

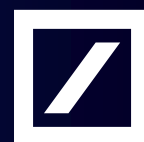
Deutsche Bank
Risk & Capital Management

Managing risk for our clients

#PositiveImpact

Deutsche Bank AG Johannesburg
Pillar 3 disclosure

For the half-year ended 30 June 2020



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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)(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 2020, including comparative information (where applicable) for the half-year ended 30 June 2019.

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 sheet¹

The balance sheet reflects what the branch owns, owes and the equity that is attributable to shareholders at 30 June 2020.

	June 2020 R'000	June 2019 R'000
Assets		
Cash and balances with central bank	99 102	149 550
Short-term negotiable securities	1 689 653	2 354 087
Loans and advances to customers	3 610 305	3 774 414
Investment and trading securities	41 234	254 764
Derivative financial instruments	3 871 956	2 144 917
Pledged assets	–	232 036
Intangible assets	5 941	–
Property and equipment	3 666	3 739
Deferred income tax assets	10 987	5 378
Other assets	151 217	2 486 160
Total assets	9 484 061	11 405 045
Liabilities		
Deposits, current accounts and other creditors	4 835 944	5 369 983
Derivative financial instruments and other trading liabilities	3 796 639	2 476 741
Other liabilities	191 878	2 733 566
Total liabilities	8 824 461	10 580 290
Equity		
Total equity attributable to equity holders	659 600	824 755
Total equity	659 600	824 755
Total equity and liabilities	9 484 061	11 405 045

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 2020.

	June 2020 R'000	June 2019 R'000
Net interest income	52 767	17 761
Non-interest revenue	26 409	6 183
Operating income	79 176	23 944
Operating expenses	151 277	76 896
Loss before income tax	(72 101)	(52 952)
Income tax expense/(income)	3 495	50 000
Loss for the year	(75 596)	(102 952)

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 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 2020 R'000	RWA June 2019 R'000	Minimum capital requirements ¹ June 2020 R'000
1 Credit risk (excluding counterparty credit risk) (CCR)	803 474	1 041 786	92 400
2 Of which standardised approach (SA)	803 474	1 041 786	92 400
3 Of which: internal ratings-based (IRB) approach	–	–	–
4 Counterparty credit risk	3 267 570	3 174 226	375 771
5 Of which standardised approach for counterparty credit risk (SA-CCR)	–	–	–
6 Of which internal model method (IMM)	–	–	–
Of which Current Exposure Method (CEM)	3 267 570	3 174 226	375 771
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	41 375	125 350	4 758
17 Of which standardised approach (SA)	41 375	125 350	4 758
18 Of which internal model approaches (IMA)	–	–	–
19 Operational risk	221 608	241 013	25 485
20 Of which Basic Indicator Approach	221 608	241 013	25 485
21 Of which Standardised Approach	–	–	–
22 Of which Advanced Measurement Approach	–	–	–
23 Amounts below the thresholds for deduction (subject to 250% risk weight)	27 468	13 445	3 159
24 Floor adjustment	–	–	–
25 Other Assets Risk	30 999	20 457	3 565
Total (1+4+7+8+9+10+11+12+16+19+23+24+25)	4 392 494	4 616 277	505 137

¹ Minimum capital requirements – This value is 10.5%, consisting of a Pillar 1 requirement of 8.00%, Pillar 2A of 0% (due to relief by the SARB in response to the COVID-19 pandemic), 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 2020 R'000	June 2019 R'000
Tier 1		
Common Equity Tier 1 capital: instruments and reserves	659 599	824 755
Dotation capital	884 639	884 639
Retained earnings (appropriated)	(225 040)	-59 884
Common Equity Tier 1 capital: regulatory adjustments	(21 856)	(35 248)
Deferred tax assets	-	-
Debit value adjustment: cumulative gains or losses due to changes in own credit risk on fair valued liabilities	(21 856)	(35 248)
Tier 1 capital (T1)	637 743	789 507
Tier 2		
Provisions	1 301	2 937
Tier 2 capital (T2)	1 301	2 937
Total capital (TC = T1 + T2)	639 044	792 444
Total risk weighted assets	4 392 494	4 616 277
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets) (%)	14.52	17.10
Tier 1 (as a percentage of risk weighted assets) (%)	14.52	17.10
Total capital (as a percentage of risk weighted assets) (%)	14.55	17.17
Reconciliation of accounting capital to regulatory capital		
Accounting capital – as reported per unaudited financial statements	659 599	824 755
Dotation capital	884 639	884 639
Retained earnings	(225 040)	(59 884)
Less: Unappropriated income	-	-
	659 599	824 755
<i>Add:</i> General allowance for credit impairments	1 301	2 937
	660 900	827 692
Less: Regulatory adjustments and deductions	(21 856)	(35 248)
Total regulatory capital	639 044	792 444

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

	June 2020 %	June 2019 %
Leverage ratio	6.51	5.97
Specified minimum ratio as per SARB	4	4

Credit risk

Credit risk

The tables illustrated below presents key measurement metrics of DBJ's credit position as at 30 June 2020, 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			Net values R'000
	Defaulted exposures R'000	Non-defaulted exposures R'000	Allowances/impairments R'000	
1 Loans	–	3 582 346	101	3 582 245
2 Debt securities	–	1 792 379	1 200	1 791 179
3 Off-balance sheet exposures	–	281 614	–	281 614
4 Total	–	5 656 339	1 301	5 655 038

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 2020
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
2 Debt securities	1 791 179	–	–	–	–	–	–
3 Total	5 373 424	–	–	–	–	–	–
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 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	1 792 379	–	1 792 379	–	–	–
Non-central government public sector entities	1 610 153	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–
Banks	1 181 802	–	2 791 955	–	184 535	7
Securities firms	–	–	–	–	–	–
Corporates	497 625	281 614	497 625	121 313	618 939	100
Regulatory retail portfolios	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–
Equity	–	–	–	–	–	–
Past-due loans	–	–	–	–	–	–
Higher-risk categories	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
Total	5 081 960	281 614	5 081 960	121 313	803 474	15

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%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post-CCF and post- CRM)
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Sovereigns and their central banks	1 792 379	–	–	–	–	–	–	–	–	1 792 379
Non-central government public sector entities (PSEs)	–	–	–	–	–	–	–	–	–	–
Multilateral development banks (MDBs)	–	–	–	–	–	–	–	–	–	–
Banks	1 869 279	–	922 676	–	–	–	–	–	–	2 791 955
Securities firms	–	–	–	–	–	–	–	–	–	–
Corporates	–	–	–	–	–	–	618 939	–	–	618 939
Regulatory retail portfolios	–	–	–	–	–	–	–	–	–	–
Secured by residential property	–	–	–	–	–	–	–	–	–	–
Secured by commercial real estate	–	–	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	–	–	–	–	–
Past-due loans	–	–	–	–	–	–	–	–	–	–
Higher-risk categories	–	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	–	–	–	–
Total	3 661 658	–	922 676	–	–	–	618 939	–	–	5 203 273

Counterparty credit risk

Analysis of counterparty credit risk (CCR) exposure by approach

	Replacement cost R'000	Potential future exposure R'000	EEPE R'000	Alpha used for computing regulatory EAD R'000	EAD post-CRM R'000	RWA R'000
1 CEM (for derivatives)	2 813 761	1 244 835			3 873 659	1 217 891
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)					1 641	328
5 VaR for SFTs					-	-
6 Total						1 218 220

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	1 020 430	2 049 350
4 Total subject to the CVA capital charge	1 020 430	2 049 350

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%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Sovereigns	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	6 963	-	-	-	-	-	6 963
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Banks	2 643 621	-	9 862	-	-	257 889	-	-	2 911 372
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	956 965	-	-	956 965
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	2 643 621	-	16 825	-	-	1 214 855	-	-	3 875 300

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		Fair value of collateral received	Fair value of posted collateral
	Segregated R'000	Unsegregated R'000	Segregated R'000	Unsegregated R'000		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	-	-	-	-	-
Domestic sovereign debt	196 741	-	-	-	28 106	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	196 741	-	-	-	28 106	-

Liquidity risk

Liquidity coverage ratio (LCR)

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

Deutsche Bank AG – Johannesburg Branch		Total unweighted value 30 June 2020 R'000	Total weighted value 30 June 2020 R'000
High-quality liquid assets (HQLA)			
1	Total HQLA	1 238 905	1 238 905
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:	4 581 279	835 239
6	Operational deposits (all counterparties) and deposits in networks of co-operative banks	–	–
7	Non-operational deposits (all counterparties)	4 581 279	835 239
8	Unsecured debt	–	–
9	Secured wholesale funding	–	–
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	281 613	26 212
14	Other contractual funding obligations	–	–
15	Other contingent funding obligations	–	–
16	Total cash outflows	4 862 892	861 451
Cash inflows			
17	Secured lending (eg reverse repos)	28 060	–
18	Inflows from fully performing exposures	1 990 288	1 743 413
19	Other cash inflows	113 247	99 029
20	Total cash inflows	2 131 595	1 842 442
21	Total HQLA		1 238 905
21	Total net cash outflows		215 363
23	Liquidity coverage ratio (%)		575

LCR for the period 1 April 2020 to 30 June 2020		Quarter ended June 2020 R'000
1	Total HQLA	1 511 905
2	Total net cash outflows	316 305
3	Liquidity coverage ratio (%)	506

Operational risk

	June 2020 R'000	June 2019 R'000
Risk weighted assets		
Operational risk	221 608	241 013

Market risk

	June 2020 R'000	June 2019 R'000
Risk weighted assets		
Outright products		
1 Interest rate risk (general and specific)	39 163	113 213
2 Equity risk (general and specific)	–	–
3 Foreign exchange risk	2 218	12 136
4 Commodity risk	–	–
Options		
5 Simplified approach	–	–
6 Delta-plus method	–	–
7 Scenario approach	–	–
8 Securitisation	–	–
9 Total	41 381	125 349

Interest rate risk in the banking book

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

	June 2020 R'000	June 2019 R'000
Economic value of equity sensitivity		
200 basis points parallel shift		
Increase	(3 024)	(13 365)
Decrease	3 024	13 365

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 2020. Consequently, outright interest rate risk in the banking book is considered immaterial for the branch.

