Deutsche Bank

Risk & Capital Management

Deutsche Bank AG Johannesburg Pillar 3 Disclosure

For the half year ended 30 June 2017

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) (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 2017, including comparative information (where applicable) for the half year ended 30 June 2016.

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 30 June 2017.

	June 2017 R'000	June 2016 R'000
Assets		
Cash and balances with central bank	**46 456**	1 418
Short term negotiable securities	**747 036**	967 777
Loans and advances to customers	**5 587 961**	6 227 190
Investment and trading securities	**–**	202 414
Derivative financial instruments	**3 868 022**	5 760 458
Pledged assets	**–**	1 850 334
Property and equipment	**460**	605
Current income tax receivables	**1 989**	–
Deferred income tax assets	**31 499**	22 783
Other assets	**56 815**	145 936
Total assets	**10 340 238**	15 178 915
Liabilities		
Deposits, current accounts and other creditors	**5 077 129**	7 655 307
Derivative financial instruments and other trading liabilities	**3 917 749**	5 915 259
Current income tax liabilities	**–**	10 865
Other liabilities	**59 582**	84 936
Total liabilities	**9 054 460**	13 666 367
Equity		
Total equity attributable to equity holders	**1 285 778**	1 512 548
Dotation capital	**884 639**	1 050 939
Retained earnings	**401 139**	461 609
Total equity	**1 285 778**	1 512 548
Total equity and liabilities	**10 340 238**	15 178 915

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

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 2017.

	June 2017 R'000	June 2016 R'000
Net Interest Income	**33 210**	114 255
Non Interest Revenue	**28 627**	32 841
Operating Income	**61 837**	147 096
Operating Expenses	**64 004**	37 120
Profit/(loss) before income tax	**(2 167)**	109 976
Income tax	**(601)**	30 797
Profit/(loss) for the year	**(1 566)**	79 179

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

Minimum capital requirements	June 2017 %
National Common Equity Tier 1 minimum ratio	6,50
National Tier 1 minimum ratio	8,00
National Total Capital minimum ratio	10,00

Summary of risk weighted assets and regulatory capital requirements

		RWA R'000	RWA R'000	Minimum capital requirements[1] R'000
		June 2017	June 2016	June 2017
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**2 698 475**	2 375 968	290 086
2	Of which standardised approach (SA)	**2 698 475**	2 375 968	290 086
3	Of which: internal ratings-based (IRB) approach	**–**	–	–
4	**Counterparty credit risk**	**3 644 161**	3 339 109	391 747
5	Of which standardised approach for counterparty credit risk (SA-CCR)	**–**	–	–
6	Of which internal model method (IMM)	**–**	–	–
	Of which Current Exposure Method (CEM)	**3 644 161**	3 339 109	391 747
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**	**58 513**	16 125	6 290
17	Of which standardised approach (SA)	**58 513**	16 125	6 290
18	Of which internal model approaches (IMA)	**–**	–	–
19	**Operational risk**	**331 524**	334 958	35 639
20	Of which Basic Indicator Approach	**331 524**	334 958	35 639
21	Of which Standardised Approach	**–**	–	–
22	Of which Advanced Measurement Approach	**–**	–	–
23	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**33 375**	56 958	3 588
24	**Floor adjustment**	**–**	–	–
25	**Other Assets Risk**	**38 375**	113 199	4 125
	Total (1+4+7+8+9+10+11+12+16+19+23+24+25)	**6 804 423**	6 236 317	731 475

[1] *Minimum capital requirements – This value is 10.75%, consisting of a Pillar 1 requirement of 8.00%, Pillar 2A of 1.5%, and a phased in Capital Conservation Buffer of 1.25%.*

Capital composition

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

	June 2017 R'000	June 2016 R'000
Tier 1		
Common Equity Tier 1 capital: instruments and reserves	**1 285 667**	1 451 967
Dotation Capital	**884 639**	1 050 939
Retained earnings (appropriated)	**401 028**	401 028
Common Equity Tier 1 capital: regulatory adjustments	**(29 332)**	(75 572)
Deferred tax assets	**(18 149)**	–
Debit Value Adjustment: Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	**(11 183)**	(75 572)
Tier 1 capital (T1)	**1 256 335**	1 376 395
Tier 2		
Provisions	**17 992**	38 275
Tier 2 capital (T2)	**17 992**	38 275
Total capital (TC = T1 + T2)	**1 274 327**	1 414 670
Total risk weighted assets	**6 804 423**	6 236 317
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets)	**18.46%**	22.07%
Tier 1 (as a percentage of risk weighted assets)	**18.46%**	22.07%
Total capital (as a percentage of risk weighted assets)	**18.73%**	22.68%
Reconciliation of accounting capital to regulatory capital		
Accounting capital - as reported per financial statements	**1 285 778**	1 512 548
Dotation capital	**884 639**	1 050 939
Retained earnings	**401 139**	461 609
Less: Unappropriated Income	**(111)**	(60 581)
	1 285 667	1 451 967
Add: General allowance for credit impairments	**17 992**	38 275
	1 303 659	1 490 242
Less: Regulatory adjustments and deductions	**(29 332)**	(75 572)
Total regulatory capital	**1 274 327**	1 414 670

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 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.

Implementation of the leverage ratio requirements has begun with bank-level reporting to national supervisors of the leverage ratio and its components from 1 January 2013, and proceeded with public disclosure starting 1 January 2015. The BIS will continue monitoring the impact of these disclosure requirements. The final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018.

	June 2017 %	June 2016 %
Leverage Ratio	**9.94**	7.72
Specified minimum ratio as per SARB	**4**	4

Credit risk

The tables illustrated below present key measurment metrics of DBJ's credit position as at 30 June 2017, 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.

R'000	Gross carrying values of: Defaulted exposures	Non–defaulted exposures	Allowances/ impairments	Net values
Loans	–	6 646 492	17 992	6 628 500
Debt Securities	–	747 036	–	747 036
Off-balance sheet exposures	–	3 368 488	–	3 368 488
Total	**–**	**10 762 016**	**17 992**	**10 744 024**

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 2017
1	Defaulted loans and debt securities at 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 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.

R'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	4 623 994	2 004 505	1 189 788	–	–	–	–
Debt securities	747 036	–	–	–	–	–	–
Total	**5 371 030**	**2 004 505**	**1 189 788**	–	–	–	–
Of which defaulted	–	–	–	–	–	–	–

Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

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

	Exposures before CCF and CRM R'000		Exposures post CCF and CRM R'000		RWA and RWA density R'000	
Asset classes	**On–balance sheet amount**	**Off–balance sheet amount**	**On–balance sheet amount**	**Off–balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	747 036	–	747 036	–	–	–
Non-central government public sector entities	1 634 576	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–
Banks	1 387 006	–	3 021 582	–	27 333	1%
Securities firms	2 004 505	2 656 451	814 718	–	814 718	100%
Corporates	1 620 405	712 037	1 620 405	236 018	1 856 423	100%
Regulatory retail portfolios	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–
Equity	–	–	–	–	–	–
Past-due loans	–	–	–	–	–	–
Higher-risk categories	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
Total	**7 393 528**	**3 368 488**	**6 203 740**	**236 018**	**2 698 474**	**42%**

Credit risk continued

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).

R'000 Asset Class / Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post–CRM)
Sovereigns and their central banks	747 036	–	–	–	–	–	–	–	–	747 036
Non-central government public sector entities (PSEs)	–	–	–	–	–	–	–	–	–	–
Multilateral development banks (MDBs)	–	–	–	–	–	–	–	–	–	–
Banks	2 884 917	–	136 664	–	–	–	–	–	–	3 021 582
Securities firms	–	–	–	–	–	–	814 718	–	–	814 718
Corporates	–	–	–	–	–	–	1 856 423	–	–	1 856 423
Regulatory retail portfolios	–	–	–	–	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	–	–	–	–	–
Past-due loans	–	–	–	–	–	–	–	–	–	–
Higher-risk categories	–	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–	–	–
Total	**3 631 953**	**–**	**136 664**	**–**	**–**	**–**	**2 671 141**	**–**	**–**	**6 439 758**

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	1 383 034	2 148 718
4	Total subject to the CVA capital charge	**1 383 034**	**2 148 718**

Standardised approach – CCR exposures by regulatory portfolio and risk weights

The table provides a breakdown of counterparty credit risk 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 - R'000	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	2 080	–	–	–	–	–	–	–	2 080
Non-central government public sector entities (PSEs)	–	–	125 128	2 794	–	–	–	–	127 922
Multilateral development banks (MDBs)	–	–	–	–	–	–	–	–	–
Banks	3 977 576	–	17 324	119 414	–	–	–	–	4 114 314
Securities firms	–	–	–	–	–	102 783	–	–	102 783
Corporates	–	–	–	–	–	1 303 067	–	–	1 303 067
Regulatory retail portfolios	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–	–
Total	**3 979 656**	**–**	**142 451**	**122 208**	**–**	**1 405 849**	**–**	**–**	**5 650 165**

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 counterparty credit risk 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		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
R'000						
Cash – domestic currency	–	–	–	–	–	–
Cash – other currencies	–	–	–	–	–	–
Domestic sovereign debt	6 933	–	–	–	–	–
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Equity securities	–	–	–	–	–	–
Other collateral	–	–	–	–	–	–
Total	**6 933**	**–**	**–**	**–**	**–**	**–**

Operational risk

Risk weighted assets	**June 2017 R'000**	June 2016 R'000
Operational risk	**331 524**	334 958

Market Risk

	Risk Weighted Assets	**June 2017 R'000**	June 2016 R'000
	Outright products		
1	Interest rate risk (general and specific)	**–**	–
2	Equity risk (general and specific)	**–**	–
3	Foreign exchange risk	**58 513**	16 125
4	Commodity risk	**–**	–
	Options		
5	Simplified approach	**–**	–
6	Delta-plus method	**–**	–
7	Scenario approach	**–**	–
8	Securitisation	**–**	–
9	**Total**	**58 513**	16 125

Interest Rate Risk

Interest Rate Risk in the Banking Book

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	**June 2017 R'000**	June 2016 R'000
200 basis points parallel shift		
Increase	**(6 504)**	(6 879)
Decrease	**6 504**	6 879

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 0.5 % of our total regulatory capital at June 30, 2017. Consequently, outright interest rate risk in the banking book is considered immaterial for the branch.

Liquidity risk

Liquidity Coverage Ratio (LCR)

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 R'000	Total Unweighted Value 30 June 2017	Total Weighted Value 30 June 2017
	High-Quality Liquid Assets		
1	Total high-quality liquid assets (HQLA)	793 452	793 452
	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:	2 588 759	787 197
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	–	–
7	Non-operational deposits (all counterparties)	2 588 759	787 197
8	Unsecured debt	–	–
9	Secured wholesale funding	–	–
10	Additional requirements, of which:	–	–
11	Outflows related to derivative exposures and other collateral requirements	49 727	49 727
12	Outflows related to loss of funding on debt products	–	–
13	Credit and liquidity facilities	3 368 488	192 027
14	Other contractual funding obligations	–	–
15	Other contingent funding obligations	–	–
16	**Total Cash Outflows**	6 006 974	1 028 951
	Cash Inflows		
17	Secured lending (e.g. reverse repos)	–	–
18	Inflows from fully performing exposures	3 110 542	2 727 545
19	Other cash inflows	71 247	–
20	**Total Cash Inflows**	3 181 789	2 727 545
21	Total HQLA		793 452
21	Total Net Cash Outflows		257 238
23	**Liquidity Coverage Ratio (%)**		308%