



# Pillar 3 Report 2017

## Contents

<b>INTRODUCTION .....</b>	<b>4</b>
DISCLOSURES ACCORDING TO PILLAR 3 OF THE BASEL 3 CAPITAL FRAMEWORK.....	4
ADDITIONAL DISCLOSURE REQUIREMENTS FOR SIGNIFICANT SUBSIDIARIES .....	4
LOCATION OF PILLAR 3 DISCLOSURES .....	5
BASIS OF PRESENTATION .....	6
SCOPE OF APPLICATION.....	6
<b>RISK MANAGEMENT FRAMEWORK AND GOVERNANCE .....</b>	<b>7</b>
RISK MANAGEMENT FRAMEWORK.....	7
RISK GOVERNANCE .....	7
RISK CULTURE .....	8
RISK APPETITE AND CAPACITY .....	9
<b>RISK AND CAPITAL PLAN .....</b>	<b>10</b>
INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS .....	10
CAPITAL AND STRATEGIC PLANNING .....	10
STRESS TESTING .....	11
<b>RISK AND CAPITAL MANAGEMENT.....</b>	<b>12</b>
CAPITAL MANAGEMENT.....	12
RISK IDENTIFICATION AND ASSESSMENT .....	13
CREDIT RISK MANAGEMENT.....	14
ASSET QUALITY .....	18
MARKET RISK MANAGEMENT.....	20
LIQUIDITY RISK MANAGEMENT .....	21
NON-FINANCIAL RISK MANAGEMENT.....	22
MODEL RISK MANAGEMENT .....	24
COMPLIANCE RISK MANAGEMENT .....	25
ANTI-FINANCIAL CRIME RISK MANAGEMENT.....	25
<b>RISK AND CAPITAL PERFORMANCE.....</b>	<b>26</b>
REGULATORY CAPITAL .....	26
MINIMUM CAPITAL REQUIREMENTS AND ADDITIONAL CAPITAL BUFFERS .....	27
RECONCILIATION OF FINANCIAL AND REGULATORY BALANCE SHEET.....	29
EXPOSURES AND RISK-WEIGHTED ASSETS .....	30

CREDIT RISK EXPOSURE .....	33
CREDIT RISK AND CREDIT RISK MITIGATION .....	38
DB USA CORP APPLIES THE MAJORITY OF CREDIT RISK MITIGATION TECHNIQUES TO SECURED FINANCING TRANSACTIONS (SFT) AND DERIVATIVES.	
CREDIT RISK MITIGATION TECHNIQUES FOR THE REMAINING PRODUCTS ARE IMMATERIAL. ....	38
(2) SECURITIES COLLATERAL IS REFLECTED AT ITS FAIR VALUE, BUT HAS BEEN LIMITED TO THE NET EXPOSURE ON THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION IN ORDER TO EXCLUDE ANY OVER-COLLATERALIZATION. THESE AMOUNTS DO NOT REFLECT ANY CASH COLLATERAL.....	38
(3) INCLUDES AMOUNTS SUBJECT TO ENFORCEABLE MASTER NETTING AGREEMENTS THAT HAVE NOT MET THE REQUIREMENTS FOR OFFSETTING IN ACCORDANCE WITH APPLICABLE ACCOUNTING GUIDANCE BUT ARE ELIGIBLE FOR OFFSETTING TO THE EXTENT AN EVENT OF DEFAULT HAS OCCURRED. ....	38
IMPAIRMENTS .....	39
<b>REMUNERATION POLICY .....</b>	<b>43</b>
EMPLOYEE COMPENSATION REPORT .....	43
OVERVIEW ON COMPENSATION DECISIONS FOR 2017 .....	43
REGULATORY ENVIRONMENT.....	44
COMPENSATION GOVERNANCE .....	45
COMPENSATION STRATEGY .....	46
TOTAL COMPENSATION FRAMEWORK .....	47
DETERMINATION OF VARIABLE COMPENSATION .....	48
VARIABLE COMPENSATION STRUCTURE .....	49
EX-POST RISK ADJUSTMENT OF VARIABLE COMPENSATION .....	50
RETENTION AWARD PROGRAM (GRANTED IN JANUARY 2017).....	50
MATERIAL RISK TAKER COMPENSATION DISCLOSURE.....	51

# 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 a 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, where applicable, as of December 31, 2017:

- Total Assets of € 30 billion or more (on individual or sub-consolidated basis)
- Five percent or more of our risk-weighted assets (RWA) 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 in accordance with Article 13 CRR:

DB USA Corp publishes the Pillar 3 disclosure report on an annual basis 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 (FR Y-9C).

Per the U.S. regulatory requirements, DB USA Corp does not have to comply with Liquidity Coverage Ratio (LCR) disclosure 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)	<ul style="list-style-type: none"> <li>❖ “Development of regulatory capital” table</li> <li>❖ “Reconciliation of Consolidated Balance Sheet according to Local GAAP to regulatory Balance Sheet” table</li> </ul>
Compliance to own funds requirements (Article 92)	<ul style="list-style-type: none"> <li>❖ “Development of regulatory capital table” table</li> <li>❖ “Regulatory Capital Requirements and Risk-weighted Assets” table</li> </ul>
Approach to assessing the adequacy of internal capital to support current and future activities (Article 438 (a))	<ul style="list-style-type: none"> <li>❖ “Internal Capital Adequacy Assessment Process” section</li> <li>❖ “Economic capital requirements (internal capital adequacy under Pillar 2)” table</li> </ul>
Risk-weighted exposure amounts (Article 438 (c)-(f))	<ul style="list-style-type: none"> <li>❖ “EAD gross by exposure class and geographical region” table</li> <li>❖ “EAD gross by exposure class and residual maturity” table</li> <li>❖ “Exposure values in the standardized approach by risk weight” table</li> </ul>
Capital buffer (Article 440)	<ul style="list-style-type: none"> <li>❖ “Minimum capital requirements and additional capital buffers” section.</li> <li>❖ “EAD gross by exposure class and geographical region” table</li> </ul>
Credit risk adjustments: information regarding exposure to credit risk and dilution risk (Article. 442)	<ul style="list-style-type: none"> <li>❖ “Impairment loans, allowance for loan losses and coverage ratio by business divisions” table</li> <li>❖ “Impairment loans, allowance for loan losses and coverage ratio by industry” table</li> <li>❖ “Impairment loans, allowance for loan losses and coverage ratio by region” table</li> <li>❖ “Development of Impaired Loans” table</li> </ul>
Remuneration policy (Article 450)	❖ “Remuneration policy” section
Leverage (Article 451)	❖ N/A
Use of credit risk mitigation techniques (Article 453)	❖ “Credit risk management” section

## Basis of Presentation

DB USA Corp Pillar 3 Report has been prepared in accordance with US GAAP, while Regulatory Capital and RWA calculations are based on U.S. Basel 3 Standardized approach capital rules. In this regard RWA, Capital and associated disclosures are based on U.S. regulatory reporting requirements as defined by the FR Y-9C and in conjunction with U.S. Basel 3 rules. Quantitative Pillar 3 disclosures, in the Pillar 3 Report follow the classification and segmentation required by the FR Y-9C reporting requirements and U.S. Basel 3 guidelines. Where appropriate, we have introduced and modified disclosure tables required by the European Banking Authority (EBA), in order to present information consistent with the reporting made in the FR Y-9C and the DB USA Corp audited financial statements, also prepared on a US GAAP basis. We believe the information presented is consistent with the disclosure principles required of the EBA.

## 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 three corporate divisions as of December 31, 2017: Corporate and Investment Bank (CIB), Private & Commercial Bank (PCB), Deutsche Asset Management (Deutsche AM).

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

- CIB, which engages in: Global Capital Markets, 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. 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 (iii) 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.
- Private Commercial Bank (PCB), 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.
- Deutsche Asset Management (Deutsche AM), which provides active, passive and alternatives fund management to Institutional, Retail and PCB clients.

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") and delegated to senior risk managers and senior risk management committees including the DB USA Corp Risk Committee ("RiskCo")
- We operate a Three Lines of Defense ("3LoD") risk management model, in which risk, control and reporting responsibilities are defined. The 1st Line of Defense ("1st LoD") refers to those roles in the Bank whose activities generate risks, whether financial or non-financial. The 2nd Line of Defense ("2nd LoD") refers to the risk type controller roles in the Bank who facilitate the implementation of a sound risk management framework throughout the organisation. The 2<sup>nd</sup> LoD defines the risk appetite and risk management and control standards for their risk type, and independently oversees and challenges the risk taking and risk management activities of the 1st LoD. The 3rd Line of Defense ("3rd LoD") is Group Audit, which is accountable for providing independent and objective assurance on the adequacy of the design and effectiveness of the systems of internal control and risk management.
- The risk strategy is approved by the RiskCo on an annual basis and is defined based on the Risk Appetite and the Strategic and Capital Plan in order to align risk, capital and performance targets.
- Cross-risk analysis reviews are conducted to validate that sound risk management practices and a holistic awareness of risk exist.
- All material risk types, including credit risk, market risk, operational risk, liquidity risk, business risk and reputational risk, are managed via risk management processes. Modeling and measurement approaches for quantifying risk and capital demand are implemented across the material risk types.
- 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 and contingency planning provides the escalation path for crisis management and supplies senior management with a set of actions designed to improve the capital and liquidity positions in a stress event.
- Resolution planning is the responsibility of our resolution authority, the Single Resolution Board. It provides a strategy to manage Deutsche Bank in case of default. It is designed to prevent major disruptions to the financial system or the wider economy through maintaining critical services.

We apply an integrated risk management approach that aims at Group-wide consistency in risk management standards, while allowing for adaptation to local or legal entity specific requirements

## 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. Management Risk Committee (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.

A strong risk management culture helps reinforce DB USA’s resilience by ensuring a holistic approach to the management of risk and return throughout the organization. An important foundational aspect of DB’s risk culture is the “tone at the top” set by the Board, Chief Executive Officer (CEO), Chief Risk Officer (CRO) and senior management. DB USA Corp’s leadership team establishes strong risk management by implementing the DB Risk Culture as one of the entity’s top strategic priorities. Effective risk management practices enable DB to better serve its customers, maintain and improve its position in the market, and protect its long-term propriety and reputation. Leadership consistently communicates the Company’s risk management expectations to employees, shareholders, and regulators, as well as exemplifies on a daily basis the strong risk culture that DB USA Corp is committed to upholding.

The management of risk is the responsibility of all employees. DB USA Corp expects employees to exhibit behaviors that maintain a strong risk culture and assess these behaviors as part of the overall performance and compensation process. To ensure a collective and consistent approach to risk management, DB emphasizes each employee’s personal responsibility in upholding the robust risk culture of DB USA by defining five core Risk Culture behaviors. These behavioral expectations closely align to the Bank’s Values and Beliefs and guide their approach to risk management. These are:

- Being fully responsible for DB’s risks. Risk management is the responsibility of every employee across all business units. By clarifying risk roles and accountability, all employees are encouraged to take an active role in identifying and responding to risks.



- Being rigorous, forward looking and comprehensive in the assessment of risk. By defining how risk will be involved in day-to-day business decisions, employees are encouraged to proactively recognize and assess risk.
- Inviting, providing and respecting challenges. By promoting clear communication channels and a high degree of transparency, an environment is created which empowers employees across all levels to credibly challenge risk management decisions, as well raise any matters of interest or concern.
- Troubleshooting collectively. A culture of inclusiveness across all business levels and groups is created by encouraging open discussion and timely escalation of risks.
- Placing Deutsche Bank and its reputation at the heart of all decisions. The commitment to a high-performing risk culture protects long-term soundness and reputation.

DB reinforces these behaviors and maintains its risk culture through a combination of informal mechanisms, such as targeted communications, awareness campaigns, and mentoring, as well formal mechanisms, including a comprehensive risk culture training program. DB ensures that all employees are aware of and understand the Bank's Values and Beliefs, outlined in the Code of Business Conduct and Ethics which translate into the Company's risk culture. Staff are held individually accountable to demonstrate that decisions are made with due consideration of risk management processes and practice. DB maintains risk culture awareness by incorporating risk management into the hiring process, reinforcing risk management through ongoing training programs, and integrating risk management considerations into performance reviews and career development.

## Risk Appetite and Capacity

Risk appetite is a cornerstone of DB's risk culture in reinforcing risk awareness and risk related behavior required of all DB employees.

DB has an integrated risk appetite framework which articulates, monitors and effectively controls risk across multiple dimensions – at the DB Group (global), legal entity/branch, business unit, and asset class level – which constrains the capacity of each dimension to take risk, aligned to business planning and strategy development. The risk appetite framework leverages the limit frameworks to ensure consistency between day-to-day risk management, risk appetite & strategy.

- DB Group: applies to all legal entities, branches and business lines, providing overarching guidance from the Group perspective.
- Legal Entity: Covers DB USA Corp as well as the other material entities in US
- Asset Class: covers DB's high risk portfolios, which include Leveraged Exposure, Commercial Real Estate (CRE), and Securitization, which permeate across multiple businesses. The Asset Class RAS are global in scope, with a section dedicated to the Combined U.S. Operations (CUSO) exposure.
- Business Unit: covers material businesses in DB USA Corp and describe each business' strategy, risk profile, appetite to take risk, and include the specific risk limits, thresholds and indicators in place to control business specific risks.

The Risk Appetite Statements define both qualitatively and quantitatively the types of risks and specific level of risk that each level is willing to assume within its risk capacity and in the context of the current business and operating environment to achieve its business objectives.

The Risk Appetite Statement at DB USA Corp level is built upon liquidity / funding and capital adequacy requirements and the expectations of key stakeholders, which function as key indicators of financial health. They also further define clear boundaries for managing the entity's risk profile across risk types. The material risks covered within the Statement are identified and regularly reviewed as part of the Risk Identification (Risk ID) process, which performs a comprehensive assessment of current, as well as new and emerging, risks driven by the business activities of the entity. Risk type specific frameworks and processes are designed to manage these material risks in accordance with its loss absorption capacity and forward looking financial and capital plans on a top down basis.

Further, DB USA Corp's Strategic Plan targets are defined in alignment with Risk Appetite. More generally, each business' strategy addresses the types of risk they are authorized to take in the entity, including restrictions and expectations related to booking. Any changes in business strategy or appetite for new products or strategies are tied to DB's ability to effectively monitor and control the associated risks.

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).

## Risk and Capital Plan

### Internal Capital Adequacy Assessment Process

DB USA Corp's internal capital adequacy assessment process (ICAAP) consists of several well established components which ensure that DB USA Corp maintains sufficient capital to cover the risks to which the bank is exposed on an ongoing basis:

- 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, targets are defined based on our global macro-economic outlook and the expected regulatory framework. These targets are approved by management and the DB USA Corp 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 / economic 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 ensure that the firm has robust and forward looking planning processes that account for the legal entity's unique risks, and 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 DB USA Corp Stress Testing Policy.

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 DB USA Corp Stress Testing Policy.

## 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.

Capital stress testing 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.

In addition to CCAR and DFAST stress testing, DB USA Corp management runs internal capital stress tests during Q2 and Q4. 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, and limit setting. 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's Capital Contingency Plan (CCP) reflects DB USA Corp's strategies for identifying potential or actual capital shortfalls and provides a roadmap for prompt and specific actions to restore any current or prospective deficiencies in its capital to the levels defined in DB USA Corp's Capital Management Policy.

Treasury is responsible for ensuring that DB USA Corp's CCP is integrated with the Global Crisis Management and Recovery and Resolution Planning (RRP) framework through close coordination with Non-Financial Risk Management (NFRM) and Enterprise Risk Management (ERM). In addition, the CCP is closely aligned with DB USA Corp's Contingency Funding Plan (CFP) in terms of escalations and execution of countermeasures. Countermeasures are defined as any contingency option that DB USA Corp can execute to remedy current or projected future capital shortfalls.

The CCP also defines the CCP testing framework and Treasury works with Risk to facilitate an annual test of DB USA Corp's CCP primarily to ensure that roles and responsibilities are up-to-date and the countermeasures remain operationally viable.

## 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, measuring, and quantifying 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 (material risks) to which a legal entity is exposed. For capital planning purposes, the Risk ID Process informs both the scenario design process and model development supporting loss and revenue projections.

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

### Risk Taxonomy

A formal Risk Taxonomy is essential for consistent categorization of risks, comprehensive risk identification, consistency in risk measurement, and effective risk management. The Risk Taxonomy is used as a foundational building block for the Risk ID process and provides a common vocabulary of risk types 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 Risk Inventory. The Risk Taxonomy will continue to evolve over time to reflect the set of conceivable risks to which an entity may be exposed as new types of risk emerge or are identified.

### Segmentation and Methodology Components

The segmentation scheme defines how the businesses and business support groups are defined, while the other core components of the Risk ID Process include: the assessment grid, the scorecard used to record each risk assessment known as the Risk ID Card, and the internal control framework. All of these elements are maintained on an ongoing basis.

## Continuous Identification & Monitoring

A key requirement of a robust risk management framework is that material risks are actively monitored given the rapid evolution of risks during periods of financial and/or operational stress. To this end, management has introduced a Continuous Identification & Monitoring function within the Risk ID process, which sets out a broad framework for the integration of day-to-day risk identification and ongoing risk management activities as performed by 1LoD and 2LoD including identification of emerging risks, monitoring existing known risks, providing feedback to refine controls and evaluating feedback from model developers.

## Periodic Risk Identification

The periodic risk identification has three distinct phases: (1) Initial segment assessment, (2) Quarterly refresh, and (3) Monthly review and mapping.

**Initial Segment Assessment Process:** A comprehensive, segment-level, workshop-driven assessment performed at the outset of the creation of the Risk ID capability across all risk types. This assessment consists of an initial business analysis and a review of the risk types, including any controls and mitigants, to which the segment is exposed under both base and stress conditions.

**Quarterly Refresh:** Once an Initial Assessment is completed for a business segment, it is reexamined and updated through Quarterly Refresh process to maintain Risk ID outputs such as the Material Risk Inventory as a timely and comprehensive reflection of the risk profile of the legal entity.

**Monthly review and mapping:** On a monthly basis, new and existing findings from external and internal examiners are reviewed and mapped to ensure they are reflected as material risks in the Material Risk Inventory. The monthly monitoring process is linked to Materiality Principle III, which governs the entry of mapped risks into the Material Risk Inventory.

## Materiality Analysis

The final stage of the quarterly refresh process, after all segment-level assessments are vetted and approved at the divisional level, consists of the top-down entity level analyses of material risks.

## Risk ID Output and Risk Management Integration

Risk identification is a critical prerequisite for sound foundational risk management. The Risk ID Process is designed to be deeply integrated into the entire Risk Management function of DB USA Corp and involved in a range of use cases including capital planning, risk appetite and strategic planning, reporting, and day-to-day risk management. This section primarily focuses on linkages within the capital planning use case of the Risk ID Process.

## Credit Risk Management

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower, obligor or issuer (which we refer to collectively as “counterparties”) exist, including those claims that we plan to distribute. These transactions are typically part of our non-trading lending activities (such as loans and contingent liabilities) as well as our direct trading activity with clients (such as OTC derivatives). These also include traded bonds and debt securities. We manage the respective positions within our market risk and credit risk frameworks.

Based on the annual risk identification and materiality assessment, Credit Risk is grouped into five categories, namely default/migration risk, country risk, transaction/ settlement risk (exposure risk), mitigation (failure) risk and concentration risk.

- **Default/Migration Risk** is the risk that a counterparty defaults on its payment obligations or experiences material credit quality deterioration increasing the likelihood of a default.
- **Country Risk** is the risk that otherwise solvent and willing counterparties are unable to meet their obligations due to direct sovereign intervention or policies.



- **Transaction/Settlement Risk (Exposure Risk)** is the risk that arises from any existing, contingent or potential future positive exposure.
- **Mitigation Risk** is the risk of higher losses due to risk mitigation measures not performing as anticipated.
- **Concentration Risk** is the risk of an adverse development in a specific single counterparty, country, industry or product leading to a disproportionate deterioration in the risk profile of Deutsche Bank's credit exposures to that counterparty, country, industry or product.

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 defence controlling credit risk and is organized in alignment with the divisions of the Bank.

U.S. 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.

We measure, manage/mitigate and report/monitor our credit risk using the following philosophy and principles:

- Our credit risk management function is independent from our business divisions and in each of our divisions, credit decision standards, processes and principles are consistently applied.
- A key principle of credit risk management is client credit due diligence. Our client selection is achieved in collaboration with our business division counterparts who stand as a first line of defense.
- We aim to prevent undue concentration and tail-risks (large unexpected losses) by maintaining a diversified credit portfolio. Client, industry, country and product-specific concentrations are assessed and managed against our risk appetite.
- We maintain underwriting standards aiming to avoid large undue credit risk on a counterparty and portfolio level. In this regard we assume unsecured cash positions and actively use hedging for risk mitigation purposes. Additionally, we strive to secure our derivative portfolio through collateral agreements and may additionally hedge concentration risks to further mitigate credit risks from underlying market movements.
- Every new credit facility and every extension or material change of an existing credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level. We assign credit approval authorities to individuals according to their qualifications, experience and training, and we review these periodically.

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 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.

## Managing and Mitigation of Credit Risk

### Managing Credit Risk on Counterparty Level

Credit-related counterparties are principally allocated to credit officers within credit teams which are aligned to types of counterparty (such as financial institutions, corporates or private individuals) or economic area (e.g., emerging markets) and dedicated rating analyst teams. The individual credit officers have the relevant expertise and experience to manage the credit risks associated with these counterparties and their associated credit related transactions. It is the responsibility of each credit officer to undertake ongoing credit monitoring for their allocated portfolio of counterparties. We also have procedures in place intended to identify at an early stage credit exposures for which there may be an increased risk of loss.



In instances where we have identified counterparties where there is a concern that the credit quality has deteriorated or appears likely to deteriorate to the point where they present a heightened risk of loss in default, the respective exposure is generally placed on a “watch list”. We aim to identify counterparties that, on the basis of the application of our risk management tools, demonstrate the likelihood of problems well in advance in order to effectively manage the credit exposure and maximize the recovery. The objective of this early warning system is to address potential problems while adequate options for action are still available. This early risk detection is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposures.

Credit limits are established by the Credit Risk Management function via the execution of assigned credit authorities. This also applies to settlement risk that must fall within limits pre-approved by Credit Risk Management considering risk appetite and in a manner that reflects expected settlement patterns for the subject counterparty. Credit approvals are documented by the signing of the credit report by the respective credit authority holders and retained for future reference.

Credit authority is generally assigned to individuals as personal credit authority according to the individual’s professional qualification, experience and training. All assigned credit authorities are reviewed on a periodic basis to help ensure that they are commensurate with the individual performance of the authority holder.

Where an individual’s personal authority is insufficient to establish required credit limits, the transaction is referred to a higher credit authority holder or where necessary to an appropriate credit committee.

### **Mitigation of Credit Risk on Counterparty Level**

In addition to determining counterparty credit quality and our risk appetite, we also 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 loss arising from 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 securities financing 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 counterparty 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 counterparty is unable or unwilling to fulfill its primary obligations. Cash collateral, securities (equity, bonds), collateral assignments of other claims or inventory, equipment (i.e., plant, machinery and aircraft) and real estate typically fall into this category. All financial collateral is regularly, mostly daily, revalued and measured against the respective credit exposure. The value of other collateral, including real estate, is monitored based upon established processes that includes regular revaluations by internal and/or external experts.
- Guarantee collateral, which complements the counterparty’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. Guarantee collateral with a non-investment grade rating of the guarantor is limited.

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.

All exchange traded derivatives are cleared through central counterparties (“CCPs”), which interpose themselves between the trading entities by becoming the counterparty to each of the entities. Where legally required or where available and to the extent agreed with our counterparties, we also use CCP clearing for our OTC derivative transactions.

The rules and regulations of CCPs typically provide for the bilateral set off of all amounts payable on the same day and in the same currency (“payment netting”) thereby reducing our settlement risk. Depending on the business model applied by the CCP, this payment netting applies either to all of our derivatives cleared by the CCP or at least to those that form part of the same class of derivatives. Many CCP rules and regulations also provide for the termination, close-out and netting of all cleared transactions upon the CCP’s default (“close-out netting”), which reduced our credit 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 relevant CCP’s close-out netting provisions.

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 meet 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 downgrade provisions in CSAs and master agreements usually apply to both parties but in some agreements may 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**

On a portfolio level, significant concentrations of credit risk could result from having material exposures to a number of counterparties with similar economic characteristics, or who are engaged in comparable activities, where these similarities may cause their ability to meet contractual obligations to be affected in the same manner by changes in economic or industry conditions. Our portfolio management framework supports a comprehensive assessment of concentrations within our credit risk portfolio in order to keep concentrations within acceptable levels. In addition to underwriting risk, we also focus on concentration of transactions with specific risk dynamics (including risk to commercial real estate and risk from securitization positions).

## **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 de-recognition 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.

## 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;
- Traded credit risk;
- Equity price risk; and,
- Cross asset 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 & Liquidity Risk Management (MLRM) 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

MLRM performs independent risk identification in accordance with MLRM'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

MLRM demonstrates coverage of all relevant risks, employs approved risk metrics and measurement approaches appropriate to each risk to quantify potential losses. MLRM 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, MLRM measures and reports VaR, sensitivities and other key metrics on a daily basis.

### Market Risk Monitoring

As a key control function, MLRM ensures that DB USA Corp remains within the overall risk appetite set out by the Board by establishing limits and monitoring market risk at different levels of aggregation (e.g. country, index, issuer) to capture the specific dynamics. MLRM 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 MLRM.

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.

Market Risk 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. MLRM 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.

## Liquidity Risk Management

Liquidity risk concentrations can be found along products, regions, currencies, tenors and clients, and may represent the potential inability to meet all payment obligations when due, or to only meet these obligations at excessive costs. The principal objective of liquidity management is to ensure DB USA Corp's ability to meet payment obligations when they come due.

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 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 approved Risk Appetite.

The Liquidity Risk Management Americas function, operating under Market and Liquidity Risk Management ("MLRM") Americas, is an independent liquidity risk management function organized in alignment with the business divisions operating in the DB Americas region.

Liquidity Risk Management (LRM) serves as an Independent Review Function and is accountable for overseeing and evaluating the effectiveness of the liquidity risk management activities performed by Treasury Americas. To this end, LRM serves as the second line of defense within the context of liquidity risk for the Americas region, and directly supports the CRO Americas in overseeing the liquidity risk management framework for DB USA Corp.

In this role, LRM establishes and reviews the liquidity risk appetite for DB USA and proposes, sets and monitors related limits. Specifically, it reviews DB USA Corp liquidity risk limits on a regular basis and proposes necessary changes to rule-making authorities for approval following the process as described in the Liquidity Risk Management Policy - Americas. It also regularly monitors the individual liquidity risk models developed by Treasury to measure and manage DB USA Corp's liquidity risk profile. LRM utilizes policies, procedures, and quantitative metrics to execute the above risk management functions.

## Liquidity Risk Monitoring

At the Group level, the liquidity management approach starts at the intraday level, managing the daily payment queue, forecasting cash flows and factoring in access to collateral and central banks to safeguard Group's liquidity position (i.e., operational liquidity management). It then covers tactical liquidity risk management dealing with access to secured and unsecured funding sources as well as the liquidity characteristics of the asset inventory. The tactical toolbox also includes a liquidity stress test analysis to evaluate the impact of sudden stress events on DB Group's liquidity profile and to ensure that the Group is always equipped to withstand severe market related, idiosyncratic and combined stress events. Finally, the strategic perspective considers the maturity profile of assets and liabilities on the balance sheet (i.e., Funding Matrix) and the issuance strategy. The issuance strategy is concentrated in different regional hubs. Fund transfer prices are set to reflect DB Group's cost of funds in the markets, as well as the liquidity risk embedded in the various asset and liability products, and to ensure an efficient liquidity risk based allocation of funding to all business portfolios.



Several tools are used to measure and manage short and long-term liquidity risk at a Group level:

- Ongoing forecasting is produced on both a daily and weekly basis to understand how its liquidity and funding positions may be impacted by expected changes in cash levels. On a daily basis, Treasury will forecast expected changes in cash utilization based on regular dialogue with key businesses and their planned activity. On a weekly basis Treasury will take the current cash forecast, and quantify the stress test impact of the businesses forecasted cash utilization, based upon stress treatment of the underlying asset/liability activity. In addition, Treasury will incorporate the expected impact of any known methodology/regulatory changes.
- 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 analyses DB USA Corp's ability to withstand predefined stress events under the condition that the net liquidity position within a 12 month horizon should exceed the approved liquidity risk appetite as set out in all scenarios. It is employed to determine limits and liquidity buffers. DB 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.

Within DB USA Corp Treasury utilizes a subset of the tools referenced above, tailored to the specific nature and needs of DB USA Corp and its underlying entities and specified in the Individual Liquidity Adequacy Assessment Process (ILAAP).

The Liquidity Dashboard is a daily report comprising a set of key metrics (Risk Appetite and Tolerance and Early Warning Indicators) used to monitor and manage liquidity.

Treasury employs a range of tools and actions to mitigate liquidity risk including maintaining a Strategic Liquidity Reserve that encompasses 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 regularly reviewed by the Group Risk Committee (GRC), an internal transfer pricing framework approved by the GRC 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; and Issuance of debt instruments in accordance with the annual funding plan approved by the DB USA Corp Board.

## Non-Financial Risk Management

Non-Financial risk ("NFR") refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

In 2016, DB Group established the Non-Financial Risk Management function, combining the Operational Risk Management function ("ORM") and the Information and Resilience Risk Management ("IRRM") function, as well as expanding the remit for NFRM to comprehensively evaluate and manage non-financial risks in the company.

NFRM has developed a multi-tiered taxonomy to describe the range of specific risks covered, to provide categorization of risk issues and to support reporting.

At the top level, these are the risk themes that are represented below:

### Risk Themes Covered by NFRM

- Theft, Fraud & Intentional Unauthorized Activity
- Client Focused
- Market Focused
- Anti-money Laundering ("AML"), Sanctions, Bribery & Corruption



- Legal
- Employment Practices (includes human capital risk)
- Risk Management (governance and processes related to credit and investment, market, liquidity, operational, and strategic risks)
- Vendor
- Valuation, Reporting & Tax
- Information Security & Technology
- Data & Records
- Business Continuity & Physical Safety
- Transaction Processing
- Product Governance
- Governance, Supervisory & Regulatory (includes implementation and execution risks)
- Models

## Measurement and Monitoring

NFR management uses a number of mechanisms to measure and monitor the level of NFR.

**Internal / External Incident Data:** NFRM identifies, collects, categorizes, and reports on internal and external loss incidents and near misses attributable to control failures in the global dbIRS system. NFRM also works with the business to perform Lessons Learned and Read Across reviews identify means to strengthen the control environment in light of prior incidents.

**Scenario Analysis:** Idiosyncratic scenarios, which take the form of specific events, are developed to complement the representative Non-Financial Risk coverage for inclusion in capital planning.

**Risk & Control Assessment:** An ongoing process in which the business proactively identifies and analyses relevant non-financial risks and assess the effectiveness of the controls to mitigate those risks.

**Transformation Risk Assessments:** An ongoing process in which DB to assesses and manages the non-financial risks associated with material change initiatives / programs.

**New Product Approval:** Risk Management has implemented a comprehensive New Product Approval (NPA) / New Transaction Approval (NTA) framework with clear responsibilities allocated across DB Group to manage the risks associated with the introduction of new products and changes to existing products. Proposals to launch new businesses or new products / services must be reviewed and approved in accordance with the Americas Regional NPA and NTA Policy as applicable. The approval process involves review and sign-off by the various control functions and senior business management. The NPA / NTA process aims to ensure that: (i) the Bank is operationally ready to commence new products / services; (ii) new products / services adhere to internal policies and standards; and (iii) residual non-financial risks associated with new products / services are identified and controlled.

## Reputational Risk

The reputation of DB USA Corp is founded on trust from its employees, clients, shareholders, regulators, and from the public in general. Isolated events can undermine that trust and negatively impact DB USA Corp's reputation and it is therefore of utmost importance that it is protected, which is the responsibility of every employee.

DB USA Corp defines reputational risk 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 DB USA Corp's values and beliefs. DB USA Corp seeks to minimize reputational impacts by promoting 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 DB's values and beliefs.

## Governance and Organizational Structure

The Americas Non-Financial Risk Management Council (ANFRC) oversees the non-financial risks facing the Americas region and its component legal entities. It is chaired by the Head of Non-Financial Risk Management Americas and its members include senior business and infrastructure function leaders.

The Americas Reputational Risk Committee (ARRC) oversees and manages matters that may negatively impact the reputation of DB USA Corp. The ARRC acts as an escalation point from risk management processes including NPA / NTA, AML / KYC programs, and Vendor / Outsourcing reviews.

The Head of NFRM Americas supports the 1<sup>st</sup> LoD Risk Owners in an effort to improve risk management, strengthen controls, and enable profitable growth in the region within the risk appetite. The Head of NFRM Americas provides independent assessments and challenges the 1<sup>st</sup> LoD Risk Owners with respect to risks and controls, policies, standards, remediation strategies, control frameworks, and governance.

The monthly RCP report is a 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.

## Model Risk Management

Model Risk is the risk of adverse outcomes as a consequence of misguided decisions based on models that are inappropriate, incorrect, or misused. In this context, a model is defined as a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.

Model risk may trigger losses across various risk types (e.g. credit loss due to inappropriate rating system, market loss due to an inaccurate pricing function, etc.).

Model risk at Group is governed by the Group Model Risk Management Steering Committee (GMRM SC) and the Pricing Model Risk Management Steering Committee (PMRM SC).

The GMRM SC has the mandate for the management and oversight of model risk arising from the use of Risk and Capital models, as well as model risk outside of Pricing and Risk and Capital. The GMRM SC is responsible for the establishment of common standards for model risk and ensuring the consistent application thereof, monitoring model risk evolution, and providing regular updates on model risk to senior management.

The PMRM SC has the mandate for management and oversight of model risk arising from the use of Pricing models. The PMRM SC is responsible for ensuring clearly defined roles and responsibilities as they relate to Pricing Model Risk, via the Pricing Model Risk Governance Policy and defining front-to-back model standards for development, usage and validation and pricing model risk tolerances.

The U.S. Regional framework supplements the DB Group model governance framework. 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).

## Model Risk Reporting

The DB USA Corp reporting through the U.S. Model Risk Management Committee and the U.S. Pricing Model Risk Management Committee monitors and assesses model risk across the model lifecycle and provides a view of model risk to the U.S. MRC, RiskCo, and the DB USA Corp Board, as needed and at least quarterly (in alignment with Group Risk Mitigation).

Model risk is mitigated across the model lifecycle as follows:

- During the development phase: Through adherence to model development and best practice guidelines and due to pre-implementation validation conducted by the independent validation function;
- Prior to model go-live: Through the strong governance provided by the U.S. MRMC for Risk and Capital models, and through approval of Pricing models by the independent validation function; and
- After model go-live: Through regular independent validation and ongoing monitoring (e.g., back testing where applicable, etc.), which serves to ensure the model remains fit for purpose, especially as warranted by changes in the market or expansion of a business activity. There should also be effective monitoring of model usage to identify, escalate and remediate model usage which falls outside the scope of a validation approval.

## 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, as a Second Line of Defense ("2LoD") control function, establishes an overarching framework of controls designed to manage compliance risk throughout DB USA Corp. Compliance operates as an independent control function within the Bank to perform such 2LoD tasks as:

- Maintaining an effective risk management framework that includes setting and monitoring relevant minimum control standards;
- Defining the risk management framework for [those] cross-risk assessment and management processes for which it is assigned responsibility; and
- Establishing a compliance risk-specific governance framework designed to facilitate management of compliance risk.

## Anti-Financial Crime Risk Management

Anti-Financial Crime ("AFC") 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 failure to comply with laws, regulations, rules, self-regulatory organizational standards, codes of conduct / ethics, and standards of practices.

AFC, as a Second Line of Defense ("2LoD") control function, establishes an overarching framework of controls designed to manage financial crimes-related risk throughout DB USA Corp. AFC operates as an independent control function within the Bank to perform such 2LoD tasks as:

- Maintaining an effective risk management framework that includes setting and monitoring relevant control standards;
- Defining the risk management framework and processes for which it is assigned responsibility; and
- Establishing an AFC risk-specific governance framework designed to facilitate management of financial crimes risk.

# 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 on its formation date of July 1, 2016, DB USA Corp's 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. DB USA Corp. has outstanding Class A and Class B series preferred stock issued with fixed dividend coupon rates of 8.28 % and 5.31 %, respectively. This fixed rate dividend is subject to discretionary cancellation, 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, and receiving regulatory approvals. 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, 2016. 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 2017.

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. Additionally, 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

in USD m.	31-Dec-16	31-Dec-17
	US Basel 3	US Basel 3
Common Stock plus retained surplus, net of unearned employee stock ownership plan (ESOP) shares	20,465	21,754
Retained Earnings	(12,479)	(13,526)
Accumulated Other Comprehensive Income (AOCI) based on transition rules	(180)	(281)
Common Equity Tier 1 Capital, before adjustments and deductions	7,806	7,947
Common Equity Tier 1 Capital: Adjustments and Deductions		
Less: Goodwill net of associated deferred tax liabilities (DTLs)	(239)	(238)
Less: Intangible Assets, net of associated DTL's	(276)	(444)
Less: Deferred Tax Assets (DTLs) that arise from net operating losses and tax credit carryforwards, net of valuation allowances	(6)	(8)
Total Regulatory Adjustments to Common Equity Tier 1 (CET1)	(521)	(690)
<b>Common Equity Tier 1 Capital</b>	<b>7,285</b>	<b>7,257</b>
Additional Tier 1 (AT1) Capital		
Additional Tier 1 Capital instruments plus related surplus	2,000	4,205
Additional Tier 1 (AT1) Capital before adjustments	2,000	4,205
Total Regulatory Adjustments to Additional Tier 1 (AT1) Capital	(32)	(61)
<b>Additional Tier 1 (AT1) Capital</b>	<b>1,968</b>	<b>4,144</b>
<b>Tier 1 Capital (T1 = CET1 + AT1)</b>	<b>9,253</b>	<b>11,401</b>
Tier 2 (T2) Capital		
Tier 2 Capital instruments plus related surplus	0	0
Allowance for loan and lease losses includable in Tier 2 capital	47	11
Tier 2 (T2) Capital before adjustments	47	11
Total Regulatory Adjustments to Tier 2 (T2) Capital	0	0
<b>Tier 2 (T2) Capital</b>	<b>47</b>	<b>11</b>
<b>Total Regulatory Capital</b>	<b>9,300</b>	<b>11,412</b>
<b>Ratios</b>		
Common Equity Tier 1 Capital Ratio (as a percentage of risk-weighted assets) <sup>1</sup>	15.17%	16.46%
Tier 1 Capital Ratio (as a percentage of risk-weighted assets) <sup>1</sup>	19.27%	25.86%
Total Capital Ratio (as a percentage of risk-weighted assets) <sup>1</sup>	19.37%	25.88%
Capital Conservation Buffer <sup>1</sup>	10.67%	11.96%
Leverage Capital Ratio	4.12%	7.18%

<sup>1</sup> CET 1, T1 and Total Capital Ratios as well as CCyB were restated per 2016 refiling of the FR Y-9C.

## Reconciliation of Financial and Regulatory Balance Sheet

DB USA Corp's consolidated and combined financial statements have been prepared in accordance with 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 Accounting Standards Codification (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 instructions and guidance require 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 granular. In either case, when comparing the financial 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 FR Y-9C report as reported by DB USA Corp as of December 31, 2017. 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-17				
in USD m.	Financial Balance Sheet	Presentation Differences				Regulatory Balance Sheet
		Segregated Cash	Margin Loans	Trading Assets vs Financial Assets	Total	
Assets						
Cash and cash equivalents	30,500	(2,969)	-	-	(2,969)	27,532
Securities: Available for Sale	327				-	327
Collateralized agreements and financings	72,252	1,001	-	-	1,001	73,253
Loans, net of allowance for loan losses	10,105	-	3,208	-	3,208	13,313
Financial instruments owned, at fair value	22,383	175	0	-	175	22,558
Other assets	12,680	1,793	(3,208)	-	(145)	11,265
Total assets	148,247	-	-	-	-	148,247
Liabilities and Stockholders' Equity						
Deposits	20,753	-	-	-	-	20,753
Collateralized agreements and financing:	49,363	-	-	-	-	49,363
Financial instruments sold, but not yet purchased, at fair value	17,830	-	-	(93)	(93)	17,737
Borrowings	30,085	-	-	-	-	30,085
Other liabilities	18,070	-	-	93	93	18,163
Total liabilities	136,101	-	-	-	-	136,101
Stockholders' Equity						
Preferred stock	4,205	-	-	-	-	4,205
Common stock, par value \$100 per share, 2,000 shares	0	-	-	-	-	0
Additional paid-in capital	21,754	-	-	-	-	21,754
Accumulated deficit	(13,526)	-	-	-	-	(13,526)
Accumulated other comprehensive income (loss)	(326)	-	-	-	-	(326)
Minority Interest	41	-	-	-	-	41
Total stockholders' Equity	12,146	-	-	-	-	12,146
Total liabilities and stockholder's equity	148,247	-	-	-	-	148,247

Figures may include rounding differences.

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

- Segregated Cash: Pursuant to the American Institute of Certified Public Accounts (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 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 deposits 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 1250%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, 2017.

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	31-Dec-17
<b>US Basel 3 Standardized Approach</b>	<b>US Basel 3</b>	<b>US Basel 3</b>
On-balance Sheet Exposures	RWA	RWA
Cash and balances due from depository institutions	1,130	524
Securities: Available for Sale	309	117
Loans: Held for Sale	89	0
Loans: Residential mortgage exposures	1,964	1,716
Loans: High volatility commercial real estate exposures	245	255
Loans: Exposures past due 90 days or more or on nonaccrual	99	0
Loans: All other exposures	7,492	6,216
Trading Assets	310	134
All Other Assets	3,943	4,254
Securitization Exposures: Trading Assets	13	0
<b>Total On-balance Sheet Exposures</b>	<b>15,593</b>	<b>13,216</b>
Off-balance Sheet Exposures		
Financial standby letters of credit	236	611
Performance standby letters of credit	34	49
Commercial and similar letters of credit	8	8
Repo style transactions	16,225	14,970
Unused commitments: 1 year or less	8	0
Unused commitments: exceeding 1 year	1,402	813
Over-the-counter derivatives	2,343	629
Centrally Cleared derivatives	205	203
Unsettled Transactions	52	173
<b>Total Off-balance Sheet Exposures</b>	<b>20,513</b>	<b>17,456</b>
<b>Total Risk Weighted Assets, excluding Market Risk</b>	<b>36,105</b>	<b>30,671</b>
<b>Standardized Market Risk Weighted Assets</b>	<b>12,003</b>	<b>13,419</b>
<b>Total Risk Weighted Assets</b>	<b>48,108</b>	<b>44,090</b>

## Credit Risk Exposure

Credit risk exposures are calculated using the US Basel 3 Standardized Approaches capital rules. These exposures represent on-balance sheet and off-balance sheet exposures of DB USA Corp on a consolidated 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 sheet 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 amount by a supervisory credit conversion factor. Below is a summary of some of the conversion factors used in calculating DB USA Corp RWA's.

Credit risk includes counterparty risk which relates to contracts with a counterparty such as in securities financing transactions (SFT) and derivatives, and the risk that the counterparty fails or defaults on the amount owed on such contracts when payment is due.

### 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

in USD m.

31-Dec-16

On-balance Sheet Exposures	Germany	Europe	North America	Latin America	Caribbean	Asia	Other Countries	Amount Subject to RWA
Cash and balances due from depository institutions	376	428	34,461	0	623	19	0	35,907
Securities: Available for Sale	0	88	272	1	20	2	1	384
Loans	83	67	12,051	708	360	195	14	13,478
Trading Assets	0	10	2,461	0	0	0	0	2,471
Other Assets	963	143	3,722	2	22	61	1	4,914
Total On-balance Sheet Exposures	1,422	736	52,967	711	1,025	277	16	57,154
Off-balance Sheet Exposures								Amount Subject to RWA
Letters of credit	32	0	664	6	3	0	0	705
Repo style transactions	258	10,780	44,334	153	5,891	2,201	28	63,645
Unused commitments	3	2	1,542	18	0	0	0	1,565
Derivatives	51	4,580	11,180	7	582	112	108	16,620
Total Off-balance Sheet Exposures	344	15,362	57,720	184	6,476	2,313	136	82,535
Grand Total	1,766	16,098	110,687	895	7,501	2,590	152	139,689

in USD m.

31-Dec-17

	Germany	Europe	North America	Latin America	Caribbean	Asia	Other Countries	Amount Subject to RWA
<b>On-balance Sheet Exposures</b>								
Cash and balances due from depository institutions	338	202	26,968	0	0	24	0	27,532
Securities: Available for Sale	3	1	322	0	0	0	1	327
Loans	18	3,271	9,875	102	0	51	5	13,322
Trading Assets	0	0	274	0	0	0	0	274
Other Assets	1,290	575	3,886	1	0	137	2	5,891
<b>Total On-balance Sheet Exposures</b>	<b>1,649</b>	<b>4,049</b>	<b>41,325</b>	<b>103</b>	<b>0</b>	<b>212</b>	<b>8</b>	<b>47,346</b>
<b>Off-balance Sheet Exposures</b>								<b>Amount Subject to RWA</b>
Letters of credit	18	0	949	4	0	0	0	971
Repo style transactions	4,650	3,083	31,626	0	185	542	245	40,331
Unused commitments	0	0	894	0	0	0	0	894
Derivatives	3,246	26	8,847	17	58	12	0	12,206
<b>Total Off-balance Sheet Exposures</b>	<b>7,914</b>	<b>3,109</b>	<b>42,316</b>	<b>21</b>	<b>243</b>	<b>554</b>	<b>245</b>	<b>54,402</b>
<b>Grand Total</b>	<b>9,563</b>	<b>7,158</b>	<b>83,641</b>	<b>124</b>	<b>243</b>	<b>766</b>	<b>253</b>	<b>101,748</b>

## Gross Exposure by Asset Class and Residual Maturity

31-Dec-16

in USD m

	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
<b>On-balance Sheet Exposures</b>						
Cash and balances due from depository institutions	35,284	-	59	564	-	35,907
Securities: Available for Sale	96	107	56	111	14	384
Loans	1,349	2,635	2,052	2,851	4,591	13,478
Trading Assets	266	1,962	82	114	47	2,471
Other Assets	2,015	20	6	591	2,282	4,914
<b>Total On-balance Sheet Exposures</b>	<b>39,010</b>	<b>4,724</b>	<b>2,255</b>	<b>4,231</b>	<b>6,934</b>	<b>57,154</b>
<b>Off-balance Sheet Exposures</b>						
Letters of credit	6	55	454	88	102	705
Repo-Style transactions (1)	48,459	15,014	127	42	3	63,645
Unused Commitments	1	457	356	436	315	1,565
Derivatives	227	11,021	4,304	456	612	16,620
<b>Total Off-balance Sheet Exposures</b>	<b>48,693</b>	<b>26,547</b>	<b>5,241</b>	<b>1,022</b>	<b>1,032</b>	<b>82,535</b>
<b>Grand Total</b>	<b>87,703</b>	<b>31,271</b>	<b>7,496</b>	<b>5,253</b>	<b>7,966</b>	<b>139,689</b>

31-Dec-17

in USD m

	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 balances due from depository institutions	27,467	24	-	41	-	27,532
Securities: Available for Sale	89	70	38	117	12	327
Loans	3,435	1,600	1,551	2,897	3,839	13,322
Trading Assets	199	15	0	36	24	274
Other Assets	3,978	65	4	1,065	778	5,891
Total On-balance Sheet Exposures	35,168	1,775	1,593	4,155	4,654	47,346
Letters of credit	11	467	40	57	395	971
Repo-Style transactions <sup>(1)</sup>	30,911	8,379	378	424	239	40,331
Unused Commitments	891	-	0	-	3	894
Derivatives	-	10,398	879	654	275	12,206
Total Off-balance Sheet Exposures	31,813	19,244	1,297	1,135	912	54,402
<b>Grand Total</b>	<b>66,981</b>	<b>21,019</b>	<b>2,891</b>	<b>5,291</b>	<b>5,566</b>	<b>101,748</b>

<sup>1</sup> 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-17															
US Basel 3 Standardized Approach		US Basel 3															
		Exposure by risk weighting															
		Balance Sheet Amount	Amount Subject to RWA	0%	2%	4%	20%	50%	100%	150%	600%	625%	1250%	Other Amount	Other RWA		
On-balance Sheet Exposures		RWA															
Cash and balances due from depository institutions		524	27,532	27,532	25,030		2,471	3	27	1	0	0	0	0	0		
Securities: Available for Sale		117	327	327	167		52	15	80	13	0	0	0	0	0		
Securities Purchased under agreements to Resell		0	73,253	0	0		0	0	0	0	0	0	0	0	0		
Loans: Held for Sale		0	0	0	0		0	0	0	0	0	0	0	0	0		
Loans: Residential mortgage exposures		1715	3,387	3,387	6		1	3,330	50	0	0	0	0	0	0		
Loans: High volatility commercial real estate exposures		255	170	170	0		0	0	0	170	0	0	0	0	0		
Loans: Exposures past due 90 days or more or on nonaccrual		0	0	0	0		0	0	0	0	0	0	0	0	0		
Loans: All other exposures		6,215	9,765	9,765	419		240	0	5,879	7	0	0	0	3,220	278		
Loans: Allowance for Loan Loss		0	9	0	0		0	0	0	0	0	0	0	0	0		
Trading Assets		134	22,558	274	200		0	0	62	0	12	0	0	0	0		
All Other Assets: All Other		4,254	11,265	5,891	227		1,536	3	3,640	3	3	0	0	479	283		
Securitization Exposures: Trading Assets		0	0	0	0		0	0	0	0	0	0	0	0	0		
Total On-balance Sheet Exposures		13,216	148,248	47,346	26,049	0	0	4,300	3,351	9,738	194	15	0	3,699	561		
Off-balance Sheet Exposures			Credit Equivalent Amount	Amount Subject to RWA	0%	2%	4%	20%	50%	100%	150%	600%	625%	1250%	Other Exposure	Other RWA	
Financial standby letters of credit		611	915	915	294	0	0	13	0	608	0		0	0	0	0	
Performance standby letters of credit		49	50	50	0	0	0	1	0	49	0		0	0	0	0	
Commercial and similar letters of credit		8	6	6	0	0	0	0	0	2	4		0	0	0	0	
Repo style transactions		14,970	40,331	40,331	18,418	1476	0	6,727	229	13,481	0		0	0	0	0	
Unused commitments: 1 year or less		1	1	1	0	0	0	0	0	1	0		0	0	0	0	
Unused commitments: exceeding 1 year		813	893	893	4	0	0	33	100	756	0		0	0	0	0	
Over-the-counter derivatives		629	2,618	2,618	0	0	0	2,485	3	130	0		0	0	0	0	
Centrally Cleared derivatives		203	9,337	9,337	0	9,203	120	0	0	14	0		0	0	0	0	
Unsettled Transactions		173	0	251	169	0	0	0	0	73	0		2	7	0	0	
Total Off-balance Sheet Exposures		17,456	54,151	54,402	18,885	10,679	120	9,259	332	15,114	4		2	7	0	0	
Total Risk Weighted Assets, excluding Market Risk		30,671		30,671	0	214	5	2,712	1,842	24,852	297	90	13	88	0	561	
Standardized Market Risk Weighted Assets		13,419															
Total Risk Weighted Assets		44,090															

## Basel 3 Standardized Approach Risk-weighted Assets by Line of Business

in USD m.		31-Dec-17	
		Risk Weighted Assets at the end of the period	
<b>Corporate &amp; Investment Bank</b>		<b>33,408</b>	
FIC		<b>19,532</b>	
Equity		<b>11,540</b>	
Global Transaction Banking		<b>1,351</b>	
CIB Central		<b>656</b>	
Corporate Finance		<b>215</b>	
CIB Non-Strategic		<b>113</b>	
Research		<b>2</b>	
<b>P C B</b>		<b>8,120</b>	
<b>Asset Management</b>		<b>718</b>	
Other Corporate Items		<b>1,844</b>	
<b>Total</b>		<b>44,090</b>	

## Credit risk and credit risk mitigation

DB USA Corp applies the majority of credit risk mitigation techniques to secured financing transactions (SFT) and derivatives. Credit risk mitigation techniques for the remaining products are immaterial.

### Netting of secured financing transactions (SFT)

Netting of SFT's meeting the definition of Repo-style transactions is permitted under U.S. Basel 3 rules.

The following table presents information about the netting of SFT's and related collateral amounts. Securities borrowed and securities loaned balances with the same counterparties are reported net by counterparty, pursuant to the provisions of ASC 210-20. At December 31, 2017, DB USA Corp's securities borrowed and securities loaned balances reflected approximately \$981 million of netting pursuant to ASC 210-20.

	31-Dec-17			
	Gross Amount	Amount Offset in the Statement of Financial Condition (1)	Net Amount Presented in the Statement of Financial Condition	Collateral Received or Pledged (2)
in USD m.				Net Amount (3)
Collateralized agreements and financings:				
Securities purchased under agreements to resell	63,797	(33,332)	30,465	(30,465)
Securities borrowed	42,768	(981)	41,787	(40,354)
	<u>\$ 106,565</u>	<u>(34,313)</u>	<u>72,252</u>	<u>(70,819)</u>
				<u>1,433</u>
Collateralized agreements and financings:				
Securities sold under agreements to repurchase	67,686	(33,332)	34,354	(34,354)
Securities loaned	14,960	(981)	13,979	(13,017)
	<u>\$ 82,646</u>	<u>(34,313)</u>	<u>48,333</u>	<u>(47,371)</u>
				<u>962</u>

(1) Amounts relate to master netting agreements and collateral agreements which have been determined by DB USA Corp to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance. There are no amounts which were eligible for netting pursuant to ASC 210-20 that DB USA Corp did not net.

(2) Securities collateral is reflected at its fair value, but has been limited to the net exposure on the consolidated statement of financial condition in order to exclude any over-collateralization. These amounts do not reflect any cash collateral.

(3) Includes amounts subject to enforceable master netting agreements that have not met the requirements for offsetting in accordance with applicable accounting guidance but are eligible for offsetting to the extent an event of default has occurred.

### Netting of derivatives transactions

Substantially all of DB USA Corp's derivatives transactions are entered into for trading purposes, to facilitate customer transactions, or as a means of risk management of firm inventory positions. Risk exposures are managed through diversification, by controlling position sizes and by established hedges in related securities or derivatives.

Netting of derivatives with qualifying master netting agreement is permitted under U.S. Basel 3 rules.

The following table sets forth the gross fair value, net fair value and notional amount of DB USA Corp's derivative contracts by major product type.

in USD m.	31-Dec-17				
	Derivative Assets	Derivative Liabilities	Notional Amount		
			Exchange - traded	OTC	Total
Derivative contract type					
Interest rate contracts	82	105	4,584	16,777	21,361
Credit contracts	31	66	-	2,872	2,872
Equity contracts	2,005	2,284	171,042	-	171,042
Foreign exchange contracts	9	9	17	-	17
Other contracts	33	35	-	8,644	8,644
Total gross fair value/notional amount of derivatives	2,160	2,499	175,643	28,293	203,936
Less: Counterparty netting (1)	(1,999)	(1,999)			
Subtotal	161	500			
Less: Securities collateral received/pledged	(11)	(290)			
Less: Cash collateral received/pledged	-	(134)			
Total derivative assets/liabilities	150	76			

(1) Amounts relate to master netting agreements and collateral agreements which have been determined by DB USA Corp to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

## 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

in USD m.	31-Dec-16			31-Dec-17		
	Impaired Loans	Specific Loan Loss Allowance	Impaired loan coverage ratio (%)	Impaired Loans	Specific Loan Loss Allowance	Impaired loan coverage ratio (%)
Banks and insurance	-	-	-	-	-	-
Fund management activities	-	-	-	-	-	-
Wholesale and retail trade	-	-	-	-	-	-
Households	14	-	-	-	-	-
Commercial and real estate activities	8	-	-	-	-	-
Public sector	-	-	-	-	-	-
Other	84	20	23.8%	53	-	-
<b>Total</b>	<b>106</b>	<b>20</b>	<b>18.9%</b>	<b>53</b>	<b>-</b>	<b>-</b>

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

in USD m.	31-Dec-16			31-Dec-17		
	Impaired Loans	Specific Loan Loss Allowance	Impaired loan coverage ratio (%)	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%	53	-	-
<b>Total</b>	<b>106</b>	<b>20</b>	<b>18.9%</b>	<b>53</b>	<b>-</b>	<b>-</b>

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

in USD m.	31-Dec-16	31-Dec-17
	Non-Impaired past due loans	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	4
<b>Total</b>	<b>11</b>	<b>4</b>

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

in USD m.	31-Dec-16	31-Dec-17
	Non-Impaired past due loans	Non-Impaired past due loans
Germany	-	-
Western Europe (excl. Germany)	-	-
Eastern Europe	-	-
Central and Southern America	-	-
Asia/Pacific	-	-
North America	11	4
<b>Total</b>	<b>11</b>	<b>4</b>

## Development of Impaired Loans

in USD m.	31-Dec-16	31-Dec-17
	Impaired loans Individually assessed	Impaired loans Individually assessed
Balance, beginning of the year	199	106
Classified as impaired during the year	218	26
Transferred to not impaired during the year	-	1
Charge Offs	109	17
Disposal of impaired loans	12	31
Paydowns	180	30
Other	(10)	-
<b>Balance, end of the year</b>	<b>106</b>	<b>53</b>

## Development of impaired loans specific loan loss allowance

in USD m.	31-Dec-16	31-Dec-17
	Specific loan loss allowance	Specific loan loss allowance
Balance, beginning of the year	89	20
Recoveries	4	6
Charge Offs	109	18
Provision for loan and lease losses	36	(8)
Other	-	-
Balance, end of the year	20	-

## Aging of past-due exposures 2017

in USD m.	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	-	4	-	-	-	-
Debt securities	-	-	-	-	-	-
<b>Total exposures</b>	-	4	-	-	-	-

## Non-performing and forborne exposures 2017

in USD m.	Gross carrying values of performing and non-performing exposures						Accumulated impairment and provisions and				Collaterals and financial guarantees	
	Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of Which non-performing			On performing exposures	On non-performing exposures	On non-performing exposures	On non-performing exposures	On non-performing exposures	Of which forborne exposures	Of which forborne exposures
			Of which defaulted	Of which impaired	Of which forborne							
Debt Securities	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	4	-	-	3	-	-	-	-	-	-	-	-
Off-balance sheet exposures	-	-	-	-	-	-	-	-	-	-	-	-

# 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 8,326 employees as of December 31, 2017, and its total compensation expenses were USD 2,499 million for 2017. The total 2017 Variable Compensation (VC) for employees of DB USA Corp amounted to USD 735 million.

### Overview on Compensation Decisions for 2017

For the determination of the total amount of VC for the performance year 2017, the Management Board of Deutsche Bank AG had to consider many factors such as the performance at Group and divisional level. However, the assessment of performance has to be complemented by other key factors such as the ongoing focus on achieving the bank’s strategic objectives, the impact of competitive positioning on retaining and motivating employees, and a sustainable balance between shareholder and employee interests as required by the bank’s “Compensation Strategy”.

The financial year 2017, as expected, has been strongly influenced by the pursuit of our strategic objectives. As such, restructuring and severance costs as well as litigation charges have continued to affect the full year results. Overall, noticeable progress has been made: We have concluded negotiations on significant litigation items, have continued with our efforts to build a more efficient infrastructure, have invested in digitalisation, and advanced both the integration of Postbank and the partial initial public offering (IPO) of Deutsche Asset Management.

The determination of the total amount of VC for the performance year does not only look at the impact on the current year but also on future years. In considering the overall shareholder return, we therefore carefully balance the short-term and long-term return, acknowledging the fact that we are still in the midst of laying the foundations for growth and future success. This includes the required investments in our staff in order to sustain the momentum that has been built over the past years.

After the decision to severely restrict total VC for 2016, another year with drastically reduced variable compensation or no specific recognition of individual performance would have led to attrition risk with respect to both key employees that are critical to our future success as well as many other employees who all worked hard to help our bank navigate through times of continuous change. We have clearly stated multiple times throughout the year that we wanted to return to a normal system of variable remuneration for 2017, including both a “Group VC Component” and “Individual VC Component” of Variable Compensation.

In the context of the above considerations, in line with regulatory requirements, and taking into account the risk-adjusted financial performance, the Management Board of Deutsche Bank AG has determined a total amount of year-end performance-based VC for 2017 (including the Individual VC Component, the Group VC Component, and Recognition Awards). As part of the overall 2017 VC awards to be granted in March 2018, the “Group VC Component” was awarded to all eligible employees in line with the assessment of the defined four KPIs, as outlined in the chapter “Total Compensation Framework”. The Management Board of Deutsche Bank AG recognizing the considerable contribution of employees and at its discretion determined a target achievement rate of 55 % for 2017.



## Regulatory Environment

Ensuring compliance with regulatory requirements is an overarching consideration in our Group Compensation Strategy. We strive to be at the forefront of regulatory changes with respect to compensation and will continue to work closely with our 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 CRR and Capital Requirements Directive 4 ("CRD 4") requirements globally, as translated into German national law in the German Banking Act and InstVV. As of August 4, 2017, the revised version of the InstVV became effective. The principal objective of the amendment was to reflect the guidance on sound remuneration policies published by the European Banking Authority ("EBA") on December 21, 2015. According to the InstVV, all compensation elements must be categorised as either fixed or variable. If a compensation element cannot clearly be categorised as fixed, it is deemed to be variable. We adopted the rules for all of Deutsche Bank's subsidiaries and branches world-wide to the extent required in accordance with Section 27 InstVV.

Pursuant to CRD 4 and the requirements subsequently adopted in the German Banking Act, Deutsche Bank is subject to a ratio of 1:1 with regard to fixed-to-variable remuneration components, which was increased to 1:2 with shareholder approval on May 22, 2014 with an approval rate of 95.27 %. However, we have determined that individuals within the corporate control functions remain subject to a 1:1 ratio.

As a "significant Institution" within the meaning of the InstVV, Deutsche Bank identifies all employees whose work is deemed to have a material impact on the overall risk profile ("Material Risk Takers" or "MRTs") as referenced in the InstVV and in accordance with criteria stipulated under the Commission Delegated Regulation (EU) No. 604/2014. MRTs are identified at a Group level and at the level of Group entities which are significant institutions within the meaning of Section 17 InstVV. The compensation framework for MRTs must comply with specific requirements. Among other things, a significant part (at least 40 %) of the variable compensation has to be deferred over a period of at least three years (for senior management at least 60 % over five years). As a new ex-post risk adjustment instrument from performance year 2018 onwards, significant institutions must have the ability to reduce retained variable compensation components and, in cases of severe misconduct, demand repayment of variable compensation already paid out ("claw-back"). Stricter rules also apply to severance payments, such as the requirement to determine general rules for severance payments including maximum amounts or specific criteria for the calculation of the payments. Moreover, the InstVV establishes more stringent compensation-related documentation and disclosure requirements. Based on thorough analysis, we have determined that our compensation system was already aligned with the revised version of the InstVV to a large extent. Where required, we have been adjusting our relevant policies, processes, and practices.

As a result of sector specific legislation and in accordance with the InstVV, some of Deutsche Bank's subsidiaries fall under the "Alternative Investments Fund Managers Directive" ("AIFMD") or the "Undertakings for Collective Investments in Transferable Securities V" Directive ("UCITS V") and are subject to their respective remuneration provisions. We also identify Material Risk Takers in AIFMD/UCITS V regulated subsidiaries in accordance with the applicable rules and apply the remuneration provisions for MRTs identified according to InstVV also to this group, except for the 1:2 ratio with regard to fixed-to-variable components, which does not apply as long as these employees are not identified as MRTs according to InstVV at the same time.

Deutsche Bank also takes into account the guidelines under the "Markets in Financial Instruments Directive II" ("MiFID II") targeted at employees who engage directly or indirectly with the bank's clients. Together with the "Minimum Requirements for the Compliance Function" ("MaComp") circular, these provisions require the implementation of a specific compensation policy, a review of compensation plans and the identification of populations of employees deemed to be "Relevant Persons" to ensure that they act in the best interest of clients.

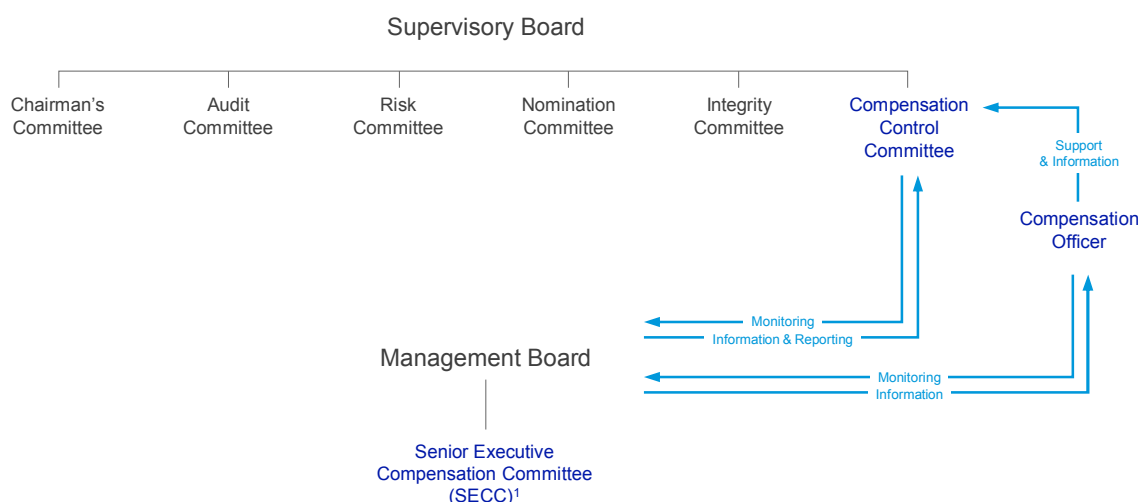
We also adhere to the requirements regarding compensation arrangements contained in the final rule implementing Section 619 of the "Dodd-Frank Wall Street Reform and Consumer Protection Act" globally (the "Volcker Rule").

Where applicable, Deutsche Bank is also subject to specific rules and regulations implemented by 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 us 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, we apply the InstVV requirements as minimum standards globally.

## Compensation Governance

Deutsche Bank has 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"), respectively.

### Reward Governance structure



<sup>1</sup> The relevant tasks are performed by the SECC on behalf of the Management Board.

### Compensation Control Committee ("CCC")

The Supervisory Board has established the CCC to support in establishing and monitoring the 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 appropriateness 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 variable compensation is affordable 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 the MRT identification process and whether the internal control functions and the other relevant areas are properly involved in the structuring of the compensation systems.

The CCC consists of the Chairperson of the Supervisory Board and three further Supervisory Board Members, two from among the employee representatives. It had ten meetings in the calendar year 2017, one of them being a joint meeting with the Risk Committee.

## Compensation Officer

The Management Board, in cooperation with the CCC, has appointed a Compensation Officer to support the Supervisory Board and the CCC in performing their compensation related duties. The Compensation Officer is involved in the conceptual review, development, monitoring and the application of the employees' 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 ("SECC")

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 total amount of annual variable compensation 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 2017, 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 as well as an additional representative from both Finance and Risk as Voting Members. The Compensation Officer, the Deputy Compensation Officer and one of the Global Co-Heads of HR Performance & Reward were Non-Voting Members. The SECC generally meets on a monthly basis and it had 16 meetings with regard to the performance year 2017 compensation process.

## Compensation Strategy

Deutsche Bank recognizes that its compensation system plays a vital role in supporting its strategic objectives. It enables us to attract and retain the individuals required to achieve our bank's objectives. The Group Compensation Strategy is aligned to Deutsche 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 informs our employees with regard to our Compensation Strategy, governance processes as well as compensation practices and structures. Together, the Group Compensation Strategy and the Group Compensation Policy provide a clear link between compensation practices and the wider Group strategy. Both documents have been published on our intranet site and are available to all employees.

## Total Compensation Framework

Our compensation framework aligns incentives for sustainable performance at all levels of Deutsche Bank whilst enhancing the transparency of compensation decisions and their impact on shareholders and employees. The framework puts an appropriate balance on Fixed Pay over Variable Compensation (VC) – together the “Total Compensation”.

In 2016, we introduced a new concept of “Reference Total Compensation” for each employee that describes a reference value for their role. This reference provides our employees orientation on their Fixed Pay and VC. Actual individual Total Compensation can be at, above or below the Reference Total Compensation, based on Group affordability, and performance expectations having been satisfied at Group, divisional and individual levels, as determined by Deutsche Bank at its sole discretion.

**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 us to meet our strategic objectives by attracting and retaining the right talent. For the majority of our employees, Fixed Pay is the primary compensation component, and the share of fixed compensation within Total Compensation is greater than 50 %. This is appropriate to many businesses and will continue to be a significant feature of Total Compensation going forward.

**Variable Compensation** allows to differentiate individual performance and to drive behavior through appropriate incentive systems that can positively influence culture. It also allows for flexibility in the cost base. VC generally consists of two elements – the “Group VC Component” and the “Individual VC Component”. The “Individual VC Component” is delivered either in the form of “Individual VC” (generally starting at the senior level of Vice President (VP) and above) or as “Recognition Award” (generally starting at the senior level of Assistant Vice President (AVP) and below). Under our compensation framework, there continues to be no guarantee of VC in an existing employment relationship.

### Key components of the compensation framework

VP and above		AVP and below <sup>1</sup>	
Reference Total Compensation		Reference Total Compensation	
Individual VC			Recognition Award
Group VC Component			Group VC Component
Fixed Pay			Fixed Pay

<sup>1</sup> Some Assistant Vice Presidents and below in select entities and divisions are eligible for Individual VC in lieu of the Recognition Award.

The **Group VC Component** is based on one of the overarching goals of the compensation framework – to strengthen the link between VC and the performance of the Group. The Management Board decided to align the “Group VC Component” directly and in a manner comprehensible for the employees to Deutsche Bank’s achievements in reaching strategic targets. To assess progress towards the strategic aspirations, four Key Performance Indicators (KPIs) are utilised: Common Equity Tier 1 (CET 1) Capital Ratio (fully loaded), Leverage Ratio, Adjusted Costs, and Post-Tax Return on Tangible Equity (RoTE). These four KPIs represent important metrics for the capital, risk, cost and the revenue profile of our bank and provide an indication of the sustainable performance of Deutsche Bank.

**Individual VC** takes into consideration a number of financial and non-financial factors, including the applicable divisional performance, the employee's individual performance and conduct, the comparison with the employee's peer group and retention considerations.

**Recognition Awards** provide the opportunity to acknowledge and reward outstanding contributions made by the employees of lower seniority levels in a transparent and timely manner. Generally, the size of the Recognition Award Program is directly linked to a set percentage of Fixed Pay for the eligible population and it is paid out twice a year, based on a review of nominations and contributions at divisional level.

Total Compensation is complemented by employee benefits which may be linked to employment or seniority, but have no direct link to performance. They are granted in accordance with applicable local market practice and requirements. Recognition Awards and benefits (including company pension schemes) are not part of an employee's Reference Total Compensation.

## Determination of Variable Compensation

Deutsche Bank applies a robust methodology when determining Variable Compensation, that reflects the risk-adjusted performance (which includes ex-ante and ex-post risk adjustments) and is primarily driven by (i) Group affordability, i.e. what “can” Deutsche Bank award in alignment with regulatory requirements, and (ii) performance, i.e. what “should” we award in order to provide an appropriate compensation for performance, while protecting the long-term health of the franchise. These aspects apply to both the Group VC Component and the Individual VC Component (whether granted as Individual VC or Recognition Award).

Group affordability is assessed to determine that key parameters are within the projected fulfilment of future regulatory and strategic goals. The affordability parameters used are fully aligned with our “Risk Appetite Framework” and include: CET 1 Capital Ratio, Economic Capital Adequacy Ratio, Leverage Ratio, Stressed Net Liquidity Position and Liquidity Coverage Ratio.

When assessing performance, we reference a range of considerations, including divisional performance. The performance is assessed in context of divisional financial and non-financial targets. The financial targets are subject to appropriate risk-adjustment, in particular by referencing the degree of future potential risks to which Deutsche 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 the achievement of cost and control targets. While the allocation of VC to infrastructure functions depends on the overall performance of Deutsche Bank, it is not dependent on the performance of the division(s) these functions, particularly independent control functions, oversee.

At the level of the individual employee, we have established “Variable Compensation Guiding Principles”, which detail the factors and metrics that must be taken into account when making Individual VC decisions. Our managers must fully appreciate both the absolute and relative risk-taking activities of individuals to ensure that VC allocations are balanced and risk-taking is not inappropriately incentivized. The factors and metrics to be considered include, but are not limited to, divisional risk-adjusted financial and non-financial performance, culture and behavioural considerations, disciplinary sanctions, and individual performance. Managers of Material Risk Takers must document the factors and risk metrics considered when making Individual VC decisions, and demonstrate how these factors influenced the Individual VC decision.

## Variable Compensation Structure

Our compensation structures are designed to provide a mechanism that promotes and supports long-term performance of our employees and our bank. Whilst a portion of VC is paid “upfront”, these structures ensure that an appropriate portion is deferred with the aim to ensure alignment to sustainable performance of the Group.

In our bank we continue to believe that the use of shares or share-based instruments for deferred VC is an effective way to align compensation with Deutsche Bank’s sustainable performance and the interests of shareholders. By using Deutsche Bank shares, the value of the individual’s VC is linked to Deutsche Bank’s share price over the deferral and retention period.

As detailed below, we continue to go beyond certain regulatory requirements with the amount of VC that is deferred and Deutsche Bank’s minimum deferral periods. Whilst ensuring lower compensated employees are not unnecessarily subject to deferrals, we ensure an appropriate amount of deferred VC for higher earners, which generally means that where VC is set at or above € 150,000 and in the case of Material Risk Takers employees at or above € 50,000, the portion of deferred VC increases for VC above these levels. Material Risk Takers are on average subject to deferral rates in excess of the minimum 40 % (60 % for Senior Management) as required by InstVV.

### Overview on 2017 Award Types

Award Type	Description	Beneficiaries	Deferral Period	Retention Period	Proportion
Cash VC	Upfront cash proportion	All eligible employees	N/A	N/A	MRTs: 50 % of upfront VC  Non-MRTs: 100 % of upfront VC
Equity Upfront Award (“EUA”)	Upfront equity proportion: The value of the EUA is linked to Deutsche Bank’s share price	All MRTs with VC >= € 50,000	N/A	12 months	50 % of upfront VC
Restricted Incentive Award (“RIA”) <sup>1</sup>	Non-equity based portion (deferred cash compensation)	All employees with deferred VC	Pro rata vesting over four years	N/A	50 % of deferred VC
Restricted Equity Award (“REA”) <sup>1</sup>	Deferred equity portion: The value of the REA is linked to Deutsche Bank’s share price over the vesting and retention period	All employees with deferred VC	Pro rata vesting over four years  Senior Management: 4.5 year cliff-vesting <sup>2</sup>	6 months for MRTs	50 % of deferred VC

N/A – Not applicable

<sup>1</sup> For certain AIFMD/UCITS V employees: Employee Investment Plan (“EIP”). These are cash settled awards based on the value of funds managed by the business.

<sup>2</sup> For the purposes of performance year 2017 annual awards, “Senior Management” is defined as the Deutsche Bank’s “Senior Leadership Cadre”, which includes direct reports of Deutsche Bank AG Management Board Members (excluding non-strategic roles), Management Board Members of the bank’s significant institutions (excluding Deutsche Bank AG and Postbank AG for whom other remuneration systems apply) and other senior employees who are significant influencers and stewards of the Deutsche Bank’s long-term health and performance. All Senior Management employees are also considered MRTs.

In addition to the standard Group approach detailed above, we have decided to apply a stricter approach with regard to VC awards granted to Directors and Managing Directors in the Corporate & Investment Bank: The effective deferral threshold for this population is set at € 130,000 (for MRTs at € 50,000) and the proportion of VC that is deferred generally increases faster with increasing levels of the overall amount of compensation awarded than for employees in other areas of the bank, to align their VC even more closely with the sustainable performance of the Group. Furthermore, those Directors and Managing Directors with either Fixed Pay or VC in excess of € 500,000 are subject to a VC deferral of 100 %.

Our employees are not allowed to sell, pledge, transfer or assign a deferred award or any rights in respect to the award. They may not enter into any transaction having an economic effect of hedging any variable compensation, for example offsetting the risk of price movement with respect to the equity-based award. Our Human Resources and Compliance functions work together to monitor employee trading activity and to ensure that all our employees comply with this requirement.

## Ex-post Risk Adjustment of Variable Compensation

We believe that the future conduct and performance of our employees are a key element of deferred VC. As a result, all deferred awards are subject to performance conditions and forfeiture provisions as detailed below.

### Overview on performance conditions and forfeiture provisions of Variable Compensation

Provision	Description	Forfeiture
Group CET 1 Ratio	If at the quarter end prior to vesting and delivery the Group CET 1 Ratio is below a certain threshold	Next tranche of equity based deferred award due for delivery (100 % of all undelivered Equity Upfront Awards) <sup>1</sup>
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) <sup>2</sup>
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 Postbank MRTs) <sup>2</sup>
Forfeiture Provisions <sup>3</sup>	<ul style="list-style-type: none"> <li>– In the event of an internal policy or procedure breach, breach of any applicable laws or regulations, or a Control Failure</li> <li>– If any award was based on performance measures or assumptions that are later deemed to be materially inaccurate</li> <li>– Where a Significant Adverse Event occurs, and the Participant is considered sufficiently proximate</li> <li>– If forfeiture is required to comply with prevailing regulatory requirements</li> </ul>	Up to 100 % of undelivered awards

<sup>1</sup> For award types subject to cliff-vesting, the whole award will be forfeited if at quarter end prior to vesting or settlement the Group CET 1 ratio is below the threshold. For Equity Upfront Awards, the Group CET 1 Ratio is only assessed at the quarter end prior to delivery.

<sup>2</sup> For annual equity-based awards subject to cliff-vesting granted to Senior Management (defined as Deutsche Bank's "Senior Leadership Cadre"), a certain award proportion (20 %) will be forfeited in respect of a year, if the IBIT is negative for that year.

<sup>3</sup> Forfeiture provisions here are not a complete list, other provisions apply as outlined in the respective plan rules.

## Retention Award Program (granted in January 2017)

As already outlined in Deutsche Bank's 2016 Employee Compensation Report, in the context of strategic considerations during the 2016 year-end process, a limited number of employees were granted a special long-term incentive ("Retention Award") in early 2017. In order to mitigate retention risks and to protect the franchise, the Management Board had decided to grant these Retention Awards irrespective of individual performance in the previous year to a targeted population of key employees who had been identified as critical to the bank's future success, who are in high demand in the market and who would be very difficult to replace.



Overall, Retention Awards were awarded to 5,522 employees or approximately 5 % of Deutsche Bank's global workforce. € 554 million were granted in deferred cash, and € 554 million were granted in deferred equity. The Retention Awards are fully deferred over a period of three to five years and are subject to the same measures of ex-post risk-adjustment as described in the chapter "Ex-post Risk Adjustment of Variable Compensation". The earliest pay-out date for parts of these awards is therefore early 2018 for non-Material Risk Takers, as a pro rata vesting over three years, and 2021 for MRTs, respectively. The equity awards for MRTs are subject to an additional retention period of 12 months, meaning that those awards are only fully delivered after six years.

To further align the awards with the long-term health of our bank and the interests of our shareholders, this equity portion will not vest if Deutsche Bank's share price does not reach a certain share price target. If the share price target is met, the equity portion is delivered after three and a half years for non-MRTs, and after five to six years for MRTs taking into account the additional retention period. In line with any other outstanding equity awards, the share price target and number of outstanding shares for unsettled Retention Awards have been adjusted with respect to our rights issue in April 2017.

Although not performance-based, Retention Awards are considered variable compensation pursuant to Section 5 InstVV. For the ratio of 1:1 or 1:2 with regard to fixed-to-variable remuneration components, Deutsche Bank considers Retention Awards on a pro-rated basis over the deferral period in line with the InstVV. To benefit from these awards, Retention Award recipients need to stay with our bank. If they leave for a competitor, any undelivered portion of an award will be forfeited. At the end of 2017, the attrition rate for employees who have been granted a Retention Award has been lower than the attrition rate for employees who received other deferred awards.

#### Overview of the structure of the Retention Award Program

Population	Weighting	Proportion	Deferral Period
Material Risk Takers	100 % deferred	50 % cash (RIA)	50 % vest on March 1, 2021, 50 % vest on March 1, 2022
		50 % equity (REA)	50 % vest on March 1, 2021 (plus 12 months retention period), 50 % vest on March 1, 2022 (plus 12 months retention period)
Non-Material Risk Takers	100 % deferred	50 % cash (RIA)	3 year pro rata vesting (March 1, 2018, March 1, 2019, March 1, 2020)
		50 % equity (REA)	Cliff vesting after 3.5 years (due to vest on August 1, 2020)

#### Material Risk Taker Compensation Disclosure

On a global basis, the bank identified individuals who have a material impact on the risk profile of the Group (InstVV MRTs). Of these, 478 MRTs were employed by DB USA Corp. The remuneration elements for these MRTs are detailed in the table below in accordance with Art. 450 CRR. The quantitative disclosure for Material Risk Takers includes the full value of the Retention Award Program granted to MRTs.

## Aggregate remuneration for Material Risk Takers

2017

in € m. (unless stated otherwise) <sup>1</sup>	Senior Management <sup>2</sup>	CIB	PCB	Deutsche AM	Independent Control Functions <sup>3</sup>	Corporate Functions <sup>4</sup>	Group Total
Number of MRTs (headcount)	46	355	13	39	20	5	478
Number of MRTs (FTE)	46	354	13	39	19	5	476
<b>Total Pay</b>	<b>92</b>	<b>617</b>	<b>29</b>	<b>52</b>	<b>18</b>	<b>6</b>	<b>813</b>
<b>Total Fixed Pay</b>	<b>41</b>	<b>249</b>	<b>9</b>	<b>20</b>	<b>9</b>	<b>2</b>	<b>329</b>
<b>Total Variable Pay for period</b>	<b>51</b>	<b>368</b>	<b>20</b>	<b>32</b>	<b>8</b>	<b>4</b>	<b>484</b>
thereof:							
Retention Award Program (Jan 2017) <sup>5</sup>							192
thereof:							
in cash	24	184	10	12	4	2	237
in shares	27	184	10	17	4	2	243
in other types of instruments	0	0	0	4	0	0	4
<b>Total Variable Pay for period, deferred</b>	<b>43</b>	<b>314</b>	<b>14</b>	<b>22</b>	<b>5</b>	<b>3</b>	<b>400</b>
thereof:							
in cash	20	157	7	7	2	1	195
in shares	23	157	7	11	2	1	201
in other types of instruments	0	0	0	4	0	0	4
<b>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</b>							
<b>Total amount of variable pay still outstanding at the beginning of the year that was deferred in previous years</b>	<b>133</b>	<b>462</b>	<b>26</b>	<b>64</b>	<b>8</b>	<b>2</b>	<b>696</b>
thereof:							
vested	50	190	12	19	4	1	276
unvested	83	273	14	45	4	1	420
<b>Deferred Variable Pay awarded, paid out or reduced during period</b>							
awarded during period	37	230	13	18	4	2	304
paid out during period	34	185	12	18	4	1	255
reduced through explicit risk adjustments	0	2	0	0	0	0	2
<b>Article 450 (1) h(v) of the CRR on hiring bonuses</b>							
Number of beneficiaries of guaranteed variable remuneration (hiring bonuses)	1	8	-	-	1	-	10
Total amount of guaranteed variable pay (hiring bonuses)	0	11	0	0	0	0	11
<b>Article 450 (1) h(v) and (vi) of the CRR on severance payments</b>							
Total amount of severance payments granted	0	1	0	0	0	0	1
Number of beneficiaries of severance payments granted by headcount	-	13	-	-	-	1	14
Highest severance payment granted to an individual	0	0	0	0	0	0	0

<sup>1</sup> Figures may include rounding differences. Buyouts not included.

<sup>2</sup> Refers to members of the "Senior Leadership Cadre".

<sup>3</sup> In accordance with regulatory guidance, "Independent Control Functions" for the purposes of this table include the areas of the Chief Risk Officer, Group Audit, Compliance, Anti-Financial Crime, and Human Resources (central and regional). Additionally, Deutsche Bank considers the following infrastructure functions as "Independent Control Functions": Legal, Global

Governance, Group Incident & Investigation Management, Chief Information Security Office, Group Finance, Group Tax, and Regulatory Affairs. All of these functions are subject to a fixed-to-variable remuneration ratio of 1:1.

<sup>4</sup> "Corporate Functions" comprise any Infrastructure Function that is neither captured as an Independent Control Function nor part of any division for the purposes of this table. This includes, for instance, the areas of the Chief Operating Officer and Corporate Social Responsibility.

<sup>5</sup> The Retention Award Program is included in the Variable Pay figures in this table.

## Remuneration of high earners

in €	2017
	Number of employees (excluding Retention Award Program) <sup>1</sup>
Total Pay	
1,000,000 to 1,499,999	90
1,500,000 to 1,999,999	65
2,000,000 to 2,499,999	32
2,500,000 to 2,999,999	19
3,000,000 to 3,499,999	13
3,500,000 to 3,999,999	4
4,000,000 to 4,499,999	5
4,500,000 to 4,999,999	3
5,000,000 to 5,999,999	1
6,000,000 to 6,999,999	1
7,000,000 to 7,999,999	2
<b>Total</b>	<b>235</b>

<sup>1</sup> Buyouts not included. When considering the Retention Award Program with the full amount granted in January 2017, the total of high earners for 2017 would amount to 297 employees.

In total, 235 employees received a Total Pay of € 1 million or more for 2017.

