



# Capital and Risk

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Chief Risk Officer

Investor Day  
Frankfurt, 15 December 2009

A Passion to Perform.

**Deutsche Bank**



## Sound risk, liquidity and capital profile further strengthened

1 CRM 2 MR  
3 L / F 4 Cap

1

### Credit Risk

- Core portfolio on track
- 2009 LLP impacted by IAS 39 portfolio
- 2010 overall LLP expected to decline
- Risk discipline and robustness of our processes proven during the crisis

2

### Market Risk

- Risk profile significantly improved, sharply lower EC and VaR utilization
- De-risking discipline driving reduction in legacy risks
- Framework further enhanced to reflect experiences from the crisis

3

### Liquidity / Funding

- Improved Liquidity Mgmt incl. EUR 55 bn strategic liquidity reserve build-up
- Improved quality of funding, reduced dependence on short-term funding
- Modest additional capital market funding needs in 2010

4

### Capital

- Despite significant capital demand since 3Q2007, capital cushion increased
- Regulatory changes drive capital requirements going forward ...
- ... but manageable with sufficient focus
- Rights issue only for acquisitions

# Robustness of credit risk management processes proved during the crisis

Risk bucket outlook at  
Investor Day 2006 ...

... tested in reality in 2009

|                      | Loan book<br>(EUR bn) <sup>(1)</sup><br>Jun 2006 | Provisioning level<br>(bps) |                | Provisioning level YTD 2009<br>(bps) |        |       | Loan book<br>(EUR bn)<br>Sep 2009 |
|----------------------|--|-----------------------------|----------------|--------------------------------------|--------|-------|-----------------------------------|
|                      |  | Current                     | Downturn       | Core                                 | IAS 39 | Total |                                   |
| <b>International</b> | 48   | <0                          | <b>&lt;20</b>  | <b>~25</b>                           | ~25    | ~25   | 89 <sup>(3)</sup>                 |
| <b>MidCaps</b>       | 18   | ~5 – 15                     | <b>&lt;50</b>  | <b>~5</b>                            | -      | ~5    | 28 <sup>(4)</sup>                 |
| <b>Lev Fin / CRE</b> | 5 <sup>(2)</sup>                                 | <0                          | <b>&lt;200</b> | <b>~205</b>                          | ~730   | ~450  | 34                                |
| <b>PBC</b>           | 76   | ~40 – 50                    | <b>&lt;70</b>  | <b>~80</b>                           | -      | ~80   | 96                                |
| <b>PWM</b>           | 11   | ~0                          | <b>~0</b>      | <b>~10</b>                           | -      | ~10   | 16                                |

**Loan books performed in line with our downturn scenario expected at Investor Day 2006, verifying risk discipline approach and risk processes**

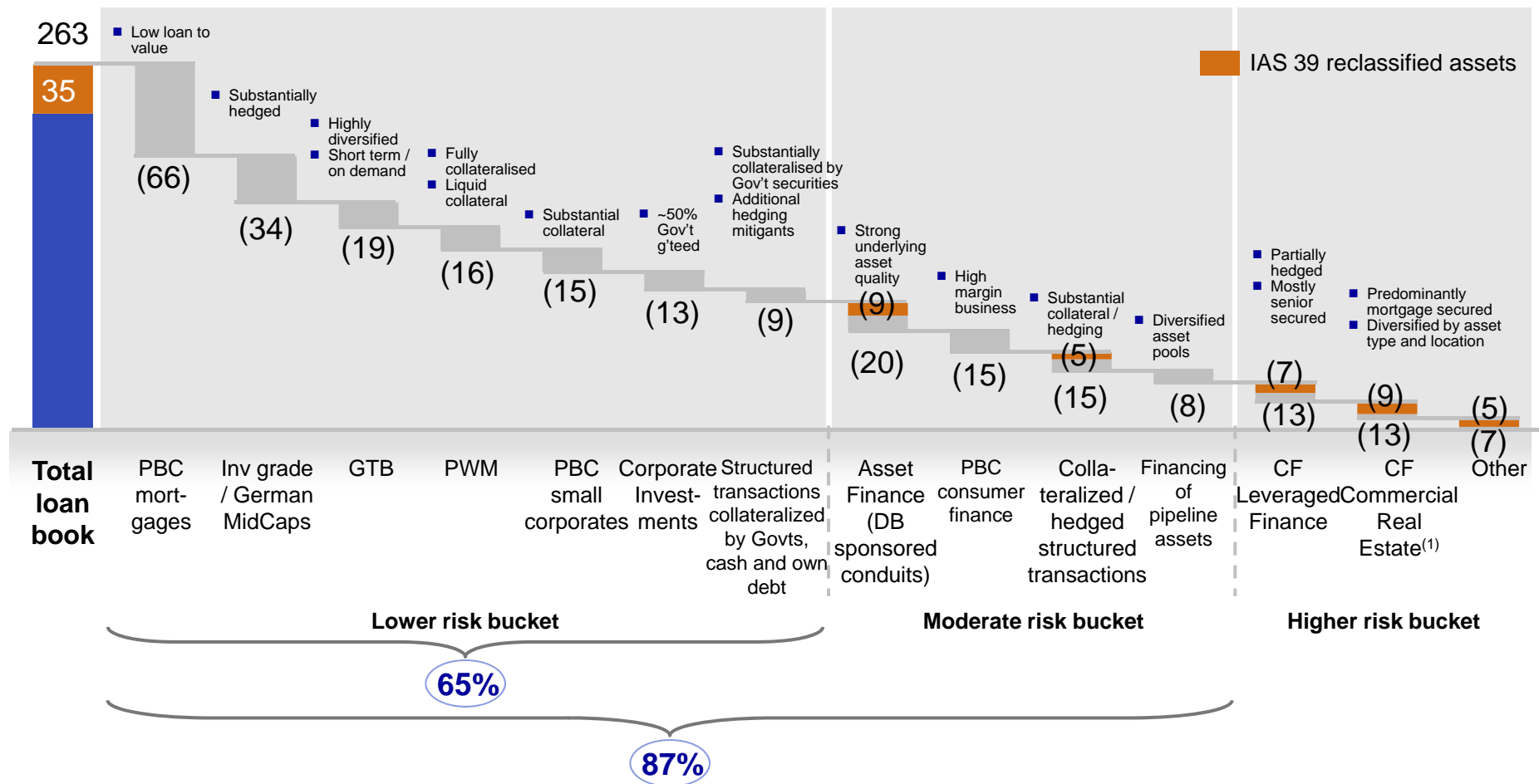
(1) Excl. EUR ~6 bn Real Estate Investment Banking and EUR ~2 bn other (2) Leveraged Finance Hold portfolio only

(3) Includes securitization exposures and Corporate Investments (4) Includes European MidCaps

# Composition of loan book

In EUR bn, as of 30 Sep 2009

1 CRM 2  
3 4



(1) Includes loans from CMBS securitizations

Note: Loan amounts are gross of allowances for loan losses; figures may not add up due to rounding differences

## 2009 Loan loss provision

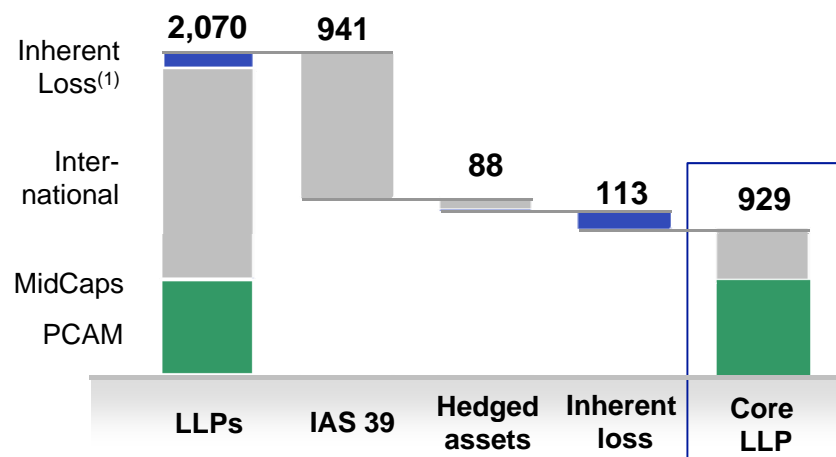
Core portfolio on track, but significant LLP in IAS 39

1 CRM 2  
3 4

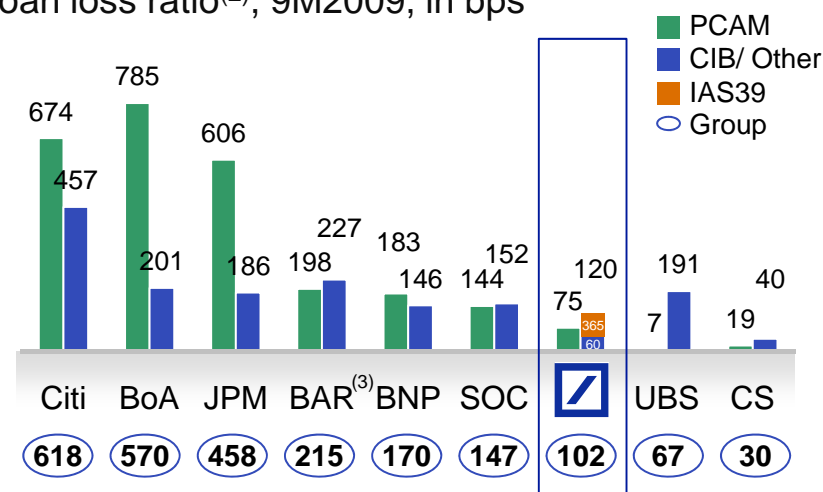
LLP driven by IAS 39 –  
core portfolio intact ...

... and loan book is  
performing relatively well

Loan loss provision, 9M2009, in EUR m



Loan loss ratio<sup>(2)</sup>, 9M2009, in bps



### Total LLP

- Almost 50% of 9M2009 LLP related to IAS 39 reclassified assets, driven by small number of loans
- Further 10% corresponding hedge gains (booked in trading income) and inherent losses

### Core portfolio

- Largely in line with original forecast for 2009
- Most risk buckets broadly within original assumptions (66 bps annualized run rate)

(1) Includes homogenous loan losses and general reserve for expected losses on performing loans based on expected loss methodology

(2) Provision for credit losses as % of loan book (annualized), loan book as of 31 December 2008 (3) Based on 1H2009 provision for credit losses

Source: company data



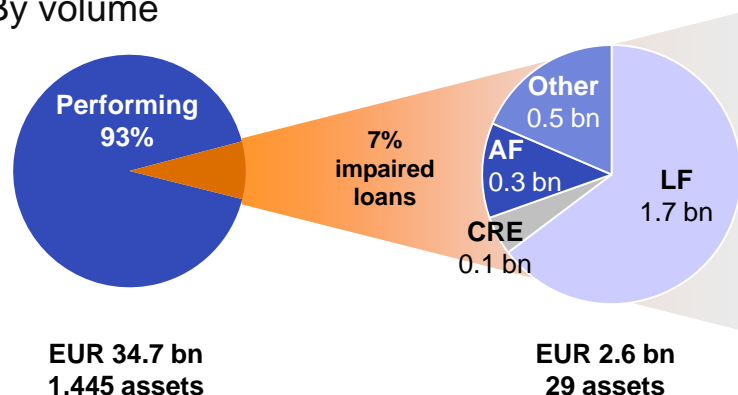
## Assets reclassified under IAS 39

Solid credit quality – impairments on small numbers of loans drove LLP



### Quality of IAS 39 portfolio

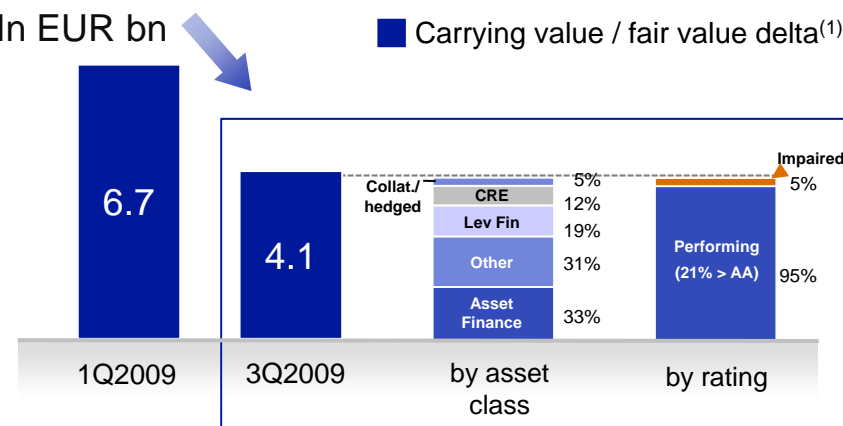
By volume



### Carrying value / fair value delta decline

In EUR bn

■ Carrying value / fair value delta<sup>(1)</sup>



#### 2009 LLP

- Substantial LLP taken on LF mezzanine exposures in 2009 (> 90% of 2009 LF LLP)
- Money Good decision generally confirmed by substantial decline in CV vs. FV delta
- Impairments caused by new external events or unexpected client deterioration

#### Limited future credit risk

- Further impairments under IAS 39 contained in most of asset classes
- Solid overall quality of IAS portfolio: 70% of assets are marked > 75%
- Key risk within Leveraged Finance, specifically in mezzanine exposures of EUR 2.9 bn (Over 70% mezzanine relates to one single concentration name)

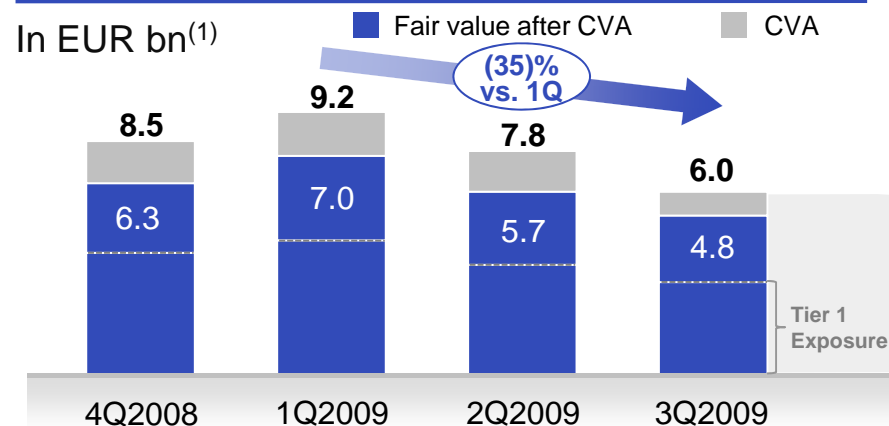
(1) At period end

## Monoline update

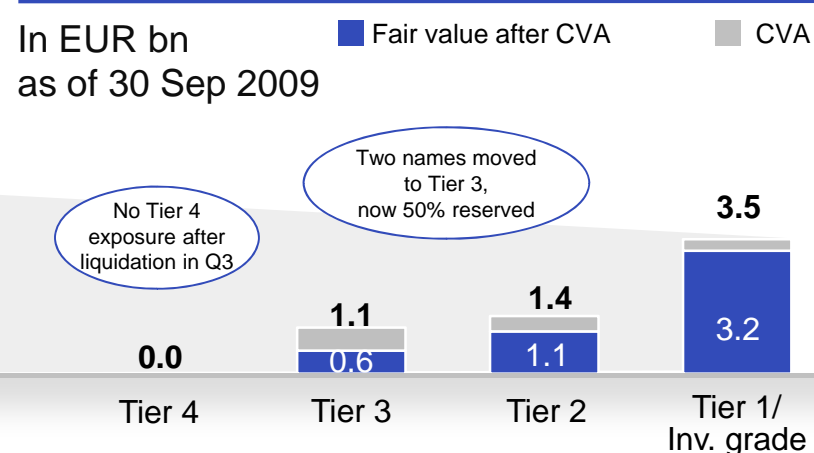
Exposure materially reduced, reserve levels remain adequate



### Substantial reduction since 1Q2009 peak ...



### ... and exposure adequately reserved



|  |   |
|--|---|
| <b>Price recovery sector restruct.</b> | <ul style="list-style-type: none"> <li>Improved pricing in most asset classes reduced exposure by 21% during 3Q2009</li> <li>Restructuring/liquidation of two names completed in 3Q2009, eliminating EUR 0.6 bn of exposure</li> <li>Reserves more than covered losses from liquidation / commutation</li> </ul>  |
| <b>Overall risk manageable</b>         | <ul style="list-style-type: none"> <li>Tiering<sup>(2)</sup> differentiates monolines, requiring increased reserves based on counterparty quality: Tier 1 (AAA/AA): 9% reserved, Tier 2: 25%, Tier 3 : Minimum 50%</li> <li>Strong underlying assets give limited exposure to further commutation</li> <li>Adequate reserve level gives strong cushion in event of participation in restructurings</li> </ul> |

(1) Includes counterparty exposure to monoline insurers that relates to wrapped bonds

(2) Tiering is an internal CRM designation (Tier 1 = strongest / Tier 4 = weakest)

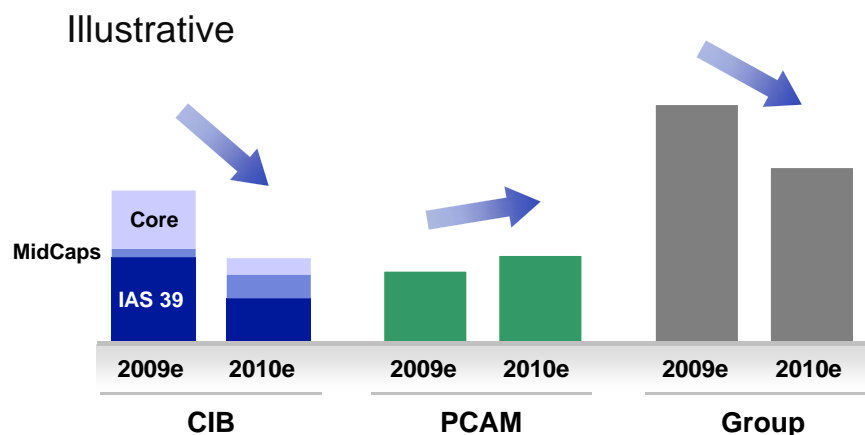
Note: All 3Q2009 figures are "Flash"; all historic periods show "Final" figures

# Loan loss provision: Outlook 2010

Credit cycle likely to gradually turn; overall LLP to decline

1 CRM 2  
3 4

## LLP forecast



## LLP by loan category

| In bps, annualized |                      | Core portfolio |      | IAS 39 |      |
|--------------------|----------------------|----------------|------|--------|------|
|                    |                      | 9M2009         | 2010 | 9M2009 | 2010 |
| CIB                | Leveraged Finance    | -75            | →    | -1,140 | →    |
|                    | CRE / Securitization | ~465           | →    | ~410   | →    |
|                    | International        | ~25            | →    | ~25    | →    |
|                    | MidCaps              | ~5             | →    |        |      |
| PCAM               | PBC – Mortgages      | ~25            | →    |        |      |
|                    | PBC – Consumer Fin.  | ~300           | →    |        |      |
|                    | PBC – Business prod. | ~115           | →    |        |      |
|                    | PWM                  | ~10            | →    |        |      |
| Group              |                      | ~66            | →    | ~360   | →    |

### CIB

- LF/CRE: Substantially lower LLP expected given lower non-recurring IAS 39 impairments
- International loan book: Continuation of benign LLP level due to hedging and credit policy
- German MidCaps: Corporate insolvencies to peak in 2010 with limited LLP expected due to strong underwriting standards and very low concentration risk

### PCAM

- Continuation of favourable provision level within PBC Mortgages due to concentration of collateral in stable German real estate market and improvements in collection processes
- Moderately higher impairments foreseen in Consumer Finance and Business Products, due to sluggish economic recovery



# Market Risk: Refined framework and de-risking discipline ...

1 2 MR 3 4

## Market Risk Management focus

### Reduce risk concentrations

- Adapt position size to liquidity environment
- Invest in unwinding most illiquid risk positions

### Continued use of active hedging

- Active program of macro hedging
- Improve hedging efficiency of single strategies

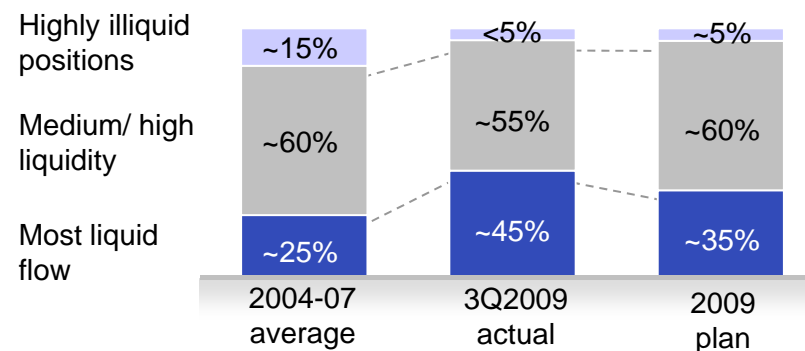
### De-lever balance sheet

- Manage gross and net exposure down
- Align market risk appetite to new balance sheet and leverage targets

### Reduce uncertainty

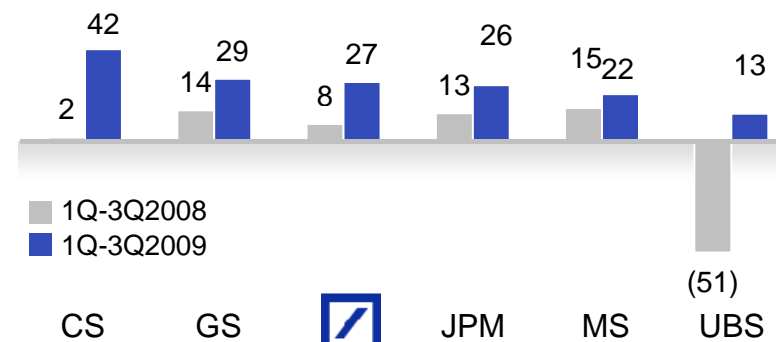
- Avoid exposure to difficult to value products
- Reduce reliance on complex, highly structured products

## Re-calibration of business model



## Improved VaR efficiency

### Sales & Trading P&L / VaR



# ... has led to significant reduction in legacy risks ...

1 2 MR  
3 4

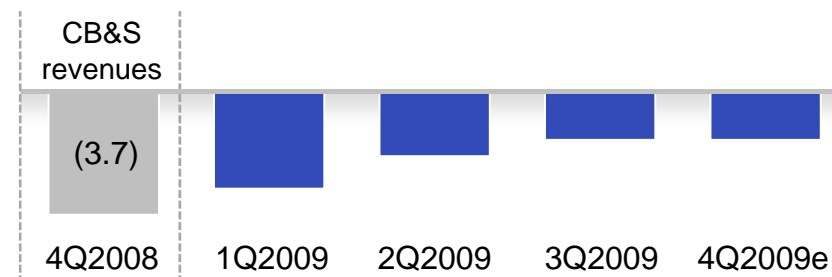
## Risk reduction by trading strategy

Average percentage reduction since year-end 2008<sup>(1)</sup>



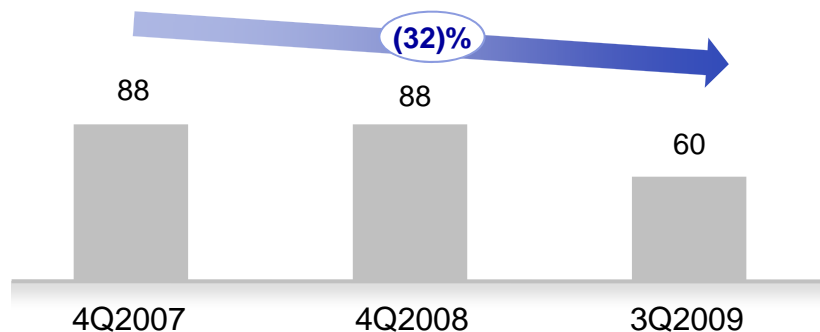
## Limited losses in tail risk

Revenue scenarios for key risk positions assuming 4Q2008 market conditions, in EUR bn



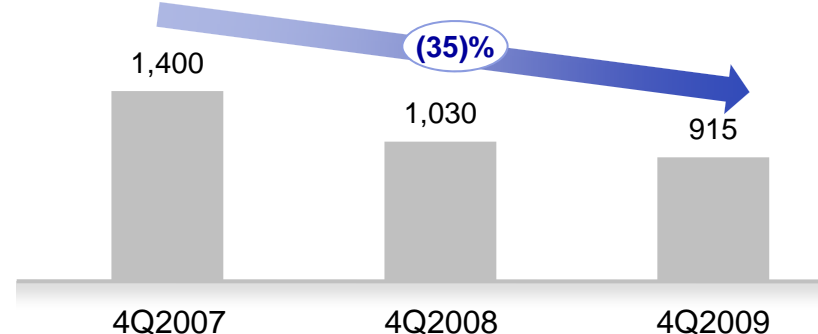
## Sharp reduction of Level 3 assets ...

In EUR bn



## ... and total assets<sup>(2)</sup>

In EUR bn



(1) Trading strategies include multiple asset classes and multiple risk measures. Graph is an equally-weighted average of the component risks

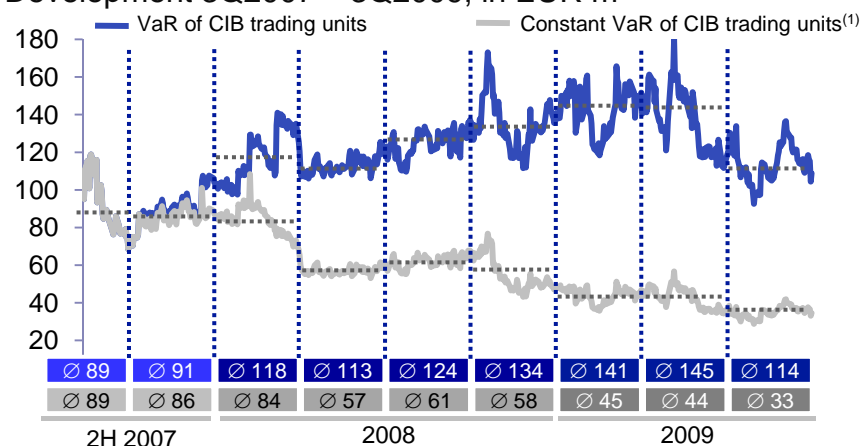
(2) Assets based on U.S. GAAP pro-forma, 2007 does not reflect revised application of U.S. GAAP netting; at period end

## ... which is reflected in reduced VaR and EC utilisation

1 2 MR  
3 4

### VaR

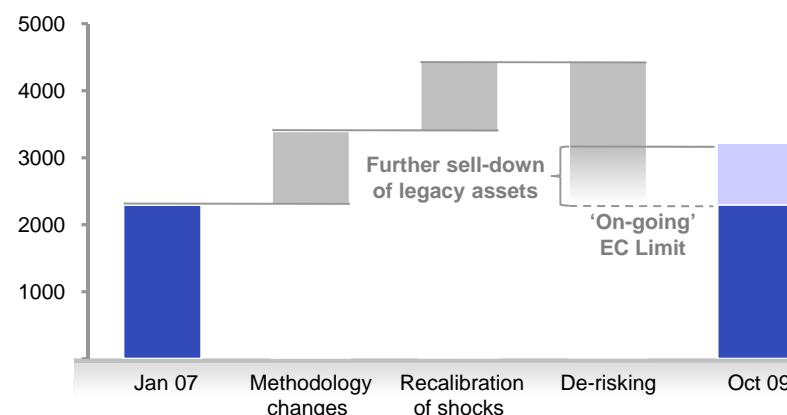
Development 3Q2007 – 3Q2009, in EUR m



- On a 'like for like' basis, constant VaR reduced by approx. 60% since 3Q2007
- This excludes effect of series of methodology enhancements made to VaR model
- Actual (or unadjusted) VaR level shows significant risk reduction during 3Q2009 (down 20% from 2Q2009)

### Traded Market Risk Economic Capital (EC)

Development Jan 2007 – Oct 2009



- Model improvements include shock recalibration to reflect 2008 conditions
- On a 'like for like' basis traded Market Risk EC reduced by approx. 30%
- Sell-down progress of 'legacy' positions will continue to reduce total EC ...
- ... allowing further growth in 'on-going', more liquid trading

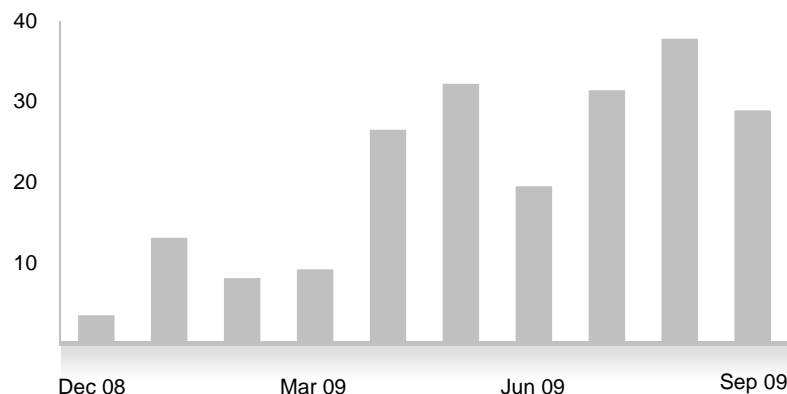
(1) Constant VaR is an approximation of how the VaR would have developed if all market data updates since Oct 2007 were reversed; the calculation is based on a broad assumption that the cumulative impact of the market data to date on the current portfolio of trading risks is the same as it would be on the portfolio at the start of the period

# Liquidity Management: Conservative liquidity risk position ...

1 2  
3 L/F 4

## Stress testing improved based on lessons learned from the crisis

Net liquidity position after severe downgrade<sup>(1)</sup>,  
in EUR bn



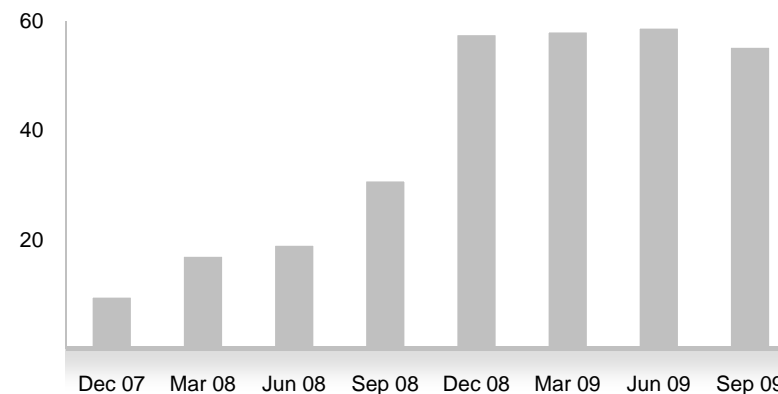
- Useful early warning indicator pre-crisis
- Refinements reflect lessons learnt on
  - secured funding outflows
  - depth of FX markets
  - intra-day liquidity needs
- Net positive results increased due to reduced exposure to wholesale funding and increased cash reserves

(1) Net liquidity after 8 weeks after downgrade to 'A-2/P-2'

(2) Excludes Real-Time Gross Settlement (RTGS) portfolios which are held for clearing purposes

## Build-up of sizeable Strategic Liquidity Reserve

In EUR bn



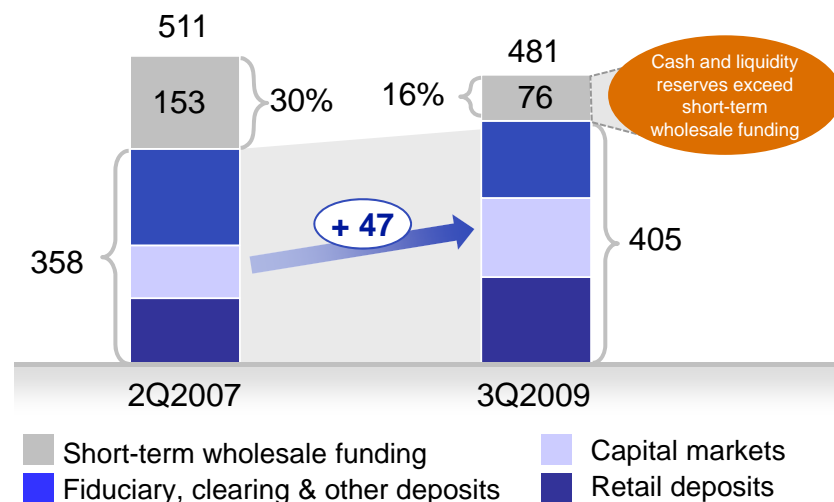
- Dedicated liquidity buffer safeguards liquidity in times of stress
- Size of Strategic Liquidity Reserve is determined by stress testing results
- Increase from EUR 10 bn to EUR 55 bn since crisis start<sup>(2)</sup>
- Liquidity & cash reserves significantly exceed wholesale funding requirement

# ... and improved funding base at cost-effective levels – well prepared for new regulatory requirements

1 2  
3 L/F 4

## Strongly improved unsecured funding base ...

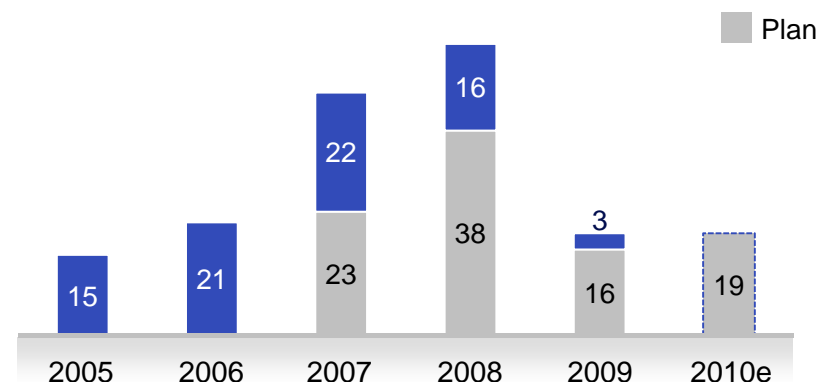
In EUR bn



- Short-term wholesale funding significantly reduced by EUR (77) bn
- Replaced with capital market issuance and retail deposits of EUR 78 bn
- Early response locked in cheap funding without sacrificing maturity profile

## ... leading to modest funding requirements in 2010

Capital Markets issuance volume, in EUR bn



- 2009 issuance plan of EUR 16 bn completed
- YTD 2009 issuance of EUR 19 bn at Libor +91 bps, 4.7 years
- 2010 issuance plan of EUR 19 bn
- Maturities in 2010-12 < EUR 20 bn p.a.



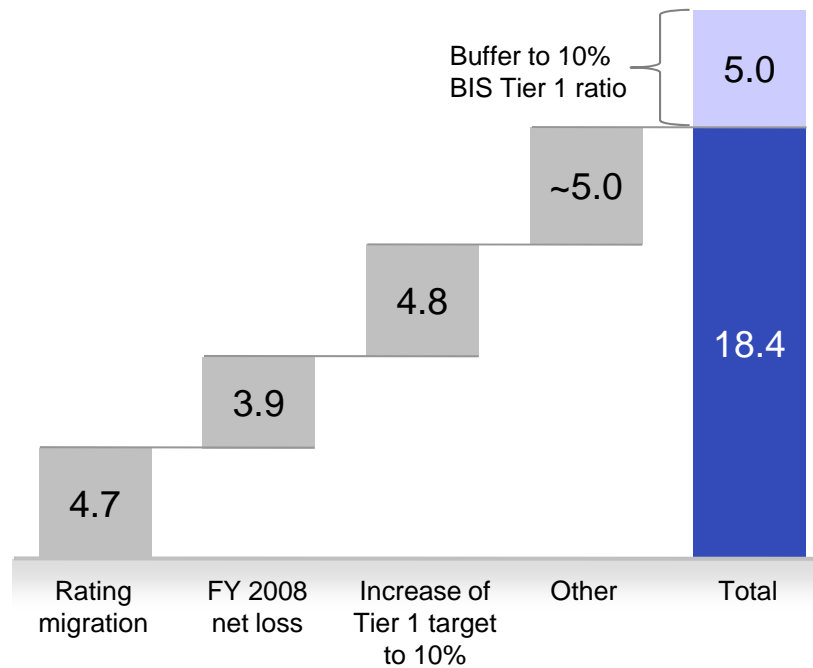
# Capital Management: We have successfully managed a huge capital demand before ...

- 1
- 2
- 3
- 4 Cap

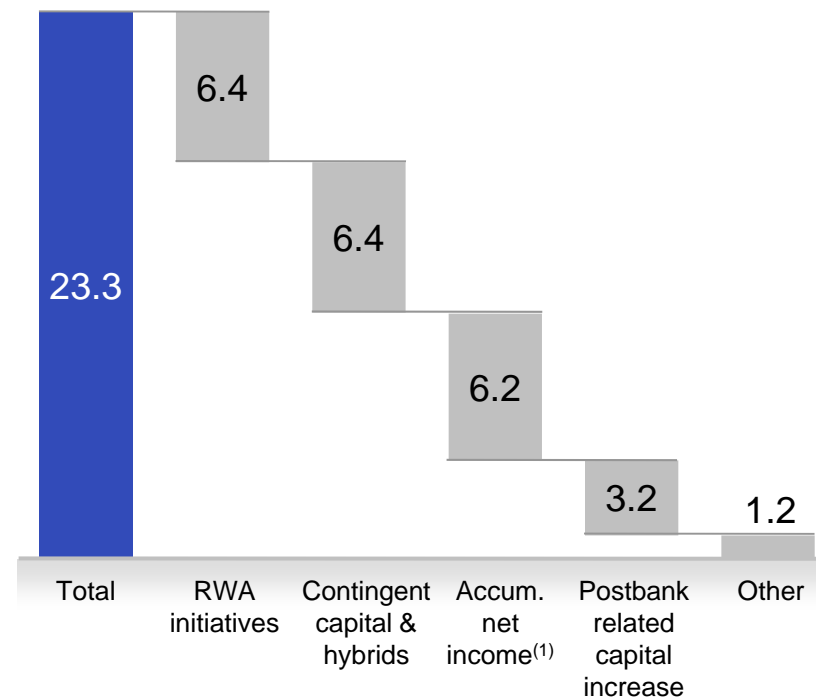
Substantial capital demand  
3Q2007 – 3Q2009 ...

... was met by strong  
capital generation capacity

In EUR bn



In EUR bn



**Contingent capital conversion, increased collateral, and focused risk mitigation compensated for RWA spikes.**

(1) Excluding FY2008 net loss; figures do not add up due to rounding  
Investor Relations 12/09 · 14

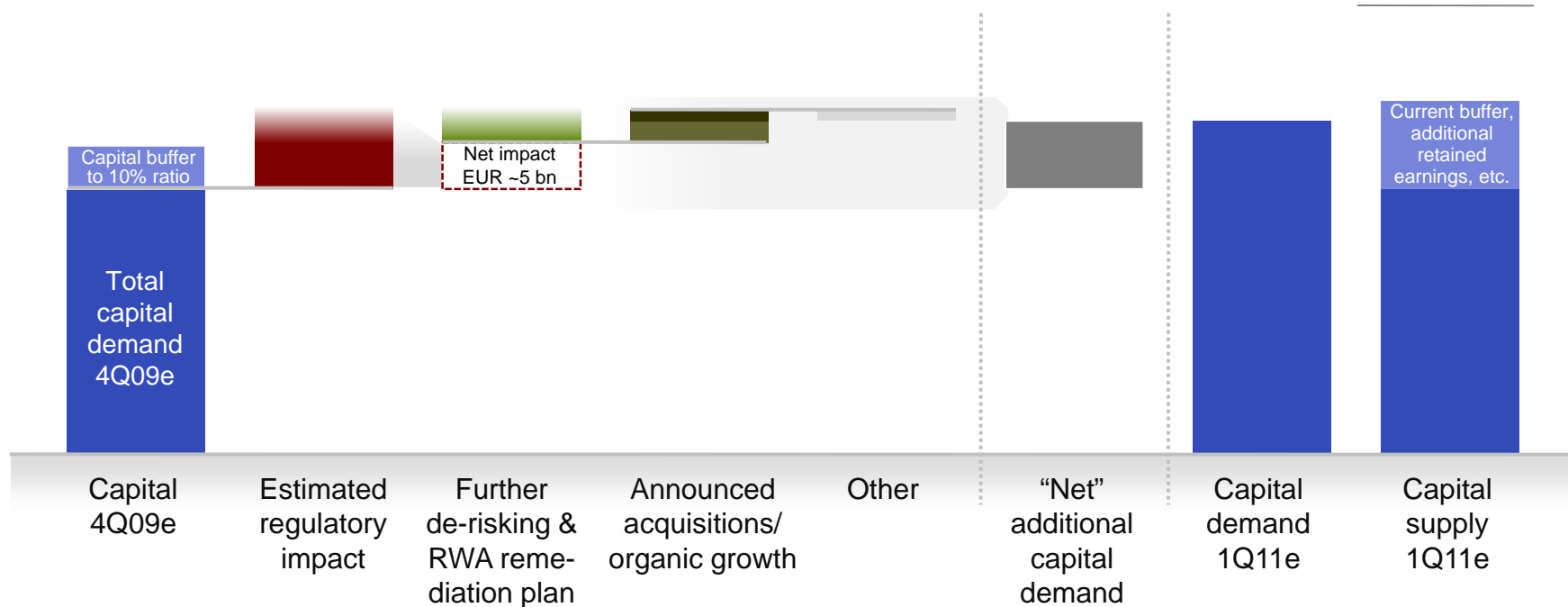
# ... and are prepared to do so again on upcoming regulatory-driven capital demand

- 1
- 2
- 3
- 4 Cap

## Incremental capital demand by 1Q2011 covered by current capital buffer & retained earnings

Capital demand based on a 10% BIS Tier 1 ratio

Illustrative



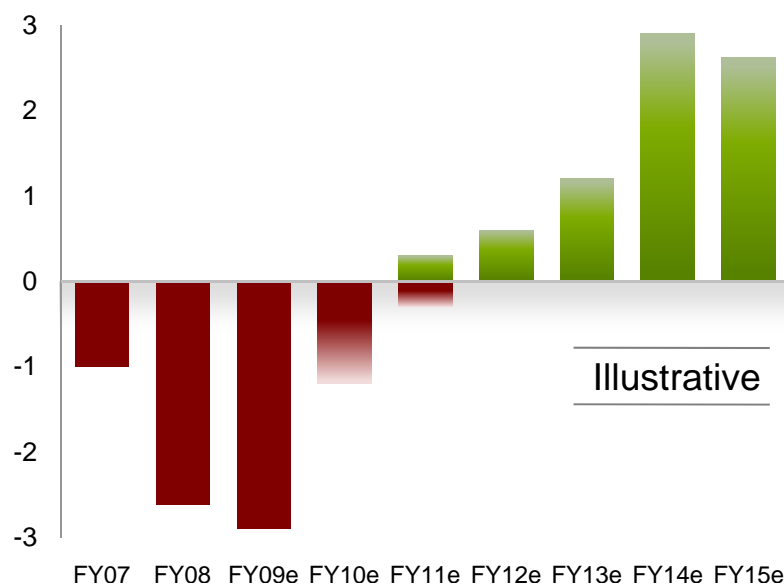
**Managing growth and external challenges relies on organic capital generation. Equity issuance is for buying future cash flows only!**

# Capital instruments to manage RWA volatility over the cycle

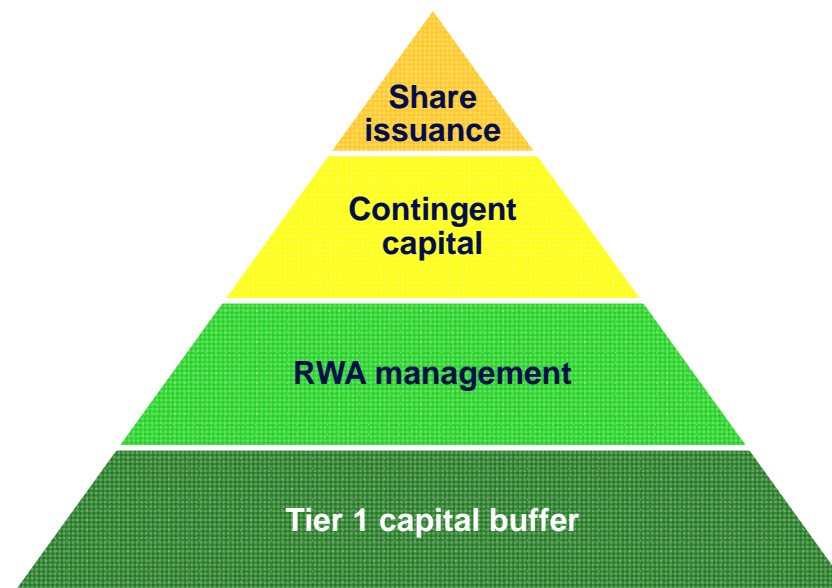
- 1
- 2
- 3
- 4 Cap

## Basel II RWA volatility ...

Expected capital volatility through rating changes<sup>(1)</sup>



## ... manageable through comprehensive capital tool box



**DB supports the concept of contingent capital as it permits efficient capital management in challenging times**

(1) FY2007/08 based upon actual rating migrations of DB's credit portfolio; FY2009 estimate; FY2010 onwards illustrative

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### Capital

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- Regulatory changes drive capital requirements going forward ...
- ... but manageable with sufficient focus
- Rights issue only for acquisitions

## Cautionary statements

This presentation contains forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of Deutsche Bank. Forward-looking statements therefore speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

By their very nature, forward-looking statements involve risks and uncertainties. A number of important factors could therefore cause actual results to differ materially from those contained in any forward-looking statement. Such factors include the conditions in the financial markets in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our trading revenues, potential defaults of borrowers or trading counterparties, the implementation of our management agenda, the reliability of our risk management policies, procedures and methods, and other risks referenced in our filings with the U.S. Securities and Exchange Commission. Such factors are described in detail in our SEC Form 20-F of 24 March 2009 under the heading “Risk Factors.” Copies of this document are readily available upon request or can be downloaded from [www.deutsche-bank.com/ir](http://www.deutsche-bank.com/ir).

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