



DEUTSCHE BÖRSE
GROUP

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Financial report 2015

Excerpt: report on opportunities



As at 31 December 2015, the Group's EC amounted to €2,159 million, an 11 per cent increase year-on-year (31 December 2014: €1,939 million). The available risk bearing capacity increased by 16 per cent to €2,999 million year-on-year (31 December 2014: €2,591 million). Earnings at risk as at 31 December 2015 were €646 million, while risk appetite was €1,012 million, based on the adjusted EBIT in 2015.

Deutsche Börse AG's Executive Board is convinced that the risk management system is effective. The Board continues to strengthen the system and the control function responsible for it. The Group-wide strategy to capture and manage risk, which focuses on risk appetite, forms the basis for internal risk management. It is codified in the three principles described in this report.

Outlook

The Group continually assesses its risk situation. Based on stress tests, on the EC calculated and on the risk management system, Deutsche Börse AG's Executive Board concludes that the available risk cover amount is sufficient. Furthermore, it cannot identify any risk that could endanger the Group's existence as a going concern.

In 2016, the aim is to further strengthen Group-wide risk management. For instance, the Group plans to analyse its risks in a more detailed manner on a single-client and on a business segment level. By identifying client-specific and business segment-specific risk drivers, the EC will also be monitored on these levels. This will enable Deutsche Börse Group to manage risks on these levels. Moreover, it plans to extend its business continuity measures in the event of emergencies (or crises), to include additional functions over and above business-critical units.

Report on opportunities

Organisation of opportunities management

Deutsche Börse Group's opportunities management aims to identify, evaluate and assess opportunities as early as possible and to take appropriate measures in order to transform opportunities into business success.

Deutsche Börse Group evaluates organic growth opportunities both on an ongoing basis throughout the year in the individual business areas and systematically at Group level as part of its annual budget planning process. Suggestions from the Group's business areas for new products, services or technologies serve as the starting point. The process begins with a careful analysis of the market environment: this considers both customer wishes and factors such as market developments, competitors and regulatory changes.

Ideas for growth initiatives are developed further using uniform, Group-wide templates and subjected to a profitability analysis. Qualitative aspects are documented in a business plan, and expenses and revenues are projected in detail for multiple years.

Once a business plan and profitability analysis have been prepared for a specific growth initiative, the Executive Board of Deutsche Börse AG decides on its implementation. This decision is taken as part of the annual budget planning process. The initiatives that, after taking into consideration the associated risks, add the most value and that can be financed from the budget allocated to the business area are selected by the Executive Board and included in the budget.

Budgeting for growth initiatives involves reserving a full-year budget comprising expenditures and expenses for each selected growth initiative included in the investment portfolio. The budget is then approved by the Executive Board of Deutsche Börse AG over the course of the year, in line with the

project phases. This ensures that funding approval is linked to project progress and that projects are reviewed regularly. It also gives the Executive Board the opportunity to adjust the deployment of the funds reserved for the year as a whole and to react to general business developments – if required, new growth initiatives can for example be approved in the course of the year.

Regular reporting is used to monitor growth initiatives as part of the intraperiod budget approval process. The Group Management Committee, which also comprises the members of Deutsche Börse AG's Executive Board, receives a monthly report on the status and progress of initiatives that are currently being implemented. This report is coordinated by central functions in cooperation with the individual projects from the business areas and compares planned costs and revenues with actual budget utilisation and actual revenues. In addition, the financial planning is adjusted, forecasts are updated and changes to the scope of the project are made transparent. Checks are made to establish whether milestones have been reached and project-specific risks and the countermeasures taken are described.

Organic growth opportunities

When assessing organic growth opportunities, Deutsche Börse Group makes a basic distinction between structural and cyclical opportunities. Structural opportunities arise, for example, as a result of regulatory changes or new customer requirements, and can be influenced directly by the company. Cyclical opportunities, which are driven by macroeconomic changes, cannot be influenced directly by the company.

Structural growth opportunities

The focus of Deutsche Börse Group's structural growth potential is on product- and service-driven initiatives designed to satisfy new client needs as well as regulatory requirements. In order to ensure the Group is optimally positioned and in order to explore new opportunities, the Group has gradually realigned its organisational structure since announcing the "Accelerate" growth programme in July 2015. Moreover, it regularly examines options for growth in high-potential asset classes, products or services – organically or through external acquisitions and cooperations.

Organisational measures supporting the Group's growth ambitions include the global coordination of sales activities, as well as cross-divisional product development. On top of this, Deutsche Börse AG has realigned the assignment of responsibilities on its Executive Board, with effect from 1 January 2016 – placing client focus at the heart of its organisational structure, as announced with the introduction of "Accelerate". With the steps taken, Deutsche Börse Group has bundled related areas in Executive Board portfolios, thus accelerating process flows and simplifying them – in the interest of the Group's clients. Within the framework of "Accelerate" and the related organisational changes, the Group anticipates realising potential for additional new business – especially through bundling Group-wide product development as well as sales activities. These opportunities will develop over time, which is why they have not been quantified in expected additional revenue.

Overall, the Group anticipates the strongest revenue increases in its Eurex segment. Besides the initiatives of the "Accelerate" programme, this includes clearing of over-the-counter (OTC) derivatives and further growth in the trading of power and gas products. The acquisition of 360T Beteiligungs GmbH (360T) will also provide a meaningful contribution to net revenue growth in this segment. In the Clearstream segment, the focus is on developing the investment funds business, cross-border securities settlements via TARGET2-Securities (T2S), as well as collateral and liquidity management. Following the

acquisition of the remaining stake in STOXX, the growth focus in the MD+S segment is on the globalisation of the index business. While building its business in growth regions, Deutsche Börse continues to focus on Asia; developments there will impact all reporting segments. The business potential of the above-mentioned initiatives are described in more detail below.

Clearing of OTC derivatives

The liquidity problems experienced by major market participants during the financial crisis were triggered by the failure to settle bilateral OTC transactions that were mainly entered into on an unsecured basis. In light of this, the leading industrialised nations (G20) agreed to create an effective regulatory environment to make off-exchange derivatives transactions more transparent and more secure. In response, the European Union developed the European Market Infrastructure Regulation (EMIR), which is aimed at regulating OTC trading in derivatives. EMIR includes the following regulatory requirements:

- an obligation to clear standardised OTC derivatives transactions using a central counterparty
- special risk management requirements for transactions in non-standardised derivatives
- an obligation to report the transactions to a trade repository

EMIR entered into force on 16 August 2012, its regulatory and technical standards on 21 December 2015. The obligation for market participants to comply with EMIR requirements will kick in on 21 June 2016, with the first of four phases. Preparing for mandatory clearing, Eurex Clearing AG has developed a central counterparty to clear OTC derivatives. On 10 April 2014, Eurex Clearing received a clearing house licence under EMIR. The award of the licence confirms that Eurex Clearing's clearing services are fully compliant with the EMIR rules. This means that Eurex Clearing can already provide its members with services they need to meet the upcoming clearing obligation for derivatives. This offering, which may later be extended to other asset classes, is aimed primarily at institutional customers and the interest rate swaps they enter into. It especially focuses on security and efficiency, allowing customers to gain the full benefit of Eurex Clearing's risk and collateral management services for their OTC transactions as well. With phase 2 (from 21 December 2016) and phase 3 (from 21 June 2017), these clients will be obliged to clear their transactions via a clearing house. Deutsche Börse had 46 clearing participants and 99 registered clients (such as fund management companies, banks, or insurance companies) already signed up for its clearing offer at the end of 2015.

Trading and clearing of power and gas products (EEX)

With the 2014 acquisition of a majority stake in the European Energy Exchange AG (EEX), based in Leipzig, Deutsche Börse Group expanded its product range to include trading and clearing of spot and derivatives contracts on power and gas as well as emission certificates – in order to benefit from markedly higher demand for energy trading and clearing services. The double-digit growth rates which the Group has achieved since then have been the result of external growth but also reflect structural organic growth which Deutsche Börse Group has been able to exploit, thanks to its good position. In fact, during the year under review, EEX made further progress towards its goal of becoming the core market for energy, energy-related and commodity products. EEX acquired a majority shareholding in Powernext SA on 1 January 2015 – a logical development, given the successful co-operation of both companies in the power and gas markets over many years. Moreover, the business combination of EPEX Spot SE (a subsidiary of EEX) with APX Holding group was announced in the second quarter of 2015. The short-term objective of this transaction was to establish a power exchange for Western Europe and the United Kingdom; the long-term goal is to create a single European electricity market. EEX also generated organic growth, especially in the power and gas business. Whilst this growth momentum is based on the changing importance of renewable energy sources – wind power in particular – for power generation, the resulting gains are difficult to predict, also due to the strong fragmentation of the European energy market, and the fact that market participants predominantly trade off-exchange. Given this high degree of fragmentation, as well as the inefficiency of OTC markets, demand for on-exchange trading and clearing solutions for such transactions has been growing over recent years. Whilst

OTC trading clearly continues to be the bigger market, EEX nonetheless succeeded in growing market share. EEX continues to anticipate strong demand for efficient trading and clearing solutions for the energy markets, and resulting structural growth.

Expansion into foreign exchange trading (360T)

Deutsche Börse AG successfully explored this asset class – foreign exchange trading – with the full acquisition of 360T in the third quarter of 2015. 360T® is a leading, globally active foreign exchange trading platform which has generated double-digit annual growth rates since its inception in 2000. The broad client base of 360T includes corporate and buy-side clients as well as banks. The acquisition of 360T by Deutsche Börse is expected to further boost the company's organic growth momentum. On a medium-term horizon, the combination offers the potential for revenue synergies in a double-digit million amount, with 360T using Deutsche Börse Group's international sales network and expertise for growing business, especially through the introduction of electronic trading in order to further improve liquidity and transparency. To date, regulatory obligations such as EMIR have not yet been expanded to cover the foreign exchange market. If this were to happen, Deutsche Börse Group would be able to tap further growth opportunities from its extensive portfolio of products and services it offers in the context of regulatory requirements. For instance, the Group plans to establish a foreign exchange clearing house in order to service the fundamental demand for capital-efficient solutions. Thanks to its leading position, 360T further benefits from a structural trend. Even though, at present, the vast majority of daily foreign exchange trading volumes are executed off-exchange, demand for transparent, electronic multi-bank trading platforms such as 360T is rising. By combining the skills and experience of 360T in foreign exchange trading with Deutsche Börse's IT competence, the Group will be able to explore the resulting revenue potential.

Cross-border settlement of investment funds

During 2015, Clearstream successfully completed the integration of the hedge fund custody business, acquired from Citco in 2014. This enables clients of Deutsche Börse Group to use Clearstream's settlement and custody services for their entire fund portfolio – covering traditional investment funds, exchange-traded index funds (ETFs) as well as hedge funds. Given that regulatory authorities demand more efficient settlement and custody solutions in order to achieve a maximum safety level for customer assets, the Group anticipates that it will acquire additional client portfolios during 2016.

The new, integrated solution already met with growing interest from banks, asset managers, and global custodians during the year under review: Brewin Dolphin, one of the oldest asset managers in the United Kingdom, and the large US international financial services provider Northern Trust shifted settlement of their funds business to Clearstream, mainly driven by efficiency gains as well as asset security. Clearstream thus acquired two additional clients for its fund custody business – one of the key drivers of Clearstream's fund services.

Against the background of rising popularity of ETFs, Clearstream offers a range of flexible solutions adapted to clients' needs. European ETFs are often listed on several exchanges, making the reconciliation of the register – which is necessary for cross-border trading – a very complex exercise. If ETF issuance growth continues via Clearstream's international infrastructure, distribution and settlement may take place directly via Clearstream's ICSD, leading to additional efficiency enhancements. BlackRock, the world's biggest asset manager, thus already cooperates with Clearstream for ETF issuance and settlement. In September, 20 BlackRock iShares ETFs were issued via Clearstream's ICSD. For 2016, the company anticipates further increases in the number of ETF issuers.

Cross-border securities settlement (T2S)

Initiated by the European Central Bank (ECB), the purpose of the T2S project is to harmonise cross-border securities settlements using central bank funds across Europe. The first of four migration waves was completed in August 2015. Clearstream has undertaken substantial investments over recent years to bring its systems into line with the new settlement structure. For Deutsche Börse Group, this holds the opportunity of winning new clients for Clearstream's innovative services, such as global liquidity management. Clearstream will be connected to T2S within the scope of the fourth migration wave in February 2017. Once this connection is in place, clients will be able to use Clearstream as a central point of access for domestic and international settlements, both in central bank and commercial bank funds. National central securities depositories (CSDs) – Clearstream in Germany and LuxCSD S.A. in Luxembourg – will offer their clients T2S settlements at ECB terms, without any mark-up. Full interoperability between national and international central securities depositories (ICSDs) will enhance liquidity and collateral management.

Collateral and liquidity management

Clearstream's collateral and liquidity management offering, developed as part of its Global Liquidity Hub growth initiative, helps customers cope with the structural changes they are facing, such as those resulting from the additional liquidity requirements under Basel III and the clearing obligations under EMIR which came into force in December 2015. The Global Liquidity Hub allows banks to use the assets held in custody by Clearstream on their behalf more efficiently across different platforms and countries. Since this is a key issue throughout the world, Clearstream markets its collateral management system to third parties and has entered into outsourcing agreements with various market infrastructure operators around the world. This Liquidity Hub GO (Global Outsourcing) service is at different stages of development with Clearstream's international partners. In addition to central securities depositories, Clearstream has also signed agreements with custodian banks to allow them to benefit from Clearstream's collateral management expertise. By the end of 2015, four CSDs – from Brazil, Australia, Spain and South Africa – had been connected to the Liquidity Hub GO. Letters of intent have also been signed with other exchanges and CSDs, including in Norway, Singapore and Canada.

Globalisation of the index business

Deutsche Börse Group's objective in its index business is to re-position its established European index provider STOXX with a global profile, in order to develop further indices (on top of its DAX[®] and STOXX[®] index families) and to market them on a worldwide basis. In this context, the Group announced the full acquisition of joint ventures STOXX Ltd. and Indexium AG from SIX Group AG in July 2015. With this move, the Group has gained full strategic flexibility in developing and marketing its indices, in order to better exploit the structural trend towards passive investment products (ETFs). The goal is to acquire new client groups, both within Europe as well as in Asia and the Americas, through diversification. The Group thus consistently expanded its range of indices on Asian underlying instruments (such as the Stoxx[®] China Total Market Indices) in 2015. It also acquired additional clients for its broadly diversified index offer.

Expansion in Asia

In addition to growth in its core markets and products, the Group is focusing on expanding its business in growth regions. A particular emphasis is on Asia, where the Group is already successfully represented by Clearstream subsidiaries in particular. Among other things, Clearstream has been operating a permanent establishment with its own banking licence in Singapore since 2009. In May 2015, Deutsche Börse agreed with the Shanghai Stock Exchange (SSE) and the China Financial Futures Exchange (CFFEX) to establish CEINEX (China Europe International Exchange) – a Sino-German joint venture where Deutsche Börse and SSE hold 40 per cent each, and CFFEX holds 20 per cent. CEINEX offers international investors exposure to investment products based on Chinese underlying instruments. The marketplace is the world's first regulated and authorised trading platform outside China for financial products denominated in renminbi (RMB), the Chinese currency.

CEINEX thus provides new opportunities to investors for efficient trading in Chinese assets – effectively promoting the internationalisation of the RMB, following the decision by the International Monetary Fund (IMF) to include the RMB in its currency basket at the end of November 2015. The IMF thus promoted the renminbi to a reserve currency, alongside US dollar, euro, yen and pound sterling. Investors will thus have new investment and hedging opportunities during European and US trading hours. Trading on CEINEX started in November 2015, initially with cash market products such as ETFs based on Chinese underlying instruments and RMB bonds.

The “Potential net revenue contribution from structural growth opportunities until 2018” table outlines the financial potential associated with growth initiatives in the various segments. It should be noted that additional net revenue is expected between now and 2018.

Other structural growth opportunities

In addition to these initiatives, the Group has identified a number of other structural factors that should have a positive impact on its business success.

- In January 2014, agreement was reached at a European level on the MiFID II Directive: among other things, OTC derivatives transactions will in future have to be settled via organised trading facilities, a requirement that is expected to benefit Eurex. In addition, a decision was taken to limit the volume of equities traded in dark pools. The Group expects this restriction to have a positive impact on the volumes traded on Xetra.
- Risk management is becoming more important in the wake of the financial crisis. The company expects market participants to make greater use of Eurex Clearing’s clearing services to net out transactions in different asset classes and hence to eliminate counterparty risk.

Potential net revenue contribution from structural growth opportunities until 2018

Structural growth opportunities	Description	Expected additional net revenue	Probability ¹⁾
Eurex	360T: roll-out of additional services for foreign exchange trading and clearing, plus the bundling of global foreign exchange activities (~ €100 million) Clearing services for OTC traded derivatives following regulatory requirements (>€50 million) Growth within the commodities area (>€50 million) Expansion in Asia (>€20 million) Central counterparty for securities lending (>€20 million) Fees generated from investing cash collateral (>€15 million) New products (>€30 million)	> €285 million	High
Clearstream	Services for investment funds (>€50 million) Settlement and custody (>€40 million) Collateral management (>€30 million)	Approximately €120 million	High
Market Data + Services	Growth within the index business (>€30 million) Growth within the Information, Tools und Market Solutions business areas (>€10 million each)	Approximately €60 million	High

1) See the [“Description of risks”](#) section for an explanation of the terms.

- In line with the European legal and administrative framework governing certain undertakings for collective investment in transferable securities (UCITS V), the company expects that traditional investment funds will increasingly include derivatives in their portfolio strategies. This could result in additional business for the Eurex segment.
- With respect to Clearstream's post-trade activities, the company anticipates a long-term increase in capital raising through equity and debt financing on the capital markets. This ties in with the higher capital and liquidity requirements for banks and the resulting negative impact on the total volume of available credit. For Clearstream, this could have a positive effect on custody volumes, especially in the international bond segment. In addition, given the growing internationalisation of the capital markets, the company is continuing to expect a sharper rise in the volume issued internationally compared with national bond issues.

Cyclical opportunities

In addition to its structural growth opportunities, Deutsche Börse Group has cyclical opportunities, for instance as a result of positive macroeconomic developments. For example, volatility on the stock markets increased starting at the end of the third quarter of 2014 due to growing uncertainty regarding global economic performance and another interest rate cut by the ECB, remaining at a high level throughout 2015. This resulted in greater demand for hedging and in a significant increase in trading volumes on regulated markets at the beginning of the fourth quarter, mirrored in the two-digit growth rates on the cash and derivatives markets. Although the company cannot influence these cyclical opportunities directly, they could lift Deutsche Börse Group's net revenue and net profit for the period attributable to Deutsche Börse AG shareholders significantly in the medium term:

- In the cash and derivatives market segments (Xetra and Eurex), sustained positive economic development, a lasting rise in investor confidence in the capital markets leading to a renewed rise in risk appetite among market participants and a sustained increase in stock market volatility could again stimulate trading activity by market participants and boost trading volumes for 2016.
- The volumes of interest rate derivatives traded on the Group's derivatives markets could rise if speculation on trends in long-term yields on German and other European government bonds grows, if key interest rates actually rise, and/or if the spread between the various European government bonds continues to narrow.
- The company does not expect the ECB to change its low interest rate policy during the forecast period, the US Federal Reserve could incrementally continue to raise interest rates in 2016. Among other things, this would positively impact Clearstream's net interest income as some 50 per cent of its daily cash balances are denominated in US dollars. A rise in key interest rates of one basis point affecting all customer cash deposits could lift income by some €100 million.
- In the market data business, an increase in the number of employees at companies active on the financial markets could lead to growing demand for data packages.

External growth opportunities

In addition, the company regularly explores external growth opportunities, which are subjected to the same kind of stringent analysis as its organic growth initiatives. For this reason, only a small number of the opportunities analysed are ultimately realised. Examples of external growth in the past few years include the takeover of Citco's hedge fund custody business, the majority interest in EEX and Powernext, the full acquisition of the joint ventures STOXX incl. Indexium, as well as the full acquisition of 360T. Deutsche Börse Group is also open to investments and co-operations in Asia, as exemplified by the strategic cooperation with the Shanghai Stock Exchange and the China Financial Futures Exchange, and the foundation of joint venture CEINEX (China Europe International Exchange), as well as the announcement of a cooperation agreement between Bank of China and CEINEX. In general, the focus is on leveraging organic growth opportunities since the company already offers a very comprehensive range of products and services along the entire value chain.

Acknowledgement

Published by

Deutsche Börse AG
60485 Frankfurt/Main
Germany
www.deutsche-boerse.com

Concept and layout

Lesmo GmbH & Co. KG, Dusseldorf
Deutsche Börse AG, Frankfurt/Main

Photographs

Jörg Baumann (Title),
Thorsten Jansen (Portraits)

Financial reporting system

Combined management report, consolidated financial statements and notes produced in-house using FIRE.sys and SmartNotes.

Printed by

Werbedruck GmbH Horst Schreckhase, Spangenberg

Publication date

15 March 2016

The German version of this report is legally binding. The company cannot be held responsible for any misunderstanding or misinterpretation arising from this translation.

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We would like to thank all colleagues and service providers who participated in the compilation of this report for their friendly support.

Publications service

The Annual 2015 and the financial report 2015 are both available in German and English.

Order number 1000–4606 (Annual in German)
Order number 1000–4607 (Financial report in German)
Order number 1010–4608 (Annual in English)
Order number 1010–4609 (Financial report in English)

The corporate report 2015 of Deutsche Börse Group is available here:

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Phone +49-(0) 69–2 11–1 15 10
Fax +49-(0) 69–2 11–1 15 11

Contact

Investor Relations

E-mail ir@deutsche-boerse.com
Phone +49-(0) 69–2 11–1 16 70
Fax +49-(0) 69–2 11–1 46 08
www.deutsche-boerse.com/ir_e

Group Sustainability

E-mail group-sustainability@deutsche-boerse.com
Phone +49-(0) 69–2 11–1 42 26
Fax +49-(0) 69–2 11–61 42 26
www.deutsche-boerse.com/sustainability

Marketing Communication

E-mail corporate.report@deutsche-boerse.com
Phone +49-(0) 69–2 11–1 49 84
Fax +49-(0) 69–2 11–61 49 84

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