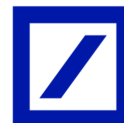


Deutsche Bank AG

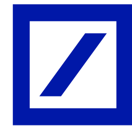
Investor Deep Dive

Financial objectives to 2025

Thursday, 10 March 2022

Transcript

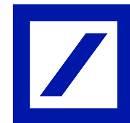
Speakers:
James von Moltke, Chief Financial Officer



JAMES VON MOLTKE

Slide 2 – Financial targets and capital objectives

- Welcome to our final session of the day
- The targets and objectives Christian just highlighted are based on macro-economic and interest rate assumptions as laid out in the appendix to our slide presentation
- We continue to believe our medium-term expectations and the assumed operating environment represent a sensible basis on which to create plans for the future
- However, as we all know, we have yet again entered a period of heightened uncertainty due to the conflict in Ukraine. This could lead to significant deviations from our plans
- Regardless of the circumstances, as we have shown in recent years, this management team will strive to navigate the environment and to reach our objectives
- Although our path might change, we expect our destination to remain the same
- As we think about the hierarchy of targets, our primary objective is to achieve a post-tax return on tangible equity of greater than 10% for 2025. This would mean we will deliver returns at or above our estimated cost of capital
- This will be supported by our targeted compound annual growth rate for revenues of between 3.5 and 4.5% over the years to 2025
- As we expect to achieve further efficiencies and benefit from significant reductions in transformation related effects, we are targeting a cost/income ratio of less than 62.5% by 2025. I will provide more colour on these in a minute
- Importantly, achieving these targets will enable us to expand our capital distribution goals. We now anticipate total distributions of 8 billion euros in respect of the financials years 2021 to 2025, and we are targeting a total payout ratio of 50% from 2025
- The success of our transformation and strategic plan has positioned us well and gives us confidence that our targets are achievable

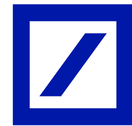


Slide 3 – Operating leverage to drive increased RoTE target

- Let's now look at how we expect operating leverage to drive the return on tangible equity from 4% in 2021 to greater than 10% over the period to 2025
- The main driver we plan for will be revenue growth, which we expect to contribute 6 percentage points to our target, with cost reductions adding a further 3 percentage points
- Further, continued contained risk levels and underwriting discipline should result in provision for credit losses only marginally impacting returns by approximately 1 percentage point over the period
- And, finally, we anticipate a drag of around 2 percentage points on expected returns mainly due to a higher equity base reflecting capital retention to support business growth and Basel III compliance

Slide 4 – Favorable environment supports execution momentum

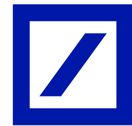
- We believe our franchise, which Christian spoke to earlier, provides us with the opportunity to capture the market growth opportunities we see over the coming years for our businesses and to grow our market share
- This, combined with the benefits of our strategic initiatives, would drive the group to our targeted revenue compound growth rate of between 3.5 and 4.5% over the period to 2025
- We expect revenues to increase between 2 and 2.5% from volume growth on average across our businesses. This is in line with the estimated underlying growth of the markets we operate in, and we believe this is a conservative estimate, especially when compared to our recent performance
- Our ongoing and new strategic initiatives are expected to add a further 1.5 to 2% to our annual revenue growth rate with the Investment Bank, Private Bank and Corporate Bank providing broadly equal contributions
- With the interest rate outlook improving, the long-lasting headwinds we have experienced will turn into tailwinds in the years to come and we expect that net interest income growth on the back of improved curves will contribute around 1.5% to our revenue trajectory
- All divisions will contribute to revenue growth, and we expect it will be the Corporate Bank and Private Bank that contribute the most, each representing about a third of the total increase



- We expect the Corporate Bank to deliver a compound annual growth rate of between 6 and 7% benefiting from our strong position in growing markets
- In the Private Bank, we expect growth of around 4 to 5% from volumes, strategic initiatives and the impact of interest rate changes
- Both the Investment Bank and Asset Management delivered strong revenue performance in 2021. We expect these divisions to increase revenues over time despite the normalization of the financial market environment in the post pandemic period
- For the Investment Bank, we expect revenue growth to be around 1 to 2%, mainly driven by our strategic initiatives
- In Asset Management revenue growth of approximately 4 to 5% is supported by targeted inflows of 4 to 5% per year, a little below our recent performance
- In Other revenues, we capture the contribution from Corporate and Other, and the Capital Release Unit and the impact of other revenue drivers
- Overall, looking at our positioning, execution track record and the anticipated environment, we are confident we can deliver revenue growth in the target range of 3.5 to 4.5% over the coming years

Slide 5 – Business volumes growth expectations in line with the market opportunity and recent performance

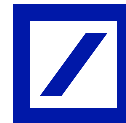
- As Christian has outlined, we have transformed and positioned the businesses to continue capturing market growth opportunities, both domestically and globally
- In the Corporate Bank, approximately 2.5% of their total revenue growth is expected to be driven by basebook and wallet increases
- Here, we expect growth from our existing clients as well as expanding business with them; for example, increasing revenues with corporates in cash management and in the payments space
- Building on last year's achievements, we also intend to expand our lending activities across all regions, particularly in Trade Finance
- And in the Private Bank, growth of Assets under Management and loan volumes is expected to continue, resulting in an underlying revenue growth rate of approximately 3%, excluding the previous impact of BGH



- We expect our volume growth to exceed that of the market, as the results of our investments in the franchise and, our differentiated product capabilities make us a more attractive provider for our clients
- And, with growing confidence in the bank, we expect to win more clients and expand their business with us, especially family entrepreneurs in Europe and Asia whom we are uniquely positioned to serve
- In Asset Management, targeted inflows of 4 to 5% on average should be delivered through the continued shift to passive products, as well as high margin strategies, and driven by targeted investments we have made in these areas
- Lastly, the Investment Bank. Having demonstrated stellar performance over the previous two years, we will continue the disciplined resource deployment we have shown, for example in the financing business, going forward
- Investments into senior coverage bankers within Origination and Advisory will enable the targeted growth in market share within mergers and acquisitions, to offset the expected fee pool declines

Slide 6 – Continued execution and expansion of initiatives aim to deliver additional growth

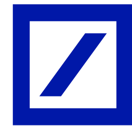
- Our strategic initiatives are paying off
- Particularly in the Investment Bank, where we will continue to see benefits of our FIC transformation. Prior investments into areas such as FX forwards, the Sterling complex, European government bonds, Flow Credit trading and Global Emerging Markets will also continue to deliver revenue growth
- This will be supplemented by further investments into targeted, low marginal cost/income and resource efficient opportunities
- For example the development of technology-led client solutions, expansion of our on-shore Latam footprint in Mexico and the development of adjacent business-lines supporting our current portfolio
- In the Corporate Bank, we have also started to reap the benefits of our strategic initiatives and investments, launching new products and gaining new client groups
- We are seeing revenue contributions from our new Merchant Solutions business as well as from serving platforms, fintechs and e-commerce businesses, and we will continue building on our efforts in these areas



- Furthermore, we will support our corporate clients, and their new business models, for example with innovative financial solutions in areas like Asset-as-a-Service
- The Private Bank will capitalize on the benefits of improved technology both in cost efficiencies and revenue initiatives, the greater focus on advisors and growth in Assets under Management and loans
- In the International Private Bank, our focus on family entrepreneurs requiring a wide product suite of financing and lending capabilities, and investment advisory will support growth, particularly in EMEA and APAC
- In Asset Management, we will continue to deliver ESG capabilities and sustainable investment solutions to clients
- In addition, we will further enhance our platform scale with new distribution access and enlarging our geographical footprint

Slide 7 – Modelled revenue benefit anticipated from market rate curve through 2025

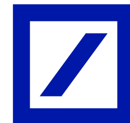
- We recognise that implied market rate curves have been moving dramatically in recent weeks. However, we do believe that inflation will be persistent, likely even more so as a result of recent events
- So, while the interest rate outlook may be less predictable in the current environment, we nonetheless continue to expect the rate environment to be more supportive to our businesses than in the recent years
- The plan we are presenting is based on implied rate curves as of February 11th 2022, assuming a constant balance sheet. The resulting estimated revenue benefit amounts to 1.5 billion euros by 2025 compared to the 900 million euros we guided for at our fourth quarter results
- As you can see, despite the market shock over the first few days of the war in Ukraine, rates prevailing on February 28th led to a path broadly consistent with our plan rates. Watching markets over the last few days, we expect the impact to remain within the boundaries of the 25 basis points sensitivity on the slide
- The Corporate Bank and the Private Bank will be the main beneficiaries of the interest rate tailwind, together accounting for more than 80% of the cumulative 1.5 billion euros we expect by 2025
- These interest rate effects are partially offset by an increase in funding costs for certain items, most notably the assumed roll-off of TLTRO



- Accounting for these, you can see that the Investment Bank profile will be unchanged, but the Private Bank and Corporate Bank will still see support to their revenue growth rates

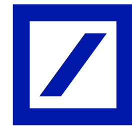
Slide 8 – Path to 2025 costs is supported by ongoing efficiency initiatives and self-funding reinvestments

- Now let's look at how costs will develop, and support our return trajectory
- From a starting point of 21.5 billion euros in 2021, we expect our noninterest expenses to fall by 2.5 to 3 billion euros by 2025 to between 18.5 and 19 billion euros
- The biggest reduction in the initial phase is coming from normalisation as we recorded 1.5 billion euros of transformation-related effects in our cost base in 2021
- Next, we expect relief from the Single Resolution Fund assessment as the fund balance reaches its target size and the initial assessment period comes to its legislatively mandated end
- We currently estimate that bank levies will be around 200 million euros by 2025, mostly driven by expenses related to the operational maintenance of the SRF
- Costs related to litigation and regulatory enforcement are expected to diminish as the number of matters we face have declined further, also reflecting our improved controls and culture. We expect a reduction of around 300 million euros compared to the 2021 base
- And, finally, to reach normalized noninterest expenses before efficiency measures of around 18.8 billion euros, we expect to lower costs in the Capital Release Unit, by 600 million euros
- As Christian described, we have been working on initiatives that will deliver savings of around 2 billion euros
- We intend to reinvest the majority of these savings to support business growth, and together with the expected cost inflation, we believe this will result in noninterest expenses of around 18.5 to 19 billion euros in 2025



Slide 9 – Efficiency measures address long-standing challenges in our cost base

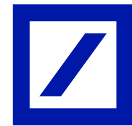
- As you know, we have made investments into the stabilization of our platforms and controls leading to cost reductions and profitability improvements over the past years
- These investments and our cost discipline should allow us to grow at scale while delivering the additional approximately 2 billion euros of efficiencies, which will principally come from four initiatives
- Let me start with Germany
- Our Unity program is a key example of how we create efficiencies by simplifying our technology infrastructure
- As we said before, we will consolidate two systems into one technology platform for Germany
- Among other benefits, this will result in the migration of 12 million Postbank clients to a single Deutsche Bank infrastructure and our IT applications will reduce by more than 50%
- We have completed testing for the first migration wave to the new platform and we are now preparing the cut-over
- In addition, we are in the process of optimizing our Corporate Bank head office and payments platform
- This will create additional efficiencies, upgrade client channels and experience, improve underlying surveillance and controls processes, as well as ensuring scalability of our cash management business
- Aside from the integration of our retail technology infrastructure, we are fundamentally reshaping our bank-wide technology architecture
- We are creating a more flexible technology base and improving time to market for business solutions and digitally enabled products thanks to our partnership with Google
- The cloud-based infrastructure also allows us to further to simplify our legacy estate as we continue to reduce the number of discrete applications used across the bank
- We are delivering these improvements on the back of a Deutsche Bank wide streamlined data architecture
- Moving to our front-to-back process re-design, which is also aimed at increasing efficiency from front office operations



- Let me give you three examples of deliverables we are working on
- First, we are re-engineering the lending architecture and processes of the transaction lifecycle in the Corporate Bank and the Investment Bank
- This will enable RWA optimisation through enhanced risk mitigation tools, and it will create cost efficiencies by increasing automation and digitalization
- It will also support revenue growth as we provide improved services and capabilities to our clients
- Next, we are increasing automation of our operations in the Corporate Bank to a targeted 90%, which will help us to reduce manual work as well as associated FTEs by approximately 50%, in certain areas
- This will be achieved through end-to-end redesign and zero-touch, intelligent workflows
- Finally, the transformation of our Client Lifecycle Management will reduce the time it takes to onboard new clients, without compromising the associated risk assessment thanks to our improved technology and processes
- In addition, we have identified incremental efficiency potential in our infrastructure functions
- For example, there are further opportunities to optimize our footprint in a number of areas including through automation, location of staff, and corporate title distributions
- Our initiatives are underpinned by the transformation in the way we work that Christian outlined earlier

Slide 10 – Simplifying and modernizing our legacy IT to enable investments in client solutions and revenue growth

- Our investment in simplifying and modernizing our technology estate is paying dividends
- We are increasingly shifting the investment focus towards future scalability
- Over the next four years, we will be spending more on investments to fuel growth and at the same time reduce our overall IT costs



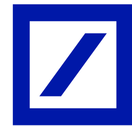
- Importantly, we will continue to invest in cyber security as well as our control and risk frameworks to strengthen the confidence customers and regulators have in us as we grow the business
- Naturally, technology and digitalization investments dominate our overall investment profile and provide a strong foundation for growth
- However, these expenditures should not overshadow the roughly one billion euros we will invest outside technology
- These investments include strategic front office hires in the Investment Bank
- And in the International Private Bank, we will hire relationship managers and invest to expand our market presence
- We will also selectively hire to bolster our control and risk functions
- In short, our strategy is already delivering and will continue to help us achieve sustainable profitability
- This, in turn, provides the foundation for self-funded strategic investments

Slide 11 – Targeted result: significant efficiency improvement

- Let’s see how the combination of revenue increases and our efficiency measures play out on our cost/income ratio
- As said, we expect our cost/income ratio to fall from 85% in 2021 towards our 70% target at the end of this year, and to less than 62.5% by the end of 2025
- 13 percentage points of this decrease is attributable to revenue growth and further 10 percentage points from the normalisation and costs savings I described earlier, while the efficiency measures, we just reviewed, will be offset by business growth, reinvestments, and inflation
- Once again, operating leverage creates the virtuous circle

Slide 12 – Strong risk management expected to support through-the-cycle credit loss provisions of ~20bps to 2025

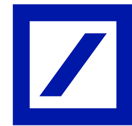
- We covered risk management in the ‘Mark-to-Market’ presentation where we showed that we have a sound record in risk management stretching back over many years



- Not to repeat ourselves, but it is due to our conservative risk profile and strong risk management discipline, that we have kept our provision for credit losses remarkably stable
- The ‘through the cycle’ provision for credit losses has remained around 20 basis points of average loans
- And while the current situation creates some uncertainty, we continue to adhere to our strict risk discipline, and we plan to keep our portfolios essentially unchanged in their quality
- On this basis, we believe our planned credit costs through the cycle to 2025 can be maintained around 20 basis points

Slide 13 – Profit increase expected across all divisions

- Let me sum up the outcome of our financial targets on one page
- We have four businesses that have complementary strengths and resilience in evolving macroeconomic environments, and we believe this mix will help us to achieve our targets, irrespective of the challenges we now face
- In the Corporate Bank, the outcome of our investments in growth will support the expected revenue increase, alongside ongoing loan and fee income growth
- In the Investment Bank, we have made strategic decisions to invest in capital light activities that should deliver revenue growth while supporting returns
- At the same time, we will invest in resource optimization to maintain and improve our efficiency
- The Private Bank is expected to see profitability improvements with a combination of improved revenues and, existing and new efficiency measures
- And finally, in Asset Management, we will continue with the investment initiatives, in platforms and products, that we anticipate will enhance our competitive positioning in the market

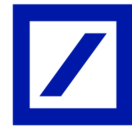


Slide 15 – Maintaining strong capital on glidepath to Basel III implementation

- Turning to our capital plan
- We intend to maintain a strong Common Equity Tier 1 ratio and preserve a 200 basis point distance above our expected maximum distributable amount
- As you may remember, we ended the year 2021 with a strong CET1 ratio of 13.2%, well above the MDA level of 10.4%
- If you recall from our year-end communication, we guided you that the announced countercyclical and systemic risk buffers would add around 50 basis points to our supervisory requirements, thereby increasing MDA to around 11%
- So, our operating level would be a CET 1 ratio of around 13%
- Let's have a look at the path from year end 2021 to year end 2025 that gets us there. We bucket the impacts into four broad categories
- Firstly, we expect a strong increase in profitability which is able to fund RWA growth of around 2.5% per annum
- Secondly, the Capital Release Unit will continue to manage down the remaining exposures; however, the ongoing cost burden will exceed the capital benefit from additional RWA reductions
- Thirdly, Basel III internal model related impacts are expected to increase our risk weighted assets by approximately 25 billion euros, as we have signalled before
- And lastly, we promised to return capital to our shareholders. And we fully intend to fulfil this promise
- Importantly, we believe that our trajectory still gives us sufficient flexibility to react to unforeseen risks

Slide 16 – Average tangible equity increase supports business growth with stable capital allocation

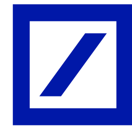
- Going forward, we will continue to be responsible stewards of our capital and we will create value for shareholders through capital distributions as well as the reinvestment of capital into our businesses
- Clearly, we will also retain equity to comply with Basel III which requires us to grow our average tangible equity from 50 billion euros in 2021 to approximately 62 billion euros in 2025



- As expected, the Capital Release Unit will have reduced its relative share from approximately 9% to 5% of tangible equity
- This capital can be deployed into our stable businesses of Asset Management, Corporate Bank and Private Bank, which will continue to account for around 50% of our average tangible equity, as we discussed earlier
- We will continue to allocate capital to the Investment Bank at around 45%. This path includes the impact of Basel III, meaning that the Investment Bank will continue to use resources efficiently and grow less capital-intensive businesses
- In short, we expect to maintain a relatively stable capital allocation profile over the coming years despite the impact of the Basel III regulatory changes

Slide 17 – Sustainable capital generation supports previous return objectives and growing distribution over time

- I will provide you with more precise guidance on capital distributions we expect. We are very conscious of the uncertainties ahead of us and therefore some embedded flexibility seems prudent
- It is our ambition to reach a total payout ratio of 50% of our net income attributable to our shareholders in 2025 and thereafter
- We start with a dividend of 20 euro cents in relation to the 2021 financial year which is complemented by our announced share-buy backs of 300 million euros
- We are targeting sustainable growth of our cash dividends in the early years of our projection period; hence it is our intention to increase the nominal dividend per share by 50% per annum at least until it reaches 68 euro cents in respect of the 2024 financial year
- We are committed to returning excess capital to shareholders through further share buy-backs over and above the requirement to support profitable growth and a glidepath to meet upcoming regulatory changes
- As said, we intend to reach a total payout ratio of 50% in the financial year 2025. This will be through a combination of dividends paid in respect of the financial year 2024 and share buy-backs executed in 2025
- After 2025, our plan is to sustain a distribution policy based on a total payout ratio of 50%. We believe this payout level supports the future

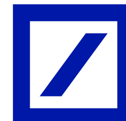


capital requirements associated with the final leg of Basel III implementation

- In total, our ambition is to distribute 8 billion euros of capital for the period up to and including the financial year 2025, subject to the achievement of our financial and strategic plans, and of course, requisite shareholder and regulatory approvals
- We believe it is a significant validation of our collective achievements over the past several years that we are able to lay out these plans for you, our shareholders, who have supported our journey so far

Slide 18 – Summary

- Let me conclude with the key takeways of our financial objectives
- We aim to deliver returns in excess of our cost of equity through increasing operating leverage in a more favorable environment
- Improving returns on tangible equity will continue to be driven by factors largely within our control. Our ongoing efficiency initiatives will lead to savings that can be reinvested into technology and franchise improvements
- We are now in a position to increase our investments into growth initiatives
- Our capital plan accommodates reinvestment into businesses and addresses regulatory inflation driven by the impact of Basel III, while we expect to manage our CET1 ratio to achieve an operating level of around 13% in 2025
- And, as we said, executing on these objectives allows us to target an anticipated distribution of 8 billion euros for the financial years 2021 to 2025
- I hope you have found the presentation from Christian and me interesting and I am sure you will have questions so let me hand over to Ioana who will start that process…



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