



## **Deutsche Bank AG**

Deutsche Bank Q3 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 – Continued progress on the path to our strategic ambitions

- Thank you, Ioana. A warm welcome from me as well
- It's a pleasure to be discussing our third quarter 2021 results with you today
- We are now two thirds through our transformation journey, and we have continued to deliver against our milestones
- We see clear evidence of progress in our businesses
- The first basis of this progress is our disciplined execution. We continue to be absolutely focused on cost saving measures. Adjusted costs excluding transformation charges are once again down year on year
- These transformation charges will help drive reductions in our expenses in future quarters
- And we have now recognised 90% of our total anticipated transformation-related effects, of almost 8 billion euros since we began this journey
- This has resulted in significant progress in our transformation. We promised to self-finance this and we have delivered
- These efforts are being recognised by our stakeholders and in the third quarter, both Moody's and Fitch upgraded our credit ratings and retained our positive outlook
- We have maintained a strong capital ratio, a strong balance sheet and sound liquidity, despite certain challenges, such as regulatory inflation, and the impact of a global pandemic
- Our Capital Release Unit is outperforming against our 2022 goals, which we outlined at our last Investor Deep Dive. Risk Weighted Assets are down to 30 billion euros and the unit continues to reduce costs
- And finally, the result is profitability. In all three quarters of this year, we have delivered significant year on year profit growth, while simultaneously keeping up the pace of transformation
- Refocusing on core businesses is paying off. Revenues have grown, as broad-based business performance offsets the effect of normalizing capital markets
- We saw that in the third quarter. Pre-tax profit of 554 million euros grew by 15%, despite transformation charges of nearly 600 million euros, and on an adjusted basis, profit before tax would have been up by 39% to 1.2 billion euros
- Now let me take you through the highlights of what we have achieved in the nine months of this year on slide 2



## **Slide 2 – YTD performance demonstrates progress towards 2022 financial targets**

- Our performance over these past nine months shows that our 2022 targets and ambitions are well within reach
- Revenues of 19.5 billion euros for the first nine months of 2021 fully support our trajectory to our 2022 revenue goals
- We have reduced adjusted costs excluding transformation charges by roughly 4% year on year to 14.4 billion euros, despite 2021 being an investment year
- This means we delivered positive operating leverage at both the Group and Core Bank level over the past nine months
- We reduced our cost/income ratio from 87% to 82% year on year despite the additional transformation charges recognised in the third quarter
- Provisions for credit losses declined 83% year on year to 261 million euros or 8 basis points of average loans
- Return on tangible equity for the Core Bank is 7.5% for the past nine months, and above 9% on an adjusted basis, already in line with next year's target
- This sets us on a clear path to our group target of 8% return on tangible equity in 2022
- Now let me turn to the progress we have made executing on our strategy across our core businesses on slide 3

## **Slide 3 – Progress on strategic priorities in core businesses**

- The Corporate Bank continues to execute on its growth strategies as evidenced by increasing loans and new partnerships, including Mastercard, FiServ and Better Payments
- 94 billion euros of deposits are within the scope of charging agreements and contributed 96 million euros in revenues to our third quarter results
- The Investment Bank is focused on front to back efficiency process improvements such as the FIC re-engineering program
- The results in this quarter again confirm our decision to refocus our Investment Bank on its core strengths and we delivered a strong performance despite normalization in the market
- We have now seen year on year revenue growth in Origination and Advisory for 7 consecutive quarters and our third quarter FIC results demonstrate our market share gains are sustainable
- The Private Bank continued to grow net new business across assets under management and loans. This year to date business growth substantially outperformed our full year target of 30 billion euros



- In the third quarter, we announced the sale of DB Financial Advisors in Italy, which supports our International Private Bank divisional strategy, as well as our regional strategy
- In Asset Management, assets under management stand at a record level of 880 billion euros, driven by strong net inflows of 12 billion euros this quarter, with more than 40% coming from ESG products, where we continue to work towards leadership in the field
- We continue to undertake investments in growth initiatives and platform transformation to support our performance
- In short, the dynamics in all four core businesses show that our clients are supportive of our business model and believe in our capabilities
- All four core businesses grew return on tangible equity and improved the cost/income ratio over the first nine months of 2021
- This relentless focus on transformation has driven a steady improvement in underlying profitability, which can be seen on slide 4

#### **Slide 4 – Transformation drives growth and higher profitability**

- In the Core Bank, we delivered a 70% year on year increase in our adjusted profit before tax in the last twelve months
- Once again, all four core businesses contributed and are either in line with or ahead of their plans so far
- In the Capital Release Unit, we reduced losses by nearly half compared to a year ago
- As we reduce leverage exposure and Risk Weighted Assets, we continue to remain committed to minimizing the P&L impact of the portfolio reduction
- As we steadily put transformation effects behind us and reduce the cost of de-leveraging in the Capital Release Unit, more of the earnings power of our core businesses is reflected in the bottom line
- This supports our aim to deliver stable and sustainable returns at the group level
- A key driver for this is our sustainable revenue performance, which I will now turn to on slide 5

#### **Slide 5 – Continued revenue momentum in the Core Bank**

- Revenues excluding specific items in the Core Bank for the third quarter stand at 6 billion euros, up 1% year on year
- Business growth has offset the normalization of the capital market environment, which impacted fixed income trading as expected



- This quarter still bears the impact of foregone revenues as a result of the BGH ruling of 96 million euros, similar to the second quarter
- We expect this impact to taper off considerably in the next quarter, as we now have written consents in place for two thirds of the affected accounts
- Revenues in the Investment Bank are 2.2 billion euros, down only 6% from a very strong third quarter in 2020
- Both our Corporate Bank and Private Bank continued to offset interest rates headwinds with continued deposit re-pricing and business growth. We see continuing underlying momentum in these businesses
- And we see strong underlying growth in lending. The loan portfolio is currently at 456 billion euros, up 5% from the same quarter last year. With the period of post pandemic market normalization behind us, we now expect the current growth rate to remain in the coming quarters
- Asset Management delivered revenue growth for yet another quarter, driven by strong management fees. This is the sixth consecutive quarter of net inflows
- Core Bank revenues were 25 billion euros in the last twelve months, an 11% increase from 2019, which is in line with our current 2022 goal
- This reflects the sustainability of our revenues, as client engagement continues to improve, particularly following our recent rating upgrades
- Now let me turn to costs, on slide 6

#### **Slide 6 – Ongoing commitment to cost discipline**

- On a twelve month basis, we reduced noninterest expenses by 14% to 21 billion euros from 2019
- This includes the higher than expected contributions to the Single Resolution Fund and the German deposit protection scheme
- We continue to focus on managing our controllable cost base to offset volume driven expenses and investments in controls, and have identified additional cost saving measures
- These measures come with around 700 million euros of incremental transformation related effects, including technology-related charges that we recognized in the third quarter
- We are committed to putting almost all our anticipated transformation effects behind us by the end of 2021
- And with that in mind, we re-affirm our 2022 target for a cost/income ratio of 70%
- Let me now update you on our progress on sustainability on slide 7



### **Slide 7 – Significant achievements in sustainable financing**

- After nine months, we are already ahead of our full year 2021 target for total volumes of ESG financing and investment
- Our volumes since the start of 2020 now stand at 125 billion euros, versus a full year ambition of 100 billion euros, excluding DWS
- This puts us well on track to meet or exceed our year-end 2023 target of 200 billion euros
- In addition, we were a bookrunner on four of the six largest ESG-related bond issues in the quarter
- This month, we co-led the EU's inaugural green bond, raising 12 billion euros, the largest ever green bond to date
- We also completed our first ever green repo agreement, the first Green Formosa Bond, and built out our offering in sustainability-linked loans to German Mittelstand companies
- ESG is the topic which continues to drive client engagement, allowing us not only to innovate products, but to also provide advisory services, underlying our clear client centric approach
- In the Private Bank, we rolled out the ESG advisory concept to more than 100 branches, exceeding our 2021 ambitions, and our International Private Bank is enhancing product offering via new funds and growing green deposits and lending
- We are pleased to participate in the upcoming COP-26 summit in Glasgow next week and we are looking forward to meeting clients and other stakeholders striving for change
- Before I hand over to James, let me now summarise our progress this quarter on slide 8

### **Slide 8 – Continued strategy execution drives transformation by 2022**

- As we said at the Investor Deep Dive in December, our focus remains on executing our transformation agenda, while supporting our clients
- We have executed on the strategies within our re-focused core businesses, and we saw material improvements in Core Bank profitability and returns
- We are delivering resilient revenues, as business growth offsets the normalization of markets, which we anticipated
- Our core businesses are performing in line with or ahead of our expectations and that positions us to deliver on our revenue ambitions next year
- We intensified our transformation efforts and took further steps to drive efficiencies



- We aim to book most of the remaining transformation related effects by the end of the year, which will help us to deliver on our 2022 cost/income ratio target
- We are committed to technology and control investments, and to maintain our momentum on resolving open regulatory and control matters
- The hierarchy of our 2022 priorities remains unchanged and we are on track to meet our targets of an 8% post-tax return on tangible equity and 70% cost/income ratio
- We also remain committed to beginning the distribution of the 5 billion euros of capital from 2022 onwards
- We are setting up a firm foundation to not only meet our 2022 ambitions, but to also position Deutsche Bank for future growth
- And we look forward to discussing this with you at our next Investor Deep Dive in March!
- With that, let me now hand over to James

## **JAMES VON MOLTKE**

### **Slide 9 – Q3 2021 Group financial highlights**

- Thank you Christian
- Let me start with a summary of our financial performance for the quarter, compared to the prior year, on slide 9
- We generated a profit before tax of 554 million euros or 1.2 billion euros on an adjusted basis
- Total revenues for the Group were 6 billion euros, up 2% versus the third quarter 2020
- Net interest income this quarter was roughly 2.8 billion euros, up approximately 114 million euros on the second quarter. The increase was driven by the growth in our loan book and higher revenues from our securities portfolios in the quarter, along with a decrease in the cost of our deposit funding
- Net interest margin remains broadly flat at a rounded 1.2%, as progress on deposit charging and reduced surplus liquidity offset the ongoing pressure from interest rates
- As I have mentioned before, we see these interest rate pressures abating, with Private Bank headwinds set to halve next year and Corporate Bank headwinds being substantially eliminated



- Recent interest rate moves provide a more favorable outlook for our businesses, relative to the conservative baseline on which our previous plans were built
- For 2022, we now see a tailwind in the region of 150 million euros relative to our earlier planning. As the moves are predominantly in the long end of the curve, the impacts become cumulatively larger in later years, reaching well over 500 million euros by 2025 from the current observable forward curve expectations, relative to our plan baseline in the fourth quarter last year
- Turning to costs, noninterest expenses were up 4% year on year; this quarter includes 583 million euros of transformation charges, up from 104 million euros in the prior year
- Our provision for credit losses stood at 117 million euros or 10 basis points of average loans for the quarter
- We said at our second quarter results and then again in September that we see a relatively benign credit environment. These conditions have persisted, and we now see scope for improvement from our previous guidance of 15 basis point of loans for the full year 2021
- In line with the guidance we provided with our second quarter results, we did see a reduction in our Common Equity Tier 1 ratio to 13% in the quarter
- Tangible book value per share was 24 euros and 46 cents, up 40 cents on the quarter, or 5% in the year to date
- The tax rate for the quarter was 41%
- Let's now turn to page 10 to briefly look at our nine month performance

#### **Slide 10 – 9M 2021 Group financial highlights**

- Revenues for the first nine months were 19.5 billion euros, up 5% year on year
- At the same time, we delivered a 4% reduction of our adjusted cost base excluding transformation charges to 14.6 billion euros and reduced our cost/income ratio from 87% to 82%
- The improved macro-environment led to an 83% reduction in provision for credit losses and our profit before tax of 3.3 billion euros increased nearly four-fold compared to 2020
- The tax rate for the first nine months was 34%
- Let's now turn to the Core Bank's performance for the quarter and the first nine months of the year on slide 11





### **Slide 11 – Q3 / 9M 2021 Core Bank financial highlights**

- Core Bank revenues were 6.1 billion euros for the quarter, up 2% on the prior year quarter
- Noninterest expenses were up 5% for the quarter, mainly driven by additional transformation charges, while adjusted costs excluding these charges were down 1%
- This takes our profit before tax to 898 million euros and the adjusted profit before tax to 1.5 billion euros, up 23% on the prior year
- Our adjusted post tax return on tangible equity for the quarter slightly increased by 60 basis points from last year to 7.3%
- Looking at the results on a first nine month basis, our revenues in the Core Bank were 19.5 billion euros, up 4% compared to the same period in 2020
- Noninterest expenses increased 2% year on year due to the additional transformation charges, and adjusted costs excluding transformation charges were flat
- Our cost income ratio was 76% for the nine months or 70% excluding transformation charges
- And as Christian mentioned, our return on tangible equity for the Core Bank was 7.5% for the past nine months, and 9.4% on an adjusted basis, in line with our target for 2022
- Let's now turn to costs on slide 12

### **Slide 12 – Adjusted costs**

- In the third quarter, Group adjusted costs excluding transformation charges continued to decrease year on year by 3%
- We saw lower compensation and benefit costs year on year, reflecting workforce changes, as well as movements in variable compensation compared to the prior year
- IT costs were broadly flat, as a decrease in hardware expenses was offset by higher software and service costs
- The decline in other costs was driven by lower operational losses, occupancy costs, and banking services
- Our third quarter adjusted costs excluding transformation charges and reimbursements for Prime Finance were 4.6 billion euros
- Transformation charges were 583 million euros, which I will come back to in a moment



- As Christian mentioned earlier, we will continue to manage all the components we can control, as we remain committed to the cost/income ratio target of 70% for 2022
- Let's now move to slide 13 to discuss transformation related effects

### **Slide 13 – Transformation-related effects**

- As mentioned in our recent guidance, further transformation measures will result in incremental effects of around 700 million euros, bringing the total expected impact of transformation-related effects to 8.8 billion euros
- This quarter, we booked 583 million euros of transformation charges
- Roughly 450 million euros of these charges relate to a contract settlement and software impairments, principally triggered by our migration to the Cloud
- We have now booked a total of 90% of transformation related charges and we expect to book most of the remaining charges by the end of this year
- Let's now turn to provision for credit losses on slide 14

### **Slide 14 – Provision for credit losses**

- Our stage 3 provision at 199 million euros is down from 408 million euros in the previous year, reflecting an overall benign credit environment
- On a quarterly basis, the stage 3 provision increase of 88 million euros was mainly driven by the implementation of EBA guidelines on Definition of Default, leading to ECL model refinements for IFRS 9, resulting in transfers to stage 3, predominantly in the Private Bank
- Stage 3 provisions remained stable across other businesses
- Overall, stage 3 movements were offset by 82 million euros of net releases in our stage 1+2 provisions, including an adjustment of existing management overlays due to the stabilising macro-economic environment
- As mentioned, we believe provisions will be below 15 basis points of average loans for 2021
- Let me now turn to capital on slide 15

### **Slide 15 – Capital ratios**

- Our Core Equity Tier 1 ratio decreased by 17 basis points from 13.2% to 13% over the quarter
- In line with our earlier guidance, this reduction includes around 20 basis points of burden from regulatory changes, notably the implementation of the EBA



Guideline on Definition of Default, partly offset by a reduction in our regulatory multiplier in market risk RWA

- A slight offsetting improvement of the CET 1 ratio came from a reduction in operational risk RWA, and the net impact of de-risking in the Capital Release Unit, versus a small RWA increase in credit and market risk, reflecting client related activity
- With the 20 basis points RWA impact this quarter, we have now absorbed almost all regulatory driven RWA inflation until the expected implementation of the final framework of Basel III in 2025. In upcoming quarters, we expect to see business as usual model updates that cumulatively are expected to be capital ratio neutral
- CET1 capital was fairly stable in the quarter, and now includes a deduction for common share dividends of 641 million euros year to date
- We still expect to end the year with a CET1 ratio of around 13%. As always, our capital outlook is subject to timing of pending regulatory decisions; however, the expected net effect of these decisions in the next quarter is now positive
- Our fully loaded leverage ratio was 4.8%, unchanged from the prior quarter
- Leverage exposure, excluding FX effects, decreased by 6 billion euros quarter on quarter, reflecting continued deleveraging in our Capital Release Unit, partially offset by growth in net loans and commitments
- Our pro-forma fully loaded leverage ratio, including certain ECB cash balances was 4.4%, and on track to meet our 2022 goal based on the original definition, by year end
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 17

### **Slide 17 – Corporate Bank**

- Revenues in the third quarter were just over 1.25 billion euros, essentially flat year on year, but improved excluding episodic items
- In the current quarter, the impact of episodic items was approximately 60 million euros lower than in the prior year
- Excluding these effects, underlying Corporate Bank revenues grew slightly, as business initiatives and deposit re-pricing more than offset interest rate headwinds of approximately 40 million euros year on year
- At the end of the third quarter, charging agreements were in place on approximately 94 billion euros of deposits, which produced revenues of nearly 100 million euros in the quarter
- The Corporate Bank grew loans by 5 billion euros year on year, mostly in Trade Finance within Corporate Treasury Services



- We continue to expect the combined effects of the moderation of interest rate headwinds based on current interest rate curves, the increasing quarterly contribution of deposit re-pricing, as well as business momentum and growth initiatives to support our revenue outlook for subsequent quarters
- And as previously mentioned, we expect our 2021 revenues to remain essentially flat compared to the prior year
- Noninterest expenses decreased by 5% mainly driven by lower restructuring and litigation charges, while adjusted costs excluding transformation charges improved moderately
- Provision for credit losses was a 10 million euro release in the quarter, driven by continued low impairments, compared to provisions of 41 million euros in the prior year quarter
- Profit before tax in the Corporate Bank was 292 million euros, increasing by 57% year on year, while adjusted profit before tax rose by 33% to 317 million euros
- This equates to a 7.8% reported and a 8.6% adjusted post-tax return on tangible equity and is the highest quarterly profit before tax since the launch of Deutsche Bank's transformation in 2019
- Turning to revenues by business segment in the third quarter on slide 18

#### **Slide 18 – Q3 2021 Corporate Bank revenue performance**

- Corporate Treasury Services revenues of 755 million euros grew by 1% year on year
- Charging agreements and other business initiatives more than offset interest rate headwinds and lower episodic items
- Institutional Client Services revenues of 326 million euros grew by 2% as solid underlying business growth was partly offset by lower episodic items
- Business Banking revenues of 174 million euros were 6% lower year on year, as business growth and expanded charging agreements were more than offset by interest rate headwinds
- We are continuing to progress the client-by-client process of entering into charging agreements for the predominantly euro-denominated, lower ticket-sized deposits in this area and expect further positive effects in the coming quarters
- I'll now turn to the Investment Bank on slide 19



### **Slide 19 – Investment Bank**

- Revenues for the third quarter of 2021 decreased by 6%, or 5% excluding specific items
- Favorable performance in our Financing and Origination and Advisory businesses was more than offset by lower revenue in our trading businesses
- Compared to the third quarter of 2019, Investment Bank revenues are up 34%, with both FIC and Origination and Advisory significantly higher
- Non-interest expenses were essentially flat year over year, as were adjusted costs excluding transformation charges, producing a cost/income ratio of 60%
- The Investment Bank generated a pre-tax profit of 3.4 billion euros and a return on tangible equity of 13.5% in the first nine months of the year, both material increases on the prior year period
- Our loan balances increased, both quarter on quarter and year on year, primarily driven by higher loan originations across the Financing businesses
- Leverage exposure was higher, reflecting increased loan origination and lending commitments
- The year on year increase in Risk Weighted Assets predominantly reflects the impact of regulatory inflation
- Provisions for credit losses of 37 million euros or 19 basis points of average loans were down year on year. The continued low level of provisions benefited from recovery of COVID-19 related impairments
- Turning to revenues by business segment on slide 20

### **Slide 20 – Q3 2021 Investment Bank revenue performance**

- Revenues in FIC Sales and Trading decreased by 12% year on year
- Strong performance in Financing was offset by lower revenue in the trading businesses
- Credit Trading, Core Rates and FX revenues saw solid client activity, which was offset by a normalization of market conditions and low volatility
- Revenues in Emerging Markets were higher across all regions, with continued year on year growth in both CEEMEA and Latin America
- Revenues in Origination and Advisory were significantly higher versus prior year, with revenue growth across the franchise
- Debt Origination revenues were higher. Strong performance in Leveraged Debt Capital Markets continued, more than offsetting a reduction in Investment Grade related revenues, as issuance levels normalized



- ESG continues to be a focus area. We are top 5 on a fee-basis in Global ESG related debt products, a 60 basis point market share gain compared to the full year 2020, based on Dealogic data, in a market which continues to grow
- Equity Origination revenues were significantly higher year on year, predominantly driven by deSPAC activity and market share gains in IPOs, particularly in EMEA
- Significantly higher Advisory revenues reflected continued growth in M&A activity. Deutsche Bank advised on nearly twice the number of deals in the third quarter compared to the same period last year
- Turning to the Private Bank on slide 21

### **Slide 21 – Private Bank**

- Revenues excluding specific items were just under 2 billion euros in the quarter, down 4% year on year, but up 1% if adjusted for 94 million euros of foregone revenues from the BGH ruling we mentioned earlier
- Continued revenue momentum in investment products and mortgages offset interest rate headwinds of approximately 90 million euros year on year
- As indicated, we expect these headwinds to be substantially lower next year
- Adjusted costs excluding transformation charges were flat year on year. Cumulative savings of around 4% in the Private Bank direct cost base were partly offset by incremental costs for deposit protection schemes as well as increases in technology spend and internal service cost allocations
- Provisions for credit losses were 15 basis points of average loans or 92 million euros and reduced by 47 percent year on year, benefiting from a release of a management overlay for uncertainties related to moratoria in Italy and Spain, tight risk discipline and a high-quality loan book
- The aforementioned implementation of Definition of Default model refinements impacted staging, but was neutral to CLPs in aggregate
- With this, the Private Bank reported a pre-tax profit of 158 million euros
- Adjusted for the aforementioned impact from the BGH ruling, specific revenue items as well as transformation related effects of 64 million euros, the Private Bank would have achieved a profit before tax of 276 million euros in the quarter
- On this basis, adjusted post-tax return on tangible equity was 6% in the quarter and 7% in the first nine months of the year
- Business volumes grew by 9 billion euros in the quarter, with 6 billion euros of inflows in assets under management and 3 billion euros of net new client loans



- With this, the Private Bank attracted 38 billion euros of net new business volumes after nine months, exceeding our full year target of more than 30 billion euros
- Turning to revenues by segment on slide 22

### **Slide 22 – Q3 2021 Private Bank revenue performance**

- Revenues in the Private Bank Germany would have been up 1% year on year, if adjusted for the temporary impact from the BGH ruling
- Continued headwinds from deposit margin compression were compensated by growth in loan revenues and fee income from investment products
- The business originated net new client loans of 3 billion euros, mainly in mortgages, and net inflows in investment products of 2 billion euros in the quarter
- In the International Private Bank net revenues increased by 6% or 1% if adjusted for specific items
- The business attracted net inflows in investment products of 3 billion euros. Growth was especially pronounced in Germany and Italy
- Private Banking and Wealth Management revenues increased by 9% or 2% excluding specific items and FX translation as investment products and loans grew supported by previous hiring of relationship managers
- Personal Banking revenues decreased by 2% year on year as business growth in investments only partly compensated for deposit margin compression

### **Slide 23 – Asset Management**

- As you will have seen in their results DWS had another successful quarter, as shown on slide 23
- To remind you, the Asset Management segment on this slide includes certain items that are not part of the DWS stand-alone financials
- Revenues grew by 17% versus the prior year, primarily due to a strong increase in management fees of 85 million euros from improvements in equity markets and six consecutive quarters of net inflows
- Noninterest expenses increased by 58 million euros or 16%, with adjusted costs excluding transformation charges up 17%
- This reflects higher compensation costs, including variable compensation, higher asset servicing costs due to the increase in assets under management, as well as investments in growth initiatives
- The divisional cost/income ratio remained stable at 63%



- Profit before tax of 193 million euros in the quarter increased by 18% over the same period last year, driven by record assets under management resulting in higher revenues
- Adjusted for transformation charges and restructuring and severance expenses, profit before tax increased by 16% year on year to 198 million euros
- Assets under management of 880 billion euros have grown by 21 billion euros in the quarter, driven by net inflows and the positive impact of FX translation
- Net flows in the quarter were 12 billion euros, with inflows across all three product pillars: Active, Passive and Alternatives
- The business attracted 5 billion euros of flows into ESG products during the quarter, demonstrating continued momentum in this area
- Turning to Corporate & Other on slide 24

#### **Slide 24 – Corporate & Other**

- Corporate and Other reported a pre-tax loss of 605 million euros in the quarter, versus a pre-tax loss of 393 million euros in the prior year quarter
- The greater loss was driven by higher transformation related charges of 495 million euros, which were not passed on to the divisions and are captured in the 'Other' line
- In aggregate, these transformation charges should lower our group adjusted costs by around 150 million euros per year from 2022
- Funding and liquidity charges increased slightly in the quarter compared to the prior year period
- Consistent with our prior guidance, funding and liquidity charges are expected to remain at around 250 million euros in 2021
- The year on year improvement in valuation and timing differences was driven principally by a positive contribution from cross currency funding structures and interest rate basis effects, as well as non-recurring one-off events
- We can now turn to the Capital Release Unit on slide 25

#### **Slide 25 – Capital Release Unit**

- The Capital Release Unit recorded a loss before tax of 344 million euros in the quarter, a significant improvement on the prior year quarter
- Negative revenues in the quarter were driven by funding, risk management and de-risking impacts that were partly offset by positive revenues from Prime Finance cost reimbursement





- Adjusted costs excluding transformation charges declined by 27% versus the prior year quarter, reflecting lower service cost allocations, and lower compensation and non-compensation costs
- We continued to make great strides in portfolio reduction, taking advantage of favorable market conditions to exit a number of aged or concentrated positions
- We also intensified the pace of the Prime Finance transition in the quarter and transferred a number of large client relationships. By the end of October, we expect to have transferred about two thirds of client balances
- Taken together, this led to a 10 billion euro reduction in leverage exposure in the quarter and a 2 billion euro reduction in Risk Weighted Assets, including Operational Risk
- At the end of the third quarter, we recorded Capital Release Unit RWA of 30 billion euros, including 22 billion euros of Operational Risk RWA
- Since the second quarter of 2019, the division has reduced Leverage exposure by 76% or 188 billion euros and RWA by 53% or 34 billion euros
- We have now achieved our 2022 target for RWA, and expect to be at, or ahead of our 2022 target for Leverage Exposure by year end 2021
- This includes completing the transition of our Prime Finance platform. We expect this transition to release over 20 billion euros of incremental leverage exposure in the fourth quarter of this year
- For the remainder of the year, we expect negative revenues in the Capital Release Unit and we are on track to hit the cost reduction targets we set out at the last Investor Deep Dive
- Turning finally to the outlook on slide 26

### **Slide 26 – Outlook**

- We see continued momentum towards our 2022 revenue ambitions, given the resilience and growth in our core businesses
- The credit environment remains supportive and we expect provisions of below 15 basis points of average loans for the full year, based on our current views
- We expect macro-economic growth to slow in 2022 from the exceptionally strong levels this year and CLP levels to partially normalize
- Our credit portfolio quality remains strong, and we are well-positioned to manage emerging risks including supply chain disruptions and potential policy tightening
- We are focused on the cost measures we have underway and by year end we expect to have booked the majority of our transformation related effects, in



what has been an investment year, supporting our 70% cost/income ratio target for 2022

- As I have said before, we expect to end the year with a CET1 ratio of around 13%, above our target of 12.5%, despite booking almost all of our estimated 8.8 billion euros of transformation related effects and absorbing substantially all of the regulatory driven inflation, prior to Basel III final framework implementation
- On the leverage ratio, we feel confident we are on track to finish the year at around 4.5%, based on the original definition of leverage exposure, that is including all central bank balances
- The CET1 capital calculation reflects a common share dividend deduction of over 600 million euros for possible future distributions, from the nine month 2021 earnings, under the standard ECB rules
- This starts us on a clear path to return 5 billion euros of capital from 2022 over time
- With that, let me hand back to Ioana and we look forward to your questions!

#### Question and answer session

Daniele Brupbacher  
(UBS)

Good afternoon and thank you. I had questions on revenues. At the Deep Dive last year, you gave quite some detailed guidance and outlook for the Group and the various divisions and obviously since then a few things changed. So, I was wondering whether you could firstly talk about revenues last 12 months. I think that's a quite relevant metric, up nicely. How do you think about that now backward-looking and forward-looking, in terms of mix and where you see the key drivers here, just a bit of an updated view here?

And then, secondly, there is rate headwinds and tailwinds and, if I recall correctly, at the recent conference you quantified the headwinds this year, something like €400 million of which a bit more than half is in the Corporate Bank, if I recall correctly. They should go away this year and then just now you talked about the €150 million and €500 million from the yield curve shift. Can you just air these all up again for me and how this will hit the P&L and in which divisions and how we should model that? That would be super useful. Thank you.

Christian Sewing

Thank you, Daniele, and good hearing you. Thank you for your question. Let me take the first part on the general revenue, also looking back at last year's IDD, performance



this year and then where we see tracking to the target, which we have given in last year's IDD. And James will then cover, in particular, the more specific question to the interest rates and the headwinds, which we had and how this develops.

Now, let me say again and let me really reiterate that we are very satisfied with the revenue picture, which we have seen since the IDD in December 2020. I think these last 12 months have shown a very good picture. And secondly, and most importantly to us, they clearly indicate an underlying sustainability of the revenues and that in each and every business but, in particular, in the Investment Bank.

If I look back for all the last three quarters, be it March, be it June, or now September and then I take a 12-month look, we have shown always approximately €25 billion of revenues for the Group, which on Group level, first of all, clearly indicates that our view and guidance for 2022 from the last IDD is absolutely in reach and, in our view, absolutely doable.

Let me explain that a little bit more in detail when I go through the individual business. If I start with Asset Management, I think a very robust story, not only, by the way, in Q3, but to your question, for the whole year. Asset Management outperformed in Q1 and Q2, now also in Q3 on the back of the rising Assets under Management, stable revenues. Overall, we see now, a revenue outlook for this year of €2.5 to €2.6 billion and that makes me highly confident that we can achieve our goal from the IDD of €2.3 billion in 2022.

Q4 in Asset Management again started well. So, in this regard, I can't see kind of any downside to our numbers and, therefore, I see that we have a clear chance to outperform if I compare the next 12 months or 2022 towards the goal, which we have stated in the IDD.

Private Bank, also here in my view a very solid story, in particular if you take three items into account. Number one, the impact of the German court ruling. We always said that this is impacting us next to reserves, which we built in Q2, but in the running revenues with approximately €100 million or €96 million a quarter in Q2 and in Q3. We have achieved now a good degree of consent. So that will fall away over the next quarters.



Secondly, James will outline that also with regard to your second question, the headwind from interest rates will be materially lesser in the next year. We always have to take this into account if we see the running numbers for 2021 in the PB. And lastly, which is for me and for all of us, obviously, the nicer story, the underlying business in particular in lending and in the investment business, is higher than we expected, is higher than we planned. We overachieved our goals, which we had for 12 months, in this regard after nine months.

So, if I take all these items into account, I think it's almost self-explanatory that we get to the €8.3 billion number, which we indicated at the IDD in 2020, i.e., for the year 2022. So also, there, I do think that we are well on track and if we continue to do the business operating in terms of lending and investments, I even see further upside.

Corporate Bank, also here let me first start with the strong underlying business story, which we in particular have seen in Q3. I'm quite happy with that, what we promised in Q2. We always said Q2 is the lowest quarter, Q3 is clearly a recovery, and that on the back, in particular, of a stronger financing and credit business in Q3.

And, looking at the German economy, looking at the mood in the corporates and our clients, I can see that demand will continue also in Q4 and in 2022. Now, if I add to this, the interest rate headwinds for CB, which almost fully fall away in 2022 and you take into account the quite successful story, which we have on the deposit re-pricing, which brings on an annual basis almost €400 million of revenues.

I think also there is a clear story, a clear bridge to the IDD target for 2022 of €5.5 billion. So also, here, I'm confident that we can achieve that. And don't underestimate that two rating upgrades, in particular two rating upgrades of Fitch and Moody's, obviously helped two businesses in particular, that is the IB, and I'm coming to that in a second, but also the Corporate Bank. So, also there is upside. All in all, in the so-called three stable businesses, we have either hit the plan or are in line with plan or we even overachieved, and I can't see that changing for the next 12 to 15 months.

Now, let's come to the IB. Also, there, I think you should have my impression and that is that Q3 is nothing more than clear evidence that our Investment Bank is clearly set up to our



strengths at Deutsche Bank and that we have achieved one thing, which was always questionable, but that is sustainable growth and I can't see that actually stopping.

Now, if we look at the last 12 months numbers for the Investment Bank and compare that to the IDD plan for 2022, we targeted €8.6 billion. For the last 12 months in Q1 or in Q2 and in Q3, we were in between €9.7 billion and €10 billion. Even if we now say there was in particular, high market volatility in Q1, and it was not normalised, but we saw the normalisation already in Q3, these numbers are obviously telling us the story.

If we then compare that to the €8.6 billion number, which we target for 2022, we simply believe that this number is achievable. Why? Because I look into today's O&A pipeline and the same for financing. It looks very robust, looks very healthy, and therefore, I have a view on the fourth quarter and also on the start of 2022. Obviously, the rating upgrades by Fitch and Moody's are helping enormously.

I already told you in the previous discussions that clients are coming back to Deutsche Bank based on our recovery but, obviously two rating upgrades from two agencies help a lot and we see further positive evolution in this regard. October activity is very robust across the business in the IB and also the overall momentum with making good hires clearly tell me there is the momentum we need in order to achieve our €8.6 billion goal in 2022.

This year, we will be well above €9 billion, kind of in-line with last year, potentially even some upside. So, we have the right setup, we have the right people, we have the right momentum and therefore, if we cannot achieve the €8.6 billion next year in that business, I tell you, I would be severely disappointed and I can't see that happening. So, there is upside in this number. If you add this all together, then I think we, A, show sustainability of the revenue momentum and, B, that we are highly confident to achieve that what James and I indicated over the last quarters, and that is a €25 billion or better number next year in revenues.

James von Moltke

Daniele, it's James. On the interest rate side, we've talked a lot about the headwinds we've been fighting through. At the Group level this year, it will have represented over €700 million. The €400 million number you remember, is for the Private Bank alone. And there's about another €250 million



in the Corporate Bank and the rest is in capital investments in IB. So it's a considerable headwind. In the third quarter, it is about rateable. So, we had about a €100 million year-on-year headwind in the Private Bank from interest rates, deposit hedges if you like, and about €50 million in Corporate Bank, so that's playing through our numbers.

We talked about €150 million of upside in 2022 and a lot more as time goes by, over €500 million in 2025 in our prepared remarks. That reflects the change between today's interest rate curve and the curve we built our last year's plan on. It splits about 50-50 based on the keys between the Private Bank and the Corporate Bank, but it, of course, underlies our statements that this interest rate headwind will more than halve for the PB next year and be effectively neutralised for the Corporate Bank next year.

Daniele Brupbacher

Thank you. So, it's not additive? So, the €150 million, I shouldn't add it to the €700 million or did I just get this wrong now?

James von Moltke

No. The €700 million is behind us, or practically behind us, and should think about the €150 million as part of the reason, as Christian went through in the businesses, we see support for our revenue outlook for next year.

Andrew Lim  
(Société Générale)

Hi, good afternoon and thanks for taking my questions. It seems like the bulk of the €700 million transformation costs were taken in 3Q. I was just trying to marry that up with the transformation guidance on slide 38. How should we think about the quantum of transformation costs in the fourth quarter and subsequent quarters in 2022? That's my first question.

Then, secondly, there's been a lot of speculation about how you might expand the DIB business by products and also geographically. Perhaps this is maybe front running what will happen in March in your Deep Dive but maybe you can give a bit of colour about your thoughts there, whether it'd be Commodities Trading or a bigger footprint in the US, for example. Many thanks.

James von Moltke

Sure, Andrew. It's James. I'll take the first one. You refer to slide 38 where we work to give you the best view, we have on expected future transformation charges. Just for Q4 purposes, I would build about €500 million into your models split between transformation charges, and restructuring



and severance and that would leave, as you see on the page here, about €300 million still to be booked in 2022.

Of course, we're doing everything we can to minimise the 2022 burden and book what we can in 2021, but it depends on the visibility and the accounting treatment of those items. But if you just do the math on it, we think about 97% of the total €8.8 billion is booked by the end of the year.

Andrew Lim

Sorry, just on that point. The €300 million for 2022, obviously, is more front-ended in the year rather than spaced out?

James von Moltke

It's sort of rateable based on what's going on and still in the books next year. I wouldn't think of it as front-ended, but again, we're trying to minimise it. You can nearly disregard it next year and we look forward to not really talking about it, but on consistent sort of accounting definitions, we trace it all through to next year and the full programme.

Andrew Lim

Great. Thanks.

Christian Sewing

Andrew, to your second question on IB and the speculation, let me be very clear. We want to grow there, where we have decided to be in. I think for the last 2.5 years we have clearly shown that these are the strengths of Deutsche Bank, be it in those areas we are in the Origination and Advisory business, the Financing and the Trading business.

Now, within that, obviously we are doing further investments, for instance, in the further franchise build in Core Rates, in our Flow Credit development. Obviously, we're investing quite heavily in our workflow solutions, in particular, in the FX business. As I said in my first answer, we have a very good momentum in hiring bankers in those industries where we think we have the expertise and our clients are concentrated, so that we can obviously generate more mandates in the Origination and Advisory business and again, we see the evidence.

Then, obviously, we are trying to grow in the whole field of ESG and also there we have seen good momentum. Everything else is not in our view, at least at this point in time, because we believe we have found our spot. We grow there, we take market share there, we defend it even in normalised markets and that's what we are all about to do.



Nicolas Payen  
(Kepler Cheuvreux)

Good afternoon. Thanks for taking my questions. The first one will be on costs and looking at your 70% cost/income ratio targets for 2022 and your current run-rate of €19 billion of adjusted costs ex-transformation charges. Where do you see the biggest improvement drivers to reach your target? And how much of these are already baked into your current cost run rates? The second question on distribution, because you earmarked €5 billion for distribution starting in 2022 and I just wanted to know, what's the timeframe for this to happen, and should we think about 2025 and the finalisation of Basel III as a good proxy? Thank you very much.

James von Moltke

Sure, Nicolas. It's James. Look, we're very focused, I have to say laser-focused, on capturing a run rate in Q4 and then through 2022 that supports our targets. We've been working on that, as you can imagine, for quite some time and putting in place the measures as we've described, both last quarter and this quarter, that can help to drive that.

I think if you look specifically at areas that drive the run rate from now down by Q1. It will be particularly in the technology area, in part reflecting the charges we took this quarter but also reflecting the benefits of some of the investments and, if you like, the roll-off of things, we've been working on for some time.

We're also close to crystallising some expense saves in our infrastructure areas as we've completed projects and move to a BAU type of state in some of the areas where we've been focused on remediation for the past several years. Then there's the real estate. We've talked a fair amount about real estate, which contributes next year significantly and, as you've seen, we will have spent all together about €600 million of transformation charges in the real estate area. We're really pleased with what that's delivered in terms of the footprint we operate within our future-proofed portfolio from here and there's some benefits flowing through already in the first quarter from that, including incidentally, ending the double rent period in New York. So, lots of things that were tracking through in the run rate as we drive towards our 2022 views.

On distributions, it's frankly too early to say. We're working through that as we finalise our planning, finalise the results for 2021. I think we're confident about our ability to move to meaningful distributions next year, which has been our plan





really since we embarked on this programme back in 2019. And I think the deduction from CET1 of €640 million that we have today is clear evidence of our wherewithal. our ability to support distributions next year. It's just too early to say how much and what form it will take.

Jeremy Sigee  
(Exane BNP Paribas)

Thank you. Just a couple of questions, please, following-up on things that you've touched on. The first one was just coming back on to the BGH impact. I was a little surprised that it's unchanged quarter-on-quarter. I thought we would be seeing some benefit already because it sounded like you were already implementing new contracts with customers a quarter ago, so I thought we might be seeing some benefit come through.

So, I wondered if you could talk about the timing and in particular, whether we expect that to be back to normal in 4Q or how much longer you think it might take to get those revenues back on stream. And, then the second question, just circling back to the Investor Deep Dive that you've scheduled in March next year. I just wondered how you see the balance of that in terms of starting to talk about plans beyond 2022 versus still focusing on how you achieve the 2022 targets.

James von Moltke

Sure, Jeremy. I'm happy to go into that. Firstly, on the BGH ruling, the client consents that we sent out all had October 1<sup>st</sup> as an effective date and that's for both legal and operational reasons. So, the two thirds of responses that we've gotten allows us to switch those on from the beginning of this month and the additional responses we get in Q4 equally will be backdated to October 1st.

So, if you assume that we'll be at let's say an 80% response rate than in round numbers, €80 million of the lost €100 million will be back in the run rate this quarter and we would work to then close out the rest as time goes on. Some of that may be moving accounts out of the bank, some of it may be restructuring our relationships with clients in other ways but we have, I think, a pretty high degree of confidence at this points that €80 million of the €100 million will be back. The delay, as I say, was intended from the very start when we first gave guidance on this in June, reflected that effective date.

On the IDD, Christian may want to add to this, but we want to talk about the things we've done and the trajectory that



remains to be achieved to 2022. Certainly, that's part of our agenda but I think the larger part of the agenda will be how we have positioned the company through this transformation for strategic and financial performance from 2022 onwards.

Christian Sewing

There's nothing to add.

Magdalena Stoklosa  
(Morgan Stanley)

I have got three questions, if I may. So, I'll run through them quite quickly. The planned cost reductions for next year broadly imply your adjusted costs being down by €1.5 billion and you've mentioned some of the things that are rolling off, IT projects, real estate savings and so forth. But when you look at it slightly differently per business, the biggest delta year-on-year, between 2021 and 2022, is effectively in two places, CRU and the Private Bank.

I'd like to talk particularly about the Private Bank. There are a couple of things, which are still on going, particularly in Germany. How should we think about that cost base next year but, of course, also rolling forward? There was news flow about bank closures. You've got some mega projects from the perspective of putting Postbank and the Deutsche Bank firm together. That has been going on for a good few years. How shall we think about that cost base going forward to further out than 2022?

My second question is really about your AUM rotation because you're showing very decent numbers in terms of inflows into your wealth investment products, literally quarter-on-quarter. I'm just curious how much of it is effectively a deposit flow versus just an investment flow, i.e., are you actually seeing that deeper rotation into investment products?

My last one is really about ESG because it's a huge thing for you. You've talked about this within the context of the Group. You've talked about that within the context of IB. Where do you actually see the biggest opportunity because at the moment, the biggest market, the biggest issuance is happening in Europe but how is your footprint in Asia and US responding to that, too? Thank you.

James von Moltke

Sure. Thank you for the questions, Magdalena. A lot to get into there. You're right that on a segment disclosure perspective, that there are big moves in CRU also PB, also elsewhere, by the way, as the infrastructure cost base,



which encapsulates not just IT but other support functions, as we continue to harvest cost-savings there, it's then visible in all of the segments.

CRU would be moving down from about €1.2 billion this year, based on our IDD numbers last year, to €800 million. We think we'll beat that at this point. When we talk to you again in March, will be better than that target when we get there.

PB Germany, as you say, is a big part of where our efforts are focused at the moment. You will have seen us announce and, by the way, taken relatively significant restructuring and severance charges in the PB area, but announced a series of workers' council agreements, balance of interests and also actions, whether it's your head office restructuring, operations restructurings, branch reductions and the like.

They're all being executed as we speak. It is a gradual decline. It takes time. You do it sort of one-by-one in terms of both employees leaving the platform, branches being shut, and other actions being taken, but we do think we're on a good glide path there. And, to the earlier question from Andrew, the transformation costs will be almost entirely behind us to support that going forward.

The technology piece in PB Germany will still be a burden next year and that's what we updated you on last December relative to our earlier plans. There, we're engaged in a significant exercise of Core Bank conversion to put the Postbank business onto the same systems as the existing Deutsche Bank systems. That investment is ongoing next year and the benefits from that then are visible only in 2023. But we think we have that funded in our plans and we're executing on that and, as you recall, the Postbank systems sale was one of the actions we took to ensure that we're well prepared.

On the AUM rotation, it's interesting. We've been looking at that disclosure. What you see is increases in AUM and new inflows in PB but relatively static levels of deposit balances that are in accounts that support investment activity. Which in a sense is bullish because it means that the available deposit funding that our clients have to put to work and investment products is still there, is unchanged.



We're finding that discussion to be a very positive discussion today. As we go through, for example, re-pricing discussions, talk about the need to put in positive consent in those businesses. It creates a sales opening to have a dialogue with our clients about moving more into investment products. So, we see it as a significant opportunity as the German saver continues to react to better return opportunities outside of the deposit product and frankly, the banking industry as a whole, reprices the deposit product to make it harder to hold.

Christian Sewing

And, to your second question, ESG is overall, in our view, a material opportunity for us. First of all because that is one of the few areas where Europe as a region is overall leading. Obviously, that plays then into our cards because the whole transformation into a green economy needs to be financed and then European banks have a big chance and should tap into the opportunity to get a big part out of this.

I would actually describe it in four areas where we can succeed and where we do see actually a progress. Number one, it's in the issuances, in particular, in the capital markets business. You are right, Europe is leading there. We have one of the leading market positions in the issuances, not only in terms of green bonds, but, in particular, also bonds which are attached to a social housing.

Just the mandates where we are public which we have shown in October, show what the market position of Deutsche Bank is. But, with the knowledge we have now accumulated, with the global approach, in which we're driving that in each and every business but with the central function overlooking and coordinating that, we have great success now also in the US and in Asia. So, I think that what we see in Europe, we can repeat, and we see that in the numbers, that we actually have good progress also in the other two regions.

Secondly, we are not talking a lot about this, but we should talk more about this, the demand of our Wealth Management and Private Banking clients in ESG investments is simply huge. You see it in the DWS numbers but also in the wealth management numbers, the ask. And, when our Assets under Management are rising, the share of ESG bonds and sustainability bonds is big. If you then have on the other hand, also the origination inhouse on the Investment Banking side, obviously again a big opportunity



for us.

Third, the discussions with each and every corporate client, be it in Germany or in Europe, is always centred around sustainability and how we as the bank can finance the transformation of the corporate actually into a green economy.

That also includes not only the financing in terms of traditional parts and how we can help you as the clients but also, we are offering new products. Asset-as-a-Service, we discussed it in some of the previous calls, but actually a service from us that corporates and clients are only paying for what they really used or what they use in their day-to-day business, is a big contributor also in terms of sustainable economy and what we can offer from a bank. So, new products are arising.

And last but not least, don't underestimate the mandates we have on the advisory side. A lot a lot of corporates are thinking in terms of M&A, what they can dispose, what they can buy, how they can re-set-up their group and that is again something where we, as a bank, want to be close to, are close to.

So, a lot of mandates which we're winning are actually on the back of ESG mindset and ESG thinking and sustainability thinking of our corporate clients and, therefore, I do think it's not a surprise that at the end of the third quarter, we're standing, I think, at €127 billion or €126 billion in terms of finance and investments on our goal to €200 billion by the end of 2023. On average, we have seen €25 billion of net new financing and investments in that business. So, one of the key themes, which we're following up and which will also shape the future and also our business strategy going forward.

Stuart Graham  
(Autonomous Research)

Hi. Thank you for taking my questions. I had two. First, can you tell us what the Zim impact was in FIC revenues in Q3, please? And then, second, you've talked about the €500 million revenue uplift from rates, which I guess links into your rate sensitivity slide on slide 41. My question is how does that take account of the deposit charging fees on slide 39? I guess, if interest rates actually go up one day, you get the higher NII from slide 41, but you lose the fee income on slide 39. So, is that assumption, correct? Is the €500 million



you talked about, is that gross or net of lost deposit charging fees in due course? Thank you.

James von Moltke

Thanks, Stuart. The interest rate question is a really interesting one. Let me start with Zim. It was about a €100 million in the quarter of revenues recognised. It ran, therefore, at relatively similar rates to the first couple of quarters of the year in terms of the increment, call it 5% to revenues. Actually, in this quarter, there were some offsetting items in the credit trading businesses that went the other direction. So, I wouldn't think of this quarter's credit performance as necessarily being out of line with what we'd see in a typical quarter in normalised market environments but that's the answer on Zim.

In terms of the rates, yes, we're showing the interest rate sensitivity in the first and second years to a 100-basis point parallel shift. The effect of deposit re-pricing, in a sense, is to make those liabilities floating rate. So, a significant part of the rate sensitivity that you've seen come out of our disclosures over the past couple of years has been the impact on that interest rate risk of taking a large portion of the liabilities and making them floating.

What isn't reflected in our models at this point is behavioural change. So, the really interesting question is as we potentially lock in rates with zero being the cap, in the same way it was for far too long with a floor, our rate sensitivity ultimately would be much higher than we are showing on the page. So, while we would lose some revenue, it's baked into this between minus 50 and zero. We think the upside leverage above zero is in fact much higher than you'd be showing on the page. I hope that gets to your question.

Stuart Graham

But, the slide is a net interest income slide, so how do you capture the fee element in that?

James von Moltke

It's essentially captured in it and, at this point, the fee piece on the PB side is a relatively small portion of it. This is the net interest income impact. I think, you can, for practical purposes, disregard any fee income impact at this point.

Stuart Graham

All right, cool. Thank you very much.

James von Moltke

My pleasure.



Tom Hallett  
(KBW)

Hey, guys. A couple questions from me, please. DWS has had some recent troubles around ESG disclosures. I was just wondering if that could be any blowback on Deutsche and your wider business. Have regulators reached out and what has the reaction amongst clients been? Then, on your corporate lending growth, which seems to be picking up, margins also, certainly in German, between the front and back book is nearly converged.

So, does that mean we've effectively found a floor in revenues and upside is really just a function of volume growth rates and obviously ongoing re-pricing efforts? And, just on that, do you think there is an opportunity to improve the spread on corporate loans or does the competitive environment stop that from happening? And, maybe just sneakily a follow-up to that previous point around Zim, you said there was some offsetting items in the trading. What sort of things were they? Thank you.

Christian Sewing

Look, on the DWS, you will understand that we will not respond to that. We can only refer to the clear statement DWS has given in public and rejected the allegations. I think the numbers in Q3 for the DB group and which I just repeated, the €127 billion shows that there is no negative impact on our business. Again, I think the DWS business performance in Q3 also speaks for itself. But, obviously, we make sure and we have made sure, also for Deutsche Bank, that we have a clear governance and reporting structure about our ESG reporting and how we are doing the validation of transactions. So, we feel comfortable with that and there is no more to say.

James von Moltke

On the corporate lending, we've been looking at this and actually, as you say, the spreads have held up quite well and perhaps surprisingly well in recent quarters, so we're encouraged by that. I'm not sure I would bet on expanding spreads and margins on that lending at this point, but we do see some stability and of course, lending opportunities in the CB area. Also, good opportunities in IB, for what it's worth, in our financing business. At least in the very near term, we see opportunity to deploy the balance sheet at attractive spreads. And spreads have also held up in the PB books in Germany.

So, all-in-all, I'd say encouraging spread development and for Corporate Bank, I don't see any difference and we're encouraged as we've said, by the loan growth.



On the Zim offsets, I don't want to go into each transaction and position. It was a handful of smaller positions which I think collectively we'd see as offsetting in terms of market events to the Zim and gets you to a relatively normalised performance in credit.

Adam Terelak  
(Mediobanca)

Afternoon. Thank you for the questions. I've got two following up on NII and the Corporate Bank. On the NII, €500 million you reference on the delta on the forward curve. Can you bring out how much of that is long-end rates versus short-end and a movement in the ECB rates?

Then in the Corporate Bank, I wanted a bit more colour on the episodic items. Clearly, it's a volatile line item. Your saying it's down quite materially year-over-year, but could you kind of size it for this call to get an idea of modelling it going forwards and what does that look like into next year?

Then finally on the Corporate Bank you're talking about flat revenues year-over-year. Clearly, that's a big uptick in the fourth quarter revenues when normally there is a bit of seasonality. Would that be down for these episodic items? Thank you.

James von Moltke

Thank you, Adam, for the questions. It's been predominantly long-end movements if I compare the rate curve snap last year to this year. So, relatively little, as we say, has fed into the 2022, some, but it increases markedly in the years thereafter. We like, I think many banks, are more sensitive to the front-end but the long-end has helped us and we will do so increasingly in the years to come.

On the CB side, with respect to episodic revenues, we've talked in the past that they would tend to vary between say, €50 and a €100 million. There's the occasional quarter where it will be zero or close to zero and the occasional quarter where it exceeds a €100 million but by and large it comes in that range. This quarter year-on-year, it represented about €60 million of headwinds.

The types of activity you see there, some of it is, we call it portfolio re-balancing actions. So, when there is a shift that we do from a risk management perspective in treasury produces revenues or goes the other way, that can flow through. Recoveries on credit, on collateralised loan obligations go in it, so credit insurance, or sometimes one-off, larger inception fees on transactions would be the types





of events we would treat as episodic. So, it's all matters that are inherent in the business but create a little bit of volatility, if you like waves on top of the tide and can help or hurt in a given quarter both in absolute and in variance terms.

Adam Terelak

Just a follow-up on the €500 million. Obviously, you're talking about the forward curve and the shift in the forward curve. Is much of that benefit from short-term rates and not by 2025, the €500 million?

James von Moltke

By 2025, yes, it moves a little bit. I think that it crosses the zero bound by sometime in 2024. I think early 2024 was the latest snap but I'd have to look at it again and it's something that we update obviously frequently. So, it is helping. To the conversation I had with Stuart, are we at the point where the greater leverage kicks in based on the current curves by 2025? Not even yet at that point but it is significant upside leverage.

You see it captured in the 100 basis points parallel shift analysis. In the detailed interest rate risk management numbers we do, the cumulative effect of these interest rate curves go easily into the billions over a five-year horizon. So, we see a lot of operating leverage to come for ourselves and, of course, other banks as the yield curve, if you like, normalises.

And in CB, with respect to the balance of the year, it's not a big bet on episodics. They'll be within a range but we're seeing the momentum we've been calling for a while. Whether it's loan growth, whether it's more deposit re-pricing, underlying transactions, increasing benefits from some of the investments we've been making. We're looking at it in a very focused way on how we're building the run rate in that business, other treasury improvements that flow-through to Corporate Bank. All of those things are what we're looking for to move that run rate closer to the delivery of the €5.5 billion that Christian talked about earlier.

Anke Reingen  
(RBC)

Thank you very much for my questions. The first is with respect to inflation and if you consider this as a concern of a headwind to your cost base and especially considering that there were press reports about a request to increase wages in Germany by 3% or 4%. And then, secondly, just on the Basel IV impact you previously guided at the Investor Day, given that document is now out, I just wonder if you can



James von Moltke

confirm that? Thank you very much.

Sure, Anke. Thanks for the questions. Again, both meaty topics and I'll try to be as brief as I can. Hard to say at this point how much inflation impacts our cost base, for example, next year. It's one of the things we're watching. We need to work to offset. The one item you cite is an important one. The conclusion of negotiations for the tariff staff in Germany is a relatively important assumption as we look to the one year forward.

The rest of the cost base is very varied in how it performs. One of, I think, the positives of having pursued our transformation at the time that we did, is we've actually locked in certain of our expenses at a time when that inflation wasn't present. So, when I say future proof, for example, on the real estate portfolio, some of our contracts for IT, some of our longer-term contracts that we've been re-cutting, that provides a little bit of stability in our cost base that hopefully will shield us to some extent in the early years. Of course, further out, these inflationary pressures, if they persist, will have a bigger impact.

The banking business model should be, to a significant respect, protected from that as rates shift and that operating leverage arises but labour costs, as an example, is something that we're looking at very carefully, not just in Germany, but all around the world.

On the Basel III final framework, that's obviously something we've been following very carefully. We've been also very engaged in advocacy and dialogue with the official sector. We've been looking at the legislative proposal that was published earlier today and obviously had worked hard on what we'd learned prior to the official public. The early snapshot for us is it confirms some of the earlier guidance that we provided to you.

We thought that the first round of impact was about €25 billion as we sized it. For the most part, that's come in as we'd expected and at this point, I'd probably say that €25 billion number we gave you before is a good number. It does move out a year, though, relative to our earlier assumptions, which is helpful for us in terms of the glide path to get there.

Then, as we look further out to the impact of the output floor, I think it would confirm at this point the sort of more optimistic end of our range that we provided. So, we'd like



to think of only about a 10% further inflation relative to the current level of risk-weighted assets. As that output floor begins to bite, it does move back, based on the proposal as we read it, the point in time at which the output floor begins to bite for us. It means the transition time in terms of balance sheet mix, business model and obviously the capital build to offset that increase in capital requirements this is all, I think, quite helpful.

We welcome the legislative proposal, the clarity that it provides, the extent to which we think the European Commission has taken on board some of the feedback in helping the banking sector to balance the goals of the Basel III final framework with the nature of European banking and the need for the banking sector to support economic growth. So, there are a number of features, whether it's operational risk for treatment of underrated corporates, the multipliers applied to SA-CCR and on and on, where we think there are some very good proposals in that legislation and we look forward to continuing to work with the official sector on the legislation as it goes from the initial draft.

Kian Abouhossein  
(J.P. Morgan)

Thanks for taking my questions. I have two of them. One is on the Corporate & Other division. You mentioned in your prepared remarks, I think on page 18, about €150 million per year adjusted cost savings from 2022 onwards. And just wondering if this is coming on the existing cost programmes, or is this a gross or is it a net number?

Then, the second question is you clearly speak very comfortably and with confidence that you will reach your fixed income guidance of €6.7 billion next year. I just wonder what assumptions do you take in terms of credit environment in particular? So, high-yield levels, spread volatility, issuance levels in terms of refinancing? Can you share with us a little bit your input data to make that assumption? Considering it's clearly a very credit-heavy number to achieve, that's why I'm interested in the credit inputs.

James von Moltke

Sure. Thank you, Kian. Look, the €150 million was incremental when we talked in the summer about we've been working on incremental actions to offset some of the volume and control investment pressures that we were seeing. That is one of those actions. We're working on more and hence, when I updated the guidance back in



September, it was €700 million, so there are additional measures that we've been working on and intend to implement. But, the €150 million was part of that increment that we started talking about in the summer.

Christian Sewing

Kian, the overall fixed income number and our confidence in that and potentially even with some upside to that number, first of all derives from the foundation, which we have now built for the last two years. I think one shall not underestimate the platform we have now built in terms of setup, in terms of having the right people, a clear focused strategy and, most importantly, clients coming back to Deutsche Bank and trading with us. That was a difference three years ago, that was the difference two years ago and we see an ongoing momentum in this regard and, therefore, we're very positive that this is continuing into 2022.

From an overall credit point of view, I think we still see and we expect resilient markets into 2022. Of course, you will always have certain event risks, like we have seen now in China in certain sectors, but this is exactly where our strength is and where we have an expertise on the first line of defence and second line of defence in terms of having the skillset in dealing with that, that we think there are even opportunities for us.

So, it's not only the normal credit business being on a secured basis but also in distressed debt there are a lot of opportunities we can look into. And if there, again, look at the pipeline we have against an overall resilient picture, which I can see over the next 15 months, with the underwriting experience and skillset we have, we believe that there are good opportunities for us to be very active. And again, if I look at the pipeline, it makes me very confident.

Andrew Coombs  
(Citi)

Good afternoon, two big questions from me please. One, looking out into Q4 and looking out a bit further to Q1. If I start with Q4, I've been intrigued by your outlook commentary on page 21 of the report. You still talk about full year 2021 revenues being essentially flat on full year 2020 and yet when you look at your nine-month revenues, you're up 5% year-on-year. And in the walk that Christian gave out on it, you still seem very confident on the growth to 2022 in a number of the business lines. So, I'm just trying to tally whether you generally do think you're going to see revenues



down year-on-year in Q4, or whether that's just a prudent outlook comment that you've included.

Second question on Q1 of next year. I was interested in your commentary about the path. You seemed to suggest that you'd reach a new cost run rate through Q4 and then into Q1 as the technology costs drop away. So, is it just fair to say that to achieve your 70% cost/income target for full-year 2022, you think you need to hit a sub 70% cost/income target in Q1 as well?

James von Moltke

Sure. Thanks for the questions. Look, I would interpret it more as prudence in the outlook. There are obviously still uncertainties ahead of us as we look to the end of the year and there's also the sum total of the businesses and their outlook and then the Group's view, but I think Christian's commentary about the forward and 2022 is critical and obviously we look to Q4 to be setting up to achieve that.

In terms of the cost run rate, as I said earlier, we're laser-focused on managing it down. This what we'll call underlying run rate, where we've talked for a while about adjusted costs, excluding Prime Finance and also bank levies. That is a run rate that we've been working down now to range around €4.5-4.6 billion. It's something that needs to step down in Q1 to have re-established a glide path that we want to be on, and we will continue to work from there.

Remember, from a cost/income ratio perspective, Q1 is where we have to recognise the bank levy, so it's a little bit distorted. But, then, if you remove the bank levy, you can see then the underlying revenue to cost relationship that we need to establish.

As part of the earlier question, what's one of the things that brings our cost down? One is the completion of that Prime Finance transition of the remaining technology and staff to BNP Paribas. So, while that's been excluded from the walks we've shown you, of course, on a total expense basis, it's part of the run rate improvements we see going into first quarter of 2022.

Timo Dums  
(DZ Bank)

Hello. Thank you for taking my questions. I've got two questions, please, and one clarification. Starting with the clarification in respect to the dividend accrual of roughly €640 million, could you please remind us how does this split between the three quarters this year? This would be the



clarification.

Then, the first question is on payments. Could you provide some more colour on the strategic rationale to support the EPI initiative and also its strategic importance for the partnerships that you have with Mastercard, for instance, with FiServ and also with the acquisition of Better Payments?

And, the last question is on your capital return plan. I understand that you cannot confirm right now the exact mix, but what would be the triggers to basically confirm then the mix between dividends and share buybacks? And also, is there a certain timing that you have in mind, for instance, the Deep Dive that you plan for March? Thank you.

James von Moltke

Thank you, Timo, for the questions. I will take the two dividend related ones together and then Christian may want to add on the EPI front. First of all, my accountants would tell me I should not refer to it as an accrual. It's an exclusion of certain earned income from our Common Equity Tier 1 capital, so the numerator in the ratio calculation, and it reflects an ECB guideline around profit recognition in Pillar 1 during the year that disregards an intended pay-out going forward. That number was €300 million in the first quarter and €275 million in the second.

So, we've built a significant amount in the first half, obviously a little less in the third quarter, reflecting the impact of those transformation charges. That's something you'd expect to roll through to Q4 as well for both seasonal reasons and because of the larger transformation charges in Q4. But, as I said earlier, it positions us well for a distribution next year, and one that would be neutral to the ratio based on it being disregarded already in under the profit recognition guidelines.

As to the amount and form, as I said earlier, too early to tell. We're going to spend a lot of time, I think, in the next few months going through that question internally with our Supervisory Board and ultimately with the regulators. We're obviously very keen to restart our dividend. We know that the shareholders have contributed, done their part of financing this transformation and it's time to restart a dividend and start one that reflects management's confidence about the future, both in its amount, and in our expectations for future growth. What that will be and what



the resulting pay-out ratios and mix will be, it's still too early to tell.

On the European Payments Initiative, we are constructive on that initiative among European banks and we are a key partner in that initiative. We think it's important to create capabilities. It's part of, ultimately, strategic sovereignty for the European financial landscape and we think it can help our position strategically in the payments market.

We don't think that it's inconsistent with our partnerships with a number of our important partners around the world. As you know, we work closely with Mastercard as one example. But we think that the EPI product or capabilities can be enhancing for our business and for our customers. As to what the impact will be ultimately, strategically, or financially, it's too early to tell.

Amit Goel  
(Barclays)

Hi. Thank you. I've got two questions. The first maybe just follows on from one of the other questions that has been asked. In terms of that guidance and the outlook for 2021 Group revenues, I was just curious. Obviously, that's potentially a bit conservative. If you add up the individual businesses you can get a bit more but obviously then there's is a delta there of about a billion to 2022, and I'm just wondering is that another way to think about it in terms of you think whatever you achieve in 2021, you could achieve about a billion more revenue in 2022. So, that's the first question.

The second question is just again, coming back on costs, I just want to I understand a bit better the incremental €700 million transformation cost. It doesn't seem like the broader targets have changed, so just curious which kind of incremental costs you've seen relative to original planning and what are those pressure points that you're looking to address? Thank you.

James von Moltke

Sure. Thanks, Amit. Look, I don't want to get too early into what we ultimately will see for 2021. I think where Christian was earlier is the right way to think about it. Our last 12-month performance over the past several quarters, which supports a €25 billion run rate, is a good way to think about where we need to go next year. In that €25 billion, you'd expect to see some normalisation of IB, some improvement in the other business areas and what that net will be remains



to be seen.

We hope and expect that it will be an improvement on that €25 billion level, reflecting the performance of the businesses as Christian described. Ultimately, it will be whatever it is in terms of the growth rate off of 2021 when all is said and done. In terms of the incremental costs, just to take you back to the first quarter, we started talking about the uncontrollable items that came into the cost base at that time, which were higher SRF than we'd hope for and higher deposit insurance fees, reflecting the Greensill insolvency, and that represented €400 million. We said that we're not willing or to try to offset that €400 million in the cost base, so that we could support investments going forward.

Then as you go to the Q2, we started to see and have an expectation of more volume-related costs coming into the cost base, as well as incremental investments in controls that we needed to make. So, that's where we started to talk about the need to undertake further cost measures in order to offset those additional costs and that's where the measures are that we talked about and Kian asked about. So, we're working on that.

What the run rate in the next several quarters will reflect is the push and pull of how quickly we are able to implement measures that can offset the volume-related and additional control costs, how quickly though the previous measures are flowing through to the run rate and any other changes that take place between now and then. But, that's the sort of how you can think about the modelling, on which we've built our expectations for next year.

Ioana Patrniche

Thank you for joining us for our third quarter 2021 results call and for your questions. Please don't hesitate to reach out to the Investor Relations team with any follow-up queries. And, with that, we look forward to speaking to you at our fourth quarter call in January. Thank you.

***Disclaimer***

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