



# Impact of the Changing Regulatory Environment on Business Strategy

*Passion to Perform*

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16<sup>th</sup> July 2011



# Agenda

## **1 Impact of regulatory requirements**

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2 Management action plan

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3 Interface between Risk Management and Businesses

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4 Conclusion

# Material impact on capital treatment of Trading Book...



Incremental Market Risk capital charges being implemented from Q1 2012

Stressed VaR	<ul style="list-style-type: none"><li>▪ Charge for market risk based on stressed market conditions i.e. greater focus on tail events</li></ul>
Incremental Risk Charge	<ul style="list-style-type: none"><li>▪ Additional charge covering potential default risk and rating migration risk in trading book positions; 99.9% confidence level, 1 year time horizon</li></ul>
Trading Book Securitisations	<ul style="list-style-type: none"><li>▪ Revised charge for default risk mirroring banking book risk charges</li></ul>
Correlation Trading Portfolio	<ul style="list-style-type: none"><li>▪ More comprehensive modelling of all correlation risks including basis risk, directional risk, and price risk; 99.9% confidence over 1 year time horizon</li></ul>
Credit Valuation Adjustment	<ul style="list-style-type: none"><li>▪ Increased capital requirement against counterparty credit risk / potential credit valuation adjustments</li></ul>



Regulatory capital will become a constraining factor for trading book activities

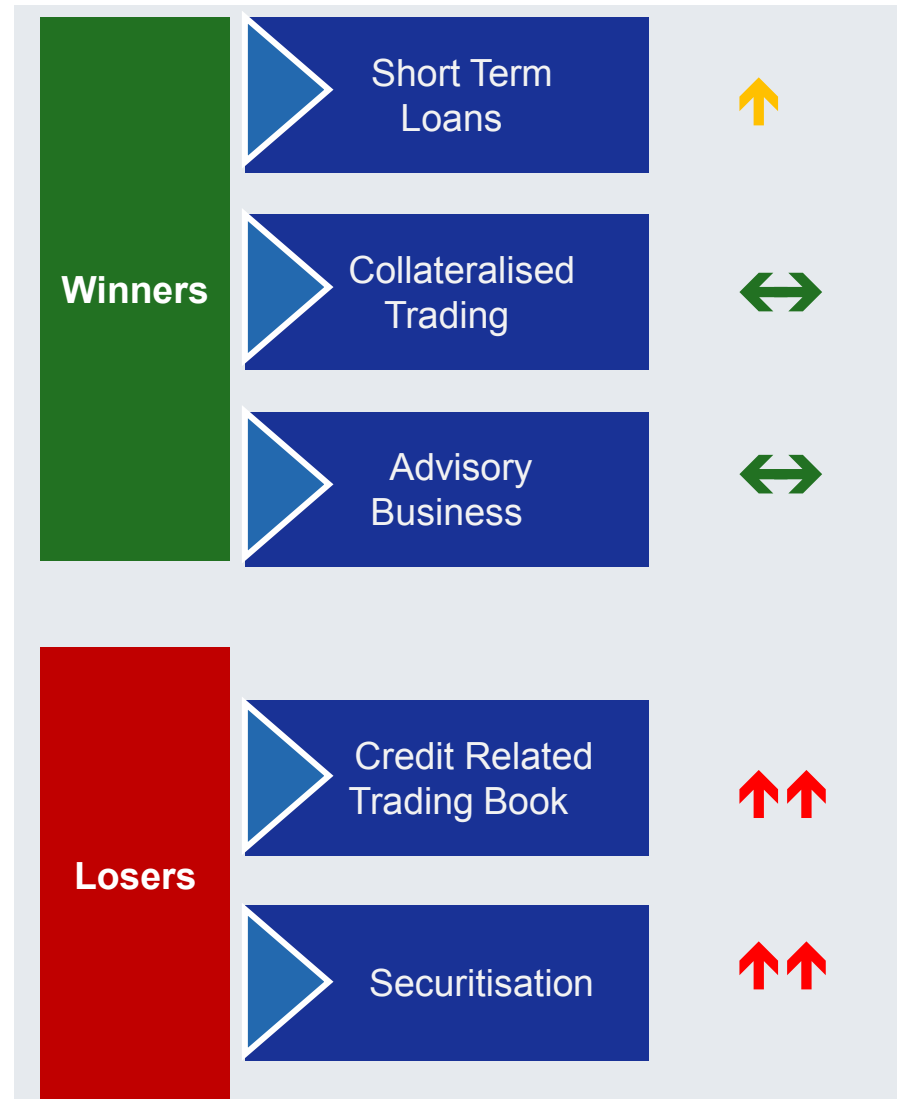
# ...new funding & capital charges will create winners & losers



## Impact of stricter **funding** requirements on products



## Impact of **capital** requirements on products



# ...whilst qualitative impact will require increased investment across organisations



## Increased audits & oversight

More supervisory visits with cross examinations instead of less frequent formal audits

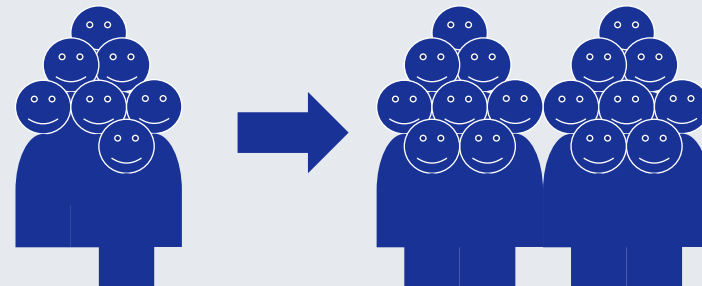
More frequent reports/disclosures

Regular stress tests with more automated and granular requirements

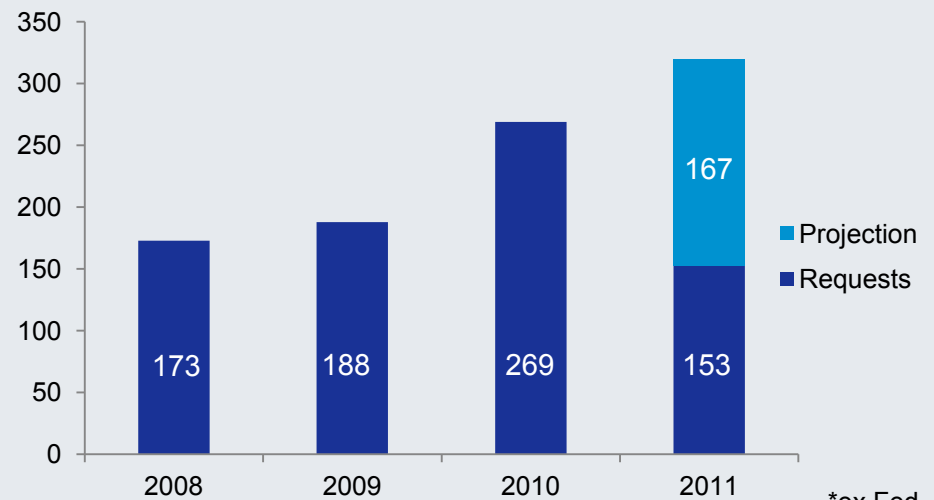
Increased oversight of risk management capabilities/practices incl. IT infrastructure

## Increase physical presence & queries

Increased onsite presence of regulators



Increased regulators' requests\* increase y-o-y





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# Top down impact analysis - Debt business likely to be most heavily impacted by new regulatory framework



Regulatory requirements		Retail	Corp & Trans. Bank	Equity Trading	FICC Trading	Reasoning
Capital	Market risk framework	Grey	Grey	Orange	Red	■ Capital markets products affected (OTC derivatives and cash products)
	Counterparty Credit Risk	Grey	Grey	Orange	Red	■ OTC Derivatives significantly affected ■ Corporate Banking clients directly affected due to trading restrictions
	Capital deductions / capital ratios	Orange	Orange	Orange	Orange	■ Products comparably affected from reduction in available capital and increase in capital ratios
Leverage	Leverage ratio	Green	Orange	Red	Red	■ All products with low risk weighting affected, capital markets products affected the most
Funding / Liquidity	Liquidity coverage ratio	Green	Green	Orange	Orange	■ All products with short-term funding affected, capital markets products affected the most
	Net stable funding ratio (NSFR)	Orange	Green	Orange	Red	■ Consumer Finance products and claims to other banks through 'illiquid' classification
Total		Orange	Orange	Red	Red	■ Capital market products affected the most, particularly GM debt

- No regulatory impact
- Low regulatory impact
- Moderate regulatory impact
- High regulatory impact

Source: McKinsey

# Portfolio optimization / de-risking strategies will be required...



## Impact simulation

In EUR bn	RWA	'RWA equivalent'
Basel 2.5 <sup>(2)</sup> (trading book rules)	85	85
Basel 2.5 <sup>(3)</sup> (banking book rules)	8	8
Basel 3 <sup>(4,5)</sup>	185	122
Targeted management action	(90)	(90)
<b>Net impact</b>	<b>188</b>	<b>125</b>

- (1) Subject to final Basel rules and European / German implementation of the revised framework
- (2) Includes stressed VaR, Incremental Risk Charge, Trading Book securitization and Correlation Trading
- (3) Includes Banking Book re-securitization
- (4) Includes Securitization, CVA and Counterparty Credit Risk for derivatives
- (5) RWA for securitization deductions calculated as 25 times Tier 1 capital deduction; 'RWA equivalent' for securitization deductions calculated as 12.5 times Tier 1 capital deduction; includes EUR 0.6 bn securitization related Tier 1 deductions in relation to Postbank

## Targeted management action

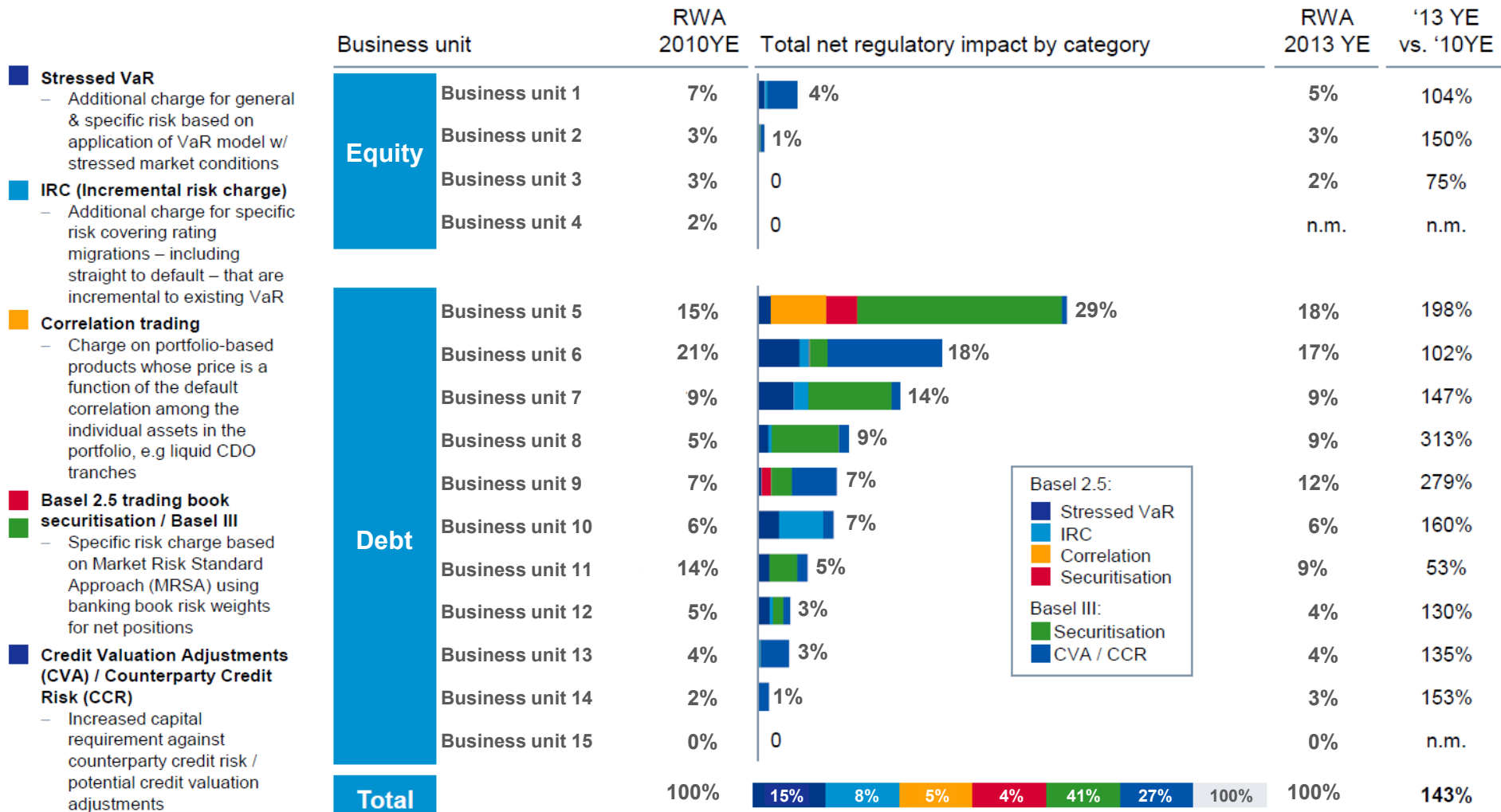
- Further reduction of legacy positions (securitizations, correlation trading)
- Reduce trading book exposures to certain Emerging Markets sovereigns to avoid punitive Incremental Risk Charge
- Hedging/collateralizing of uncollateralized derivative exposures
- Shift of OTC derivatives towards central clearing
- Uncollateralized derivatives maturing and pay downs on securitizations

# ...bottom up analysis by product line key next step

## Step 1: RWA impact analysis...



*-Illustrative-*



# Step 2: Economic profit impact analysis...



*-Illustrative-*

2010				2013				Movement (# of ranks)		
Rank	BU	EP based on			Rank	BU	EP based on			
		TCD	EC	NIBT			TCD	EC	NIBT	
1	Business unit 1	31%	30%	23%	1	Business unit 4	25%	21%	13%	↑ (+3)
2	Business unit 2	28%	30%	19%	2	Business unit 2	17%	21%	14%	→ (0)
3	Business unit 3	28%	26%	21%	3	Business unit 6	14%	12%	8%	↑ (+3)
4	Business unit 4	24%	26%	17%	4	Business unit 5	14%	12%	9%	↑ (+1)
5	Business unit 5	24%	22%	17%	5	Business unit 3	14%	14%	15%	↓ (-2)
6	Business unit 6	10%	11%	6%	6	Business unit 8	11%	10%	5%	↑ (+2)
7	Business unit 7	10%	7%	8%	7	Business unit 1	11%	7%	9%	↓ (-6)
8	Business unit 8	10%	11%	6%	8	Business unit 7	8%	7%	8%	↓ (-1)
9	Business unit 9	7%	7%	8%	9	Business unit 10	8%	10%	5%	↑ (+1)
10	Business unit 10	3%	4%	4%	10	Business unit 9	8%	5%	8%	↓ (-1)
11	Business unit 11	3%	0%	4%	11	Business unit 11	8%	7%	6%	→ (0)
12	Business unit 12	-17%	-15%	-6%	12	Business unit 12	3%	2%	4%	→ (0)
13	Business unit 13	-17%	-19%	-8%	13	Business unit 13	-6%	-2%	1%	→ (0)
14	Business unit 14	-38%	-33%	-13%	14	Business unit 14	-31%	-24%	-5%	→ (0)
<b>Total</b>		100%	100%	100%			100%	100%	100%	

The diagram shows two green ovals with arrows pointing from the 2010 TCD and EC columns to the 2013 TCD and EC columns. The top oval is labeled '+65%' and the bottom oval is labeled '+24%'.

# Step 3: RoE analysis highlights future profitability impact



*-Illustrative-*

2010			2013			Movement
Rank	BU	RoE	Rank	BU	RoE	(# of ranks)
1	Business unit 1	1177%	1	Business unit 1	371%	→ (0)
2	Business unit 2	196%	2	Business unit 2	95%	→ (0)
3	Business unit 3	115%	3	Business unit 3	73%	→ (0)
4	Business unit 4	113%	4	Business unit 7	57%	↑ (+3)
5	Business unit 5	101%	5	Business unit 4	52%	↓ (-1)
6	Business unit 6	87%	6	Business unit 5	33%	↓ (-1)
7	Business unit 7	67%	7	Business unit 10	32%	↑ (+3)
8	Business unit 8	56%	8	Business unit 8	31%	→ (0)
9	Business unit 9	49%	9	Business unit 6	28%	↓ (-3)
10	Business unit 10	28%	10	Business unit 11	26%	↑ (+1)
11	Business unit 11	26%	11	Business unit 9	23%	↓ (-2)
12	Business unit 12	(21%)	12	Business unit 13	18%	↑ (+1)
13	Business unit 13	(24%)	13	Business unit 14	5%	↑ (+1)
14	Business unit 14	(29%)	14	Business unit 12	(7%)	↓ (-2)
<b>Total</b>		<b>35%</b>			<b>26%</b>	

CoC of 14%

CoC

(9) ppt

Note: Total based on sum of business units shown

# ...highlighting relative winners and losers by business



*-Illustrative-*

2010			2013			Movement	
Rank	BU	RoE	Rank	BU	RoE	(# of ranks)	
1	Business unit 1	1177%	1	Business unit 1	371%	→ (0)	-Shift in ranking-
2	Business unit 2	196%	2	Business unit 2	95%	→ (0)	
3	Business unit 3	115%	3	Business unit 3	73%	→ (0)	
4	Business unit 4	113%	4	Business unit 7	57%	↑ (+3)	Winner
5	Business unit 5	101%	5	Business unit 4	52%	↓ (-1)	Loser
6	Business unit 6	87%	6	Business unit 5	33%	↓ (-1)	Loser
7	Business unit 7	67%	7	Business unit 10	32%	↑ (+3)	Winner
8	Business unit 8	56%	8	Business unit 8	31%	→ (0)	
9	Business unit 9	49%	9	Business unit 6	28%	↓ (-3)	Loser
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13	Business unit 13	(24%)	13	Business unit 14	5%	↑ (+1)	Winner
14	Business unit 14	(29%)	14	Business unit 12	(7%)	↓ (-2)	Loser
<b>Total</b>		<b>35%</b>			<b>26%</b>		

CoC of 14%

CoC

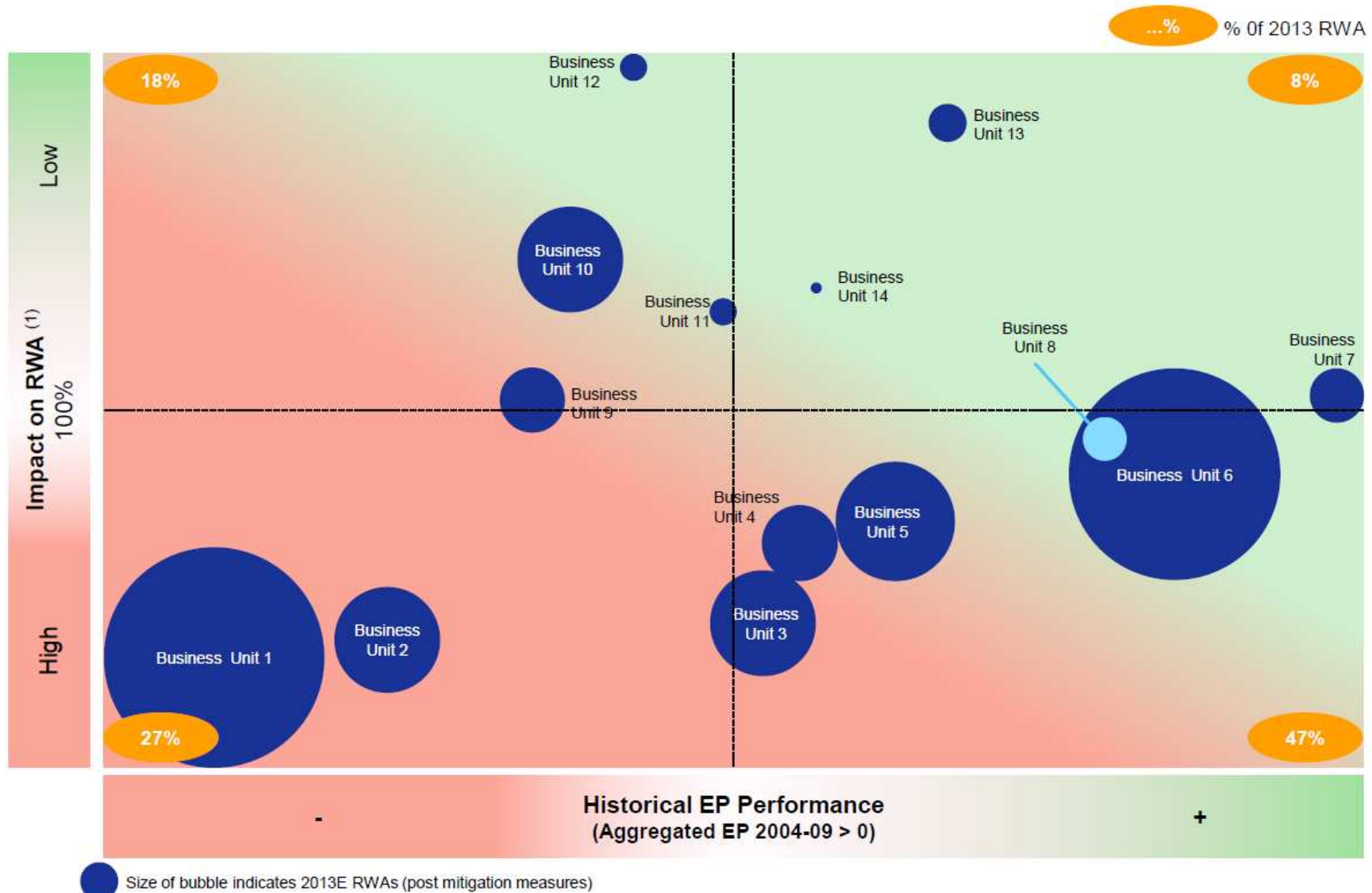
(9) ppt

Note: Total based on sum of business units shown

# ...enabling portfolio impact analysis – i.e. allocation of capital versus historical performance



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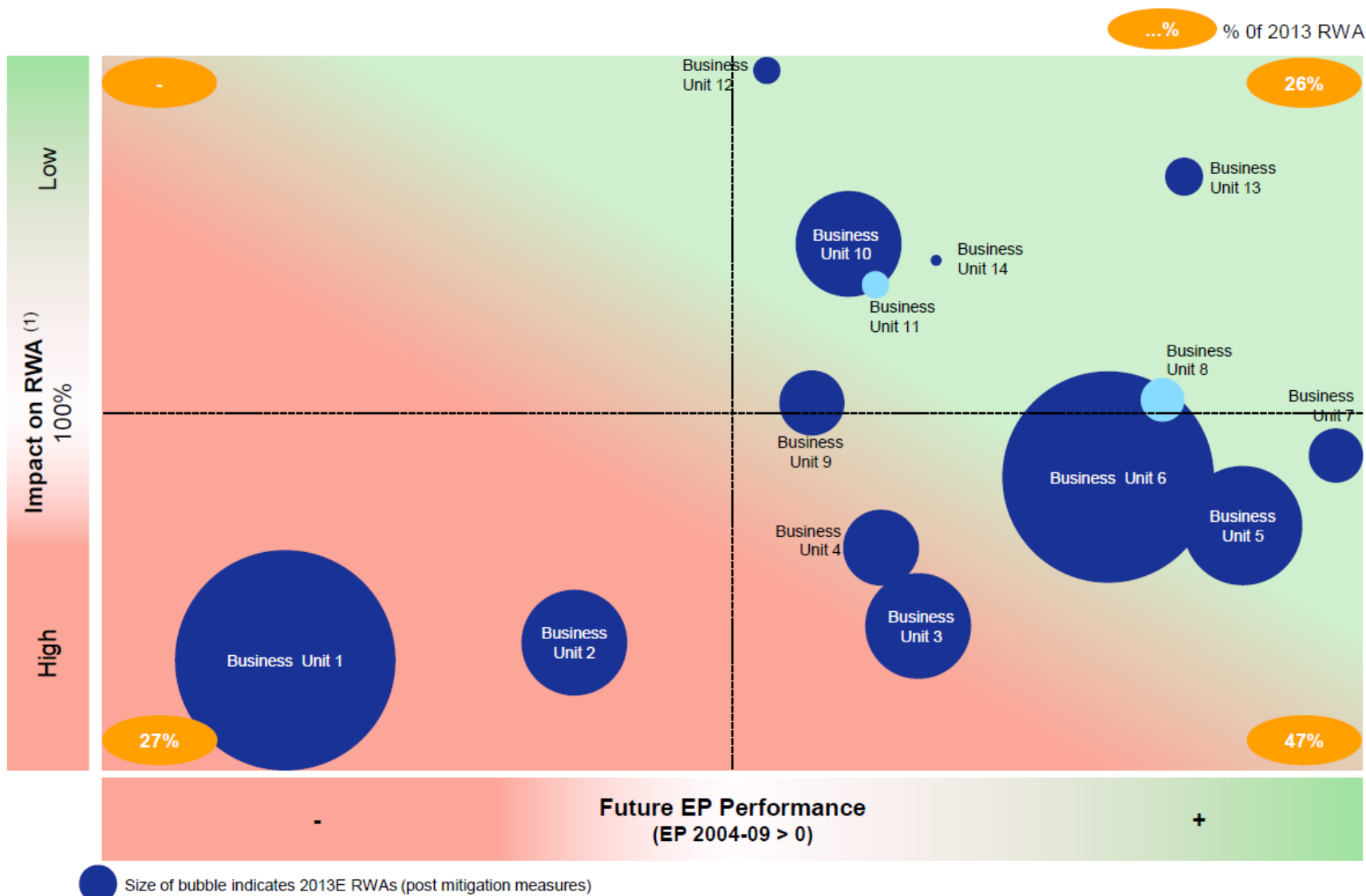
(1) Net Basel 2.5 and Basel III RWA Impact as % of 2010YE RWA

Note: Historical Performance positive if aggregated 2004-09 economic profit generation of respective BU is positive.

# ...overlaying future growth plans ensures capital is allocated to the most profitable businesses



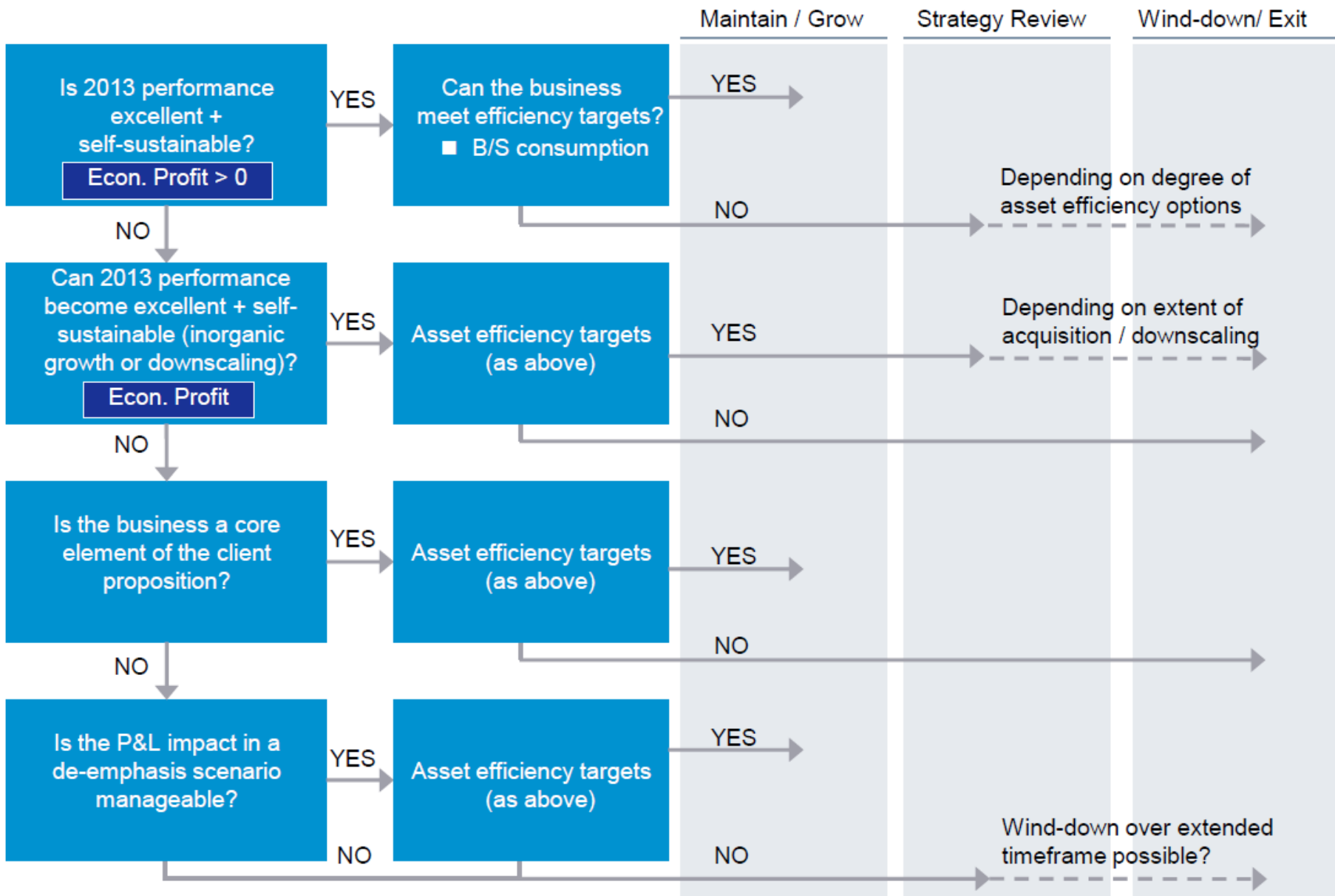
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(1) Net Basel 2.5 and Basel III RWA Impact as % of 2010YE RWA



# Strategic decision tree approach - "value-engine"





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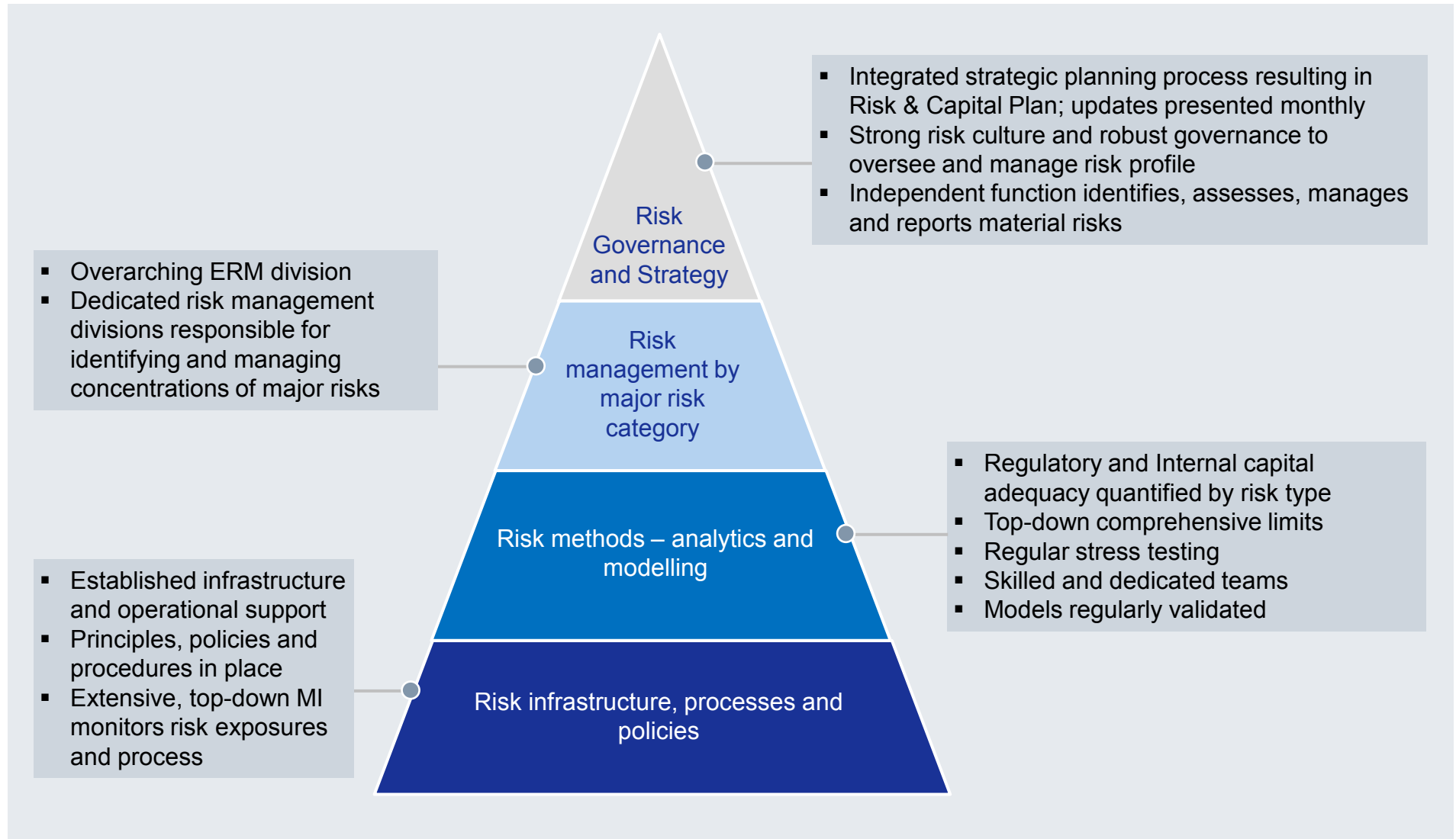
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4 Conclusion



# Risk Management at DB

Sound principles and processes are the foundation of an effective enterprise-wide risk management and ICAAP compliant framework





# Risk Appetite Framework Overview

Risk Strategy forms starting point of the annual planning process

## Risk Strategy

- Established during the annual strategic planning process in alignment with business strategy
- Contains qualitative statements and risk & capital targets
- Determined on various level under approval of the GEC and Management Board

## Actual Risk Profile

- Ongoing process to ensure adherence to the approved risk appetite levels and risk strategy targets (including use of Group-wide stress tests)
- Initiate appropriate action when indicated by early warning system
- Quarterly QRM: Management Board/GEC review risk strategy
- Monthly monitoring by CaR, Risk ExCo, Management Board through the Monthly DB Risk & Capital Profile Report



## Risk Bearing Capacity

- Capital Supply according to ICAAP at DB Group is defined as adjusted active book equity representing Risk bearing Capacity in a gone concern scenario.
- Monthly monitoring by CaR, Risk ExCo, Management Board through the Monthly DB Risk & Capital Profile Report

## Risk Appetite

- Maximum level of risk DB Group is prepared to accept to deliver its business objectives
- Consists of qualitative statements and tolerance levels
- Determined on various levels under approval of Management Board
- Set as input into the annual strategic planning process and reviewed annually



# Risk & Capital Planning

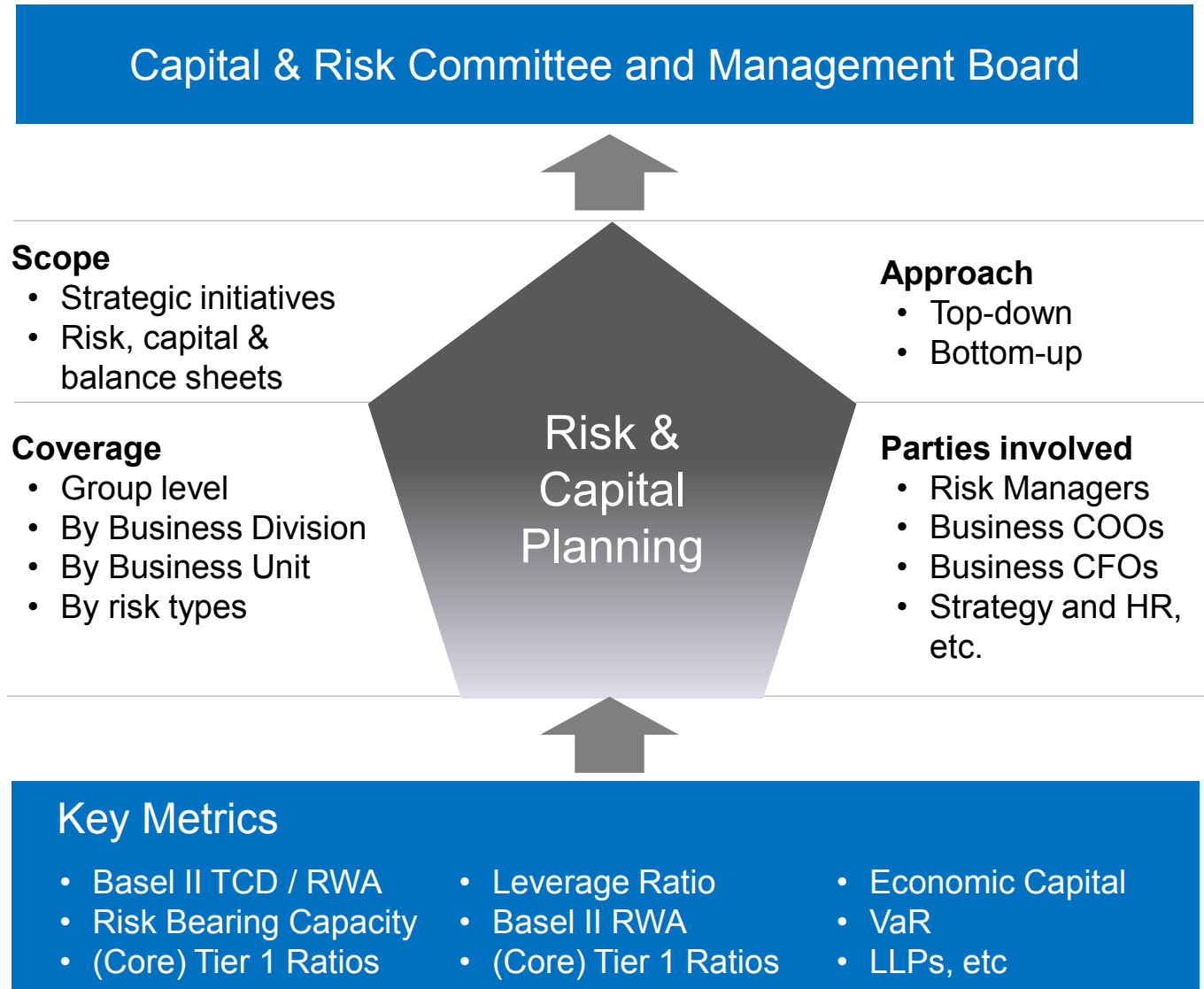
Working in partnership with Finance and the Business

## Overview

- Overview of capital demand and supply forecast
- Meet capital demand increases from regulatory changes
- Changes in risk-bearing capacity due to de-risking, capital creation, etc

## Process & Governance

- Overall annual planning and preparation process sits with Risk
- Monthly Risk & Capital Profile is produced by Business divisions





# Conclusions

- Significant impact of new regulatory environment, particularly on Trading Book:
  - Increased capital
  - Infrastructure investments
- More comprehensive approach required for capital planning
  - Top down portfolio analysis
  - Bottom up business line impact studies
- Close interaction between Risk Management and the Business key to optimising risk – reward balance