Deutsche Bank
Risk & Capital
Management

Deutsche Bank AG Johannesburg
Pillar 3 disclosure

For the half year ended 30 June 2018

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 2018, including comparative information (where applicable) for the half year ended 30 June 2017.

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 2018.

	June 2018 R'000	June 2017 R'000
Assets		
Cash and balances with central bank	92 199	46 456
Short-term negotiable securities	1 307 346	747 036
Loans and advances to customers	4 743 156	5 587 961
Investment and trading securities	236 290	–
Derivative financial instruments	3 027 677	3 868 022
Property and equipment	2 874	460
Current income tax receivables	96	1 989
Deferred income tax assets	87 780	31 499
Other assets	168 816	56 815
Total assets	9 666 234	10 340 238
Liabilities		
Deposits, current accounts and other creditors	5 004 581	5 077 129
Derivative financial instruments and other trading liabilities	3 443 646	3 917 749
Other liabilities	78 995	59 582
Total liabilities	8 527 222	9 054 460
Equity		
Total equity attributable to equity holders	1 139 012	1 285 778
Dotation capital	884 639	884 639
Retained earnings	254 373	401 139
Total equity	1 139 012	1 285 778
Total equity and liabilities	9 666 234	10 340 238

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 2018.

	June 2018 R'000	June 2017 R'000
Net interest income	45 805	33 210
Non-interest revenue	38 524	28 627
Operating income	84 329	61 837
Operating expenses	325 039	64 004
Profit before income tax	(240 710)	(2 167)
Income tax	65 645	601
Profit for the year	(175 065)	(1 566)

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

Summary of risk weighted assets and regulatory capital requirements

		RWA June 2018 R'000	RWA June 2017 R'000	Minimum capital requirements[1] June 2018 R'000
1	Credit risk (excluding counterparty credit risk) (CCR)	1 870 745	2 698 475	208 120
2	Of which standardised approach (SA)	1 870 745	2 698 475	208 120
3	Of which internal ratings-based (IRB) approach	–	–	–
4	Counterparty credit risk	3 272 699	3 644 161	364 088
5	Of which standardised approach for counterparty credit risk (SA-CCR)	–	–	–
6	Of which internal model method (IMM)	–	–	–
	Of which current exposure method (CEM)	3 272 699	3 644 161	364 088
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	78 413	58 513	8 723
17	Of which standardised approach (SA)	78 413	58 513	8 723
18	Of which internal model approaches (IMA)	–	–	–
19	Operational risk	336 953	331 524	37 486
20	Of which basic indicator approach	336 953	331 524	37 486
21	Of which standardised approach (SA)	–	–	–
22	Of which advanced measurement approach	–	–	–
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	55 030	33 375	6 122
24	Floor adjustment	–	–	–
25	Other assets risk	43 846	38 375	4 878
	Total (1+4+7+8+9+10+11+12+16+19+23+24+25)	5 657 686	6 804 423	629 418

[1] *Minimum capital requirements. This value is 11.125%, consisting of a Pillar 1 requirement of 8.00%, Pillar 2A of 1.25% and a phased in capital conservation buffer of 1.875%.*

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 2018 R'000	June 2017 R'000
Tier 1		
Common Equity Tier 1 capital: instruments and reserves	1 139 012	1 285 667
Dotation capital	884 639	884 639
Retained earnings (appropriated)	254 373	401 028
Common Equity Tier 1 capital: regulatory adjustments	(98 378)	(29 332)
Deferred tax assets	(65 768)	(18 149)
Debit value adjustment: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	(32 610)	(11 183)
Tier 1 capital (T1)	1 040 634	1 256 335
Tier 2		
Provisions	2 263	17 992
Tier 2 capital (T2)	2 263	17 992
Total capital (TC = T1 + T2)	1 042 897	1 274 327
Total risk weighted assets	5 657 686	6 804 423
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets) (%)	18.39	18.46
Tier 1 (as a percentage of risk weighted assets) (%)	18.39	18.46
Total capital (as a percentage of risk weighted assets) (%)	18.43	18.73

Reconciliation of accounting capital to regulatory capital

	June 2018 R'000	June 2017 R'000
Accounting capital – as reported per unaudited financial statements	1 139 012	1 285 778
Dotation capital	884 639	884 639
Retained earnings	254 373	401 139
Less: Unappropriated income	–	(111)
	1 139 012	1 285 667
Add: General allowance for credit impairments	2 263	17 992
	1 141 275	1 303 659
Less: Regulatory adjustments and deductions	(98 378)	(29 332)
Total regulatory capital	1 042 897	1 274 327

Leverage

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 and deleveraging processes that can damage the broader financial system and the economy.

	June 2018 %	June 2017 %
Leverage ratio	8.92	9.94
Specified minimum ratio as per SARB	4	4

Credit risk

Credit risk

The tables illustrated below present key measurement metrics of DBJ's credit position as at 30 June 2018, 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	502 632	4 162 318	294 282	4 370 668
2 Debt securities	–	1 543 636	–	1 543 636
3 Off-balance sheet exposures	–	578 852	–	578 852
4 Total	502 632	6 284 806	294 282	6 493 156

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 2018
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	502 632
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)	502 632

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	3 205 130	1 165 538	1 165 538	–	–	–	–
2 Debt securities	1 543 636	–	–	–	–	–	–
3 Total	4 748 766	1 165 538	1 165 538	–	–	–	–
4 Of which defaulted	502 632	–	–	–	–	–	–

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 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	1 543 636	–	1 543 636	–	–	–
Non-central government public sector entities	1 726 624	–	141 975	–	28 395	–
Multilateral development banks	–	–	–	–	–	–
Banks	625 661	–	2 210 310	–	51 290	2
Securities firms	1 705 415	2 896 869	639 005	–	639 005	100
Corporates	1 050 426	818 852	758 408	289 426	1 045 662	100
Regulatory retail portfolios	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–
Equity	–	–	–	–	–	–
Past due loans	210 613	–	210 613	–	106 392	51
Higher risk categories	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
Total	6 862 376	3 715 721	5 503 947	289 426	1 870 744	32

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).

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	1 543 636	–	–	–	–	–	–	–	–	1 543 636
Non-central government public sector entities	–	–	141 975	–	–	–	–	–	–	141 975
Multilateral development banks	–	–	–	–	–	–	–	–	–	–
Banks	2 107 652	–	130	–	102 528	–	–	–	–	2 210 310
Securities firms	–	–	–	–	–	–	639 005	–	–	639 005
Corporates	–	–	–	–	–	–	1 045 662	–	–	1 045 662
Regulatory retail portfolios	–	–	–	–	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	–	–	–	–	–
Past due loans	–	–	–	–	212 785	–	–	–	–	212 785
Higher risk categories	–	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–	–	–
Total	3 651 288	–	142 105	–	315 313	–	1 684 667	–	–	5 793 373

Counterparty credit risk

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
1 Total portfolios subject to the advanced CVA capital charge		
(i) VaR component (including the 3× multiplier)		
(ii) Stressed VaR component (including the 3× multiplier)		
2 All portfolios subject to the standardised CVA capital charge	1 089 775	2 007 852
Total subject to the CVA capital charge	1 089 775	2 007 852

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	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	–	–	26 256	2 679	–	–	–	–	28 935
Multilateral development banks	–	–	–	–	–	–	–	–	–
Banks	2 642 086	–	959	3 899	–	111 893	–	–	2 758 836
Securities firms	–	–	–	–	–	165 666	–	–	165 666
Corporates	–	–	–	–	–	978 556	–	–	978 556
Regulatory retail portfolios	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–	–
Total	2 642 086	–	27 215	6 578	–	1 256 115	–	–	3 931 993

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 R'000	Unsegregated R'000	Segregated R'000	Unsegregated R'000	R'000	R'000
Cash – domestic currency	–	–	–	–	–	–
Cash – other currencies	–	–	–	–	–	–
Domestic sovereign debt	581 716	–	–	–	347 715	–
Other sovereign debt	–	–	–	–	–	–
Government agency debt	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Equity securities	–	–	–	–	–	–
Other collateral	–	–	–	–	–	–
Total	581 716	–	–	–	347 715	–

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.

	Deutsche Bank AG – Johannesburg Branch	Total unweighted value 30 June 2018 R'000	Total weighted value 30 June 2018 R'000
	High-quality liquid assets (HQLA)		
1	Total HQLA	714 100	714 100
	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:	3 222 004	932 715
6	Operational deposits (all counterparties) and deposits in networks of co-operative banks	–	–
7	Non-operational deposits (all counterparties)	3 222 004	932 715
8	Unsecured debt	–	–
9	Secured wholesale funding	–	–
10	Additional requirements, of which:	–	–
11	Outflows related to derivative exposures and other collateral requirements	799	799
12	Outflows related to loss of funding on debt products	–	–
13	Credit and liquidity facilities	3 715 721	214 728
14	Other contractual funding obligations	–	–
15	Other contingent funding obligations	–	–
16	Total cash outflows	6 938 524	1 148 242
	Cash inflows		
17	Secured lending (e.g. reverse repos)	372 488	–
18	Inflows from fully performing exposures	2 363 510	2 014 618
19	Other cash inflows	84 421	–
20	Total cash inflows	2 820 419	2 014 618
21	Total HQLA		714 100
21	Total net cash outflows		287 060
23	Liquidity coverage ratio (%)		249

	LCR for the period 1 April 2018 to 30 June 2018	Quarter ended June 2018
1	Total HQLA	796 637
2	Total net cash outflows	302 779
3	Liquidity coverage ratio (%)	262

Operational risk

Risk weighted assets	June 2018 R'000	June 2017 R'000
Operational risk	336 953	331 524

Market risk

Risk weighted assets	June 2018 R'000	June 2017 R'000
Outright products		
1 Interest rate risk (general and specific)	65 450	–
2 Equity risk (general and specific)	–	–
3 Foreign exchange risk	12 963	58 513
4 Commodity risk	–	–
Options		
5 Simplified approach	–	–
6 Delta-plus method	–	–
7 Scenario approach	–	–
8 Securitisation	–	–
9 Total	78 413	58 513

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 2018 R'000	June 2017 R'000
200 basis points parallel shift		
Increase	13 199	(6 504)
Decrease	(13 199)	6 504

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 1.3% of our total regulatory capital at 30 June 2018. Consequently, outright interest rate risk in the banking book is considered immaterial for the branch.