

## General Meeting 2014

Compensation for employees and for members  
of management bodies of subsidiaries –  
Increase in the limit for variable compensation components

*Passion to Perform*



# Compensation for employees and for members of management bodies of subsidiaries – Increase in the limit for variable compensation components

## Executive Summary

Pursuant to § 25a (5) sentence 2 German Banking Act in the version applicable since January 1, 2014, the variable compensation of employees of credit institutions in principle must not exceed 100% of the fixed compensation (i.e. a 1:1 ratio). § 25a (5) sentence 5 German Banking Act allows that the General Meeting may approve a higher ratio of variable compensation, which however must not exceed 200% of the fixed compensation (i.e. a 1:2 ratio) for the respective employee.

The Management Board and the Supervisory Board support maintaining a reasonably significant element of discretionary variable pay to allow for volatility in performance as well as cost flexibility while minimizing any increase in fixed costs. Additionally, non-EU headquartered banks are not required to adhere to the Capital Requirements Directive IV (CRD IV) compensation requirements outside of the EU. Therefore, the applicability of this ratio to Deutsche Bank globally, and not just in Europe, will have an important influence on the Bank's ability to compete for employees in markets both inside and outside of Europe.

Whereas for non-German EU banks and other institutions that do not have their headquarters in the EU, the ratio of 1:1 applies only to risk takers as defined by the European Banking Authority's Regulatory Technical Standards, the German Banking Act goes beyond the requirements of CRD IV and specifies that all employees at all levels of responsibility are subject to the 1:1 ratio. Only employees compensated according to collective bargaining agreements, such as the Bank's tariff employees in Germany, are exempt from the application of this requirement.

The Management Board and Supervisory Board are requesting approval to be able to apply, where appropriate, a 1:2 ratio for employees covered under § 25a (5) sentence 2 German Banking Act, according to their functions, of Deutsche Bank Aktiengesellschaft and of its subsidiaries.

This will ensure that Deutsche Bank is able to achieve several key objectives:

- Remain competitive with regard to both attracting and retaining talent
- Minimize the increase in fixed compensation costs
- Maintain a reasonably significant element of discretionary variable pay to allow for volatility in performance as well as cost flexibility
- Ensure that, for senior management and highly compensated employees, the highest possible portion of their total compensation remains deferred over at least three years and subject to forfeiture and clawback provisions

The Bank is convinced that this decision is in line with shareholders' interests in minimizing the fixed cost impact of the regulation and therefore requests the approval of the proposal under Agenda Item 9. Further details regarding the proposal are provided below.

## Compensation Structure

The Bank employs a total compensation philosophy, which comprises fixed and variable compensation. Fixed compensation is used to compensate employees for their skills, experience and competencies, commensurate with the size and scope of their role. The appropriate level of fixed compensation for each role is determined with reference to the prevailing market value of the role and influenced by the regulatory requirements of total compensation structures.

Fixed compensation can include base salary, supplementary salary or allowance components and, where applicable, specific local allowances. Fixed compensation is contractual and, in many legal jurisdictions, non-revocable. For the majority of Deutsche Bank's employees, fixed compensation is the primary compensation component and discretionary variable compensation is significantly below a 1:1 ratio. This is appropriate to many businesses and will continue to be a significant feature of total compensation going forward.

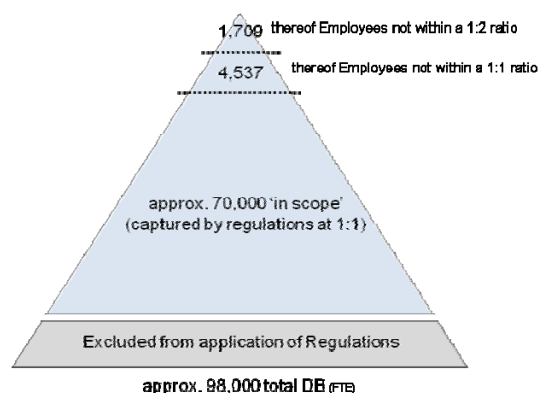
Discretionary variable compensation is predicated on the industry objective of retaining cost flexibility while attracting and retaining the right talent. Discretionary variable compensation also has the advantage of being able to differentiate performance outcomes and drive behaviors through appropriate incentive systems that can

also influence culture. As a result, variable compensation is a key feature of market practice in many business lines in the banking environment globally. Combined with fixed compensation, this drives total compensation outcomes that are both cost effective and flexible.

### Employee impact

Deutsche Bank's total employee number is approximately 98,000 (full-time equivalent) at various levels of responsibility including the management bodies of subsidiaries, of which approximately 70,000 are subject to the application of this regulation. The large majority of these estimated 70,000 employees are already compensated in alignment with the 1:1 ratio requirement. However, a number of employees will require a review and potentially an adjustment to their compensation structure (i.e. a rebalancing from variable compensation to fixed compensation). We expect that the magnitude of this adjustment will be more acute for Deutsche Bank compared to its peers, as, due to more stringent German regulatory requirements, the Bank must adhere to the 1:1 ratio for all employees, excluding employees compensated according to collective bargaining agreements.

Figure 1 – DB Group population as of December 31, 2013



Note: All statistics other than total DB employee population, exclude Postbank and BHF

Figure 2 - Employees not within 1:1 or 1:2 ratio as of December 31, 2013 (divisional view) based on 2013 compensation

	CB&S	GTB	DeAWM	PBC	NCOU	Total
1:1	3,284	160	817	199	77	4,537
1:2	1,218	36	400	32	23	1,709

Figure 3 - Employees not within 1:1 or 1:2 ratio as of December 31, 2013 (regional view) based on 2013 compensation

	Germany	UK	Rest of EU	Americas	Asia Pacific	Rest of world	Total
1:1	382	1,255	152	1,737	887	124	4,537
1:2	116	459	41	863	191	39	1,709

As detailed in Figure 1, 4,537 employees, or approximately 5% of the Bank's global employee population, exceeded the 1:1 ratio as of December 31, 2013. This population is significantly lower when using a 1:2 ratio, with 1,709 employees, or approximately 2% of the Bank's global employee population, exceeding the 1:2 ratio as of December 31, 2013. Figures 2 and 3 detail the divisional and regional views of employees exceeding the 1:1 and 1:2 ratios, respectively. The above is based on 2013 total compensation outcomes. All numbers in Figures 1 and 2 include the allocation of Infrastructure employees in accordance with the Bank's established allocation key, while Figures 1 to 3 include 379 DeAWM and PBC employees outside of Germany who are compensated primarily on a performance basis with little or no fixed pay element.

However, at either a 1:1 or 1:2 ratio, in order to address the implications of the cap appropriately and comprehensively, the Bank would undertake a review of a wider population of employees in order to determine whether an adjustment in fixed pay would be appropriate or necessary. This expanded review would be to:

- Ensure appropriate flexibility in discretionary variable compensation in order to account for changes in market levels of total compensation
- Ensure sufficient flexibility to reflect both performance and career development influences on individual total compensation decisions for some employees
- Allow for reward in line with over or under performance

At a 1:1 ratio, the Bank expects the population in scope for review to be greater than just the 4,537 employees (who exceed the 1:1 ratio at the onset of the regulations) and estimates a review of fixed compensation for around another 4,000 employees will be required, over half of which are based outside of the EU. Should a 1:2 ratio be approved, the population requiring a fixed compensation review will increase by an estimated additional 2,000 from the 1,709 (who exceed the 1:2 ratio at the onset of the regulations).

It should be noted that the population that the Bank anticipates will require a review is significantly larger than the Bank's risk taker population (1,295 at year-end 2013), as the German Banking Act goes beyond the requirements of CRD IV and specifies that all employees at all levels of responsibility are subject to the 1:1 ratio (excluding employees compensated according to collective bargaining agreements). The exact population and corresponding fixed pay impact is not static, due to fluctuations in headcount as a result of hiring, attrition and restructuring activities.

For many years Deutsche Bank has applied significant deferrals that are on average well above regulatory requirements. The population in scope for review at a 1:1 or 1:2 ratio includes those subject to deferrals. The Bank is committed to maintaining its deferral approach, and thus ensuring that any discretionary variable compensation awarded is linked to long-term development and performance and subject to clawbacks and forfeiture, both in the event of a 1:1 ratio or the proposed 1:2 ratio.

In accordance with § 25a (5) sentence 2 of the German Banking Act, the Management Board will ensure that there is an appropriate structuring of the fixed to variable compensation ratio based on the additional requirements concerning the compensation of employees in control units pursuant to § 2 (9) and § 9 of the Regulation on Remuneration in Financial Institutions, according to which an emphasis is to be placed on fixed remuneration.

Finally, any country-specific provisions that specify a more restrictive implementation of CRD IV will also be taken into account.

### Cost implications

As the Bank employs a total compensation philosophy, implementing the regulatory requirements, at either a 1:1 or 1:2 ratio, will not in itself cause individual employee total compensation to rise. Going forward, total compensation will continue to be performance and market driven. However, to ensure that total compensation levels remain competitive, the application of a 1:1 or 1:2 ratio will require rebalancing of compensation for some employees (from variable compensation to fixed compensation), thus reducing "flexible" P&L cost (variable compensation) and increasing "fixed" P&L cost (fixed compensation).

In order to establish a baseline, historic fixed and variable compensation levels are shown in Figure 4.

Figure 4 – Historic (2013/2012) total compensation by division

in € m. (unless stated otherwise) <sup>1</sup>						2013	2012
	CB&S	GTB	DeAWM	PBC	NCOU	Group Total	Group Total
<b>Total Compensation</b>	<b>4,505</b>	<b>956</b>	<b>1,366</b>	<b>2,782</b>	<b>263</b>	<b>9,871</b>	<b>10,191</b>
thereof:							
Fixed Compensation	2,373	721	937	2,472	205	6,707	7,025
Variable Compensation	2,132	235	429	310	58	3,164	3,166
<b># of employees (full-time equivalent) at period end</b>	<b>25,608</b>	<b>11,502</b>	<b>11,465</b>	<b>46,800</b>	<b>2,879</b>	<b>98,254</b>	<b>98,219</b>

<sup>1</sup> Comprises the number of employees as well as the discretionary part of the Variable Compensation of Postbank.  
Source: Deutsche Bank Annual Report 2013 dated March 20, 2014

As stated above, the Bank does not anticipate that implementing a 1:1 or 1:2 ratio will in itself cause individual employee total compensation to rise, as increases in fixed compensation will be offset with reduced variable compensation. While discretionary variable compensation will only be determined later on in the year, Figures 5

and 6 have been provided for illustration purposes only in order to demonstrate an example of the 2014 total compensation by division based on the modeled fixed pay increases at 1:1 and 1:2 ratios, respectively.

Figure 5 – Illustrative (2014) individual total compensation by division on a 1:1 basis (based on 2013 outcomes)

in € m. (unless stated otherwise)						2014	2013
	CB&S	GTB	DeAWM	PBC	NCOU	Group Total	Group Total
<b>Total Compensation</b>	<b>4,505</b>	<b>956</b>	<b>1,366</b>	<b>2,782</b>	<b>263</b>	<b>9,871</b>	<b>9,871</b>
thereof:							
Fixed Compensation	3,256	773	1,057	2,521	221	7,829	6,707
Variable Compensation	1,248	182	309	261	43	2,043	3,164

Figure 6 – Illustrative (2014) individual total compensation by division on a 1:2 basis (based on 2013 outcomes)

in € m. (unless stated otherwise)						2014	2013
	CB&S	GTB	DeAWM	PBC	NCOU	Group Total	Group Total
<b>Total Compensation</b>	<b>4,505</b>	<b>956</b>	<b>1,366</b>	<b>2,782</b>	<b>263</b>	<b>9,871</b>	<b>9,871</b>
thereof:							
Fixed Compensation	2,765	735	970	2,487	212	7,169	6,707
Variable Compensation	1,740	220	396	295	52	2,703	3,164

In light of the previous compensation practices in the Bank and of other globally operating competitors (in particular, the intended focus on performance and long-term incentive effect of compensation, especially for the sustainable success of the Bank's business), the Management Board and Supervisory Board consider it appropriate to preserve the greatest possible flexibility for the variable components of compensation and to minimize the fixed cost implications.

In order to minimize the fixed cost implications and to retain a reasonably significant element of discretionary variable compensation, which is subject to clawbacks and forfeitures and allows for volatility in performance, as well as cost flexibility, Deutsche Bank is requesting shareholder approval for a ratio of 1:2. The Bank is currently expecting an increase to 2014 P&L expense by an estimated €651m<sup>1</sup> on the basis of a 1:1 ratio and its financial plan will reflect this increase. The 2014 P&L expense is estimated to reduce to €291m<sup>1</sup> when utilizing a ratio of 1:2, therefore equating to an estimated €360m<sup>1</sup> saving (55%) compared to the 1:1 ratio. This reduction is driven by a significantly reduced employee population requiring a fixed compensation adjustment. In both 1:1 and 1:2 scenarios, the P&L impact is partially mitigated by an estimated reduction in variable cash compensation, which serves to offset an element of the fixed cost increase.

The Bank's full compensation and benefits expense in 2013 was €12,329 million. The P&L impact at either 1:1 or 1:2 is a relatively small proportion of this expense, due in large part to the mitigation measures described above, and represents 5% and 2% of the 2013 compensation and benefits expense at 1:1 and 1:2, respectively.

Figure 7 – Compensation and benefits expense

in € m. (unless stated otherwise)	2013	2012
	Group Total	Group Total
<b>Compensation and Benefits expense</b>	<b>12,329</b>	<b>13,490</b>

Source: Deutsche Bank Annual Report 2013 dated March 20, 2014

All analysis and modeling detailed above are based on population data as of December 31, 2013, using 2013 compensation as a proxy for 2014. Actual 2014 variable compensation is not known at this time and will be based on a number of factors including, but not limited to, Group, divisional and individual performance, Group affordability, and market conditions.

## Conclusion

Deutsche Bank is committed to compensating employees appropriately and complies with regulatory requirements. Approval for a ratio of 1:2 would significantly reduce the fixed cost implications and is deemed to be a more prudent approach.

The proposed increase of the ratio to 1:2 will also not have an effect on the Bank's ability to maintain adequate capital funding and will ensure greater flexibility in the Bank's ability to respond to volatility in earnings.

<sup>1</sup> Estimated based on modelling. Actual impact to be determined. Includes social security impact

Approval for a 1:2 ratio will:

- Limit the increase of the Bank's fixed P&L costs and allow increased flexibility to align compensation with performance
- Potentially reduce FTE volatility in periods of poor performance
- Provide greater linkage between employee risk and reward by ensuring a greater proportion of total compensation is subject to forfeiture and clawback provisions
- Support the Bank's ability to compete for talent as key competitors will not be subject to the CRD IV requirements outside of Europe

In order to minimize the fixed cost implications and to retain a reasonably significant element of discretionary variable pay, which is subject to clawbacks and forfeitures and allows for volatility in performance, as well as cost flexibility, the Management Board and Supervisory Board of Deutsche Bank are requesting shareholder approval to apply, where appropriate, a 1:2 ratio for the employees described above of Deutsche Bank Aktiengesellschaft and of its subsidiaries and participations.

