a loan is placed on non-accrual status, the recorded investment in the loan includes accrued interest. Cash receipts of interest on non-accrual loans are recorded as a reduction of principal. All non-accrual loans in the US must be assigned a default rating (regulatory and internal) to remain in line with the Bank's current global guidelines.

Past Due Loans

Loans are considered to be past due if contractually agreed payments of principal and/or interest remain unpaid by the borrower, except if those loans are acquired through consolidation. The latter are considered to be past due if payments of principal and/or interest, which were expected at a certain payment date at the time of the initial consolidation of the loans, are unpaid by the borrower.

Troubled Debt Restructuring

Loans that have been renegotiated in such a way that the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider, are to be disclosed as Troubled Debt Restructurings.

A troubled debt restructuring may include one or any combination of the following three forms when the borrower is in financial difficulty:

- Modification of terms of a debt, such as one or a combination of any of the following;
    a) Reduction (absolute or contingent) of the stated interest rate for the remaining original life of the debt;
    b) Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
    c) Reduction (absolute or contingent) of the face amount or maturity amount (principal amount) of the debt as stated in the loan agreement;
    d) Reduction (absolute or contingent) of accrued interest.
- Transfer of assets to the creditor to fully or partially satisfy the borrower's debt
- Issuing or granting of an equity interest to the creditor by the debtor to satisfy a debt fully or partially, except for convertible debt.

Impaired Loans

Credit Risk Management regularly assesses whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired and impairment losses are incurred if:

- There is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the balance sheet date ("a loss event"). When making our assessment we consider information on such events that is reasonably available up to the date the financial statements are authorized for issuance and in line with the requirements.
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets, and
- A reliable estimate of the loss amount can be made.

Credit Risk Management's loss assessments are subject to regular review in collaboration with Group Finance. The results of this review are reported to and approved by Group Finance and Risk Senior Management.

Impairment Loss and Allowance for Loan Losses

If there is evidence of impairment the impairment loss is generally calculated on the basis of discounted expected cash flows using the original effective interest rate of the loan. If the terms of a loan are renegotiated or otherwise modified because of financial difficulties of the borrower without qualifying for a derecognition of the loan, the impairment loss is measured using the original effective interest rate before modification of terms. We reduce the carrying amount of the impaired loan by the use of an allowance account and recognize the amount of the loss in the consolidated statement of income as a component of the provision for credit losses. We record increases to our allowance for loan losses as an increase of the provision for loan losses in our income statement. Charge-offs reduce our allowance while recoveries, if any, are credited to the allowance account. If we determine that we no longer require allowances which we have previously established, we decrease our allowance and record the amount as a reduction of the provision for loan losses in our income statement. When it is considered that there is no realistic prospect of recovery and all collateral has been realized or transferred to us, the loan and any associated allowance for loan losses is charged off (i.e. the loan and related allowance for loan losses are removed from balance sheet).

While we assess the impairment for our corporate credit exposures individually, we assess the impairment of our smaller-balance standardized homogeneous loans collectively.

Our collectively assessed allowance for non-impaired loans reflects allowances to cover for incurred losses that have neither been individually identified nor provided for as part of the impairment assessment of smaller-balance homogeneous loans.

Derivatives - Credit Valuation Adjustment

We establish counterparty Credit Valuation Adjustments ("CVA") for OTC derivative transactions to cover expected credit losses. The adjustment amount is determined by assessing the potential credit exposure to a given counterparty and taking into account any collateral held, the effect of any relevant netting arrangements, expected loss given default and the credit risk, based on available market information, including CDS spreads.

Details on impaired loans, allowances for loan losses and non-impaired past due loans can be found in the Credit Risk Exposure section below.

Market Risk Management

Market risk arises from the uncertainty concerning changes in market prices and rates, the correlations among instruments and their levels of volatility. The following types of market risk are identified:

— Interest rate risk;
— Foreign exchange risk;
— Commodity price risk;
— Credit spread risk;
— Equity price risk; and,
— Other Market Risk.

DB USA Corp encounters market risk in both its trading and non-trading activities, by making markets and by taking positions.

Market Risk Management (MRM) is responsible for implementing a framework to identify, measure and assess, validate, limit, and report on market risk in DB USA Corp The framework and related processes ensure that market risks are taken pursuant to the Risk Appetite of DB USA Corp, and are reported and escalated as expected, acting independently of business management and with effective challenge. These processes also contribute to appropriate engagement with regulatory authorities.

Market Risk Identification

MRM performs independent risk identification in accordance with MRM's Risk Identification Framework to ensure granular risk factors and risk types are appropriately captured, and coverage of core and non-core risks.

Market Risk Measurement

MRM demonstrates coverage of all relevant risks, employs approved risk metrics and measurement approaches appropriate to each risk to quantify potential losses. MRM employs stress testing and measures which capture portfolio-specific risks and strategies. Regulatory capital determinations are based upon Market Risk's calculation of risk weighted assets (RWAs) according to the requirements of the US Basel 3 rules. Inputs into this RWA calculation include US Basel 3 regulatory VaR, SVaR, Standardized Charges, and Non Securitized Debt and Equity, as well as the Simplified Supervisory Formula Approach (SSFA). At the DB USA Corp level, as well as across the legal entity and business levels, MRM measures and reports VaR, sensitivities and other key metrics on a daily basis.

Market Risk Monitoring

As a key control function, MRM ensures that DB USA Corp remains within the overall risk appetite set out by the Board by establishing limits and monitoring Market Risk (MR) at different levels of aggregation (e.g. country, index, issuer) to capture the specific dynamics. MRM continuously monitors DB USA Corp's market risk levels including when they are below the relevant risk limit through the use of the Market Risk Management metrics. Limits may be, and in certain cases are required to be, set against these metrics. DB USA Corp is integrated into DB Group's global limit framework, which is defined, monitored and controlled by Group MRM.

DB USA Corp market risk measures (e.g. VaR, sensitivities & other key metrics) are monitored against the established limits on a daily basis, if applicable. Risk reports are sent daily to businesses and senior management with high level risk information also embedded within the monthly Risk and Capital Profile submitted to the U.S. MRC and RiskCo.

Risk exposure includes directional or outright positions and also basis and concentrations in asset classes, risk factors or related risk dimensions. Dimensions are defined as slices of risk beneath the aggregate which can exhibit differences in pricing and as such are representative of a meaningful subset of risk. Concentration risk arises when positions with similar dimensions (characteristics) increase to a significant size, such that adverse development of a limited number of risk factors could lead to a significant loss for the Corporation. Basis risk occurs when the value of one risk factor or dimension does not move in line with another, for example when there is variation in the relationship between the value of a futures contract and that of the underlying exposure.

MR Managers are responsible for monitoring and managing these risks considering absolute size, liquidity (time to exit position under normal or distressed market conditions) and the level of concentrations in crowded trades. Risks are managed through the use of limits in many cases, in constant dialogue with Front Office Senior Management.

It is also the responsibility of each trading desk and business unit to manage their risk exposures, adhere to the approved exposure limits and hence to mitigate market risks appropriately. This can be achieved by using different hedging techniques to reduce relevant exposure. The ultimate responsibility for implementing any required hedging strategy lies with individual business unit management or, in the case of macro-hedges, with central management. MRM can undertake a review of the hedging strategies that are put in place in order to ensure that the risks of the underlying exposures and the hedging positions are fully understood and adequately represented in market risk systems.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal risk but excludes business and reputational risk.

DB USA Corp manages operational risk based on a Group-wide consistent framework that enables DB Group to determine the Operational Risk (OR) profile in comparison to the risk appetite and systematically identify OR themes and to define appropriate risk mitigation measures and priorities.

Group Operational Risk Management (Group ORM) defines the Group Operational Risk Management Framework (GORMF) that ensures that Operational Risks are appropriately identified, assessed, mitigated, monitored, reported and escalated at DB.

— the GORMF supports the day-to-day management of OR, which is the primary responsibility of the Business Division and the service providing Infrastructure Functions (GTO and Corporate Services) and
— Operational Risk Management (ORM) independently monitors, reviews and assesses material operational risks and oversees the consistent application of the GORMF across the Bank.

The GORMF defines the consistent management of risk across all operational risk types and is comprised of a number of processes:

— holistic and efficient risk mitigation / risk acceptance within the defined operational risk appetite;
— timely and complete OR identification / loss capture though continuous collection of internal operational risk events and external loss information. Internal scenarios are also developed to complete the Bank’s Risk Profile;
— timely, accurate and complete assessment of risks and controls mainly through comprehensive Risk and Control Assessment (R&CA), Lessons Learned and Read Across processes;
— effective risk and mitigation monitoring; and
— timely, accurate and effective risk reporting / escalation.

DB USA Corp is covered within the existing GORMF. This GORMF governs issues such as reporting, recording and escalation of OR events and losses.

The Americas Non-financial Risk Management Council (ANFRC) is responsible for the identification, assessment and reporting of non-financial risks facing the Americas region including DB USA Corp. The Council is chaired by the Regional Head of Operational Risk Management Americas. Its responsibilities relevant to DB USA Corp include:

— Management of the DB USA Corp Operational Risk and Capital Profile;
— Review and analysis of regional and applicable global Operational Risk incidents for key themes, including targeted "deep dive analysis" related to identified themes;
— Review of cross-divisional lessons learned from key Operational Risk incidents;
— Management of Non-financial 'Top Risks' facing the region and primary legal entities, including monitoring of any actions being implemented to mitigate such Top Risks;
— Review and approval of capital adequacy / stress testing methodology related to CCAR, DFAST, ICAAP, and other regulatory imperatives; and
— Review and approval of risk acceptances impacting DB USA Corp

The Head of Operational Risk Management for DB USA Corp serves as the dedicated, independent and objective point of contact within the Americas region for all operational risk-related issues that affect DB USA Corp's risk profile and its short-term and long-term strategic plans. The Head also is tasked with improving risk management and strengthening controls via independent assessment of, and effective challenge to, DB USA Corp's operational risk processes, policies, standards, strategies, frameworks, and governance, leveraging formal reviews and performing ongoing monitoring.

Operational Risk Measurement

DB USA Corp does not calculate and measure regulatory capital requirements for operational risk in line with US Basel 3 Standardized Approach capital rules. DB Group calculates OR economic capital using the Advanced Measurement Approach (AMA). Further information on the Group operational risk EC quantification can be found in the Group's annual Pillar 3 Report under sections "Operational Risk Measurement" and "Operational Risk Economic Capital Model".

Operational Risk Monitoring

Operational Risks are identified on a day-to-day basis in all components of the ORM Framework and especially by continuously identifying internal losses, near misses, and deriving internal scenarios to complete the risk profile. Relevant external operational risk loss data is also examined. Each internal Operational Risk event above defined thresholds must be entered in the established dB Incident Reporting System (dbIRS) and analyzed through integrated Operational Risk management processes, including the completion and review of Lessons Learned forms for events that exceed materiality thresholds. The main target of scenario analysis is to ensure that the Operational Risk profiles are materially complete. Thus, internal scenarios serve to provide awareness of new emergent operational risks, contributing to the identification of Operational Risk.

Identified individual Operational Risks must be fully evaluated to enable effective Operational Risk management. The Operational Risk Assessment focuses on the potential severity and likelihood of each identified risk using a self-assessment approach. An assessment is performed to analyze the internal control environment, change processes like new products / processes, outsourcings as well as new or retiring business activities.

The monthly RCP report is the key reporting component for non-financial risk within DB USA Corp The report contains data and information related to Operational Risk Events, including Losses, Near Misses, and Timing Events.

Liquidity Risk 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.

Management of liquidity risk at DB USA Corp is fully integrated into the Group's Liquidity Risk Management Framework.

Treasury's core functions with respect to liquidity risk are to implement the Liquidity Management Framework (LMF) to identify, measure, monitor, and control liquidity risk under normal market conditions and under periods of stress. Treasury's Liquidity Management (LM) function operates within the LMF to ensure the ability of the DB USA Corp to meet all payment obligations when they come due. Treasury manages the liquidity profile of DB USA Corp and execution of all measures required to keep the liquidity risk profile within the Risk Appetite approved by the CRO Americas, the U.S. MRC, the DB USA Corp Board Risk Committee, and the DB USA Corp Board.

Liquidity Risk Control (LRC) conducts independent oversight of the LMF, and proposes and monitors related limits. It regularly validates the individual liquidity risk models developed by Treasury to measure and manage DB USA Corp's liquidity risk profile. LRC also reviews DB USA Corp's liquidity risk limits on a regular basis and proposes necessary changes and is responsible for independent liquidity risk identification and reporting of liquidity risk issues to the CRO, Americas and the relevant risk committees.

Liquidity Risk Monitoring

The tools below are a subset of those used to measure and manage short and long-term liquidity at DB Group level. These tools are also utilized and tailored to the specific nature and needs of DB USA Corp

— Strategic liquidity planning is employed to project liquidity position, such as stress testing and Basel III LCR, and to define the strategic liquidity plan (i.e. Strategic Liquidity Reserve and related costs, limits on wholesale funding exposures and profiles, annual funding plan and related costs) that allows for business planning within the Bank's liquidity risk appetite and regulatory requirements. It is fully integrated into the strategic planning process.
— Liquidity stress testing analyzes DB USA Corp's ability to withstand predefined stress events under the condition that the net liquidity position within a twelve month horizon should exceed the approved liquidity risk appetite as set out in defined scenarios. It is employed to determine limits and liquidity buffers. DB Group incorporates regulatory constraints at the DB USA Corp level towards Intra-Group-Funding into stress testing.
— Secured and unsecured Wholesale Funding (WSF) limits are derived from the stress test under the most severe scenario. Limits and utilization are used to analyze and monitor short term liquidity position, identify concentrations in funding gaps and prevent excessive dependence on overnight and other short dated funding sources. Cash flow details are captured daily and aggregated by tenor and product.

Treasury employs a range of tools and actions to mitigate liquidity risk, including:

— Maintaining a Strategic Liquidity Reserve that encompasses cash and portfolios of central bank-eligible securities and other measures that ensure DB USA Corp can raise funds at very short notice under stressed market conditions and that are not encumbered by any other business purpose.
— An internal transfer pricing framework approved by the Group to ensure that: (i) assets are priced in accordance with their underlying liquidity risk; (ii) liabilities are priced in accordance with their funding maturity; and (iii) contingent liquidity exposures are priced in accordance with the cost of providing for commensurate liquidity reserves to fund unexpected cash requirements.

The weekly Liquidity Scorecard (LSC) is DB USA Corp's key liquidity risk report to members of the RiskCo, committees, and stakeholders. The LSC monitors the compliance of all components of the liquidity risk framework were a dedicated risk appetite has been defined including warning levels and triggers.

Compliance Risk Management

Compliance risk is the risk of incurring criminal or administrative sanctions, material financial loss or damage to DB USA Corp's reputation as a result of failing to comply with laws, regulations, rules, self-regulatory organizational standards, codes of conduct, ethics, and standards of good / best practice.

Compliance Risk Monitoring

Compliance Risk is managed by the Compliance department (supported by the Bank's business divisions and infrastructure functions) via identifying and providing advice and guidance around material rules and regulations and the setup of corresponding controls.

The Compliance department further performs monitoring activities in relation to the coverage of new or changed material rules and regulations and assesses the corresponding control environment, regularly reporting the results to Senior Management.

Anti-Financial Crime Risk Management

Anti-Financial Crime (AFC) manages the risk of incurring criminal or administrative sanctions, material financial losses or damage to DB's reputation as a result of failing to comply with laws, regulations, rules, self-regulatory organizational standards, codes of conduct/ethics, and standards of good/best practice relating to financial crime. AFC includes:

— Anti-Money Laundering (AML);
— Sanctions / Embargoes;
— Anti-Bribery and Corruption (ABC);
— Fraud; and
— Other financial crime activities

Financial Crime risks are managed by our AFC function via maintenance and development of a dedicated program. The AFC program is based on regulatory and supervisory requirements. AFC has defined roles and responsibilities and established dedicated functions for the identification and management of financial crime risks resulting from money laundering, terrorism financing, non-compliance with sanctions & embargoes as well as other criminal activities including fraud, corruption and other crimes.

As 2nd LoD, AFC supports the 1st LoD in carrying out their responsibilities to manage AFC risk by maintaining controls in relation to Know Your Customer (KYC) requirements, monitoring transactional activity, conducting investigatory reviews of suspicious activities, and providing guidance on AFC related matters. AFC further manages risk by maintaining a DB Group AFC Risk Appetite Statement; key excerpts are as follows:

— No appetite for intentional, willfully negligent, repeated unintentional or repeated accidental breaches of law, regulation or policy applicable to Financial Crime Risk.
— No appetite for establishing or actively operating a customer or counterparty relationship with a directly designated entity or person present on the following Sanctions lists: United Nations Security Council, European Union, United States Office of Foreign Assets Control and United Kingdom Her Majesty's (HM) Treasury. Furthermore, there is limited appetite for clients conducting business in Special Risk Countries.
— No appetite for DB USA Corp to be misused for the purpose of money laundering or terrorism financing; to offer products or services to individuals or entities where to do so would result in a prohibited business relationship as defined in the KYC Policy; to engage in business where risk cannot be adequately managed and controlled; and for facilitating business activities for a client which could be construed as a tax offence.
— No appetite for providing or receiving anything of values from/to Public Officials or clients in order to obtain an improper advantage, including obtaining or retaining business for or on behalf DB USA Corp

Reputational Risk Management

Reputation risk is defined as the risk of possible damage to DB USA Corp's brand and reputation, and the associated risk to earnings, capital or liquidity, arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with our values and beliefs. Reputational risk could arise from business and products including, but not limited to, unsuitable products or transactions, regulatory scrutiny, relationships with clients, vendors or outsourcers, and any activity with public visibility.

DB USA Corp seeks to minimize its exposure to reputational risk. As reputational risk cannot be precluded, and is also driven in part by unforeseeable changes in perception of practices by various stakeholders (e.g., public / clients, shareholders, regulators, etc.), we strive to promote sustainable standards that will enhance profitability and minimize the risk that any association, action or inaction is perceived by stakeholders to be inappropriate, unethical or inconsistent with our values and beliefs. It is the responsibility of every employee to be alert to any potential causes of reputational risk, and to take appropriate actions, if necessary.

Reputational Risk Monitoring

There are elements of most other risk types (e.g., credit, market, operational risk, etc.) within the purview of reputational risk. Accordingly, there are dependencies across the broad spectrum of risk types when it comes to the management of reputational risk, as identification and quantification of the reputational risk aspect of risks inherently rooted in other risk stripes can be difficult.

Risks are managed through various means such as the New Product Approval (NPA) Policy, Anti-Money Laundering (AML) / Know Your Customer (KYC) Programs, Vendor / Outsourcing Risk Management and the Reputational Risk Management Program. Potential reputational risks that arise from transactions are escalated to the Americas Reputational Risk Committee (ARRC) as appropriate.

Reputational risk within DB Group is managed on a global basis by the Group Reputational Risk Committee (GRRC), and the Americas Reputational Risk Committee (ARRC) is mandated with primary oversight of DB USA Corp reputation risk. Transactions, businesses or relationships within the component legal entities under DB USA Corp are reviewed at the business level first, by a business unit reputational risk review group (RRRG) who may decide the matter or escalate for further review to the ARRC. Results of all reviews are aggregated at the regional level, and results are reported to the relevant entities' Boards and Operating Committees.

Model Risk Management

Model Risk is defined as the potential for adverse consequences from incorrect or misused model outputs and reports. Model risk can lead to financial loss, poor business or strategic decision making, or damage to DB's reputation.

The term model refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative (this may include models with qualitative outputs, such as lending approvals or decision trees) estimates.

A model consists of three components: an information input component, which delivers data to the model; a processing component (the "core model"), which transforms inputs into estimates; and a reporting component, which translates the estimates into useful business information.

Model risk at DB Group is governed by the Group Model Risk Management Steering Committee (GMRMSC) with mandate to define, approve and oversee the implementation of model risk framework and policies for risk and capital and other models.

Model Risk for DB USA Corp is managed by the U.S. Model Risk Management Committee (U.S. MRMC) and the U.S. Pricing Model Risk Management Committee (U.S. PMRMC).

Holistic Model Risk Management Framework

Model risk management processes entail the identification and assessment of model risk and the definition of appropriate risk mitigation techniques, implemented via a model risk framework comprising the following components:

- Policies: Policies and procedures should be in place covering the design, implementation and use of the model, and clear roles and responsibilities should be defined across the model lifecycle.
- Model Inventory: The model inventory should serve as the complete list of models across DB USA Corp and provide general information about scope, ownership, governance and validation. The model inventory is a key tool in model risk identification.
- Core Controls: Core controls should be implemented across the model lifecycle including ongoing performance monitoring, ongoing model usage monitoring, and validation. The output from core controls may give rise to remediation or mitigation actions.
- Governance: A robust governance structure should be in place to ensure effective execution of the model risk management framework and facilitate oversight of model risk management activities by senior management.
- Measurement and Reporting: Key performance measures / indicators should be defined (e.g., model tiering etc.) in order to provide a view of the inherent model risk and drive the frequency and granularity of mitigating actions. Model risk reporting provides transparency and assessment of the overall model risk control environment to senior management.
- Risk Appetite and Management: The Risk Appetite should be defined with active, ongoing management of Model Risk in place.

Model Risk Reporting

DB USA Corp reporting monitors and assesses model risk across the model lifecycle and provides a view of model risk to the U.S. MRC, RiskCo, and Board, as needed. The U.S. Model Risk Management Committee and U.S. Pricing Model Risk Management Committee periodically provide the RiskCo with Regional Risk Model Risk Reports, which highlight key model risk metrics for pricing, risk, liquidity, and capital models.

Risk and Capital Performance

Regulatory Capital

The calculation of DB USA Corp's regulatory capital is pursuant to the US Basel 3 capital rules and includes applicable deductions and filters, some of which are reported on a transitional basis. The information in this section is based on the regulatory principles of consolidation.

Pursuant to the effective regulations as of year-end 2016, regulatory capital comprises Tier 1 (T1) and Tier 2 (T2) capital. Tier 1 capital is subdivided into Common Equity Tier 1 (CET1) capital and Additional Tier 1 (AT1) capital.

CET1 is comprised of the common stock issued by DB USA Corp, related surplus and retained earnings. AT1 capital is comprised of Class A Preferred Stock issued by DB USA Corp; there are no Tier 2 instruments issued by DB USA Corp.

The terms of the common stock within CET1 provide for the normal payment of dividends if and when declared.

The AT1 preferred stock is voting, non-cumulative, perpetual, has no maturity date and will not be subject to redemption at the option of DB USA Corp or the holders of the preferred stock. Additionally, this class of stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. The preferred stock has a preference over the common stock in the event of liquidation and qualifies as Tier 1 capital in accordance with regulatory capital requirements. The instrument is preferred from a dividend perspective where the dividend shall be equal to: (i) 8.28% per year prior to September 23, 2026, and (ii) 1-Year U.S. Dollar Swap Rate plus 6.59% per year on or after September 23, 2026. This fixed rate dividend is subject to discretionary cancelation which results in a dividend stopper in respect of common stock. The decision whether a distribution can be made is subject to the DB USA Corp Board declaring a distribution. Beginning on September 23, 2026, the preferred stock may be converted, in whole or in part, at the option of the holder thereof into shares of common stock, at the rate of one share of common stock per each share of preferred stock.

AOCI includes unrealized gains and losses on available-for-sale ("AFS") securities. Under the previous capital rules (Basel 1), unrealized gains and losses on AFS debt securities are not included in regulatory capital, i.e., these unrealized gains and losses are filtered out of regulatory capital. One of the perceived benefits of the AOCI filter is that it reduces volatility in a bank's capital levels, especially during periods of interest rate movements. The US Basel 3 capital rules permits certain banks to make a one-time, permanent election to retain the AOCI when computing its common equity capital. An opt-out election must be made in the regulatory report filed for the first reporting period after the banking organization becomes subject to US Basel 3 capital rules, which for DB USA Corporation was July 1, 2106. As DB USA Corp is an Advanced Approach institution, it must include AOCI in its capital calculations.

Transition Period	Percentage of the transition AOCI adjustment amount to be applied to common equity tier 1 capital
Calendar year 2014	80
Calendar year 2015	60
Calendar year 2016	40
Calendar year 2017	20
Calendar year 2018 and thereafter	0

Minimum capital requirements and additional capital buffers

The CET1 minimum, T1 minimum, and Total capital minimum requirements applicable to DB USA Corp are 4.5%, 6.0%, and 8.0% of RWA respectively.

Failure to meet minimum capital requirements can result in supervisory measures such as restrictions of profit distributions or limitations on certain businesses such as lending. DB USA Corp complied with the regulatory capital adequacy requirements in 2016.

In addition to these minimum capital requirements, the capital conservation buffer (CCB) establishes capital buffer percentages above regulatory minimums, which must be maintained in order to avoid restrictions on capital distributions and executive compensation. The CCB is fixed at 2.5% above minimum capital requirements and phased in at 0.625% per year starting 2016 and becomes fully effective starting January 1, 2019. It is composed of CET1 Capital to be maintained above the minimum capital ratios, and is applicable to DB USA Corp. Additionnally, as an advanced approaches banking organization, DB USA Corp. may be required to meet the countercyclical capital buffer (CCyB) if deemed applicable by the FRB. The CCyB for U.S. based credit exposures for DB USA Corp. is currently set at 0%. Any increase of the CCyB amount will generally be effective 12 months from the date of announcement with a cap at 2.5% of RWA which is phased in consistently with the CCB.

Regulatory capital, RWA and capital ratios according to US Basel 3 Capital Rules

	31-Dec-16
in USD m.	US Basel 3
Common Stock plus retained surplus, net of unearned employee stock ownership plan (ESOP) shares	20,465
Retained Earnings	(12,479)
Accumulated Other Comprehensive Income (AOCI) based on transition rules	(180)
Common Equity Tier 1 Capital, before adjustments and deductions	7,806
Common Equity Tier 1 Capital: Adjustments and Deductions	
Less: Goodwill net of associated deferred tax liabilities (DTLs)	(239)
Less: Intangible Assets, net of associated DTL's	(276)
Less: Deferred Tax Assets (DTLs) that arise from net operating losses and tax credit carryforwards, net of valuation allowances	(6)
Total Regulatory Adjustments to Commeon Equity Tier 1 (CET1)	(521)
Common Equity Tier 1 Capital	7,285
Additional Tier 1 (AT1) Capital	
Additional Tier 1 Capital instruments plus related surplus	2,000
Additional Tier 1 (AT1) Capital before adjusments	2,000
Total Regulatory Adjustments to Additional Tier 1 (AT1) Capital	(32)
Additional Tier 1 (AT1) Capital	1,968
Tier 1 Capital (T1 = CET1 + AT1)	9,253
Tier 2 (T2) Capital	
Tier 2 Capital instruments plus related surplus	0
Allowance for loan and lease losses includable in Tier 2 capital	47
Tier 2 (T2) Capital before adjustments	47
Total Regulatory Adjustments to Tier 2 (T2) Capital	0
Tier 2 (T2) Capital	47
Total Regulatory Capital	9,300
Ratios	
Common Equity Tier 1 Capital Ratio (as a percentage of risk-weighted assets)	15.14%
Tier 1 Capital Ratio (ass a percentage of risk-weighted assets)	19.23%
Total Capital Ratio (as a percentage of risk-weighted assets)	19.33%
Capital Conservation Buffer	10.64%

Reconciliation of Financial and Regulatory Balance Sheet

DB USA Corp's consolidated and combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated and combined financial statements.

The consolidated and combined financial statements of the DB USA Corp include all entities in which DB USA Corp has a controlling financial interest. DB USA Corp consolidates entities in which it has a majority voting interest when the voting interest entity is controlled through substantive voting equity interests and the equity investors bear the residual economic risks of the entity. DB USA Corp also consolidates variable interest entities (VIEs) for which DB USA Corp is deemed to be the primary beneficiary in accordance with ASC Topic 810, Consolidation. All material intercompany transactions and balances have been eliminated in consolidation. In the normal course of business, DB USA Corp's operations may include significant transactions conducted with affiliated entities. Such transactions are governed by contractual agreements between DB USA Corp and its affiliates.

DB USA Corp prepares US GAAP financial statements for both financial and regulatory reporting purposes. In certain instances, regulatory reporting instrtuctions and guidance requie that certain assets or liabilities be reported in line items that vary from those used for financial reporting purposes. In other cases, the regulatory reporting format may differ from that used for financial reporting purposes – regulatory reporting formats tend to be much more grandular. In either case, when comparing the fiancial and regulatory financial statements on a line item basis there may be differences between various line items that arise from these differing requirements and reporting formats.

In the case of DB USA Corp, the balance sheet assets, liabilities and stockholder's equity line items used in this report are those represented in the Federal Reserve Bank FR Y-9C Consoidated Financial Statement for Holding Companies report as reported by DB USA Corp as of December 31, 2016. Below is a reconciliation of the balance sheet as reported in the FR Y-9C and that which is reported in the non-public audited financial statements.

	31-Dec-16					
in USD m.	Financial Balance Sheet	Presentation Differences				Regulatory Balance Sheet
		Segregated Cash	Margin Loans	All Other	Total	
Assets						
Cash and cash equivalents	40,470	(4,564)	-	-	(4,564)	35,906
Securities: Available for Sale	384				-	384
Collateralized agreements and financings	97,983	2,333	-	-	2,333	100,316
Loans, net of allowance for loan losses	12,230	-	1,112	89	1,200	13,430
Financial instruments owned, at fair value	25,037	2,062	0	(136)	1,926	26,963
Other assets	10,505	170	(1,112)	42	(900)	9,604
Total assets	186,609	0	0	(6)	(6)	186,603
Liabilities and Stockholders' Equity						
Deposits	31,972	-	-	-	-	31,972
Collateralized agreements and financing:	68,158	-	-	-	-	68,158
Financial instruments sold, but not yet purchased, at fair value	16,262	-	-	(116)	(116)	16,146
Borrowings	35,868	-	-	-	-	35,868
Other liabilities	24,573	-	-	110	110	24,683
Total liabilities	176,832	-	-	(6)	(6)	176,827
Stockholders' Equity						
Preferred stock	2,000	-	-	-	-	2,000
Common stock, par value $1.00 per share. 2,000 shares	0	-	-	-	-	0
Additional paid-in capital	20,465	-	-	-	-	20,465
Accumulated deficit	(12,479)	-	-	-	-	(12,479)
Accumulated other comprehensive income (loss)	(253)	-	-	-	-	(253)
Minority Interest	43	-	-	-	-	43
Total stockholders' Equity	9,777	-	-	-	-	9,777
Total liabilities and stockholder's equity	186,609	0	0	(6)	(6)	186,603

Figures may include rounding differences.

The presentation differences noted in the above reconciliation are primarily due to:

- Segregated Cash: Pursuant to the AICPA Audit and Accounting Guide for Brokers and Dealers in Securities Section 4.26, Cash in banks subject to withdrawal restrictions, restricted deposits held as compensating balances, and cash segregated in compliance with federal or other regulations (such as cash deposited in a special reserve account for the exclusive benefit of customers pursuant to SEC Rule 15c3-3) should be classified separately in the statement of financial condition or disclosed in the notes to the financial statements. The FR Y9-C does not have the same disclosure requirements and as a result, there is a presentation difference between the two statements of financial condition.
- Margin Loans: Pursuant to the AICPA Audit and Accounting Guide for Brokers and Dealers, margin balances are captured as Receivable from, and Payables to, Broker-dealers, Clearing Organizations and Customers (See Sections 4.29 and 4.44). The FR Y9-C does not have the same disclosure requirements and as a result, there is a presentation difference between the two statements of financial condition.

Exposures and Risk-weighted Assets

DB USA Corp Risk-weighted Assets (RWA) are calculated based on the US Basel 3 Standardized Approach capital rules.

For banks calculating RWA under the Standardized Approach, general risk weights are applied for each type of exposure to determine the credit risk RWA amount. Banks are required to calculate exposures amounts for all on-balance sheet exposures, over-the-counter transactions, off-balance sheet commitment trade related contingency, guarantees, repo-style transactions, standby letters of credit, forward agreements and other similar transactions.

These exposure amounts are then multiplied by the supervisory risk weight appropriate to the exposure, based on the exposure type and the counterparty, eligible guarantor or financial collateral. Some of the risk weights applicable to DB USA Corp include:

Exposure Type	Basel III Standardized Approach Risk Weight
Cash	0% risk weight
Exposures to, and portions of exposures that are directly and unconditionally guaranteed by, the US government, its agencies and the Federal Reserve, including deposits guaranteed by the FDIC and National Credit Union Administration	0% risk weight
Portions of exposures that are conditionally guaranteed by the US government, its agencies and the Federal Reserve, including depsosits partially guaranteed by the FDIC and National Credit Union Administration	20% risk weight
Exposures to foreign governments and their central banks - risk weights range from 0% to 100% based on OECD Country Risk Classification (CRC); defaulted exposures are subject to 150% risk weight.	risk weights range from 0% to 100% based on OECD Country Risk Classification (CRC); defaulted exposures are subject to 150% risk weight
Exposures to certain supranational entities and multilateral development banks	0% risk weight
Exposures to US government sponsored entities	20% risk weight
Exposures to US public sector entities, including states and municipalities	20% risk weight for general obligations; 50% for revenue obligations
Exposures to foreign public sector entities	risk weights range from 20% to 100% depending on the type of obligation and the home country's CRC; defaulted exposures are subject to 150% risk weight.
Exposures to US depository institutions and credit unions	20% risk weight.
Exposures to foreign banks	risk weights range from 0% to 150% based on OECD CRC; defaulted exposures are subject to 150% risk weight
Exposures to qualifying securities firms	100% risk weight
Corporate exposures	100% risk weight
Retail exposures	100% risk weight
Residential mortgage exposures	50% risk weight for qualifying first-lien mortgages; 100% for all other
High-volatility commercial real estate (HVCRE) loans	150% risk weight
Past due exposures	150% risk weight
Collateralized transactions, including derivatives and secured financing transactions	risk weights vary depending on collateral approach - Simple Approach (generally a 20% floor) or Collateral Haircut Approach
OTC Derivatives	risk weights vary depending on type of contract, counterparty, collateral and netting eligibility; exposure calculated using the Counterparty Exposure Method (CEM)
Cleared transactions	risk weight is either 2% or 4% of trade exposure to qualified central clearing counterparties
Equity exposures	risk weights range from 0% to 600% depending on type of equity exposure
Unsettled transactions	risk weights range from 100% to 1,250% depending on number of days outstanding after settlement date

The below schedule represents DB USA Corp distribution of RWA by exposure categories as reported in DB USA Corp's FR Y-9C, Schedule HC-R Regulatory Capital for the period ended December 31, 2016.

Operational Risk RWA is not applicable for banks calculating RWA under the US Basel 3 Standardized Approach.

Market Risk RWA is only applicable to banks that are subject to the Market Risk Final Rule. This rule applies to US banking organizations that have significant trading activity ("Market Risk Banking Organizations"). US Market Risk Banking Organizations have aggregated trading assets and liabilities of at least $1 billion or 10% of total assets. DB USA Corp does meet the definition of a Market Risk Banking Organization and therefore is subject to the Market Risk RWA.

Basel 3 Standardized Approach Risk-weighted Assets by Exposure Class

in USD m.	31-Dec-16
US Basel 3 Standardized Approach	US Basel 3
On-balance Sheet Exposures	RWA
Cash and balances due from depository institutions	1,130
Securities: Available for Sale	309
Securities Purchased under agreements to Resell	0
Loans: Held for Sale	89
Loans: Residential mortgage exposures	1,964
Loans: High volatility commercial real estate exposures	245
Loans: Exposures past due 90 days or more or on nonaccrual	99
Loans: All other exposures	7,492
Loans: Allowance for Loan Loss	0
Trading Assets	310
All Other Assets: All Other	3,943
Securitization Exposures: Trading Assets	13
Total On-balance Sheet Exposures	15,593
Off-balance Sheet Exposures	
Financial standby letters of credit	236
Performance standby letters of credit	34
Commercial and similar letters of credit	8
Repo style transactions	16,225
Unused commitments: 1 year of less	8
Unused commitments: exceeding 1 year	1,402
Over-the-counter derivatives	2,343
Centrally Cleared derivatives	205
Unsettled Transactions	52
Total Off-balance Sheet Exposures	20,513
Total Risk Weighted Assets, excluding Market Risk	36,105
Standardized Market Risk Weighted Assets	12,003
Total Risk Weighted Assets	48,108

Credit Risk Exposure

Credit risk exposures are calculated using the US Basel 3 Standardized Approach capital rules. These exposures represent on-balance sheet and off-balance sheet exposures of DB USA Corp on a standalone basis.

For on-balance sheet exposures, the table below provides the exposure amount as reported on the balance sheet as well as the amount that is subject to RWA calculations. For purposes of RWA calculations, on-balance assets are generally measured at their fair value amounts, except for Secured Financing Transactions (SFT) (i.e. repurchase agreements), which are measured net of collateral.

Off-balance sheet exposures are generally converted to a Credit Equivalent Amount by multiplying the exposure or notional by a supervisory credit conversion factor. Below is a summary of some of the conversion factors used in calculating DB USA Corp RWA's.

Calculating the Credit-equivalent amount of derivative contracts subject to bilateral netting agreements

The credit-equivalent amount of contracts that are subject to a bilateral netting agreement is calculated by adding (i) the Net Current Exposure of the derivative contract, and (ii) the sum of the estimates of Gross Potential Future Credit Exposures on all individual contracts subject to a bilateral netting agreement, adjusted to reflect the effects of the bilateral netting agreement.

The Net Current Exposure is the sum of all positive and all negative mark-to-market (MTM) values of the individual derivative contracts subject to the bilateral netting agreement. If the net sum of the MTM values is positive, then the Net Current Exposure is equal to that sum. If the net sum of the MTM values is zero or negative, then the Net Current Exposure is zero.

Gross Potential Future Credit Exposure, or A_{gross} is calculated by summing the estimates of Gross Potential Future Credit Exposure for each individual contract subject to the bilateral netting agreement, then adjusting it to reflect the effects of the bilateral netting agreement.

The effects of the bilateral netting agreement on Gross Potential Future Credit Exposure are recognized through the application of a formula that results in an adjusted add-on amount (A_{net}). The formula, which employs the ratio of Net Current Exposure to Gross Current Exposure (NGR), is expressed as:

$$A_{net} = (0.4 \times A_{gross}) + 0.6\,(NGR \times A_{gross})$$

Contracts not subject to bilateral netting agreements

The credit equivalent amount of a derivative contract not subject to a bilateral netting agreement is equal to the sum of (i) the Current Exposure of the derivative contract; and (ii) the Potential Future Credit Exposure of the derivative contract.

The Current Exposure, also referred to as the Positive Replacement Cost, is determined by the MTM value of the derivative contract. If the MTM is positive, then the Current Exposure is equal to the MTM of the derivative contract. If the MTM is zero or negative, then the Current Exposure is zero. The MTM of the derivative contract is not measured on a netted basis where there is an absence of a bilateral netting agreement but rather evaluated on an individual contract-by-contract basis.

The Potential Future Credit Exposure of a derivative contract, including those derivative contracts with a zero or negative MTM, is estimated by multiplying the notional amount of the derivative contract by a Credit-conversion Factor.

The Credit conversion Factors are as follows (rates are in percentages):

Remaining Maturity	Interest Rate Products	Exchange Rate and Gold Products	Credit (investment grade reference asset)	Credit (noninvestment grade reference asset)	Equity Products	Precious metals (except gold)	Other
One year or less	0.0	1.0	5.0	10.0	6.0	7.0	10.0
Over one year to five years	0.5	5.0	5.0	10.0	8.0	7.0	12.0
Over five years	1.5	7.5	5.0	10.0	10.0	8.0	15.0

Off-balance sheet items conversion factors

Exposure Type	Basel III Standardized Approach Conversion Factor
Unused portion of a commitment that is unconditionally cancellable by the banking organization	0%conversion factor
Amount of a commitment with an original maturity of one year or less that is not unconditionally cancellable by the banking organization	20%conversion factor
Self-liquidating trade-related contingent items, with an original maturity of one year or less	20%conversion factor
Amount of a commitment with an original maturity of more than one year that is not unconditionally cancellable by the banking organization	50%conversion factor
Transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit)	50%conversion factor
Guarantees, repurchase agreements, securities lending and borrowing transactions, credit-enhancing representations and warranties that are not securitization exposures, financial standby letters of credit and forward agreements	100%conversion factor

Gross Exposure by Asset Class and Geographical Region

	31-Dec-16							
in USD m								
	Germany	Europe	North America	Latin America	Caribbean	Asia	Other	**Total**
Cash and Cash equivalents	376	428	34,461	-	623	19	-	35,906
AFS Debt	-	88	272	1	20	2	1	385
Equity Investments	57	-	369	-	7	-	-	433
Loan Equivalents	83	67	12,051	708	360	195	14	13,480
Trading Assets	-	10	2,461	-	-	-	-	2,471
Other Assets	906	143	3,353	2	15	61	1	4,481
Derivatives	51	4,580	11,180	7	582	112	108	16,619
Commitments	3	2	1,542	18	-	-	-	1,566
Other Off-Balance Sheet Exposures	32	-	664	6	3	-	-	705
Repo-Style transactions	258	10,780	44,334	153	5,891	2,201	28	63,645
Grand Total	**1,765**	**16,098**	**110,687**	**896**	**7,502**	**2,590**	**152**	**139,689**

Gross Exposure by Asset Class and Residual Maturity

in USD m	31-Dec-16					
	Up to one month	Over 1 month to not more than 1 year	Over 1 year and not more than 2 years	Over 2 years and not more than 5 years	Over 5 years	Total
Cash and Cash equivalents	35,282	-	59	564	-	35,906
AFS Debt	96	107	56	111	14	385
Equity Investments	39	-	1	221	172	433
Loan Equivalents	1,351	2,635	2,052	2,851	4,591	13,480
Trading Assets	266	1,962	82	114	47	2,471
Other Assets	1,976	20	5	370	2,110	4,481
Derivatives	227	11,021	4,302	456	612	16,619
Commitments	1	457	356	436	315	1,566
Other Off-Balance Sheet Exposures	6	55	454	88	102	705
Repo-Style transactions (1)	48,460	15,014	127	42	3	63,645
Grand Total	**87,704**	**31,272**	**7,494**	**5,253**	**7,966**	**139,689**

1 Include Flexible Repurchase Agreements ("Flex Repos") which combine the security of owning U.S. Government Obligations, fixed interest rates, the withdrawal flexibility of a money market account and the high yield of a medium- or long-term investment. Flex Repos are generally long term because they are tied to construction projects for which bond proceeds need to be invested until payment is due for each stage of construction. In return for the added flexibility, investors in Flex Repos almost always receive slightly lower rates of return than investors with terms that are more traditional. Flex Repos are provided by DBSI, the U.S. broker dealer.

Basel 3 Standardized Approach Exposure Amounts and Risk-weighted Assets by Exposure Class and Risk Weight

in USD m.	31-Dec-16																			
US Basel 3 Standardized Approach	US Basel 3	Exposure		by risk weighting																
On-balance Sheet Exposures	RWA	Balance Sheet Amount	Amount Subject to RWA	0%	2%	4%	10%	20%	50%	100%	150%	250%	300%	400%	600%	625%	937.5%	1250%	Other Amount	Other RWA
Cash and balances due from depository institutions	1,130	35,906	35,906	30,349				5,532	3	21	1	0	0	0	0	0	0	0	0	0
Securities: Available for Sale	309	384	384	138				70	1	156	0	0	10	0	0	0	0	0	9	108
Securities Purchased under agreements to Resell	0	100,316	0	0				0	0	0	0	0	0	0	0	0	0	0	0	0
Loans: Held for Sale	89	89	89	0				0	0	89	0	0	0	0	0	0	0	0	0	0
Loans: Residential mortgage exposures	1,964	3,877	3,877	6				1	3,813	57	0	0	0	0	0	0	0	0	0	0
Loans: High volatility commercial real estate exposures	245	163	163	0				0	0	0	163	0	0	0	0	0	0	0	0	0
Loans: Exposures past due 90 days or more or on nonaccrual	99	66	66	0				0	0	0	66	0	0	0	0	0	0	0	0	0
Loans: All other exposures	7,492	9,269	9,269	444				271	87	7,352	3	0	0	0	0	0	0	0	1,112	38
Loans: Allowance for Loan Loss	0	34	0	0				0	0	0	0	0	0	0	0	0	0	0	0	0
Trading Assets	310	26,962	2,470	2,204				0	44	91	131	0	0	0	0	0	0	0	0	0
All Other Assets: All Other	3,943	9,604	4,843	107				707	3	3,496	3	0	0	2	0	0	0	0	525	292
Securitization Exposures: Trading Assets	13	1	1	0				0	0	0	0	0	0	0	0	0	0	1	0	0
Total On-balance Sheet Exposures	15,593	186,603	57,068	33,248	0	0	0	6,581	3,951	11,262	367	0	10	2	0	0	0	1	1,646	438
Off-balance Sheet Exposures		Credit Equivalent Amount	Amount Subject to RWA	0%	2%	4%	10%	20%	50%	100%	150%	250%	300%	400%	600%	625%	937.5%	1250%	Other Exposure	Other RWA
Financial standby letters of credit	236	664	664	412	0	0	0	20	0	232	0					0	0	0	0	0
Performance standby letters of credit	34	35	35	0	0	0	0	1	0	34	0					0	0	0	0	0
Commercial and similar letters of credit	8	6	6	0	0	0	0	0	0	3	3					0	0	0	0	0
Repo style transactions	16,225	63,645	63,645	39,482	1,637	0	0	7,885	51	14,590	0					0	0	0	0	0
Unused commitments: 1year of less	8	8	8	0	0	0	0	0	0	8	0					0	0	0	0	0
Unused commitments: exceeding 1year	1,402	1,558	1,558	2	0	0	0	123	120	1,305	8					0	0	0	0	0
Over-the-counter derivatives	2,343	6,564	6,564	95	0	0	0	5,157	0	1,312	0					0	0	0	0	0
Centrally Cleared derivatives	205	10,055	10,055	0	9,852	203	0	0	0	0	0					0	0	0	0	0
Unsettled Transactions	52	86	86	80	0	0	0	0	0	2	0					0	0	4	0	0
Total Off-balance Sheet Exposures	20,513	82,621	82,621	40,071	11,489	203	0	13,186	171	17,486	11					0	0	4	0	0
Total Risk Weighted Assets, excluding Market Risk	36,105		36,105	0	230	8	0	3,953	2,061	28,748	567	0	30	8	0	0	0	63		438
Standardized Market Risk Weighted Assets	12,003																			
Total Risk Weighted Assets	48,108																			

Impairments

The allowance for credit losses represents management's estimate of probable losses that have occurred in the loan portfolio and off balance sheet positions, which comprise contingent liabilities and lending related commitments as of the date of the consolidated and combined financial statements. The allowance for credit losses of funded lending related commitments is reported as a reduction of loans on the consolidated statement of financial condition. The allowance for credit losses of undrawn lending related commitments is reported in other liabilities on the consolidated statement of financial condition.

To allow management to determine the appropriate level of the allowance for credit losses, all significant counterparty relationships are reviewed periodically, as are loans under special supervision, such as impaired loans. This review encompasses current information and events related to the counterparty, such as past due status and collateral recovery values, as well as industry, geographic, economic, political, and other environmental factors. This process results in an allowance for credit losses which consists of a specific loss component and an inherent loss component.

The specific loss component represents the allowance for impaired loans. Impaired loans represent loans for which, based on current information and events, management believes it is probable that DB USA Corp will not be able to collect all principal and interest amounts due in accordance with the contractual terms of the loan agreement. The specific loss component of the allowance is measured by the excess of the recorded investment in the loan, including accrued interest, over either the present value of expected future cash flows, including cash flows that may result from foreclosure less costs for obtaining or selling the collateral, or the market price of the loan, discounted at the loan's effective interest rate. Impaired loans are generally placed on nonaccrual status.

The inherent loss component is principally for all other loans not deemed to be impaired, but that, on a portfolio basis, are believed to have some inherent loss, which is probable of occurring and is reasonably estimable. The inherent loss allowance represents an estimate of losses inherent in the portfolio that has not yet been individually identified and reflects the imprecision and uncertainties in estimating the allowance for loan loss. This estimate of inherent losses excludes those exposures that have already been considered when establishing the allowance for smaller balance standardized homogeneous loans.

Amounts determined to be uncollectible are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. The provision for credit losses, which is charged to income, is the amount necessary to adjust the allowance for credit losses to the level determined through the process described above.

The allowance for off balance sheet positions, which is established through charges to other expenses, is determined using the same measurement techniques as the allowance for credit losses.

Impaired loans, allowance for loan losses and coverage ratio by industry

	31-Dec-16		
in USD m.	Impaired Loans	Specific Loan Loss Allowance	Impaired loan coverage ratio (%
Banks and insurance	-	-	-
Fund management activities	-	-	-
Wholesale and retail trade	-	-	-
Households	14	-	0.0%
Commercial and real estate activities	8	-	0.0%
Public sector	-	-	-
Other	84	20	23.8%
Total	106	20	18.9%

Impaired loans, allowance for loan losses and coverage ratio by region

	31-Dec-16		
in USD m.	Impaired Loans	Specific Loan Loss Allowance	Impaired loan coverage ratio (%
Germany	-	-	-
Western Europe (excl. Germany)	-	-	-
Eastern Europe	-	-	-
Central and Southern America	-	-	-
Asia/Pacific	-	-	-
North America	106	20	18.9%
Total	106	20	18.9%

Non-impaired past due loans, at amortized cost by industry

	31-Dec-16
in USD m.	Non-Impaired past due loans
Banks and insurance	-
Fund management activities	-
Wholesale and retail trade	-
Households	-
Commercial and real estate activities	-
Public sector	-
Other	11
Total	11

Non-impaired past due loans, at amortized cost by region

	31-Dec-16
in USD m.	Non-Impaired past due loans
Germany	-
Western Europe (excl. Germany)	-
Eastern Europe	-
Central and Southern America	-
Asia/Pacific	-
North America	11
Total	11

Development of Impaired Loans

in USD m.	31-Dec-16 Impaired loans Individually assessed
Balance, beginning of the year	199
Classified as impaired during the year	218
Transferred to not impaired during the year	-
Charge Offs	109
Disposal of impaired loans	12
Paydowns	180
Other	(10)
Balance, end of the year	106

Development of impaired loans specific loan loss allowance

in USD m.	31-Dec-16 Specific loan loss allowance
Balance, beginning of the year	89
Recoveries	4
Charge Offs	109
Provision for loan and lease losses	36
Other	-
Balance, end of the year	20

Remuneration Policy

Employee Compensation Report

Deutsche Bank Group (the "Bank") generally implements its compensation policies on a group-wide basis, so that the compensation policies and decisions as described below also apply to the employees of DB USA Corp

DB USA Corp and subsidiaries had a total of 8,342 employees as of December 31, 2016, and its total compensation expenses were USD $2,470 million for 2016. The total 2016 Variable Compensation for employees of DB USA Corp amounted to USD $660 million.

Overview on Compensation Decisions for 2016

Compensating the Bank's employees transparently and sustainably is an important element of building a better Deutsche Bank. Against this background, one of the main objectives of our strategy is to align the reward system better with employee conduct and Group returns. For 2016, the Management Board took two major decisions which demonstrate the Bank's commitment towards reaching this goal.

Firstly, the Bank introduced a new compensation framework, which was designed to encourage and reward sustainable performance at all levels of the Bank. It introduced a consistent logic for structuring Total Compensation by providing guidance on the target ratio of fixed to variable compensation components, depending on the level of seniority and the division or function of the employee. Variable Compensation (VC) now generally consists of two elements – the "Group Component" and the "Individual Component". The "Group Component" is designed to link the employee's VC directly and transparently to the Bank's results and achievements in reaching strategic targets while the "Individual Component" is linked to divisional and individual performance on a discretionary basis.

Secondly, the Management Board decided to only award a limited VC pool in light of the results for 2016. Over the course of 2016, the Bank showed strong resilience, in particular due to the hard work and dedication of its employees. In this context, the Bank was also able to make significant progress towards its strategic goals by resolving key matters and restructuring the Bank. Even though the Bank made these steps forward, the compensation decision also had to acknowledge that 2016 was a challenging year for the Bank overall. The Management Board is aware that there is still some way to go to strengthen the Bank and to make it more profitable again. Furthermore, the decisions on VC for 2016 had to take into account the financial impact of the settlement of key matters, as well as the Bank's resulting financial performance. The Management Board therefore decided that a substantial limitation of the VC pool for 2016 would be unavoidable in order to reflect the financial results and to appropriately balance the interests of shareholders and employees. This is especially true at a time when many jobs are being cut and the shareholders are only receiving a low annual dividend.

Specifically, the Management Board decided that the Bank's senior employees (Corporate Titles 'Vice President', 'Director' and 'Managing Director') would only receive a "Group Component" but no "Individual Component". To protect junior employees, employees up to the 'Assistant Vice President' level who were not eligible for a Recognition Award remained eligible to receive a limited Individual VC. For the same reason, the two nomination cycles for the Recognition Awards for the financial year 2016 were carried out as planned. Binding contractual agreements, such as bonuses covered by collective labor agreements, were also fulfilled. Those subsidiaries which have not introduced the new compensation framework in 2016 yet, only granted limited VC pools as well. The respective VC pools were then distributed according to the relevant frameworks.

The "Group Component" was awarded to all eligible employees in line with the assessment of the defined four Key Performance Indicators (KPIs). Based on the fact that solid progress was made during 2016 in improving three of the four KPIs against the Bank's public targets, the Management Board determined a target achievement rate of 50 %. This rate formed the basis for determining employees' specific "Group Component" payout.

A limited number of employees in crucial positions for the further success of the Bank were granted "Retention Awards" as a special long-term incentive in early 2017, to a large part in the form of shares. This incentive is fully deferred for up to five years plus an additional retention period of twelve months.

Regulatory Environment

Ensuring compliance with regulatory requirements is an overarching consideration in the Bank's Group Compensation Strategy. The Bank strives to be at the forefront of regulatory changes with respect to compensation and will continue to work closely with its prudential supervisor, the European Central Bank (ECB), to be in compliance with all existing and new requirements.

As an EU-headquartered institution, Deutsche Bank is subject to the CRD 4 requirements globally, as translated into German national law in the German Banking Act and Institutsvergütungsverordnung (InstVV). The Bank adopted the rules for all subsidiaries and branches world-wide to the extent required in accordance with Sec. 27 InstVV. The Bank also identifies all employees whose work is deemed to have a material impact on the overall risk profile ("Material Risk Takers" or "MRTs") in accordance with criteria stipulated under the Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014. MRTs are identified at a Group level and also at a single legal entity level for significant institutions in the meaning of Sec. 17 InstVV.

Pursuant to CRD 4 and the requirements subsequently adopted in the German Banking Act, the Bank is subject to a ratio of 1:1 with regard to fixed to variable remuneration components, which may be increased to 1:2 with shareholder approval. At the Bank's Annual General Meeting on May 22, 2014, and in accordance with Sec. 25a (5) German Banking Act, shareholder approval was granted to increase the ratio to 1:2 with an approval rate of 95.27 %. To emphasize the fixed proportion of remuneration for control function employees, the Bank has determined that individuals within the corporate control functions, as defined in the Bank's Internal Control Framework, remain subject to a 1:1 ratio.

As a result of sector specific legislation and in accordance with the InstVV, certain Asset Management subsidiaries fall under the 'Alternative Investments Fund Managers Directive' ("AIFMD") or the 'Undertakings for Collective Investments in Transferable Securities' ("UCITS") Directive and are subject to their respective remuneration provisions. One notable difference to CRD 4 and its implementation in German law is that AIFMD/UCITS Material Risk Takers are not subject to the fixed to variable ratio stipulated in CRD 4. The Bank identifies Material Risk Takers in AIFMD/UCITS regulated subsidiaries in accordance with the respective regulation and applies the remuneration provisions for InstVV MRTs also to AIFMD/UCITS MRTs except for the 1:2 ratio with regard to fixed to variable components.

The Bank is also cognizant of the guidelines under the 'Markets in Financial Instruments Directive' (MiFID) targeted at employees who engage directly or indirectly with the Bank's clients. The amended MaComp Circular published in January 2014 by the BaFin outlines compensation aspects of MiFID, and requires implementation of a specific compensation policy addressing general requirements, a review of compensation plans and identification of populations of employees deemed to be "Relevant Persons". All InstVV requirements apply to this population to the same extent.

The Bank also adheres to the requirements regarding compensation arrangements contained in the final rule implementing Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act globally (the "Volcker Rule").

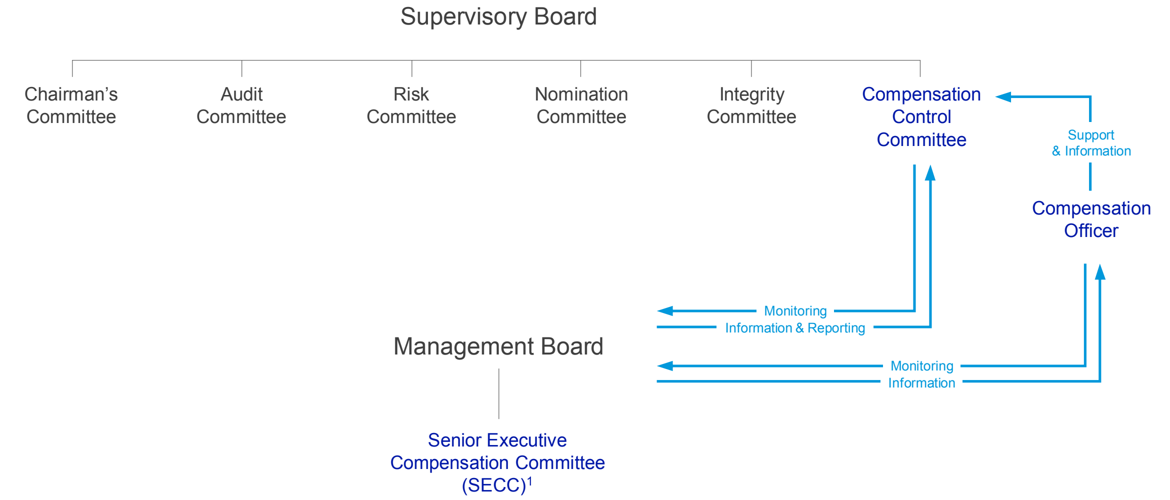
In addition to the foregoing, the Bank is also subject to specific rules and regulations implemented by certain local regulators. Many of these requirements are aligned with the InstVV, however, where variations are apparent, pro-active and open discussions with regulators have enabled the Bank to follow the local regulations whilst ensuring any impacted employees or locations remain within the Bank's overall global compensation framework. This includes, for example, the identification of "Covered Employees" in the United States under the requirements of the Federal Reserve Board. In any case, the Bank applies the InstVV requirements as minimum standards globally.

The Bank will continue to closely monitor the regulatory environment. For 2017, the Bank believes the most significant impact will result from the adoption of the new InstVV by the BaFin. Thorough analysis shows that the Bank's compensation system is already aligned to the new provisions to a large extent. However, there will be some notable changes to the remuneration system, such as the introduction of so-called "clawback" provisions.

Compensation Governance

The Bank has established a robust governance structure enabling it to operate within the clear parameters of the Compensation Strategy and the Compensation Policies. In accordance with the German two-tier board structure, the Supervisory Board governs the compensation of the Management Board members while the Management Board oversees compensation matters for all other employees in the Group. Both the Supervisory Board and the Management Board are supported by specific committees and functions, in particular the Compensation Control Committee (CCC) and the Senior Executive Compensation Committee (SECC).

Reward Governance structure



[1] The relevant tasks are performed by the SECC on behalf of the Management Board.

Compensation Control Committee

The Supervisory Board has established the CCC in accordance with Sec. 25d (12) German Banking Act. It consists of the Chairperson of the Supervisory Board and three further Supervisory Board Members, two from among the employee representatives, and had twelve meetings in the calendar year 2016, four of them being joint meetings with the Risk Committee and one of them being a joint meeting with the Chairman's Committee.

The responsibilities of the CCC include supporting the Supervisory Board in establishing and monitoring the appropriate structure of the compensation system for the Management Board Members of Deutsche Bank AG, considering, in particular, the effects on the risks and risk management in accordance with the InstVV. Furthermore, the CCC monitors the appropriate structure of the compensation system for the employees, as established by the Management Board and the Senior Executive Compensation Committee. The CCC checks regularly whether the total amount of VC is appropriate and set in accordance with the InstVV.

The CCC also assesses the impact of the compensation systems on the management of risk, capital and liquidity and seeks to ensure that the compensation systems are aligned to the business and risk strategies. Furthermore, the CCC supports the Supervisory Board in monitoring whether the internal control functions and the other relevant areas are properly involved in the structuring of the compensation systems.

Compensation Officer

In accordance with Sec. 23 InstVV, the Management Board, in cooperation with the CCC, has appointed a Compensation Officer. The Compensation Officer supports the Supervisory Board and the CCC in performing their duties relating to the compensation systems and cooperates closely with the Chairperson of the CCC. The Compensation Officer is involved in the conceptual review, development, monitoring and the application of the employee's compensation systems on an ongoing basis. The Compensation Officer performs his monitoring obligations independently and provides an assessment on the appropriateness of design and practices of the compensation systems for employees at least annually.

Senior Executive Compensation Committee

The SECC is a delegated committee established by the Management Board which has the mandate to develop sustainable compensation principles, to prepare recommendations on Total Compensation levels and to ensure appropriate compensation governance and oversight. The SECC establishes the Group Compensation Strategy and Compensation Policy. The SECC also utilizes quantitative and qualitative factors to assess performance as a basis for compensation decisions and makes recommendations to the Management Board regarding the annual VC pool and its allocation across Business Divisions and Infrastructure Functions.

In order to maintain its independence, only representatives from Infrastructure Functions who are not aligned to any of the Business Divisions are members of the SECC. In 2016, the SECC's membership comprised of the Chief Administration Officer and the Chief Financial Officer as Co-Chairpersons, as well as the Chief Risk Officer (all of whom are Management Board Members), the Global Head of Human Resources and an additional Finance representative as Voting Members. The Compensation Officer, the Deputy Compensation Officer and one of the Global Co-Heads of HR Manage & Reward Performance were Non-Voting Members. The SECC generally meets on a monthly basis and it had 13 meetings with regard to the performance year 2016 compensation process.

Compensation Strategy

Deutsche Bank recognizes that its compensation system plays a vital role in supporting its strategic objectives. It enables the Bank to attract and retain the individuals required to achieve the Bank's objectives. It also encourages employees to reach their full potential. The Group Compensation Strategy is aligned to the Bank's strategic objectives and to its corporate values and beliefs.

Five key objectives of our compensation practices

- To support the delivery of the Bank's client-focused, global bank strategy by attracting and retaining talent across its full range of diverse business models and country locations
- To support the long-term, sustainable performance and development of the Bank and a corresponding risk strategy
- To promote and support long-term performance based on cost discipline and efficiency
- To ensure that the Bank's compensation practices are safe, by way of risk-adjusting performance outcomes, preventing inappropriate risk taking, ensuring sustained compatibility with capital and liquidity planning, and complying with regulation
- To apply and promote the Bank's corporate values of integrity, sustainable performance, client centricity, innovation, discipline and partnership

Core remuneration principles

- Align compensation to shareholder interests and sustained bank-wide profitability, taking account of risk
- Maximize sustainable performance, both at the employee and the bank-wide level
- Attract and retain the best talent
- Calibrate compensation to reflect different divisions and levels of responsibility
- Apply a simple and transparent compensation design
- Ensure compliance with regulatory requirements

The Group Compensation Policy is an internal document focused on informing and educating employees with regard to the Bank's Compensation Strategy, governance processes as well as compensation practices and structures. Together, the Group Compensation Strategy and the Group Compensation Policy provide a clear and documented link between compensation practices and the wider Group strategy. Both documents have been published on the Bank's intranet site and are available to all employees.

Total Compensation Structure

As part of the Compensation Strategy, the Bank employs a so-called "Total Compensation philosophy", which comprises Fixed Pay and VC. Total Compensation provides an equitable basis for differentiating competitive pay outcomes while reinforcing the Bank's overall strategy within a sound risk management and governance framework, giving due consideration to market factors and regulatory requirements.

In 2016, the Bank introduced a new compensation framework to align employee compensation even more closely with the strategic and business objectives of the Bank, while reducing complexity at the same time. The new compensation framework also puts a stronger emphasis on Fixed Pay over VC and aims to ensure that these components are appropriately balanced.

Fixed Pay is used to compensate employees for their skills, experience and competencies, commensurate with the requirements, size and scope of their role. The appropriate level of Fixed Pay is determined with reference to the prevailing market rates for each role, internal comparisons and applicable regulatory requirements. It plays a key role in permitting the Bank to meet its strategic objectives by attracting and retaining the right talent. For the majority of employees, Fixed Pay is the primary compensation component, and the share of fixed compensation within Total Compensation is far greater than 50 %. This is appropriate to many businesses and will continue to be a significant feature of Total Compensation going forward.

VC has the advantage of being able to differentiate between individual performance and drive behavior through appropriate incentive systems that can positively influence culture. It also allows for flexibility in the cost base. Under the new compensation framework, VC generally consists of two elements – the "Group Component" and the "Individual Component".

In particular, one of the overarching goals of the new compensation framework is to strengthen the link between VC and the performance of the Group. To that end, the Management Board decided to align the "Group Component" directly and in a manner comprehensible for the employees to the Bank's achievements in reaching strategic targets. To assess progress towards the strategic aspirations, the Management Board has decided to utilize four Key Performance Indicators (KPIs) that are significant metrics for the capital, risk, cost and revenue profile of the Bank: Common Equity Tier 1 (CET1) capital ratio (fully loaded), Leverage ratio, Adjusted cost base (without Postbank and NCOU) and Post-tax return on tangible equity (RoTE). These four KPIs are relevant for regulators, investors and other external stakeholders as they show the progress on the implementation of the strategy and thereby recognize that every employee contributes to the Bank's success.

Depending on eligibility, the "Individual Component" is delivered either in the form of Individual VC or a Recognition Award.

Whereas the "Group Component" links to Group performance, Individual VC takes into consideration a number of financial and non-financial factors. These include the applicable divisional performance, the employee's individual performance and conduct, relativities within the employee's peer group and retention considerations.

The Recognition Award program is targeted at non-tariff employees at the lower hierarchy levels. It provides the opportunity to acknowledge and reward outstanding contributions made by the target population in a transparent and timely manner. Generally, there are two nomination cycles per year.

Under the new compensation framework, there continues to be no guarantee of VC in an existing employment relationship.

Overview on compensation elements

Fixed Pay[1]

Used to compensate employees for their skills, experience and competencies

Linked to requirements, size and scope of the role

Variable Compensation

Group Component

KPIs	Weighting
CET1 ratio	25%
Leverage ratio	25%
Adjusted cost base (without Postbank and NCOU)	25%
Post-tax return on tangible equity	25%

Individual Component

Individual Variable Compensation	Component for more senior employees based on - individual objectives and expectations - financial and non-financial factors - divisional success
Recognition Award	Acknowledges outstanding contributions of employees of lower hierarchical levels with generally two nomination cycles per year

Benefits

Granted in accordance with respective local market practice, requirements and demands (including company pension schemes)

May be linked to certain seniority or to certain length of service without direct link to performance

[1] Fixed Pay may include an Additional Fixed Pay Supplement, regional allowances, or other non-salary elements or allowances where applicable.

Determination of Variable Compensation – Methodology

The Bank has a robust methodology in place, aimed at ensuring that the determination of variable compensation (VC) reflects the risk-adjusted performance as well as the capital position of the Bank and its divisions. The Group VC pool is primarily driven by (i) Group affordability (i.e. what "can" the Bank award in alignment with regulatory requirements) and (ii) Group strategy (what "should" the Bank award in order to provide an appropriate compensation while protecting the long-term health of the franchise). In 2016, the Bank has revised the methodology to reflect the new compensation framework and its compensation elements.

Determination of Variable Compensation

Parameter	Description
Group affordability assessment	Group affordability is assessed, as a first step, to determine if the Bank is in a position to award VC. This includes conducting the so-called 'Net Results Test' and reviewing the outcome in the context of the defined Group affordability parameters. The affordability parameters used are fully aligned to the Bank's Risk Appetite Framework and include: CET 1 Ratio, Economic Capital Adequacy Ratio, Leverage Ratio, Stressed Net Liquidity Position and Liquidity Coverage Ratio. The Group VC pool is considered affordable if aligned with these key parameters and if consistent with the projected fulfilment of future regulatory and strategic goals.
Group Component	The Group Component aligns a portion of all employees' compensation with the performance of the Bank vis-à-vis strategic targets. The Group Component is determined based upon the performance of four equally weighted Key Performance Indicators (KPIs): CET 1 ratio (fully loaded), Leverage ratio, Adjusted cost base (without Postbank and NCOU) and Post-tax Return on Tangible Equity. These four KPIs represent important metrics for the capital, risk, cost and the revenue profile of the Bank and provide a good indication of the sustainable performance of the Bank.
Individual VC	The Bank references a range of considerations as part of its Individual VC determination methodology. For the Business Divisions, the starting point of any pool determination is their financial performance. This is assessed in context of divisional targets and appropriately risk-adjusted, in particular by referencing the degree of future potential risks to which the Bank may be exposed, and the amount of capital required to absorb severe unexpected losses arising from these risks. For the Infrastructure Functions, the performance assessment is based on achievement of cost performance & control targets. While Infrastructure VC pools depend on the overall performance of the Bank, they are not dependent on the performance of the division(s) they oversee in line with regulatory requirements. In addition, the Bank retains the ability to adjust the total amount of Individual VC on the basis of a discretionary decision with due consideration given to key quantitative and qualitative factors, including strategic qualitative factors, e.g. progress on strategic objectives, balance of employee protection and shareholder return, strategic importance of the division to the Group, future business strategy needs such as franchise protection and growth, relative performance vs. peers and market position / trends.
Recognition Award	The purpose of the Recognition Award is to recognize outstanding contributions from the Bank's population on lower hierarchical levels. The size of the Recognition Award Program is directly linked to a set percentage of Fixed Pay for the in scope employee population and it is generally paid out twice a year.

Variable Compensation Structure and Vehicles

The Bank's compensation structures are designed not to provide any incentive to engage in excessive risk-taking. They aim to ensure that the alignment of the VC to the sustainable performance of the Group increases with the level of responsibility and the overall amount of compensation awarded. In this context, the Bank continues to believe that the use of shares or share-based instruments for remuneration purposes is an effective way to align the compensation with the Bank's long-term performance and the interests of shareholders. By using Deutsche Bank shares, the value of the individual's remuneration is linked to the Bank's share price over the vesting and retention period, if applicable, and is therefore tied to the long-term performance of the Bank.

As in previous years, the Bank has decided to exceed certain regulatory restrictions regarding VC, meaning that the Bank is putting structures and restrictions in place that are stricter than certain regulatory requirements. 40 % of VC (60 % for Executive Directors) for material risk takers (MRT) is deferred for four years on a pro rata vesting schedule. Additionally, the Bank identified a so-called "Senior Leadership Cadre" (SLC) consisting of the Bank's most senior employees who are the significant influencers and stewards of the Bank's long-term health and performance. To further align the compensation of this group with the sustained performance of the Bank, their deferred equity awards are subject to four and a half years cliff vesting. As for Executive Directors, their deferral rate is 60 %.

All MRTs receive 50 % of their Deferred Awards in Restricted Equity and 50 % in Restricted Cash. In addition, 50 % of the upfront VC award is also granted as equity. All equity awards for MRTs are subject to an additional retention period upon the vesting of each tranche, during which employees are not permitted to sell their shares. In accordance with respective guidance provided by the BaFin, these requirements do not apply for MRTs whose VC is less than € 50,000.

The Bank chose to apply the MRT remuneration structures consistently to all other senior employees (Corporate Titles 'Vice President', 'Director' and 'Managing Director') who have not been identified as MRT, with the exception of the upfront VC proportion which is awarded 100 % in cash. Any deferred equity proportion is also not subject to an additional retention period.

Overview on award structure

Award Type	Weighting	Proportion	Deferral Period	Retention Period
Upfront Compensation	60% of VC[1]	50% cash (Cash Bonus)[2]	N/A	N/A
		50% equity (Equity Upfront Award ("EUA"))[2]	N/A	12 months[3]
Deferred Compensation	40% of VC[1]	50% cash (Restricted Incentive Award ("RIA"))	Pro rata over 4 years	N/A
		50% equity (Restricted Equity Award ("REA"))	Pro rata over 4 years; 4.5 year cliff vesting for SLC	6 months[3]

N/A – Not applicable.
1 40 % deferral for awards ≥ € 50,000 (60 % for Executive Directors and Senior Leadership Cadre); employees with a Variable Compensation of < € 50,000 receive 100 % cash.
2 Non-MRTs receive 100 % of their upfront compensation in cash.
3 Only applies to MRTs.

Ex-post Risk Adjustment of Variable Compensation

Performance conditions and forfeiture provisions are key elements of the Bank's deferred compensation structures and support the alignment of awards with future employee conduct and performance while also allowing for an appropriate back-testing of the initial performance assessment. While all deferred awards are subject to numerous performance conditions and forfeiture provisions, the specific applicability depends on the award component, the employees' division and any identification as an MRT. An overview on the performance conditions and forfeiture provisions can be found below.

Overview on performance conditions and forfeiture provisions of Variable Compensation

Provision	Description	Forfeiture
Group's CET 1 Ratio	If at the quarter end prior to vesting and delivery the Group's CET 1 Ratio is below a certain threshold	Next tranche of equity based deferred award due for delivery (100% of all un-delivered Equity Upfront Awards)[1]
Negative Group IBIT	If the Management Board determines that prior to delivery Group IBIT is negative	Next tranche of equity based deferred award due for delivery (applies also to cash based deferred award of MRTs)[2]
Negative Divisional IBIT	If the Management Board determines that prior to delivery Divisional IBIT is negative	Next tranche of deferred award due for delivery (applies only to MRTs in Business Divisions excluding NCOU MRTs)[2]
Impairment	If any award was based on performance measures or assumptions that are later deemed to be materially inaccurate or if a deal, trade or transaction considered to be attributable to an employee has a significant adverse effect	Up to 100% of undelivered awards
Policy / Regulatory Breach	In the event of an internal policy or procedure breach, or breach of any applicable laws or regulations	Up to 100% of undelivered awards
Material Control Failure	If a Material Control Failure occurs which is considered to be attributable to the employee	Up to 100% of undelivered awards
Regulatory Requirements	If forfeiture is required to comply with prevailing regulatory requirements	Up to 100% of undelivered awards

[1] For award types subject to cliff-vesting, the whole award will be forfeited if at quarter end prior to vesting or settlement the Group's CET 1 ratio is below the threshold.
[2] For award types subject to cliff-vesting, a certain award proportion (20 % for REA of the SLC) will be forfeited in respect of a year, if the IBIT is negative for that year.

With respect to deferred awards from prior financial years scheduled to be delivered in the first quarter of 2017, the Management Board has confirmed that the performance conditions relating to Group-wide and divisional IBIT for the financial year 2016 have been met.

Compensation disclosure pursuant to Sec. 16 InstVV and Art. 450 CRR

The Bank identified individuals who have a material impact on the risk profile of the Group (InstVV MRTs). Of these, 912 InstVV MRTs were employed by either the DB USA Corp or one of its affiliates within the consolidation. The

collective remuneration elements for these InstVV MRTs are detailed in the tables below in accordance with Sec. 16 InstVV and Art. 450 CRR.

Aggregate remuneration for InstVV Material Risk Takers

									2016
								Business units	
in € m. (unless stated otherwise) [1]	Senior Management [2]	GM	CIB	PW&CC	Deutsche AM	NCOU	Independent Control Functions [3]	Corporate Functions [4]	Total
Number of MRTs (headcount)	17	380	283	87	89	10	19	27	**912**
Number of MRTs (FTE)	17	379	283	87	89	10	19	27	**911**
Total Pay	39	237	193	56	57	7	11	15	**616**
Total Fixed Pay	34	206	170	46	40	7	10	14	**528**
Total Variable Pay for period	5	31	23	10	17	1	1	1	**88**
thereof: in cash	2	19	13	8	9	0	1	1	**54**
in shares	2	12	9	2	7	0	0	0	**34**
in other types of instruments	0	0	0	0	1	0	0	0	**1**
Total Variable Pay for period, deferred	4	17	12	3	14	0	0	0	**51**
thereof: in cash	2	9	6	1	7	0	0	0	**25**
in shares	2	9	6	1	7	0	0	0	**25**
in other types of instruments	0	0	0	0	1	0	0	0	**1**

Article 450 (1) h(iii) of the CRR in conjunction with article 450 (1) h(iv) of the CRR on deferred variable remuneration from previous years and on explicit risk adjustments

									2016
		Business units							
in € m. (unless stated otherwise)[1]	Senior Management[2]	GM	CIB	PW&CC	Deutsche AM	NCOU	Independent Control Functions[3]	Corporate Functions[4]	Total
Total amount of variable pay still outstanding at the beginning of the year that was deferred in previous years	117	318	272	81	48	12	7	27	**883**
thereof:									
vested	42	157	132	41	20	5	3	10	**410**
unvested	75	161	140	40	28	7	3	18	**473**
Deferred Variable Pay awarded, paid out or reduced during period									
awarded during period	42	162	156	37	45	5	5	9	**461**
paid out during period	29	112	96	23	16	4	2	8	**290**
reduced through explicit risk adjustments									**1**
Article 450 (1) h(v) of the CRR on hiring bonuses									
Number of beneficiaries of guaranteed variable remuneration (hiring bonuses)	6	9	6	1	1	-	2	-	**20**
Total amount of guaranteed variable pay (hiring bonuses)	2	5	16	0	0	0	1	0	**24**
Article 450 (1) h(v) and (vi) of the CRR on severance payments									
Total amount of severance payments granted	0	4	1	0	2	0	0	0	**7**
Number of beneficiaries of severance payments granted by headcount/FTE	-	20	6	2	13	-	-	1	**42**
Highest severance payment granted to an individual									0

1 Figures may include rounding differences.
2 Refers to members of the Senior Leadership Cadre.
3 In accordance with regulatory guidance, “Independent Control Functions” for the purposes of this table include the areas of the Chief Risk Officer, the Chief Regulatory Officer as well as Group Audit. Internally, the Bank has identified more Infrastructure Functions as “Independent Control Functions” to which the Bank also applies the fixed to variable remuneration ratio of 1:1.
4 Corporate Functions comprise any Infrastructure Function that is not captured as Independent Control Function for the purposes of this table.

Remuneration of high earners

in €	2016 Number of employees
Total Pay	
1,000,000 to 1,499,999	85
1,500,000 to 1,999,999	30
2,000,000 to 2,499,999	15
2,500,000 to 2,999,999	6
3,000,000 to 3,499,999	10
3,500,000 to 3,999,999	1
4.000,000 to 4,499,999	1
4,500,000 to 4,999,999	0
5,000,000 to 5,999,999	0
6,000,000 to 6,999,999	1

In total, 149 employees received a Total Pay of € 1 million or more for 2016.