

# Risk & Capital Management

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Chief Risk Officer

**Investor Day**

**London, 5 - 6 October 2006**

A Passion to Perform.

**Deutsche Bank**





# Agenda

**1 Discipline: Key pillar of Deutsche Bank's success**

2 Outlook for major risk buckets

3 Disciplined approach in MRM and ORM

4 Supporting growth

5 Integrating risk and capital

6 Summary

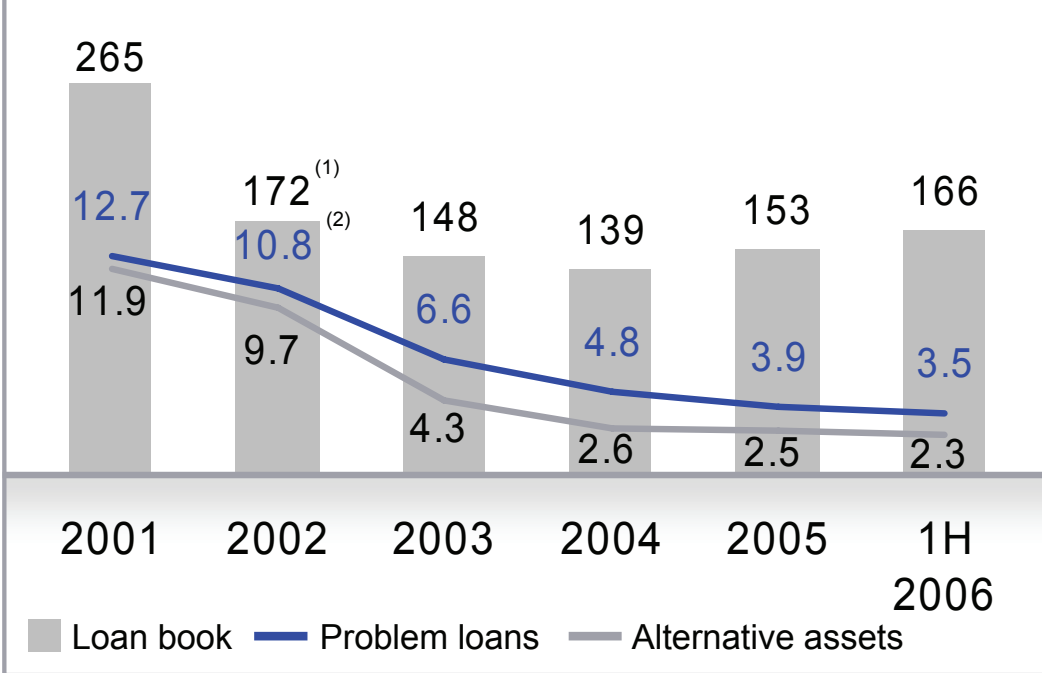




# Since 2000, we de-risked the bank ...

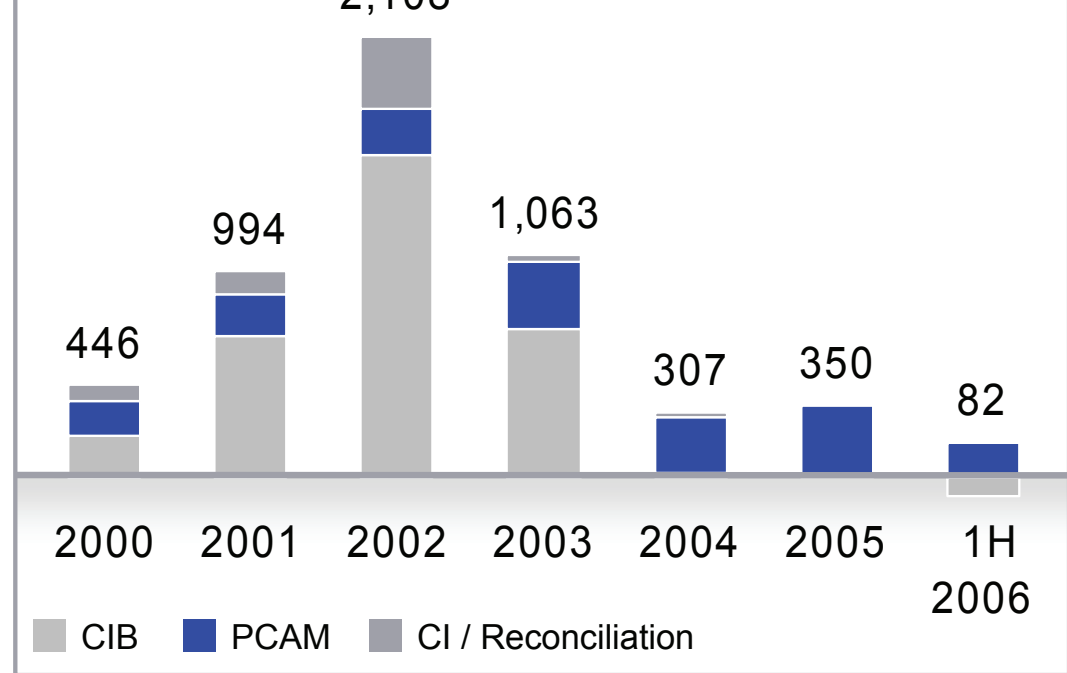
## Loan book development

In EUR bn, at period end



## Provision for credit losses

In EUR m



- Deleveraged the bank, reduced alternative assets
- Streamlined risk management
- Reduced LLPs (now retail driven) and costs

(1) After deconsolidation of EUROHYPO (EUR 56 bn) and DFS (EUR 6 bn)

(2) Deconsolidation of EUROHYPO (EUR 1.3 bn)

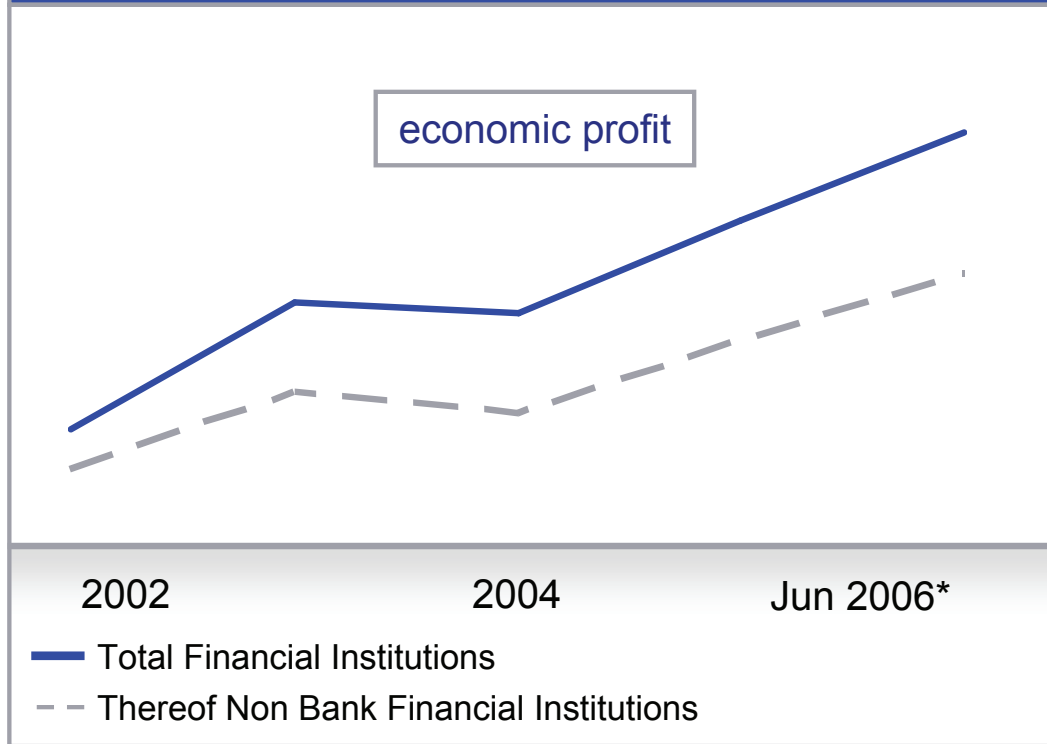




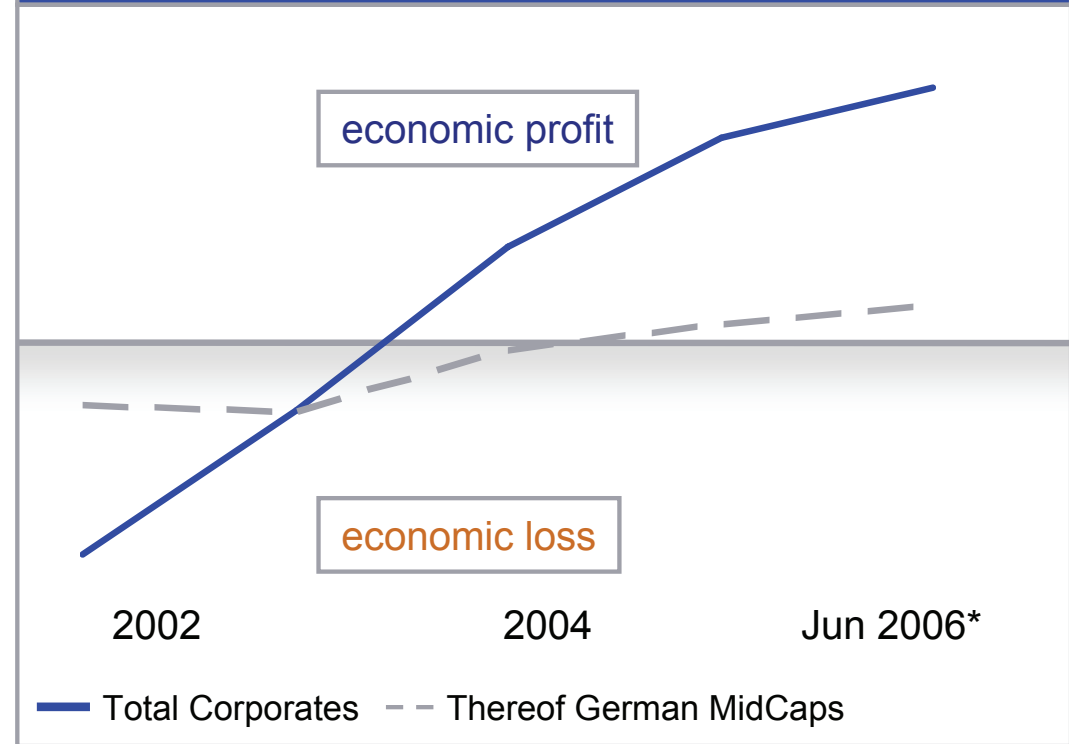
## ... and focussed on strict balance sheet discipline

Economic profit development 2002 – June 2006

### Financial Institutions



### Corporates



- Loan Screening Committees introduced more disciplined approach to loan origination, pricing and distribution and helped to achieve RoE targets

\* 12 month rolling basis  
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# Agenda

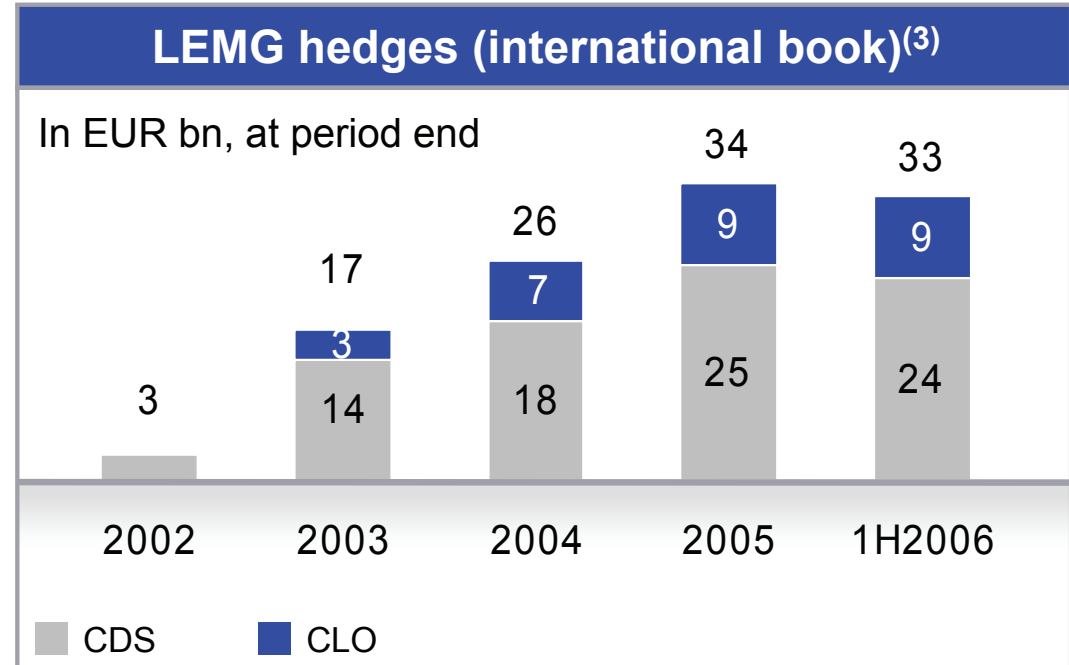
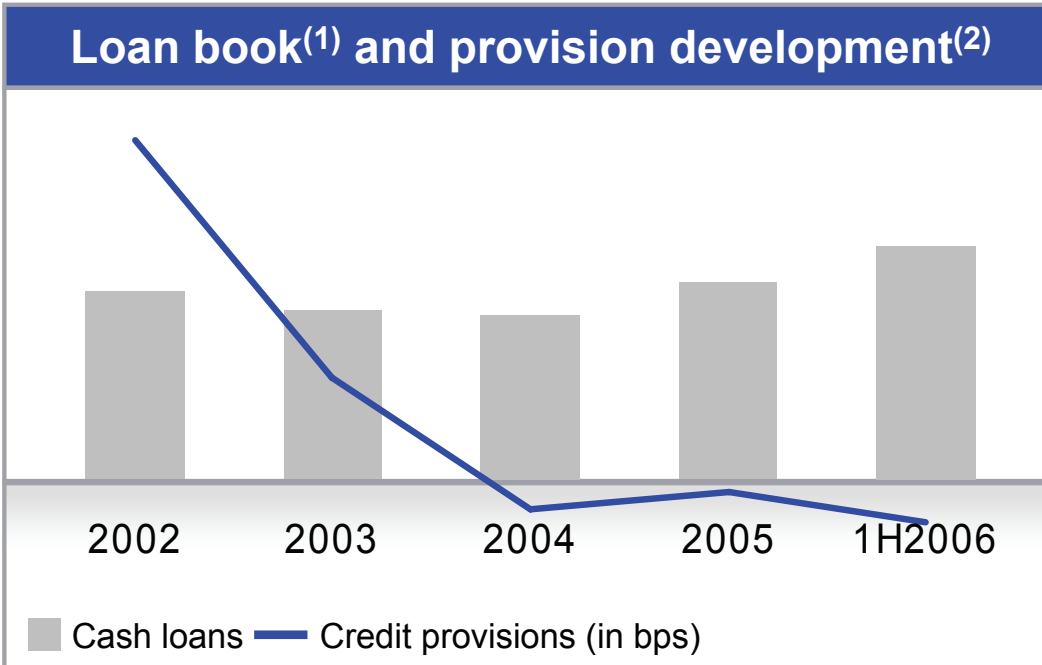
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# Preparing for next downturn

## International loan book



- Book better diversified than at any time in the past
- Concentration risk substantially reduced
- ~45% hedge ratio (CDS / CLO hedges over mid/l-term committed limits)
- In 2007, move of substantial part of loan book to Fair Value under IFRS

(1) Reflects Risk Management's view at respective point in time; changes in composition are not reflected / restated

(2) Credit provisions over loans and guarantees; 1H2006 annualised

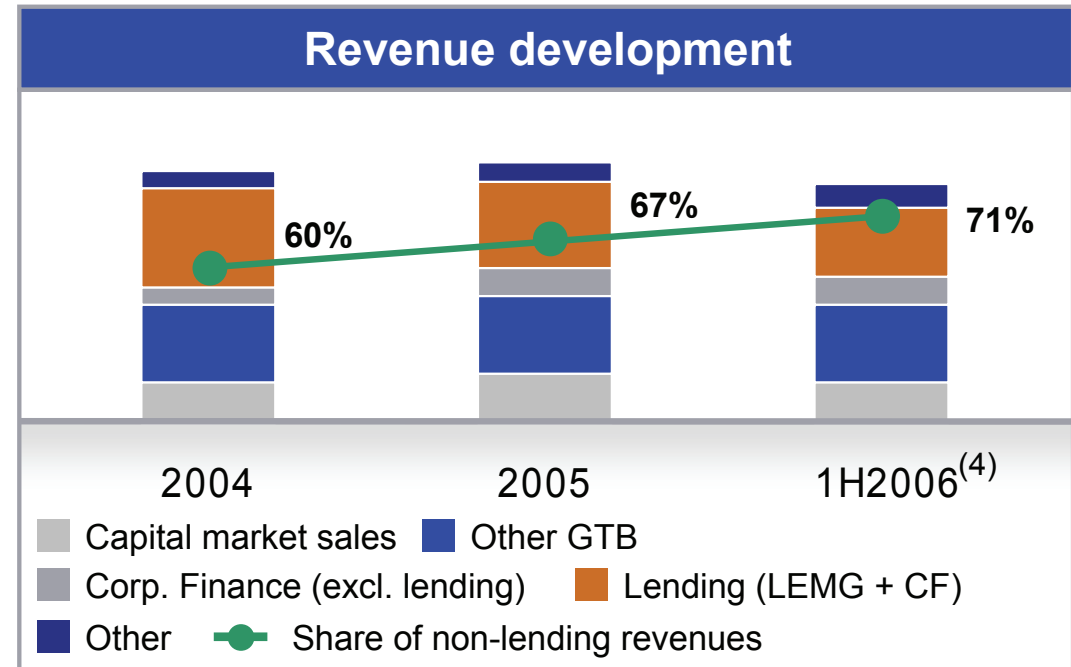
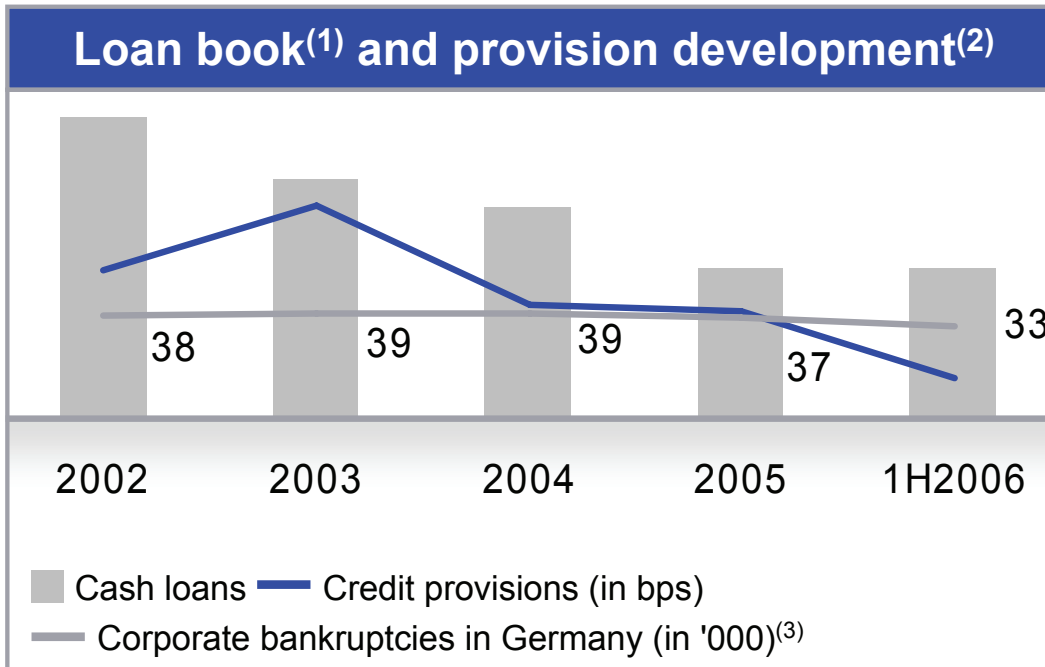
(3) Figures may not add up due to rounding





# Above the hurdle rate!

## German MidCaps loan book



- 2001-2005: Streamlined lending policy, introduction of LEMG, sharp cut of production costs
- Book well diversified, only limited sector risk; risk costs currently significantly below PBC's
- Increased cross-selling: Cash lending important, but only one of many products
- ~20% hedge ratio; ~40% expected by year-end (CDS / CLO hedges vs. mid/l-term committed limits)
- GATE program (currently EUR ~2.5 bn): New market for investors seeking diversification

(1) Reflects Risk Management's view at respective point in time; changes in composition are not reflected / restated

(2) Credit provisions over loans and guarantees, 1H2006 annualised

(3) Source: Statistisches Bundesamt, "Insolvenzen in Deutschland"; 1H2006 annualised

(4) Revenues YTD annualised

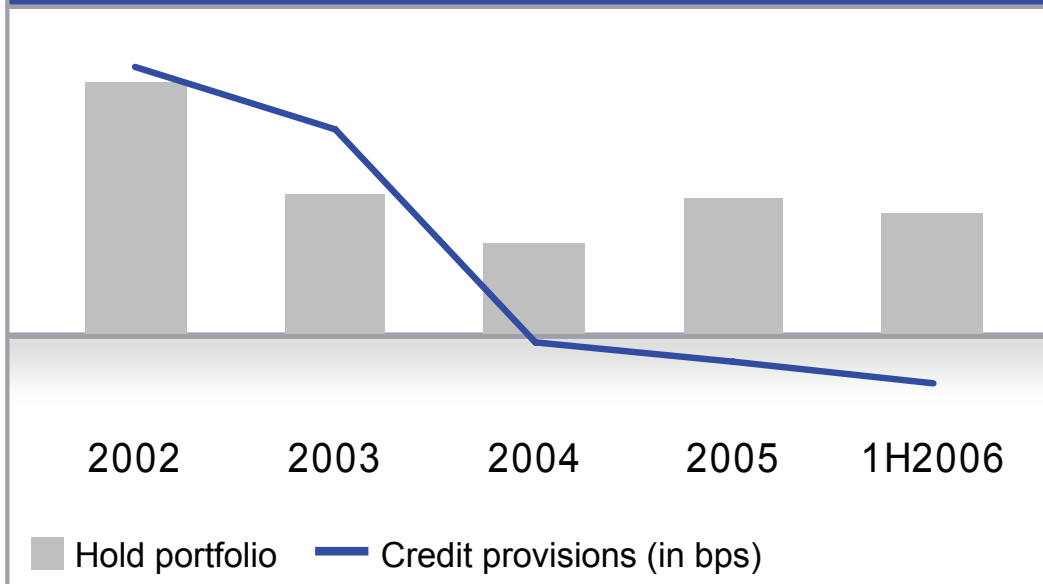




# Punching with the big elephants

## Leveraged finance loan book

Hold portfolio<sup>(1)</sup> and provision development<sup>(2)</sup>



Adjusted annual default rates by underwriter<sup>(3)</sup>

	Underwriter	Actual	Expected	Difference
1	Deutsche Bank	4.17%	5.50%	(1.33)%
2	CIBC	4.23%	6.16%	(1.94)%
3	Lehman Brothers	4.41%	5.76%	(1.36)%
4	JP Morgan	4.47%	5.35%	(0.88)%
5	Bank of America	4.61%	5.10%	(0.49)%
6	Merrill Lynch	5.11%	5.12%	0.00%
7	Citigroup	5.15%	5.31%	(0.16)%
8	Goldman Sachs	5.30%	5.11%	0.19%

- Since 1999, strict underwriting & sell-down discipline with very low final holds
- Successfully competing with other large banks despite much smaller risk appetite
- Good league table position: US #4 in LF & High Yield, EU #1 High Yield
- Hedging program for larger “final holds” started in 3Q2006
- Competitive edge: High underwriting standards - most loans above par after syndication

(1) Reflects Risk Management's view at respective point in time; changes in composition are not reflected / restated

(2) Credit provisions over loans and guarantees, 1H2006 annualised actual and expected, average, three-year, cumulative, default rate

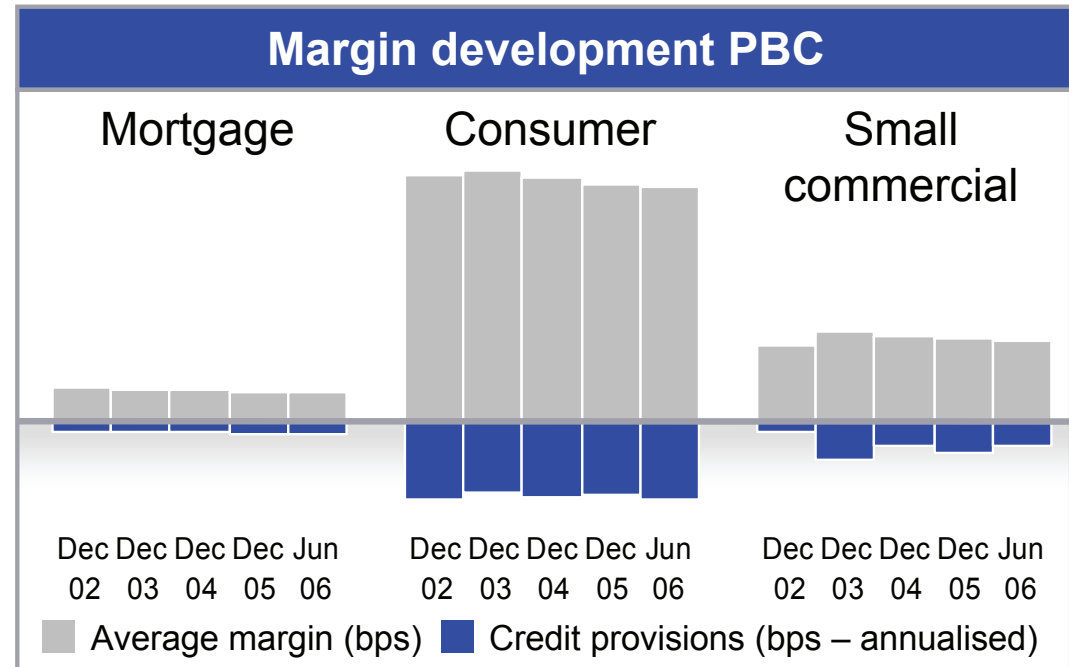
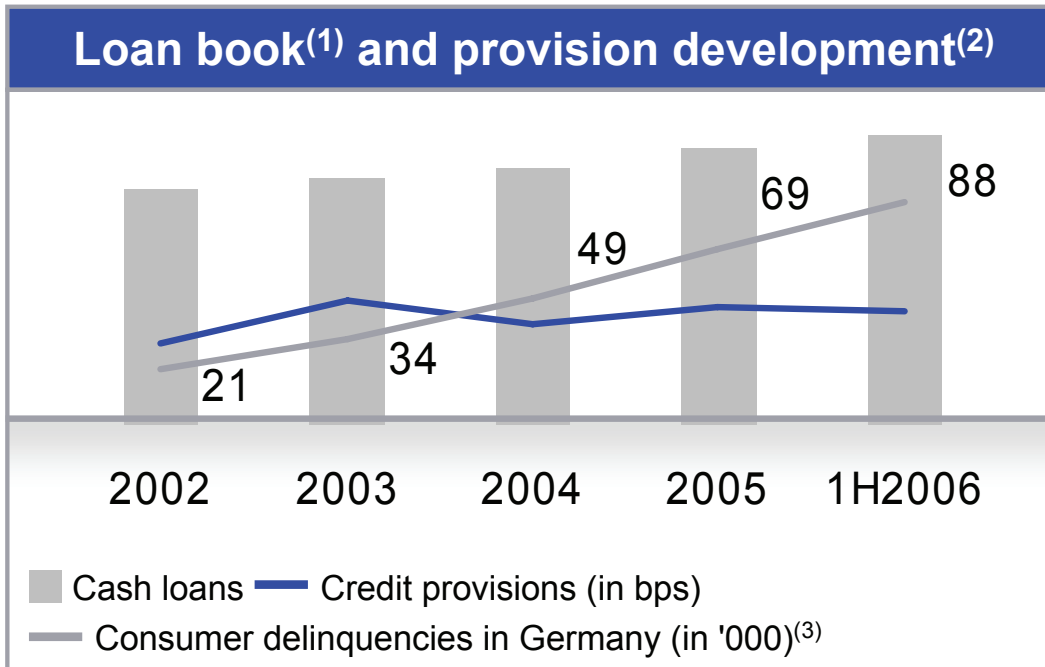
(3) Fridson Vision LLC, defaults of new issuances from 1997-2002, data as of Dec 2005;





# Growing the retail franchise

## PBC loan book



- 2006: Transformation of risk management completed (Service Centres, risk engines)
- Credit Decision Engines accurately predicting credit losses
- Constant increase of household defaults in Germany with limited impact on Deutsche Bank
- Loan losses in PBC now a function of volume, sufficiently covered by margins
- Platform allows to grow a new, mass market consumer brand in Germany: norisbank

(1) Reflects Risk Management's view at respective point in time; changes in composition are not reflected / restated; Berliner Bank & norisbank not included as of June 2006  
 (2) Credit provisions over loans and guarantees; 1H2006 annualised  
 (3) Source: Statistisches Bundesamt, "Insolvenzen in Deutschland"; 1H2006 annualised



# Disciplined risk management limits downturn risk

## Risk bucket summary

	Loan book (EUR bn) <sup>(1)</sup> 30 Jun 2006		Provisioning level (bps)	
			Current	Downturn scenario
<b>International</b>	48	Well diversified; actively managed	<0	<20
<b>German MidCaps</b>	18	Well diversified, strong pricing & balance sheet discipline (GATEs)	~5 – 15	<50
<b>Leveraged Finance</b>	5 <sup>(2)</sup>	Strict underwriting and sell-down discipline; hedging started	<0	<200
<b>PBC<sup>(3)</sup></b>	76	Volume driven credit losses	~40 – 50	<70
<b>Private Wealth Management</b>	11	Strict collateral management	~0	~0

(1) Excl. EUR ~6 bn Real Estate Investment Banking and EUR ~2 bn other

(2) Hold Portfolio (3) Berliner Bank & norisbank not included





# Agenda

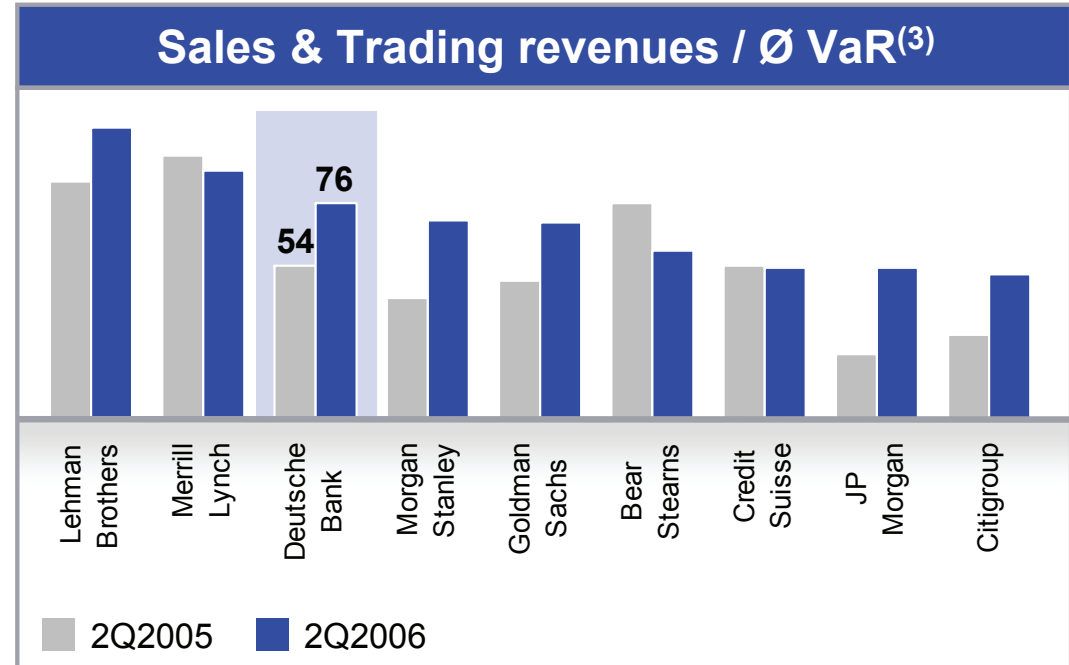
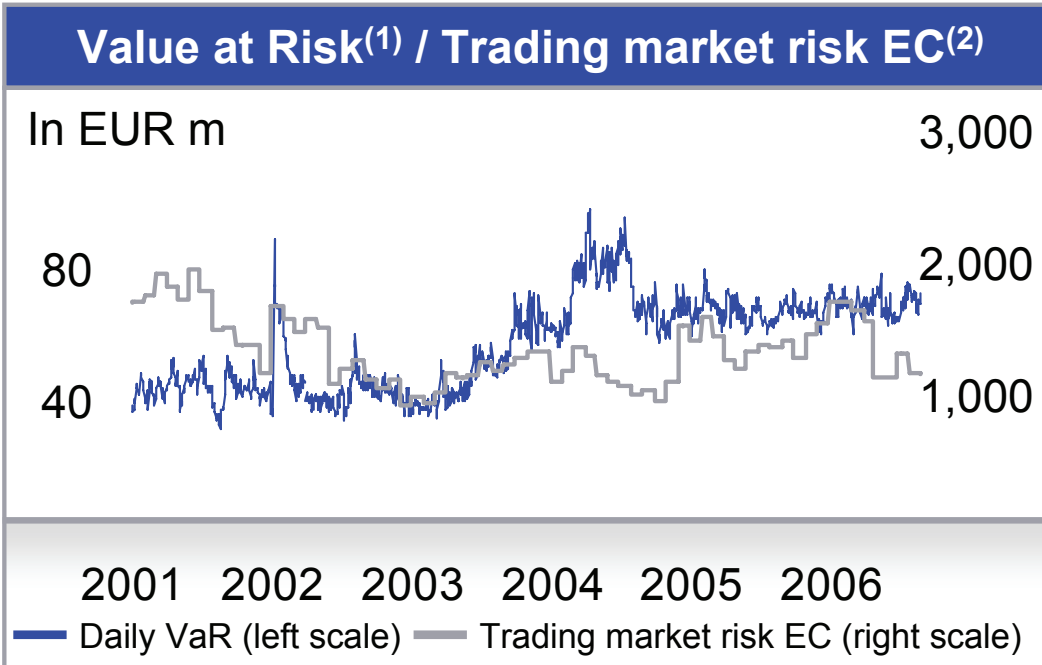
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# Discipline yields results

## Market Risk Management



- Despite significant volume increase, largely maintained VaR & EC levels
- Many new product types integrated (structured, Emerging Markets, credit)
- High rate of new product approvals well managed
- Shift towards less liquid / more structured products a challenge for back office
- Successfully managed spectacular collapses

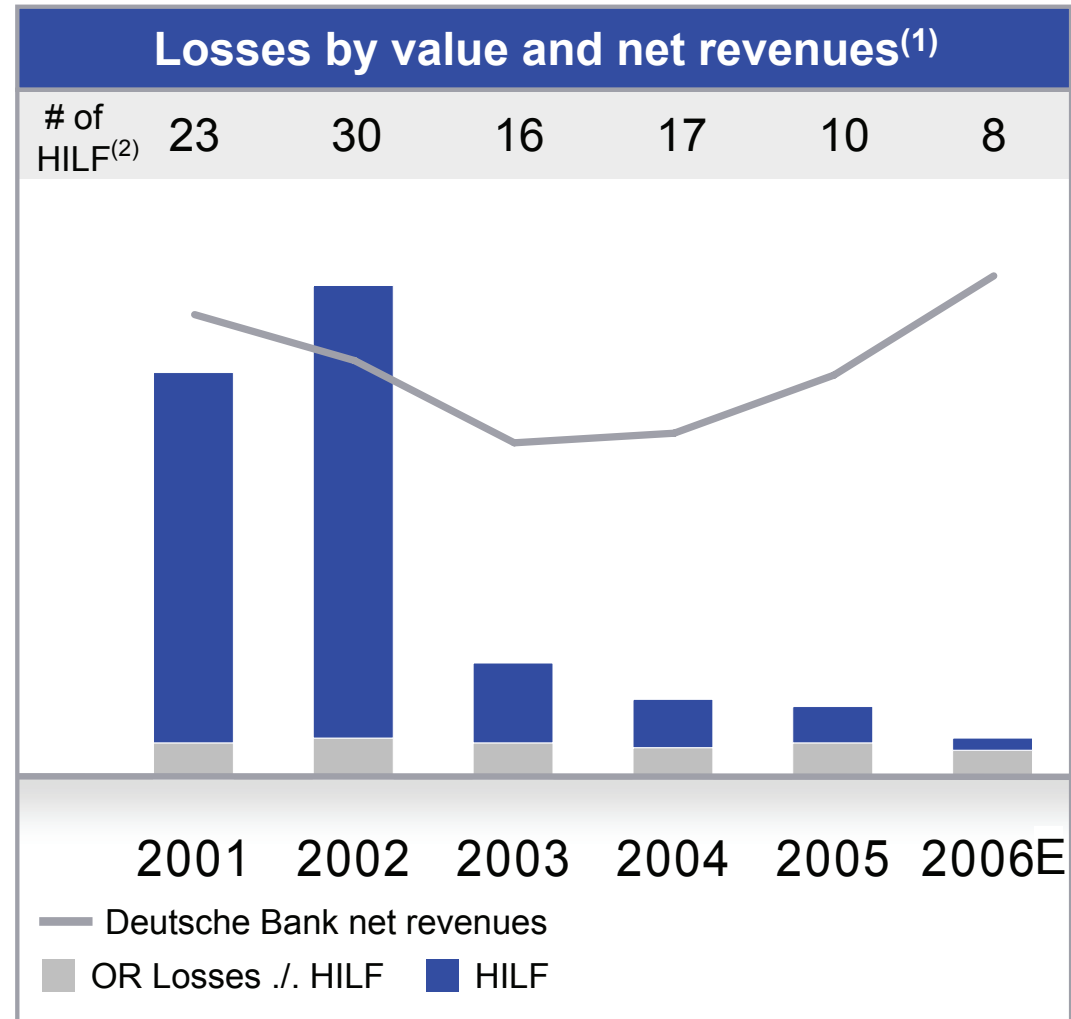
(1) CIB trading units (99% confidence level, 1-day holding period) (2) Economic Capital; monthly average  
 (3) Company information; Sales & Trading revenues / VaR per trading day in %; converted to 99% confidence level, 1-day holding period  
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# Successful loss reduction

## Operational Risk Management

- 2004: Successfully implemented operational risk framework & governance
- Strengthened control environment and culture paid off: Higher volumes & trade complexity, but lower number of losses
- Economic and Basel II capital now at the right level; BaFin approval of Deutsche Bank's AMA<sup>(3)</sup> expected
- Six Sigma Process Excellence program launched / Forensic Investigation to further reduce losses for all business processes



(1) Losses: Event start date (2006 estimated); net revenues 2006 annualised; net revenues and OR losses represented on different scales

(2) High Impact Low Frequency events (2006 estimated)

(3) Advanced Measurement Approach





# Maintaining the discipline

## 2006 onwards

- Maintain achievements
- Support accelerated growth
- Invest acquisition capital wisely
- Integrate risk and capital management

## 2004 – 2005

- Strict balance sheet discipline helped achieve RoE targets



## 2000 – 2003

- De-leverage the Bank and reduce costs



→ Risk & Capital Management well prepared to support business growth





# Agenda

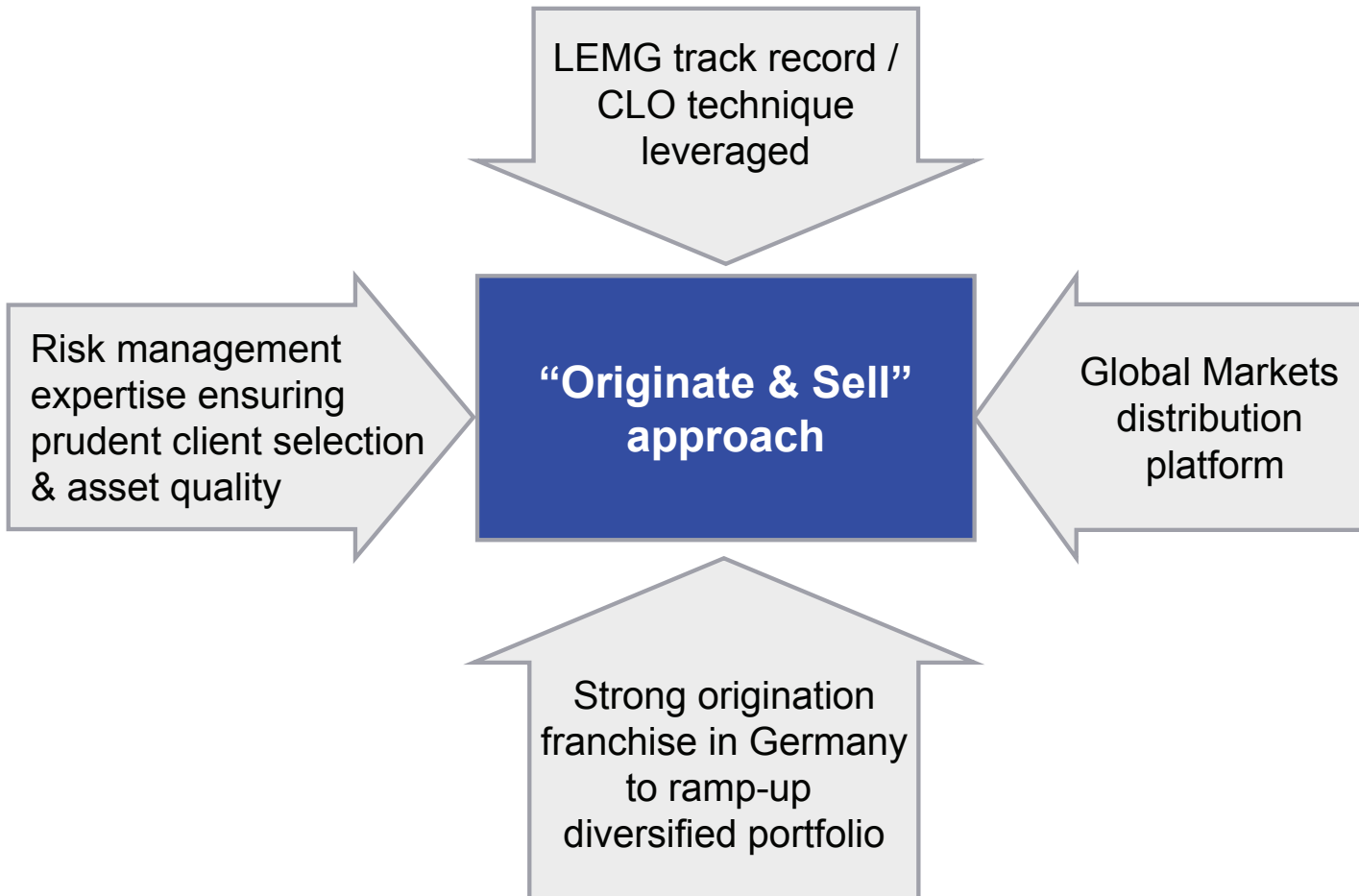
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# Asset gathering strategy

Using LEMGs MidCap techniques for business growth



## Product initiatives in German MidCaps

### db Schuldschein

- Senior unsecured debt
- Size per client: EUR 1 m – 10 m
- Tenor: 5 – 7 yrs, bullet

### equiNotes (JV - IKB)

- Mezzanine program
- Size per client: EUR 2 m – 15 m
- Tenor: 7 yrs, bullet





# Securitization

State-of-the-art packaging platform

- Since 1998, business revamped and grown strategically
- Successful new approach
  - Origination mirrors CLO structure
  - Every asset to be approved by CRM
  - Strict stale inventory control
  - Strict turnover control

... ready to support dynamic growth and larger scale financing
- Recent mortgage initiatives aimed at expanding mortgage origination & trading volumes

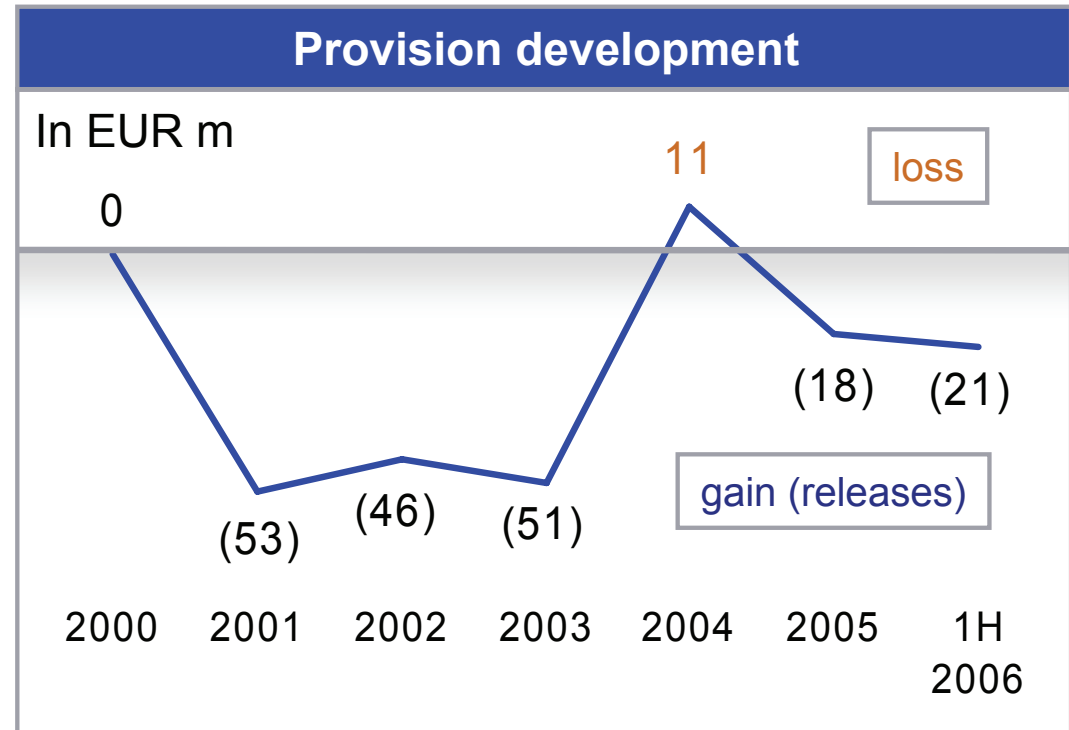
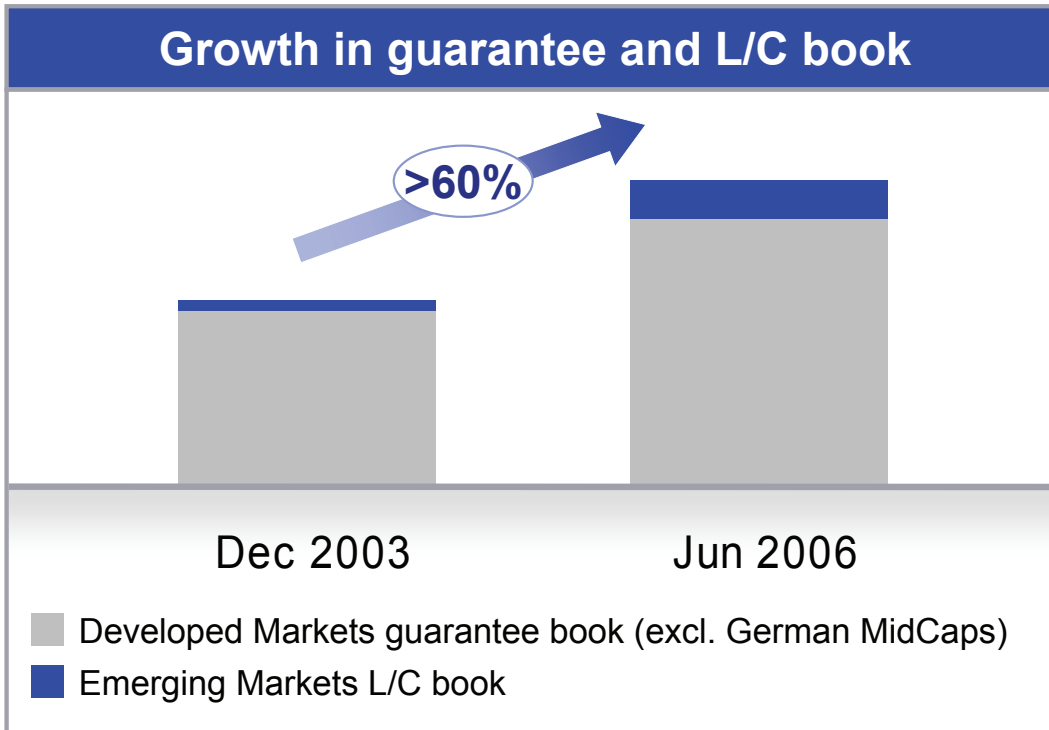
Global securitization issuance*							
		1H2005		1H2006			
Underwriter		Vol. (USD bn)	# of deals	Underwriter		Vol. (USD bn)	# of deals
1	Lehman	89	140	1	Lehman	92	138
2	Citigroup	73	120	2	RBS	88	147
3	RBS	72	119	<b>3</b>	<b>Deutsche Bank</b>	<b>81</b>	<b>152</b>
4	Credit Suisse	69	129	4	Credit Suisse	81	129
5	Bear Stearns	67	129	5	Citigroup	79	130
6	Morgan St.	66	87	6	Merrill Lynch	73	100
<b>7</b>	<b>Deutsche Bank</b>	<b>61</b>	<b>118</b>	7	Morgan St.	73	107

\* "Bookrunners of worldwide Structured-Finance deals in the first half" (incl. ABS, MBS, CMBS & CDOs); Asset-Backed<sup>ALERT</sup>, 7 July 2006  
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# Global Transaction Banking

Risk Management supporting growth



- Tight grip on risks:
  - Exposure against MNCs<sup>(1)</sup> or ECA<sup>(2)</sup> cover and transactional screening
  - Selective client approach in Emerging Markets; Well contained Country Risk
- Dedicated, efficient infrastructure platforms in place in GTB & CRM
- Supporting careful expansion, particularly in growing Emerging Markets (China, India, Middle East)

(1) Multinational corporates

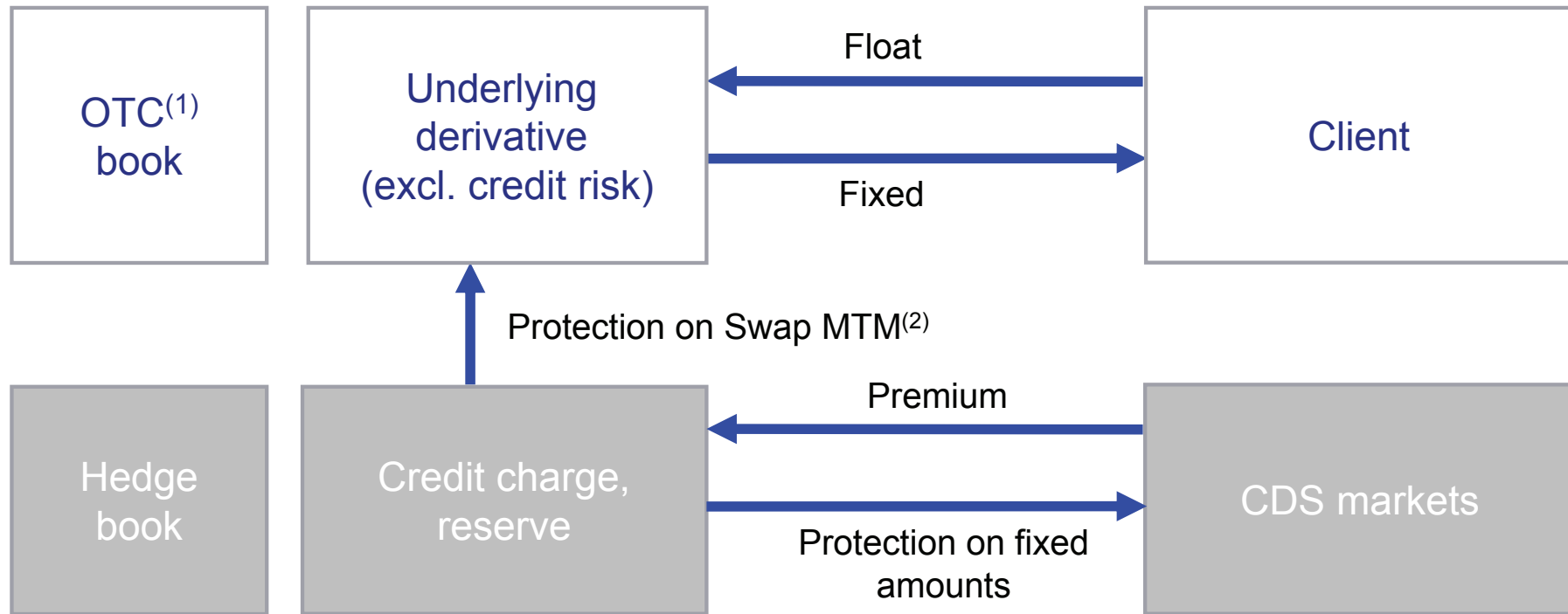
(2) Export credit agency





# Dynamic hedging

Efficient management of derivatives business for lower rated counterparties



- 2 dimensional dynamic hedging: Credit risk protection or market risk mitigation
- Additional business with low rated counterparties from MidCap and Emerging Markets; commodity traders / producers

(1) Over the counter

(2) Mark to market





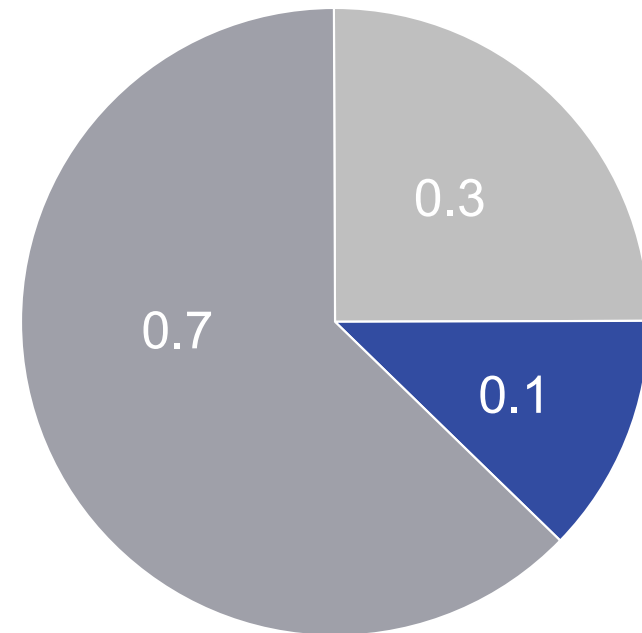
# Principal Investments

Growing business while keeping risks under control

- New approach fundamentally different to former “buy & hold” strategy:
  - Business buys, repackages and sells assets mainly within 12 months or
  - Opportunistically co-invest in transactions well known from our Leveraged Finance function with low average size
- Approval criteria:
  - High return on economic capital
  - Solid and quick exit strategy for DB
  - Quality of due diligence
- Regular monitoring of performance

## Principal Investments exposure\*

In EUR bn



Global Markets  
 Global Banking   
  Asset Management

\* Carrying value including real estate as per 31 August 2006  
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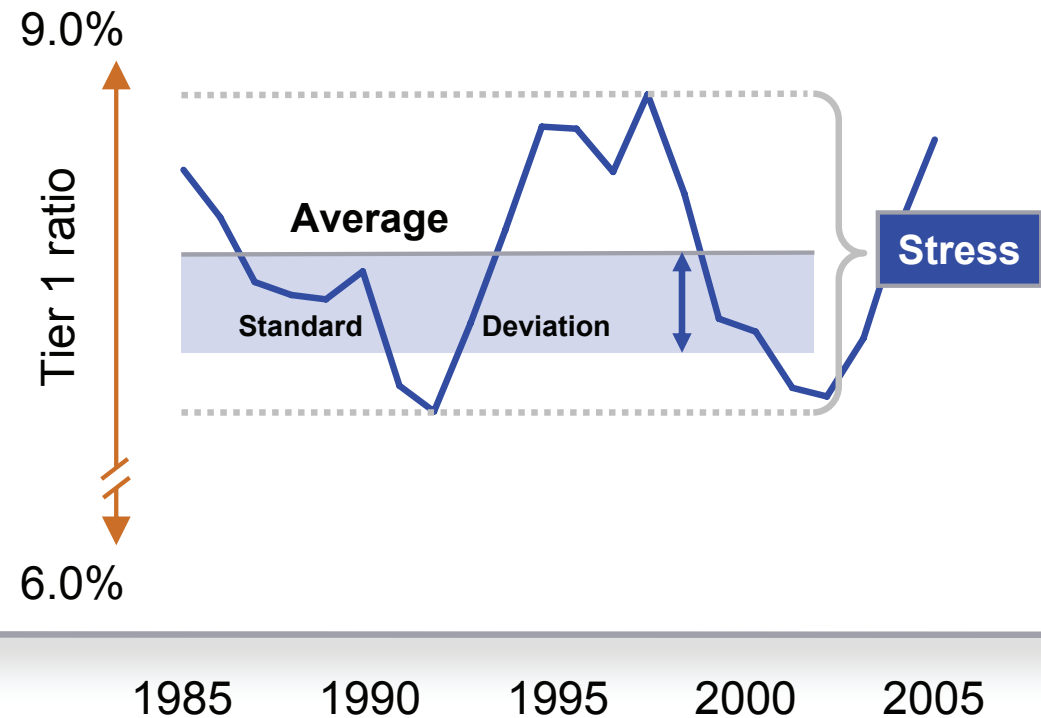


# Living with Basel II

Integration of risk and capital management imperative

- Significant capital savings potential, primarily in PBC & PWM
- Capital a function of ...
  - Basel I: business volume
  - Basel II: business volume & risk profile
- Through the economic cycle, Basel II capital will fluctuate
- Dynamic capital management:
  - Increased hybrid issuance
  - Development of contingent capital\*

## Historical simulation of unmanaged Tier 1 ratio under Basel II



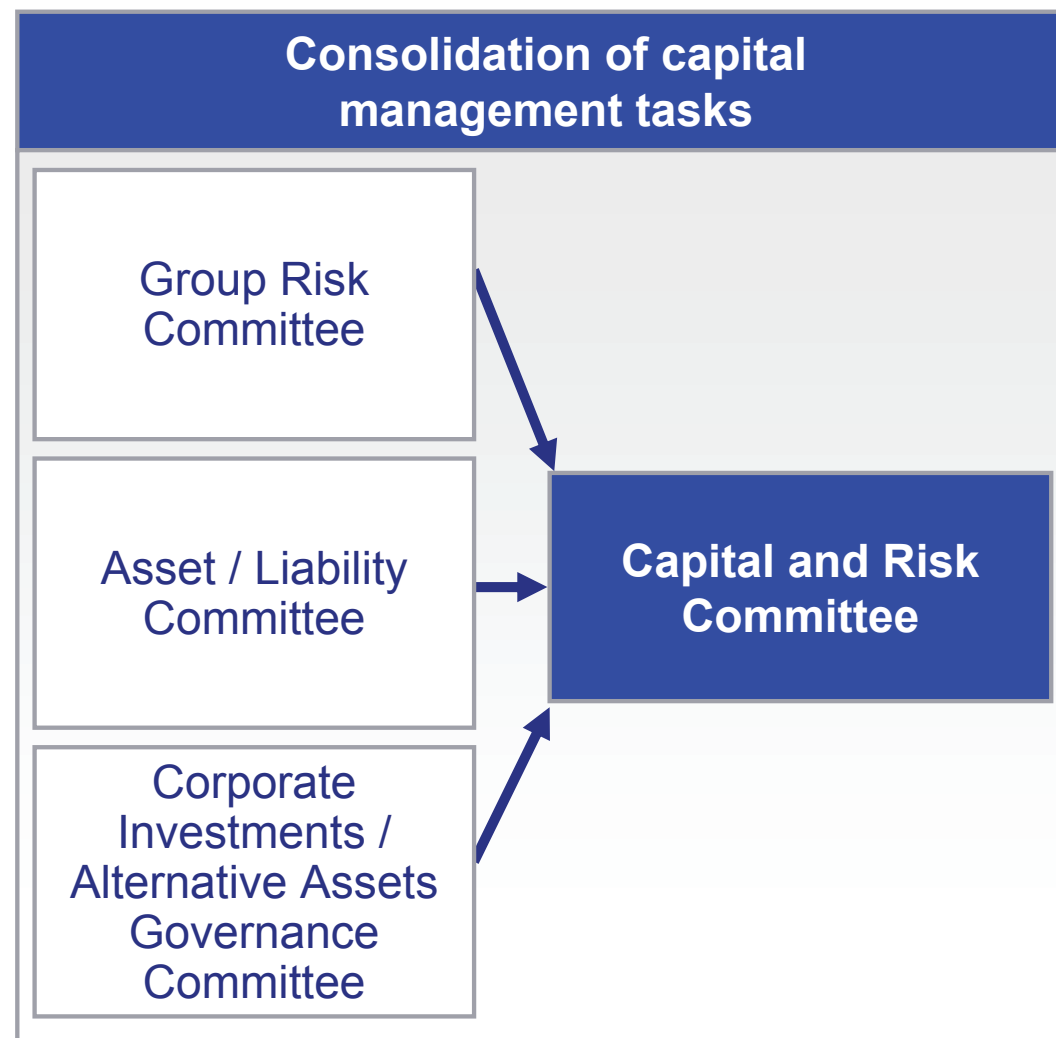
\* Financial instruments for capital creation under adverse credit conditions  
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# Capital and Risk Committee (CaR)

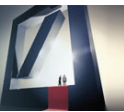
Newly formed committee to ensure proper capital control

- Composition: CRO (Chair), CFO, Market Risk Management, Treasury, Business Heads
- Responsibilities include:
  - Risk profile and capital planning
  - Capital capacity monitoring
  - Capital stress testing and scenario analysis
  - Optimisation of funding
  - Contingent capital\* requirements
  - Earnings retention strategy
  - Performance review of acquisitions and investments as well as share buyback programs



\* Financial instruments for capital creation under adverse credit conditions  
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## Summary

**By maintaining discipline and preserving achievements of previous years, Deutsche Bank will be able to:**

▶ Keep credit provisions low and retail driven

▶ Support organic growth initiatives and make them successful

▶ Deploy acquisition capital wisely and profitably

▶ Preserve the capital gains resulting from Basel II



# Additional information

# Investor Day

A Passion to Perform.

Deutsche Bank





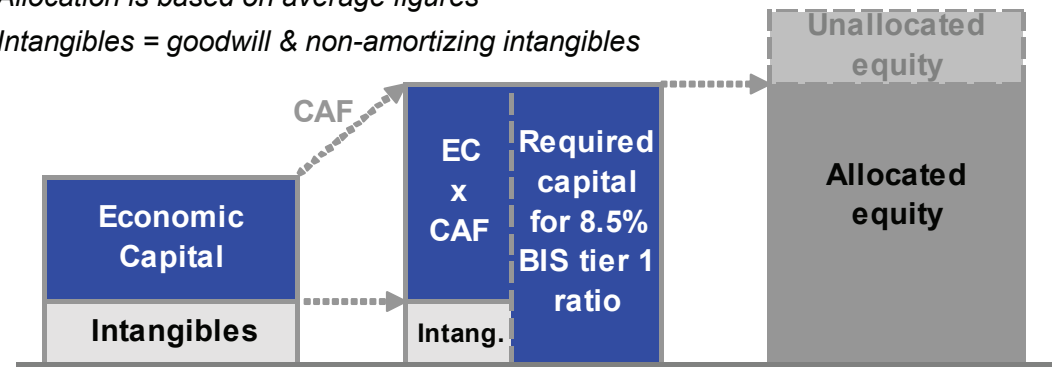
# Allocation of capital to businesses

## Principles of capital allocation

- Goodwill / intangibles (excl. amortizing intangibles) attract capital on a EUR for EUR basis
- In a second step, Economic Capital is allocated to the Businesses
- Allocation of Economic Capital is adjusted for regulatory needs by way of a Capital Allocation Factor (CAF)
- CAF ensures that book equity allocated to Businesses is in compliance with the targeted capital adequacy (BIS tier 1 ratio of 8.5%)
- Capital allocation is the pre-requisite for value creation and allows for comparison of different business activities

## Chart of allocation process

- Allocation is based on average figures
- Intangibles = goodwill & non-amortizing intangibles



## 1H2006 average figures

	Intang. / Goodwill*		Econ. Capital*		CAF		Allocated equity*
CBS	3.3		7.3		1.5		14.2
GTB	0.5	+	0.4	x	1.5	=	1.1
CIB Cent.	0.0		1.4		1.5		2.1
PBC	0.2		1.3		1.5		2.2
AWM	3.7	+	0.9	x	1.5	=	5.0
CI	0.1	+	0.7	x	1.5	=	1.1
Total allocated active equity							25.8
Consolidation & Adjustments = Unallocated active equity							0.4
Group							26.2

\* In EUR bn  
Note: Figures may not add up due to rounding  
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## Cautionary statement regarding forward-looking statements and non-U.S. GAAP financial measures

This presentation contains forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations. Any statement in this presentation that states our intentions, beliefs, expectations or predictions (and the assumptions underlying them) is a forward-looking statement. 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 23 March 2006 on pages 7 through 13 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).

This presentation contains non-U.S. GAAP financial measures. For a reconciliation to directly comparable figures reported under U.S. GAAP refer to the 2Q2006 Financial Data Supplement, which is accompanying this presentation and available on our Investor Relations website at [www.deutsche-bank.com/ir](http://www.deutsche-bank.com/ir).

