**Deutsche Bank AG**

Deutsche Bank Q4 2022 Fixed Income Conference Call

Friday, 03 February 2023 | 15:00 CET

**Transcript**

**Speakers:**
James von Moltke, Chief Financial Officer
Richard Stewart, Group Treasurer
Philip Teuchner, Investor Relations

RICHARD STEWART

Slide 1 - Five decisive actions executed since July 2019 have transformed the Group

- Thank you, Philip, and welcome from me
- Three and a half years ago we set ourselves some key financial goals for the end of 2022
- Today, we would like to talk you through what we have achieved and to highlight how Deutsche Bank today is a fundamentally different bank
- Let me start with the five decisive actions we took as we launched our transformation strategy in 2019 on slide 1
- Firstly, we created four client-centric divisions, which have delivered stable growth as promised
- In 2022, these four businesses contributed to our best profits for fifteen years
- These divisions complement each other and provide well-diversified earnings streams
- We are now a better-balanced bank. We are particularly pleased that the Corporate and Private Banks together more than doubled their contribution since 2018, contributing just over 70 percent of the Group's pre-tax profits in 2022
- Secondly, we exited businesses and activities which were not core to our strategy
- We exited equities trading, transferred our Global Prime Finance business, re-focused our Rates business, and downsized or disposed of other non-strategic activities
- Our Capital Release Unit reduced leverage exposure from non-strategic activities by 91% and risk weighted assets by 83% excluding RWA's from operational risk. This enabled us to re-deploy capital into our core businesses
- Thirdly, we cut costs. Compared to the pre-transformation level of 2018, we reduced our cost/income ratio by 18 percentage points. We achieved this while absorbing more than 8 billion euros of transformation-related costs
- Fourthly, we committed to, and invested in controls and technology to support growth
- Finally, we managed and freed up capital

- The Capital Release Unit played an important role here, contributing around 45 basis points, on a net basis, to our CET1 ratio

## Slide 2 – Delivering our transformation plan

- Let me cover the impact delivering the transformation plan has had on our profitability and financial stability on slide 2
- We are pleased that all divisions delivered significant positive operating leverage on an annual basis since 2018
- We intend to continue to deliver operating leverage for the Group on an annual basis going forward
- Our returns have improved every year since 2019
- We have reduced noninterest expenses over the period. We will continue to be disciplined on costs including working on additional measures to offset cost pressures, in line with our 2025 target of a cost/income ratio below 62.5%
- Finally, our capital remains resilient. Since 2018 we absorbed around 270 basis points of capital headwinds, from regulatory impacts and our transformation plan and ended the year at 13.4%, around 300 basis points above our regulatory requirements

## Slide 3 – Positioned the Group for sustainable profitability, growth and greater resilience

- Let me now turn to our performance in 2022 on slide 3
- Our achievements have positioned us to build and maintain a trajectory of sustainable growth and this is reflected in our 2022 results
- Revenues are above 27 billion euros, well ahead of what we had planned in 2019, despite the business exits I mentioned
- All four core businesses produced positive operating leverage compared to their pre-transformation levels. In 2022, our reported post-tax return on tangible equity was above 9% including a deferred tax valuation adjustment
- In terms of profitability, we delivered our highest profits since 2007, at 5.6 billion euros before tax. Our cost/income ratio is 75% and significantly below the pre-transformation level of 93% in 2018
- Pre-provision profit for the Group was nearly 7 billion euros in 2022

- We proved the resilience during the challenging environment of the past few years
- This regained resilience was also recognized by the Credit Rating Agencies
- Since 2021 we have received 4 upgrades of the three leading agencies, and we are confident to have further momentum
- We have maintained disciplined risk management and a strong balance sheet as you can see on slide 4

## Slide 4 – Ongoing disciplined risk management and strong balance sheet metrics

- In order to maintain this discipline going forward, we continue to invest in our people and risk management capabilities, as well as controls and technology which support timely and pro-active risk management
- This enables us to manage risks dynamically within our frameworks and most importantly within our risk appetite
- We continuously monitor emerging risks, run downside analyses and stress tests, and operate a comprehensive limit framework across all risk types
- In this way we can respond proactively to changes in our operating environment, as you have seen us do in 2022 during the escalating war in Ukraine and the stress on European energy supplies
- Despite challenges throughout the year, our risk management approach helped us maintain strong risk and balance sheet metrics
- Our provision for credit losses was 25 basis points of average loans for 2022, in line with our guidance provided back in March

## Slide 5 – Underlying loan trend flat while deposit growth continues

- Let us now dig a bit deeper in some Treasury-related topics over the next slides
- Slide 5 provides further details on the developments in our loan and deposit books over the quarter
- All figures in the commentary are adjusted for FX effects
- Overall, loans have declined by 2 billion euros in the quarter

- Loans in the Corporate Bank have decreased by 5 billion euros, driven by active portfolio management over year-end as well as 2 billion of episodic effects
- In the Investment Bank, loan growth in the quarter has been 4 billion euros, driven by strong demand across FIC in high quality structured lending coupled with moderate growth in Origination and Advisory
- Given the macro-economic environment we remain very focused on managing the client demand in FIC within our risk appetite
- In the Private Bank, loans have remained essentially flat
- For this year we continue to expect moderate loan growth, predominantly in the Corporate and Private Bank
- Moving to deposits, where our book grew by 4 billion euros compared to the previous quarter
- This growth has been driven mostly by targeted measures in the Corporate Bank as well as some episodic growth
- Deposits in the Private Bank have remained essentially flat
- In 2023, we are focused on structurally increasing deposits in both the Corporate and Private Banks in line with our TLTRO repayment plans and business strategy

## Slide 6 – Net interest income supports revenue development

- Turning to slide 6, I would like to provide an update of the interest rate tailwind we expect to see going forward
- In March 2022, we guided that interest rate tailwinds, net of funding cost offsets, would add approximately 1 percentage point to the revenue compound annual growth rate from 2021 to 2025
- This figure has risen to approximately 1.5 percentage points from our 2022 landing point, based on rates and funding spreads as of the 20th of January
- You can see the divisional CAGRs net of funding impacts on the right side of the slide
- As we want to give you a consistent view across rate and funding cost impacts, these figures are based on the evolution of our planned liability stack rather than a purely static balance sheet, but do not include the impacts of planned lending growth

- In 2023, we expect to see strong interest rate impacts due to the timing effects resulting from the rapid pace of interest rate rises
- By 2025, the rollover of our hedge portfolios will have offset the reduction in this timing effect, resulting in the net interest income benefit being maintained
- As noted at our third quarter call, the sequential tailwind from 2022 to 2023 is expected to be approximately 1 billion euros for the full year

## Slide 7 – Strong liquidity position

- Moving to slide 7, highlighting the development of our key liquidity metrics
- Throughout the fourth quarter we have maintained our robust liquidity position
- While our daily average liquidity coverage ratio during the quarter was at our target level of 130%, the increase of the spot LCR at year-end was driven by strong cash balances and positive FX impacts
- Compared to the third quarter the liquidity coverage ratio increased by six percentage points to 142%
- The surplus above minimum requirements increased by about 4 billion euros to 64 billion euros quarter on quarter, mainly driven by significantly lower net cash outflows
- The stock of our high-quality liquid assets decreased by about 8 billion euros during the fourth quarter due to our prepayment of TLTRO and a weaker US Dollar
- Net cash outflows also significantly decreased as a result of lower derivative outflows, committed facilities as well as our efforts to further optimize the deposit book
- For this year we remain committed to support business growth and continue to manage the LCR conservatively towards 130%
- The net stable funding ratio increased to 119%, which is within our target range
- This represents a surplus of 98 billion euros above the regulatory requirement
- The available longer-term stable funding sources for the bank continue to be well-diversified and are driven by a robust deposit franchise, which contributes about two thirds to the Group’s stable funding sources

- Over the course of 2023, we aim to maintain this funding mix, with the remaining TLTRO being gradually replaced by covered bonds and deposit growth

## Slide 8 – CET1 ratio remains above 13%

- Turning to capital on slide 8
- Our Common Equity Tier 1 ratio came in at 13.4%, a 3 basis points increase compared to the previous quarter
- FX translation effects contributed 2 basis points
- 3 basis points of the increase came from capital supply changes, reflecting our strong organic capital generation from net income, largely offset by higher regulatory deductions for deferred tax assets, shareholder dividends and Additional Tier 1 coupons
- Credit risk weighted assets led to a 7 basis points ratio increase versus the previous quarter as the impact of regulatory model changes was more than offset by tight risk management in our Core Bank
- Market risk RWA increased, leading to a 9 basis points ratio decline versus the previous quarter
- The higher market risk resulted from higher sVaR levels, mainly driven by a change in the applicable stress window versus the prior quarter
- Operational risk weighted assets were essentially flat compared to the previous quarter
- Looking ahead we expect our CET1 ratio to remain subject to volatility, principally due to regulatory model reviews and ECB audits
- In 2022, amendments were made in particular to models for our MidCap portfolio and our German retail portfolio
- Now, we expect model changes for the wholesale portfolio to follow in phases – a first set was implemented in the fourth quarter of last year with a RWA impact of around 2.5 billion euros
- The models for the larger portfolio of financial institutions and large corporates will follow over the course of this year
- In addition, our market risk qualitative multiplier is currently being reviewed, from which we expect a decrease

- We expect to be able to absorb model related impacts via continued retention of earnings, but the timing of regulatory model decisions is likely to create CET1 ratio volatility
- That said, we aim to end 2023 with a CET 1 ratio of 200 basis points above our Maximum Distributable Amount threshold, expected to be 11.2%

## Slide 9 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements, as shown on slide 9
- The CET 1 MDA buffer now stands at 288 basis points or 10 billion euros of CET1 capital, down by 1 basis point quarter on quarter
- While the CET 1 ratio increased by 3 basis points in the quarter, the distance to MDA decreased due to the higher countercyclical capital buffer setting in the UK of 4 basis points
- Our buffer to the total capital requirement increased to 330 basis points, most notably from our 1.25 billion euros AT1 issuance in November
- As of 1st February, our CET1 ratio requirement has increased by approximately 60 basis points, including 11 basis points from a higher setting of Pillar 2 requirements by the ECB and approximately 50 basis points from the introduction of the German countercyclical buffer and the German systemic risk buffer for residential mortgages
- This still leaves us with a comfortable pro-forma buffer over the first quarter CET1 requirement of approximately 230 basis points or 8 billion euros of CET1 capital

## Slide 10 – Leverage ratio in line with target

- Moving to slide 10
- We ended the year with a leverage ratio of 4.6%, fully in line with our 2022 target of around 4.5% and an increase of 25 basis points versus the prior quarter
- FX translation effects resulted in a 5 basis points leverage ratio increase, principally due to a weaker US Dollar
- 11 basis points came from higher Tier 1 capital, reflecting higher CET1 capital and our AT1 issuance in November

- Finally, 9 basis point increase came from the seasonal reduction in trading activities at year end

## Slide 11 – Significant buffer over MREL/TLAC requirements

- We continue to operate with significant loss-absorbing capacity, well above all our requirements, as shown on slide 11
- The MREL surplus, as our most binding constraint, has decreased by 2 billion euros to 18 billion euros over the quarter
- This decrease was driven by lower regulatory capital and a roll-down of eligible liabilities, partially offset by a lower MREL requirement due to the FX driven decline in risk weighted assets
- We are well prepared to absorb the approximately 2 billion euros impact from known regulatory changes, most notably the higher German buffer requirements, which became effective on 1st February, and a further approximately 1 billion euros from new MREL requirements which we expect to take effect sometime in the first half of 2023
- Our loss-absorbing capacity buffer remains at a comfortable level even including these changes on a pro-forma basis and continues to provide us with the flexibility to pause issuing new eligible liabilities instruments for approximately one year

## Slide 12 – Issuance plan below prior year level

- Moving now to our issuance plan on slide 12
- We closed the year with a total issuance volume of 24 billion euros in 2022. Excluding 4.3 billion of structured notes, which were not part of our original plan, this is in line with our previous guidance of ending the year at the upper end of a 15 to 20 billion euro range
- During the fourth quarter of 2022, we issued 4.8 billion euros in senior preferred, covered bond and AT1 format, the latter supporting our balance sheet and lending franchise
- Offsetting that, we prepaid 11 billion euros of TLTRO in December and an additional 5 billion in January, reducing our outstanding to 29 billion
- From this point forward we expect to reduce our TLTRO outstanding by 3 to 4 billion euros per quarter through a combination of prepayments and the maturity profile of our remaining TLTRO tranches

- Turning now to 2023, we expect slightly lower requirements compared to 2022 and guide to a range of 13 to 18 billion euros, with a focus on senior non-preferred and covered bonds
- January was a very busy month for financial issuance in the capital markets with Euromarket issuance being up more than 50% compared to January 2022 levels
- We were also active and issued roughly 4 billion euros in January, split between covered bonds, senior preferred and senior non-preferred issuance in the global capital markets
- This equates to 30% of the lower end of our full year issuance plan
- In addition, we issued our inaugural Panda bond, following recent regulatory changes by PBoC and SAFE to facilitate foreign remittance of Panda bond proceeds
- This will further boost our credentials as a leading foreign DCM house in China
- Furthermore, we published the final results of our USD Libor consent solicitation on 19th January
- As you will have seen, our senior-non preferred instrument met the requirements at the second meeting and the coupon will be amended to reset over SOFR whereas the AT1 security did not meet the requirements and continues to reference USD IBOR swap rates
- Whilst we are disappointed, we note that the reset does not occur until April 2025

## Slide 13 – Summary & Outlook

- Before going to your questions let me conclude with a summary on slide 13
- As the environment changes, so does our business mix, and the more favorable interest rate backdrop has created a strong step-off for further revenue growth
- So let me conclude with a few words on how we see 2023
- With regards to revenues, we anticipate performance around the mid-point of a range between 28 to 29 billion euros, reflecting the impact of interest rates, particularly in the Corporate Bank and Private Bank, as well as robust organic business growth. This would be partly offset by some normalization in other businesses, notably FIC

- On the cost side we remain focused on delivering positive operating leverage, a key driver as we work towards our 2025 goals. We anticipate inflationary pressures, but also benefits from our cost efficiency measures, and for 2023, we expect to keep our non-interest expenses broadly flat to 2022
- Our risk management discipline, coupled with a more benign macro-economic and credit environment in recent weeks, supports our provision for credit loss guidance of 25 to 30 basis points of average loans for 2023. Our current outlook would tend towards the lower end of that range, in other words, essentially flat to 2022
- And we started the year with a strong CET1 ratio to support growth and absorb the upcoming regulatory driven volatility
- With that I will finish and we look forward to your questions

## Question and answer session

| | |
|---|---|
| Lee Street<br>Citigroup | Hello. Thanks for doing the call and thank you for taking my questions. I've got three, please. Firstly, I'm sure you get many questions on your upcoming call, you have the dollar 4.296% Tier 2. I know in the past you have stated you are going to take an economic approach to calls, but do you care to add anything to your thoughts surrounding the potential call or not at the time?<br><br>Secondly, on ratings, you mentioned an optimistic view for ratings this year. Do you expect further upgrades this year and, linked to that, do you have a specific rating target in mind, like getting your preferred senior to being A-rated or anything similar to that?<br><br>Finally, the point you just mentioned on the dollar additional Tier 1 and the consent which did not pass. If you were not to call that bond, I suppose the question is, what happens to the coupon? If no further action is taken, will that just end up effectively fixing? This would be my three questions. Thank you. |
| Richard Stewart | Thanks, Lee. Thanks for joining on a Friday afternoon. I'll take the Tier 2 security question first. Regarding our $1.5 billion Tier 2 security callable in May, as you rightly said, we continue to make decisions regarding the exercise of those call rights closer to the exercise date. As usual, our decision balances the interests of all our key stakeholders and factoring in all relevant economic factors, including the usefulness and of the instrument for capital and funding, rating agency metrics, as well as the cost of the instrument versus alternatives. As you probably are aware, the call window for this security is actually from 25th March to 24th April 23. We are monitoring this topic and the market closely. We'd note that the rally we've seen in our spreads over recent months obviously would impact that decision, but as always, any call of a capital issuance is subject to regulatory approval.<br><br>In terms of ratings, overall we're happy with the trajectory we've had over the last years, with four |

upgrades of the leading three rating agencies, but feel there is more room, as I said in my prepared remarks. We feel that compared to peers, we have on average still around a notch catch-up potential, but when we look at specific agencies, and obviously Moody's was second half of last year, we had the upgrade there.

When I think about Fitch, they're on a positive outlook, that was confirmed in September last year. We, therefore, expect that positive outlook will get resolved at some point during 2023. Fitch in their last report stated that they expect further improvements in profitability, together with maintaining a CET1 ratio above 12.5%, a leverage ratio above 4.5%. We think we've made good progress on all those factors, so we're hopeful there. In addition, Fitch has flagged that any upgrade would require only a moderate impact from the economic downturn on the bank's capitalisation.

Turning to S&P, they currently have our ratings on a stable outlook in the recent published commentaries, which we share on our IR website. S&P appreciates the progress the bank has made throughout its transformation programme. At the same time, the agency refers to the expectation of a supportive macroeconomic environment as a prerequisite to update our ratings. But over the last few weeks, and months even, the economic projections have improved significantly, compared to a few months ago. Again, we remain optimistic there.

In terms of consent solicitation regarding the AT1, absent any further action, the fallback language takes effect, which we see as a dealer poll and, if that fails, a fixing equal to the last available fixing. That, you can think about things like debt exchanges as well, at some point. Hopefully this answers your questions, Lee. Thank you for the questions.

Lee Street

Very clear. Thanks for your answers.

Soumya Sarkar
Barclays

Thanks for the presentation and taking my questions. I have two, please. First, you said you were looking to grow deposits. Is the deposit growth target for 23 broadly similar to what you saw in 22? How is the deposit development trending? It's only early for 23, but any comment on that. Given that you have TLTRO repayments, if the deposit development is not in line, are you looking at issuing more senior preferred bonds, for example, or would it still be more covered bonds? That would be my first question.

Second question would be you mentioned that you had a year-end target of at least 200 bps buffer for MDA. Is that a floor throughout the year or could we see the MDA buffer, given CET1 volatility pointed out, go below that 200 bps number, as well? Thank you.

Richard Stewart

Thank you very much for your questions. Deposit growth, deposit volumes, both in the Corporate Bank and the Private Bank in 2022 were very stable. What we are planning for this year, some targeted campaigns in both our Corporate Bank and Private Bank. The Private Bank campaign has only just started, so it's a little bit too early, but we are expecting overall deposit growth to be slightly above the full year 22 and steady throughout the year. We feel pretty confident about our deposit outlook.

In terms of TLTRO, there we repaid 11 billion in Q4 and a further 5 billion in January. In terms of the roll-off profile, we have 3 to 4 billion or so a quarter, all the way out to the end of the maturity of the tranches in 2024. We feel very comfortable around that roll-off profile, with no cliff edge effects. This is why that roll-off profile will be funded through deposit growth or through our current bond issuance plans. That'd be the deposit question.

In terms of MDA, we expect to see a CET1 requirement of approximately 11.2% by the end of Q4 23, reflecting already announced changes to the countercyclical buffers becoming applicable throughout the year. We expect further ECB decisions related to internal credit risk model audits to conclude also during the year, some with likely CET1 ratio burden and others with some potential benefits. However, there is uncertainty on the ultimate timing and magnitude of those impacts and, consequently, we expect some CET1 ratio volatility during the year. Overall, we expect a CET1 ratio by year-end of 200 basis points above our MDA threshold.

| | |
|---|---|
| Soumya Sarkar | Thank you. |
| Iuliana Golub<br>Goldman Sachs | Good afternoon. Thank you for the presentation and for taking my questions. I have two, please. First, would it be fair to assume that in terms of capital instrument issuance, that would be skewed towards Tier 2 issuance, given that you have some amortisation in your Tier 2 securities and that you're comfortably meeting your AT1 requirements? The second one would be if you could please give us flavour or the RWA development in 2023? Thank you. |
| Richard Stewart | Thank you, Iuliana, for joining. In terms of capital issuance, as you rightly said, we are in a good space in both our Tier 2 and Tier 1 instruments right now. As ever, what we do is think of our own business growth opportunities, so that does drive our decision as to which part of the capital stack to allocate to that business growth. In terms of Tier 2 issuance and what our plans are in that space, again, that's something we'll be thinking about opportunistically, as we do with any other issuance. In terms of the Tier 1, as you know, we issued in November. In terms of our issuance plans for this year, we expect between zero issuance up to 2 billion or so. Again, that’s more opportunistic, it's more about where the opportunities are within our franchises, to deploy that capital and leverage. |
| James von Moltke | It's James, I might take the RWA question. We do expect growth from the businesses and that’s something we want to fund with our capital. We think that’s moderate growth. We've talked in the past about low single-digit growth in the businesses, as we grow the franchise over time. Then, to Richard’s earlier comments, we will have increases from model audits where the magnitude and the timing is uncertain. We’re tracking obviously upwards, with all of that said, but that model uncertainty makes it hard, to be honest, to |

predict the year-end number on it. We'll have to give you updates as the year goes by.

| | |
|---|---|
| Iuliana Golub | Understood. Thank you very much. |
| James von Moltke | Thank you, Iuliana. |
| Robert Smalley<br>Fixed Income Analyst | Hi. Thanks for taking my question and thanks for doing the call. I wanted to ask about the loan loss provision, you're going to hold it steady for 2023 versus last year. Fixing that at that level as we go into a slowing economy, albeit less than maybe originally thought, would that speak to more of discretionary and general provisions and management overlays within that provision? At the same time, on the call yesterday, I think the discussion was that credit issues may be more idiosyncratic in 2023, which may speak to more specific provisioning. If you could walk me through how all of that ends up with a flat provision and the thinking behind that, I'd appreciate it.<br><br>Second part of the question is kind of the same. It seems that most of the large credit issues that we're seeing over the past 12 to 18 months are not really the result of risk management, as much as they are due diligence issues. Can you talk about your due diligence, you've avoided a lot of these issues, and how that's changed over the past 18, 24 months, given what we've seen losses around the financial system, idiosyncratic losses, that is? Thanks. |
| James von Moltke | Sure, Robert. It's James. Thanks for joining and thanks for the questions. Looking at Olivier's commentary yesterday, one important part is in the way that the IFRS 9 works, we're basically looking at 23 as a year in which, more likely, the provisioning we take will be Stage 3, based on impairment events. In some respect, it's therefore very path dependent. It's hard to guess which credits will deteriorate to be in an impairment and when, but obviously we take a view based on the portfolio, the risks we see, the environment and so on.<br><br>The steady is a forecast, but it's an educated view based on everything that's going on there. I wouldn't at |

this point expect that we'd be taking overlays. We're, as you know, reasonably, I won't say reluctant, we think overlays are entirely appropriate when the results of the ratings, the models create an expected loss number and a CLP that you think may understate the risks in the book and, therefore, a more prudent approach is needed. We're not reticent to take overlays, but typically we don't see a need for them and so, we would not build that into our forecasting. If you ask yourself what is essentially flat to 2022? It's a level of credit loss provisions between, let's say, or what is consistent with our guidance, 300 to 325 million a quarter.

If you look at our history, that's actually a reasonably significant level of CLPs in Stage 3, absent a significant stress event. This current outlook, a milder recessionary environment and slowdown, we think produces that type of outcome and we don't think that's necessarily an overly optimistic way of looking at it. But, to answer your question, not including overlays or events that could take place during this year, which is why we decided to keep a range, even as we indicate our comfort today with the low end of the range.

On the due diligence side, one of the nice things is we talk about our underwriting standards, we talk about the quality of our risk organisation, so in many respects, we rely on the ordinary course due diligence that we do in the second line. We rely on the quality of the relationships, understanding our clients and their needs in the first line. You're always learning over time and adapting your processes to what you learn and to the environment. Looking at the value of collateral, the development of those markets and, hence, I don't want to say we're fixed in place, but we feel very confident in our processes and in the capabilities of our people in the due diligence. It's one of the pillars we rely on, as we think about the risk profile of the company. Hope that colour helps, Robert.

| | |
|---|---|
| Robert Smalley | Yes, it does. Thanks for the detail. |
| James von Moltke | My pleasure. |

| | |
|---|---|
| Ellie Dann<br>Morgan Stanley | Hi there. Thanks for your presentation. I'd like to ask a question on the old Deutsche Postbank CMS bonds. Do you have any plans for these? I'm wondering if you just look at them simply as cheap perpetual funding and if there's any encouragement from your supervisors to get rid of them? |
| Richard Stewart | Thank you for the question. It's always an interesting one that we think about a lot ourselves. To answer your question the best way, we think to ourselves that it's on our balance sheet, it's relatively efficient for us on our balance sheet. That's why it's not something which the regulators think or are pressurising us to do anything about. Having said that, when we feel things are attractive for us to take action on, because we're coming up to various exercise dates, then of course we do consider that. The short answer is that we're not under any pressures to do anything with those particular securities. |
| Ellie Dann | Thank you. |
| Corinne Cunningham<br>Autonomous | Afternoon, everyone. I have a couple of questions, kind of related. One on refinancing costs, you've got something in your forecast on how that flows into margin expectations. The other one is on the LCR, there's quite a big difference between the average during the quarter and the year end. When I try and tie this back to what you're saying about replacement of TLTRO funding, I'm finding it a bit difficult to tie it all up. If you look at the Q4 redemption of TLTRO, there's not really much of that was covered by the net increase in deposits and loans. You didn't really issue much in the way of covered bonds in Q4, and yet, you had potentially what looked like quite a significant inflow of deposits over the quarter end. Can you just explain a bit about what's moving behind the LCR and maybe also give us what the average for Q3 was? You said the average for Q4 was 130, what was the average in Q3? Thank you. |
| Richard Stewart | I'll take your questions in a random order. Q3 was just above 130 on a daily averaging basis. In Q4 we were |

quite pleased with our steering, we were running daily average, like you say, around the 130s for most of the quarter. There was a bit of a spike at year-end, which was a bit driven by seasonal factors, which took us to the 142 number and then starting in Q1 again, we're back to a daily averaging of close to our target levels, since liquidity steering is working exactly how we're looking to target.

In the fourth quarter we did a very good job of optimising our deposit book, so essentially just making ratios as efficient as we can, which allowed to facilitate the repayment of the TLTRO. As you know, the TLTRO impact on the LCR depends on that classification. The quarter end was only a bit above over 20 billion support of the LCR versus our 30 billion at the end of Q3. That reduction was achieved without the LCR going down through a deposit optimisation and lower derivatives mark-to-market. Hopefully that answers your question.

Corinne Cunningham: Thank you. Then on the point about margins and your expectations, what kind of typical cost of funding are you expecting in there or is this entirely driven by paying more on deposits?

Richard Stewart: We factor in a market implied number in the numbers we share in the deck, as of 20th Jan, so the market implied rates as well as market implied issuance spreads. That's for both deposits and for issuance.

Corinne Cunningham: Are you forecasting that the spreads stay the same, that they improve in line with credit ratings?

Richard Stewart: What we take is the current issuance spreads as of, for this deck, 20th January. Then, essentially, over time we assume some sort of convergence to our peers, given we do trade wide to our peers, just to anticipate that over the next few years because we do feel there is going to be an uplift at some point, or we certainly hope there will be an uplift at some point. In that sense, that's how we price the issuance curve.

Corinne Cunningham: Thank you very much.

**Brajesh Kumar**
**Societé Generale**

Team, hi. Brajesh from Societé Generale. Thanks, as always, for doing this call. My first question on issuance has already been answered. I'll take this opportunity to hear your views in general on asset quality in FY23. Related to that, how much is your direct and indirect exposure to Adani Group? An the next one, I missed a bit, you've already talked about the LIBOR consent solicitation, so can you please repeat that?

**James von Moltke**

Brajesh, it's James. I'll take the first question. On specific clients, except in exceptional circumstances, we don't really comment. As yesterday, we do point to our general conservative underwriting collateralisation and risk management, where it applies to all situations, but we don't go into individual client names. The overall asset quality environment for 2023 is, as I got into a little bit with Robert, and as Olivier talked about yesterday, there are obviously some watch portfolios, so we're not complacent at all about the environment we're in. Recessions typically produce a credit cycle. Rising rates produces some amount of stress in borrowers that may be highly leveraged or where cash flow or asset characteristics are deteriorating, so it's something we watch very carefully.

If there are watch portfolios, the ones that we'd point to, for sure, would be the commercial real estate market globally, some of the middle market, mid cap enterprises that we lend to, and obviously households that, whether through inflation, energy costs or other reasons, may come under pressure. In fairness, as we look at all of those sectors though, the downside that we thought might emerge in 23 just doesn't appear to be emerging. That's why I think you'll probably hear from us and our peers, a more optimistic view about the credit environment than we might've expected three or four months ago. Our portfolio quality overall has been quite stable when you look at forward indicators, NPE has gone down.

There's been stability, by and large, in our internal ratings and Stage 2 events and those types of things.

| | |
|---|---|
| | As we look at all those indicators, the portfolio looks stable to us. As Olivier talked about yesterday, we like the way we manage the portfolio in terms of diversification, hedging, risk diversification and management, overall. We'd like to think that stands us in good stead, regardless of the cycle we're in, but as the cycle appears to be milder right now than we might've expected, we've come into the year with a higher degree of optimism. |
| Richard Stewart | To answer your question on the solicitation, back in end of January we had a senior non-preferred FRN which passed and so, that will then move to SOFR. Then we had an AT1 security, as well, we didn't get the quorum, so now the options, we haven't made any decision on any of these, but we're either on fallback language or debt exchanges or call in the security itself. That's what we're trying to say. |
| Brajesh Kumar | Just one quick clarification, in your issuance slide 12, the footnote says for 2023 this includes only senior preferred issuances. Does this mean 1 to 2 billion will be on your senior preferred and no structure in that, that's how we should read it? |
| Richard Stewart | That's right. This doesn't include structured notes. |
| Brajesh Kumar | Okay, thank you. |
| Richard Stewart | Just to add to that, that's because it's covered out of our Investment Banking franchise, rather than traditionally it's been out of Treasury. |
| Daniel David<br>Autonomous | Good afternoon and thanks for taking my questions. Just on that LIBOR consent, just interested to hear if you considered attaching a fee to maybe get that over the line? Then I've got two more, one on the MREL buffer. I know you've answered this or talked about this in previous calls, how the MREL buffer is impacted by LGF. If I think about that on an RWA basis, I think that 5% buffer is probably a bit bigger than what we think is reasonable for MREL buffers. Is that 18 billion, 5% reasonable to stick around or could we see that coming down a bit? |

Then, finally, to round off on funding, interested in your longer-term funding plans. Is the ECB's MRO or LTRO factored in? If not, why? Clearly it is a cost optimisation point. Or is there any other pressure to move away completely from Central Bank funding and move towards the covered bond and deposit growth that you talk about? Thanks.

Richard Stewart

Thank you for your questions. The first one was around the solicitation question and whether fees get it over the line. We need to follow regulatory guidance to have a value-neutral transaction. That's what we were attempting to do, that didn't work. It's something we may consider further down the line, but no rush at this stage. In terms of MREL, there's no assumed reliance on MRO or LTRO. In other words, the 18 billion number we're comfortable with right now.

In terms of moving away from Central Bank funding, currently it's not economic to do so versus our base-case funding plan, there's no pressure to do so. Also, no further operations are announced, so we would not build a reliance on that in our future funding plans.

Going back to MREL, it will come down a bit, already through the countercyclical buffer. We disclosed a 3 billion reduction on a pro forma basis on one of the slides.

Daniel David

Okay, thanks.

James Hyde
PGIM Fixed Income

Hi, Richard. Hi, James. Thank you for doing this. I've got two bigger-picture questions and one very specific one. I'll start with that one. The 4 billion leverage finance exposure was very comforting, but I just want to make sure, does that include all the exposures in fair value books and trading books and in undrawn commitments? That's my first question.

Then the next two questions are about risk-weighted assets and capital allocation. First of all, with this folding in of the CRU into the corporate centre, what's the outlook of risk RWAs there? Do they run off or is it something that you just wait for Basel 3.1 or Basel IV, whatever you want to call it? Especially in light of what you said yesterday about maybe Basel 3.1 is looking a bit heavier than the 25 billion. I just wondered, what's the outlook for that?

Then, broader, one of the things that was mentioned about the Brussels proposals and the further floors. It was mentioned that some areas you'd have to allocated capital away, I think I even heard you say from German mortgages. I'm just wondering, what would that be? Would you be doing full securitisations and how would you do this? Or does it also involve, again, revisiting whether you stay in Spain and Italy? Thanks.

James von Moltke

James, it's James. Thanks for joining, as always, and glad to have you with us. I'll answer the second two questions. We got to what we think is a floor on the op risk. You never know, in the model's approach there are sometimes little adjustments, but by and large, we think we've stabilised around where we are through to Basel, I'll use your language, 3.1, in January of 25. We will move to that new approach and, therefore, the CRU, given that it's revenue driven, the CRU will no longer attract op risk RWA and we'll have to move to a new allocation system. It's with us for the next couple of years and the associated capital will be reported in C&O. And then I would expect from 25 there will be a change in the allocation methodology that we still need to decide on.

Around the floors, all of the events that are going on, do change the capital that each part of the balance sheet attracts. Whether it's floors, model adjustments, limitation, definition of default or countercyclical buffers, let alone a sectoral buffer, there are things that we build into our methodologies, our internal allocations, and then express themselves in both client pricing and in the returns that we earn from it. So, yes, we do react to what's going on. I think those reactions are always a little bit evolutionary rather than revolutionary, and you have to understand that there's client relationships, there's obviously ancillary business that comes from certain business, let's say, like LDCM.

| | |
|---|---|
| | It's never as simple as costs going up or capital charges going up and, therefore, hurdle rates becoming more challenging and so, you're out. It's never quite as simple as that, but it obviously does affect our thinking of capital allocation. It's why, as we think about the path we're on, the further we diverge from what we think the economic capital requirements of certain businesses are, in an sense, the tougher it gets. You talked about mortgages, we've been bringing up the capitalisation through a number of these factors of what is one of the safest assets on our balance sheet, which is German mortgages. Which is an ironic situation, but it does cause us to look at the overall profitability of the business. |
| James Hyde | Right, thank you. |
| James von Moltke | On the 4 billion, I believe the answer is it's all in, James, in terms of the exposures. |
| James Hyde | Great. Thank you very much. |
| James von Moltke | It's a pleasure. |

*document, refer to the Q4 2022 Financial Data Supplement, which is available at [investor-relations.db.com](investor-relations.db.com).*

*This document is provided solely for information purposes and shall not be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in any jurisdiction. No investment decision relating to securities of or relating to Deutsche Bank AG or its affiliates should be made on the basis of this document. Please refer to Deutsche Bank's annual and interim reports, ad hoc announcements under Article 17 of Regulation (EU) No. 596/2014 and filings with the U.S. Securities Exchange Commission (SEC) under Form 6-K.*