

DSSA Pillar III Disclosure

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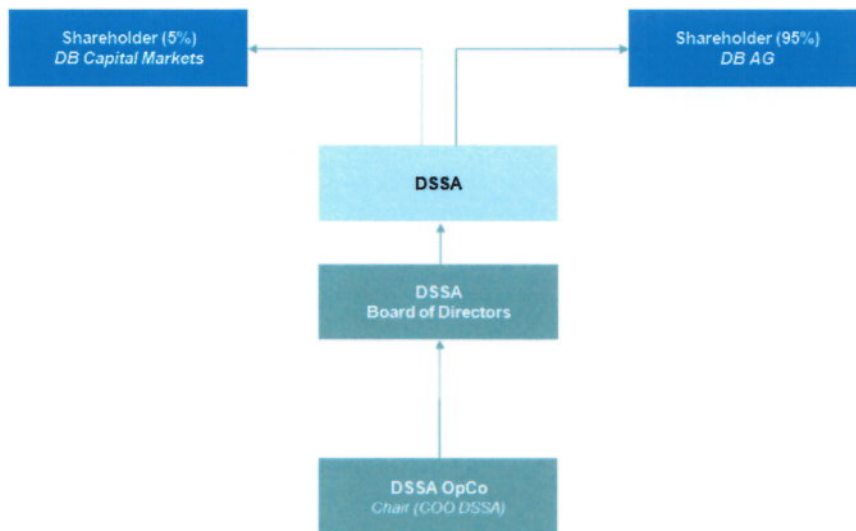
A. SPECIFIC DISCLOSURE REQUIREMENTS

1. SCOPE OF APPLICATION

The authorized person for which the below Pillar III disclosures are made is Deutsche Securities Saudi Arabia (DSSA).

The entity is regulated by the CMA and operates under license number 07073-37.

Deutsche Securities Saudi Arabia is Limited Liability Company incorporated in the Kingdom of Saudi Arabia under commercial registration number 1010239773. Below is a organization structure of the entity.



The entity is well capitalized with paid up capital of SAR 532m and SAR 538m of Tier 1 capital. Risks are minimised and appropriately mitigated.

2. CAPITAL STRUCTURE

DSSA has SAR 538m of total and Tier 1 capital. This is constituted of SAR 532m of paid up capital. This has been provided by shareholders by subscription to shares in the Authorised Person (DSSA).

Full disclosure of the Tier 1 capital are provided in a separate excel file, on tab Appendix 1. DSSA does not have any Tier 2 capital.

3. CAPITAL ADEQUACY

The requirements for the minimum level of capital are fully satisfied by DSSA. These are

monitored internally on a recurrent basis with monthly reporting against the CMA's Pillar rules. These are then used together with internal assessments to raise any particular capital concerns.

Capital Adequacy is managed under the ICAAP process. The ICAAP is particularly designed to provide an outlook on economic capital demand and thus represents a formal basis for the assessment of capital needs. The results serve as a benchmark against which actual capital development is compared by the relevant local committee.

The local planning process is a dynamic and iterative process articulated in different phases and at different levels. The supply and demand for Deutsche Securities Saudi Arabia's capital are continuously reviewed and assessed and measures are taken to ensure a supply and demand balance is adequate.

Deutsche Securities Saudi Arabia differentiates between regulatory and economic capital demand. While regulatory capital demand is based on the calculation of risk-weighted assets according to the requirements set out by the local regulator, economic capital demand is based on an internal model based estimate applying. Both definitions are used to assess capital adequacy.

Management of capital demand

Locally, the relevant committee is responsible for monitoring appropriate capitalization of Deutsche Securities Saudi Arabia, also through the quarterly Risk and Capital Profile review, and is required to take – in cooperation with Treasury – appropriate action if demand for additional capital arises. Treasury further prepares an annual capital plan for each region to early identify upcoming capital demand to align plans.

Management of capital supply

Responsibility for management of the capital supply resides with the local capital and risk committee (ALCO). It ensures compliance with regulatory and group-internal capital requirements. If a potential capital shortfall (or risk of shortfall) is identified, mitigating action is considered (e.g. retention of profits, issuance of subordinated debt, capital injections). Treasury ensure in close alignment with the Management Board, Finance the most efficient and sufficient capital mix from all perspectives.

4. RISK MANAGEMENT

4.1 General Qualitative Disclosure for Risks

Risk identification

For the risk identification process, the risks are assessed on a granular level by the risk managements function under the leadership of the COO to cover all material risks the entity may face.

The local Capital and Risk committee triggers the following, more detailed, process on an annual basis:

- The risk categories: credit, market, operational, liquidity, business, reputational, risk concentrations and other risks (if applicable) are described in the RCP report. Identified risks are reviewed in terms of their impact on the overall risk profile. The severity of the risk is assessed and categorised into low, medium or high based on this description. The core aim of this process is to provide adequate transparency and understanding of the existing and emerging risk issues, and to ensure a holistic cross-risk perspective; and
- Recently identified risks and risks arising from new products are added to the description for each risk class.

On a quarterly basis, the identified risks are monitored and reported in the RCP (Risk and capital profile) report:

- A qualitative assessment is conducted for each risk category identified as relevant for the last quarter, aiming at drawing management attention to important developments;
- An outlook is given on the development of the respective risk category; and
- Key developments of each risk are highlighted.

4.2 Credit Risk Disclosure

Credit risk

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower or obligor (which we refer to collectively as “counterparties”) exist, including those claims that DB plan to distributeⁱ. Deutsche Securities Saudi Arabia distinguishes between three kinds of credit risk being default risk, country risk and settlement:

- Default risk is the risk that counterparties fail to meet contractual payment obligations.
- Country risk is the risk that we may suffer a loss, in any given country, due to any of the following reasons: a possible deterioration of economic conditions, political and social upheaval, nationalization and expropriation of assets, government repudiation of indebtedness, exchange controls and disruptive currency depreciation or devaluation. Country risk 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.
- Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

Deutsche Securities Saudi Arabia manages credit risk according to policies and guidelines that have been set. A general perspective on the risk management responsibilities, processes and methods are described below.

Credit risk processes

Credit risk appetite is set globally and is broken down to divisions and business. As a result, each credit exposure is authorised only if the relevant business division is satisfied that the exposure meets the pre-set criteria and limits.

CRM carries out risk identification, assessments, management and reporting. The CRM department is independent from the business. The COO is responsible for ensuring that relevant credit policies remain suitable for the business of Deutsche Securities Saudi Arabia.

All new credit risks incurred within the DB Group (including Deutsche Securities Saudi Arabia) 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 Deutsche Securities Saudi Arabia are subject to the approval of Deutsche Securities Saudi Arabia’s management and/or Credit Risk Management (CRM).

1) Definitions of past due claims and impaired liabilities (Policy on Problem Loans & Specific Provisions)

A **balance-sheet transaction** is considered as **defaulted** if;

- A provision or
- One of the following problem loan categories: non-accrual, 90 days past due and still accruing, Troubled Debt Restructuring is assigned to this transaction.
- Internal counterparty rating of iCC+ or below has been assigned

A **derivative** transaction is considered as **defaulted**, if at least one of the below criteria is met:

- Default under master agreement (e.g. ISDA, PSA, German Master Agreement, etc.)
- Coupons and other derivative cash flows are 90 days past due for reasons of credit
- Restructuring with economic loss for reasons of credit
- Internal counterparty rating of iCC+ or below has been assigned

An **obligor** is classified as **defaulted** if a significant portion of its total or an exposure amount above a certain threshold is flagged as defaulted on transaction level or if the counterparty filed for bankruptcy. Obligor is defined as a legal entity to align with the Basel II KOP

A **financial asset** is **impaired** and impairment losses are recognized when:

- There is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”); and
- That “loss event” (or events) has a negative impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

2) Information concerning the approaches adopted to determine impairments and specific provisions

An impairment loss is measured as the difference between □the asset’s current carrying value and the impaired carrying value (being the present value of estimated future cash flows discounted at the asset’s original effective interest rate). Whenever a credit default on a derivative occurs, CRM in conjunction with finance will determine the appropriate credit value adjustment (CVA) to be applied. Impairment related CVA must be made where a significant decline in an individual

counterparty's credit quality has occurred, such that the counterparty is considered unlikely to pay in full its credit obligations without recourse by Deutsche Bank to actions such as realizing security.

3) Names of the credit rating agencies (CRAs) used and the reasons for any changes.

CRM use internal ratings as a basis for assessing counterparty credit profiles in order to arrive at credit decisions. Where available, external agency (Moody's / Fitch / S&P) opinions are taken into account as part of the due diligence process, however the official rating analysis is performed using DB's internal rating methodology. The purpose of the rating analysis is to document and to establish an annual internal probability of default rating at the counterparty level.

4) Types of exposure classes for which each CRAs are used

DB has various rating scorecards and rating methodologies to assess different types of entities including corporate clients, sovereigns and sub-sovereigns, and financial institutions (banks, insurance companies, broker dealers, fund managers, pension funds, exchanges and clearing houses). DB also uses internal methodologies to rate specialized asset classes including securitization and commercial real estate.

5) The Mapping between the credit rating from each CRA with the credit quality step in regards to non-trading activities.

Limits and exposures are mapped against each client's internal credit rating.

6) Policies and processes for, and an indication of the extent to which the AP makes use of, on and off balance sheet netting

Where the appropriate legal opinion has been obtained, and netting has been approved the relevant jurisdiction, the exposure value will be calculated on a net basis across all products covered by a particular CSA. Where netting has not been approved, the exposure will be calculated on a gross basis.

7) Policies and processes for collateral valuation and management

Collateral Management (CM) are responsible for the sign off on new collateral agreements from an operational perspective, management of collateral related issues, collateral margin processing, to provide margin support by handling margin calls and collateral substitutions and for ensuring that the terms of the collateral arrangements with counterparties are fully implemented at all times and the settlement and perfection of collateral assets.

8) A description of the most important types of collateral taken

The DB standard for acceptable collateral includes currencies of major developed markets and highly liquid, easily priced, capital efficient marketable securities, which should be held either by Deutsche Bank or our preferred third party custodians. Non-standard collateral types will be considered on a case by case basis subject to approval from the relevant infrastructure / business divisions.

9) Information on the most important types of guarantor and credit derivative counterparties and their creditworthiness

Where Letters of Credit and/or 3rd party guarantees are accepted as collateral, CRM must first approve of the issuer's relationship to the obligor and also the issuer's overall creditworthiness. Legal must approve the proposed wording of the Letter of Credit.

10) Information about market or credit risk concentrations within the credit risk mitigation taken.

Concentration of collateral by currency, issuer or asset class is monitored via regular, monthly reports prepared by Collateral Management. In the normal course of business, Eligible Collateral types are strictly controlled and subject to haircuts against market value. This represents the Bank's primary means of avoiding undue concentration in less liquid currencies or non-cash types of collateral.

11) Discussion of policies with respect to treatment of wrong-way risk exposures.

When counterparty risk and/or an exposure profile is closely correlated with the collateral types that are being accepted (ie wrong way risk), haircuts are re-assessed to ensure the appropriate level is applied to compensate from correlation between collateral and the obligor. Where correlation is deemed material, CRM may choose not to assign any value to the correlated collateral.

Quantitative Disclosures

The capital requirements under the local regulations are provided in a separate excel file Appendix IV and V.

4.3 Market Risk Disclosure

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.

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):
- **Counterparty credit risk/Credit Valuation Adjustment (CVA)** arises from the volatility of the market value of a counterparty's positions due to the possibility of the counterparty's default.

The MRM organisation comprises of central functions, business line teams within CB&S and Group divisions (NCOU, PBC, GTB, AWM) teams.

Market risk responsibilities and processes

Market risks are monitored against specific limits set management 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 Deutsche Securities Saudi Arabia may include one or more of these market risk types.

Market risk monitoring

Market risk measures are calculated and exposures monitored against the established limits

Quantitative Disclosures

The capital requirements separately for trading book and business risks in respect of business activities are given separately in an excel file in Appendix II:

4.4 Operational Risk Disclosure

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

In 2015, DSSA 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.

Deutsche Securities Saudi Arabia manages operational risk based on a consistent framework that enables the organisation 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. The main principles of OR are detailed below:

Principle I

Risk Owners have full accountability for their operational risks and have to manage against a defined risk specific appetite. Risk owners are defined to be: First LoD (All business divisions) for all of their operational risks and second LoD (Infrastructure Functions), for the operational risks that arise in their control processes.

Risk owners are accountable for managing all operational risks in their business/processes with an end-to-end process view, within defined operational risk specific appetite and for identifying, establishing and maintaining first level controls. In addition they mitigate identified and assessed risk within the risk specific appetite through remediation actions, insurance, risk acceptance or by ceasing/reducing business activities.

Divisional Control Officers (“DCO”) support the Risk Owners. They are responsible for embedding the framework within the relevant business division or infrastructure function. They assess the first level controls effectiveness, monitor the aggregated risk profile and put the appropriate control and mitigating actions in place within the relevant division. The DCOs also establish appropriate governance forums to oversee the Operational Risk (OR) profile and support decision

Principle II

Risk Type Controllers (Second LoD control functions) establish the risk management framework and define specific Risk Appetite statements for the Risk Type they own and perform independent controls. Risk Type Controllers are independent second LoD control functions which control specific risk types as identified in the risk taxonomy. We are working towards full implementation of these responsibilities.

The Risk Type Controllers are responsible for establishing an effective risk management framework for the risk type, including setting and monitoring minimum control standards. They challenge, assess and report risks within their risk types and set the risk specific appetite in accordance with the Risk Appetite statement.

Principle III

Operational Risk Management establishes and maintains the Operational Risk Management Framework. ORM develops and maintains the framework, defining the roles and responsibilities for the management of operational risk across DSSA and for defining the process to identify, assess, mitigate, monitor, report and escalate operational risks. ORM also maintains an operational risk taxonomy and oversees the completeness of coverage of risk types identified in the taxonomy by 2nd Line Control Functions. It also monitors execution and results of DSSA Risk and Control Assessment process and operational risk concentrations.

Principle IV

Operational Risk Management aims to maintain sufficient capital to underpin Operational Risk. ORM is accountable for the design, implementation and maintenance of an appropriate approach to determine a sufficient level of capital demand for Operational Risk.

Managing Our Operational Risk

We manage operational risk using the Operational Risk Management framework which enables us to determine our operational risk profile in comparison to our risk tolerance, to systematically identify operational risk themes and concentrations, and to define risk mitigating measures and priorities.

In order to cover the broad range of risk types underlying operational risk, our framework contains a number of operational risk management techniques. These aim to efficiently manage the operational risk in our business and are used to identify, assess and mitigate operational risks:

- Loss Data Collection: The continuous collection of operational risk loss events, as a prerequisite for operational risk management, includes detailed analyses, the identification of mitigating actions, and provision of timely information to senior management. All losses above a threshold are logged in our system (“dbIRS”).
- The Lessons Learned process is triggered for events, including near misses, above a specified threshold. This process includes, but is not limited to:
 - systematic risk analyses, including a description of the business environment in which the loss occurred, previousevents, near misses and event-specific Key Risk Indicators (“KRI”),
 - root cause analysis,
 - review of control improvements and other actions to prevent or mitigate the recurrence.
 - assessment of the residual risk exposure.

The execution of corrective actions identified in this process are systematically tracked and reported monthly to senior management.

- Scenario Analyses: We complete our risk profile using a set of scenarios including relevant external cases provided by a public database and additional internal scenarios. We thereby systematically utilize information on external loss events occurring in the

banking industry to prevent similar incidents from happening to us, for example through particular deep dive analyses or risk profile reviews.

- Emerging Risk Identification: We assess and approve the impact of changes on our risk profile as a result of new products, outsourcing activities, strategic initiatives as well as material systems and process changes. Once operational risks are identified and assessed, they are compared to the relevant specific risk appetite statement and either mitigated or accepted. Risks which violate applicable national or international regulations and legislation cannot be accepted; once identified, such risks must always be mitigated.
- Risk Mitigation: When we implement risk mitigating measures, we systematically monitor their resolution. Residual operational risks rated significant or above need to be accepted by the risk bearing division and reviewed for decision by ORM.
- We perform Top Risk Analyses in which the results of the aforementioned activities are considered. The Top Risk Analyses are a primary input for the annual operational risk management strategy and planning process and aim to identify our most critical risks in terms of probability and severity.
- Key Risk Indicators are used to monitor the operational risk profile and alert the organization to impending problems in a timely fashion. KRIs enable the monitoring of DSSA control culture and business environment and trigger risk mitigating actions. They facilitate the forward looking management of operational risks, based on early warning signals.

Additional functions, methodologies and tools implemented by the responsible second line Risk Type Controllers are utilized to complement the Operational Risk Framework and specifically address the risk types. These include but are not limited to:

- Legal Risk. A Legal Risk Management (“LRM”) function within our Legal Department is exclusively dedicated to the identification and management of legal risk. It undertakes a broad variety of tasks aimed at proactively managing legal risk, including: devising, implementing and overseeing an annual Legal Risk Assessment Program analyzing existing and historic legal risks; agreeing and participating in resulting portfolio reviews and mitigation plans; and administering the Legal Lessons Learned process.
- The operational risk from outsourcing is managed by the Vendor Risk Management (“VRM”) Process. The outsourcing risk is assessed and managed for all outsourcing arrangements individually, following our Vendor Risk Management Policy and in line with the Operational Risk Management Framework.
- Fraud Risk is managed based on the legal and regulatory requirements via a risk based approach, governed by our Anti-Fraud Policy and corresponding Compliance and Anti-Money-Laundering (“AML”) framework.
- We manage Business Continuity Risk with its Business Continuity Management (“BCM”) Program which outlines core procedures for the relocation or the recovery of operations in response to varying levels of disruption. Within this program, each of our core businesses functions and infrastructure set up, maintain and periodically test business continuity plans to promote continuous and reliable service.
- The Operational Risk in Technology is managed standards for IT management. Applications and IT infrastructure are catalogued and assessed on a regular basis. Stability monitoring is established. Key outcomes of the established assessment and control environment are used as input for KRIs or self-assessments

Quantitative Disclosures

The capital requirements for operational risk according to approach adopted. given separately in an excel file in Appendix II:

4.5 Liquidity Risk Disclosure

Liquidity risk assessment

Treasury regularly conducts an assessment of the businesses, activities and Balance Sheet of DSSA in order to assess the liquidity risk relevance of the entity to DB Group. The main business of DSSA is equity swaps trading on behalf of clients, all pre-funded by clients in accordance to regulatory requirements. The liquidity risk assessment will be conducted on at least an annual basis and presented to the Asset & Liability Committee.

Any changes to business model of DSSA will instigate a liquidity risk assessment exercise.

Liquidity management tools

In order to measure liquidity risk and evaluate short and long-term liquidity a monthly cashflow projection is produced.

Cash Flow projections is one of several tools used locally to manage liquidity. The cash flow projections reflect the cumulative net cash out and inflows exposure and identifies any funding gaps for a given period.

Any anomalies are identified and discussed further with entity regional management and Treasury if any contingent actions are required.

Funding

DSSA holds capital which also represents a funding source. In addition, DSSA has obtained funding lines from Deutsche Bank AG available to DSSA in normal as well as stressed times.

Deutsche Bank AG performs monthly stress tests on Group level, which are designed in order to ensure that the Bank can survive predefined stress events (market-wide, Bank-specific and a combination of both); thereby allowing Deutsche Bank AG to fulfil its obligation under the funding lines provided to DSSA. This process ensures that these lines are a reliable funding source under all circumstances.

Quantitative Disclosures

DSSA is capitalized with SAR 538m of Tier 1 capital. The majority of these funds are held in short term accessible deposits with an onshore bank. In addition DSSA has a funding line of EUR 50m in place with Deutsche Bank AG that would cover in the event that this is required. Details on the Liquidity position can be obtained on exposure details in Appendix I to V in the separate excel file.

App 1: Disclosure on Capital Base

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	532,235
Audited retained earnings	4,601
Share premium	0
Reserves (other than revaluation reserves)	6,264
Tier-1 capital contribution	0
Deductions from Tier-1 capital	(4,467)
Total Tier-1 capital	538,633
<u>Tier-2 capital</u>	
Subordinated loans	0
Cumulative preference shares	0
Revaluation reserves	0
Other deductions from Tier-2 (-)	0
Deduction to meet Tier-2 capital limit (-)	0
Total Tier-2 capital	0
TOTAL CAPITAL BASE	538,633

App II: Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<i>Credit Risk</i>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks				
Authorised Persons and Banks	560,198	560,198	112,509	15,751
Corporates				
Retail				
Investments				
Securitisation				
Margin Financing				
Other Assets	5,580	5,580	29,264	4,097
Total On-Balance sheet Exposures	583,946	565,778	141,773	19,848
<i>Off-balance Sheet Exposures</i>				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments				
Other off-balance sheet exposures				
Total Off-Balance sheet Exposures	0	0	0	0
Total On and Off-Balance sheet Exposures	583,946	565,778	141,773	19,848
Prohibited Exposure Risk Requirement	0	0	0	0
Total Credit Risk Exposures	583,946	565,778	141,773	19,848
<i>Market Risk</i>				
	Long Position	Short Position		
Interest rate risks				
Equity price risks				
Risks related to investment funds				
Securitisation/resecuritisation positions				
Excess exposure risks				
Settlement risks and counterparty risks				
Foreign exchange rate risks	9,437	(559)		1,330
Commodities risks.				
Total Market Risk Exposures	9,437	(559)		1,330
<i>Operational Risk</i>				9,853
Minimum Capital Requirements				31,031
Surplus/(Deficit) in capital				507,602
Total Capital ratio (time)				17.36

App V: Disclosure on Credit Risk Mitigation (CRM)

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
<u>Credit Risk</u>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	560,198					560,198
Authorised Persons and Banks						
Corporates						
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets	5,580					5,580
Total On-Balance sheet Exposures	565,778	0	0	0	0	565,778
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments						
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	0	0	0	0	0	0
Total On and Off-Balance sheet Exposures	565,778	0	0	0	0	565,778