

Deutsche Bank
Risk & Capital
Management

Deutsche Bank AG Johannesburg
Pillar 3 Disclosure
For the half year ended 30 June 2016



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Overview

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

Reporting framework

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

Period of reporting

This report is in respect of the half year ended 30 June 2016, including comparative information (where applicable) for the half year ended 30 June 2015.

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 sheet¹

The balance sheet reflects what the branch owns, owes and the equity that is attributable to shareholders at 30 June 2016.

	2016 R'000	2015 R'000
Assets		
Cash and balances with central bank	1 418	164 142
Short term negotiable securities	967 777	–
Loans and advances to customers	6 227 190	8 389 761
Investment and trading securities	202 414	2 456 058
Derivative financial instruments	5 760 458	6 502 880
Pledged assets	1 850 334	–
Property and equipment	605	435
Deferred income tax assets	22 783	34 077
Other assets	145 936	114 437
Total assets	15 178 915	17 661 790
Liabilities		
Deposits, current accounts and other creditors	7 655 307	9 471 197
Derivative financial instruments and other trading liabilities	5 915 259	6 691 160
Current income tax liabilities	10 865	–
Other liabilities	84 936	215 283
Total liabilities	13 666 367	16 377 640
Equity		
Total equity attributable to equity holders	1 512 548	1 284 150
Total equity	1 512 548	1 284 150
Total equity and liabilities	15 178 915	17 661 790

¹ Source: 30 June BA 100

Results of operations/income statement²

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 2016.

	2016 R'000	2015 R'000
Net interest income	114 255	72 033
Non-interest revenue	32 841	(1 723)
Operating income	147 096	70 310
Operating expenses	37 120	24 069
Profit/(loss) before income tax	109 976	46 241
Income tax	30 797	13 170
Profit/(loss) for the period	79 179	33 071

² Source: 30 June BA 120

Financial position

Capital adequacy

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

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

- Tier 1 capital, which is comprised solely of Common Equity Tier 1 capital, which includes dotation capital, appropriated retained earnings; and
- 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.

	June 2016	June 2015
Minimum capital requirements per Basel III	%	%
National Common Equity Tier 1 minimum ratio	6,50	6,50
National Tier 1 minimum ratio	8,00	8,00
National Total Capital minimum ratio	10,00	10,00

Summary of regulatory capital requirements and risk weighted assets

Risk type	June 2016		June 2015	
	RWA ¹ R'000	MRC ² R'000	RWA ¹ R'000	MRC ² R'000
Credit risk				
Standardised approach	2 375 968	246 507	3 422 907	342 291
Corporates	1 567 271	162 604	1 647 355	164 736
Banks	139 217	14 444	9 514	951
Securities firms	669 480	69 459	1 766 037	176 604
Counterparty credit risk				
Current exposure method	3 339 109	346 433	4 904 041	490 404
Market risk				
Standardised approach	16 125	1 673	82 538	8 254
Operational risk				
Basic indicator approach	334 958	34 752	248 574	24 857
Other assets				
100% risk weighting	170 157	17 654	113 469	11 347
Total risk weighted assets/ Minimum required capital	6 236 317	647 018	8 771 529	877 153
Total minimum required capital		647 018		877 153
Pillar 1 MRC ²		498 905		701 722
Pillar 2a MRC ²		109 136		175 431
Capital conservation buffer MRC ²		38 977		–
Total qualifying capital and reserves		1 414 670		1 284 103
Surplus capital		767 652		406 950

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 1,75% in 2016 and 2% in 2015. In terms of South African banking regulatory capital requirements, a capital conservation buffer requirement of 0,625% was introduced in 2016.

Capital composition

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

	June 2016 R'000	June 2015 R'000
Tier 1		
Common Equity Tier 1 capital: instruments and reserves	1 451 967	1 284 150
Dotation capital	1 050 939	884 639
Retained earnings (appropriated)	401 028	399 511
Common Equity Tier 1 capital: regulatory adjustments/deductions	(75 572)	(13 756)
Deferred tax assets	–	(13 756)
Debit value adjustment: Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	(75 572)	
Tier 1 capital (T1)	1 376 395	1 270 394
Tier 2		
Provisions	38 275	13 709
Tier 2 capital (T2)	38 275	13 709
Total capital (TC = T1 + T2)	1 414 670	1 284 103
Total risk weighted assets	6 236 317	8 771 529
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets)	(%) 22,07	14,48
Tier 1 (as a percentage of risk weighted assets)	(%) 22,07	14,48
Total capital (as a percentage of risk weighted assets)	(%) 22,68	14,64
Reconciliation of accounting capital to regulatory capital		
Accounting capital – as reported per financial statements	1 512 548	1 284 150
Dotation capital	1 050 939	884 639
Retained earnings	461 609	399 511
<i>Less: Unappropriated retained earnings</i>	(60 581)	–
	1 451 967	1 284 150
<i>Add: General allowance for credit impairments</i>	38 275	13 709
	1 490 242	1 297 859
<i>Less: Regulatory adjustments and deductions</i>	(75 572)	(13 756)
Total regulatory capital	1 414 670	1 284 103

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.

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 2016 %
Leverage ratio	7,72
Specified minimum ratio as per SARB	4,00

Credit risk

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

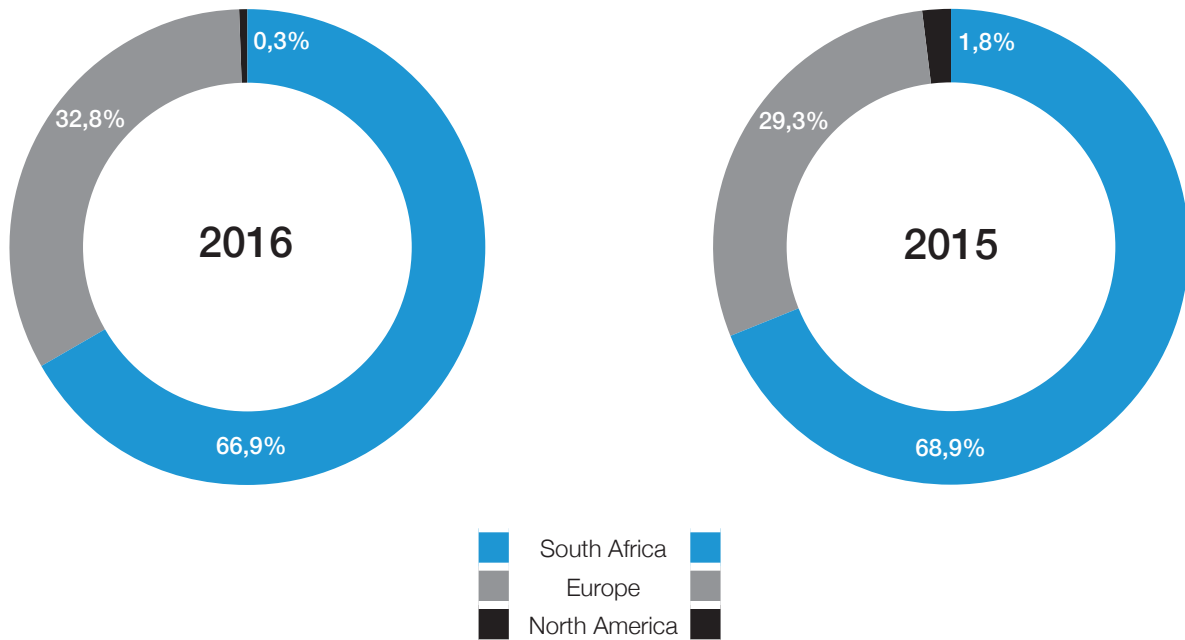
Credit risk

Gross on and off-balance sheet exposures at 30 June are reflected below:

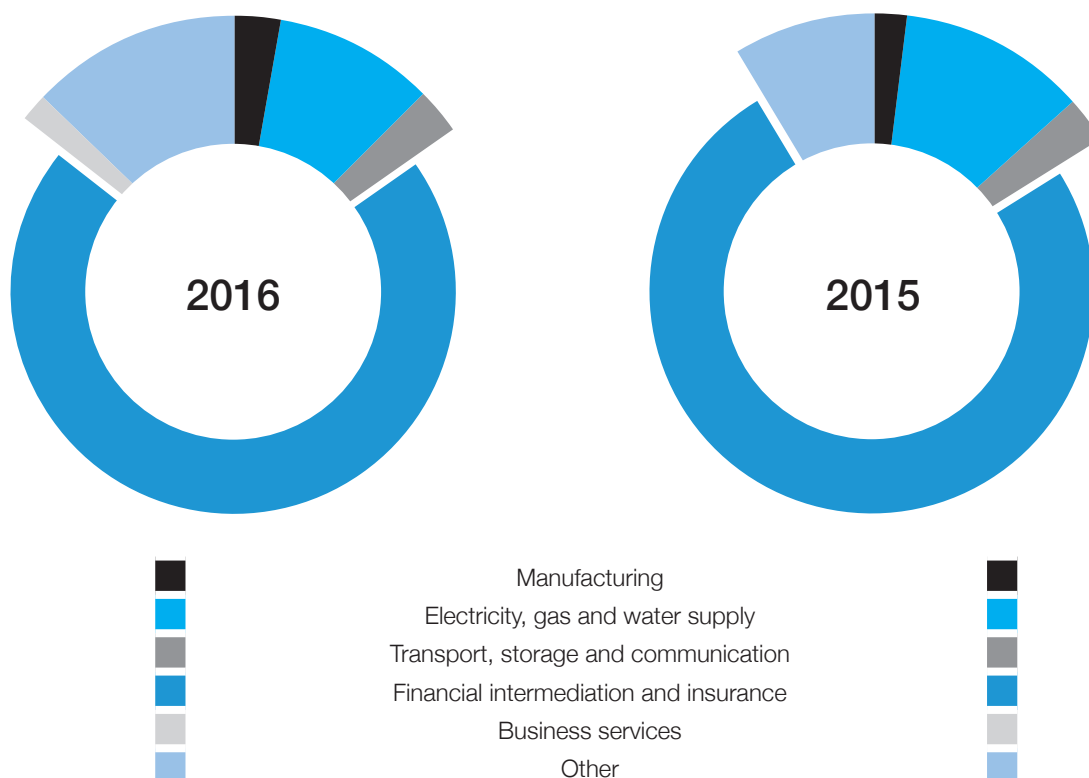
Asset class	June 2016 Gross exposure R'000	June 2015 Gross exposure R'000	June 2016 Exposure post credit mitigation R'000	June 2015 Exposure post credit mitigation R'000
On balance sheet	20 400 832	23 776 434	15 729 097	19 151 189
Corporates	4 613 582	5 079 809	2 711 752	2 612 636
Public sector entities	2 034 088	2 514 844	166 299	46 829
Local government and municipalities	607	1 028	118	207
Sovereigns	3 020 525	2 502 268	3 020 525	2 502 268
Banks	9 647 139	10 671 271	9 116 790	11 982 035
Securities firms	1 084 891	3 007 214	713 613	2 007 214
Off-balance sheet	5 696 033	8 006 771	5 696 033	8 006 771
Corporates	609 317	1 421 503	609 317	1 421 503
Banks	2 546 000	3 880 000	2 546 000	3 880 000
Securities firms	2 540 716	2 705 268	2 540 716	2 705 268
Total credit exposure	26 096 865	31 783 205	21 425 130	27 157 960

Credit risk continued

Geographical distribution of credit exposures as at 30 June illustrated below:



Industry distribution of credit exposures as at 30 June illustrated below:



Maturity analysis of credit exposures

	R'000
<1 year	16 729 614
1 to 5 years	3 245 475
>5 years	6 121 775

Analysis of credit impairments

All impairments presented below relate to general credit loss provisions

	R'000
Balance at 1 January 2016	22 981
Provisions raised in the year	15 294
Balance at 30 June 2016*	38 275

* As at 30 June 2016 the branch had no specific impairment provisions.

Counterparty Credit risk

	Gross positive fair value R'000	Potential future exposure R'000	Netting benefit R'000	Collateral held R'000	Exposure at default R'000
2016					
Interest rate contracts	2 773 713	1 971 259	1 039 195	338 561	3 367 216
FX contracts	2 966 145	1 725 138	–	–	4 691 283
Equity contracts	20 600	84 252	–	–	104 852
Securities financing transactions	3 015 949	–	–	2 922 702	93 247
Total	8 776 407	3 780 650	1 039 195	3 261 263	8 256 599
2015					
Interest rate contracts	5 360 665	2 195 514	1 647 457	–	5 908 722
FX contracts	1 121 550	1 610 775	–	–	2 732 325
Equity contracts	20 666	186 468	–	–	207 134
Securities financing transactions	3 104 038	–	–	2 977 788	126 250
Total	9 606 919	3 992 757	1 647 457	2 977 788	8 974 431

Operational risk

	June 2016 R'000	June 2015 R'000
Risk weighted assets		
Operational risk	334 958	248 574

Market risk

	June 2016 R'000	June 2015 R'000
Risk weighted assets		
Foreign exchange net open position	16 125	82 538

Interest rate risk in the banking book

	June 2016 R'000
Economic value of equity sensitivity	
200 basis points parallel shift	
Increase	(6 879)
Decrease	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 30 June 2016. Consequently, outright interest rate risk in the banking book is considered immaterial for the branch.

Liquidity risk

Liquidity coverage ratio

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

	Total unweighted value 30 June 2016 R'000	Total weighted value 30 June 2016 R'000
Line Deutsche Bank AG – Johannesburg Branch		
High-quality liquid asset		
1	2 242 693	2 242 693
Cash outflows		
2	–	–
3	–	–
4	–	–
5	2 799 403	428 548
6	–	–
7	2 799 403	428 548
8	–	–
9	1 849 944	–
10	–	–
11	84 873	84 873
12	–	–
13	428 863	42 886
14	–	–
15	–	–
16	5 163 083	556 307
Cash Inflows		
17	1 141 751	–
18	2 626 485	2 437 107
19	85 241	–
20	3 853 477	2 437 107
21	Total HQLA	2 242 693
21	Total net cash outflows	139 077
23	Liquidity coverage ratio (%)	1 613

