

Deutsche Bank  
Risk & Capital  
Management

# Deutsche Bank AG Johannesburg Pillar 3 Disclosure

For the year ended 31 December 2014

*Passion to Perform*



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## OVERVIEW

The following information is compiled in terms of the requirements of the Banks Act 1990 (as amended) and Regulation 43 (1) (e) (ii) and 43(2) of the Banking Regulations, whereby banks (including foreign branches) are obliged to report certain qualitative and quantitative information with regards to their risk profile and capital adequacy on a regular basis to the public, which incorporates the Basel III Pillar 3 requirements on market discipline.

### REPORTING FRAMEWORK

The information disclosed in this report is based on the definitions, calculation methodologies and measurements as defined by the Amended Regulations. All tables, diagrams, quantitative information and commentary in this risk and capital management report are unaudited unless otherwise noted.

### PERIOD OF REPORTING

This report is in respect of the year ended 31 December 2014, including comparative information (where applicable) for the year ended 31 December 2013.

### GROUP DISCLOSURES

The group employs a predominantly centralised approach to risk management throughout the group. As such, DBJ's approach to risk management follows group policies and procedures as a minimum standard. Where local requirements differ from group's, a local policy/procedure is formulated and adopted. This report should thus be read in conjunction with the group Management Report. Where appropriate this document provides links to the Deutsche Bank AG Management report for the year ended 31 December 2014:

Risk report

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

Compensation report

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_remuneration\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_remuneration_report.pdf)

## DEUTSCHE BANK GROUP: OUR ORGANISATION

Headquartered in Frankfurt am Main, Germany, we are the largest bank in Germany and one of the largest financial institutions in Europe and the world, as measured by total assets of €1,709 billion as of 31 December 2014. As of that date, we employed 98 138 people on a full-time equivalent basis and operated in 71 countries out of 2 814 branches worldwide, of which 66% were in Germany. We offer a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world. As of 31 December 2014 we were organised into the following five corporate divisions:

- Corporate Banking & Securities (CB&S);
- Private & Business Clients (PBC);
- Global Transaction Banking (GTB);
- Deutsche Asset & Wealth Management (Deutsche AWM); and
- Non-Core Operations Unit (NCOU).

The five corporate divisions are supported by infrastructure functions. In addition, we have a regional management function that covers regional responsibilities worldwide. We have operations or dealings with existing or potential customers in most countries in the world. These operations and dealings include:

- subsidiaries and branches in many countries;
- representative offices in many other countries; and
- one or more representatives assigned to serve customers in a large number of additional countries.

## DEUTSCHE BANK GROUP: SOUTH AFRICA

### HISTORY

Deutsche Bank has been represented in South Africa since 1979 and expanded its presence in 1995 through the acquisition of local stockbroker Ivor Jones, Roy & Co. Deutsche Bank AG then went on to establish a branch in Johannesburg in 1998 – Deutsche Bank AG Johannesburg Branch.

The South African branch offers a full range of competitive products and services focusing on fixed income and repos, foreign exchange, interest rate derivatives, loans and deposits, securities lending and equity derivatives.

### BRANCH MANAGEMENT

The members of the Branch management during the year and up to the date of this report are:

M Houze

R O'Leary

R Visser

PG Wharton-Hood

## FINANCIAL PERFORMANCE

In terms of the requirements of the Banks Act and Regulations relating to banks, the financial results presented below have been prepared in accordance with Financial Reporting Standards issued from time to time, with additional disclosure when required. Whilst branches of foreign banks are not required to publish financial statements the information provided below is required in terms of their Pillar 3 disclosures.

### FINANCIAL POSITION/BALANCE SHEET<sup>1</sup>

The balance sheet reflects what the branch owns, owes and the equity that is attributable to shareholders at 31 December 2014.

	2014 R'000	2013 R'000
<b>Assets</b>		
Cash and balances with central bank	37 269	88 409
Short-term negotiable securities	754 459	1 526 422
Loans and advances to customers	8 573 059	10 628 469
Investment and trading securities	1 917 369	–
Derivative financial instruments	5 901 656	7 763 553
Property and equipment	524	427
Deferred income tax assets	47 247	42 484
Other assets	68 417	72 961
<b>Total assets</b>	<b>17 300 000</b>	<b>20 125 855</b>
<b>Liabilities</b>		
Deposits, current accounts and other creditors	9 724 228	11 003 262
Derivative financial instruments and other trading liabilities	6 156 540	7 684 105
Other liabilities	168 947	165 630
<b>Total liabilities</b>	<b>16 049 715</b>	<b>18 852 997</b>
<b>Equity</b>		
Total equity attributable to equity holders	1 250 285	1 272 858
<b>Total equity</b>	<b>1 250 285</b>	<b>1 272 858</b>
<b>Total equity and liabilities</b>	<b>17 300 000</b>	<b>20 125 855</b>

<sup>1</sup> Source: 31 December BA 100 (audited)

## RESULTS OF OPERATIONS/INCOME STATEMENT<sup>2</sup>

The income statement reflects the revenue generated by the branch as well as the costs incurred in generating that revenue for the year ended 31 December 2014.

	2014 R'000	2013 R'000
Net interest income	<b>(82 601)</b>	(212 485)
Non-interest revenue	<b>202 298</b>	341 250
Operating income	<b>119 697</b>	128 765
Operating expenses	<b>147 318</b>	197 585
Profit/(loss) before income tax	<b>(27 621)</b>	(68 820)
Income tax	<b>(4 622)</b>	(19 077)
Profit/(loss) for the year	<b>(22 999)</b>	(49 743)

<sup>2</sup> Source: 31 December BA 120 (audited)

## FINANCIAL POSITION

### CAPITAL ADEQUACY

In terms of the requirements of the Banks Act and regulations relating to banks, the branch has complied with the minimum capital requirements for the period under review.

The branch's regulatory capital is split into two tiers:

- Tier 1 capital, which is comprised solely of Common Equity Tier 1 capital, which includes dotation capital, appropriated retained earnings and share-based payment reserve.
- Tier 2 capital, which includes a general allowance for credit impairment.

The minimum capital requirements are defined by three ratios:

- Common Equity Tier 1 capital as a percentage of risk-weighted assets;
- Tier 1 capital as a percentage of risk-weighted assets; and
- Total qualifying capital as a percentage of risk-weighted assets.

### MINIMUM CAPITAL REQUIREMENTS PER BASEL III

		<b>December 2014</b>	December 2013
National Common Equity Tier 1 minimum ratio	(%)	<b>5,50</b>	4,50
National Tier 1 minimum ratio	(%)	<b>7,00</b>	6,00
National total capital minimum ratio	(%)	<b>10,00</b>	9,50

**SUMMARY OF REGULATORY CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS**

Risk type	December 2014		December 2013	
	RWA <sup>1</sup> R'000	MRC <sup>2</sup> R'000	RWA <sup>1</sup> R'000	MRC <sup>2</sup> R'000
<b>Credit risk</b>				
Standardised Approach	1 943 977	194 398	1 946 280	184 896
Corporates	666 722	66 672	565 917	53 762
Banks	309 994	30 999	32 856	3 121
Public sector entities and local authorities	343 484	34 348	–	–
Securities firms	623 777	62 378	1 347 507	128 013
<b>Counterparty credit risk</b>				
Current exposure method	3 693 909	369 391	2 125 826	201 953
<b>Market risk</b>				
Standardised Approach	72 300	7 230	108 488	10 306
<b>Operational risk</b>				
Basic Indicator Approach	298 959	29 896	442 438	42 032
<b>Other assets</b>				
100% risk weighting	112 621	11 262	45 598	4 332
<b>Total risk-weighted assets/ Minimum required capital</b>	<b>6 121 766</b>	<b>612 177</b>	4 668 630	443 520
<b>Total minimum required capital</b>		<b>612 177</b>		443 520
Pillar 1 MRC <sup>2</sup>		489 741		373 490
Pillar 2a MRC <sup>2</sup>		122 435		70 029
<b>Total qualifying capital and reserves</b>		<b>1 239 512</b>		1 291 426
<b>Surplus capital</b>		<b>627 335</b>		847 906

<sup>1</sup> Risk weighted assets

<sup>2</sup> Minimum Required Capital - Pillar 1 MRC is measured at 8% in line with SARB regulations, Pillar 2a MRC is measured at 2% (1,5% in 2013)



## CAPITAL COMPOSITION

The branch is applying the Basel III regulatory adjustments in full as implemented by the South African Reserve Bank (SARB).

	December 2014 R'000	December 2013 R'000
<b>Tier 1</b>		
Common Equity Tier 1 capital: instruments and reserves	1 250 285	1 272 858
Dotation capital	884 639	884 639
Retained earnings	362 374	381 672
Accumulated other comprehensive income (and other reserves)	3 272	6 547
Common Equity Tier 1 capital: regulatory adjustments	(21 501)	–
Deferred tax assets	(21 501)	–
<b>Tier 1 capital (T1)</b>	<b>1 228 784</b>	<b>1 272 858</b>
<b>Tier 2</b>		
Provisions	10 728	18 568
<b>Tier 2 capital (T2)</b>	<b>10 728</b>	<b>18 568</b>
<b>Total capital (TC = T1 + T2)</b>	<b>1 239 512</b>	<b>1 291 426</b>
<b>Total risk-weighted assets</b>	<b>6 121 766</b>	<b>4 668 630</b>
<b>Capital ratios</b>		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	(%) 20,07	27,26
Tier 1 (as a percentage of risk-weighted assets)	(%) 20,07	27,26
Total capital (as a percentage of risk-weighted assets)	(%) 20,25	27,66
<b>RECONCILIATION OF ACCOUNTING CAPITAL TO REGULATORY CAPITAL</b>		
<b>Accounting capital – as reported per audited financial statements</b>	<b>1 250 285</b>	<b>1 272 858</b>
Dotation capital	884 639	884 639
Share-based payment reserve	3 272	6 547
Retained earnings	362 374	381 672
<i>Add:</i> General allowance for credit impairments	10 728	18 568
	<b>1 261 013</b>	<b>1 291 426</b>
<i>Less:</i> Regulatory adjustments and deductions	(21 501)	–
<b>Total regulatory capital</b>	<b>1 239 512</b>	<b>1 291 426</b>

## RISK MANAGEMENT OVERVIEW

The diversity of our business model requires us to identify, assess, measure, aggregate and manage our risks, and to allocate our capital among our businesses. We operate as an integrated group through our divisions, business units and infrastructure functions. DBJ has adopted a holistic approach to risk management at both a branch and group level. Risk and capital are managed via a framework of principles, organisational structures and measurement and monitoring processes that are closely aligned with the activities of the divisions and business units.

We seek to promote a strong risk culture throughout our organisation. A strong risk culture is designed to help reinforce our resilience by encouraging a holistic approach to the management of risk and return throughout our organisation as well as the effective management of our risk, capital and reputational profile. We actively take risks in connection with our business and as such the following principles underpin risk culture within our group:

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

The overall focus of Risk and Capital Management throughout 2014 was on maintaining our risk profile in line with our risk strategy and supporting our strategic management initiatives with a focus on balance sheet optimisation. Based upon our assessment and verification we believe that our risk disclosures presented throughout this risk report appropriately and comprehensively convey our overall risk profile.

## OVERALL RISK ASSESSMENT

Key risk categories for the branch include credit risk, market risk, operational risk (including legal risk), business risk (including tax and strategic risk), reputational risk, liquidity risk, model risk and compliance risk. We manage the identification, assessment and mitigation of top and emerging risks through an internal governance process and the use of risk management tools and processes. Our approach to identification and impact assessment aims to ensure that we mitigate the impact of these risks on our financial results, long-term strategic goals and reputation.

## RISK MANAGEMENT FRAMEWORK

Deutsche Bank operates as an integrated group through its business divisions and infrastructure functions. At DBJ branch level, risk and capital are managed via a framework of principles, organisational structures and measurement and monitoring processes that are closely aligned with the activities of the divisions and business units. This policy is structured along the following four building blocks of the Risk Management framework of DB Group, as illustrated below:

- Risk governance and strategy;
- Risk management by major risk category;
- Risk methods – analytics and modelling; and
- Risk infrastructure, policies and documentation.

## RISK GOVERNANCE AND STRATEGY

Refer to group risk report for comprehensive assessment which can be found at:

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

From an internal governance perspective, we have several layers of management to provide cohesive risk governance:

- The South Africa ExCo, which has overall responsibility to exercise governance over the proper function of each business and infrastructure function.
- The Asset and Liability Committee of DBJ (ALCO) fulfils the role of the local Capital and Risk Committee (CaR). The ALCO also provides the forum for managing the capital, funding and liquidity risk of DBJ. Regular ALCO voting members include representatives of Finance, Treasury, ExCo, representatives of the various business divisions and risk management. The ALCO has responsibility for aligning the capital requirements as well as liquidity and funding needs of DBJ's activities, within the risk profile of the businesses and risk appetite of the bank. It reviews the capital, liquidity and funding profile on a regular basis and decides on measures to avoid regulatory and/or bank-internal limit breaches. The ALCO establishes a link between the local, regional and Group's perspective on capital, liquidity and funding.
- The CRO is responsible for the monitoring and governance of risk management relating to Deutsche Bank Johannesburg and all its associated legal entities. Risk areas of focus include credit, operational, market and further oversight over liquidity and capital management, but not limited to any other material risk matters.

## RISK MANAGEMENT BY MAJOR RISK CATEGORY

Refer to group risk report for comprehensive assessment which can be found at:

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

- An overview of significant risks faced by DBJ, together with methods employed in respect of the management thereof, follow in this report under the headings of Credit, Operational, Market, Liquidity and Interest rate risk. The local ALCO has overall responsibility for identifying and assessing all relevant risks.

## RISK METHODS – ANALYTICS AND MODELLING

Refer to group risk report for comprehensive assessment which can be found at:

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

- Risk measurement methods are primarily developed and performed centrally by DB Group risk management functions in collaboration with DBJ's finance and risk management staff. Regular training is held and ongoing updates are provided by the Group to ensure full understanding of methodologies. The Group's methodologies are also adapted and extended if required to comply with specific local regulatory requirements (e.g. for specific stress testing purposes).

## RISK INFRASTRUCTURE, POLICIES AND DOCUMENTATION

Refer to group risk report for comprehensive assessment which can be found at:

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

- Risk infrastructure is established at the group level, and DBJ is supported by the group's existing infrastructure and processes. Furthermore, DBJ has its own infrastructure, processes and policies in place that complement the group's standards. In case of more stringent local requirements DBJ, supplements the group standards and follows local regulatory requirements as defined in the Banks Act and Regulations upon agreement with DB Group.

## CREDIT RISK

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. These transactions are typically part of our traditional non-trading lending activities (such as loans and contingent liabilities), debt securities or our direct trading activity with clients (such as OTC derivatives, foreign exchange forwards and forward rate agreements). We distinguish between three kinds of credit risk:

- Default (counterparty) risk, the most significant element of credit risk, is the risk that counterparties fail to meet contractual obligations in relation to the claims described above.
- Settlement risk is the risk that the settlement or clearance of a transaction may fail. Settlement risk arises whenever the exchange of cash, securities and/or other assets is not simultaneous leaving us exposed to a potential loss should the counterparty default.
- Country risk is the risk that we may experience unexpected default or settlement risk and subsequent losses, in a given country, due to a range of macro-economic or social events primarily affecting counterparties in that jurisdiction including: a material deterioration of economic conditions, political and social upheaval, nationalisation and expropriation of assets, government repudiation of indebtedness, or disruptive currency depreciation or devaluation. Country risk also includes transfer risk which arises when debtors are unable to meet their obligations owing to an inability to transfer assets to non-residents due to direct sovereign intervention.

Our risk assessment also covers concentrations in our credit risk portfolio by industry, country, product and counterparty.

An overview of the risk management responsibilities, processes and methods follows, with more detailed information in our group risk report which can be found at

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

(refer to pages 65 to 179).

### CREDIT RISK RESPONSIBILITIES AND PROCESSES

DB's credit risk appetite is set globally and is broken down to divisions and business units via the Strategic, Risk and Capital Plan approved by the Management Board of Deutsche Bank Group. As a result, each credit exposure is authorised only if the relevant business division at Deutsche Bank global level is satisfied that the exposure meets the pre-set criteria and limits.

CRM is globally organised and carries out risk identification, assessments, management and reporting. The CRM department is independent from the business. Accordingly, the credit policies of DB Group are adopted and the CRO is responsible for ensuring that they remain suitable for the business of DBJ.

All new credit risks incurred within the DB Group (including DBJ) have to be approved by individuals with appropriate credit authority (sufficient to cover the entire DB Group exposure according to a “one obligor” principle). All credit risk decisions relevant to DBJ are subject to the approval of DBJ's management and/or Deutsche Bank's Credit Risk Management (CRM).

### MANAGEMENT OF LIMITS

Global limits are monitored by CRM at DB Group level via a Credit IT System based on the risk appetite approved by the Group Management Board. DB measures and aggregates all exposures to the same obligor (“one obligor principle”). At the entity level, the ultimate responsibility for management of the credit risk limits resides with the CRO function. All credit exposures are monitored on a frequent basis and reviewed at least annually. Individually significant transactions that subject DBJ to credit risk are subject to rigorous local review and sign-off prior to commitment.

## **CREDIT RISK** continued

### **MONITORING AND MANAGEMENT OF CONCENTRATIONS**

The large exposure regulations and credit policies on group level limiting concentration risk are adopted for DBJ. Besides the limits of DB Group, there are the regulatory single-name and portfolio limits in place as described above. Both limits are monitored by risk management function.

Credit risk concentration is not only closely monitored at a single-name level, but also on an industry and country level.

### **CREDIT RISK MITIGATION TECHNIQUES**

Credit risk is generally mitigated at DB Group level and optimised in the following ways:

- On-balance-sheet netting of cash;
- Netting and cash collateralisation of ISDA derivatives;
- Offsetting of collateral received in stock lending transactions with third parties and DB AG entities;
- Offsetting of collateral received/given under repo transactions with third parties and DB AG entities;
- Risk transfer (e.g. outright sale and hedging);
- Other eligible collateral in line with the Global Collateral Policy on DB Group level; and
- Guarantees are sought from DB AG to manage the large exposure risk.

### **BASEL APPROACHES ADOPTED TO MEASURE RISK**

#### **Credit risk**

The branch currently applies the standardised approach for its credit portfolios.

#### **Counterparty credit risk**

The branch currently applies the current exposure method for its portfolios subject to counterparty credit risk.

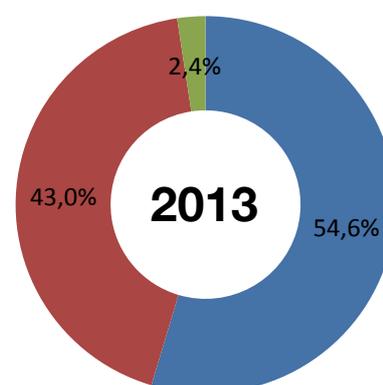
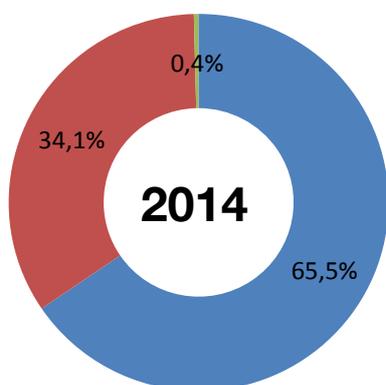
The section below presents key measurement metrics of the DBJ's credit position:

## CREDIT RISK

Gross on and off-balance sheet exposures at 31 December are reflected below:

Asset class	Gross exposure December 2014 R'000	Gross exposure December 2013 R'000	Exposure post-credit mitigation December 2014 R'000	Exposure post-credit mitigation December 2013 R'000
<b>On balance sheet</b>			<b>17 705 118</b>	16 082 108
Corporates	4 115 945	5 190 141	1 673 063	1 986 153
Public sector entities	2 564 607	118 235	2 526 747	81 591
Local government and municipalities	1 339	2 593	408	779
Sovereigns	2 687 648	1 526 422	2 687 648	1 526 422
Banks	12 347 283	16 622 987	9 669 170	10 524 201
Securities firms	2 725 781	7 255 472	1 148 082	1 962 962
<b>Off-balance sheet</b>	<b>5 513 167</b>	5 595 286	<b>5 513 167</b>	5 595 286
Corporates	694 126	347 386	694 126	347 386
Banks	2 819 042	3 247 900	2 819 042	3 247 900
Securities firms	2 000 000	2 000 000	2 000 000	2 000 000
<b>Total credit exposure</b>	<b>29 955 770</b>	36 311 136	<b>23 218 285</b>	21 677 394

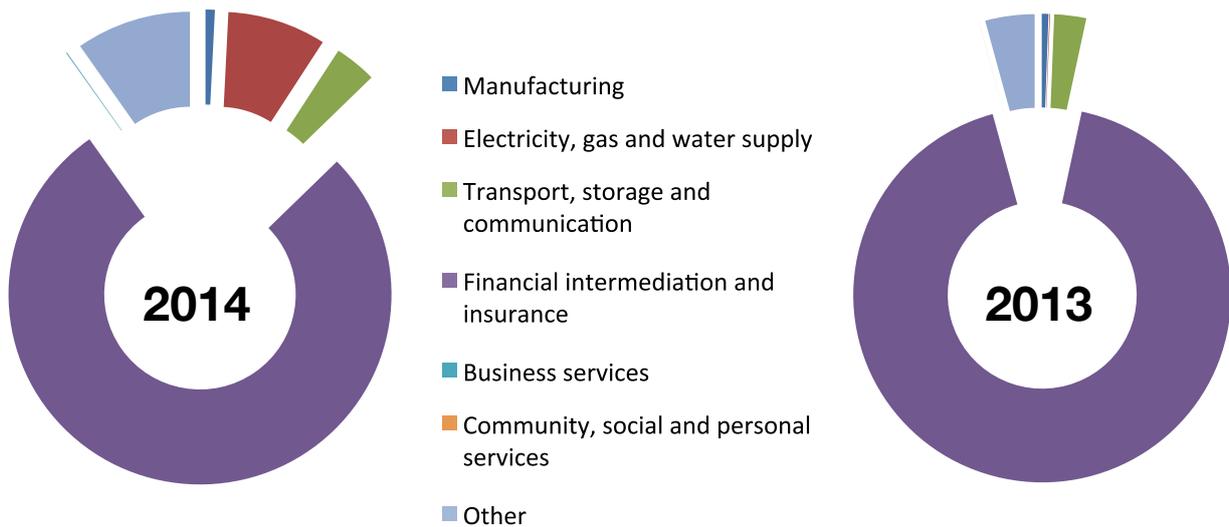
Geographical distribution of credit exposures as at 31 December illustrated below:



■ South Africa ■ Europe ■ North America

## CREDIT RISK continued

Industry distribution of credit exposures as at 31 December illustrated below:



### Maturity analysis of credit exposures

	R'000
Less than one year	18 826 927
One to five years	3 805 239
More than five years	7 323 604

### Analysis of credit impairments

All impairments presented below relate to general credit loss provisions:

	R'000
Balance at 1 January 2014	18 568
Provisions released in the year	(7 840)
Balance at 31 December 2014*	10 728

\* As at 31 December 2014/3 the branch had no specific impairment provisions.

**COUNTERPARTY CREDIT RISK**

	Gross positive fair value R'000	Potential future exposure R'000	Netting benefit R'000	Collateral held R'000	Exposure at default R'000
<b>2014</b>					
Interest rate contracts	5 107 137	2 169 090	1 492 799	–	5 783 428
FX contracts	779 937	1 034 793	–	–	1 814 730
Equity contracts	14 582	177 400	–	–	191 982
Securities financing transactions	5 875 672			5 244 684	630 988
<b>Total</b>	<b>11 777 328</b>	<b>3 381 283</b>	<b>1 492 799</b>	<b>5 244 684</b>	<b>8 421 128</b>
<b>2013</b>					
Interest rate contracts	6 707 987	2 510 943	2 304 222	–	6 914 708
FX contracts	1 031 745	305 805	–	–	1 337 550
Equity contracts	23 821	126 703	–	–	150 524
Securities financing transactions	14 650 431			12 329 520	2 320 911
<b>Total</b>	<b>22 413 984</b>	<b>2 943 451</b>	<b>2 304 222</b>	<b>12 329 520</b>	<b>10 723 693</b>

## OPERATIONAL RISK

Operational risk arises from losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and regulatory risk, but excludes business and reputational risk.

DB Group differentiates among the following specialist risk types: transaction processing risk, tax compliance risk, regulatory risk, financial reporting/recording risk, vendor risk, information technology risk, staff risk, business continuity risk, fiduciary service risk, real estate risk, security risk, origination and execution risk.

DBJ manages operational risk based on a group-wide framework that enables DB Group to determine the OR profile in comparison to the risk appetite and systematically identify OR themes and to define appropriate risk mitigation measures and priorities.

An overview of the risk management responsibilities, processes and methods follows, with more detailed information in our group risk report which can be found at

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

(refer to pages 202 to 210).

### OPERATIONAL RISK RESPONSIBILITIES AND PROCESSES

Group Operational Risk Management (“ORM”) ensures that operational risk is identified, managed, monitored and communicated in an appropriate way throughout the group, and is responsible for maintenance and development of the operational risk framework within the DB Group. Additionally, ORM is responsible for the approval and governance of the group and divisional OR Profiles and risk management processes (including the risk acceptances) by formally adopting the appropriate clauses of the DB Group Policies on Operational Risk Management, particularly the “Principles for Managing Operational Risk”, DBJ is covered within the existing Operational Risk (“OR”) framework. This OR framework governs issues such as reporting, recording and escalation of OR events and losses. At local level all business units in addition to risk are responsible for adequate monitoring

and reporting to ORM.

## OPERATIONAL RISK MONITORING AND MANAGEMENT

Flashcards are prepared on a regular basis representing current operational risks in DBJ and to be reviewed and discussed with the regional ORM management. The flashcard is built on new operational risk events that have taken place, trend analysis and economic capital over the past quarters and key actions agreed and tracked via a central IT tracking system for OR risk and tracking items.

## OPERATIONAL RISK MITIGATION TECHNIQUES

DB Group seeks to optimise the management of operational risk based on a designated organisational set-up, governance and systems in place to identify and manage operational risk, as well as the support of infrastructure functions responsible for specific operational risk types (e.g. Compliance, Corporate Security and Business Continuity). Operational risks must be efficiently managed based on a positive contribution margin (rationalising the cost of implementing risk mitigation against the benefit of reducing the operational risk). In case quantification is not possible, the principle of “as low as reasonably possible” (ALARP) applies. Future operational risks, identified through forward-looking analysis, are managed via mitigation strategies such as the development of back-up systems and emergency plans.

As part of DB Group’s operational risk mitigation process, insurance policies have been entered with external providers. These policies cover a variety of risks including criminal acts by employees, professional liability, securities loss and directors’ and officers’ liability. The insurance covers DB and all majority owned subsidiaries.

## BASEL APPROACHES ADOPTED TO MEASURE RISK

The branch currently applies the basic indicator approach for operational risk.

### Operational risk: Risk-weighted assets

	December 2014 R'000	December 2013 R'000
Operational risk	298 959	442 438

## MARKET RISK

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility. The following types of market risk are distinguished;

- Interest rate risk (including credit spread risk);
- Equity risk;
- Foreign exchange risk;
- Commodity risk; and
- Other market risk.

DB Group encounters market risk in both its trading and non-trading activities, by making markets and taking positions in debt, equity, foreign exchange, other securities and commodities as well as in equivalent derivatives. More specifically, DB considers market risk separately for the following three components:

- Market risk (MR) arises from market movements in pricing parameters of fair value assets and liabilities from balance and off-balance sheet positions;
- Traded default risk (TDR) arises from defaults and rating migrations (and subsequent valuation changes)
- Non-traded Market Risk (NTMR) arises from non-trading activities in the banking book comprising interest rate and credit spread risk, but also others like prepayment and deposit modelling, gap risk, and structural FX risk

Market risk assumed by DBJ is managed by the Market Risk Management (MRM) department in collaboration with DBJ's finance and risk management functions as part of MRM's global risk management framework.

DBJ passes on the majority of its market risk to DB Group by entering into risk transfer trades which mirror external market risk assumed.

An overview of the risk management responsibilities, processes and methods follows, with more detailed information in our group risk report which can be found at

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

(refer to pages 179 to 201).

## MARKET RISK RESPONSIBILITIES AND PROCESSES

Market risks are monitored against specific limits set by the Management Board or MRM. The following market risk types are typically monitored by MRM: interest rate risk, currency risk, equity risk, commodity risk and their associated volatilities. The types of risks that are assumed by DBJ may include one or more of these market risk types.

## MANAGEMENT OF LIMITS

DBJ is integrated into Deutsche Bank Group's global limit system, which is defined, monitored and controlled by MRM. MRM supports the use of key risk management metrics to monitor the bank's market risks.

## MARKET RISK MONITORING AND MANAGEMENT

Market risk measures are calculated on a daily basis by Market Risk Operations (MRO) centrally and exposures monitored against the established limits, if applicable. Risk reports are sent daily to businesses as well as submitted to oversight functions on a daily basis.

## BASEL APPROACHES ADOPTED TO MEASURE RISK

The branch currently applies the standardised approach against portfolios that attract market risk.

### Market risk: Risk-weighted assets

	December 2014 R'000	December 2013 R'000
<b>Risk-weighted assets</b>		
Foreign exchange net open position	72 300	108 488

## LIQUIDITY RISK

Liquidity risk is the risk arising from the potential inability to meet payment obligations when they come due or only being able to meet these obligations at excessive costs. All relevant and significant drivers of liquidity risk, on balance sheet as well as off-balance sheet, must be taken into account. Prices of all asset and liability types need to reflect their liquidity risk characteristics and the bank's cost of funding.

Contrary to other risk disciplines, protection against liquidity risk is mainly obtained by holding liquid assets and maintaining a robust funding profile, at a reasonable cost. DBJ's liquidity management is fully integrated into the DB Group's liquidity risk management framework.

An overview of the risk management responsibilities, processes and methods follows, with more detailed information in our Group risk report which can be found at [https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf) (refer to pages 211 to 225).

### LIQUIDITY RISK MANAGEMENT PROCESS

The principal objective of liquidity management is to ensure DBJ's ability at all times to meet payments obligations when they come due. DBJ manages liquidity risk in line with the overall Group's liquidity risk management framework and according to policies and guidelines set by Group Treasury, adapted for local requirements where necessary by DBJ ALCO.

Liquidity risk management framework has three dimensions, as described below:

- **Operational:** The liquidity risk management approach starts at the intraday level, managing the daily payment queue, forecasting cash flows and factoring in DB's access to central banks.
- **Tactical:** This approach deals with access to secured and unsecured funding sources, the liquidity characteristics of the asset inventory (asset liquidity). It also includes a detailed 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 such severe market related, idiosyncratic and combined stress events.
- **Strategic:** The strategic perspective comprises the long-term maturity profile of all assets and liabilities (funding matrix) on DBJ's balance sheet and its 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 allocation of funding to all business portfolios.

### MONITORING AND MANAGEMENT OF LIQUIDITY RISK LIMITS

Several tools/metrics are used to measure and manage short- and long-term liquidity risk at DBJ level including but not limited to daily MCO, Regulatory Liquidity Coverage Ratio and Net Stable Funding Ratio.

### LIQUIDITY RISK MITIGATION

Treasury may decide to temporarily reduce limits in the event of contingency situations to reduce (potential) liquidity risk. Additional local contingency measures form part of a local contingency plan including a stress funding line available to the branch from the Group's Liquid Asset Pool. The bank does not consider additional capital as an appropriate mitigant for liquidity risk.

## LIQUIDITY COVERAGE RATIO

Illustrated below is DBJ's short-term liquidity position as measured by the LCR. The minimum requirements of the LCR follow an internationally agreed phase-in arrangement with the minimum required LCR being 60% as of 1 January 2015 increasing annually by 10% to a required minimum of 100% as of 1 January 2019. DBJ has decided to adopt the minimum of 100% effective 1 January 2015 prior to full phase in.

Line		Total unweighted value December 2014 R'000	Total weighted value December 2014 R'000
	Deutsche Bank AG – Johannesburg Branch		
	<b>High-quality liquid assets</b>		
1	Total high-quality liquid assets (HQLA)	2 486 785	2 486 785
	<b>Cash outflows</b>		
2	Retail deposits and deposits from small business customers, of which:	–	–
3	Stable deposits	–	–
4	Less-stable deposits	–	–
5	Unsecured wholesale funding, of which:	4 004 813	2 216 292
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	–	–
7	Non-operational deposits (all counterparties)	4 004 813	2 216 292
8	Unsecured debt	–	–
9	Secured wholesale funding	502 926	–
10	Additional requirements, of which:	–	–
11	Outflows related to derivative exposures and other collateral requirements	–	–
12	Outflows related to loss of funding on debt products	–	–
13	Credit and liquidity facilities	467 000	46 700
14	Other contractual funding obligations	–	–
15	Other contingent funding obligations	–	–
16	<b>Total cash outflows</b>	4 974 739	2 262 992
	<b>Cash inflows</b>		
17	Secured lending (e.g. reverse repos)	968 225	–
18	Inflows from fully performing exposures	4 991 662	4 875 953
19	Other cash inflows	275 388	25 496
20	<b>Total cash Inflows</b>	6 235 275	4 901 449
21	Total HQLA		2 486 785
21	Total net cash outflows		565 748
23	<b>Liquidity coverage ratio</b> (%)		440

## INTEREST RATE RISK IN THE BANKING BOOK

In DBJ the majority of the interest rate risk arising from non-trading asset and liability positions is transferred through internal hedges to the Corporate Banking and Securities (trading) division. This internally transferred interest rate risk is managed on the basis of value-at-risk (VaR). The measurement and reporting of interest rate risk in the banking book is reported on a monthly basis.

The equity sensitivity analysis below shows how the value of DBJ's equity would be impacted by a 200 basis point increase or decrease in interest rates.

<b>Economic value of equity sensitivity</b>	<b>December 2014 R'000</b>
<b>200 basis points parallel shift</b>	
Increase	<b>(9 429)</b>
Decrease	<b>9 429</b>

The maximum negative change of present values of the banking book positions when applying the regulatory required parallel yield curve shifts of (200) and +200 basis points was 1% of our total regulatory capital at 31 December 2014. Consequently, outright interest rate risk in the banking book is considered immaterial for the branch.

## EQUITY RISK IN THE BANKING BOOK

DBJ is not exposed to equity position risk.

## OTHER RISKS

Other risk includes business risk, reputational risk, model risk and compliance risk. For detailed disclosures on these risks please refer to the 2014 Group Risk Report which can be found at

[https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_risk\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_risk_report.pdf)

(refer to pages 77 to 79).

## REMUNERATION

### ESTABLISHING A CULTURE OF RESPONSIBLE PERFORMANCE

We operate in a challenging global environment, which makes us all the more dependent on qualified and committed employees. We are determined to offer our employees conditions that fulfil their needs – from fair remuneration and a good work-life balance, to an appreciation of diversity. Our culture emphasises performance while at the same time promoting responsible behaviour – among colleagues as well as vis-à-vis clients and society.

### ALIGNING COMPENSATION WITH SUSTAINABLE PERFORMANCE

We have designed our remuneration systems in such a way that they reward client orientation, team work and responsible behaviour in particular: Long-term thinking with a view to sustainable success is rewarded. Every year DB Group publish a detailed compensation report aimed at making our remuneration practices transparent.

We expect our people to achieve their objectives in a manner that guarantees sustainable success and is in line with the values of the bank. Our remuneration model consists of a basic salary and a performance-based component. Bonus payments for senior management are geared to the sustainability of success and are paid over several years in the form of deferred remuneration. At the highest management level, the deferral period for bonus payments has been extended. Instead of the previous graduated payments over a period of three years, in future a one-time payment will be paid only after five years in order to link the remuneration more closely to the long-term success of the bank. The system also foresees the addition of penalty provisions or clawbacks to our compensation practices.

In implementing these measures, DB Group followed the recommendations of our external Remuneration Committee, which was set up specifically for supervising purposes. DBJ does not have its own Remuneration Committee.

We incorporated our cultural principles and involved risk management functions more closely in the remuneration process. We also ensured a better balance between employee compensation, distribution of dividends and retention of earnings, i.e. plowing profit back into the company.

Finally, one important measure is strengthening of our internal controls, which means that the latitude for unacceptable behaviour has been significantly reduced. Our current control system differs fundamentally from the system in force prior to the crisis. The objective is to transform our risk culture and ensure that concern for the bank's reputation is always at the heart of our decision-making.

DBJ is subject to the Group's compensation framework, as outlined above, further details can be found at [https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014\\_remuneration\\_report.pdf](https://annualreport.deutsche-bank.com/2014/ar/servicepages/downloads/files/dbfy2014_remuneration_report.pdf). Illustrated below is salient information with respect to branch management remuneration as of 31 December 2014.

The table below sets out the key components of the remuneration expense borne by DBJ in respect of the year ended 31 December 2014:

	Fixed compensation R'000	Variable cash bonus expense R'000	Deferred bonus expense R'000	Total expense R'000
Branch management	23 449	6 244	44 521	74 214

## REMUNERATION continued

The table below sets out a reconciliation of the deferred compensation, split between cash-based and equity-linked, awarded to branch management:

	Deferred compensation (1 Jan 2014)		Awarded 2014		Paid 2014		Valuation changes		Deferred compensation (31 Dec 2014)	
	Cash R'000	Equity- linked R'000	Cash R'000	Equity- linked R'000	Cash R'000	Equity- linked R'000	Cash R'000	Equity- linked R'000	Cash R'000	Equity- linked R'000
	Branch management	8 379	60 407	9 318	14 092	(3 185)	(18 576)	(1 124)	(18 885)	13 388

## GLOSSARY OF RISK TERMS AND DEFINITIONS

TERM	DEFINITION
<b>Asset liability management</b>	<p>Asset liability management is the ongoing process of formulating, implementing, monitoring, and revising strategies related to banking book assets and liabilities in an attempt to:</p> <ul style="list-style-type: none"> <li>• maximise the interest margin; and</li> <li>• manage the risk to earnings and capital from changes in financial market rates, which result from the group's mix of assets and liabilities.</li> </ul> <p>ALM encompasses the management of liquidity risk, interest rate risk and exchange rate risk in the banking book through the use of both on-and off-balance sheet instruments and strategies.</p>
<b>Banking book</b>	<p>Bank assets, liabilities and off-balance sheet items that are not in the trading book.</p>
<b>Corporate governance</b>	<p>Corporate governance is the structures, systems, processes, procedures, and controls within an organisation, at both board of directors level and within the management structure, that are designed to ensure the group achieves its business objectives effectively, efficiently, ethically and within prudent risk management parameters.</p> <p>Good governance requires that an effective risk management process exists that can ensure that the risks to which the group is exposed are addressed effectively.</p>
<b>Currency</b>	<p>Referred to as foreign exchange.</p>
<b>Hedge</b>	<p>A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, futures, option or swap. Hedging may prove to be ineffective in reducing the possibility of loss as a result of, <i>inter alia</i>, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.</p>
<b>Hedging</b>	<p>Action taken by the group to reduce or eliminate the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates.</p>

## GLOSSARY OF RISK TERMS AND DEFINITIONS continued

TERM	DEFINITION
<b>Interest rate risk in the banking book (sub risk of market risk in the banking book)</b>	<p>Interest rate risk in the banking book is the risk that the group's earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are:</p> <ul style="list-style-type: none"> <li>• repricing risk (mismatch risk): timing differences in the maturity (for fixed rate) and repricing (for floating rate) of bank assets, liabilities, and off-balance sheet positions;</li> <li>• basis risk: imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics;</li> <li>• yield curve risk: changes in the shape and slope of the yield curve; and</li> <li>• embedded options risk: the risk pertaining to interest-related options embedded in bank products.</li> </ul>
<b>Regulatory capital</b>	The total of Tier 1 and Tier 2 capital.
<b>Risk</b>	Risk is anything which may prevent the bank from achieving its objectives or otherwise have an adverse impact on the bank.
<b>Risk appetite</b>	The quantum of risk the group is willing to accept in pursuit of its business strategy. Risk appetite is expressed quantitatively as risk measures such as economic capital and risk limits, and qualitatively in terms of policies and controls.
<b>Risk-weighted assets</b>	Risk-weighted assets are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance sheet financial instrument is regulated by the South African Banks Act, No. 94 of 1990, or by regulations in the respective countries of the other banking licences.
<b>Trading book</b>	<p>Positions in financial instruments and commodities, including derivative products and other off-balance sheet instruments that are held with trading intent or to hedge other elements of the trading book. This will include financial instruments and commodities that:</p> <ul style="list-style-type: none"> <li>• are held for short-term resale; or</li> <li>• are held with the intention of benefiting from short-term price variations; or</li> <li>• arise from broking and market making; or</li> <li>• are held to hedge other elements of the trading book.</li> </ul>
<b>Value-at-risk (VAR)</b>	<p>Formally, the probabilistic bound of losses over a given period of time (the holding period) expressed in terms of a specified degree of confidence (the confidence interval). Put more simply, VaR is the worst-case loss expected over the holding period within the probability set out by the confidence interval. Larger losses are possible but with a lower probability.</p> <p>For example: if a portfolio has a VaR of R10 million over a one-day holding period with a 95% confidence interval, the portfolio would have a 5% change of suffering a one-day loss greater than R10 million.</p>

## ACRONYMS AND ABBREVIATIONS

### A

ALCO – Asset and Liability Management Committee

ALARP – As low as reasonably possible

### B

BA – South African Banks Act 1990 (as amended)

BIA – Basic Indicator Approach

### C

CBS – Corporate Banking & Securities

CET1 – Common Equity Tier 1

CEM – Current Exposure Method

CaR – Capital and Risk Committee

CRM – Credit Risk Management

CRO – Chief Risk Officer

### D

DB – Deutsche Bank

DBJ – Deutsche Bank Johannesburg Branch

Deutsche AWM – Deutsche Asset & Wealth Management

### E

EXCO – Executive Committee

### F

FX – Foreign exchange

### G

GTB – Global Transaction Banking

### H

HQLA – High – quality Liquid Assets

### I

IT – Information Technology

### L

LCR – Liquidity Coverage Ratio

### M

MRC – Minimum Required Capital

MCO – Maximum Cash Outflow

MRM – Market Risk Management

MRO – Market Risk Operations

MR – Market Risk

### N

NCOU – Non-core Operations Unit

NPA – New Product Approval

NSFR – Net Stable Funding Ratio

NMTR – Non-Traded Market Risk

### O

OR – Operational Risk

ORM – Operational Risk Management

### P

PBC – Private & Business Clients

### R

RWA – Risk-weighted assets

### S

SA – Standardised Approach

SFT – Securities Financing Transactions

### T

T1 – Tier 1 capital

T2 – Tier 2 capital

TC – Total capital

TDR – Traded default risk

### V

VaR – Value-at-risk

