# DWS USA Corporation

## U.S. Liquidity Coverage Ratio Disclosures

### For the quarter ended December 31, 2020

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**The Liquidity Coverage Ratio (LCR)**

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

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

The Basel Committee on Banking Supervision (BCBS) published the international liquidity standards in December 2010 as part of the Basel III package and revised the liquidity standard in January 2013. On September 3, 2014, the U.S. regulators adopted the final rule that implements a quantitative liquidity requirement generally consistent with the LCR standard established by the BCBS. The final LCR rule applies to banks and bank holding companies (BHCs) that meet the applicability criteria of the LCR rule and to certain other regulated institutions, as determined by the Federal Reserve Board ("Federal Reserve" or "FRB").

The Enhanced Prudential Standards for Foreign Banking Organizations (FBOs) require FBOs, including DB, with non-Branch assets of $50 billion or more to form a U.S. Intermediate Holding Company (IHC) to serve as the top-tier holding company for their non-branch U.S. subsidiaries. DWS USA Corporation (the Firm) is structured to serve as the top-tier holding company for the U.S. subsidiaries of DWS Group GmbH & Co. KGaA, a German based asset management company and majority owned subsidiary of Deutsche Bank AG. The Firm became subject to the LCR requirements as of October 1, 2018.

Subsequently, the Federal Reserve adopted the Tailoring Rule that introduces risk-based categories for determining scope, nature and applicability of requirements under the LCR rule and modifies the LCR requirements based on the category of the banking organizations. Under the Tailoring Rule, stringency of requirements increases based on measures of size, cross jurisdictional activity, weighted short-term wholesale funding, nonbank assets and off-balance sheet exposures.

**1 Deutsche Bank (DB) AG is a financial conglomerate as designated by the BaFin.**

Based on these new guidelines, which are effective December 31, 2019, the firm is categorized as a Category III bank and therefore reduced LCR requirement of 85% applies.

**U.S. Disclosure Requirements**

In December 2016, the Federal Reserve adopted a rule to implement public disclosure requirements (PDR) for the LCR. Under PDR, a BHC with $50 billion or more in consolidated assets or $10 billion or more in foreign exposure and certain other FRB regulated institutions are required to disclose publicly, on a quarterly basis, quantitative information about their LCR calculation and a discussion of the factors that have a significant effect on their LCR. Presently, the Firm is subject to these disclosure requirements. The information presented in this document is calculated in accordance with the LCR rule, unless otherwise stated. Table 6 presents the Firm's LCR.

**U.S. Qualitative Disclosure Requirement**

**Main Drivers of LCR**

The table below summarizes the Firm's average LCR for the 3 months ended December 31, 2020.

**Table 1: Liquidity Coverage Ratio**

| Average Weighted Amounts ($ in millions) | Three months ended December 31, 2020 |
|---|---|
| HQLA | 486.9 |
| Net cash outflows | 2.5 |
| **LCR (HQLA / Net cash outflows)** | **19564%** |
| Excess HQLA vs. target of 1.1 | 484.1 |

*Note: excess HQLA is the Amount of HQLA which exceeds 110% of net cash outflows*

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

The Firm's LCR is largely driven by:

1. HQLA, which consists of U.S. Treasuries and sovereign bonds denominated in Euro with credit ratings in excess of AA-, which qualify for a zero haircut per the LCR rule;
2. Net cash outflows driven by derivative activity (derivatives are used to hedge seed investments in funds managed by DWS); and
3. Net cash outflows driven by outstanding TLAC[2] eligible Debt.

**2 Total Loss Absorbing Capacity (TLAC):**

**The Federal Reserve Board requires IHCs of foreign global systematically important banks (GSIBs) to issue to their foreign parents Total Loss Absorbing Capacity (TLAC) debt, which can be written-off or converted to equity, if needed to facilitate an orderly resolution.**

### Changes in LCR

As provided in Table 1, the Firm's average LCR for three months ended December 31, 2020 was 19,564%, which is well above the required minimum of 100%. The average LCR for the quarter ended December 31, 2020 increased to 19,564% from an average LCR of 15,930% for the quarter ended September 30, 2020, primarily driven by:

1) Higher HQLA in Q4 due to purchases of HQLA exceeding sales and maturities.
2) Lower maturity mismatch in Q4, primarily due to higher Cash inflows caused by excess nostro balances held in demand accounts.
3) Lower cash outflows from derivatives in Q4, primarily due to the impact of cash collateral for derivative margin.

For additional details on the change in average LCR quarter over quarter, please see Table 6.

### Composition of eligible HQLA

HQLA represents the sum of eligible Level 1 liquid assets, Level 2A liquid assets, and Level 2B liquid assets, eligible for inclusion in the LCR after prescribed haircuts and asset composition limits. Eligible HQLA must also meet specific operational and general requirements, as prescribed under the LCR rule. Presently, in the HQLA portfolio the Firm only holds Level 1 liquid assets. Therefore, the Firm's liquidity buffer is entirely composed of Level 1 liquid assets.

The table below presents the daily weighted average amounts of the Firm's HQLA segregated into U.S. Treasuries and EU sovereign bonds for the three months ended December 31, 2020.

**Table 2: High Quality Liquid assets**

| Average Weighted Amounts ($ in millions) | Three months ended December 31, 2020 |
|---|---|
| US Treasury Securities | 367.6 |
| EU Sovereign Bonds | 119.3 |
| **Total Eligible Level 1 Assets** | **486.9** |

### Other Liquidity Sources

The Firm holds a significant amount of cash with third party banks, only a portion of which is needed to meet ongoing operational needs of the Firm. As of December 31, 2020, the estimated amount of non-

operating cash held by the Firm was $149 million. This balance represents a $17 million increase versus the prior quarter due to normal operational fluctuation.

Additionally, the Firm holds seed investments, a portion of which could likely be liquidated quickly if needed, but they do not meet the requirements for HQLA.

**Concentration of funding sources**

The Firm does not take deposits, and is primarily funded through accumulated earnings from operations and the on-going receipt of management and advisory fees.

The Firm's primary activities, the collection of management and advisory fees and the payment of operating expenses, are not captured in LCR reporting. Rather, it is the Firm's balance sheet and off-balance sheet related inflows and outflows that are reported. Given the immaterial size of these flows versus flows from the Firm's operating activities, the LCR is expected to remain above target ratios even during severely adverse stress scenarios.

**Other Outflows**

The following table summarizes other outflows averaged over the three months ended December 31, 2020. The LCR impact of non-structured debt maturing in greater than 30 days is calculated as 3% of such amount. This Long-term debt is the Firm's TLAC debt issuance. The TLAC debt was issued in Euro and the proceeds of the debt were invested in Euro denominated sovereigns (HQLA eligible) to provide a currency offset.

Other cash outflows is the amount of certain expense-related adjustments payable to a number of current and former clients.

**Table 3: Other Outflows**

| Average Weighted Amounts ($ in millions) | Three months ended December 31, 2020 |
|---|---|
| Non-structured debt maturing in greater than 30 days (TLAC) | 3.7 |
| Other Cash Outflows | 0.2 |
| **Total Other Funding Obligations** | **3.9** |

## Derivatives exposure and potential collateral calls

A derivative transaction is a financial contract whose value is derived from the values of one or more underlying assets, reference rates, or indices of asset values or reference rates. The Firm currently uses derivative contracts including interest rate derivative contracts, exchange rate derivative contracts and equity derivative contracts.

The Firm enters into derivative contracts to hedge seed investments in funds managed by the Firm. These derivatives are executed through third parties, are generally exchange traded, cleared through central clearing counterparties, and generally any outstanding exposure / variance margin is settled daily with the executing brokerage firm. The Firm places initial margin with the broker for such derivative exposures. Under our existing derivative contracts, a change in the credit rating of the Firm would not lead to a collateral call.

The following table summarizes derivatives related net cash outflows for the three months ended December 31, 2020.

**Table 4: Derivatives**

| Average Weighted Amounts ($ in millions) | Three months ended December 31, 2020 |
|---|---|
| Net Outflow related to derivative exposures and other collateral requirements | 6.1 |

## Cash Inflows

On average over the current and prior quarter, the Firm's reported inflows exceeded 75% of the reported outflows. This caused inflow amounts used in the prior quarter LCR calculation to be capped at 75% of cash outflows, as the rule is designed to ensure that reporting entities hold a minimum HQLA of at least 25% of total cash outflows.

Cash inflows come primarily from the maturity of HQLA bonds (zero weight), dividends from seed and co-investments (100% weight), interest from cash accounts and HQLA (100% weight), maturing bank CDs (100% weight), and the collection of fee receivables (zero weight).

The following table summarizes the cash inflows.

**Table 5: Cash Inflows**

| Average Weighted Amounts ($ in millions) | Three months ended December 31, 2020 |
|---|---|
| Securities cash inflow | 0.0 |
| Other cash inflow | 24.0 |
| **Total Inflows** | **24.0** |

**Liquidity Management**

Liquidity risk is the risk arising from the potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs. DWS USA Capital & Liquidity Management ('CLM') is responsible for ensuring that the Firm can fulfill its payment obligations at all times and can manage liquidity and funding risks within its risk appetite.

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

CLM manages liquidity and funding in accordance with the DWS USA Corporation Board of Directors approved risk appetite across a range of relevant metrics and has a number of tools to monitor these and ensure compliance. In addition, CLM works closely with Risk Management and the business to analyze and understand the underlying liquidity characteristics of the business portfolios. These parties are engaged in regular and frequent dialogue to understand changes in the Firm's liquidity position arising from business activities and market conditions. Business metrics have been established to ensure the Firm operates within its overall liquidity and funding appetite.

**Liquidity Risk Management Framework**

The Risk Management (RM) function is an independent function operating as part of the second line of defense and is responsible for overseeing and evaluating the effectiveness of the liquidity risk management activities performed by DWS USA CLM. Through executing on its oversight and validation

activities, RM plays a key role in supporting the U.S. Chief Risk Officer in overseeing and maintaining the liquidity risk management framework.

CLM is mandated to manage the overall liquidity and funding position of the Firm. Risk Management acts as an independent control function and is responsible for reviewing the liquidity risk framework, proposing the risk appetite to the DWS U.S. Management Risk Committee and validating liquidity risk methodologies which are developed by CLM to measure and manage the liquidity risk profile.

Senior members of the DWS U.S. Management Risk Committee (U.S. MRC) and the DWS U.S. Capital and Liquidity Management Committee (U.S. CLMC) receive daily liquidity reports containing LCR reporting, Cash Flow Forecasting and Liquidity Stress Testing, both of which are projected for one year.

Monthly, the U.S. CLMC and U.S. MRC are informed of performance against the risk metrics via a liquidity dashboard, which includes early warning indicators. The U.S. Chief Risk Officer also informs the Risk Committee of the DWS USA Corporation Board of Directors on progress during regular meetings. Escalations of any breaches of limits / thresholds are reported on a timely basis, and follow escalations paths as defined in the DWS USA Risk Appetite Statement.

**Liquidity Stress Testing**

Cash Flow Forecasting and Liquidity stress testing are the primary tools for measuring liquidity risk and evaluating the Firm's liquidity position. The Firm prepares both regulatory reporting (i.e., LCR) and internally designed stress tests. The internally designed stress tests are used to determine whether the current liquidity position is in line with the risk appetite and to set the liquidity buffer requirements and help to identify potential future liquidity shortfalls.

Internal stress testing models calculate the Firm's net liquidity position (i.e., measure net stress cash flows against liquidity buffers held) under three stress scenarios (Idiosyncratic loss event, Market downturn event and Combined Market / Idiosyncratic event).

Cash Flow Forecasting and Stress Testing is performed daily and assess the Firm's net liquidity position over the next year.

**U.S. Quantitative Disclosures**

The following table presents the Firm's average LCR and average un-weighted and weighted amount of HQLA, cash outflows and cash inflows for the quarter ended December 31, 2020 versus September 30, 2020.

**Table 6:**

| Quarter over Quarter Change: December 31, 2020 vs September 30, 2020 *$ in millions* | December 31, 2020 Avg. Unweighted Amount | December 31, 2020 Avg. Weighted Amount | September 30, 2020 Avg. Unweighted Amount | September 30, 2020 Avg. Weighted Amount | Variance Avg. Unweighted Amount | Variance Avg. Weighted Amount | Commentary on average weighted amounts |
|---|---|---|---|---|---|---|---|
| **HIGH-QUALITY LIQUID ASSETS** | | | | | | | |
| **1 Total eligible high-quality liquid assets (HQLA), of which:** | **486.9** | **486.9** | **458.5** | **458.5** | **28.4** | **28.4** | Primarily due to net new purchases of HQLA bonds |
| 2 Eligible level 1 liquid assets | 486.9 | 486.9 | 458.5 | 458.5 | 28.4 | 28.4 | |
| 3 Eligible level 2A liquid assets | | | | | | | |
| 4 Eligible level 2B liquid assets | | | | | | | |
| **CASH OUTFLOW AMOUNTS** | | | | | | | |
| **5 Deposit outflow from retail customers & counterparties, of which:** | - | - | - | - | | | |
| 6 Stable retail deposit outflow | - | - | - | - | | | |
| 7 Other retail funding outflow | - | - | - | - | | | |
| 8 Brokered deposit outflow | - | - | - | - | | | |
| **9 Unsecured wholesale funding outflow, of which:** | - | - | - | - | | | |
| 10 Operational deposit outflow | - | - | - | - | | | |
| 11 Non-operational funding outflow | - | - | - | - | | | |
| 12 Unsecured debt outflow | - | - | - | - | | | |
| **13 Secured wholesale funding and asset exchange outflow** | - | - | - | - | | | |
| **14 Additional outflow requirements, of which:** | **6.1** | **6.1** | **10.1** | **6.9** | **(4.0)** | **(0.8)** | |
| 15 Outflow related to derivative exposures and other collateral requirements | 6.1 | 6.1 | 10.1 | 6.9 | (4.0) | (0.8) | Primarily due to impact of cash collateral for derivatives margin. |
| 16 Outflow related to credit and liquidity facilities including unconsolidated strutured transactions and mortgage commitments | - | - | - | - | | | |
| **17 Other funding obligations outflow** | 123.7 | 3.9 | 122.5 | 3.8 | 1.2 | 0.0 | |
| **18 Other contingent funding obligations outflow** | - | - | - | - | | | |
| **19 TOTAL CASH OUTFLOW** | **129.7** | **10.0** | **132.5** | **10.7** | **(2.8)** | **(0.8)** | |
| **CASH INFLOW AMOUNTS** | | | | | | | |
| **20 Secured lending and asset exchange cash inflow** | - | - | - | - | | | |
| **21 Retail cash inflow** | - | - | - | - | | | |
| **22 Unsecured wholesale cash inflow** | - | - | - | - | | | |
| **23 Other cash inflows, of which:** | **153.9** | **24.0** | **176.6** | **13.2** | **(22.7)** | **10.8** | |
| 24 Net derivative cash inflow | - | - | - | - | | | |
| 25 Securities cash inflow | 77.8 | 0.0 | 111.1 | 0.2 | (33.3) | (0.2) | |
| 26 Broker-dealer segregated account inflow | - | - | - | - | | | |
| 27 Other cash inflow | 76.1 | 24.0 | 65.5 | 13.0 | 10.6 | 11.0 | Primarily due to demand deposit balances classified as excess nostro; the LCR only shows balances due in the next 30 days. |
| **28 TOTAL CASH INFLOW** | 153.9 | 24.0 | 176.6 | 13.2 | (22.7) | 10.8 | |
| **29 HQLA AMOUNT** | | 486.9 | | 458.5 | - | 28.4 | |
| **30 TOTAL NET CASH OUTFLOW AMOUNT EXCLUDING THE MATURITY MISMATCH ADD-ON** | | 2.49 | | 2.68 | - | (0.19) | Q4 is lower, primarily due to lower cash outflows. |
| **31 MATURITY MISMATCH ADD-ON** | | - | | 0.20 | - | (0.20) | Lower primarily due to higher Cash inflows caused by excess nostro balances held in demand accounts. |
| **32 TOTAL NET CASH OUTFLOW AMOUNT** | | 2.49 | | 2.88 | - | (0.39) | Q4 is lower, primarily due to lower cash outflows and lower maturity mismatch add-on. |
| **33 LIQUIDITY COVERASGE RATIO (%)** | | 19564% | | 15930% | 0 | 3634% | LCR increase is primarily driven by higher HQLA. |