Outlook for Equity Derivatives

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Head of Global Equity Derivatives

JP Morgan Investor Conference
London, 17 March 2010
<table>
<thead>
<tr>
<th></th>
<th>Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Deutsche Bank overview</td>
</tr>
<tr>
<td>2</td>
<td>Growth opportunities</td>
</tr>
<tr>
<td>3</td>
<td>Challenges and mitigants</td>
</tr>
<tr>
<td>4</td>
<td>2010 outlook</td>
</tr>
</tbody>
</table>
Scope of Global Equity Derivatives (GED) at DB

Definition can vary between investment banks

<table>
<thead>
<tr>
<th>GED products at DB</th>
<th>Associated products (not in scope)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- db-X</td>
<td>- Equity Swaps</td>
</tr>
<tr>
<td>- Listed F&amp;O Execution</td>
<td>- ETFs</td>
</tr>
<tr>
<td>- Flow Derivatives</td>
<td>- Index Arbitrage</td>
</tr>
<tr>
<td>- Exotic Derivatives</td>
<td></td>
</tr>
<tr>
<td>- Corporate &amp; Strategic Transactions</td>
<td></td>
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<tr>
<td>- Convertible Bonds(1)</td>
<td></td>
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<tr>
<td>- Fund Derivatives(2)</td>
<td></td>
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<tr>
<td>- Hybrids(3)</td>
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</tbody>
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(1) Joint Venture with GCT (Global Credit Trading)
(2) Joint Venture with GR (Global Rates)
(3) Joint Venture with GFFX (Global Finance & Foreign Exchange), GCT, GR
Equity Derivatives at Deutsche Bank – key facts

Trading locations

- London
- Frankfurt
- Istanbul
- New York
- Seoul
- Tokyo
- Frankfurt
- Hong Kong
- Johannesburg
- Sydney

Continued strength in EMEA

Greenwich Associates Survey 2009

No. 1 Flow Equity Derivatives Quality
No. 1 Equity Derivatives Research
No. 1 Important Firm for Flow Equity Derivatives

The platform

- 120 traders and 91 product-dedicated sales
- 78 equity derivative structurers
- 70,000 x-markets products in issue
- 300,000 daily quote requests
- High warrants market share (31.9% in Germany, 12% in Switzerland, HK, Singapore)
- EUR 60 m annual technology spend

Rapid expansion in North America & Asia

- 6 senior trading hires in New York
- Dedicated technology team for flow derivative trading in New York
- Significant structuring resources transferred to Hong Kong in 2009
- Launch of derivative trading in Korea in March 2010
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
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</tr>
</tbody>
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2010 – 2012: Our business is primed for significant growth

- Client trends point to increasing use of derivative products
- We identified gaps in our business which we will close in 2010
- Rapid resurgence in exotic products
Client trends: Structural growth in use of derivatives and increased emphasis on counterparty risk

Why use equity derivatives?

<table>
<thead>
<tr>
<th>Macro risk</th>
<th>Lower volatility environment</th>
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<tbody>
<tr>
<td>More clients are systematically hedging macro risk using equity index derivatives</td>
<td>Increases the need for portfolio enhancement using derivatives products</td>
</tr>
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Relative importance of service

<table>
<thead>
<tr>
<th>Year</th>
<th>Creditworthiness of PB</th>
<th>Competitive rates</th>
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<tbody>
<tr>
<td>2008</td>
<td>30%</td>
<td>50%</td>
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<tr>
<td>2009</td>
<td>81%</td>
<td>28%</td>
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</tbody>
</table>

DB #1 in Prime Brokerage

Revenue gap to Top 3 firms in EUR bn

- #4: (0,4)
- #3: (0,8)
- #3: (1,2)
- #1: 0

Global Custodian, Jul 09
World’s Best Prime Broker for second consecutive year

(1) From Greenwich Associates Most Important Factors in Prime Broker Selection ($1bn and over)

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Closing gaps: More stability in the market gives us confidence to expand into the areas we identified in 2009

Lower implied volatility

- Our core scenario is that equity implied volatility, as proxied by short-dated S&P 500 levels, will trade between 18% and 25%, above 04-06 levels
- The current implied volatility premium present for most indices will persist; justified given the potential macro risks still present in the market

Areas of expansion

1. Flow derivative trading in North America
2. Regional expansion of Strategic Transactions
3. db-x in Turkey and Korea
Closing gaps: 1. Flow Derivatives in North America

- Hired 6 senior traders in the last 6 months of 2009
- Dedicated technology team developing a state-of-the-art trading system

The domestic US market still presents the greatest opportunity for DB to grow

- Custody & Clearing for SEC & CFTC regulated contracts
- VIX and ETF option market making in the US
- Targeted increase in US single stock flow market share
- eCommerce – Secondary markets for OTC trading

In the next year we will re-launch or scale-up the following businesses

DB targeting Top-3 by volume before end of 2011
Closing gaps: 2. Regional expansion of Strategic Transactions (ST)

- Established in 1998, the ST business delivers innovative solutions to corporates, hedge funds, private equity, sovereign wealth and high net-worth clients
- Unique approach to managing derivative, fiscal, legal and accounting situations

<table>
<thead>
<tr>
<th>Strategic Equity Derivatives</th>
<th>Equity Principal Investments</th>
<th>Financing</th>
<th>Cross-Asset Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakebuilding, warehousing and capital management</td>
<td>Non-recourse Financing</td>
<td>Recourse financing</td>
<td>M&amp;A multipliers</td>
</tr>
<tr>
<td>Hedging / Monetisations</td>
<td>Warehousing</td>
<td>Non-recourse financing</td>
<td>Tax &amp; FIG</td>
</tr>
<tr>
<td>ESOPs</td>
<td>Hedging of equity risk (using derivatives)</td>
<td>Hybrids</td>
<td>Asset liability management</td>
</tr>
<tr>
<td>Equity-linked</td>
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<td>Reg. Capital</td>
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- 2010 expansion in Asia and Latin America
  - Equity structuring teams established in Hong Kong & Singapore in 2009
  - Traders assigned to both regions in Q1 2010
Closing gaps: 3. Rapid growth of db-X

**db-X credentials**

- Origination, structuring, distribution and marketing of structured trading and investment products (certificates, warrants, notes)
- 20,000 self-directed investor flow trades per day
- EUR5,000 average ticket size
- >150,000 quote requests per day in Germany
- >300,000 quote requests per day globally
- 70,000 products in issue
- Certificates and warrants (#1 Germany, #3 in Switzerland, HK, #4 in Singapore)

**Future expansion**

- Trading commences in March 2010
- Call and put options on major shares and the KOSPI 200 Index
- Private / retail investors account for over 60% of cash market turnover
- Second-largest warrant market in 2009 with 21% of global warrant turnover
- Trading commences in March 2010
- Call and put options on major shares and the ISE-30 Index
- 7.5m target investors (total population of 71 m, 50% under 28)
- 1m current equity account holders
- Local investors account for > 75% of turnover in Cash and ISE30 Futures markets

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Exotics: The exotics business spans a wide range of products and customers

Hedging & Overwriting
- Custom Basket Options
- Single Stock Options
- Global/Sector Benchmark Swaps
- Delta 1

Active Management
- Barrier Options
- Equity Linked Notes
- Variance Swaps
- Conditional Variance

Alternative Risks & Hidden Assets
- Palladium & Albatross
- Non-Recourse Equity Financing
- Proprietary Indices (CROCI, X-Alpha Liquid Lpha)

Clients
- Mutual Funds, Insurers, Pension Funds & Hedge Funds
- Asset Managers, Wealth Managers, Corporates
- Retail & Private Banks, Life Insurance
- Mutual Funds, Insurers, Pension Funds & Hedge Funds
- Asset Managers, Wealth managers, Private Institutions, Corporates
- Retail Bank, Private Bank, Life Insurance

Product Spectrum
Exotics: In 2008 clients turned away from complexity and counterparty risk
Exotics: We experienced a rapid recovery in 2009 with several notable changes

- **Hedging & Overwriting**
  - Global/Sector Benchmark Swaps
  - Single Basket Options
  - Custom Baskets

- **Active Management**
  - Options On Variance
  - Barrier Options
  - Equity Linked Notes
  - Variance Swaps

- **Alternative Risks & Hidden Assets**
  - Proprietary Indicies (CROCI, X-Alpha Liquid Lpha)
  - Palladium & Albatross
  - Correlation Swaps
  - Outperformance Options

- **Clients**
  - Asset Managers, Wealth Managers, Corporates
  - Retail & Private Banks, Life Insurance
  - Mutual Funds, Insurers, Pension Funds & Hedge Funds

- **Commoditized High Liquidity**
  - Light Exotics
  - Bespoke Structure High complexity

- **Product Spectrum**
  - Shorter tenors
  - Less complex payoffs
  - More liquid underlyings
Agenda

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Challenges and mitigants: Margin compression

Challenge: Lower bid-offer spreads

Mitigant: Increased volumes and increased market share

- Listed option volumes continue to grow in North America (23.3% CAGR since 1973)

- We can anticipate a similar trend in Europe over the next 3-5 years as more OTC business migrates to exchanges

Listed options (V2X) and average spread trend from 1973 to 2009 with bar and line graphs showing growth and decrease respectively.
Challenges and mitigants: OTC regulatory reform

**Challenge: Significant change in market structure**

- Regulators have stated a clear desire to standardise OTC derivative contracts and clear through a central counterparty (CCP)
- Principal objective is to reduce systemic risk
- Creation of a central trade repository or CCP could have additional effects:
  - Margin compression
  - Cost of adapting to a CCP model
  - Changes in capital charges and fragmentation of collateral pools
  - Loss of anonymity due to the extension of supervisory oversight and the creation of a central repository for trade data
- Customer clearing of OTCs is now feasible for interest rate and credit derivative markets
- Equity derivative and FX OTC markets will be the next focus

**Mitigant: Continued discussions**

- Only 1% of the $592 trillion OTC market is linked to equity
- **Industry surveys suggest that >55% of current equity derivative notionals are clearing via CCPs; this will grow**
- The draft legislation being considered by the US Senate includes specific exemptions for Corporate end-users of derivatives not defined as “major swap participants”
- Industry initiatives such as the re-drafting of ISDA Equity Definitions, Cashflow Matching and the creation of a Determinations Committee (similar to the model used in the Credit Markets) will bring increased levels of standardisation & electronic processing across the industry
## Challenges and mitigants: Macroeconomic risks

<table>
<thead>
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<th>Challenge: Macroeconomic environment</th>
<th>Mitigant: Derisked platform</th>
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<td>- Whilst not our core view we cannot ignore the possibility of another market downturn</td>
<td>- 60% reduction in balance sheet (non-derivative trading assets) from peak levels in August 2008</td>
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<td>- However systemic risk is vastly reduced</td>
<td>- 75% reduction in VaR from peak levels in October 2008</td>
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<td>- Dealers have materially de-risked and are maintaining long gamma positions</td>
<td>- 56% reduction in RWA from peak levels in October 2008</td>
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<td>- Clients have established systematic hedging programs</td>
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<td>- A subsequent sell-off would be less severe</td>
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Looking forward: A diverse business that can adapt in changing environments

Global Equity Derivatives revenues, 2010e

**Product diversification**
- Exotic: 25%
- X-Markets: 16%
- Funds: 10%
- Convertibles: 31%
- Flow: 8%
- Corporate: 10%

**Regional diversification**
- North America: 46%
- Asia Pacific: 29%
- Emerging Markets: 18%
- Europe: 7%
Looking forward: 2010 growth prospects

Global Equity Derivatives revenues, 2010e

- 2009 reported revenues
- Lower losses
- Regulatory change
- Margin compression
- Growth in volumes traded
- DB gains market share
- New initiatives
- 2010 revenues

- 1Q2009 losses will not repeat in 2010
- Majority of impact will be 2011 - 2012
- Tighter spreads in flow and exotics
- Increased use of derivatives for hedging
- Focus on franchise growth in flow
- F&O Execution, US Flow, Structured Transactions in Asia & Latam, warrants
- +23% YoY
Cautionary statements

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