Deutsche Bank
Risk & Capital Management

Managing risk for our clients

#PositiveImpact

Deutsche Bank AG Johannesburg
Pillar 3 disclosure

For the half year ended 30 June 2019

Contents

Overview

The following information is compiled in terms of the requirements of the Banks Act 1990 (as amended) and Regulation 43(1)(e)(iv) 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 revised 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.

References to fixed format templates as required under the revised Pillar 3 disclosure requirements are made throughout this document and highlighted in the relevant sections.

Period of reporting

This report is in respect of the half year ended 30 June 2019, including comparative information (where applicable) for the half year ended 30 June 2018.

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 International Financial Reporting Standards issued from time to time, with additional disclosure when required. While 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 30 June 2019.

	June 2019 R'000	June 2018 R'000
Assets		
Cash and balances with central bank	149 550	92 199
Short-term negotiable securities	2 354 087	1 307 346
Loans and advances to customers	3 774 414	4 743 156
Investment and trading securities	254 764	236 290
Derivative financial instruments	2 144 917	3 027 677
Property and equipment	3 739	2 874
Current income tax receivables	–	96
Deferred income tax assets	5 378	87 780
Other assets	2 486 160	168 816
Total assets	11 405 045	9 666 234
Liabilities		
Deposits, current accounts and other creditors	5 369 983	5 004 581
Derivative financial instruments and other trading liabilities	2 476 741	3 443 646
Other liabilities	2 733 566	78 995
Total liabilities	10 580 290	8 527 222
Equity		
Total equity attributable to equity holders	824 755	1 139 012
Dotation capital	884 639	884 639
Retained earnings	(59 884)	254 373
Total equity	824 755	1 139 012
Total equity and liabilities	11 405 045	9 666 234

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 half year ended 30 June 2019.

	June 2019 R'000	June 2018 R'000
Net interest income	17 761	45 805
Non-interest revenue	6 183	38 524
Operating income	23 944	84 329
Operating expenses	76 896	325 039
Loss before income tax	(52 952)	(240 710)
Income tax expense/(income)	50 000	(65 645)
Loss for the year	(102 952)	(175 065)

[1] *Source: 30 June BA 100 (unaudited).*
[2] *Source: 30 June BA 120 (unaudited).*

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 comprises solely of Common Equity Tier 1 capital, which includes dotation capital and appropriated retained earnings
— Tier 2 capital, which includes an allowance for expected credit losses.

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
— Total qualifying capital as a percentage of risk weighted assets.

Summary of risk weighted assets and regulatory capital requirements

		RWA June 2019 R'000	RWA June 2018 R'000	Minimum capital requirements[1] June 2019 R'000
1	Credit risk (excluding counterparty credit risk (CCR))	1 041 786	1 870 745	119 805
2	Of which standardised approach (SA)	1 041 786	1 870 745	119 805
3	Of which: internal ratings-based (IRB) approach	–	–	–
4	Counterparty credit risk	3 174 226	3 272 699	365 036
5	Of which standardised approach for counterparty credit risk (SA-CCR)	–	–	–
6	Of which internal model method (IMM)	–	–	–
	Of which current exposure method (CEM)	3 174 226	3 272 699	365 036
7	Equity positions in banking book under market-based approach	–	–	–
8	Equity investments in funds – look-through approach	–	–	–
9	Equity investments in funds – mandate-based approach	–	–	–
10	Equity investments in funds – fall-back approach	–	–	–
11	Settlement risk	–	–	–
12	Securitisation exposures in banking book	–	–	–
13	Of which: securitisation internal ratings-based approach (SEC-IRBA)	–	–	–
14	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)	–	–	–
15	Of which: securitisation standardised approach (SEC-SA)	–	–	–
16	Market risk	125 350	78 413	14 415
17	Of which standardised approach (SA)	125 350	78 413	14 415
18	Of which internal model approaches (IMA)	–	–	–
19	Operational risk	241 013	336 953	27 716
20	Of which basic indicator approach	241 013	336 953	27 716
21	Of which standardised approach (SA)	–	–	–
22	Of which advanced measurement approach	–	–	–
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	13 445	55 030	1 546
24	Floor adjustment	–	–	–
25	Other assets risk	20 457	43 846	2 353
	Total (1+4+7+8+9+10+11+12+16+19+23+24+25)	4 616 277	5 657 686	530 872

[1] Minimum capital requirements – This value is 11.5%, consisting of a Pillar 1 requirement of 8.00%, Pillar 2A of 1.00% and a capital conservation buffer of 2.5%.

Capital structure

Capital composition

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

	June 2019 R'000	June 2018 R'000
Tier 1		
Common Equity Tier 1 capital: instruments and reserves	824 755	1 139 012
Dotation capital	884 639	884 639
Retained earnings (appropriated)	(59 884)	254 373
Common Equity Tier 1 capital: regulatory adjustments	(35 248)	(98 378)
Deferred tax assets	–	(65 768)
Debit value adjustment: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	(35 248)	(32 610)
Tier 1 capital (T1)	789 507	1 040 634
Tier 2		
Provisions	2 937	2 263
Tier 2 capital (T2)	2 937	2 263
Total capital (TC = T1 + T2)	792 444	1 042 897
Total risk weighted assets	4 616 277	5 657 686
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets) (%)	17.10	18.39
Tier 1 (as a percentage of risk weighted assets) (%)	17.10	18.39
Total capital (as a percentage of risk weighted assets) (%)	17.17	18.43

Reconciliation of accounting capital to regulatory capital

	June 2019 R'000	June 2018 R'000
Accounting capital – as reported per unaudited financial statements	824 755	1 139 012
Dotation capital	884 639	884 639
Retained earnings	(59 884)	254 373
Less: Unappropriated income	–	–
	824 755	1 139 012
Add: Allowance for expected credit losses	2 937	2 263
	827 692	1 141 275
Less: Regulatory adjustments and deductions	(35 248)	(98 378)
Total regulatory capital	792 444	1 042 897

Leverage

Leverage position

Illustrated below is the branch'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 sheet 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.

	June 2019 %	June 2018 %
Leverage ratio	5.97	8.92
Specified minimum ratio as per SARB	4	4

Credit risk

Credit risk

The tables below reflect prescribed disclosure of key measurement metrics in connection with the branch's credit position as at 30 June 2019, as required by the revised Pillar 3 disclosures.

Credit quality of assets

The table below provides a comprehensive picture of the credit quality of a bank's on and off-balance sheet assets.

	Gross carrying values of			
	Defaulted exposures R'000	Non-defaulted exposures R'000	Allowances/ impairments R'000	Net values R'000
1 Loans	–	2 970 491	2 939	2 967 552
2 Debt securities	–	2 905 100	–	2 905 100
3 Off-balance sheet exposures	–	687 324	–	687 324
4 Total	–	6 562 915	2 939	6 559 976

Changes in stock of defaulted loans and debt securities

The table below identifies the changes in a bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

	June 2019
1 Defaulted loans and debt securities at the end of the previous reporting period	–
2 Loans and debt securities that have defaulted since the last reporting period	–
3 Returned to non-defaulted status	–
4 Amounts written off	–
5 Other changes	–
6 Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	–

Credit risk mitigation techniques – overview

The table below discloses the extent of use of credit risk mitigation techniques.

	Exposures unsecured: carrying amount R'000	Exposures secured by collateral R'000	Exposures secured by collateral, of which: secured amount R'000	Exposures secured by financial guarantees R'000	Exposures secured by financial guarantees, of which: secured amount R'000	Exposures secured by credit derivatives R'000	Exposures secured by credit derivatives, of which: secured amount R'000
1 Loans	2 350 210	617 342	617 342	–	–	–	–
2 Debt securities	2 905 100	–	–	–	–	–	–
3 Total	5 255 310	617 342	617 342	–	–	–	–
4 Of which defaulted	–	–	–	–	–	–	–

Credit risk continued

Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects

The table below illustrates the effect of CRM (comprehensive and simple approach) on the standardised approach capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount R'000	Off-balance sheet amount R'000	On-balance sheet amount R'000	Off-balance sheet amount R'000	RWA R'000	RWA density %
Asset classes						
Sovereigns and their central banks	2 905 100	–	2 905 100	–	–	–
Non-central government public sector entities	1 660 640	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–
Banks	594 532	–	2 255 172	–	24 946	1
Securities firms	539 185	2 874 892	–	–	–	–
Corporates	673 178	1 064 197	673 178	343 662	1 016 840	100
Regulatory retail portfolios	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–
Equity	–	–	–	–	–	–
Past due loans	–	–	–	–	–	–
Higher risk categories	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
Total	6 372 635	3 939 089	5 833 449	343 662	1 041 786	17

Standardised approach – exposures by asset classes and risk weights

The table below presents the breakdown of credit risk exposures under the standardised approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to standardised approach).

Asset class/risk weight	0% R'000	10% R'000	20% R'000	35% R'000	50% R'000	75% R'000	100% R'000	150% R'000	Others R'000	Total credit exposures amount (post-CCF and post-CRM) R'000
Sovereigns and their central banks	2 905 100	–	–	–	–	–	–	–	–	2 905 100
Non-central government public sector entities	–	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–
Banks	2 130 441	–	124 731	–	–	–	–	–	–	2 255 172
Securities firms	–	–	–	–	–	–	–	–	–	–
Corporates	–	–	–	–	–	–	1 016 840	–	–	1 016 840
Regulatory retail portfolios	–	–	–	–	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	–	–	–	–	–
Past due loans	–	–	–	–	–	–	–	–	–	–
Higher risk categories	–	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–	–	–
Total	5 035 540	–	124 731	–	–	–	1 016 840	–	–	6 177 112

Counterparty credit risk

Analysis of counterparty credit risk (CCR) exposure by approach

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	CEM (for derivatives)	1 639 006	1 643 826			3 030 388	1 151 264
2	Internal model method (for derivatives and SFTs)			–	–	–	–
3	Simple approach for credit risk mitigation (for SFTs)					–	–
4	Comprehensive approach for credit risk mitigation (for SFTs)					92 809	18 562
5	VaR for SFTs					–	–
6	Total						1 169 826

Credit valuation adjustment (CVA) capital charge

The table provides the CVA regulatory calculations (with a breakdown by standardised and advanced approaches).

		EAD post-CRM R'000	RWA R'000
	Total portfolios subject to the advanced CVA capital charge		
1	(i) VaR component (including the 3× multiplier)		–
2	(ii) Stressed VaR component (including the 3× multiplier)		–
3	All portfolios subject to the standardised CVA capital charge	970 961	2 004 400
4	Total subject to the CVA capital charge	970 961	2 004 400

Counterparty credit risk continued

Standardised approach – CCR exposures by regulatory portfolio and risk weights

The table provides a breakdown of CCR exposures calculated according to the current exposure method approach: by portfolio (type of counterparties) and by risk weight (riskiness attributed according to standardised approach).

Regulatory portfolio	0% R'000	10% R'000	20% R'000	50% R'000	75% R'000	100% R'000	150% R'000	Others R'000	Total credit exposure R'000
Sovereigns	–	–	–	–	–	–	–	–	–
Non-central government public sector entities	–	–	20 701	–	–	–	–	–	20 701
Multilateral development banks	–	–	–	–	–	–	–	–	–
Banks	1 860 685	–	92 912	3 590	–	110 740	–	–	2 067 927
Securities firms	–	–	–	–	–	64 479	–	–	64 479
Corporates	–	–	–	–	–	970 089	–	–	970 089
Regulatory retail portfolios	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–	–
Total	1 860 685	–	113 613	3 590	–	1 145 308	–	–	3 123 197

Composition of collateral for CCR exposure

The table provides a breakdown of all types of collateral posted or received by banks to support or reduce the CCR exposures related to derivative transactions or to SFTs, including transactions cleared through a CCP.

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
	Segregated R'000	Unsegregated R'000	Segregated R'000	Unsegregated R'000	Fair value of collateral received R'000	Fair value of posted collateral R'000
Cash – domestic currency	–	–	–	–	–	–
Cash – other currencies	–	–	–	–	–	–
Domestic sovereign debt	268 557	–	–	–	817 573	699 988
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Equity securities	–	–	–	–	–	–
Other collateral	–	–	–	–	–	–
Total	268 557	–	–	–	817 573	699 988

Liquidity risk

Liquidity coverage ratio (LCR)

Illustrated below is the branch's short-term liquidity position as measured by the LCR.

	Deutsche Bank AG – Johannesburg Branch	Total unweighted value 30 June 2019 R'000	Total weighted value 30 June 2019 R'000
	High-quality liquid assets (HQLA)		
1	Total HQLA	2 065 560	2 065 560
	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:	4 184 036	1 549 172
6	Operational deposits (all counterparties) and deposits in networks of co-operative banks	–	–
7	Non-operational deposits (all counterparties)	4 184 036	1 549 172
8	Unsecured debt	–	–
9	Secured wholesale funding	686 707	–
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	3 939 089	231 320
14	Other contractual funding obligations	–	–
15	Other contingent funding obligations	–	–
16	Total cash outflows	8 809 832	1 780 492
	Cash inflows		
17	Secured lending (e.g. reverse repos)	806 862	–
18	Inflows from fully performing exposures	1 315 483	1 019 888
19	Other cash inflows	29 999	182
20	Total cash inflows	2 152 344	1 020 070
21	Total HQLA		2 065 560
21	Total net cash outflows		760 422
23	Liquidity coverage ratio (%)		272

	LCR for the period 1 April 2019 to 30 June 2019	Quarter ended June 2019
1	Total HQLA	1 708 112
2	Total net cash outflows	729 033
3	Liquidity coverage ratio (%)	257

Operational risk

Risk weighted assets	June 2019 R'000	June 2018 R'000
Operational risk	241 013	336 953

Market risk

Risk weighted assets	June 2019 R'000	June 2018 R'000
Outright products		
1 Interest rate risk (general and specific)	113 213	65 450
2 Equity risk (general and specific)	–	–
3 Foreign exchange risk	12 137	12 963
4 Commodity risk	–	–
Options		
5 Simplified approach	–	–
6 Delta-plus method	–	–
7 Scenario approach	–	–
8 Securitisation	–	–
9 Total	125 350	78 413

Interest rate risk in the banking book

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

Economic value of equity sensitivity	June 2019 R'000	June 2018 R'000
200 basis points parallel shift		
Increase	(13 365)	13 199
Decrease	13 365	(13 199)

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 1.7% of our total regulatory capital at 30 June 2019. Consequently, outright interest rate risk in the banking book is considered immaterial for the branch.