



Deutsche Bank AG

Deutsche Bank Q4 2021 Analyst Conference Call

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Transcript

Speakers:

Christian Sewing, Chief Executive Officer

James von Moltke, Chief Financial Officer

Ioana Patrniche, Head of Investor Relations



CHRISTIAN SEWING

Slide 1 – 2021 was a pivotal year for transformation execution

- Thank you, Ioana. A warm welcome from me as well
- It's a pleasure to be discussing our fourth quarter and full year 2021 results with you today
- We are now almost three quarters of the way through the strategy we launched in 2019. The progress we have made shows 2021 was a pivotal year in this transformation journey
- And this is evident across the performance of all our businesses
- Firstly, we have demonstrated the strength of our franchise. Since the start of our transformation, our franchise has done more than prove its resilience. In fact, it has grown beyond our original expectations
- And of course, the market environment was more supportive, but it is the fundamental strength of our client relationships which we have increased, in light of our strategic focus on core businesses
- This is reflected in the market share gains we made in key businesses over the past two years, and we remain encouraged to still see client engagement continuing to grow
- We delivered revenues of 25.4 billion euros in the full year of 2021, an increase of 6% year on year, and we expect to grow from this base
- Secondly, we continue to work intensively on transforming the bank. In 2021 we accelerated our transformation and positioned the bank for the most important measurement year of our "Compete to win" strategy
- Having booked transformation charges of 1 billion euros and approximately 500 million euros of restructuring and severance in 2021, we have now recognised 97% of our total anticipated transformation-related effects
- Our transformational efforts and investments over the past years are paying off and will help drive reductions in our expenses in future quarters and years
- We continue to be absolutely focused on capturing these benefits through further cost saving measures, so we remain confident we are on the right path to our 70% cost/income ratio
- We also delivered on another important milestone within our Capital Release Unit, by completing the transition of Prime Finance to BNP Paribas



- Deleveraging exceeded our plans and our leverage exposure in the CRU is down to 39 billion euros, from 72 billion euros at the end of 2020, and down 84% since we launched our strategy in mid-2019
- And, finally, transformation delivered significantly improved profitability in 2021
- Our pre-tax profit of 3.4 billion euros more than tripled compared to 2020 despite higher transformation charges
- We reported net profit of 2.5 billion euros, a more than fourfold increase compared to 2020 and Deutsche Bank's highest full year profit since 2011, once again, despite absorbing additional transformation charges
- As we announced yesterday evening, this organic capital generation, along with our confidence about our future trajectory, allows us to distribute 700 million euros of capital to our shareholders - a first step to our commitment of 5 billion euros
- Now let me take you through the financial highlights of what we have achieved in the twelve months of 2021, and since 2019, on slide 2

Slide 2 – Group performance supports path to financial targets

- We have grown revenues and reduced expenses each year since 2019, while at the same time executing on our transformation
- We again delivered positive operating leverage at group level in 2021 and reduced our cost/income ratio from 88% to 85% year on year
- 2021 provision for credit losses declined 71% year on year to 12 basis points of average loans. This reflects the benign credit environment, but also the strength of our conservative loan book and sound risk management
- Return on tangible equity for the Core Bank is 6% for the full year, and 8.5% on an adjusted basis
- This sets us on a clear path to our Group target of an 8% return on tangible equity in 2022
- Our focus on transformation has driven steady improvements in underlying profitability, which can be seen on slide 3

Slide 3 – Transformation drives growth and profitability

- In the Core Bank, we have more than doubled our adjusted profit before tax since 2019, including an increase of 46% in the last twelve months



- Our improved profitability was a major driver for the three rating upgrades we received in 2021, the latest by S&P in November. This is not only a recognition of our transformation success, but it also further supports our client engagement and revenue momentum
- The Capital Release Unit delivered another year of significant portfolio reduction and we continue to be committed to minimizing the P&L impact on Group profitability, including through future cost reductions
- A key driver of higher profitability is our sustainable revenue performance, which I will now turn to on slide 4

Slide 4 – Strong revenue momentum in the Core Bank

- Revenues excluding specific items in the Core Bank stood at 25.3 billion euros in 2021, up 5% compared to 2020 and 11% since 2019
- Revenues in the Corporate Bank were flat year on year, as underlying business growth and continued deposit repricing offset interest rate headwinds. And we are particularly encouraged to see growth accelerate this quarter
- In the Investment Bank, revenues increased 4% year on year compared to a strong 2020, on a higher contribution from Origination & Advisory, while Fixed Income & Currencies revenues were essentially flat
- In the Private Bank, strong business volume more than offset interest rate headwinds and the impact of forgone revenues from the BGH ruling in April. As a result, revenues were stable year on year
- Overall, we saw strong underlying growth in client lending. Our total loan book is currently at 476 billion euros, up 10% year on year with all these businesses contributing to this lending momentum
- Asset Management delivered significant revenue growth of 21% year on year, driven by strong management and performance fees. Assets under management closed at a record 928 billion euros
- Group revenues excluding specific items were 25.3 billion euros, a 9% increase from 2019
- While we certainly benefitted from favourable market conditions in some business areas, 2021 revenues also demonstrate our ability to offset headwinds in light of our business mix
- And thus, 2021 revenues provide a more than credible base to grow from here and this is confirmed by the momentum carried through to the first weeks of 2022



Slide 5 – Continued cost progress in investment year

- Now let me turn to costs, on slide 5
- We have reduced our cost/income ratio by 24 percentage points since 2019, with noninterest expenses declining by 14% to 21.5 billion euros over two years
- Year on year, 2021 expenses were up 1%. The increase reflects higher transformation-related effects of 1.5 billion euros, up 21% year on year, predominantly driven by transformation charges of 1 billion euros, more than double the amount we booked in 2020
- At the same time, our adjusted costs declined by 1% despite higher volume and performance related expenses, reflecting improved business performance
- 2021 was an investment year and we made significant improvements in technology. These efforts have already delivered savings in 2021, however, we made a strategic decision to reinvest them to support lower costs in the future
- We have also worked to deliver on the commitment to invest in our control environment
- James will provide further detail on how our efforts will help us to achieve lower costs by the first quarter of this year
- I would now like to highlight the progress made in our core businesses on slide 6

Slide 6 – Progress on strategic priorities in core businesses

- The Corporate Bank continues to execute on its growth strategies as evidenced by increasing loan and fee income growth in the fourth quarter
- About 100 billion euros of deposits are within the scope of repricing agreements and this contributed 109 million euros in revenues to our fourth quarter results and more than 360 million to the full year
- The refocus of our Investment Bank on its core strengths has paid off
- We have delivered year on year revenue growth in Origination and Advisory for 8 consecutive quarters as well as market share gains in FIC
- And demonstrating our joined-up platform, we are the leading bank for EMEA investment grade debt issuance and the leading market maker in European Government Bonds in the fourth quarter



- The Private Bank continued to grow net new business across assets under management and loans. Business growth of 45 billion euros in 2021 outperformed our full year target of over 30 billion euros by half
- We made significant progress in optimizing our distribution network including the closure of more than 180 branches during the year
- In Asset Management, assets under management reached a record level of 928 billion euros, driven by strong net inflows of 48 billion euros last year. Importantly, 40% came from ESG products, where we continue to work to cement our leadership position in this field
- The dynamics in all four core businesses show that our refocused business model is paying off and that our clients are supportive and believe in our capabilities
- Let me now update you on our progress on sustainability on slide 7

Slide 7 – Significant achievements in sustainability

- In 2021 our cumulative ESG financing and investment volumes stood at 157 billion euros, versus an ambition of 100 billion euros, excluding DWS
- This puts us well on track to meet or likely exceed our year-end 2023 target of at least 200 billion euros
- We grew our market share in issuance of ESG products, which increased from 2.2% in 2019 to 4.6% in 2021
- Sustainability is a topic which continues to drive client engagement, allowing us not only to innovate new products, but to also provide advisory services, validating our client centric approach
- Our commitment to sustainable financing is reflected in our actions. We are a founding member of Net Zero Banking Alliance and we joined the Forest Investor Club as a founding member in the United States
- Before I hand over to James, let me summarise our progress this year on slide 8

Slide 8 – Disciplined execution has repositioned business for success

- The hierarchy of our 2022 priorities remains unchanged. We are on track to meet our targets of an 8% post-tax return on tangible equity supported by a 70% cost/income ratio
- We are delivering resilient revenues and our businesses were able to offset many of the headwinds we faced in 2021



- Our core businesses are performing in line with, or ahead of, our expectations. That positions us to deliver on our revenue ambitions in 2022
- We continue to be absolutely focused on cost savings measures. In 2021, we intensified our transformation efforts and took further steps to drive long-term efficiencies
- We executed on a wide range of the transformation measures we began to formulate three years ago and, as you know, we initiated additional measures in 2021. Having put 97% of the expected transformation-related effects behind us, we have created a clear path to our 2022 cost/income ratio target
- And, importantly, the benefits of these efforts are not limited to 2022. Our relentless focus on executing our transformation agenda means we navigated the bank to structurally lower costs, but also positioned it to capture future revenue opportunities
- These strong foundations will drive steadily increasing profitability, which will lead to future improvements in shareholder returns
- Our intention to distribute 700 million euros for 2021 is the start of our commitment to distribute the 5 billion euros of capital we communicated previously
- And we look forward to discussing our future plans with you at our next Investor Deep Dive in March!
- With that, let me now hand over to James

JAMES VON MOLTKE

Slide 9 – Q4 / FY 2021 Group financial highlights

- Thank you Christian
- Let me start with a summary of our financial performance for the quarter, on slide 9
- We generated a profit before tax of 82 million euros or 527 million euros on an adjusted basis
- Total revenues for the Group were 5.9 billion euros, up 8% versus the fourth quarter 2020
- Net interest income this quarter was roughly 2.9 billion euros, up approximately 150 million euros on the third quarter. The increase was driven by the continued growth in our loan book, along with a reduction in our long-term debt and deposit funding costs



- Net interest margin remains broadly flat at a rounded 1.2%, as progress on deposit repricing and reduced surplus liquidity offset the ongoing pressure from interest rates
- Turning to costs, noninterest expenses were up 11% year on year; this quarter included 204 million euros of transformation charges, broadly flat year on year, and 251 million euros of restructuring and severance, up 46% compared to the prior year, as well as a higher litigation charge
- Adjusted costs excluding transformation charges were up by 6% driven by performance related compensation expenses, which I will detail below
- Our provision for credit losses was 254 million euros or 22 basis points of average loans for the quarter
- Tangible book value per share was 24 euros and 73 cents, up 27 cents on the quarter, and 7% for the full year
- In 2021, we generated a pre-tax profit of 3.4 billion euros or 4.8 billion excluding transformation-related effects and specific revenue items, more than double the adjusted result in 2020
- Return on tangible equity for the group was 3.8% for the full year
- Our full year effective tax rate in 2021 was 26%. Excluding the positive deferred tax asset valuation adjustment of 274 million euros during the quarter, our full year tax rate would have been 34%, in line with our previous expectations
- Let's now turn to the Core Bank's performance on slide 10

Slide 10 – Q4 / FY 2021 Core Bank financial highlights

- Core Bank revenues were 5.9 billion euros for the quarter, up 7% on the prior year quarter
- Noninterest expenses were up 12% for the quarter. This included a 51% rise in restructuring and severance expense, and the aforementioned increase in litigation costs. Adjusted costs excluding transformation charges increased 8% year on year
- This takes our profit before tax to 434 million euros, down 27% on the prior year, and the adjusted profit before tax was 860 million euros, 13% down on the prior year
- Our adjusted post tax return on tangible equity for the quarter was broadly flat year on year at 6%
- Looking at the results on a full year basis, revenues in the Core Bank were 25.4 billion euros, up 5% compared to 2020



- Noninterest expenses increased 4% year on year mainly due to the additional transformation charges, and adjusted costs excluding transformation charges increased 2% on higher uncontrollable costs, volume related costs and higher compensation reflecting our business performance
- Our cost/income ratio was 79% for the full year
- And as Christian mentioned, our adjusted return on tangible equity for the Core Bank was 8.5% for 2021
- Let me now give you some additional details on how the changing interest rate environment will impact our business on slide 11

Slide 11 – Interest income sensitivity

- As we discussed last quarter, the interest rate environment negatively impacted our 2021 revenues by about 750 million euros in comparison to 2020, mainly in Private Bank and Corporate Bank
- Despite this drag, these businesses were able to maintain a broadly stable revenue base as a result of lending growth, fee income and deposit repricing
- We expect the interest rate impact, along with the annualization of deposit pricing actions, to swing to the positive in 2022 and to support revenue growth from this point on if current forward rates are realized, assuming a constant balance sheet
- Cumulatively, we would expect this impact to reach 900 million euros per annum by 2025
- As short-end rates rise, we will see a reduced drag from our remaining floored deposits and rises in long-end rates will result in hedge portfolios on average being rolled at rates higher than the positions they are replacing
- We remain positively geared to rate rises above current forward levels from improving deposit margins
- This additional upside is not reflected in our plan and we have provided you with the estimated impact on our revenue base corresponding to a 25 basis point parallel shift of interest rates across our key currencies at the bottom left of the slide
- This sensitivity is likely conservative given the opportunities for margin expansion that will arise as rates rise, particularly as Euro rates cross zero



- Just to note, both the expected tailwinds from current forward curves and the sensitivity to additional moves in key rates reflect the impact on our interest rate sensitivity of deposit repricing actions. That is, these liabilities are treated as floating rate in our modelling
- Let's now turn to costs on slide 12

Slide 12 – Adjusted costs - Q4 2021

- In the fourth quarter, adjusted costs excluding transformation charges increased by 262 million euros or 6% year on year, and 3% excluding FX effects. FX variances represented approximately 100 million euros, split roughly equally between compensation and non-compensation costs
- Adjusted for FX, compensation expenses increased by 150 million euros compared to the prior year. This includes 100 million euros of adverse one-off effects, as well as 150 million euros driven by variable compensation reflecting better performance in the current year, competitive market pressures and a downward adjustment we took in the prior year recognising the need for moderation in the pandemic environment
- Remaining compensation costs reduced by approximately 100 million euros, or 4%
- Noncompensation costs excluding FX were flat. Higher IT costs resulting from the execution of our IT and platform strategies were offset by lower professional service fees and occupancy costs
- Our fourth quarter adjusted costs excluding transformation charges and reimbursements for Prime Finance were 4.9 billion euros
- Transformation charges were approximately 200 million euros, which I will come back to in a moment

Slide 13 – Adjusted costs - FY 2021

- If we look at the full year costs on slide 13, adjusted costs excluding transformation charges decreased by 2% year on year or 319 million euros. FX did not have a material impact on a full year basis
- Compensation expenses decreased by approximately 60 million euros compared to the prior year, including a total of around 300 million euros of adverse one-off items and net performance-related adjustments in variable compensation, mostly reflected in the fourth quarter
- The remaining compensation costs reduced by approximately 350 million euros, or 4% year on year



- Noncompensation costs decreased by 260 million euros, or 3%. Lower costs, primarily in real estate, professional services, and operational losses more than offset increases in IT spend and staff-related noncompensation costs
- Full year 2021 adjusted costs excluding transformation charges and reimbursements for Prime Finance were 19.3 billion euros and transformation charges were 1 billion euros
- And as Christian mentioned earlier, we will continue to manage our expenses towards our cost/income ratio target of 70% for 2022
- We will provide further detail on our expense development in 2022 on 10th of March, but let me give you the main building blocks that will reduce our adjusted costs excluding transformation charges and bank levies in first quarter of 2022
- We aim to reduce costs by around 450 million euros quarter on quarter. The reductions are expected to result from run rate effects and the absence of one-off impacts in the following three categories, all which contribute roughly equally
- The first category is the run rate benefit of headcount reductions in late 2021, with the full impact visible in the first quarter, as well as a normalised variable compensation accrual and the absence of one-offs
- Then, we will have run rate reductions from the completion of IT, control, and remediation projects
- And finally, the last category relates to savings in real estate, staff related noncompensation and various other noncompensation costs
- Keep in mind that the bank levies are booked in the first quarter, which we currently estimate at around 600 million euros
- Let's now move to slide 14 to discuss transformation-related effects

Slide 14 – Transformation-related effects

- This quarter, we booked 456 million euros of transformation-related effects. Of these, 204 million euros related to transformation charges of which approximately 100 million euros related to real estate actions and 100 million euros of impairments related to our migration to the Cloud, similar to the third quarter
- The 251 million euros in restructuring and severance expenses we booked this quarter will support future reductions of our workforce



- All of these changes will enable us to progress transformation and drive savings in 2022 and beyond
- This brings the total of transformation-related effects we booked since 2019 to 8.4 billion euros, or 97% of the total we anticipate through end-2022, and we expect to book the final charges in 2022
- Let's now turn to provision for credit losses on slide 15

Slide 15 – Provision for credit losses

- Provision for credit losses for the full year 2021 was 12 basis points of average loans, or 515 million euros, in line with previous guidance of less than 15 basis points
- The low level of provisions in 2021 was supported by a strong economic recovery, particularly following the easing of various pandemic related restrictions during the year. But, importantly, it is also a reflection of our conservative balance sheet and strong risk management
- Stage 3 provision improved while stage 1 and 2 provisions normalised compared to the prior year
- Smaller stage 1 and 2 provision releases reflect the stabilised macroeconomic environment and the reduction of management overlays
- We expect credit loss provision to be around 20 basis points of average loans for next year. This reflects the expectations of a slowdown of macro-economic growth in 2022 from the exceptionally strong levels last year
- Let me now turn to capital on slide 16

Slide 16 – Capital ratios

- We finished the year with a Common Equity Tier 1 capital ratio of 13.2%, in line with our guidance, and up 22 basis points compared to the prior quarter
- CET1 capital increased in the quarter, adding 17 basis points to our CET1 ratio, as improvements in our valuation control framework led to a release of a regulatory capital deduction. Fourth quarter earnings were principally offset by the deductions for dividend and AT1 coupons
- Higher risk weighted assets driven by Core Bank business growth, mainly in credit risk, were more than offset by lower market and operational risk weighted assets



- CET1 capital now includes a deduction for common share dividends of 689 million euros for the full year, meaning that the distribution plans we announced yesterday will be neutral to the capital ratio by the second quarter
- For 2022, we expect to keep a CET1 ratio around 13% and in any case above our target of 12.5%
- That said, we expect our CET1 ratio to decline in the first quarter of this year with some variability during the year, for example from pending regulatory decisions on RWA models
- We expect to finish the year with a CET1 ratio of 13% or higher
- Our fully loaded leverage ratio was 4.9%, an increase of 18 basis points over the quarter
- Of the 18 basis points quarterly ratio increase, 17 basis points came from Tier 1 capital. Within that, 6 basis points came from Core Tier 1 capital and our successful Additional Tier 1 capital issuance in November 2021 contributed further 11 basis points
- Leverage exposure, excluding FX effects, decreased by 8 billion euros quarter on quarter, as strong loan growth in the Core Bank was more than offset by the transfer of the Prime Finance balances
- Our pro-forma fully loaded leverage ratio including certain ECB cash amounts was 4.5%, in line with our 2022 target
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 18

Slide 18 – Corporate Bank

- Full year revenues for the Corporate Bank were 5.2 billion euros, flat year on year. Repricing and underlying business growth, particularly in Institutional Client Services, offset interest rate headwinds of approximately 230 million euros, which were almost fully reflected in the first nine months
- Momentum was strong in the fourth quarter, with revenues increasing by 10% year on year, with further progress on deposit repricing and solid underlying business performance, supported by 8% fee income and 7% loan growth
- This was the highest quarterly revenue, as well as the highest year on year revenue growth, since the formation of the Corporate Bank and the launch of the transformation program in mid-2019



- At the end of the fourth quarter, repricing agreements were in place for accounts with 101 billion of deposits, which produced 109 million euros of revenues in the quarter
- Loans stood at 122 billion euros, up 3 billion euros compared to the end of the third quarter and 8 billion euros higher than at the end of 2020, mainly driven by Corporate Treasury Services
- The increase of 14% in risk weighted assets year on year reflects loan growth of 7% and regulatory inflation related to the ECB's targeted review of internal models
- Noninterest expenses of 4.2 billion euros for the full year declined by 2% driven by prior year litigation and a favourable FX impact, partly offset by higher restructuring and severance
- Adjusted costs excluding transformation charges were down 1%, as platform efficiencies were partly offset by non-repeating items and higher variable compensation, which together with technology costs also drove the 3% increase in the final quarter
- Provision for credit losses for the full year was a net release of 3 million euros, reflecting an overall low level of impairments and Stage 1 and 2 releases
- For the full year, profit before tax in the Corporate Bank was 1 billion euros, increasing by 86% year on year. Adjusted profit before tax also rose significantly, by 70%, to 1.2 billion euros, with good momentum in the second half including a contribution of 312 million euros in the fourth quarter
- This equates to a 6.7% reported and an 8% adjusted post-tax return on tangible equity for the full year, a significant improvement on the prior year
- We are pleased with the progress and the performance of the Corporate Bank in the fourth quarter, which sets us up well to deliver on our targets for 2022
- Turning to revenues by business segment in the third quarter on slide 19

Slide 19 – Q4 2021 Corporate Bank revenue performance

- Corporate Bank revenues in the fourth quarter grew materially by 10% to 1.4 billion euros, with further progress on deposit re-pricing and accelerated business growth



- Interest rate headwinds were starting to ease in the quarter, as improvements in the rates environment in the US and Asia largely offset ongoing Euro headwinds
- Corporate Treasury Services revenues of 828 million euros grew by 12% year on year driven by further progress on deposit re-pricing, business initiatives including loan growth, as well as episodic items, such as recoveries related to credit protection
- Institutional Client Services revenues of 343 million euros also rose by 12%, with solid underlying growth across all businesses as we saw strong client activity, especially in Trust & Agency and Security Services
- Business Banking revenues of 181 million euros, decreased by 5% year on year excluding specific items, as progress on deposit repricing was more than offset by ongoing interest rate headwinds
- I'll now turn to the Investment Bank on slide 20

Slide 20 – Investment Bank

- For the full year, revenues were 4% higher compared to what was a very strong 2020
- Noninterest expenses were higher driven by increased compensation costs as well as higher bank levy and infrastructure cost allocations
- The Investment Bank generated a pre-tax profit of 3.7 billion euros and a return on tangible equity of 10.7% for the full year, both material increases on 2020
- Our loan balances increased, both quarter on quarter and year on year, primarily driven by higher loan originations across the Financing businesses, combined with a short-term increase in Debt Origination to facilitate a client transaction, which will roll off in the first quarter
- Leverage exposure was higher, reflecting increased lending commitments and deployment in our FIC trading businesses to support the franchise
- The year on year increase in risk weighted assets predominantly reflects the impact of regulatory driven inflation
- Provision for credit losses of 104 million euros or 14 basis points of average loans decreased year on year due to COVID related impairments in the prior year
- Turning to revenues by segment on slide 21



Slide 21– Q4 2021 Investment Bank revenue performance

- Revenues for the fourth quarter were essentially flat, on both a reported basis and excluding specific items
- Revenues in FIC Sales & Trading decreased by 14% in the fourth quarter when compared with the prior year
- Strong performance in Financing was offset by lower revenue in the Trading businesses
- Financing revenues were significantly higher driven by increased net interest income, with solid performance across all businesses
- Credit and Macro trading revenues declined when compared to a strong prior year quarter and the business also faced challenging market conditions
- The net impact of episodic items had a slightly positive impact year on year in the quarter
- The FIC franchise continues to see positive business momentum with underlying client activity up year on year and loan growth increasing for the fourth consecutive quarter
- Revenues in Origination and Advisory were significantly higher versus prior year
- Debt Origination revenues were higher. Strong performance in Leveraged Debt Capital Markets continued, specifically within the leveraged loan market, with Investment Grade related revenues broadly flat
- We were the leading European bank for Investment Grade bond issuance during the quarter
- Within ESG we were ranked top 5 for the full year on a fee basis for Global ESG debt related products according to Dealogic
- Equity Origination revenues were lower. Market share gains in IPOs and follow-ons were more than offset by reduced primary SPAC activity year on year
- Revenues in Advisory were significantly higher driven by market share gains in a record market. Our share in pending transactions was also materially higher, which positions us well moving into 2022
- In addition, we finished the full year ranked number 1 in Origination and Advisory in our home market
- Turning to the Private Bank on slide 22



Slide 22 – Private Bank

- Revenues were 8.2 billion euros in the full year, up 1% year on year, reflecting continued revenue momentum in both businesses and higher benefits from TLTRO, which offset interest rate headwinds of approximately 400 million euros. We expect these headwinds to decline by well over half this year, excluding the impact of deposit repricing
- Revenues would have been up 2%, if adjusted for 154 million euros of forgone revenues from the BGH ruling in the year and the non-recurrence of a negative impact of 88 million euros from the Postbank Systems sale in the prior year
- In 2021, we made progress on strategy execution and streamlined our branch network by closing more than 180 branches and reduced headcount to about 28,000 FTEs at year-end
- Notwithstanding this, adjusted costs excluding transformation charges were up 1% year on year. Incremental savings from transformation initiatives were offset by higher technology spend and internal service cost allocations, as well as higher costs for deposit protection schemes and variable compensation. The year on year increase also reflected a one-time benefit in the prior year associated with pension obligations
- Provision for credit losses were 18 basis points of average loans or 446 million euros and reduced by 37% year on year, benefiting from the improved economic environment as well as tight risk discipline and a high-quality loan book
- With this, the Private Bank reported a pre-tax profit of 366 million euros in 2021
- Adjusted for transformation-related effects of 458 million euros, negative impacts from the BGH ruling of 284 million euros and specific revenue items, pre-tax profit would have been above a billion euros in 2021
- On this basis, adjusted post-tax return on tangible equity would have been 5.5%
- Risk weighted assets increased by 11% predominantly due to regulatory changes
- For the full year, business volumes grew by 45 billion euros, with 30 billion euros of inflows in assets under management and 15 billion euros of net new client loans
- Turning to revenues by segment on slide 23



Slide 23 – Q4 2021 Private Bank revenue performance

- Revenues in the Private Bank Germany were up 8% on a reported basis or up 1% if adjusted for the negative impact of the aforementioned sale of Postbank Systems in the prior year quarter
- The current quarter benefited from a net positive true-up effect of 34 million euros related to the BGH ruling, as the final reimbursement of fees was lower than we originally expected. By year-end 2021, 86% of customer accounts affected by the BGH ruling had the necessary consent agreements in place
- Revenues excluding specific items and the BGH impact declined by 2% with continued headwinds from deposit margin compression, partially mitigated by continued business growth in investment and mortgage products
- Net new client loans of 2 billion euros, mainly in mortgages, and net inflows in investment products of 2 billion euros in the quarter contributed to a full year business growth of 21 billion euros in the Private Bank Germany
- In the International Private Bank, net revenues increased 6% in the quarter, adjusted for lower gains from Sal. Oppenheim workout activities
- Private Banking and Wealth Management revenues declined by 5% on a reported basis but increased by 7% excluding specific items reflecting growth in investment products and loans supported by previous hiring of relationship managers
- Personal Banking revenues increased by 3% year on year with business growth in investment products and lower funding costs partially offset by deposit margin compression
- The business reported 1 billion euros net outflows in investment products reflecting portfolio repositioning and deleveraging in volatile markets and attracted net new client loans of 2 billion euros in the quarter. In the full year, the International Private Bank achieved business growth of 24 billion euros

Slide 24 – Asset Management

- As you will have seen in their results and from their ad hoc release, DWS had a very successful year
- To remind you, the Asset Management segment shown on slide 24 includes certain items that are not part of the DWS stand-alone financials



- Revenues grew by 21% versus the prior year, with growth across all revenue streams. Improvements in equity market levels and seven consecutive quarters of net inflows resulted in an increase of management fees by 233 million euros
- Higher performance and transactions fees include an exceptional Multi-Asset performance fee, as well as an increase in transaction fees. Other revenues include a favorable impact from fair value of guarantees, a higher contribution from our Harvest investment and gains from higher investment valuations
- Noninterest expenses increased by 138 million euros or 9%, with adjusted costs excluding transformation charges up 10%
- This reflects higher compensation costs, including hiring and variable compensation, higher asset servicing costs due to the increase in assets under management, as well as investments into platform transformation and growth initiatives
- On a reported basis, the cost/income ratio improved to 61%
- Profit before tax of 816 million euros in the year increased by 50% over the previous year, reflecting strong revenues from record assets under management and remarkably strong net inflows, supported by higher performance fees and other revenues
- Adjusted for transformation-related effects, profit before tax increased 43% to 840 million euros for the full year
- Assets under management of 928 billion euros have grown by 135 billion euros in the year, driven by record net inflows and the positive impact from market performance and FX translation effects
- Record net inflows were 48 billion euros in the year, with inflows across all three product pillars: Active, Passive and Alternatives
- The business also attracted 19 billion euros of net inflows into ESG products during the year
- Turning to Corporate & Other on slide 25

Slide 25 – Corporate & Other

- Corporate and Other reported a pre-tax loss of 320 million euros in the quarter, including 59 million euros of transformation charges, which were not passed on to the divisions and are captured in 'Other' line
- Shareholder expenses as defined in the OECD transfer pricing guidelines were 142 million euros in the quarter



- For the full year 2021, Corporate and Other reported a pre-tax loss of 1.1 billion euros including 603 million euros of transformation related charges
- For 2022, we expect Corporate and Other to generate a pre-tax loss of around 700 million euros. The lower loss mainly reflects lower expected transformation related charges
- The reduction in transformation related expenses will be partly offset by higher transitional costs relating to changes in our internal funds transfer pricing framework, costs linked to legacy activities relating to the merger of the DB Privat- und Firmenkundenbank AG into Deutsche Bank AG as well as incremental group-wide investments, mainly in our IT and Anti-Financial Crime areas
- Shareholder expenses should revert to the level of about 400 million euros again in 2022
- We can now turn to the Capital Release Unit on slide 26

Slide 26 – Capital Release Unit

- For the full year, the Capital Release Unit reduced its loss before tax to 1.4 billion euros. This was 836 million euros better than the prior year, driven by significant improvements in both costs and revenues
- We recorded positive full year revenues in 2021 as income from the Prime Finance cost recovery and from our loan portfolio were only partly offset by funding, risk management and de-risking impacts
- This compares to the negative 225 million euros in revenues we reported in the prior year, primarily driven by lower de-risking impacts
- Adjusted costs excluding transformation charges declined by over a third reflecting lower internal service charges and bank levy allocation, as well as lower direct costs
- This quarter marked a significant milestone for the CRU and the Bank's transformation as we completed the transition of our Prime Finance and Electronic Equities platforms to BNP Paribas
- The final stages of the transition were executed smoothly, and we are pleased that we have provided continuity for our clients and staff, while delivering a substantially superior economic outcome to shareholders
- Since the fourth quarter of 2020, the division has reduced leverage exposure by 33 billion euros and risk weighted assets by 6 billion euros



- This brings both leverage and RWAs below the 2022 targets we shared with you at the Investor Deep Dive in December 2020
- Looking through to the remainder of 2022, we are confident of achieving or exceeding the target for adjusted cost excluding transformation charges of 800 million euros that we set out at the Investor Day in 2020. We will also aim to drive risk weighted assets and leverage down further and expect to record a modest negative revenue number for the year
- Turning finally to the Group outlook for 2022 on slide 27

Slide 27 – Outlook

- 2021 confirmed the resilience and growth potential of our core businesses and this reinforces our confidence in continued business momentum, significantly exceeding our previous 2022 revenue ambitions
- We remain highly focused on cost discipline and delivery of the initiatives we have underway and, as noted, we recognised substantially all of our expected transformation-related effects by year end
- Crystallising the expected savings and a reduction in investments are the key elements of the cost trajectory towards the 70% cost/income ratio target for 2022
- As we guided earlier, credit loss provision will be around 20 basis points in 2022
- Our credit portfolio quality remains strong, and we are well positioned to manage emerging risks including geopolitical uncertainties, supply chain disruptions and expected policy tightening
- As noted, we expect to maintain a CET1 ratio of around 13% and in any case above 12.5%, consistent with our target
- Our leverage ratio target for the end of 2022 remains approximately 4.5%, fully loaded
- Christian mentioned our intention to return capital to shareholders
- As announced yesterday evening, we will propose a cash dividend of 20 euro cents per share in relation to the 2021 financial year. In addition, having received the required regulatory approval, we intend to begin a share buyback program of 300 million euros, to be completed in the first half of 2022



- These capital distributions represent the first instalment of our commitment to return 5 billion euros of capital from 2022 over time and we will outline our plans beyond 2022 at our Investor Deep Dive in March
- With that, let me hand back to Ioana and we look forward to your questions!

Question and answer session

Adam Terelak
(Medioabanca)

Afternoon. Thank you. I've got two questions. They're both on the new guidance on NII and cost. On cost, you've given us the moving parts for the Q1 run rate, but I want to know what happens to the underlying cost base through 2022. How should we think about that developing quarterly? How far does that come down? What should the exit rate look like, and what are the main drivers?

And on NII, the new disclosure is very helpful. Clearly, I'd like to get little bit more colour on the moving parts. So, what kind of a hike cycle have you assumed? And can you split the forward guidance for that €900 million total between what is the hike cycle and what is the rollover of longer-end rates?

And then finally, I just want to put those two together. If you're thinking about 2023, clearly, you're pointing to NII upside into next year. A cost run rate that could be coming down into 2023 as well. So, clearly, you've got positive jaws into 2023. How should we think about the development of cost-to-income, against your 70% cost-to-income ratio for this year, into 2023 and beyond? Thank you.

James von Moltke

Thank you, Adam. It's James. I'll jump into all of that. There's a lot to go through in your questions, and they're all great questions. Let me start with cost. We've obviously got ambitious plans for 2022. We've been preparing for that for some time in terms of initiatives, measures that we're taking, putting the transformation costs associated with those behind us, and really teeing up for what we call our measurement year in 2022.



If I go to run rate, which was part of your question, and again, it's a little bit away from the cost-to-income ratio basis that we've been talking about for a while, so there's always some variability, but we do need to recapture a run rate in Q1 that's consistent with our 70% target. And hence the guidance we gave in our prepared remarks about a 450, call it, sequential decline in expenses. So that gives you a level that we need to achieve in Q1.

It's actually consistent with where we were in Q2 last year. That is, 21. So while we've seen some expenses, some control expenses, some inflation come into the cost base in the last couple of quarters, it's about recapturing that glide path in Q1 and then building on that in the subsequent quarters next year. And as you've heard from us, we're laser-focused on that.

In terms of drivers, there's a number of things that we've been preparing, as we've talked about. I think the two biggest that I would call out are on the technology side, where both, if you like, the cost of the built-in estate as well as run-off of investments, we would expect to see a relatively sizable improvement, year on year. It could be in the ballpark of €500 million in technology costs. It's obviously not the end of our investment programme, but it's a moderation of that.

There is another category that we look at which is more front office, if you like, where there are considerable additional efficiencies that we're ready to implement and execute on. The biggest of that would be in the Private Bank. As you can see, branches' headcount are all coming down. And as we capture the run rate value of that, we see significant improvements coming there, also to some degree in the other front office areas, partially offset by investments in DWS. But we see some contributions, again, €500-600 million, from front office.



In the rest of infrastructure, away from IT costs, we'd sort of see that netting. There are some efficiencies we see in infrastructure that we need to achieve. There are also some control investments that we've been talking about and some control investments rolling off, some rolling on. But those are, if you like, the major levers that we're talking about.

Now, that's all on top of the falling away of the transformation costs. Obviously, almost entirely, the transformation-related effects fall away. And so, the cost-to-income ratio bridge that we're looking at has, I'd say, a relatively equal contribution between transformation-related effects and the adjusted cost base, so, if you like, more operating costs. So, lots of work to do. We're very cognisant of the effort that lies ahead. But, as I say, we've prepared the ground for that.

Now, I'll skip to your third question because it builds on the cost dialogue, and that is, is there jaws ahead of us after 2022? And our view is, absolutely, yes. Now, some of the work we've been doing on cost doesn't end in 2022. In fact, we're still making investments that will drive cost benefits in 2023 and beyond.

I'd point again to technology, first and foremost, and in particular, the combination of the technology platforms in our German retail banks, where once we finish that transformation, there's a significant drop-off of expenses. But that's just one example of where we think there's still room to go after structural costs and improve the run rates after 2022.

And as you say, on revenues, we think there's considerable upside. Again, momentum supported by interest rates, of course, but then also momentum in the businesses. And so even if I turn to the net interest income, I would say the one-year versus four-year, or if you think about the old 100-basis-point parallel disclosure, the one year versus second year gives you some sense of how much is repricing



the short end. The rollover effect takes time to flow through. And to a significant extent, that's based on the long-term.

If you look to page 11 of our disclosure, just to take, as an example, the Euro, you can see that the short-term rates are far more powerful in the early year, the first year, but by year four, the main driver becomes the long-term rates. So, it's a question of time and an increasing impact of the rollover, over time, capturing the steeper long end of the yield curve. Hopefully, that gets all of your questions, Adam.

Daniele Brupbacher
(UBS)

Good afternoon, and thank you. Can I just build on revenues in general? And, obviously, I see that the loan book going into this year is 10% higher. I see Assets under Management being 12% higher in the Private Bank and 17% in DWS. So that's all positive, I guess. But then on the other hand, I see IB revenue expectations probably down 10%, which is in line with industry expectations.

So could you just talk us through a bit of an update on your divisional revenue expectations, probably compared to the Investor Day last December, so December 2020, and how that probably looks like at this point in time?

And probably linked to this, if, for whatever reason, revenues turn out to be less strong this year, let's assume it's more like the €24 billion level, would you still be committed and comfortable to be able to achieve a 70% cost-to-income ratio? Thank you.

Christian Sewing

Hi, Daniele. It's Christian. Thank you for your question. And let me give you my revenue, or our revenue outlook, and our view on this one. And, as you wish, obviously happy to go through also the different components and compare it a little bit to the IDD indications which we had given you in December 2020.

Look, let me start with 2021 again, for two reasons. A, I think in 2021, we have shown where, in



particular in the second half of 2021, we have already seen a normalisation in the markets, that with €25.4 billion of revenues, we were 6% up, year on year.

And if I go through all the last four quarters with the last 12 months revenues, we always showed revenues of about €25 billion, at least in these last four quarters for the last 12 months. And that gives you an initial indication, I think, about the resilience of our revenues. And I do believe that the 2021 number, hence of €25.4 billion, is actually a good starting point for our revenue assumption for 2022.

If you now add a modest single-digit growth rate of our underlying franchise, in particular in the Corporate Bank but also in the Private Bank, and which I will talk about in a second, and you bear in mind the material changes in interest rate that James just laid out, but also did in his prepared remarks, we clearly, as the management, see a revenue forecast for 2022 in the range of 25.5 to even 26 billion.

So let me go through the component pieces. Let me start with the Corporate Bank. And here, we are actually looking at a very strong underlying business. And before I quote the Q4 numbers, I wanted to give you an indication of the underlying growth in that business over the last three years. Because we are always talking about underlying growth, and potentially it gives you further confidence if I give you the real underlying growth in those businesses in the Private Bank and in the Corporate Bank for the last three years.

We have seen 1% in 2019, we have seen 3% in 2020, and we have seen 6% in 2021, obviously all kind of washed by the interest rate headwinds, but the real underlying growth from client business was that strong.

Now, then the Corporate Bank was not having the headwinds of the interest rates anymore. We saw, in



the fourth quarter, 1.4 billion or almost 1.4 billion of revenues, which is approximately a 10% increase versus prior year, 8% uplift versus prior quarter in Q3. And in our view, and also looking at the start and at the pipeline, that is a very solid and a good indicator for our 2022 plan.

Further, we look obviously at the recovery, in particular in the Corporate Bank, of the international, but also the German recovery. We see what the demands are from our corporate clients.

And hence, we believe, with the step-off we have seen in Q4, the underlying growth numbers, all the items we have done on the deposit repricing, we think that we are able to achieve revenues of 5.5 billion in 2022. And again, the indication which we have from Q4 is again a good indicator for Q1 and the following quarters, so I think a very solid story.

Same solid story actually, Daniele, for the Private Bank. We have achieved revenues of 8.2 billion in 2021. And if we here take into account the forgone revenues from the BGH ruling, which was approximately €150 million, the expected reduction of negative impacts from the interest rate environment to well below half of the minus 400 million which we recorded in 2021, and the continued growth, I'm more than confident that they will actually achieve €8.6 billion of revenues in 2022.

And also, for the Private Bank, as I just said for the Corporate Bank, let me give you the underlying, actually gross numbers for this business. We had 4% in 2019, 6% in 2020, and in 2021, we even achieved 7%. And that shows you the dynamic and the resilience of that business. And again, with the interest headwinds going away, it's far more visible. And therefore, we do believe that the 8.6 billion is absolutely feasible.

Asset management, a shorter story. €2.7 billion in 2021, I think which compares well against the IDD target of, I think we said €2.3 billion in December



2020, as the goal for 2022. Daniele, if asset values more or less hold, and inflows continue, and also there we had a very good start in January, we could see a flat performance against 2021 at least. If you now want to deduct the performance fees in relation to the multi-asset fund, you would still end up with more than €2.6 billion in 2022.

So that is the number which we see for the Asset Management, and that brings me to the Investment Bank. Obviously, and James and I and the whole management team are very happy with the performance of the Investment Bank throughout 2021, I think the focus which we have given ourselves on the FIC business, Financing business and Origination and Advisory really pays off. And with the 9.6 billion of revenues in 2021, we actually even topped the good result of 2020.

Now, we take into account that there will be a further normalisation in that business, and happy obviously to adjust those numbers. But I would also always remind everybody on the call that the full-year impact of the rating upgrades which we achieved, the corresponding return of clients, which, by the way, we still see in these days, so as a result of all the three actions which we have seen in August, September, and in October, we still see that coming in. We do believe that we also need to take that into account.

If I now look at the pipeline, across the major business lines in the Investment Bank, the stability of the financing business, client flows, specifically in the trading businesses also in January, I have all the confidence that we achieve a number of 9 billion this year, which I think compares with the 8.6 billion which we said in the IDD in December 2020.

And again, let me reiterate what James said this morning already. The January start more than supports this view. Actually, in the IB, we are ahead of last year's numbers for the first three and a half



weeks.

So taking all that together, the revenue momentum is not only healthy and sustainable. We actually see a revenue number of around €25.7 billion, if you add everything together. And that is a very solid base case for us from which we want to continue to grow.

And everything which comes on top in terms of incremental interest is obviously not captured in this number, but hopefully it gives you a better planning base. Because we absolutely believe in that. I can see the pipeline. I can see the momentum. And in this regard, this number is our confidence.

James von Moltke

And, Daniele, on the cost-to-income ratio and the variability, look, I think your hypothetical represents a pretty dramatic decline in revenues, given all that Christian just said about the businesses away from the Investment Bank. Call it a 6% decline in revenues for the full firm, driven just by the Investment Bank. It would be a pretty severe scenario.

So, look, is the expense base as variable as we'd like it to be? No. But there are actions we would obviously take and have to take in a scenario where revenues fell short. So, could we delay some investments in IT? Could we throttle marketing? Could we slow down hiring? Obviously, variable compensation would be adjusted. Asset servicing costs would go down, essentially automatically. There are absolutely parts of the expense base that would vary with the lower revenue base.

There are some that are not flexible. As we've said before, we will not give up the regulatory remediation spend. We absolutely have to do it. It's part of our license to operate. And there are some elements like fixed pay and real estate, and you can go on, that are fixed.

I think, as we look to the future, and going a little bit to Adam's question about jaws after 2022, I think we do get into a place where the unmovable fixed cost



base of the company starts to look much more manageable against the revenue base, and a growing revenue base, especially when you've taken into account all of what Christian just said about the business's performance as well as interest rates. And you start to get into, I think, a much more favourable marginal world than we've been in the past several years.

So short version, some variability, not as much as we'd like, but the variability now to the upside could actually be quite powerful.

Kian Abouhossein
(JP Morgan)

Yes, thanks for taking my question. Just coming back to the cost-to-income, clearly, with higher revenues, we're looking at really a marginal cost-to-income ratio that you're using to make this revenue, so to say. So, there must be an investment plan included in here. So normally, I would use a 30% to 40% marginal cost-to-income to generate those revenues. Would it be fair to say that the variability on your cost increase, so to say, relative to the historic revenue guidance of 25 billion-plus, is variable? Is that a fair comment?

And in that context, the way I understood the future cost savings that could come through, they are equal to transformation costs, of which I think there is another 300 million outstanding. Is that also a fair comment, i.e. run rate would be roughly 300 million lower?

The second question is related to capital. Your capital return that you're giving to shareholders, is that related to 2021 earnings purely, and as a result, we should get an update for 2022 earnings in terms of buybacks and dividends? And is there any thought about mix? Thanks.

James von Moltke

Sure, Kian, thank you. Lots to work on there as well, and Christian may want to add some comments. So the cost-to-income ratio and the variability, absolutely. So building on the answer to Daniele's question, we do think there is operating leverage



from here, especially obviously in a rising revenue environment. And to your point, we do think the marginal cost-to-income ratio, the marginal shareholder value-added of new business improves further and further from here.

We're looking at some of the investment decisions that we'll talk to you more about on March 10th, and some of the marginal cost-to-income ratios are really very, very powerful in terms of investment we could make. So yes, we think there is that dynamic.

So we're at an inflection point in a sense, where, as I mentioned, we need to leave behind the fixed cost base and be able to deliver more and more in terms of marginal benefits to the bottom line and the cost-to-income ratio. And that'll be, I think, part of the future after 2022.

Your comments on the run rate are pretty spot-on. Getting to, call it a €4.4-4.5 billion range in Q1 doesn't get us all the way home on our cost-to-income ratio targeting, even with some help on the revenue base, so there's more to do on expenses after Q1.

And of course, there is always some uncertainty and variability in things like the non-operating costs. Litigation, as an example. So is everything in our control? No. But we have a path and we have, as Christian described it, the laser focus on executing and delivering against our plans.

You asked about is there some element of structural cost being born by higher-than-we-expected revenues? I think there is some truth to that, Kian. We've talked about, over the summer, we have had additional costs come through, for example, in reg remediation, some technology spending that we'd envisaged either not doing, or rolling off more quickly, that's carrying through. So there were absolutely some pressures coming into the cost base.



And then we talked over the summer about additional actions we identified, we put in place, we bore some additional restructuring costs in order to execute. So we've done what we can to offset it. But there is, of course, a dynamic of inflation, and then efforts on management's part to offset those items.

On capital, and again, we'll talk more about this in March, you can think about the buybacks as relating to one year or the other. I think that is an academic question. But yes, the dividend, absolutely, is in respect of 2021, payable in May 22, subject to the AGM's approval of that. The buyback is an action that is separate, but one can certainly think of it as something we think we've been able to afford based on the operating performance in 21.

Ironically, given the way that the interim profit recognition works for us, we've actually set aside, in the ratio, almost as much as the €700 million. I think we're off by maybe €25 million in terms of capital disregarded in the ratio today that we intend to pay out in 2022.

Going forward, the decisions on additional distributions we'll make at the appropriate times. We'll talk a little bit with you in March about our thinking about the capital plan and the resulting distribution path from here. But we wanted to get a good and clear start, as we announced yesterday.

Christian Sewing

Kian, let me just add, because, actually, James said everything. And that is what we now finally see, as the management of this bank, and where we obviously go through in order to provide you details on March 10th.

But given all the investments we have done in all the four businesses, be it the stable business, the Investment Bank, on front to end, more technology, you can actually see that this incremental cost-to-income ratio, which you were talking about 30% to 40% of new businesses, is actually coming down dramatically.



And that's the nice thing, that we focused on those businesses where we believe we are relevant, we have market share. There we focused our technology costs and investments in. And that obviously pays off in a better cost-to-income ratio in particular if we add business. So I think also in this regard, the investments and the focus this company has given itself is finally paying off.

Jeremy Sigee
(BNP Paribas Exane)

Hello. Thank you very much. I've just got a couple of follow-ups on topics that have already been discussed. Firstly, on the NII uplift on slide 11, which is very useful, does that include any expected benefit from changes in the ECB deposit tiering arrangements which might happen later this year? That's my first question.

And my second question is, you mentioned bank levies and your expectations for 2022. Could you comment on your expectations for, in theory, the EU Resolution Fund contributions ending in 2023, and potentially a major saving on that in 2024? Could you talk about what you expect, whether that will materialise or whether there could be other contributions or levies that are taking its place? Thank you.

James von Moltke

Sure. Thanks, Jeremy. I'll take the first, and I think Christian would like to comment on the second one. No, no benefit from tiering. In fairness, the TLTRO is also disregarded in that top-left chart. So there's a little bit of headwind, if you like, in 2022, and then a little bit more in the out years from TLTRO. If there were a tiering adjustment that were made, it would be partially or fully offsetting, and we haven't made an assumption about that.

TLTRO doesn't, in a sense, entirely fall away. A special premium or inducement that we earn does fall away. The rest runs off over time, and then is replaced with relatively inexpensive covered bond funding. So it's a modest headwind in the years going all the way out to 2025.



Christian Sewing

Jeremy, regarding your second question, obviously always hard to think about what a next tax could look like. But I can tell you, from all the discussions which we as the German banks but also the European banks had with the SRF and also in the political arena, I didn't get any hint and any sign that after the SRF is now completely filled, that there would be an additional tax after 23. So in this regard, I think we will see the relief.

Actually, also there, you have heard my story. I do believe the increase now to €75 billion approximately is, in my view, from an economic point of view not only for the banks but for the European economy, the wrong signal. We are actually actively lobbying that we will make more use of the IPCs in this regard, that for the time being, under the SRF, we could do contributions to the SRF up to 30% in IPCs. For the time being, it's limited at 15%.

So that is clearly something which we are looking for and lobbying for. But I cannot see, at this point in time, after all the discussions that I had, any kind of further tax burden in this regard from 2024 on.

Tom Hallett
(KBW)

Yes, hi, guys. Thanks for taking my questions. Firstly, how will the raising of the countercyclical buffer and the supplementary buffer on the residential mortgages impact you and how you manage the 12.5% minimum capital ratio you've set yourselves? And maybe within that, what's your criteria on the choice between what you allocate towards the cash component of the dividend and what you allocate towards buybacks?

And then secondly, could you just elaborate on your comments on the performance in IB so far this year? Because it seems to me that the volatility that hit in 4Q is pretty similar to what we've been seeing so far this year, which wasn't overly impressive, particularly towards FIC. So which products have started well? And is there any particular reason that



James von Moltke

sticks out? Thank you.

So, Tom, I'll answer, and if I've missed part of your question, just let me know. So, first of all, the countercyclical buffer, as it's been proposed now, has been incorporated into our plans. We'd made assumptions about that prior to the announcement, and in the fullness of time, we were kind of accurate, I think, in our assumptions. So it doesn't really change our capital path. At the margin, a little bit on timing, but not a material change to our capital planning.

Within that, of course, the mortgage, call it, surcharge is something that we're going to have to digest and potentially take action on. To begin with, I think it's important that the banking system essentially reflect the higher required capitalisation in its pricing.

At that point, again, the SVA characteristics of that product would be neutral, and that would not, therefore, change our approach really to that asset class. If it were different from that, we'd need to think harder about the future there. But short answer, all built in, and we've got to think about how to implement any impacts of the mortgage item.

On FIC, I'll start, and Christian may want to add some commentary. Look, we have a portfolio of businesses in FIC. So part of the perception of volatility obviously is at least partly warranted. Some of the businesses will clearly perform based on volatility in the marketplace. FX actually, as an example, tends to be the most tied to the volatility, as reflected in the CVIX measure, for example. But there are other businesses in our Group, like the financing business, like credit trading, that can perform quite differently from what I'd call the macro products of rates and FX.

We like that portfolio mix within our FIC franchise, and so it's quite hard to really tell you the level of volatility that attaches to any market conditions. But



what we've seen over the last several years is just an improvement in that mix, steadying of the performance, ongoing client engagement. Funding costs have come down. So the value of the investments that we've been making have been proving themselves out.

So all of the elements that Ram went through at the Investor Day back in December 2020 are really showing through. And to us, they changed the reliability, the volatility of just that revenue line quite substantially. It's something we want to build on as we go forward.

Tom Hallett

Thanks, James. Just a quick follow up within one of the questions that probably didn't get answered there was the criteria that you have on the choice between what you allocate towards the cash component and what you allocate towards buybacks.

James von Moltke

Again, we'll go into some detail in March, not to always go mañana, mañana. But, look, we think a dividend should be a reliable income stream for investors and should represent management's views. The growth in the dividend should reflect management's views about its confidence in the future.

We think we've started with quite a prudent level of pay-out ratio, at a little above 20%, against earnings in the rear-view mirror that were still burdened by some of the transformation costs that we had. So we think there's room for growth in the dividend.

But when I think about also the impact of repurchases, it's a powerful tool in terms of corporate finance impact, buying back stock at relatively low multiples of book value, but also providing flexibility in the total pay-out to account for variability in the earnings profile.

So, we think we've started at a really good place, but one from which we can build while providing a



degree of flexibility in terms of total return. The guiding light here for us is the €5 billion, and making sure that we get the €5 billion in distributions over a reasonable timeframe. And that's something, again, we'll pick up with you in March.

Nicolas Payen
(Kepler Cheuvreux)

Yes, good afternoon. Thanks for taking my question. I have two, please. The first one will be on the IDD in March. You said this morning in your press conference that the strategy will be just an evolution of the current strategy. And I wanted to know, what part of the strategy can we expect to evolve at the IDD in March? And what are your focus areas? And the second question is about your headcount target back in 2019, where you targeted a 74,000 headcount target. And I wanted to know if it still holds, or was it more a direction of travel? Thank you very much.

Christian Sewing

Thank you, Nicolas. And let me start, and James potentially wants to add. So, look, I do believe that over the last two and half years, we have shown that the general direction which we have decided for Deutsche Bank is the right one. So that means, overall, without talking too much already about the IDD in March, it will be an evolution of our current strategy.

We do believe that we have really big chances to further grow in all the four businesses, in particular, also in the three stable businesses. We have achieved now a foundation there in particular, also when you take the interest rate and the underlying growth into account, where we think we have a great starting point to further excel.

Of course, this kind of strategy, because for further growth, you need to invest, that also means that we will think about further efficiencies. All that we started to do on front to back, all that we started to do in the Private Bank, not only by bringing, with the project, Unity, Postbank and Deutsche Bank on the IT side together, but if you look at the branch reduction, all that obviously will go further, and that



will bring further efficiencies.

We do believe that our investments, heavy investments which we also did in our control functions will pay off and that, over time, we can take costs out there. And hence, we believe that there will be a good amount of gross savings which we can reinvest into those businesses, into the four businesses.

Now, the real issue is, over the next years, to find out within the four businesses where our key growth path is, what is the incremental growth we have, with the incremental costs attached. And I think we have a transparency achieved there which gives us a nice portfolio composition and shows a credible path for the next three to four years.

I do believe that we have now turned to be a normal bank. That also means we will have a purpose and a vision which goes beyond 2025. This bank is clearly an international player. We want to be one of the leading European banks, and we will make that very clear in the March IDD.

And last but not least, if you become a normal bank, as James just alluded to, that also means we need to talk about adequate shareholder returns. So everything that we started to do will be now further detailed out, and I think in a very positive way. The next question you had on headcount. Look, I do believe James is always saying that, in an absolutely right way, and again, he may want to add to that, we have a hierarchy of goals. And the hierarchy of goals starts with the ROTE of 8%, where we are confident, based on what we have told you, that we will achieve that, obviously then linked to the 70% cost-to-income ratio.

That means that we need to further reduce also headcount, unfortunately, but that is something which will come. And James was alluding to those kinds of components of cost reductions in 2022, and a good part of that also is linked to a headcount



reduction.

Now, over a time of two and a half years, Nicolas, you also then find in the detailed planning-out that, for instance, in technology, it may make sense to further internalise and not to rely so much on external employees. That is obviously now adding into the plan, so that I would say, and we have said, that the real goals, 8% and 70%, will mean further reduction, but the 74,000 is, as such, not a hard goal. Staff reduction is one part of our cost reduction to achieve the cost-to-income ratio of 70%.

Stuart Graham
(Autonomous)

Thanks for taking my questions. I have two, please, the first on buyback. The approval of the ECB for your share buyback programme is obviously very welcome. Well done. But my question is, was there any quid pro quo in terms of you having to adjust your levered loan underwriting activities in order to comply with ECB's underwriting policies in 2022 or beyond? That's the first question.

Then the second question was on costs again. In the past, Deutsche used to suffer Q4 cost disappointments. I think, under your leadership, that stopped. Now we had a Q4 cost disappointment. So my question is, were you on target to hit the 18.9 billion full-year cost target until you saw the US banks splurging on bonuses? Was that the swing factor? And given all the transformation charges you took, why were you unable to find a few hundred million of other cost saves to make sure you hit that target of 18.9? Thank you.

James von Moltke

Sure, Stuart. Thank you for the questions. Look, no quid pro quo. There's a lot that we work through with the ECB and our other regulators all the time. But we see them as isolated engagements. At least that's our perspective. I can't speak for the ECB's. So no, we don't see there to be a quid pro quo.

We do think that we have obligations. Interestingly, the SREP process is designed that way, that we get feedback from the ECB every year and then they set



expectations as to what they'd like to see us improve over time, and then the process is repeated. I think it's a very healthy dialogue. But no, we don't see there as being a quid pro quo, and not on leverage lending, to your specific example.

On the cost side, look, a couple things I'd say. We have, as we said, seen some unexpected items creep in, whether regulatory remediation, higher variable compensation, and what have you. We've been doing our work to offset it. And as you say, we didn't entirely succeed at the end of the year.

I will say, though, that we missed in the end on our cost target by about 1.5% which, set against the significant revenue outperformance, I think is a pretty creditable result. How do I get to 1.5%? As you say, €18.9 billion is the reset planned number we gave you a year ago, December, of €18.5 billion reset for the uncontrollable items, SRF and deposit insurance.

Actually on it, while FX wasn't a factor, year on year, in our reported numbers, it actually was in our plan assumption for FX. So there's about, call it, €150 million of FX difference. So you get to really a €19 billion starting point. And we reported €19.3 billion.

So what's in the a €100 million? It really boils down to three factors. One was performance-driven compensation that we talked about, the other is volume-driven increases, in particular, asset servicing and then the control investments, and then finally, the one-off items. Each of that represented about €100 million.

And to your point, all of that pretty much showed up at the end of the year. So your opportunity to offset it when it's really become a reality very late in the year is pretty limited. But I think the overall performance, again, this 1.5%, is a pretty creditable expense performance in our opinion, given all that was going on last year, and especially the better revenue performance.



Obviously, it means that we need to redouble our efforts into 2022. It's the nature of the beast. And so we will go after it. We talked about what the sequential needs to look like, broadly speaking. We can see where that's coming from. We need to execute and deliver on that. But on that basis, I think we would be resetting back to a glide path that supports where we need to go. And obviously, revenue help is certainly welcome.

In a sense, and Christian alluded to this, we are running a bigger company than we expected to run at this point in time, given the revenue uplift that we had, much of which we think is sustainable, given the investment opportunities we see, and also, to some degree, given the need to continue our investments in remediation of controls. So we're pretty comfortable with our performance, albeit, as you say, a late-in-the-year increase, not all of which was expected.

Christian Sewing

Stuart, again, James said it all. But simply, as you said, it is a disappointment in Q4. I simply want you to understand the level of scrutiny and, in particular, as a response to what we have seen, and James just described, the way we discuss it in the Management Board and with the leadership team is really up to the last million, in particular now for the next quarter and 2022.

And the level of details and transparency we have of the underlying cost driver and how we tackle it on a weekly basis is exactly the same as how we started to restructure this company two and a half years ago, and we will not let go, I tell you. We are all over it. I think it is justified by what we have seen as a total performance.

But I simply want to make sure, while not adding new content to what James is saying, the management focus on this topic is exactly the same, and I would even say, if not even more than over the last 12 months because we know that this is part of our



credibility and we will deliver on that which James just outlined.

Stuart Graham

Okay, thank you for taking my questions. Thank you.

Anke Reingen
(RBC)

Yes, thank you very much for taking my questions. Two questions, please. The first is on the dividend where you, so far, have been mainly talking about absolute and had just mentioned a pay-out ratio, for the first time, on the call. Is that the right observation, that it's an absolute amount you basically presented us rather than a pay-out ratio? And then in terms of the cost and the 70% pay-out ratio, the one area I probably struggle a bit is in the Investment Bank. Do you think that the comp ratio you reported for 2021 is a structural guide, or should I assume there is pressure on the next years for the comp ratio to go up in terms of the modelling? Thank you very much.

James von Moltke

Sure, Anke, thank you. Look, the pay-out ratio and the dividend rate are obviously not divorced, but we think of it in terms of dividend growth at a prudent pay-out ratio. I think that's how I'd describe it. And again, we'll go into more detail on how we think about that and our capital plan in March. But yes, I think that that covers that.

On the cost and the cost-to-income ratio for IB, look, first of all, there's a lot of complexity in the compensation cost that is recognised each year on the accruals. Deferred compensation obviously, the fixed pay, and a dynamic inside that expense base. So it doesn't perfectly vary with the performance-driven assumptions or decisions in any given year.

But, look, having established a cost-to-income ratio of 60-odd percent in the Investment Bank, we're obviously very pleased with that. Do we think that that's inevitable for the Investment Bank? Of course not. There can be years with sometimes weaker revenue performance, sometimes better. Sometimes it takes the compensation cost a little time to catch up, given the impact of the deferral.



But we're very pleased, frankly, with the baseline that we've set over the last two years. And as you've heard us comment, in various places, we think we've remained competitive in terms of our ability to compensate the revenue-generating staff in a competitive way.

Anke Reingen

Okay, thank you.

Piers Brown
(HSBC)

Yes, good afternoon, gentlemen. A lot of my questions have been asked already. But I've just maybe got a couple of follow ups. One is on costs. So you've mentioned in the past the importance for fixed compensation of negotiations in Germany with tariff staff. And I'm just wondering, are there any key dates we should be looking at this year on that topic? And what sort of rates of tariff staff wage inflation have you baked into the plans you've given us?

And then the second question, just circling back on the Investment Bank revenue guidance, you've given a very robust defence of the 9 billion target level for this year. Within that, should we still think about 6.7 billion as being the right normalised level for the FIC trading business? And I'm just asking that obviously just in the light of the second-half run rate, which looks probably about a billion shy of that number. Thanks very much.

Christian Sewing

Well, thank you. Look, hard to actually anticipate the outcomes on the tariff negotiations with the unions. But obviously, we have put something into our plan for 2022, in particular, for the German business. And looking at what we discussed, hopefully we will make it happen that this is within that number. But I'm actually quite confident.

Obviously, this needs to be monitored. And therefore, again, it is so important for us that also, going forward, we make sure that all the attempts we take on further efficiencies are really implemented also beyond 2022, because obviously there is a higher amount of inflation which we also need to cover.



And therefore, James and I are convinced that also the next strategy must consist of meaningful efficiency gains also in order to pay up for that. But I'm not concerned actually, on a high level, with regard to this year's tariff negotiations.

The second part, on the Investment Bank, again, we gave you the guidance of 9 billion. I would say, looking again at that, even in a normalisation of markets, and you said, rightly so, that we have seen a normalisation in the second half, don't underestimate actually the stability of our financing platform which we have.

The market share gains which we did and gained in the trading business, clearly, we gained market share in the first nine months. We haven't had yet the numbers for the fourth quarter, but we do believe that we can defend that, based on everything we can see.

And also, again, the rating upgrades clearly help us in order to capture more flow and more growth than we invested into our flow business there. So I would say that that number, the 6.7, is more than a solid foundation. I even believe that there is a certain upside. But James, you may want to add to that.

James von Moltke

Yes, I'll just add briefly. Last year, we began to talk about a range of quarterly revenues in the Investment Bank in total of between €2 billion and €2.5 billion. And so the midpoint of that range, if you assume no seasonality, would get you to the €9 billion. In fairness, of course, there is seasonality. So you're dependent on a better Q1 performance, and it usually steps down each quarter. So Q2 tends to be the second best, and then it tails off towards the end of the year.

I think it's notable that even in the fourth quarter, we achieved, for the second year in a row, €1.9 billion of revenues in the Investment Bank in the quarter just passed, so nearly at that €2 billion level even in what was a relatively difficult quarter. To be honest, if



market conditions had been a little bit better and one or two things had gone our way, we would actually have surpassed the €2 billion in the fourth quarter.

So this idea that there's a reasonably sustainable level of performance, we've increasingly seen and we're getting increasingly confident about, in sometimes a mixed market environment. And by the way, last year, it wasn't just the fourth quarter. There were also some pretty mixed market environments that we navigated through, for example, in July of last year. So we're seeing more sustainability in that range that I described, and, as we've said, a decent start into the year, which is absolutely critical.

Piers Brown

That's very clear. Thanks very much.

Amit Goel
(Barclays)

Hi. Thank you. I've just got a couple of, I guess, smaller points left. One was just, and maybe slightly different to some of the other questions, but on the Op Risk RWAs and CRU. I was just curious how discussions, etc. had progressed, if that is an area where we could see again some improvements?

And then just some small follow-ups. There's this episodic financing item highlighted, I think on slide 45. I'm just curious, if this will reverse, just curious if there's any kind of earnings contribution from that. And also, within the Corporate Treasury Services, what was the contribution of the credit protection recoveries, and could there be some more? Thank you.

James von Moltke

Sure. I'm just trying to catch up with you, Amit, on all of those things. Oh, okay. So on the episodic item, that was a client financing that was unusual in its size, but it's also temporary. So it runs off by the end of the first quarter, very likely. Did it have a revenue contribution? Sure. We wouldn't have done it otherwise. But we felt good about supporting our client in a highly strategic transaction. So it had a benefit, but that benefit doesn't persist.

I think, on Op Risk RWA, look, we've surprised ourselves, I have to say, to the upside over the past



several years. It was a feature of our capital plan back in 19. And as you've seen in our numbers, including in the CRU, we've outperformed that. We continue to work on opportunities in Op Risk RWA. We have to do the analysis, understand the advanced model's approach, and then get regulatory approval.

So is there still potentially a little bit to come in the CRU? Yes, perhaps. But also, the opportunities begin to run out and you get to just a model-driven, in other words, incidences either coming into or being removed from the model, until we move to the new Basel III approach, which happens in 2025. And Amit, I apologise. There was a third element to your question.

Amit Goel

The last one was just on the Corporate Treasury Services revenue. How much was the contribution from the credit protection recoveries?

James von Moltke

We don't normally give that but we talk about episodic. In this instance, it was, call it, about €30 million in the quarter that was recorded on one item. That's not, again, unprecedented. You know we've talked for a while about this, the contribution of episodics that usually represent about €100 million in each quarter.

But it can vary. It can be 50 or less, and it can be, on rare occasions, above 150. So there was some help in the quarter on that item. And it's hard, because we don't get visibility into whether something similar would recur in the first quarter.

Amit Goel

Got it. Thank you.

Andrew Lim
(Societe Generale)

Hi. Thanks for taking my questions. So can I pursue a bit more on the exit run rate on costs for this year and the implication for 2023? Because the cost reductions are quite back-ended this year, I think the conclusion is that 2023 costs should be materially lower than they are in 2022.

I think when I've asked this question before, you've



said, James, that it could be below €17 billion, although I concede that the shape of the bank is a bit bigger and we have had a bit of cost inflation. But in terms of direction, should we still be thinking about 2023 costs being quite a bit lower than 2022 costs?

And then the second question is just a point of clarification, really. When you talk about €450 million of costs being reduced sequentially, are you talking about reported costs here, or adjusted costs? Thank you.

James von Moltke

Sure. Andrew, thanks for the question. So on the last item, its adjusted costs that we talk about in terms of that run rate. And in a sense, it goes to the first part of your question about exit rate. Is Q4 an exit rate that is representative of where we need to be in 2022? No, absolutely not, and hence the guidance I gave earlier that we need to be in the mid to lower fours, going into 2022, to be on a path towards our cost-to-income ratio target, again with some variability in that, given revenues.

So there's still work to do. But as we've talked about, there are some items that won't repeat, whether they're accounting related adjustments, the variable compensation accrual would normalise, some other items that came in that don't repeat. So if I put that all together, that we see the path to the 450, and therefore re-establishing a run rate, a glide path that's more in line with where we need to be.

Andrew Lim

Great. Sorry, and on that adjusted cost definition, are you including or excluding litigation? Sorry to press you on this, but you've got a few different...

James von Moltke

We are looking forward to the day where we don't have adjustments and don't have to give you the definitions as clearly. On the cost side, adjusted cost excludes litigation. Again, it's not in our control so we try to give you a sense of the operating run rate in the adjusted cost measure.



In adjusted pre-tax profit, we actually do include litigation on the basis that it's part of the business, and while variable, it would be inappropriate to adjust it out. So, we're a little inconsistent with the treatment, but adjusted costs excludes litigation.

I guess the other thing, Andrew, just to make sure we don't talk past each other, we've given you an adjustment for the Prime Finance costs in the past, again, to give you a sense of our targeting relative to where we were in the days immediately before our announcement in July 2019.

But with the Prime Finance transaction that we were able to put together with BNP Paribas, there were some costs that we were being reimbursed for that would have run off more quickly, and hence the reason we've given you that adjustment.

We won't provide that adjustment, going forward. We need to have taken all of the related cost out in Q1, given that we're no longer benefiting from that, from the cost recovery. So at least there, the adjustments that we're providing to you will start to fall away, and hopefully more to come after that.

Andrew Lim

Great. Okay, I think that's clear. Thank you very much, James.

Andrew Coombs
(Citi)

Afternoon. Three from me, please, on TLTRO, the cost messaging, and the upcoming Investor Day. Just starting on TLTRO, you touched upon it, but perhaps you can provide us with the total TLTRO contribution in 2021, and then where you expect that to go in 2022 as the catch-ups drop away, as the bonus rate drops away from the half year, and then in 2023, as you start to see some maturities play through. So that's the first question.

Second question on the cost messaging. I'm just trying to triangulate this a couple of ways. If I take your base case revenues, you mentioned 25.7, put 70% on that, you get to about an 18 billion cost base. On the flip side, if I take your 19.3 starting position, add the 0.2 of transformation that you're guiding to



for 2022, and then annualise the 450 of cost savings, that'd get a bit lower, about 17.7.

So I'm just trying to work out if you're guiding for costs to actually increase as the year progresses, ex the levy, or if you're saying you'll beat the 70% cost-to-income if you hit that 25.7 number.

And then the final one on the Investor Day. Just to clear this up, is the Investor Day going to be focused on how you hit your 2022 targets? Or is it going to be forward looking and you're planning to put new three-year targets out there in the market, for example? Thank you.

Christian Sewing

Andrew, let me start because I have the easier part. We will talk about both in the Investor Day. Of course, we give you an update on 2022, but the main item and the main goal for you, and that's what we owe you, is the next trajectory of Deutsche Bank. And therefore, we will talk about the future, with an update on 2022, of course.

James von Moltke

Yes. And the other thing I would just add, I do think we owe our investors. I think I've said this before. We've invested €8.4 billion, going to €8.6 billion of our investors' money in the repositioning and the transformation of this bank. And so part of the discussion will be, what did that achieve? And that, I think, is an important element as well. But as Christian says, we want to be as forward looking as possible when we get to March 10th.

On the TLTRO, I'll speak under Dixit Joshi's control, who is with us in the room here, but TLTRO, basically, we've borrowed €40 billion. It's at 100 basis points at the moment, so €400 million. That additional 50-basis-point inducement falls away at the mid-year.

So that falls, therefore, to €300 million for the full year in 2022, and then we're on a path of simply refinancing and maturities of TLTROs. So you could assume maybe another €100 million of headwind, if



you like, going into 2023. I think that would more or less be the TLTRO forward.

Again, as I answered earlier, that's assuming there's no offset from tiering, which could happen, and certainly we would encourage, because as long as the depo rate is negative or even at very low rates, the interest rate environment makes it burdensome to carry deposits or excess deposits.

So now on costs, I think I followed your math. But I think if I followed your math correctly, the short answer is we need to continue to drive savings as the year goes by, in 2022, rather than that Q1 is our endpoint. We have a cost-to-income ratio target that includes all of our expenses, whether adjusted costs or non-operating costs like litigation or the remainder of the transformation-related effect.

So whichever number you use for revenues times 0.7, you need to then subtract, call it, €600 million for SRF and then some amount between, I don't know, €200 million and, say, €500 million for non-operating costs and transformation charges. And after that would fall out the adjusted cost number.

So it's math that we're working towards, and a huge number of, as Christian describes, measures, detailed management that is helping to drive us to that. But ultimately, when we sit here a year from today, it'll be math on how that ratio worked out for the full year.

Andrew Coombs

That's helpful. Just coming back on the TLTRO, I just want to make sure that in 2021, you mentioned the 400 million number based off the 100 basis points, there was no additional catch-up in 2021. Because I know you had to do the Clarity Test.

James von Moltke

Yes.

Andrew Coombs

Once you hit official loan growth. So was it 400, or was there anything incremental on top of that 400?



James von Moltke

There was a little bit, I think you're right, in Q1, that was incremental, because our accounting had us catching up for the inducement. And when we had the confidence in Q1, I think that was maybe another 30-40 million of revenue in Q1. We can go back and tidy that up with you with the IR team, or tomorrow, on the fixed income call.

Andrew Coombs

Okay, that's great. Thank you.

Magdalena Stoklosa
(Morgan Stanley)

Thank you very much, and good afternoon. I've got two questions. One is on cost, and another one is on capital requirements. I think on cost, we've talked at length today about savings. But I think that what interests me post the transformation is what incremental investments from here do you think you need to do to compete for growth as a transformed bank from next year onwards? What areas of the business do you think you're going to still have to invest in? So that's question number one.

And question number two, really, is a follow-up on the capital requirement. You've talked about the countercyclical buffer being included in your capital planning, but I'm just curious. Can I ask, do you think your transformation effect is fully reflected in your Pillar 2R? Thanks very much.

Christian Sewing

Hey, Magdalena. It's Christian. Let me start on your first question, i.e. the future investments. First of all, as we want to grow and be successful and stay relevant and even more competitive in all four businesses, we will invest in all four businesses going forward. Again, there will be a detailed story on March 10th.

But if I can just give you some examples, in the Corporate Bank, obviously some of the growth themes we have are all around our payments. So the investments we do into payment systems in order to be competitive, but even also to offer new payment systems, quicker payment systems to our clients, very, very important. Asset-as-a-Service, we will invest in, to offer our corporate clients a different



way off financing, i.e. like pay-per-use. We will do that for our corporate clients.

In the Private Bank, it's all about obviously further investments into our digital offerings. And that goes for all kind of business there. This is the day-to-day banking that has a lot to do with the way of furthering how the clients doing their investments, but also the kind of front-to-back process when it comes to consumer finance and mortgaging. So also there, we want to invest in order to be efficient in the process, but also to make these kinds of products we have more attractive to our clients.

And if you talk to Fabrizio, Ram and Mark, a lot of investments in the Investment Bank in front to end, i.e. really that it starts from capturing the trade, actually, on the client screen until or up to the way into our operations department. So there are really fantastic ideas, how we also there make the client's life even easier, and at the same time, we take efficiencies out and increase the flow. So again, in those businesses where we are right now, where we have a relevant market share, we will invest for both efficiencies but also revenue items.

James von Moltke

And Magdalena, on the capital requirement, we've gotten to a world where capital sufficiency is treated as a buffer to MDA as a shorthand, where we stand, depending on the bucket, 250 or a little bit more of a buffer. To your question, so yes, it's built into our path, going forward, and that we would maintain something like that buffer. But do we think that MDA may overstate, frankly, the capital requirements in our business? We think it might.

Now, it's absolutely in the ECBs discretion to set what the P2R is, and we're a taker there. But in their methodology, the P2R reflects their assessment of the company, its business model, its control environment, its risk profile, its present financial performance, and a number of other considerations. And we would hope that over time, as the company



continues to transform, there may be room to improve there.

The countercyclical buffer, of course, is kind of a new piece of information. That varies, depending on the market environment and the stress, something we have to consider in our own internal management buffer setting.

And then the other item that's out there that we've drawn attention to is the domestic SIFI buffer, where we are capitalised at 2%. International, our G-SIFI buffer is 1.5%. And again, you can debate which of the two numbers is appropriate. Some of our peers are well below that. But when you think about MDA as the threshold to compare with, you need to really look at those elements that are within that MDA number as you think about capital requirements going forward.

Magdalena Stoklosa

Yes. Well, thanks very much for that. Thank you.

Timo Dums
(DZ Bank)

Yes, thank you. Good afternoon. I've got two questions, please. One is on the rating upgrades and the other question refers to the competitive landscape. So on the rating upgrades, could you please quantify the tailwind that has been provided by the most recent rating upgrade from S&P in November, so in the middle of the quarter, that is reflected in the Q4 revenues?

And also, looking forward, especially in light of the positive outlooks by the two other rating agencies, could you please provide some colour on the timing, and also on how much of the potential upgrades has been reflected in your planning?

My second question relates to the push by new competitors into the markets here within the big Wall Street banks, but also competition by FinTech. So what are your plans to defend your market position as well as your expectations, also maybe looking at a potential war for talent and how this may affect your cost target? Thank you.



James von Moltke

Sure. Thank you, Timo, for the questions. Look, it's very hard to parse out, analytically, the revenue uplift from the rating actions. We can see certain of them very clearly. Collateral that was handed back the next day, after the S&P upgrade, that we no longer have to fund over a year provides a very clear amount.

But then the other creeps into the revenue bases. Clients come back as they do more business with us. Hard to really define what that is. What we have talked about in the past is that there was a triple-digit amount of revenue that left us when the downgrades happened. And so, analytically, we'd expect all of that to come back.

That's an annual number but gives you some sense of the uplift potential from that, call it €100-150 million. And that was particularly concentrated in the markets business. So that is creeping back in. If you wanted to run rate guess, it's by no means fully reflected in the fourth quarter.

In terms of actions from here, we don't speculate on rating actions, but we work hard and we have an intense dialogue with the rating agencies to try to continue the journey that we are on, and make sure that they understand the story, understand the risks in our company, and where we're headed.

Look, in the P&L, we've already seen some benefits from the rating actions come through, either in the businesses with more to come or in our funding costs. But in fairness, I think there's still some more, or there is still more to come. Because today, our unsecured funding costs, on a weighted average basis, still reflect spreads higher than our current refinancing costs, so there's still momentum to be had even from the status quo, let alone from future upgrades.

Christian Sewing

Thank you, Timo. And on your competition question, obviously, this is a wide area which we could cover here, and it would go beyond this call. But I think the



strategy which we have given ourselves was, in particular, also to tackle exactly that question. We know we are in competition with not only the big Wall Street banks but also with strong European banks in the home market. And you know the home market as good as we know it, with the cooperative banks, with the savings banks.

And therefore, we always said that in each of the four businesses we are, we need to focus on those businesses where we have a relevant market share, where we know that the clients are actually looking for our expertise. And exactly there we are not only focusing, but we are investing.

And that is paying off. Our investments into the fixed income business, into the financing business, into parts of the Origination and Advisory business are paying off, because we said that is where we can win. This is where our Compete to win story really bears fruit. And there, the investments go in. And in those businesses, we focus on, we can also compete with the Wall Street banks.

Now, when you come to FinTechs, that is all about our focus when we think about digitisation of our Private Banking business, on our Corporate Bank, when I talked about the payment initiatives we are taking, our investments into payment, into merchant banking, into Asset-as-a-Service. Because we believe that that we have a chance with the technology which we have invested so far in, that we have a real good chance not only to compete but also to win.

Because at the end of the day, with the uncertainties which are out, one thing we can clearly see, and that is the demand of all clients across all four segments to ask for advice. And the advice cannot be given by FinTech banks. The advice is given by banks with a long tradition, with expertise, with experience. And in my view, in this regard, through the pandemic but also with the uncertainties and volatilities we see in



the world, this advice is more sought than ever before. And here we can clearly compete.

Timo Dums

Very clear. Thank you.

Ioana Patrniche

Thank you for joining us for our preliminary Fourth Quarter 2021 Results call. Please don't hesitate to reach out to the Investor Relations team with any follow-up questions. And with that, we look forward to speaking to you in April. Thank you.

Disclaimer

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