



Deutsche Bank AG

Deutsche Bank Q4 2020 Analyst Conference Call

Thursday, 4 February 2020 | 13:00 CET

Transcript

Speakers:

Christian Sewing, Chief Executive Officer

James von Moltke, Chief Financial Officer

James Rivett, Head of Investor Relations



James Rivett

- Thank you all for joining us for our preliminary fourth quarter results call.
- As usual on our call, our CEO, Christian Sewing will speak first, followed by our Chief Financial Officer, James von Moltke.
- The presentation, as always, is available for download in the investor relation section of our website, db.com.
- Before we get started, let me just remind you that the presentation contains forward looking statements, which may not develop as we currently expect. We therefore ask you to take notice of the precautionary warning at the end of our materials.
- With that, let me hand over to Christian.

Christian Sewing

Slide 1 – Profitable and resilient through transformation and COVID-19

- Thank you, James! A warm welcome from me as well
- It's a pleasure to be discussing our fourth quarter and full-year 2020 results with you
- This is an important milestone in our transformation journey
- In July 2019, we said that execution over the first six quarters would be critically important
- We hit all our targets and key milestones in 2020 and over the last 18 months, despite the challenges of COVID-19
- We are now moving into phase 3 of our transformation, delivering sustainable profitability
- That means growing our businesses while remaining disciplined on costs and capital
- Our performance in the fourth quarter and the full year confirms and strengthens this picture
- We told you we saw sustainable growth in our Investment Bank, as clients have re-engaged and our strong performance in January further supports this



- The Private Bank and Corporate Bank have successfully offset the interest rate headwinds they are facing
- We delivered twelve consecutive quarters of year-on-year reductions in adjusted costs excluding transformation charges and bank levies
- And, despite the challenges we faced, we were profitable on a pre and post-tax basis in the fourth quarter and the full year
- For the full year at group level we have reported pre-tax profit of 1 billion euros and net income of 624 million
- The improved profitability in the Core Bank offset the continuing transformation effects, higher provisions for credit losses and continued de-risking in the Capital Release Unit
- We have also put aside any doubts that we can self-fund our transformation
- And while the environment is likely to remain challenging, our strong capital and liquidity ratios position us well to continue to support clients
- Let me now go through these themes in more detail starting with the delivery of our 2020 milestones on slide 2

Slide 2 – Delivered on all milestones in 2020

- We hit our 19.5 billion euro adjusted cost target, a 3.3 billion euro reduction in two years
- This was in part driven by headcount reductions, with our workforce down by 8% over this period
- We have demonstrated our strong risk management. Provisions for credit losses of 41 basis points of loans are in the middle of the range that we estimated in April, at the start of the pandemic
- We aimed for a year-end 2020 leverage ratio of 4.5% and we ended the year at 4.7%
- At the Investor Deep Dive we said we expected a CET1 ratio of around 13% at year-end
- In fact, our ratio is stronger, at 13.6%
- The stronger ratio reflects in part a delay in certain regulatory items and in particular outperformance against our de-risking plans in the Capital Release Unit



- The Capital Release Unit ended the year with 34 billion euros of RWA, below the 38 billion euro target
- We have made good progress against our sustainability targets with over 40 billion euros of financing and investment volumes at year-end compared to our 20 billion euro target
- Simply put: we have continued to deliver against all our financial targets and milestones in 2020
- Delivery against these targets is supported by the ongoing disciplined execution of our strategic agenda, as we detail on slide 3

Slide 3 – Disciplined delivery of transformation agenda

- In July 2019, we identified the transformation effects that we would take by the end of 2022 and with 85% of these already behind us, we continue to make progress
- Most recently, we signed a multi-year partnership with Google Cloud which will elevate our IT infrastructure to a more efficient, cloud-based environment
- We also signed and closed the sale of Postbank Systems which helps accelerate our cost and workforce reductions
- In the Private Bank, we agreed balances of interest with our employee representatives which will allow us to further rationalize our head office and operations in Germany
- We also extended our insurance partnerships with Talanx and Zurich Insurance which will generate additional fee income
- The creation of our German Business Banking in the Corporate Bank will drive greater focus on serving our 800,000 small business clients
- Overall, we have achieved more than 300 key milestones and over 100% of the cost savings anticipated from our core transformation initiatives in 2020
- Being on track or ahead of our objectives so far gives us confidence that we will achieve our 2022 goals
- Our businesses have also made considerable progress against their strategic objectives as we show on the next slide



Slide 4 – All businesses executed on strategic priorities in 2022

- The Corporate Bank is working to offset interest rate headwinds in several ways, as we discussed with you in December
- On deposit re-pricing, we are well ahead of target
- By the end of 2020, we had charging agreements related to accounts with a value of 78 billion euros, up from 68 billion euros in the third quarter
- These agreements generated an annualized positive revenue impact of more than 200 million euros
- We also grew business volumes, for example 20% growth in payment volumes with our FinTech, Ecommerce and platform clients
- And we captured a 4% increase in the Asia-Pacific region
- The Investment Bank grew revenues by 32% in 2020, a very strong performance in both FIC and Origination and Advisory
- In the second half of the year we have outperformed the industry and the average of our US peers in year-on-year growth terms
- Yes, markets have been favorable, but we see our growth to be more than market-driven
- We refocused our business around areas of strength and clients have engaged well with this model
- As a result, we saw double digit year on year growth in FIC. This trend has continued in January
- Client re-engagement has also helped underpin the strength in revenue performance in FIC
- As we explained at the Investor Deep Dive, we see a substantial portion of Investment Bank growth as sustainable even as markets normalize, as we expect in 2021
- The Private Bank was also successful in offsetting interest rate headwinds with growth in volumes and fee income, including benefits from re-pricing initiatives
- The combination of higher account fees and other re-pricing initiatives has added 100 million euros to 2020 revenues
- In 2020, we grew net new client loans by 13 billion euros and achieved 16 billion euros of net inflows in investment products including converting 5 billion euros of deposits



- These conversions are part of our strategy to grow fee and commission revenues
- In Asset Management, DWS delivered 30 billion euros of net inflows in the full year, of which 9 billion euros were in ESG assets
- Assets under Management rose to 793 billion euros at year-end, 25 billion higher than pre-crisis levels at the end of 2019
- In short: the dynamics in all four core businesses show that our re-focused business model is paying off
- This execution is increasingly visible in our revenue performance as you can see on slide 5

Slide 5 – Growing revenues under refocused strategy

- When we launched our transformation in July 2019, we set out to stabilise, then grow revenues – and that’s what we did
- We have increased Group revenues by over 850 million euros in 2020, as growth in our core businesses more than offset the exit from Equities trading
- Core Bank revenues have increased by 6% to 24.2 billion euros
- This puts us close to the plan of 24.4 billion euros that we laid out at the Investor Deep Dive as part of our path to the 8% return on tangible equity target in 2022
- As discussed earlier, this growth has principally come from our re-focused Investment Bank which was able to capitalize on favorable market conditions and to deliver on the strategic transformation of our FIC business
- The Corporate Bank and Private Bank successfully offset headwinds, primarily lower interest rates, to keep revenues essentially stable year-on-year and we would expect underlying growth to feed through the top line, as interest rate headwinds soften, consistent with the current forward curve
- Asset Management was slightly lower, due to the non-recurrence of certain performance fees in 2020
- In summary, all our businesses executed on their strategic objectives



Slide 6 - Cost discipline continues for the 12th consecutive quarter

- Slide 6 shows the progress we have made in reducing adjusted costs
- Excluding transformation charges and bank levies, we have reduced adjusted costs year on year for twelve consecutive quarters
- In 2020, we reduced adjusted costs excluding transformation charges and expenses eligible for reimbursement related to Prime Finance by 9%
- This puts us on a good path to our 2022 target of 16.7 billion euros, including targeted investments this year
- Disciplined execution is becoming increasingly visible in our results as you can see on slide 7

Slide 7 - Strategic transformation drives growth and higher profitability

- As I said earlier, the next phase of our transformation is to improve sustainable profitability
- That means generating positive operating leverage by growing revenues and, at the same time, reducing costs
- We have generated positive double-digit operating leverage in 2020 at both Group and Core Bank levels
- The operating leverage has driven significant improvements in Core Bank profitability
- Adjusted for transformation charges, specific revenue items, goodwill impairments as well as restructuring and severance, pre-tax profit in the Core Bank is up 52% in 2020, to 4.2 billion euros
- The improved Core Bank performance has increasingly offset the negative impact of the wind-down of the Capital Release Unit
- Over time, more of the Core Bank's profitability should flow to the Group's bottom line as we continue to make progress on our transformation agenda and provisions for credit losses normalize
- The strength of our balance sheet at year end, which we discuss on slide 8, also positions us well to further grow our businesses



Slide 8 - Maintained strong balance sheet

- Our Common Equity Tier 1 ratio was at 13.6%, flat year on year and approximately 315 basis points above regulatory requirements
- Our liquidity reserves were 243 billion euros
- Our liquidity coverage ratio was 145%, which is equivalent to a buffer of 66 billion euros above requirements
- As a result, we can deploy our capital and liquidity strength to support clients in what is still an uncertain environment
- Finally, as we explained both in December and at our Risk Deep Dive in June last year: we have benefited from a high-quality loan book and a disciplined risk framework, that enabled us to deliver within guidance on provisions for credit losses
- Our transformation is fully on track on every key dimension and our performance in 2020 gives us good visibility towards our 2022 targets

Slide 9 - Outlook

- Before I hand over to James, let me sum up where we stand after six quarters and our outlook for 2021
- Our re-focused strategy is clearly paying off. Clients are re-engaging and our employees are motivated
- Trust by our clients is at the highest level since 2012
- This allows us to navigate well through the operating environment which we expect to remain challenging and volatile. This also offers opportunities which we will continue to make use of
- At the Investor Deep Dive, we highlighted that our business set up positions us well to benefit from the fundamental trends we expect to see in the coming years
- These trends include the increase in global financing demand, wealth preservation, increased 'glocalization' and sustainable financing
- And they are already visible in January. Momentum is strong and points to sustainability of revenues
- Our focus on cost reductions remains a priority. Delivery against our cost targets alone will put us close to our 2022 return on tangible equity target, as restructuring and transformation costs fall away



- For 2021, the cost reductions combined with our planned investments are consistent with our 2022 group adjusted cost target of 16.7 billion euros
- Our plans assume provisions for credit losses decline this year compared to 2020, but will remain elevated compared to the pre-COVID 19 periods
- We will continue to manage our balance sheet conservatively
- Our strong capital and liquidity position us well to meet any challenges
- As a result we feel well placed to achieve our 8% return on tangible equity target in 2022 and capital distribution to shareholders
- With that, let me hand over to James

James von Moltke

Slide 10 – Q4 2020 Group Financial Highlights

- Thank you Christian
- Let me start with a summary of our financial performance compared to the prior year, on slide 10
- As Christian said, we are focused on delivering sustainable profitability by growing revenues and reducing costs
- Operating leverage was strong in the fourth quarter at 23% on a reported basis
- Revenues increased by 2% and non-interest expenses declined by 21%, principally reflecting lower transformation and restructuring and severance charges
- Results in the fourth quarter included a negative impact of 120 million euros related to the sale of Postbank Systems
- This had a negative 104 million euro impact on revenues and 16 million euros of restructuring and severance
- Consistent with our comments at the Investor Deep Dive, we believe that this transaction helps to accelerate the decommissioning of our legacy infrastructure and reduces the risk of stranded costs in the longer-term
- Adjusting for specific revenue and cost items which are detailed on slide 32 of the appendix, operating leverage was 12%
- On this basis, we grew revenues by 4% and reduced costs by 8%



- Provisions for credit losses were 251 million euros in the quarter, equivalent to 23 basis points of loans
- We generated a profit before tax of 175 million euros or 621 million excluding transformation charges, restructuring and severance and specific revenue items
- The tax benefit of 14 million euros in the quarter was mainly driven by the release of non-tax deductible litigation provisions and share based payment-related tax effects, due to positive share price movements
- Our adjusted Core Bank Return on Tangible Equity for the fourth quarter was 5.8% and 5.7% for the full year
- Tangible book value per share was 23 euros and 19 cents, a 1% decrease. The reduction is driven by negative OCI, mainly due to FX translation effects, partially offset by a lower share count
- For the full year, we generated a pre-tax profit of 1 billion euros or 2.2 billion, excluding transformation charges, restructuring and severance and specific revenue items
- Provision for credit losses was 1.8 billion euros for the full year, in line with our expectations at 41 basis points of average loans
- The full year effective tax rate was 39%
- Let's now turn to page 11 to look at the specific drivers of the adjusted cost reductions

Slide 11 – Adjusted Costs

- In the fourth quarter, we reduced adjusted costs excluding transformation charges by 413 million euros or 8% versus the prior year
- Adjusted costs include 81 million of expenses eligible for reimbursement related to prime finance and 207 million euros of transformation charges, which are excluded from our targets
- On this basis, adjusted costs were 4.6 billion euros in the fourth quarter and 19.5 billion euros in the full year
- We continued to make progress in reducing costs across all major categories while continuing to invest in our IT and controls
- Let us now move to slide 12 to discuss our provisions for credit losses



Slide 12– Provisions for Credit Losses

- Consistent with our prior guidance, provisions for credit losses remained at more normalized levels in the fourth quarter
- Provisions were 251 million euros in the quarter, equivalent to 23 basis points of loans on an annualized basis
- The decline for the fourth quarter is driven by releases in COVID-19 related Stage 1 and 2 provisions, reflecting positive changes in consensus macro-economic outlook since the third quarter
- Stage 3 provisions declined by 14% in the quarter, but remained more elevated in the Private Bank and the Investment Bank
- We retained the management overlay we established in the third quarter given continued uncertainties in the macro-economic outlook
- Including the provisions taken in the fourth quarter, we ended the period with 4.8 billion euros of allowance for loan losses, equivalent to 111 basis points of loans

Slide 13 – Capital Ratios

- Turning to capital on slide 13
- As Christian highlighted, our CET 1 ratio was 13.6% at the end of 2020, above the guidance of 13%, that we provided at the Investor Deep Dive
- Approximately 20 basis points came from lower risk weighted assets, notably, faster than anticipated reductions in the Capital Release Unit and slightly slower deployment in the Core Bank
- A further 20 basis points of the outperformance came from a series of numerator benefits, including higher than expected net income and higher than expected benefits from regulatory changes relating to software intangibles and other items
- The balance of 20 basis points came from delays in regulatory inflation, principally the Targeted Review of Internal Models which we expected to conclude in the fourth quarter
- 4 billion euros of RWA inflation related to TRIM is now expected to occur in the first quarter of 2021, which increases our full year regulatory inflation assumption to approximately 20 billion euros
- Nearly all of this RWA inflation is expected to occur in the first half of 2021, equivalent to approximately 80 basis points of CET1 capital



- This takes our pro-forma CET1 ratio to approximately 12.8%
- With this inflation behind us in the first half of the year, we expect to see a much more moderate impact from regulatory items in the second half of 2021 and for the full year 2022
- Our leverage ratio improved by 24 basis points to 4.7%, reflecting the positive regulatory driven and other capital effects I just described
- Our pro-forma leverage ratio, including ECB balances, was 4.3%
- This puts us well on track to meet our leverage ratio target of ~4.5% by year-end 2022, taking into account a further 10 basis points from the transfer of our Prime Finance business, which we will finalise later this year
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 15

Slide 15 – Corporate Bank

- Profit before tax was 561 million euros for the full year
- Excluding specific items, transformation charges and restructuring and severance, the adjusted profit before tax was 714 million euros, with stable quarterly contributions including 211 million euros in Q4
- This equates to a 5.8% adjusted post-tax return on tangible equity for the quarter
- Excluding specific items and the impact of FX translation, full year revenues of 5.2 billion euros were flat on 2019
- The Corporate Bank offset interest rate headwinds, largely through charging agreements
- At year end, charging agreements were in place on accounts with approximately 78 billion of deposits, generating revenues of more than 200 million euros on an annualised basis
- Noninterest expenses declined by 13% for the full year and 24% in the quarter principally reflecting lower transformation charges and restructuring expenses
- Adjusted costs excluding transformation charges declined by 2% for the full year and 6% in the quarter, reflecting cost initiatives, headcount reductions and FX translation benefits



- This produced operating leverage of 1% for 2020
- Loans were flat year on year on a FX adjusted basis, while deposits were slightly lower, reflecting management actions to optimize the deposit base
- Provisions for credit losses were 73 million euros for the quarter and 366 million for the full year, driven by a small number of idiosyncratic events
- We are pleased with the relative performance in the Corporate Bank in 2020 and the trajectory to our 2022 objectives, although performance in 2021 will be closer to 2020

Slide 16 – Q4 2020 Corporate Bank revenue performance

- Turning to revenues in the fourth quarter on slide 16
- Global Transaction Banking revenues declined by 6% or 3% on an FX adjusted basis
- Cash Management revenues were essentially flat excluding the impact of FX translation, as interest rate headwinds offset deposit repricing and balance sheet management initiatives
- We saw positive underlying momentum in this business, with Corporate Cash Management volumes improving both sequentially and year on year
- Trade Finance and Lending revenues were also essentially flat excluding FX translation, with solid business performance in Lending, particularly in Germany and EMEA
- Securities Services and Trust and Agency Services revenues declined as a result of interest rate reductions in key markets
- Commercial Banking revenues, excluding the impact of the sale of Postbank Systems increased by 6%, supported by the further roll-out of deposit repricing and net movements in episodic items

Slide 17 – Investment Bank

- Turning to the Investment Bank on slide 17
- Full year revenues excluding specific items increased by 32%, driven by strong market activity, and the benefits of our strategic transformation as well as strong client engagement



- Noninterest expenses declined by 15% in the full year and 19% in the fourth quarter reflecting lower adjusted costs, reduced restructuring and severance and litigation
- Adjusted costs excluding transformation charges declined by 9% in the full year and the fourth quarter reflecting lower allocations, disciplined expense management and FX translation benefits
- As a result, the Investment Bank cost income ratio declined to 58% in 2020 with operating leverage of 41%
- The Investment Bank generated a pre-tax profit of 3.2 billion euros in the year and a post-tax return on tangible equity of 10%
- Loan balances declined, reflecting disciplined risk management across the portfolio
- Leverage exposure increased compared to the prior year, principally driven by activity in Fixed Income Sales & Trading to support clients
- Risk weighted assets were higher year-on-year principally due to regulatory inflation
- Provisions for credit losses increased in 2020 to 688 million euros or 89 basis points of average loans, primarily reflecting higher COVID-19 related impairments
- Turning to fourth quarter revenue performance excluding specific items compared to the prior year period in the Investment Bank on slide 18

Slide 18 – Q4 2020 Investment Bank revenue performance

- Revenues excluding specific items in Fixed Income Sales & Trading increased by 21%
- The Investment Bank continued to benefit from client re-engagement following our strategic re-positioning
- Credit trading revenues were significantly higher, driven by strong client engagement and constructive market conditions
- Our FX business performed well, reflecting higher volatility and strength in our derivatives business
- Rates revenues, excluding specific items were flat year-on-year, as the strong performance in Europe was offset by a general reduction of client activity in the US



- Emerging market revenues were higher across all three regions driven by continued improvements in the macro flow business
- Financing revenues were essentially flat, excluding the impact of FX translation
- Revenues in Origination and Advisory increased by 52%, the fourth consecutive quarter where our revenue growth has outperformed the fee pool
- Importantly, we regained the number one rank in our home market
- Growth in Debt Origination reflected increased activity and market share gains in Investment Grade Debt
- Equity origination revenues were significantly higher driven by a strong performance in Special Purpose Acquisition Company activity
- Finally, Advisory revenues were also significantly higher, driven by increased activity, mainly in EMEA

Slide 19 – Private Bank

- Turning to the Private Bank on slide 19
- We made substantial progress in 2020 on our objectives, with revenues excluding specific items broadly stable and a continued reduction in costs
- The Private Bank generated a pre-tax loss of 124 million euros in the full year, absorbing approximately 650 million euros of transformation-related effects
- Adjusted profit before tax was 493 million euros, stable compared to 2019 despite a more challenging market environment
- Full year revenues excluding specific items were flat, as we grew volumes and fee income, including benefits from re-pricing, to offset ongoing deposit margin compression and negative impacts from COVID-19
- Noninterest expenses declined by 7%, driven by operational improvements as higher transformation-related effects and litigation charges largely offset the goodwill impairment in the prior year
- Adjusted costs excluding transformation charges declined 6% year on year, primarily reflecting ongoing synergies from the German integration and other structural and organizational measures including workforce reductions to below 30,000 at year-end



- Consistent with our previous planning, the cost synergies from the German merger reached 400 million euros for the year
- We also agreed balances of interest with our employee representatives which will allow further rationalization of our head office and operations in Germany
- Flat revenues and cost reductions led to operating leverage of 6% in 2020
- We achieved the fourth consecutive quarter of net inflows, with 16 billion euros in investment products and we originated net new client loans of 13 billion euros
- Provisions for credit losses were 711 million euros or 31 basis points of loans
- The increase year on year mainly reflects impacts from the pandemic. The prior year included higher beneficial impacts from portfolio sales and model recalibrations
- For the fourth quarter, revenues excluding specific items were broadly flat, while adjusted costs excluding transformation charges declined by 10%

Slide 20 – Q4 2020 Private Bank revenue performance

- We now turn to the revenue details on slide 20
- Revenues in the Private Bank in Germany increased by 4% in the quarter, excluding a negative impact of 88 million euros related to the sale of Postbank Systems I highlighted earlier
- Growth in lending revenues and higher commission and fee income from investment and insurance products offset negative impacts from deposit margin compression
- Business growth continued, with net new client loans of 3 billion euros and 1 billion euros net inflows in investment products in the quarter
- In the International Private Bank, net revenues increased by 2% on a reported basis and declined by 4% excluding revenues related to Sal. Oppenheim workout activities
- Private Banking and Wealth Management revenues excluding specific items declined by 2% on an FX adjusted basis, as the impact of COVID-19 and lower interest rates was partly offset by business growth and relationship manager hiring in prior periods



- In Personal Banking, revenues declined by 3% mainly reflecting headwinds from continued deposit margin compression and the impact of the pandemic on business activity
- The International Private Bank attracted net inflows of 2 billion euros in investment products and granted 1 billion euros of net new client loans in the quarter

Slide 21 – Asset Management

- As you will have seen in their results, DWS performed well and had a successful year
- To remind you, the Asset Management segment on page 21 includes certain items that are not part of the DWS stand-alone financials
- Adjusted profit before tax of 586 million euros in the full year increased by 9%, as management actions to reduce costs more than offset the reduction in revenues
- Revenues declined by 4% versus the prior year, predominately due to the absence of performance fees from Multi Asset and Alternatives earned in 2019
- Management fees were stable at 2.1 billion euros, as improvements in flows offset the continued industry wide margin compression
- Noninterest expenses declined by 185 million euros or 11%, with adjusted costs excluding transformation charges down 10%
- The reduction in costs was driven by lower variable compensation and ongoing efficiency initiatives, combined with a reduction in certain operating costs due to reduced travel and marketing activity as a result of the pandemic
- Asset Management posted positive operating leverage in 2020 of 5%
- Assets under management of 793 billion euros have grown by 25 billion euros in the year, driven by net inflows and positive market performance, which more than offset the negative FX impact
- Net inflows were 30 billion euros for 2020, reaching record highs for DWS, including 9 billion euros into ESG products
- Net inflows in Passive, Cash, Alternatives and Active Equity were partly offset by outflows in other Active businesses
- With that, let me turn to Corporate & Other on slide 22



Slide 22 – Corporate & Other

- Corporate and Other reported a pre-tax loss of 930 million euros in 2020, versus a pre-tax loss of 246 million euros in the prior year
- The higher loss was driven by a negative contribution from valuation and timing differences compared to a positive result in the prior year from mark to market moves, associated with the bank's cross currency funding arrangements
- Corporate & Other reported a pre-tax loss of 333 million euros in the quarter
- The performance reflected higher than planned Infrastructure costs, principally technology, which have not been charged to the divisions
- The results were also impacted by higher funding and liquidity charges which are also not allocated to the business divisions, as we have discussed in prior calls
- Consistent with our prior guidance we expect these funding costs held in Corporate & Other to remain at around 250 million euros in 2021
- Shareholder expenses as defined in the OECD transfer pricing guidelines were around 100 million euros in the fourth quarter and approximately 400 million in the full year and are likely to remain at similar levels in future periods
- We can now turn to the Capital Release Unit on slide 23

Slide 23 – Capital Release Unit

- The Capital Release Unit finished the year by delivering another quarter of sequential reductions in Risk Weighted Assets, leverage exposure and costs, outperforming our 2020 targets
- Risk Weighted Assets decreased to 34 billion euros, 4 billion below our year-end target
- We reduced credit and market risk RWAs by 48% to 10 billion euros at year-end, with the balance in operational risk
- The division decreased leverage exposure by 55 billion euros, or 43% in 2020, to 72 billion euros, 8 billion below the year-end guidance



- Loss before tax of 2.2 billion euros improved by 1 billion euros compared to the prior year, as reductions in costs more than offset the loss of revenues from the exit of equities trading
- Noninterest expenses in 2020 declined by 1.5 billion euros or 43%, reflecting lower adjusted costs, as well as lower restructuring and severance and litigation charges
- Adjusted costs excluding transformation charges declined by 861 million euros or 33%, reflecting lower service cost allocations, lower compensation and lower non-compensation costs
- Negative revenues in the Capital Release Unit were 225 million euros in 2020
- This was significantly better than the guidance we gave at our 2019 Investor Deep Dive, principally reflecting outperformance against our original de-risking expectations
- For 2021, we will continue to execute towards the Risk Weighted Asset and leverage exposure plans that we laid out in December
- We expect Risk Weighted Assets in 2021 to decrease year on year and leverage exposure to be significantly lower
- However, compared to the fourth quarter 2020, we expect leverage exposure in the Capital Release Unit to increase in the first half of 2021
- This increase reflects an approximate 10 billion euro allocation of Central Liquidity Reserve as we outlined at the Investor Deep Dive, plus a further increase from the implementation of the Standardised Approach for Counterparty Credit Risk
- These increases do not impact our 2022 leverage target
- The transition of our Prime Finance and Electronic Equities clients and the associated leverage exposure and risk weighted assets is on track to complete by the end of 2021

Slide 24 – Our financial targets

- Christian talked about the outlook for 2021, which when combined with the performance in 2020, puts us on a solid path to our 2022 targets
- We remain committed to our 8% group return on tangible equity target and our cost reduction trajectory leaves us well positioned to achieve this



- Consistent with the targeted investments that Christian discussed, we would not expect cost reductions to follow the same linear path in 2021
- These investments, combined with our disciplined focus on costs put us on a path to reach the 70% cost to income ratio and 16.7 billion euros of adjusted costs in 2022
- We remain prudent in how we manage our capital and our CET1 target remains greater than 12.5%
- And as with 2020, we will aim for our leverage ratio to remain at approximately 4.5%
- Before I conclude we have another important disclosure today our Head of Investor Relations, James Rivett will be moving to another leadership role within Finance.
- He'll be succeeded as head of IR by Ioana Patrniche, a senior member of our debt capital markets team in London. She has been at Deutsche Bank for 11 years and brings a wealth of experience to her new role. She will continue to be based in London and will take up her new responsibilities with immediate effect. I hope you all take the opportunity to get to know her in the very near future.
- James joined the IR team in 2014 and he became Head of IR in 2018. In that role, he has steered us through the launch of our transformation strategy, our first ever virtual AGM and two investor deep dives. Not to mention our regular reporting, investor conferences and many investor meetings. That's an impressive set of achievements and all the more so in the past year against the backdrop of a global pandemic.
- James has seen the company going through multiple challenges over the last few years and that's no easy task for an IR officer. And speaking personally I've depended on his advice more times than I care to admit. So Christian, and I want to say a huge thank you to James for all his support and guidance.
- James has forged many good relationships on both buy-side and sell-side and with many fixed income investors, that includes a lot of you on the call now.
- I know you'll want to join us in wishing James every success in his new role. With that, let me hand back to James and we look forward to your questions.



Question and answer session

Andrew Lim
(Société Générale)

Hi, good afternoon. Thanks for taking my questions. On Investment Banking and the ECM, I was wondering if we could talk a bit more about the SPACs (Special Purpose Acquisition Company) business and whether you see that as being in a structural growth trend or whether we've just seen maybe one or two quarters of strength. And then also, with that business, is that purely a fee business or does Deutsche Bank invest some of its own balance sheet and SPACs?

And then secondly, I think I might have missed this earlier, but could you explain why the CET1 capital increased as much as it did? I think it was a 1.7 billion increase, which can't be fully cancelled accounted by net earnings. So, if you could explain the movements there. Thank you.

Christian Sewing

Thanks, Andrew. Let me start with the SAPCs business. Clearly, a business which in 2020 grew and has shown a strong growth also with us. We have an excellent expertise in that business, and therefore we took obviously the opportunity of the market to help our clients, to advise our clients. I think in the SAPCs business, it's all about working with the right sponsors. In this regard, we can say, for us, that we work with high quality sponsors.

As I said, a lot of expertise, and yes, to your question, obviously a fee business. But what we can see it's not only the initial SPAC business, there's a lot of add-on business with financing behind that. And therefore, it turns into a business where there is a lot of incremental and cross selling. We are monitoring that business quite closely. Clearly, the market has grown.

That also always means that you need to stay close to it, and that's exactly what we're doing, not only from



a business point of view, but also from a risk management point of view.

James von Moltke

Andrew, it's James. On the CET1 capital, the driver was overwhelmingly the software intangibles rule change that was implemented in the quarter. So, that was in total about €1.6 billion of CET1 capital. There was an offset from the NPE backstop, which is also implemented in the fourth quarter, so there is a netting effect. But by far, the biggest single driver was software intangibles, representative of 43 bases points on the ratio.

Andrew Lim

That's great. Thank you very much for that.

Jon Peace
(Credit Suisse)

Thank you. The first question is on costs. I'm sorry if I missed it, but did you give a figure for adjusted costs in 2021 or was the indication just that it wouldn't necessarily be linear between 2020 and 2022? And then a question, please, on capital return. I saw a headline on Bloomberg that you intended to pay dividends this year. Does that mean that you would be accruing something in capital to pay out in 2022? And then of your €5 billion of capital return for 2022, what's your thinking there at the moment between dividends and buybacks and how quickly that €5 billion might actually come back to shareholders? Thank you.

James von Moltke

Jon, thanks for the questions. Starting with adjusted costs, we're not going to tie ourselves to the mast on a target for 2021. But we did provide, in the investor day, what I call a plan number of €18.5 billion, the same definition as this year. And of course, we're going to work to meet or improve on that number.

And as you say, we've been trying to indicate not linear, meaning of the 2.8 billion distance that we need to travel between 2020 and 2022, of course, less of that is achieved, call it a billion, in 2021 than is



in 2022. One other thing I just note on that point is that does assume, or build in, the assumption on the single resolution fund assessment this year, which we called out as an assumption where advocacy was still ongoing in December and remains true today.

On the capital return, yes, we would need to accrue for that expected dividend over the course of 2021. At this point, it's too early to say exactly the path or the ramp-up of our capital distributions. Of course, we want to implement a dividend, and then where there's some flexibility, we would certainly look at stock buybacks, particularly given where our share is today.

The five billion is somewhat open ended, but as we said in December, we see that as achievable within the five year planning window that we have, and we'd certainly hope and expect that it will ramp up, in respect of 2021.

Jon Peace

Thank you.

Jernej Omahen
(Goldman Sachs)

Good afternoon from my side, and thank you, James Rivett, for all your help you've given us over the years. I have a number of questions, but I'll limit it to two. The first question I'd like to ask is when all is said and done about 2020, the bank made a return of 0.2%. I was wondering when one thinks about the opportunity set, which was clearly challenging on the credit risk side, but very favourable on the revenue side, what levers are available to Deutsche Bank if fixed revenues swing back to a level to where they were, for example, in 2019?

Because I get that, potentially, it's all good to look at the structural improvements that are undeniable that you have achieved on costs, but revenues are not that much within your control. And then the second question I want to ask is on this five billion buyback



that you mentioned. Five billion is broadly 10% of Deutsche Bank's total shareholder tangible equity today. So, if Deutsche Bank hits the 8% return on tangible target, the five billion return of capital to shareholders would equal around 60% plus of those profits over the course of two years.

I was just wondering to what extent do you think various stakeholders, like the rating agencies, would react to a potential reduction of the capital base of that magnitude? And perhaps finally, this is really short, James, you mentioned that the tax was positive because there was a release of non-tax deductible litigation reserve. Can you please let us know what that relates to, where there was positive resolution? Thank you very much.

Christian Sewing

Jernej, let me start with your first question. First of all, the way to our 8%, which you indirectly asked, is a function of further stabilising and growing our revenues. It is clearly our delivery, which I think we have shown quite well over the last 12 consecutive quarters, that we can manage at reduced cost and we will do this going forward. And then everybody will also buy in that we will see a normalisation of credit losses, and I think we have shown, in 2020, not only that we are in control of that, but that we are also spot on with our forecasting.

To your key question on revenues. I'm very confident that we can deliver the growth rates, which we showed you and demonstrated to you in the so called stable business Corporate Bank and Private Bank, as well as DWS. If you think about DWS with an expected revenue in 2022 of 2.4 billion, if I look at the run rate right now, then we are very close, if not already there, shows me that there is underlying business, the momentum is clearly there.

We have hit all internal targets in our plan in 2020 for those businesses, which had the interest rate headwinds, and we have the underlying measures



and action taken in the Private Bank, as well as in the Corporate Bank, to further boost our revenues there in the Corporate Bank, in particular, the payment area. Furthermore, you know that we are continuing to charge the deposit rates to our corporates versus the end of the third quarter.

In the fourth quarter, we added another 13 billion of charging agreements, which obviously helps us. And then you may also have seen our initiatives for the German Business Banking, where, in my view, we underserved that in the past and we clearly came out with another initiative. So, all the revenue initiatives in the stable business, and I could go on for the Private Bank, are ongoing.

Now, to your question on the Investment Bank, first of all, I hope that we have shown extensive disclosure last month in December, on our FIC business and how we see that. I think page eight of Ram Nayak's presentation is telling the story, and that really gives us the confidence that a good part of the outperformance, which we have seen in 2020, is sustainable. We clearly, at the end of the day, benefit from the execution work we are doing in the rates business. Ram talked about that.

We are the house, which is benefitting, very much, from the recovery in credit. The sustainability in funding costs is clearly there, and also that, we said. So, simply saying we fall back to 2019 levels is, in my view, something which we don't see. And where we see the evidence, from the reengagement of the clients, and also, rating upgrades or outlook upgrades, which we have seen, are helping us.

We don't believe that this is happening, and therefore, our internal plan that a good part of the outperformance is sustainable, we firmly believe in. And to be honest, Jernej, this is exactly the momentum we see also now in the new year. If I look at the last five weeks, exactly what we described to



you four weeks ago or six weeks ago is happening and I can see the momentum in the business. So, falling back to 2019 levels is, in my view, something which is more than a downside, and hence, I can only tell you from the initiatives we took, that our base case, in this regard, is a firm one.

James von Moltke

Jernej, on the dividend pay-out, it's an interesting question. I'm reminded of the US banks in the early part, middle of the last decade when there was a similar debate, can payout ratios rise 30%, 60%, 50%, 100% over time? And it's a dynamic of is the industry generating profit that goes beyond its asset growth. In our modelling, we need to build, in anticipation of the Basel III final framework effects. And so that's really the main constraint in terms of our pay out that's built into the model.

But we think the assumptions are reasonable. Of course, they're going to be subject to regulatory approval and all of those discussions that go with it, but we think they're reasonable as expectations. Briefly, on the tax item, it was a 14 million benefit on the tax line, driven by three things. Litigation, as you mentioned, share based payments, and also, a true up of the tax rate during the year.

I don't want to go into the specifics of the litigation item, but what I'd give you for colour is very clear event that drove that release, and it's a partial release, associated with the item, and it was in Europe, if that's helpful to your line of thinking.

Jernej Omahen

Thank you very much.

Daniele Brupbacher
(UBS)

Good afternoon and thank you. I only have two small clarification questions. James, when you talked to, I think it was slide 15, the Corporate Bank, you said that the performance this year, so 2021, probably will be more like 2020. To be clear, is that referring to the top line or pre-tax? That's one. And then on costs,



obviously, you expect costs to go towards around 18.5 this year and then further down next year. Is there anything we should be aware of, in terms of quarterly pattern?

And also, in the past, I think you made reference to how much of that expected cost-cutting is already, let's say, in the bag, so decided. And it will almost automatically, well, it never happens automatically, but it is decided and it should come through with a very high likelihood. Those are my two questions, thanks.

James von Moltke

Daniele, thank you for the questions. It was really mostly the top line I was referring to, and it's the dynamic that we described, also in December, of relatively good underlying growth, both in the Corporate Bank and in the Private Bank, from the drivers that you would expect. Transaction volumes, flows in the Private Bank, some degree of loan growth. Which, in the recent past, has been offset by the impact of the interest rate curve or deposit margin compression.

We see that, as we've said, abating in 2021, and also, more dramatically declining in 2022. And so, what you'd think of as a bit of a hockey stick that Stefan described is really a function of relatively consistent underlying growth, more of which is showing through to reported income or revenues over time. On the cost line, equally, I think we'd expect some improvement this year and then a more dramatic improvement in 2022. So, I would expect to see the operating leverage go from 1% to something a little bit better this year and then quite a lot better next year in the Corporate Bank.

In terms of costs on the run rate, you'll see, in the quarterly chart that we show, we've been working hard to generate about 100 million sequential benefit each quarter over the last several years. We think that



slows down a little bit. I'm not sure I'd commit to a specific quarterly pattern. Our goal remains to keep it at least flat, if not somewhat down, as the year goes by.

And as you point out, at a run rate of 4.6 billion, you annualise that and you quickly arrive at a fair amount of the work for the overall reduction we're planning for this year is already done. But as we've said, we've got a lot of work to do, we're focused on the technology path and on building, in a sense, the momentum on the action this year to ensure that we hit our goals for next year.

Jernej Omahen

Thank you. Very clear.

Adam Terelak
(Mediobanca)

Good afternoon. Thank you for the questions. I have one on NII and then a clarification on capital and accruals. On NII, clearly, there's been a step down, quarter on quarter, in both the Private Bank and the Corporate Bank. I was wondering if there was any episodic items to worry about in there, whether you can call those out for both businesses, but also, the outlook from here.

Clearly, you're repricing deposits faster and faster, but that and loan growth haven't been enough to defend the quarterly NII print. So, whether the revenue mix, going forward, is going to be more skewed towards fees, as we've seen in this quarter. And then on the capital side, I just wanted to ask on AT1. Is that now fully accrued for the year in capital, in the year end print? Or is there a catch-up accrual to come through when that gets paid, I think it's May, or whenever it is, this year? Thank you.

James von Moltke

Thanks, Adam. On NII, it's an interesting line. There's more noise in the NII line than one would normally expect, you're right. If I look at it on an annualised basis, we've looked at it, essentially, adjusted and



reported, and interestingly, the compression you had in both the Private Bank and the Corporate Bank is about the same, whether it's adjusted or as reported. So, without having to walk you through all of the ins and outs, the direction or the quantum of travel, if you like, is more or less as you see in the financials.

Looking forward, there is still some compression ahead, but I think it slows. In part, because take the example of the Corporate Bank, we lap the movement in US dollar rates after the first quarter. And as I say, we're slowing somewhat in the Private Bank, and of course, NIM stabilisation is part of the goal of our hedging strategies. In 2021, there will be, again, some noise. I would call that, in particular, the timing of the TLTRO revenue recognition as being one item that'll introduce a little bit of volatility into the line. On capital, fully accrued is the short answer, the AT1 coupon.

Adam Terelak

On the TLTRO, can you give any guide to the split between Corporate and Private Bank?

James von Moltke

Off the top of my head, no. Both participate. I think it's a little bit weighted to Private Bank, given the focus of the euro deposits. To give you a little sense of timing, we had a catch-up in Q4 to record at a 50 basis point rate. We've been working with our auditors on the revenue recognition, which requires virtual certainty that you'll achieve the loan balances, the scheme that the incentive scheme provides.

We think that, as we said last year, we'll have a catch-up in Q1 this year. As much as 125 million that we would see in Q1. And then in our expectations, the next point where we have a catch-up would be Q3. Again, as we believe we'll get to a point of virtual certainty. So, that's where the lumpiness is in the quarters. And back to the recognition, I think more or less 50 – 50 is what you'd expect to see in the businesses, in terms of how they participate.



Adam Terelak To be clear, there's no bonus rate in the Q4 run rate?

James von Moltke There was a catch-up, not a bonus rate. We had not accrued the 50 basis points in Q3, so there was a catch-up in Q4 to get to the 50 basis points, but not the 100 bases point inducement.

Adam Terelak But the Q on Q is less than the 125 catch-up you're talking about for Q1?

James von Moltke The Q on Q would be a little less. It would be more the 85 range of an increment in recognition.

Adam Terelak And then a step down? Thank you.

James von Moltke Step down in Q2, back up in Q3. Sorry it's so complicated, but as we said, there's a lot more noise in NII. Thank you.

Stuart Graham
(Autonomous Research) Hi. Thanks for taking my questions, but first, a big thank you from me for James Rivett, who, I agree has done a fantastic job over the last few years. I have a few questions, please. First, Christian, you mentioned that client trust is at its highest level since 2012, how do you measure that, please? And then my second question is on the EBA stress test. As far as I can see, the macro assumptions look very tough, even for Germany. The market, with shock, looks extremely tough after the assumed hits to commercial real estate prices.

So, it looks harsh on your business mix and the static cost assumption does you no favours either. So, my question, therefore, is whether the EBA stress test creates any heightened risks to your five billion capital return ambition. And then the final question is a very short one, within your guidance of slightly lower provisions in full year 2021, are you assuming any further releases of stage one and stage two provisions? Thank you.

Christian Sewing Stuart, to you first question, very quickly, this is a



monthly survey we are doing with our private clients and corporate clients in Germany. And there, we can see that we see that we have now achieved a trust level in both segments of corporate clients, as well as the retail or private clients, as we had last seen in 2012, and that was what I was referring to.

James von Moltke

Stuart, on your two other questions, it's early days on the EBA stress test. We've been looking, for the last week, at the assumptions that were published on the 29th. We agree with you, it is a severely adverse case, stepping off, as it does, from already as a recessionary environment. And as you say, the commercial real estate and a couple of other portfolio assumptions are quite severe.

That said, very early days in being able to get a sense of how we come out of that stress test. There are, as you know, a lot of rules and methodologies that depart from our typical stress testing. So, we do, essentially, have to go through the process. I think it's even earlier to speculate how the ECB will incorporate the stress test results in their assessments of the banks, given, of course, the severity of the scenario and that we're obviously in an unusual environment, as we all recognise.

In terms of stages one and two, at this point, very early in the year, but our planning would assume more or less flat in stages one to two. Maybe either a slight build or a slight release in the year. I will say that we don't yet know if and when we would reverse the overlay that we've talked about, so there's at least some uncertainty in that path, based on the overlay. We feel good that it's conservative to carry that forward, but at a point in time when we see more certainty and clarity in the macroeconomic, we'd have to revisit that decision, and that is in, essentially, stages one and two provisions.

Stuart Graham

Thanks for taking my questions. Thank you.



Piers Brown
(HSBC)

Good afternoon. I've got two questions, please. First of all, on revenues. I wonder whether I can just tease some revenue commentary out of you for 2021. We've talked about the cost trajectory not being linear to 2022. Should we be thinking about the revenue side being the same as that, i.e., lower year-over-year revenues, 2021 over 2022, before a rebuild up to the 24 billion target for 2022. That's the first question.

Then secondly, just on the investment bank, I'm just thinking in terms of the cost income ratio, 58% for full year 2020. What do you think we should be thinking of as a sustainable ratio? Thanks.

Christian Sewing

On the revenue outlook, I think, again, also with respect to our investor deep-dive in December, we show a stable development in the Corporate Bank, Private Bank, and Asset Management. We do think that the initiatives we are working on will show slight increases, at least being able to fully offset the interest headwind we have. And on the Investment Bank, I think we said very clearly that obviously, 2021 will not see an outperformance overall in revenues, which we have seen in 2020.

But in the trading business, but also, in the origination advisory, we clearly see that we gained market share, that we made momentum, and that all the structural changes we did to the businesses, sub-business, like rates, credit rating, the emerging markets business, they are starting to pay off. They started to pay off in 2020. And with the reengagement of the clients, we are very confident that a very good part of that outperformance is sustainable for 2021.

And that also explains our run rate for the year and then for 2022. Again, January, in this regard, clearly supports this, and we are confident to achieve our plan for 2021.

James von Moltke

And, Piers, on the cost income ratio, if I think back to the model that we described in December, the



implication of the numbers that Ram and Mark went through would give you a cost income ratio between, say, 55% and 60%, which we think is realistic. Again, given the initiatives that we've been discussing around the technology investments, reengineering, and simplification of our processes, and also, efficiencies in the infrastructure areas that support the Investment Bank. So, that's the ballpark that we're working to, and again, reflected in all of our initiatives and plans that we're executing on, as we speak.

Piers Brown

Do you mind if I ask a follow-up on the IB? I'm thinking, just in terms of overall resourcing, you're 30% up, year-on-year, on revenues, and the headcount is only up 3% and some of the big wins in the fourth quarter are coming in areas where we might not have expected them, namely, equity origination. Do you think there are areas of the franchise where you will need to add additional resource on the headcount side? I'm thinking particularly of the equity business.

Christian Sewing

Let me put it this way, I think we have done, on the front office side, the adjustments, which we committed to one and a half years ago. We always said that the further structural cost changes must, in particular, come from the back office side and from the infrastructure. Therefore, we invest heavily into technology into the FIC reengineering, in order to gain the efficiency here.

I think we are well set up for the volume we have right now, which we have seen in Q4. And hence, we feel comfortable with the level of resources we have given to the Investment Bank, and again, no further cuts were planned because we think we now have the right platform to act from.



Magdalena Stoklosa
(Morgan Stanley)

Great. Thanks very much. I've got two questions and, of course, a huge thank you to Mr Rivett as well and all the best in your future role. Two things really, first, the deposit charging. We have seen the 85 billion that you've done this year. Of course, the vast majority of that in the Corporate Bank. And of course, it is a big part of the defences of the NII. But my question is how far can you take the repricing from here? How much more of either the corporate or wealth deposits do you think you can continue repricing into 2021?

That's my first question. And my second question is about the cost in the Investment Bank, but more from a geographical perspective. Because you run quite a significant currency mismatch in your Investment Bank, similarly, to other global institutions. You've got revenues in US dollars and euros, and you've got costs in sterling and US dollars.

If you look at the structure of that business, operationally, two or three years out, how likely is it that you will concentrate more of the Investment Bank in continental Europe, particularly given the fact that financial services ended up with, effectively, very little cover in the Brexit deal so far. Thank you.

Christian Sewing

Magdalena, let me take the first question, your deposit question. You're right, with 85 billion, actually, we have done more in 2020 than we initially expected. And that gives us all the confidence that, we can continue, both on the corporate side, but also on the Private Banking side, in order to selectively grow that ratio. You will not see a development like we have seen in 2020, that it simply doubles from 85 to 170. That would be unrealistic.

But if I compare our deposit strategy now with that that we actually wanted to achieve at the beginning of 2020, we are far beyond that point, and we have the confidence that we can further increase. That will be done selectively in both businesses, because you



always have to look at the overall relationship, and hence, I can't give you a definite amount, but I can tell you that it's both in the Private Bank and corporate strategy to follow up there.

James von Moltke

Magdalena, I'll just add, we showed, in the investor deep-dive, my deck, in the appendix, page 32, an update of the euro current account volumes or site accounts by business. And what you'll see, if we've repriced now accounts representing 78 billion in Corporate Bank, that was against 128 billion in total of call it addressable deposits, which is a relatively high percentage, which underscores Christian's point about more modest benefits from here.

If you then look at the same schedule, and by the way, the number hasn't changed a great deal to December. If you look at the same schedule for the Private Bank, at around eight or nine billion, deposits in client accounts, against which, there are charging agreements, you can see it's a much smaller percentage. But to Christian's point, the question there is how you advance through the various tiering levels.

Also, the interesting thing in both businesses, especially in the Commercial Bank and the Private Bank, it's a granular discussion with the client around the overall relationship, whether there's a tiering level, whether there are other business opportunities or the clients can move from deposits into investment products. So, it's a relatively rich dialogue. Which is why, by the way, of the 100 million that we talked about in repricing in Private Bank, a relatively small portion of that is actually interest revenues, most of it's in the broader relationship.

Currency risk in the IB is a feature, you're correct. We're not alone, by the way, in having a mismatch, particularly in the sterling expense space, relative to sterling revenues. I don't see a dramatic shift necessarily in that relationship. Of course, with



Brexit, we've been slowly migrating activities to the continent, and that will continue. But I don't see there being a wholesale or noticeable shift in the near future.

Magdalena Stoklosa

Thank you.

Jeremy Sigeo
(Exane BNP Paribas)

Thank you. Firstly, clarification. When you were talking about capital planning, you said that you need to retain some of the earnings to fund the Basel IV step-up in 2024. I just wondered whether you expect to fund the whole of that RWA increase and need capital for all of that or whether you can offset that partly by easing down the ratio that you're going to apply in a post Basel IV world? That's my first question.

The second question was on costs in the Private Bank. You talked about the year-on-year reduction, but there was also a lot of reduction during the quarters, and the 4Q run rate was quite a lot lower, that 16, 12 million compared to 1Q to 3Q. So, I just wondered if that's a representative run rate, coming into 2021, can we base off that 4Q cost level in the Private Bank?

James von Moltke

Great question, Jeremy. On the first, we did not assume a change in our ratio target over the, again, projection period. I think it's conceivable, in the medium term, that one might look at it, depending on what changes there are in the environment around is. But for our purposes, the 12.5% remains the planning assumption. As it relates to the Private Bank expenses, we do call out that there was a one-time pension benefit in the quarter. So, if I were to give you a run rate, I would probably add back about 40 million to give you the step off into 2021.

Jeremy Sigeo

Fantastic. That's very helpful. Can I throw in another clarification? I feel like you're itching to be more specific about your January Investment Banking



revenue performance. You mentioned that the trend has continued. I wondered what you meant by that. Do you mean the trend of growth, so we're also up again, year-on-year, in January? Or do you mean the trend level that it's at a similar level to last year?

Christian Sewing

No. I would be more precise and would refer the word trend to growth. You have seen a growth in the fourth quarter and if I say the trend continued in January, then I refer to that and potentially, I'm even a bit more positive.

Jeremy Sigee

Fantastic. That's very helpful. And congratulations to James and to Ioana as well. Thank you.

Andrew Coombs
(Citi)

Thank you. Three technical clarifications for James, please, if possible. The first, coming back to the adjusted costs and the 18.5 billion. I think the caveat you added was around the single resolution fund assessment. I know that previously, when you talked about that, you mentioned that the fund size would go from 55 to 70 billion. It might be an extra 300 million for yourselves over the next two years. So, can I just clarify what's in your base case 18.5 billion? Is that assuming the fund size stays as is or it is upsized?

That's the first question. The second question, a very quick one, but on the corporate centre, the V&T differences. Obviously, there are some lumpy numbers there during 2020. I know that's linked directly to your credit spread, so if you can give us some sensitivity there, it would be helpful.

Then my final question on the CRU. I know you talk about the leverage exposure coming in, eight billion ahead of guidance. But I think, originally, your target there was for sub 50 billion, before you changed it. You've also talked about another change in the perimeter in the first half, adding another ten billion as well. So, perhaps if you can elaborate a bit more on



the perimeter changes we've seen, both in 2020 and expecting in the first half of 2021. Thank you.

James von Moltke

Sure, Andrew. Let me take those. The assumption on the SRF assessment is in a ballpark of 300 million for 2021. That would assume a change in the assessment basis from what the current expectations are, which is why we wanted to call it out. And it's, by the way, more consistent with the assumptions that we used a year ago. We had always assumed that with a declining and simplifying balance sheet, that would, over time, be reflected in our assessment.

Of course, we didn't expect that the assessment would begin to float up, based on higher levels of liquidity in the system, and hence, the reason we called it out. What we don't want to do is make radical changes and harm the company by attempting to offset that additional 300. And as I mentioned, we continue to engage on advocacy steps, because we think that the policy does take a lot of capital out of the banking system at a time when I think the authorities would like to see it still in the banking system.

So, we'll see where that comes out. It would add, we think, about 300 to the assessment this year, if it were to move to the 70 billion or stay at the 70 billion, and the multiplier that was applied in 2020.

In V&T, the sensitivity really is into owned credit spreads, and actually, most of the owned credit spread sensitivity is in the businesses. The V&T sensitivity, for the most part, is actually FX basis, and that was what drove the year-on-year swing in V&T.

To some degree, interest rates, but that is hard to give you a DVO on, because it does depend on the curve and the shape of the curve.

As it relates to the CRU leverage exposure perimeter, we reset the target in December, given all the things that we'd learnt over the course of the year 2020,



including, by the way, just an allocation change in central liquidity reserves.

But it included, as we mentioned, 2020 being more focused on risk weighted assets, a decision that the economic choice was to allow more of the leverage exposure to run off. And so, that was the true up in December to new targets. The last thing we called out in the prepared remarks were SACCR that does have an impact on leverage exposure in the second quarter, we believe.

We are still working through the estimates of what that could imply for the Group, of which, the CRU would take a piece. But both of those changes were baked into our 2022 target for leverage exposure. I hope that helps.

Andrew Coombs

It does, indeed. Thank you.

Amit Goel
(Barclays)

Hi. Thank you and also, thank you to James Rivett as well for all the help you've given. Two questions, maybe both are a bit more follow-up. I just wanted to come back on the NII trends within the Private Bank, in particular, in the quarter. I wanted to check, in terms of the baseline or going forward, there was a little bit of a catch-up, or part of that catch-up, in Q3 on the 50 bps, sorry, in Q4.

In Q3, how much of a benefit was there? Because it just seems like quite a big stepdown and quite a big change in reported trend for the NII. I'm just trying to understand those dynamics a bit better. And then the second question, also coming back to the FIC trends. At the investor day, you also gave some colour on year-on-year trends for each month of 2020. I think January, you said at that time, was up 49%, but we don't have the specific starting point as such. So, I'm just trying to get a sense of how significant January was in the context of Q1 2020. Thank you.



James von Moltke

If I can go in reverse order, the first quarter saw relatively strong performance in January and February, and of course, March was then heavily impacted by the crisis environment that we found ourselves in. I don't want to go into specific product by product area analysis of those months, but the comparison, at this point, is to a point in time where the franchise improvement was beginning to show, as it was already partially in Q4 of 2019.

So, again, we feel like there has been an ongoing improvement in the franchise that's visible to us, and I think Ram spoke to in his monthly comparisons. In the PB margin, there actually wasn't much in the way of TLTRO. We were accruing at a blended rate of about 17 basis points at that time, so the bump isn't TLTRO. I'd have to come back to you on what was not straight line about the development that you see, the quarterly development in the PB line.

As I mentioned, it is, on a reported base, a noisier line than you might expect, but we can follow up with you on what specifically fell in Q3.

Amit Goel

Thank you.

Anke Reingen
(RBC)

Thank you very much for taking my question, and thanks to James and all the best for the future. Two more follow-up questions. The first is on the provision line where you gave us the guidance for 25 to 30 basis points in 2022. I understand that it's quite hard to know where 2021 comes and where you currently stand. Is it more like a gradual decline? Obviously, the second half is more on the 25 basis points. What is your expectation for 2021 on the current basis?

Then secondly, about your variable compensation. Just looking at the Investment Bank, obviously, very strong revenues, but compensation flat. I just wondered if you can shed some light on, I think you



said at the investor day, you're compensating staff for performance and maybe you're not. Or is there any change in the way you reward your staff in terms of deferral of cash or fixed? I just wondered what the message is on variable compensation and performance. Thank you very much.

James von Moltke

Thanks for the questions, Anke. On provisioning, you may have thought it's odd to give a range for 2022 and not for 2021. But it reflects that, frankly, the outlook is still quite uncertain in 2021. As we say, we do think there is an improvement sequentially year-on-year, whether that's, and I'll go back to the use of the word linear, from 2020 on the way to the normalised level remains to be seen. As I mentioned earlier, I think we're looking at it more cautiously optimistically, perhaps, than even a month or two ago.

I will point out that the fourth quarter provision was just 23 basis points of loans, which although we were in a pandemic environment and I think some of the CLPs can still be attributed to the COVID environment, that already is trending towards a normalised level for us. All of which is to say, at this point, hard to really judge exactly where 2021 will be, but we're, as I say, cautiously optimistic on the improvements relative to 2020.

Christian Sewing

Anke, on the compensation, like the standard process here, we are finalising that over the next weeks when the final numbers for 2020 are then published, including the compensation report. But of course, we stick to what we said that we obviously must compare ourselves to the compensation development in the industry and pay for performance. I think the financial performance, as we all see, has been significantly better than last year. And in this regard, on the one hand, we will make sure that we pay for performance, and on the other hand, as we have done in the past, we are very attentive and responsible, also, to find the



right balance. We think that in this regard, we are on the right path, but again, the final decision needs to be taken over the coming weeks.

Anke Reingen

Thank you very much.

James Rivett

Thank you, Christian, thank you, James, and thank you, everyone, for your kind remarks. You know where Ioana and her investor relations team are, should you need her, and I hope to speak to you all very soon. Take care. Bye, bye.

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