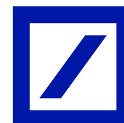


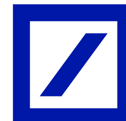
Deutsche Bank AG

Deutsche Bank Q1 2021 Speaker Notes CEO CFO

Wednesday, 28 April 2021 | 13:00 CET

Transcript

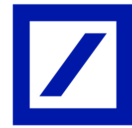
Speakers:
Christian Sewing, Chief Executive Officer
James von Moltke, Chief Financial Officer
Ioana Patriniche, Head of Investor Relations



CHRISTIAN SEWING

Slide 1 – Continued execution drives transformation and materially improved profitability

- Thank you, Ioana! A warm welcome from me as well
- It's a pleasure to be discussing our first quarter 2021 results with you today
- We gave ourselves fourteen quarters to transform Deutsche Bank, and seven quarters are now behind us
- Half-way through our timeframe, we have already completed much of the transformation journey
- We have continued to deliver against our transformation milestones. We are on, or ahead of, our expected timeline on all key measures
- We said at the Investor Deep Dive in December we would focus on delivering sustainable profitability. With revenue growth in the quarter, up 14%, to 7.2 billion euros, we demonstrated what this franchise is capable of
- We generated 1.6 billion euros of pre-tax profit and 1 billion euros of profit after tax - that's our best quarter in seven years, despite our now smaller footprint
- That enabled us to generate meaningful capital from net income, which helped us strengthen our capital ratio in the quarter
- Excluding the bank levy, our pre-tax profit is 2.2 billion euros, demonstrating our strong operating performance
- We also made progress on costs. Our adjusted costs excluding transformation charges and bank levies reduced from 4.9 to 4.6 billion euros year on year, in line with the path we provided with our fourth quarter 2020 results
- We remained disciplined on capital, risk and balance sheet management and we successfully navigated several market events during the quarter
- We are delivering on our path to higher return on tangible equity for the Group, with progress toward sustainable profitability
- This quarter, we generated a 7.4% return on tangible equity, including full recognition of the annual bank levy
- Progress across all businesses in the first quarter reinforces our confidence that our strategic path is the right one
- Now let me take you through some of the highlights from this quarter on slide 2

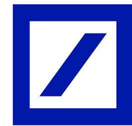


Slide 2 – Q1 demonstrated progress against 2022 financial plan

- We continue to remain fully focused on executing our transformation strategy and delivering on our 2022 targets and ambitions
- Our progress this quarter shows that they are well within reach
- Refocusing our business around core strengths is paying off: our revenues of 7.2 billion euros fully support our trajectory to the 2022 revenue goal
- Our adjusted costs excluding transformation charges and bank levies have reduced by roughly 4% year on year, in line with our cost ambition for 2022, as we outlined at the Investor Deep Dive
- We continue to benefit from our leading risk management capabilities. Provision for credit losses was 69 million euros this quarter, down 86% from the first quarter of 2020
- We have seen a more constructive credit environment than we initially expected, which has allowed us to lower our expectations for provisions for 2021, although we continue to see uncertainties in the operating environment
- We improved our cost to income ratio to 77% for the quarter, which leaves us well positioned to meet our 2022 target of 70%
- The Core Bank achieved a 71% cost-income ratio
- With a post-tax return on tangible equity of over 7% for the Group, our 8% target for 2022 is within reach
- Our first quarter return on tangible equity for the Core Bank is in fact higher than our 2022 goal, at nearly 11%
- Now let me take you through the progress we have made executing on our strategy across our core businesses on slide 3

Slide 3 – Progress on strategic priorities

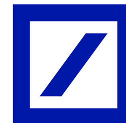
- The Corporate Bank continues to offset interest rate headwinds through repricing strategies and growth initiatives
- We made progress in clearing payments, via an expansion of our partnership with Mastercard
- The Investment Bank continued to benefit from our refocused business model, with another strong performance in FIC and market share gains in Origination & Advisory
- We continue to expect markets to normalize in the remainder of 2021, but we feel reassured in our view that a substantial portion of our Investment Bank growth since 2019 is sustainable. We now expect our revenues for 2021 to be very close to 2020 levels



- The Private Bank was also successful in offsetting interest rate headwinds with continued business growth
- With growth of 15 billion euros across net new client loans and net inflows to Assets under Management, the Private Bank is well in line with its ambition to attract more than 30 billion euros of business growth as we discussed in the Investor Deep Dive last year
- We also made progress on our cost plans. In the Private Bank Germany, we agreed the balance of interests for our distribution network with the workers council
- This will lead to the closure of approximately 150 branches across both brands in Germany by the end of the year, as we outlined last September
- In Asset Management, assets under management grew by 28 billion euros to 820 billion euros, a new record high
- The business continued to generate net inflows in the quarter, although these were partly offset by outflows of cash, as investors returned to risk assets
- In short: the dynamics in all four core businesses show that our re-focused business model is paying off
- Successful execution is increasingly visible in our revenue performance, as you can see on slide 4

Slide 4 – Growing revenues under refocused strategy

- We have grown revenues in our Core Bank by 12% this quarter to 7.1 billion euros, excluding specific items
- This growth has principally come from our Investment Bank, which has delivered strong performance in both FIC, particularly in Credit, and Origination and Advisory
- Our Corporate and Private Banks successfully offset headwinds with a combination of deposit re-pricing and volume growth, as we just discussed, and we see continuing momentum in these businesses
- Asset Management delivered revenue growth, boosted by transaction and performance fees
- Over the last twelve months, that takes our Core Bank revenues to 25 billion euros, a 7% increase from the previous twelve-month period, ahead of our 2022 ambitions
- In summary, all our core businesses have proven the strength of their franchises, putting our 2022 objectives well within reach
- Now let me turn to costs on slide 5



Slide 5 - Cost discipline continues for the 13th consecutive quarter

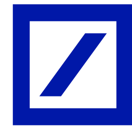
- In line with our plan and expectations, we reduced adjusted costs excluding transformation charges, bank levies and the unexpected deposit protection premium to 4.6 billion euros for the quarter, down year on year
- As we outlined at our Investor Deep Dive in December, we are advocating strongly for a stable target size for the Single Resolution Fund, which would result in lower bank levies
- However, for the first quarter of 2021, we have booked roughly 600 million euros, that's around 300 million euros higher than we had expected, based on the increased target size of the Single Resolution Fund communicated by the Single Resolution Board
- We continue to advocate for change in 2022
- As it relates to costs within our control, we remain committed to our 16.7 billion target for 2022. And we're working towards it every day, executing on cost saving measures, as planned
- We see scope for further efficiencies, for example, from alignment of infrastructure functions supporting the Corporate Bank and Investment Bank
- Let us now turn to profitability on slide 6

Slide 6 – Strategic transformation drives higher profitability

- Our relentless focus on delivering our transformation agenda is reaching the bottom line
- We have seen a 75% year on year increase in our adjusted profit before tax in the Core Bank for the last twelve months to the first quarter, and all four core businesses contributed
- At the same time we continued to de-risk in the Capital Release Unit, which nearly halved its pre-tax loss compared to the first quarter of last year
- Since we started our transformation strategy seven quarters ago, we have substantially reduced the Capital Release Unit's losses. We remain committed to minimising the P&L impact of de-risking efforts by the unit and to our cost reduction plans
- Let me now turn to risk management on slide 7

Slide 7 - Disciplined risk management

- Strong risk discipline is a central pillar of our strategy, across credit, market, liquidity and non-financial risks



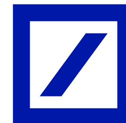
- Provision for credit losses was 69 million euros this quarter, or 6 basis points of average loans on an annualised basis, principally due to the improved macroeconomic environment
- We continue to manage a high quality and well-diversified loan book, with strong underwriting standards, a robust and proactive risk management framework as well as dynamic collateral management
- We have also remained vigilant on concentration risk, strict on risk appetite parameters and proactive in risk identification and management
- Our market risk management benefits from a dynamic hedging framework, with daily stress testing and monitoring
- Our comprehensive non-financial risk controls contribute to robust crisis management practises
- These capabilities have not only helped us achieve consistently contained credit and market risk losses, but have also helped us avoid negative impacts from external events such as the ones we saw in the quarter
- And we continue to strengthen non-financial risk management, tightening our control environment and continuing to work on strengthening our Anti-Financial Crime capabilities
- Now let us turn to capital and balance sheet on slide 8

Slide 8 - Maintained strong balance sheet

- Our Common Equity Tier 1 ratio has marginally increased to 13.7%, over 300 basis points above regulatory requirements
- Our liquidity reserves also remained stable at 243 billion euros, as we continue to improve the quality and reduce the cost of our funding base
- Our liquidity coverage ratio is 146%, 70 billion euros above regulatory requirements
- As a result, we can deploy our capital and liquidity strength to support clients in what is still an uncertain environment
- Before I hand over to James, let me summarise our progress this quarter on slide 9

Slide 9 – Disciplined delivery of transformation agenda

- As we promised you at the Investor Deep Dive, our focus remains on executing our transformation agenda, while staying focused on our clients
- Our first quarter results this year very clearly reinforce our confidence in this path

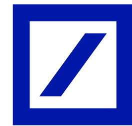


- We have made clear progress in terms of client momentum, which is visible through our revenues and the macroeconomic backdrop has improved relative to our earlier outlook
- We continue to make progress on our key deliverables to support cost and control improvements
- The management board changes this quarter are a further alignment of our business and our cross-divisional strategic priorities to drive efficiency
- We have also continued to focus on Sustainability. We made further progress towards our sustainable financing and investment targets, with cumulative volumes of 71 billion euros. We will say more about this in our Sustainability Deep Dive on May 20
- Finally: at the end of the quarter and at the half-way point of our journey, 87% of the expected transformation related effects are already behind us
- In short: we are well on our way to meeting our 2022 strategic and financial ambitions
- With that, let me hand over to James

JAMES VON MOLTKE

Slide 10 – Q1 2021 Group Financial Highlights

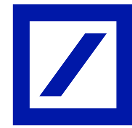
- Thank you Christian
- Let me start with a summary of our financial performance for the quarter, compared to the prior year, on slide 10
- As Christian said, we remain focused on delivering sustainable profitability
- We generated a profit before tax of 1.6 billion euros or 1.8 billion euros on an adjusted basis
- Total revenues for the group were 7.2 billion euros, up 14% versus the first quarter 2020 and 33% versus the prior quarter
- Noninterest expenses were down 1% year on year
- As we indicated in mid-March, in line with the latest guidance from the Single Resolution Board, the SRF is expected to be expanded to over 70 billion euros and our estimated assessment has been adjusted accordingly to approximately 600 million euros
- We also saw an unexpected market event which led to an additional contribution of 28 million euros to the German statutory deposit guarantee scheme in the quarter
- As Christian mentioned before, we saw a decrease in our provision for credit losses to 69 million euros or 6 basis points of loans



- Risks remain in the environment, but we now expect full-year provisions to be substantially below last year
- Our CET1 ratio saw a small increase to 13.7%, up 9 basis points quarter on quarter, however significant regulatory impacts are still expected to come in the first half of the year
- Tangible book value per share was 23 euros and 86 cents, up 3% year on year
- The tax rate for the quarter was 35%
- Let's now turn to page 11 to look at our Core Bank more closely

Slide 11 – Core Bank Financial Highlights

- Core Bank revenues rose 12% year on year and 30% sequentially
- Net interest income for the Group increased by roughly 235 million euros versus the prior quarter, driven by the recognition of the TLTRO 3 incentive and FX translation effects
- Net interest income in the Corporate Bank has proven resilient over the last 12 months, even when excluding the first quarter effect of TLTRO 3. Deposit charging remains a priority for the Corporate Bank and together with expected loan growth, will help to offset the ongoing margin pressure from the interest rate environment this year
- In the Private Bank, net interest margin will remain under pressure from deposit margin compression despite TLTRO 3 effects, although charging roll-out and ongoing loan growth will help to mitigate this, as the business continues to focus on growing other sources of revenue
- Overall, we expect the net interest margin at Group level to remain broadly stable at slightly over 1% excluding one off effects. Business mitigations such as increased charging, as well as continued balance sheet optimisation will mostly offset the drag from low interest rates
- Noninterest expenses were up 3%, mainly driven by the higher allocated bank levy
- This takes our profit before tax to 2 billion euros, more than double the same quarter last year
- We have delivered a 6 percentage point year on year increase in our post tax return on tangible equity for the quarter, to 10.9%, or 13.5% if adjusted for bank levies
- We have also seen a substantial improvement in our cost to income ratio, to 71%
- We achieved profit growth with disciplined management of balance sheet resources: our risk weighted assets and our leverage exposure have remained stable



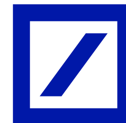
- We now turn to costs on slide 12

Slide 12 – Adjusted costs

- In the first quarter, we reduced adjusted costs by 2% year on year, largely due to lower compensation and benefits, given workforce reductions
- We saw a modest decrease in our IT costs resulting from lower IT services and hardware
- We also achieved a reduction in professional service fees, as we continue to internalise the external workforce, and we achieved further reductions in categories such as travel and marketing expenses
- Our first quarter adjusted costs excluding transformation charges and reimbursements related to prime finance were 5.2 billion euros, including the higher bank levy charges we discussed earlier
- Transformation charges were 116 million euros, up 38%
- As I mentioned earlier, unforeseen market events have also resulted in an increased contribution to the German statutory deposit guarantee scheme, which we expect to incur on a quarterly basis going forward
- We expect this incremental contribution to be roughly 70 million euros in 2021 and approximately 60 million euros per year thereafter until 2024
- It is too early to determine the level of incremental contributions to the voluntary scheme or whether any additional contributions will be necessary
- Importantly, the German Bankers' Association has decided to consider additional reforms to the voluntary scheme
- Together with bank levy assessments, these expenses are largely out of our control and the underlying expense reduction this quarter would have been greater absent these charges
- As discussed in December and in March, we do not believe it is sensible to further constrain investment spending to offset these uncontrollable expenses in the near term; however we believe it is too early to adjust our cost expectation of 16.7 billion euros for 2022
- Let us now move to slide 13 to discuss our provision for credit losses

Slide 13– Provision for credit losses

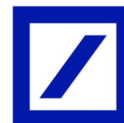
- This quarter, provision for credit losses is significantly below the previous quarters and lower than our most recent guidance, at 6 basis points of loans
- Our stage 3 provisions were down materially, reflecting releases and fewer impairment events



- Our stage 1+2 provisions benefited from the strong macroeconomic environment, supported by model based releases driven by forward looking indicators
- We retained a portion of the management overlay we established in 2020 to account for future uncertainties in the outlook and made further conservative model and methodology refinements
- We will continue with our focus on prudent risk management and we now guide to provisions in a range of around 25 basis points of loans for 2021

Slide 14 – Capital ratios

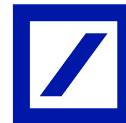
- Turning to capital on slide 14
- Our CET 1 ratio rose to 13.7% during the quarter, benefiting from our strong first quarter net income
- This effect was offset by dividend and AT1 accruals, equity compensation effects and higher regulatory Prudent Valuation deductions
- Risk Weighted Assets rose from 329 billion euros to 330 billion euros during the quarter, but were 3 billion euros down excluding FX effects
- Notably, additional hedging led to lower market risk RWA, while operational risk RWA benefited from further improvements in the internal loss profile
- These reductions outweighed higher credit risk RWA, including a 4 billion euro impact for large corporates, following the receipt of a final TRIM decision from the ECB
- Further Risk Weighted Asset increases from regulatory and supervisory changes are expected to negatively impact the CET1 ratio by approximately 80 basis points in the upcoming quarter
- Here, we see three main drivers:
- First, we expect the ECB to conclude its Targeted Review of Internal Models by issuing final decisions regarding Leveraged Lending and Banks and Financial Institutions
- Second, we are expecting final ECB clearance of our implementation of the EBA guideline on Definition of Default
- Third, we will implement revised RWA calculations in response to CRR2 becoming effective at the end of the second quarter 2021, for example in relation to the Standardized Approach for Counterparty Credit Risk
- Our fully-loaded leverage ratio decreased by 8 basis points to 4.6% this quarter
- Of this decrease, 4 basis points came from FX translation effects, 3 basis points from increased trading volumes and net loan growth, and 1 basis point from negative capital effects



- Our pro-forma leverage ratio, including ECB balances, was 4.2%
- In the second quarter of 2021, we expect an increase in leverage exposure of roughly 20 billion euros, from the introduction of the Standardised Approach for Counterparty Credit Risk as part of CRR2
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 16

Slide 16 – Corporate Bank

- Profit before tax in the Corporate Bank was 229 million euros, versus 121 million euros in the prior year quarter, while adjusted profit before tax rose 69% to 266 million euros
- This equates to a 7% adjusted post-tax return on tangible equity for the quarter and 6% on a reported basis
- Revenues were 1.3 billion euros in the quarter, 2% higher year on year excluding the effects of currency translation and 1% lower on a reported basis
- Sequentially, revenues excluding specific items grew by 6% compared to the fourth quarter 2020
- The Corporate Bank offset year over year interest rate revenue headwinds of 120 million euros through benefits from the TLTRO 3 program, charging agreements, portfolio rebalancing actions and business momentum
- Based on the current interest rate curves, this revenue pressure should gradually diminish over the course of the remainder of this year and should effectively neutralize next year
- At the end of the first quarter, charging agreements were in place on accounts with approximately 83 billion euros of deposits
- In the current quarter, Corporate Bank generated revenues of 74 million euros from these charging agreements
- On an annualised basis, that's around 100 million euros ahead of the guidance we provided at the Investor Deep Dive last year
- In addition, we continued working towards doubling the fees we generate from platforms, FinTechs and eCommerce clients over the next two years
- We detailed our strategy for clearing payments via online marketplaces and expanded our partnership with Mastercard to achieve our targets in this area
- Noninterest expenses and adjusted costs ex-transformation charges increased by 1% year on year, mainly driven by higher bank levy allocations
- This was partly offset by headcount reductions and non-compensation initiatives, as well as benefits from currency translation



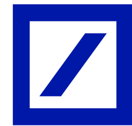
- Compared to the fourth quarter 2020, loans grew by 2% to 117 billion euros, as deposits also grew by 2% to 258 billion euros, while the increase in RWA mainly reflects regulatory inflation related to the ECB's targeted review of internal models
- Loan volumes in the prior year quarter were driven by client drawdowns of committed facilities, which were subsequently largely repaid
- We released 20 million euros of credit loss provisions in the quarter, driven by an improving macroeconomic outlook and releases related to specific exposures
- Turning to revenues by business segment in the first quarter on slide 17

Slide 17 – Q1 2021 Corporate Bank revenue performance

- As announced by Stefan Hoops at the Investor Deep Dive in December, we have revised our presentation of Corporate Bank revenues to be more aligned along client categories
- We provide further details on this on page 45 of the presentation
- Corporate Treasury Services revenues, which includes Corporate Cash Management and Trade Finance & Lending, increased by 2% year over year excluding currency effects and were 1% lower on a reported basis
- Interest rate headwinds were offset by benefits from the TLTRO 3 program, charging agreements and portfolio rebalancing actions
- Institutional Client Services revenues, which includes Cash Management for Institutional clients, Trust and Agency and Securities Services, grew by 3% excluding effects from currency translation, but were 3% lower on a reported basis
- Fee income growth in Trust and Agency Services offset a decrease in Securities Services due to interest rate reductions in key markets
- Lastly, Business Banking, which covers small and entrepreneurial clients in Germany, was essentially flat year over year, as interest headwinds were offset by charging agreements and benefits from TLTRO 3
- I'll now turn to the Investment Bank on slide 18

Slide 18 – Investment Bank

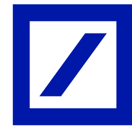
- Revenues for the first quarter of 2021 excluding specific items increased by 34% year over year, driven by strong business performance and good progress on our strategy implementation
- This is the 6th consecutive quarter of double digit year on year revenue growth for the Investment Bank, with continued market share gains in Debt and Equity capital markets



- Noninterest expenses increased 9%, driven by higher bank levy allocations. Excluding these, noninterest expenses were essentially flat
- The Investment Bank generated a pre-tax profit of 1.5 billion euros in the first quarter, more than double the prior year period and a post-tax return on tangible equity of 19%, with a cost to income ratio of 52%
- Year on year reductions in loans and Risk Weighted Assets reflected the repayment of revolving credit facilities
- Leverage exposure was impacted by materially lower pending settlements due to a change in regulatory treatment that took place in 2020
- Provisions for credit losses fell to zero this quarter. An improved macro-economic outlook drove forward looking indicator releases for Stage 1 and 2 performing loans, which offset modest stage 3 provisions, predominantly in Commercial Real Estate and Transportation
- Turning to the revenues by business segment on slide 19

Slide 19 – Q1 2021 Investment Bank revenue performance

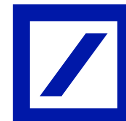
- Revenues excluding specific items in Fixed Income, Currency Sales & Trading increased by 33%
- Financing and Credit Trading revenues were significantly higher, driven by strong performance across products, with our Distressed business performing particularly well
- Year-on-year performance also benefited from the non-repeat of prior year mark-to-market losses
- As expected, revenues declined across our Rates, FX and Emerging Markets businesses as a result of lower market activity when compared with the exceptional levels seen in the first quarter of 2020
- However, we were pleased with the underlying business performance
- In FX, our Derivatives business continued with strong performance, despite the lower levels of volatility
- The decline in Rates was driven by normalization in market activity; however, pockets of the business outperformed year over year and overall franchise performance is ahead of our strategic ambitions
- In Emerging Markets, the normalization of revenues in Asia and Latin America was partially offset by growth in the CEEMEA region on the back of increased client activity
- Revenues in Origination and Advisory were up 40%, with our global market share increasing 30 basis points year on year



- Debt Origination revenues increased net of hedging activities, driven by elevated fee pools in High Yield and Leveraged Loans and continued strong Supranational, Sovereign and Agency activity
- We also saw significantly higher Equity Origination revenues, from the continued strength in SPAC activity, as well as growth in IPOs and follow-ons
- Advisory revenues were lower year on year, although excluding the net impact of hedging activities, revenues increased
- Turning to the Private Bank on slide 20

Slide 20 – Private Bank

- The Private Bank achieved a 43% year-on-year growth in adjusted profit before tax to 297 million euros, and a post-tax return on tangible equity of 6.3%
- Business volumes rose by 15 billion euros, a substantial step toward delivering on our ambition to attract more than 30 billion euros of net new business across assets under management and client loans by year-end
- Revenues were 2.2 billion euros, essentially flat or up 2% year-on-year if adjusted for FX translation effects
- Significant year over year quarterly interest revenue headwinds of slightly above 100 million euros were mitigated by growth predominantly in fee income from investment and insurance products. Revenues in the quarter also benefited from loan growth and TLTRO 3
- The quarterly year over year revenue pressure from the low rate environment will remain meaningful for the rest of the year, as the impact will moderate more slowly than for the Corporate Bank
- However, this pressure will be substantially less next year; less than half, based on the current rate curves
- Adjusted costs excluding transformation charges declined by 3%, primarily reflecting savings from transformation initiatives including continued synergies from the German merger, workforce reductions and continued strict cost discipline
- The cost to income ratio improved to 83%, reflecting flat revenues and continued cost reductions
- Provisions for credit losses were 98 million euros or 16 basis points of loans
- The decline mainly reflects releases driven by an improved macroeconomic outlook
- However, provisions for credit losses continue to be impacted by the COVID-19 environment

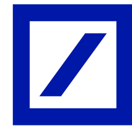


Slide 21 – Q1 2021 Private Bank revenue performance

- As shown on slide 21, revenues in the Private Bank in Germany were up 1%, as continued headwinds from deposit margin compression were more than offset by growth in fee income from investment and insurance products, as well as higher loan revenues and the aforementioned TLTRO 3 benefits
- Private Bank Germany originated net new client loans of 2 billion euros, mainly in mortgages, and attracted 2 billion euros net inflows in investment products in the quarter, in part reflecting successful deposit conversion
- In the International Private Bank, net revenues excluding specific items and FX translation effects were up 1%, outperforming our strong prior year results
- Personal Banking revenues were up 4%, mainly from higher loan and investment product revenues
- Private Banking and Wealth Management revenues excluding specific items and FX translation effects remained stable. Sustained business growth in investment products and loans as well as benefits from TLTRO 3 offset headwinds from lower interest rates
- International Private Bank attracted net inflows of 7 billion euros in investment products and 2 billion euros of net new client loans in the quarter. Growth was especially strong in Asia and Germany

Slide 22 – Asset Management

- As you will have seen in their results, DWS had a successful first quarter
- To remind you, the Asset Management segment on page 22 includes certain items that are not part of the DWS stand-alone financials
- Adjusted profit before tax of 190 million euros in the quarter increased by 61% over the same period last year, driven by improved revenues
- Revenues increased by 23% versus the prior year, primarily due to a favourable change in the fair value of guarantees and higher performance fees
- Management fees were stable at 547 million euros, as improvements in equity market levels and consecutive quarters of net flows offset the impact of continued industry wide margin compression
- Noninterest expenses increased by 31 million euros or 8%, with adjusted costs excluding transformation charges up 9%



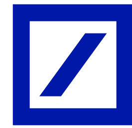
- The increase in costs was driven by higher variable compensation resulting from DWS share price increase and platform investments. Other general and administrative expenses declined versus the prior year
- The divisional cost to income ratio improved by 8 percentage points to 64%
- Assets under management of 820 billion euros have grown by 28 billion euros in the quarter, driven by positive market performance and FX impact
- Net inflows were 1 billion euros for the quarter
- Inflows excluding Cash were around 10 billion euros, predominantly into Passives and Alternatives, offset by outflows in low margin cash products, as investors returned to risk assets in favourable financial markets
- The business also attracted 4 billion euros into ESG products during the quarter

<u>Slide 23 – Corporate & Other</u>

- Corporate and Other reported a pre-tax loss of 178 million euros in the first quarter, versus a pre-tax loss of 40 million euros in the prior year quarter
- The higher loss was mainly driven by the non-recurrence of a positive valuation and timing effect recorded in prior year period
- Funding and liquidity charges not allocated to the businesses were 36 million in the quarter
- Consistent with our prior guidance, we expect the funding costs held in Corporate & Other to remain at around 250 million euros in 2021
- We can now turn to the Capital Release Unit on slide 24

<u>Slide 24 – Capital Release Unit</u>

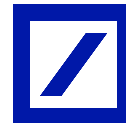
- The Capital Release Unit recorded a loss before tax of 410 million euros in the quarter, a significant improvement to the prior year quarter result of negative 765 million euros
- Revenues were positive 81 million euros in the quarter, up from negative 57 million euros in the prior year
- De-risking impacts in this quarter were offset by positive revenues from gains on asset sales and reserve releases, reflecting market conditions, and from operating income
- Risk Weighted Assets were 34 billion euros at the end of the first quarter, a 24% reduction from the prior year quarter
- In the current quarter, the impact on RWA from de-risking was 1.5 billion euros which was partly offset by model impacts and CVA inflation



- Leverage exposure was 81 billion euros at the end of the first quarter, declining by 31% compared to the prior year quarter
- Compared to the prior quarter, leverage exposure increased by 9 billion euros
- As mentioned at the Investor Deep Dive, we recorded an additional allocation of Central Liquidity Reserves to CRU of 13 billion euros
- The higher allocation combined with higher prime finance leverage more than offset the 9.4 billion euros of de-risking and other impacts
- Noninterest expenses declined by 28% reflecting lower adjusted costs including lower transformation spend
- Adjusted costs excluding transformation charges declined by 239 million euros or 36% from the prior year quarter reflecting lower service cost allocations, lower bank levy allocations and lower compensation costs
- For 2021, we will continue to execute towards the Risk Weighted Asset and leverage exposure plans that we laid out at the Investor Deep Dive, including the transition of our Prime Finance platform
- We expect this transition to conclude by the end of 2021. Migrations of client balances are already underway and will accelerate over the Summer
- For the remainder of the year we expect negative revenues in the Capital Release Unit and we are on track to hit the cost reduction targets that we set out in the Investor Deep Dive

Slide 25 – Outlook

- Christian talked about the continued execution of our strategic agenda and the progress we have made this quarter, as we look to our 2022 targets
- On revenues, the improved trajectory in the Core Bank shows that we are operating at a level that puts our goals well within reach, and we see continued momentum in our client franchise
- We are actively managing our cost to income ratio to our 2022 target of 70%, despite the unforeseen and uncontrollable items this quarter, which have raised our baseline cost plan for 2021
- We do see pressures on costs that are volume related, tied to better than expected performance and we are working to offset these where we can with new initiatives
- However, our 2021 pre-tax profit expectations have improved, despite higher expenses, reflecting stronger revenues and lower credit provisions
- It is too early to comment on the likely impact of our recent performance and the uncontrollable items on 2022, but we remain committed to our strategic and financial targets and ambitions for 2022, in particular our 8% group post-



tax return on tangible equity target, and our profit trajectory leaves us well positioned to achieve this

- We have been and will be diligent on risk management and will continue to manage the balance sheet conservatively
- Our guidance for provision for credit losses is in a range around 25 basis points of loans for the full year 2021
- We reiterate our target of a CET1 ratio greater than 12.5% and we continue to target a leverage ratio of approximately 4.5%
- With that, let me hand back to Ioana and we look forward to your questions

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This transcript also contains non-IFRS financial measures. For a reconciliation to directly comparable figures reported under IFRS, to the extent such reconciliation is not provided in this transcript, refer to the Q1 2021 Financial Data Supplement, which is available at www.db.com/ir.

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