Deutsche Bank AG

Investor Deep Dive

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Transcript

Speaker:

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CHRISTIAN SEWING SLIDES

Slide 0 -- Title

- Welcome once more to our second Investor Deep Dive and many thanks for joining.
- I am looking forward to the next couple of hours in which we will discuss the progress made and our view on the path forward.
- And of course we will also discuss the impact of the virus which prevents us from meeting in person.
- While not seeing each other is unfortunate, we felt it is important to update you on the progress we made since last year's Investor Deep Dive. It is time to document that we kept our promises and to describe in more detail how our transformation will continue over the course of the coming two years.
- And similar to last year, my fellow Management Board members and I, plus our business heads look forward to answering any questions you have. We will try to make this afternoon as interactive as possible, even though it's all virtual.

Slide 1 -- Our mindset: Tackling key issues head on

- So where are we on our transformation journey?
- We actually started back in 2018. In the first phase we stabilised our bank and laid the foundations we could then build on.
- In July 2019 we launched phase two – the most fundamental transformation of Deutsche Bank in two decades.
- This includes a new setup for our bank coupled with ambitious financial targets up to 2022. And our management team continues to be fully focused on executing with a relentless delivery mindset.
- This includes the actual restructuring work, which, as we always said, would mainly happen in the first six quarters following our strategy announcement.
- With this period almost behind us, we are now gradually moving into phase 3 of our transformation: A phase which will mainly see us focused on ensuring sustainable profitability by growing our businesses while remaining disciplined on costs and capital.
- And today, for the first time, we would like to provide you with a more detailed outline of what phase 3 will look like.
- But before we get there, let's take a moment to check our delivery track-record over the past 18 months.

- When we met last year, you were wondering whether our newly established Core Bank was actually competitive.
  If we would be able to cut costs and exit businesses as fast as planned and to what extent revenues would suffer as a result.
  And last but not least, you questioned our ability to fund this transformation with existing resources.
- Today we can say: we tackled all of these issues head on – and we have delivered.

<u>Slide 2 -- We have delivered against each of these concerns</u>

- Our Core Bank has proven its competitiveness: More than 70% of our revenues are generated by businesses where we have a leading market position.
- In the first 9 months of this year we achieved year on year revenue growth of 8%. This positive momentum has continued into the 4th quarter.
- On the way we have won market share in important business areas, and we believe that a large part of these gains will be sustainable.
- At the same time we continued to be relentless on costs, with year on year reductions in 11 consecutive quarters excluding transformation charges and bank levies – and we are about to complete the 12th consecutive quarter. With the expected achievement of our cost target at the end of this year, we would have cut costs by 3.3 billion euros in the last two years.
- Growing revenues and continued discipline on costs led to an operating leverage of 11% after three quarters.
- On this basis, we were able to achieve a pre-tax profit of more than 800 million euros in the first 9 months of this year.
- But that's only part of the story. In our Core Bank, pre-provision net revenues were 5.2 billion euros – this demonstrates the strength of our operating businesses. It demonstrates the potential we can build on when loan loss provisions normalize again.
- It is thanks to this performance, but also to our progress in the Capital Release Unit that our balance sheet is even more solid than it was a year ago. We reduced risk-weighted assets in the Capital Release Unit by 45% compared to 2018 levels.
- As we expect to have 85% of the anticipated transformation-related effects behind us by year-end, there should no longer be any doubt that we can fund our strategy with existing resources.
- In other words: we think this progress shows that the capital issue is off the table.

Slide 3 -- Demonstrated our relevance in challenging times

- We should not forget: we achieved all of this in an extraordinary environment. We operated in the midst of a pandemic causing more than 1.5 million casualties worldwide and resulting in the most severe economic slump in post war history.
- This was possible because we *were* and *are* part of the solution, being at our clients' side when they need us most.
- This included first and foremost serving their financing needs. In the first nine months of the year we helped clients raise debt worth about 1.5 trillion euros. This means an almost 60% increase year on year.
- In addition, we have been the most active bank in the German programme for government-sponsored loans.
- At the same time, we have proven our ability to adapt our business model to this new environment where necessary.
- We have offset the better part of the interest rate headwinds. With charging agreements in place for about 75 billion euros of deposits, our Corporate Bank and our Wealth Management business both are running ahead of plan.
- At the same time, we are helping clients to find suitable solutions to preserve wealth in a negative interest rate environment. This is reflected in almost 30 billion euros of net inflows in our Private Bank and in our Asset Management business.
- We have also accelerated the adjustments in our Private Bank to changed customer behaviour. Including recently announced branch closures, we will have reduced our Deutsche Bank branch network by more than 40% since 2016 and our Postbank network by more than 30%.
- So all in all, in this extraordinary year, we have even increased our relevance for our clients. And we have demonstrated how flexible we are in tackling new challenges head-on – while making the best of opportunities.

Slide 4 -- We continue to invest in technology and controls

- We have achieved all of this while continuously investing in our technology and controls.
- While we reduce our branch network as mentioned, we constantly strengthen our digital offerings. In the first nine months of 2020 usage of our mobile app for Deutsche Bank customers has increased by almost 40% year on year.
- Across our Investment Bank and Corporate Bank, we have more than 90,000 clients actively using our fast growing Autobahn platform.
- By having continuously invested in our technology, we are now going to fast-track our development: our partnership with Google Cloud will elevate our IT

infrastructure into a more efficient, cloud-based environment. That will enable us to focus more on innovation and client applications.

- Bernd Leukert will explain our technology strategy in more detail today.
- Equally important, we have spent about 2 billion euros in two years on our controls.
- Today our compliance function daily monitors 3 million transactions and 1 million communication events. In market risk management we analyse up to 30 billion valuation calculations per day.
- But we won't stop here and will continue to invest in our controls, especially to improve our transaction monitoring further.

Slide 5 - Our employees are responding positively

- At the same time we are seeing progress regarding the most important foundation of our success – our people.
- It is no secret that the internal mood and morale at Deutsche Bank had suffered for some time.
- This has changed fundamentally:
- According to our annual people survey, 87% of our staff embrace our strategy, 10 percentage points more than a year ago.
- They also feel more valued and have more trust in our leadership team.
- The clarity of our strategy, the business successes and the positive relative share price performance have been important drivers of this development.
- Since 2012, our employees have never been as committed to Deutsche Bank as they are today, and they have never felt so well enabled to do their job.
- So our people are truly motivated to give their best for our bank. This provides a huge upside potential.

Slide 6 - Encouraging improvement, but still work to do

- Of course we are glad to see that our progress is also acknowledged externally.
- We have seen the first positive rating action in 13 years.
- Our CDS spreads have moved closer to peer average.
- And since we met for last year's IDD, Deutsche Bank shares have outperformed our European and American peers and reduced the discount on our price / tangible book value ratio.

- Obviously, our valuation came from a low level. And even after the progress we made, we are not yet where we want to be.
- So let's have a look at the next steps on our journey.

Slide 7 – What's next? Continued delivery with full focus and discipline

- Given our progress, given the strong foundation we now have in terms of capital, costs and business model, as well as operating momentum, we are entering the next phase of our transformation.
- The ultimate goal is – and has to be – to ensure sustainable profitability.
- This requires us to raise our game to the next level.
- It will be paramount to remain fully disciplined on costs and balance sheet management. But that's not enough.
- We will also have to shift gears to ensure sustainable growth.
- How do we bring this together? This will be the main theme for today.
- And that's also reflected in the questions some of you asked in advance.
- Can we continue on our planned trajectory in cost reductions?
- Can we keep the very competitive level of credit loss provisions?
- Is our revenue development sustainable?
- And finally, will we be able to return capital to shareholders as announced in July 2019?
- So let's go through these questions one by one, starting with costs.

Slide 8 – We have tightened our adjusted cost target

- When we look at the almost 6 billion euros of cost reductions we announced in July 2019, we are already more than half way through.
- Given our recent track record, we remain confident that we will be able to continue on this path.
- To meet our 2022 target, we have to take out another 2.8 billion euros in adjusted costs.
- You may say this is the tougher part.
- Of course, reducing costs by that amount will require another significant effort.
- But why am I so confident anyway?

- Because we are well equipped due to the work we have done so far. Because what we have to do is to *continue* on our trajectory.
- Starting into the new year, we can expect a run-rate for annual costs of 18.4 billion euros excluding bank levies. This will even leave us with some room for targeted investments when there are opportunities to create additional value.
- We expect further savings coming from central and divisional measures which we have detailed and validated plans for.
- In addition, we will focus on tackling the so-called stranded costs in our Capital Release Unit. Reducing those more rapidly will be the main focus area for Louise Kitchen and Frank Kuhnke going forward.
- But the story doesn't stop here. Learning from this extraordinary year, we see potential for further cost reductions. To give just two examples, we have started to examine our real estate setup and will certainly not return to the same level of travel costs we had prior to COVID.
- On this basis we expect to bring our adjusted costs even *below* our original 17 billion euros target by 2022 and to reach 16.7 billion euros ex transformation charges instead.
  James von Moltke will discuss our plan in further detail later on.
- And we will ensure relentless execution of these plans as we did over the past two and a half years. This is supported by the agenda of our Chief Transformation Office, which further strengthens the discipline in our processes, as Fabrizio Campelli will explain later today.

Slide 9 – Committed to maintaining best-in-class credit quality

- Let’s move on to our balance sheet quality.
- We have been very successful in managing credit risk and its impact on credit loss provisions during the coronavirus period.
- We provided an outlook early on, and we were pleased that credit loss provisions developed in line with our expectations so far.
- Although the pandemic isn’t over yet, we are optimistic that the peak in CLPs is behind us. So we expect a slight reduction in 2021 and a further normalization to a range of 25 to 30 basis points of loans in 2022.
- We continue to benefit from our limited exposure to sectors most affected by the pandemic.
- We know that we can build on a diversified loan book with about 50% exposure in Germany, one of the most stable economies in the world.
- We have very stringent underwriting standards and a tight risk management framework – as we have demonstrated over the cycle. Actually, our provisions

have been consistently at the lower end of the industry for more than a decade. This is a remarkable track record for Stuart Lewis and his team. He will provide you with further details later.

- But let me highlight already now: the composition of our loan book and the quality of our risk management are a particular asset during such a crisis.
- All of this provides us with room to support our clients in the best possible manner and to selectively grow our business in this environment.

Slide 10 - Four client-centric businesses, positioned to grow

- Speaking of growth, let's turn to the area where you have articulated the biggest question marks: are we able to grow revenues sustainably in this environment?
- We fully acknowledge additional headwinds compared to the original assumptions at the time of our strategy announcement – namely the even "lower for longer" interest rate environment. Of course, this poses a certain risk to our revenue assumptions down the line. At the same time there have also been tailwinds which we are making the best use of.
- Some of our businesses are more affected by the headwinds while others benefit from the tailwinds. Therefore, despite not changing our strategic approach, we expect a slightly different revenue composition, compared to the plan we presented last year.
- Overall, we see ourselves capable to reach about 24.4 billion euros in revenues by 2022.
- How does this look in detail?
- Thanks to our refocused strategy, we have four leading businesses – all of which are well positioned to grow.
    - Our Corporate Bank is the 'global Hausbank' combining a strong home market with a network across 151 countries, something only a handful of banks worldwide can offer.
    - To compensate for negative interest rates, we had charging agreements in place for almost 70 billion euros of deposits at the end of September – and we won't stop here.
    - In the last three quarters we have seen an 18% increase in payment revenues.
    - We also have a strong position in growth regions, especially Asia Pacific where we have seen revenues increase by 6% year on year in the first nine months of this year.
    - Stefan Hoops will lead you through our initiatives later on.

- Our refocused Investment Bank is a top global player in fixed income and financing where we have demonstrated our strengths this year.
- In addition we have a focused Origination & Advisory business including a leading position in Debt Capital Markets.

  Mark Fedorcik and Ram Nayak will explain why we consider a large part of this year's revenue performance as sustainable. But let me highlight already now: we are very pleased that recent revenue growth does not only reflect a favourable environment. It was mainly the result of our refocused business model and clients reengaging with us – which led to gains in market share. We outperformed the Fixed Income market in the third quarter, and in Origination & Advisory we reached our highest market share in six quarters. This makes us confident that our Investment Bank can outperform our original plans.
- Our Private Bank is the leader in our home market, and we have strong positions in major European countries and a global Wealth Management franchise which has grown significantly over the past few years.
  We have demonstrated our potential in the first three quarters of 2020 with growth in loans and 11 billion euros of net new assets. In addition, we have taken crucial steps to realise synergies going forward, both in Germany and in the International Private Bank. Karl von Rohr and Claudio de Sanctis will discuss how we plan to continue on this path.
- Another leading business in our home market is our asset manager, DWS, which can also count on its global footprint. Here, too, we have seen net inflows in the first nine months of the year, notably in ESG products. At the same time, Asoka Woehrmann and his team significantly cut costs: for the first nine months of the year, DWS's adjusted cost-income ratio was already down to 64%, reaching the target level for 2021.

- In this turbulent year it has been an advantage for us to rely on revenues from businesses where we are one of the major players. And that's also why we are well positioned for further growth – something we will explain in detail in our business presentations.
- We feel encouraged by our revenue and market share momentum this year.
- And we are seeing a couple of tectonic shifts in the economy which do play to our strengths.

- Let's dig deeper into this.

<u>Side 11 – Well positioned for key structural trends</u>

- It has become common to say that our economy post COVID won't look the same as before.

- But there is more to it.
- In fact, next to COVID, there are a number of fundamental changes in the world we operate in.
- Overall we see five global trends that will shape the economy:
    - The low interest rate environment – we expect interest rates to remain close to or below zero for the next years.
    - Wealth protection is becoming more important as societies are aging across the developed world.
    - We see a huge sustainability transformation throughout every aspect of the global economy.
    - We expect a more fragmented sort of globalisation – now often called "glocalization".
    - And of course, digitalisation will continue to reshape global business.
- For all of these trends Deutsche Bank is well positioned.
- This will translate to four important growth engines for the years till 2022 and beyond.
    - Economists expect an increase in global financing demand.
    - In an aging society, wealth preservation will become more pressing
    - Our deep local presence worldwide is more of an asset in a world of 'glocalization'.
    - Climate change and social tensions will lead to a growing demand for sustainable finance products.
- In other words: While the external environment feels challenging, there are pockets of opportunities within that – opportunities we did not see to that extent 18 months ago, opportunities we are determined to take advantage of.
- Let me go through these four growth engines, starting with the increase in financing demand globally.

<u>Slide 12 – Global financing demand: Uniquely positioned to support the upcoming transformation</u>

- Within the first months of this year, global debt increased by as much as 15 trillion dollars, the fastest growth on record.
- On the one hand, we are seeing a new supercycle in government debt due to the enormous programmes to support economies.

- On the other hand we see increasing financing demand in the private sector. This is partly driven by the pandemic, but mainly by the necessary investments in digitalisation and environmentally-friendly business models.
- Against this backdrop, there is considerable revenue potential, both on the lending side and in our Debt Capital Markets and Fixed Income trading businesses.
- And we are positioned at the very heart of this opportunity – both with our Investment Bank and our Corporate Bank.
- We are a global financing powerhouse. When if not now is the time to bring our strengths in DCM, LDCM and FIC into play?
    - We have a strong position in handling government bonds – which is a prerequisite for our strength in the corporate debt market as well.
    - And we have the necessary technology platforms to serve market participants efficiently.
- All of this will drive revenues, and while we think that 2020 has been an exceptional year we are convinced that this year's growth will be to a large part sustainable.

<u>Slide 13 – Wealth preservation: Well positioned to grow with increasing client demand</u>

- Turning to the second growth engine we see.
- Aging societies will increase the need for people to make savings or invest in a pension plan.
- But growing wealth has become more challenging in a negative interest rate environment.
- Savers need to become investors, they need thorough advice and reliable risk management solutions.
- Especially banks and asset managers will have a key role to play here.
- Deutsche Bank is the number 1 advisory bank in Germany and with a strong position in major Eurozone markets and a global wealth management business.
- And with our asset manager DWS, we can offer highly competitive investment products, including active, passive and alternative funds and a leading ESG offering.

<u>Slide 14 – Deep local presence: Leveraging our strong local network.</u>

- Another trend from which we will benefit is glocalisation.

- Global trade volumes have peaked. But that doesn't mean that globalisation will disappear. It will just get more complex.
- We are seeing a shift in global supply chains and an increasing need for global companies to adapt to national or regional aspects.
- This plays to our traditional strengths as the 'Global Hausbank'. We are on the ground in almost 60 countries. We can combine a deep regional footprint with our global network – a combination not many banks can offer.
- Our global presence includes a strong position in the Americas. On the one hand, our US business is a core part of our Investment Bank. On the other hand, being strong in the US is also crucial for other divisions, in particular for our ability to serve corporate clients worldwide. Christiana Riley will describe what we are doing to open the depth of the US market to European clients.
- Another region where we can demonstrate the value of our deep local presence is Asia-Pacific.
- There are several highly dynamic economies within the region, with an expected growth rate of around 5% on average.
- Increase in trade, the demand in financing and hedging will be even higher than in the rest of the world.
- Deutsche Bank is on the ground in 14 countries in a strong position to benefit from these developments in the region – in all of our businesses.
- Alexander von zur Mühlen will discuss our APAC business in further detail later today.

<u>Slide 15 – Sustainability: A key growth driver across all businesses</u>

- Another undisputed global trend that will drive growth is sustainability.
- It is not only about climate change, it is about the environment overall, social inclusion and good governance.
- This will require the business world, but also the public sector to invest heavily.
- The European Union alone plans to mobilize one trillion euros of sustainable investments until 2030.
- This is a tremendous opportunity as ESG compliance is becoming more relevant for more and more market participants worldwide.
- As Deutsche Bank we are now giving annual milestones for our 200 billion euro target till 2025, and senior management's compensation will depend on achieving them.
- Being a European bank is an advantage in this context as Europe is setting the standards

- But our most relevant advantage is that we as a universal bank cover the whole value chain. We can generate the assets for investment products which are in high demand now – with our lending and origination activities in the Corporate Bank and the Investment Bank.

Slide 16 - Committed to returning capital to shareholders

- All this means: you are going to see us selectively shift gears into growth mode.
- We are determined to benefit from the growth opportunities highlighted today. And we are confident that we will be able to capture our fair share.
- That requires sufficient room in a bank's balance sheet – and we have it.
- Our CET1 ratio stood at 13.3% at the end of the third quarter.
- This is well ahead of regulatory requirements and our own target of a CET1 ratio of above 12.5%.
- Our capital strength provides us with enough financing power to support clients and fund additional business – while always remaining cautious of making best use of our resources.
  Our CFO James von Moltke will discuss our capital planning in more detail in his presentation.
- Coupled with our continued, even tightened cost discipline and the revenue opportunities we see, we are confident that we can deliver sustainable profitability.
- And we remain committed to return 5 billion euros of capital to our shareholders starting in 2022. That represents a significant portion of our current market value.

Slide 17 – Our path to a new bank continues

- At the same time, we continue to change the way we work – as we promised last year.
- In this regard there are five priorities on our management agenda.
- We have already become better in putting our clients at the center of everything we do. Improved cross-selling rates are testament to this. But we are not on the same level yet as some of our peers. So there is further potential if we intensify our client coverage and further improve cross-divisional collaboration.
- We have invested in the development of our people and our leadership team and will continue to do so. We are putting the right people in the right places

and giving them more room to act like entrepreneurs. And we are working on a new mindset to become a more agile and client-centric organisation.

- We will also continue to develop our technology. At first it was about ensuring stability – and this extraordinary year has demonstrated how resilient our systems are. Currently we are working on making our IT also more efficient. And in the next phase we will also deploy technology to drive growth.
- As I mentioned, we have accelerated our sustainability agenda, integrating it into our processes across the bank.
- And we are building on our traditionally strong risk management culture - we are not only managing our own balance sheet, but also our clients' risks. This has to become a core element of our product suite.
- Transforming a bank's culture is not done within a year or two. But when I look at the progress we have made, when I feel the momentum and strong boost to morale across our bank, I feel very encouraged by what we have achieved over the past one and a half years.

Slide 18 - Summary: We will continue to deliver

- Let me conclude
- Our transformation is on track. Having successfully re-focused our business model, we are gradually entering a new phase in our journey.
- We will continue to manage costs, risk and balance sheet with the same rigour you have seen from us since 2018.
- We appreciate the positive feedback from clients, employees and other stakeholders and are determined to build on this momentum.
- And on the revenue side, we are shifting gears now. It is not about stabilising our business anymore, it is about bringing it to the next level.
- It is about benefitting from five global trends – all of which play to our strengths.
- And in capturing these opportunities we will demonstrate the same attitude as before: we will act fast, in a highly disciplined manner – and with a focus on executing what we have announced.
- So as we embark on the next stage of our journey, we have a clear path to ensure consistent profitability and capital returns. And we are confident that we will reach the financial targets for 2022.

Slide 19 – … and remain committed to our 2022 plans and targets

- We see ourselves fully capable to achieve …
  - Group revenues of approximately 24.4 billion euros by 2022…
  - An adjusted cost base of 16.7 billion euros ex transformation charges…
  - And a CET 1 ratio of above 12.5% at all times.
- All of this will enable us to deliver a post-tax return on tangible equity of 8% in 2022 despite a more challenging operating environment
- As planned, we aim to return 5 billion euros of excess capital to our shareholders starting in 2022.
- Since 2018 we have consistently achieved our targets and delivered or over-delivered against our plans. That remains our continued ambition. That's what you can expect from us – now and in future.
- With that let me hand over to James who will lead you through our financials.
- Thank you.

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