Deutsche Bank

Risk & Capital Management

Deutsche Bank AG Johannesburg Pillar 3 Disclosure

For the year ended 31 December 2015

Contents page

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 2015, including comparative information (where applicable) for the year ended 31 December 2014.

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's Management Report all encompassing of risk and compensation information. Where appropriate this document provides links to the Deutsche Bank AG reports for the year ended 31 December 2015 which can also be found directly at:

Management report
https://annualreport.deutsche-bank.com/2015/ar/servicepages/downloads/files/dbfy2015_management_report.pdf

Risk report
https://annualreport.deutsche-bank.com/2015/ar/servicepages/downloads/files/dbfy2015_risk_report.pdf

Compensation report
https://annualreport.deutsche-bank.com/2015/ar/servicepages/downloads/files/dbfy2015_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 €1,629 billion as of 31 December 2015. As of that date, we employed 101 104 people on a full-time equivalent basis and operated in 70 countries out of 2 790 branches worldwide, of which 65 % 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 December 31, 2015 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)
- 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.

From 2016 onwards and in accordance with our Strategy 2020 our business operations are going to be organised under a new structure with the segments Global Markets (GM), Corporate & Investment Banking (CIB), Private, Wealth and Commercial Clients (PW&CC), Postbank, Deutsche Asset Management (AM) and Non-Core Operations Unit (NCOU).

Operating review 2015

2015 was a challenging year for Deutsche Bank. We announced a new strategy which charts our course for the next five years, and embarked decisively on implementing it. The goal of our Strategy 2020 is to build a better and stronger Deutsche Bank. This requires that we work in a leaner, more efficient way and reduce our risks, while at the same time further strengthening our capital position. All of this means greater discipline.

Initial results

With a newly appointed management team, we reorganised our business divisions to better align them with our clients' needs.

We have reduced complexity: we now have fewer senior committees, which speeds up decision-making, and greater emphasis on individual responsibility and accountability.

We discontinued business in locations, or with clients, which are not core to our business or which we deemed to have a higher risk profile. We are assessing carefully with whom we do business.

We made progress in strengthening our capital. The anticipated sale of our stake in Hua Xia Bank in China will further improve our ratio of core capital to risk-weighted assets. Our capital ratio will also benefit from the accelerated wind-down of non-core assets.

We expect to resolve important legal and regulatory matters in the course of this year reducing the uncertainty they involve. We cannot ensure that our provisions will be sufficient to cover all costs related to such matters.

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 focussing on Fixed Income & Repos, Foreign Exchange, Interest Rate Derivatives, Loans & 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

** Resigned and relinquished duties as of 1 September 2015, Regional COO: Mr Javeed Ameen fulfilled role in acting capacity for the duration of the reporting period.*

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[1]

The balance sheet reflects what the branch owns, owes and the equity that is attributable to shareholders at 31 December 2015.

	2015 R'000	2014 R'000
Assets		
Cash and balances with central bank	**14 761**	37 269
Short-term negotiable securities	**465 566**	754 459
Loans and advances to customers	**6 320 028**	8 573 059
Investment and trading securities	**1 664 008**	1 917 369
Derivative financial instruments	**14 039 266**	5 901 656
Pledged assets	**130 161**	–
Property and equipment	**727**	524
Deferred income tax assets	**40 725**	47 247
Other assets	**80 016**	68 417
Total assets	**22 755 258**	17 300 000
Liabilities		
Deposits, current accounts and other creditors	**6 402 921**	9 724 228
Derivative financial instruments and other trading liabilities	**14 786 082**	6 156 540
Other liabilities	**132 900**	168 947
Total liabilities	**21 321 903**	16 049 715
Equity		
Total equity attributable to equity holders	**1 433 355**	1 250 285
Total equity	**1 433 355**	1 250 285
Total equity and liabilities	**22 755 258**	17 300 000

1 Source: 31 December BA 100 (audited)

Results of operations/income statement[2]

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 2015.

	2015 R'000	2014 R'000
Net interest income	**167 961**	(82 601)
Non-interest revenue	**(13 386)**	202 298
Operating income	**154 575**	119 697
Operating expenses	**132 083**	147 318
Profit/(loss) before income tax	**22 492**	(27 621)
Income tax	**6 522**	(4 622)
Profit/(loss) for the year	**15 970**	(22 999)

2 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, and appropriated retained earnings.
- 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; and
- 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	**December 2015 %**	December 2014 %
National Common Equity Tier 1 minimum ratio	**6,50**	5,50
National Tier 1 minimum ratio	**8,00**	7,00
National Total Capital minimum ratio	**10,00**	10,00

Summary of regulatory capital requirements and risk weighted assets

Risk type	December 2015 RWA[1] R'000	December 2015 MRC[2] R'000	December 2014 RWA[1] R'000	December 2014 MRC[2] R'000
Credit risk				
Standardised approach	**2 232 623**	**223 262**	1 943 977	194 398
Corporates	**2 014 577**	**201 458**	666 722	66 672
Banks	**218 046**	**21 805**	309 994	30 999
Public sector entities and local authorities	**–**	**–**	343 484	34 348
Securities firms	**–**	**–**	623 777	62 378
Counterparty credit risk				
Current exposure method	**8 439 094**	**843 909**	3 693 909	369 391
Market risk				
Standardised approach	**68 888**	**6 889**	72 300	7 230
Operational risk				
Basic indicator approach	**242 569**	**24 257**	298 959	29 896
Other assets				
100% risk weighting	**141 657**	**14 166**	112 621	11 262
Total risk weighted assets/ Minimum required capital	**11 124 831**	**1 112 483**	6 121 766	612 177
Total minimum required capital		**1 112 483**		612 177
Pillar 1 MRC[2]		**889 986**		489 741
Pillar 2a MRC[2]		**222 497**		122 435
Total qualifying capital and reserves		**1 395 115**		1 239 512
Surplus capital		**282 632**		627 335

1 *Risk weighted assets.*
2 *Minimum required capital – Pillar 1 MRC is measured at 8% in line with SARB regulations, Pillar 2a MRC is measured at 2%.*

Capital composition

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

		December 2015 R'000	December 2014 R'000
Tier 1			
Common Equity Tier 1 capital: instruments and reserves		**1 433 355**	1 250 285
Dotation capital		**1 050 939**	884 639
Retained earnings		**382 416**	362 374
Accumulated other comprehensive income (and other reserves)		**–**	3 272
Common Equity Tier 1 capital: regulatory adjustments		**(61 221)**	(21 501)
Deferred tax assets		**(12 513)**	(21 501)
Debit value adjustment: Cumulative gains and losses due to changes in own credit risk on fair valued liabilities		**(48 708)**	–
Tier 1 capital (T1)		**1 372 134**	1 228 784
Tier 2			
Provisions		**22 981**	10 728
Tier 2 capital (T2)		**22 981**	10 728
Total capital (TC = T1 + T2)		**1 395 115**	1 239 512
Total risk weighted assets		**11 124 831**	6 121 766
Capital ratios			
Common Equity Tier 1 (as a percentage of risk weighted assets)	(%)	**12,33**	20,07
Tier 1 (as a percentage of risk weighted assets)	(%)	**12,33**	20,07
Total capital (as a percentage of risk weighted assets)	(%)	**12,54**	20,25

Reconciliation of accounting capital to regulatory capital

	December 2015 R'000	December 2014 R'000
Accounting capital – as reported per audited financial statements	**1 433 355**	1 250 285
Dotation capital	**1 050 939**	884 639
Share-based payment reserve	**–**	3 272
Retained earnings	**382 416**	362 374
Add: General allowance for credit impairments	**22 981**	10 728
	1 456 336	1 261 013
Less: Regulatory adjustments and deductions	**(61 221)**	(21 501)
Total regulatory capital	**1 395 115**	1 239 512

Leverage position

Illustrated below is DBJ's Leverage position as measured by the Basel III Leverage ratio.

The Leverage ratio was introduced as a complementary measure to the risk-based capital framework to help ensure broad and adequate capture of both the on-and off-balance sheets sources of banks leverage.

This simple, non-risk based "Backstop" measure will restrict the build up of excessive leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy.

	December 2015 %
Leverage ratio	5,49
Specified minimum ratio as per SARB	4,00

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. Our aim is 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 2015 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/2015/ar/servicepages/downloads/files/dbfy2015_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 functioning 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/2015/ar/servicepages/downloads/files/dbfy2015_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/2015/ar/servicepages/downloads/files/dbfy2015_risk_report.pdf

- Risk measurement methods are primarily developed and preformed 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/2015/ar/servicepages/downloads/files/dbfy2015_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, including those claims that we plan to distribute. These transactions are typically part of our traditional non-trading lending activities (such as loans and contingent liabilities), traded bonds and debt securities available for sale or our direct trading activity with clients (such as OTC derivatives like foreign exchange forwards and Forward Rate Agreements). Based on the annual risk identification and materiality assessment, credit risk contains four material categories, namely default risk, industry risk, country risk, and product risk.

- Default risk, the most significant element of credit risk, is the risk that counterparties fail to meet contractual obligations in relation to the claims described above;
- Industry risk is the risk of adverse developments in the operating environment for a specific industry segment leading to deterioration in the financial profile of counterparties operating in that segment and resulting in increased credit risk across this portfolio of counterparties;
- Country risk is the risk that we may experience unexpected default or settlement risk and subsequent losses, in a given country, due to a range of macro-economic or social events primarily affecting counterparties in that jurisdiction including: a material deterioration of economic conditions, political and social upheaval, 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; and
- Product Risk captures product-specific credit risk of transactions that could arise with respect to specific borrowers. These take into account the likelihood of having an actual credit exposure at the time of a default, recovery expectations and the tenor of exposure. This category also includes "Settlement risk"; the risk that the settlement or clearance of a transaction may fail and 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.

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/2015/ar/servicepages/downloads/files/dbfy2015_risk_report.pdf (refer to pages 98 to 104).

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 & 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 limits and exposures are monitored on a frequent basis, and reviewed at least quarterly. Individually significant transactions that subject DBJ to credit risk are subject to rigorous local review and sign-off prior to commitment.

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.

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, 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

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.

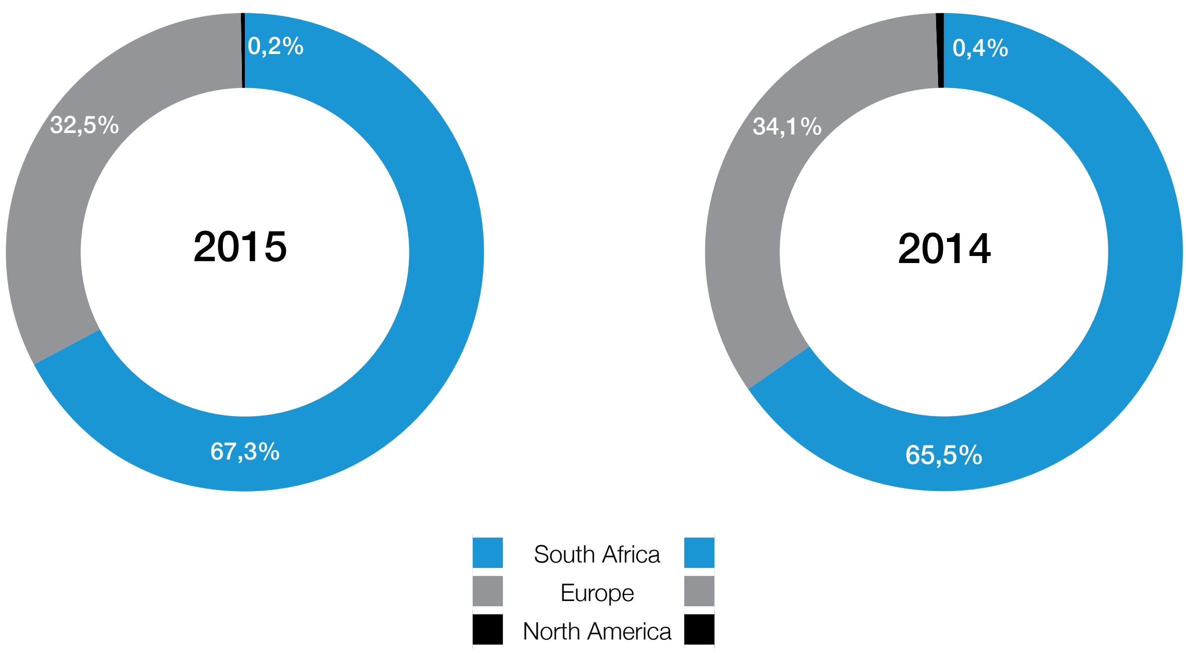
Credit risk continued

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

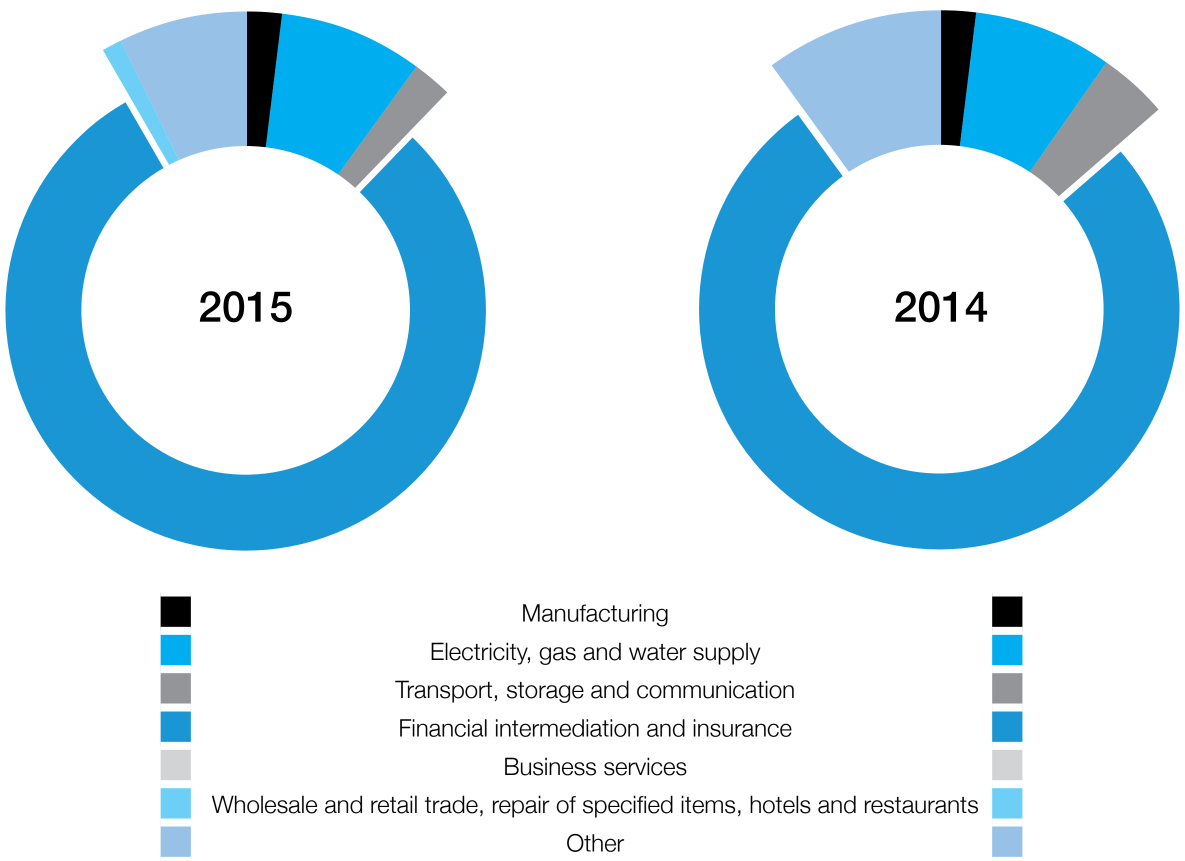
Gross on and off-balance sheet exposures at 31 December are reflected below:

Asset class	Gross exposure December 2015 R'000	Gross exposure December 2014 R'000	Exposure post credit mitigation December 2015 R'000	Exposure post credit mitigation December 2014 R'000
On balance sheet	**27 741 501**	24 442 603	**22 378 961**	17 705 118
Corporates	**7 771 394**	4 115 945	**4 257 433**	1 673 063
Public sector entities	**1 921 149**	2 564 607	**104 490**	2 526 747
Local government and municipalities	**883**	1 339	**118**	408
Sovereigns	**2 285 365**	2 687 648	**2 285 365**	2 687 648
Banks	**13 319 365**	12 347 283	**15 632 222**	9 669 170
Securities firms	**2 443 345**	2 725 781	**99 333**	1 148 082
Off-balance sheet	**6 914 111**	5 513 167	**6 914 111**	5 513 167
Corporates	**618 088**	694 126	**618 088**	694 126
Banks	**3 200 000**	2 819 042	**3 200 000**	2 819 042
Securities firms	**3 096 023**	2 000 000	**3 096 023**	2 000 000
Total credit exposure	**34 655 612**	29 955 770	**29 293 072**	23 218 285

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



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



Maturity analysis of credit exposures

	R'000
<1 year	**20 318 038**
1 to 5 years	**3 738 852**
>5 years	**10 598 720**

Analysis of credit impairments

All impairments presented below relate to general credit loss provisions	R'000
Balance at 1 January 2015	**10 728**
Provisions raised in the year	**12 254**
Balance at 31 December 2015*	**22 982**

** As at 31 December 2015 the branch had no specific impairment provisions.*

Credit risk continued

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
2015					
Interest rate contracts	**6 613 691**	**2 059 049**	**2 856 131**	**–**	**5 816 608**
FX contracts	**7 415 306**	**1 827 681**	**–**	**–**	**9 242 987**
Equity contracts	**10 270**	**175 748**	**–**	**–**	**186 018**
Securities financing transactions	**167 736**	**–**	**–**	**162 398**	**5 338**
Total	**14 207 003**	**4 062 478**	**2 856 131**	**162 398**	**15 250 951**
2014					
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
Total	11 777 328	3 381 283	1 492 799	5 244 684	8 421 128

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.

In 2015 Deutsche Bank further enhanced its capabilities in Operational Risk Management ("ORM") in conjunction with the Three Lines of Defence ("3LoD") Program. This included the increased clarification of the roles and responsibilities of the first and second line in managing operational risk, strengthening governance and delivery of improved tools to support risk identification and assessment.

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/2015/ar/servicepages/downloads/files/dbfy2015_risk_report.pdf
(refer to pages 112 to 116).

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 & 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

Risk weighted assets	**December 2015 R'000**	December 2014 R'000
Operational risk	**242 569**	298 959

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 on-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 of 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 passess 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/2015/ar/servicepages/downloads/files/dbfy2015_risk_report.pdf (refer to pages 105 to 111).

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.

Risk weighted assets	**December 2015 R'000**	December 2014 R'000
Foreign exchange net open position	**68 888**	72 300

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. The objective of the Group's liquidity risk management framework is to ensure that the Group can fulfil its payment obligations at all times and can manage liquidity and funding risks within its risk appetite. The framework considers relevant and significant drivers of liquidity risk, whether on-balance sheet or off-balance sheet.

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/2015/ar/servicepages/downloads/files/dbfy2015_risk_report.pdf (refer to pages 117 to 121).

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.

The former Liquidity Risk Management Policy and Liquidity Risk Strategy has been replaced by the new Internal Liquidity Adequacy Assessment Policy (ILAAP). The ILAAP is approved by the Management Board of DB and describes the Group's liquidity risk management framework and also the underlying methodology papers. The DB Group Limit and Threshold policy approved by the CaR describes the limit setting process of DB Group. DBJ has developed its own Liquidity Management Policy based on DB Group's liquidity risk management principles. The underlying policies are reviewed at least on an annual basis.

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, Stressed Net Liquidity Position (SNLP), Regulatory Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

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 risk continued

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	Deutsche Bank AG: Johannesburg Branch		Total unweighted value December 2015 R'000	Total weighted value December 2015 R'000
	High-quality liquid assets			
1	Total high-quality liquid assets (HQLA)		2 146 225	2 146 225
	Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		–	–
3	Stable deposits		–	–
4	Less-stable deposits		–	–
5	Unsecured wholesale funding, of which:		3 357 176	1 241 279
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		–	–
7	Non-operational deposits (all counterparties)		3 357 176	1 241 279
8	Unsecured debt		–	–
9	Secured wholesale funding		130 616	–
10	Additional requirements, of which:		–	–
11	Outflows related to derivative exposures and other collateral requirements		713 044	713 044
12	Outflows related to loss of funding on debt products		–	–
13	Credit and liquidity facilities		410 082	41 008
14	Other contractual funding obligations		–	–
15	Other contingent funding obligations		–	–
16	**Total cash outflows**		4 610 918	1 995 331
	Cash Inflows			
17	Secured lending (e.g. reverse repos)		33 470	–
18	Inflows from fully performing exposures		2 871 426	2 642 058
19	Other cash inflows		96 626	–
20	**Total cash inflows**		3 001 522	2 642 058
21	Total HQLA			2 146 225
21	Total net cash outflows			498 833
23	**Liquidity coverage ratio**	(%)		430

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.

Economic value of equity sensitivity	**December 2015 R'000**
200 basis points parallel shift	
Increase	**(20 804)**
Decrease	**20 804**

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 2015. 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 2015 Group Risk Report which can be found at
https://annualreport.deutsche-bank.com/2015/ar/servicepages/downloads/files/dbfy2015_risk_report.pdf
(refer to pages 122 to 123).

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.

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

Year 2015 was strongly influenced by the launch of Strategy 2020 and the impact on the Bank's financial results of extraordinary items, foremost the impairment of goodwill. The Bank's compensation decisions for 2015 had to carefully balance the loss reported for 2015 against the positive revenue developments and the overall capital position. In light of these considerations, the Management Board decided to grant Variable Compensation (VC) to its employees. The Bank remains committed to align compensation with the long-term performance of the institution.

In light of the negative result for 2015, the VC for 2015 was also granted with a view to ensuring stability of the franchise and with the expectation of a positive and sustainable development over the next years. Against this background, it was important to the Bank that this expectation is also reflected in the structure of the VC. The Bank therefore decided to take additional steps towards an alignment between VC and a sustainable performance by increasing the minimum deferral period for the deferred compensation elements from three to four years for all employees receiving deferred compensation elements. Additionally, the retention period for equity upfront compensation elements for MRTs was increased to one year. These measures are accompanied by the introduction of strengthened methods for an ex-post risk adjustment of VC which allow for a subsequent decrease or complete elimination of VC.

DBJ is subject to the Group's compensation framework, as outlined above, further details can be found at https://annualreport.deutsche-bank.com/2015/ar/servicepages/downloads/files/dbfy2015_remuneration_report.pdf.

Illustrated below is salient information with respect to Branch management remuneration as of 31 December 2015.

The table below sets out the key components of the remuneration expense bourne by DBJ in respect of the year ended 31 December 2015:

	Fixed compensation R'000	Variable cash bonus expense R'000	Deferred bonus expense R'000	Total expense R'000
Branch management	23 643	3 263	33 781	60 687

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 January 2015		Awarded 2015		Paid 2015		Valuation changes		Deferred compensation 31 December 2015	
	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	13 388	37 038	7 334	8 425	(5 614)	(15 835)	3 173	4 990	18 282	34 617

Glossary of risk terms and definitions

Term	Definition
Asset liability management	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: • maximise the interest margin; and • manage the risk to earnings and capital from changes in financial market rates, which result from the group's mix of assets and liabilities. 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.
Banking book	Bank assets, liabilities and off-balance sheet items that are not in the trading book.
Corporate governance	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. 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.
Currency	Referred to as foreign exchange.
Hedge	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, *inter alia*, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.
Hedging	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.

Glossary of risk terms and definitions continued

Term	Definition
Interest rate risk in the banking book (sub-risk of market risk in the banking book)	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: • 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; • basis risk: imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics; • yield curve risk: changes in the shape and slope of the yield curve; and • embedded options risk: the risk pertaining to interest-related options embedded in bank products.
Regulatory capital	The total of Tier 1 and Tier 2 capital.
Risk	Risk is anything which may prevent the bank from achieving its objectives or otherwise have an adverse impact on the bank.
Risk appetite	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.
Risk-weighted assets	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.
Trading book	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: • are held for short-term resale; or • are held with the intention of benefiting from short-term price variations; or • arise from broking and market making; or • are held to hedge other elements of the trading book.
Value-at-risk (VAR)	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. 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.

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 and 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

MCO – Maximum Cash Outflow

MR – Market Risk

MRC – Minimum Required Capital

MRM – Market Risk Management

MRO – Market Risk Operations

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