Deutsche Bank AG

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Transcript

Speaker:
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Christian Sewing: Good morning, ladies and gentlemen, and thank you very much for joining us and a warm welcome to all of you.

It's actually great to be back in New York. I think we are – at least, me – hosting this conference for the first time physically here in Columbus Circle. So, welcome to all of you, and it's really good to see you.

There is no doubt we are living in very eventful and volatile times. Tectonic shifts in the geopolitical, but also global economic, order are taking place. And at the same time, we are talking about big transition items, in particular when we talk about sustainability. I won't go today into detail, as we have two full days – today and tomorrow – to discuss these big pictures, along with the challenges and opportunities it brings.

And I think we have an excellent line-up of speakers who will take to the stage. And as usual, we also want to give you plenty of time in order to discuss in small rounds or on one-to-one. And of course, our welcome reception will be the perfect opportunities for all of us to connect informally.

I'm very much looking forward to today and tomorrow because in times like these it is more important than ever that we come together physically to share information and to share views and learn from each other. And that's why I'm so pleased that we have been able to attract such a diverse group of investors, corporate entities, and C-suite leaders, both from the U.S. and a dozen of other countries.

In this spirit, I'm sure the next couple of days will be proved to be fruitful and inspiring for all of us. I very much hope that we meet your expectations, and I look forward to hearing from you what you think about this conference.

So, without further ado, let's get started with an overview of where Deutsche Bank currently stands and what our ambitions are for the future. I will start with a short recap of the transformation journey which we embarked on almost four years ago. Back then, we set ourselves some key financial goals for the year-end 2022. And now that we have reached this milestone, we can say that we have been quite successful on our path.

Despite the significant challenges we all faced – the war in Ukraine – Deutsche Bank is a fundamentally different bank, and that positions us well for sustainable growth. We have met or even overachieved our targets we set ourselves for 2022, and we are now a stable and resilient bank with four strong business areas, high growth momentum, and, most importantly, sustainable profitability.

As we will see in a minute, our strategic transformation and the 2022 results laid the foundation to a strong start in 2023. And our performance in the first quarter of this year demonstrates the resilience of the franchise, the sustainability of our operating profitability, and, most importantly in these days, the strengths of our balance sheet.

And this all gives us confidence that our Global Hausbank strategy remains the right way forward. I will describe what we expect this path to be and how the measures we announced on April 27 are intended to help us accelerate the execution of this strategic agenda, with the aim of delivering a reliable trajectory for our investors towards our 2025 goals.

And finally, I will talk about our capital distribution paths. We are fully committed to this, and we remain confident to include further share buybacks in the second half of 2023. We have now initiated the dialogue with our supervisors on that item.

Let's start with the five decisive actions we took as we launched our transformation strategy in 2019. First, we created our four client centric businesses, positioned us to deliver stable growth as promised, and these complement each other and provide well-diversified income streams. In 2022, all of them contributed to our best profits for 15 years.

Second, as promised, we exited business and activities which were simply not core to our strategy. We exited equities trading, transferred our Global Prime Finance business to another provider, refocused our rates business, and downsized or disposed of other non-strategic activities.

And third, we cut costs. Compared to the pre-transformation level of 2018, we reduced our cost-income ratio by 18 percentage points in 2022 or, in absolute cost numbers, costs by 3 billion euros.

Fourth, we committed to and invested in controls and technology to support growth in the end. We also signed state-of-the-art agreements with Google Cloud and other partners. Our focus on technology has enabled us to grow revenues through closer interface with clients, reduce costs by removing complexity, and improve our control environment.

And finally, we managed and freed up capital. As promised, we kept our core tier one capital ratio above our target minimum ratio of 12.5% through all 14 quarters of transformation and finished 2022 at 13.4%.

2022 was the benchmark year for us, the year we needed to prove that our transformation was paying off. And we delivered on it, despite the unforeseen headwinds from the pandemic, from the war, and others.

Return on tangible equity for the group was 9.4% for the full year 2022, above our 8% target. Yes, certainly, the tax benefit from a DTA valuation adjustment driven by strong US performance supported these results. And although this will not repeat, it is also a sign of the positive developments of our business in this region.

Our cost-income ratio was at 75%, at the higher end of our guidance, which is still a solid achievement in an environment that faces an inflation rate we have not seen for decades, and also considering from where we actually came in 2018. And certainly, we must – and we will – become far better.

And inflation was not the only challenging factor over the last five years. Nevertheless, Deutsche Bank has proved its resilience through its transformation paths. We have maintained a disciplined risk management, a strong balance sheet, and robust capital and leverage ratios.

And as you can see on Slide 4, the success of the transformation is not only visible at group level, but also across all our operating divisions. All of our four core businesses have significantly improved profitability through the transformation period and that on all key metrics.

The Corporate Bank has continuously improved through the transformation and delivered its best-ever profit before tax of over 2 billion euros in 2022, with a cost-income ratio of 62% and return on tangible equity of 12%, as businesses leveraged our global network and capabilities to build out its franchise.

The Investment Bank has tripled its return on tangible equity and improved its cost-income ratio by more than 20 percentage points from 2018. And the work undertaken within our FIC business since 2019 has led to significant revenue growth. While we appreciate this happened in supportive markets, importantly, we have also been able to materially grow market share. And this was supported by improved external ratings, allowing clients to come back to the platform. But focusing on those areas in FIC where we have our strengths is still the main reason for the excellent performance and development in that business over the last four years.

Lower activity and volumes negatively impacted origination advisory in 2022, but the business overall really developed positive over the last four years and had areas of very positive momentum also in a difficult year 2022, including regaining the #1 position in German M&A.

Private Bank has significantly improved both cost-income ratio and return on tangible equity, outperforming their targets and resulting in profit before tax of 2 billion euros; again, its highest ever. The business has adapted to the changing needs of our clients. It's automated processes, made progress on consolidating the IT platform in Germany, a major project that will finally complete this year. In addition, the private bank reduced branches by more than 500 since 2018. And asset management has seen its return on tangible equity rise to 17% since 2018, while improving its cost-income ratio by around nine percentage points compared to 2022.

The business has continued to invest in the future and demonstrated its resilience in tougher financial markets. Ladies and gentlemen, simply put, all four businesses have demonstrated positive momentum, and this positions us well for the future. And in all four businesses, we see ourselves actually well positioned and, hence, have a good growth expectation for the long term.

Our strategic transformation and the 2022 results laid the foundation for an even stronger first quarter of 2023. We have maintained positive revenue momentum. A well-balanced business mix enables us to benefit from higher interest rates despite the challenging financial markets, delivering revenue growth above our

2025 targeted compounded annual growth rate on a last-12-months basis.

Our post-tax return on tangible equity was 8.3% in the first quarter, or 10% prorating bank levies through the year, already in line with what we target for 2025.

We have made steady progress on our cost-income ratio. This was 71% in the first quarter, an approximately two percentage point improvement on Q1 2022, and that in a challenging environment with high inflation. If the bank levies were prorated across the year, the cost-income ratio would be 67%, showing clear progress towards our 2025 targets of 62.5%.

And not only was our Q1 performance robust, it also underlined how complementary our businesses are and how the strategic transformation over the last four years has helped us to rebalance our income streams. The contribution from the corporate bank and the private bank to pre-provision profit increased to almost 60%, from 33% in the first quarter of last year, which is shown on this slide. The Investment Bank also produced a solid underlying contribution after an exceptionally strong prior-year quarter.

The rebalancing towards our stable business is especially visible when you look at the contribution of the total group's pre-provision profit on a last-12-months basis. In this regard, the Corporate Bank and Private Bank alone have contributed 70% over this period.

The momentum and balance we see across our four businesses gives us confidence we have the right business model and a strong platform to now further improve the returns.

The positive development also benefited from a disciplined and longstanding risk management in the firm and our strong and stable balance sheet, and the event of March '23 once more demonstrated how crucial this is. Our deposit base funds about 60% of the net balance sheet, and our loan-to-deposit ratio was 82% at the quarter-end. Over 80% of our deposits are from most-stable client segments, such as retail, corporates, small and medium-sized enterprises, or sovereigns where we have longstanding and deep-rooted client relationships. Seventy-seven percent of our German retail deposits are insured via the statutory deposit protection scheme. In the Corporate Bank, close to three-quarters of all deposits are sticky operational and term deposits supporting our client needs on a daily basis.

Next to the deposit quality, liquidity was also in the focus in the first quarter. And here, our metrics also remain sound. The LCR was at 143%, clearly above our 130% target, representing a buffer of 63 billion euros above regulatory required levels. The net stable funding ratio was 120%, again at the higher end of our range target of 150% to 120%; and hence, 100 billion euros above required levels.

And finally, our loan book is well diversified across businesses and regions. Around 70% is secured or hedged, and almost 80% of our loan portfolio is in stable and mostly lower-risk businesses in the private bank and in the corporate bank. And nearly half of our book is based in Germany, and 40% is evenly distributed across EMEA and North America, with the remainder in Asia Pacific.

In other words, none of the weaknesses that caused other banks to run into difficulties in the recent months are present at our bank. We have proven to be robust and stable during the recent turbulence, and we have solid foundations to navigate any volatility that may lie ahead.

Let me now turn to Slide 8. The progress we have made is also acknowledged by our stakeholders. This is not only reflected in the feedback and sentiment of rating agencies, but also fortunately from analysts, clients, and, most importantly, also our employees.

Just two weeks ago, the rating agency S&P raised the outlook for our rating from stable to positive. This positive rating action follows four rating agencies by leading rating agencies in the past 21 months. It reflects our improved financial performance, the sound risk profile, and the resilience of our balance sheet which I just described.

Analyst recommendations have also improved significantly. More than half of the analysts who monitor our stock now recommend it as a buy.

And we have always said that client focus comes above everything else for us and that we want to put our clients into the centre of everything we do. This is what we have done in recent years, and we have received lots of positive feedback. The growing trust of our corporates and retail clients in Germany is a recognition of our commitment and perhaps the greatest compliment we could receive as a bank.

Also, our employees worldwide are more committed than they have ever been for many years. This is reflected in our internal employee commitment scores. These scores have materially improved over the last three years. And with 69%, we are clearly directing them now into a level of high-performing institutions. And ladies and gentlemen, we should not underestimate that. Pride has returned to the organization, which in turn supports the daily momentum of our people. And that makes me particularly happy, because strengthening pride was one of the priorities I personally set myself when I became CEO in 2018.

This positive atmosphere inside the bank, but also with our external stakeholders, will of course help us to further shape the future of our bank and accelerate the momentum and provide sustainable growth.

Speaking about the future of our bank, I've always said that the mission is the one that has been in Deutsche Bank's DNA since our very first days back in 1870, when we started to accompany German companies abroad. Today, we serve corporates, sovereigns, institutions, retail clients, and high net worth individuals around the world, and it is our aspiration to be their Global Hausbank.

As the world becomes increasingly complex, our clients want an integrated bank with a global network as their first point of contact in all key financial matters; a bank that understands their needs, building on a long-term and holistic partnership; a bank that offers a global network and first-class local expertise, with on-the-ground presence in almost 60 countries worldwide; a bank that can advise them, help them manage risks, and has a strong balance sheet to enable financing; a bank that works in an agile manner cross-divisionally and is client-centric; and a bank of course that has sophisticated product suite and first-class digital platforms.

And Deutsche Bank has all prerequisites to be exactly that bank. Being our clients' house bank is our mission, and this mission energizes our people, makes them feel proud, and they understand for what they work every day.

And this brings me to the path ahead and our future ambition based on this global house bank model. The current environment underlines the importance of the strategy, which positions us well to serve clients in volatile markets, as we show on the next slide.

When we set out our strategy in March last year, when we outlined the key themes for the next three years which underpin our goals and ambitions, these themes have now become even more important in light of the geopolitical and macroeconomic upheaval since then. We will leverage the changed credit and interest rate environment and help our clients navigate through this. At the same time, we will deploy our risk management expertise to support clients and allocate capital to high-return growth opportunities. The world will stay volatile for years, and in this regard, our clients ask for first-class risk management expertise.

With topics like sustainability and ESG becoming even more important, we will further deepen our dialogue with our clients. We will expand our product range and broaden our agenda in respect of our own operations. Although the topic moved somewhat in the background because of the awful war in the Ukraine, we must not reduce our focus on this topic. On the contrary, we must pick up the pace as the world is lagging behind its climate goals, and Europe is the front-runner when it comes to this transition.

Finally, the third big theme is technology, where we help our clients to keep pace with rapid changes in progress. This also means that we, ourselves, keep investing into technology to offer up-to-date front-end solutions and take advantage of the opportunities offered by automation, smart data analytics, and especially artificial intelligence.

And all this is designed to create value for our clients, and all our four businesses will deliver on this. At the same time, all our actions are supplemented by an intense focus on regulatory remediation and fulfilling our purpose, including further evolution of our culture, which will help sharpen our focus.

To summarize, we believe we have a very solid foundation, the right strategy, and the right focus on clients to continue on our growth path. And the strong results in our first quarter, combined with new opportunities emerging from recent market developments, gives us the confidence that we can now even accelerate the execution of our strategy, enhance our franchise, and drive further returns.

And as announced at the end of April this year, we will take additional measures on three dimensions, as detailed on the next slide. We have committed to increasing operating leverage by identifying efficiencies and using them to self-fund investments in higher-yielding activities, and we now see additional scope to do so. At the 2022 Investor Deep Dive , we indicated that we will aim incremental operational efficiencies of approximately 2 billion euros. We are now in the process of identifying and executing on a further 500 million euros of benefits, which we will work to unlock.

And this will come from a strategic review of our entire workforce and further optimization of the distribution networks in the private bank. In addition, we are excited and we are actively looking into the opportunities that should emerge from artificial intelligence and machine learning, and we expect to see significant benefits from it in operations and process automation.

Second, we are focusing on capital efficiency. Deploying capital to increase shareholder value has always been our priority, but we now see even more opportunities to simply make us better. We aim to free up at least 15 to 20 billion euros of risk-weighted assets from a reduction in certain sub-hurdle lending and mortgage portfolios, as well as we make use of securitization and hedging optimization. And these actions are expected to foster higher returns and, in this turn, will enable us to free up capital for reinvestment and reallocate resources to more capital-accretive businesses.

And third, we are determined to invest into our platforms and to take opportunities created by the current market conditions and the developments in Europe to attract talent to strengthen advisory capabilities around the world in various businesses and including, obviously, in Asia Pacific. This should ultimately lead to additional revenue growth, clearly exceeding the 30 billion euros a year by 2025.

Overall, we believe that the combination of costs and capital efficiency, together with additional opportunities across markets, should position us to outperform our existing growth objectives and, importantly, further increase returns to our shareholders over time.

Having talked about our objectives already, let's look at what they are, on slide 12. As I said, we are confident that we can build on the momentum we have generated in all our core businesses, in all dimensions as we continue to transform the bank, and we reaffirm the financial goals we set out in March last year. Our target is a post-tax return on tangible equity of above 10% in 2025. Again, the performance we have seen in 2022 and in the first quarter of 2023 gives us all the confidence that this goal is rather at the lower end of what is achievable for us.

We see increased revenue momentum supported by the dynamic interest rate environment, the market share gains which we have delivered, and the performance which we delivered in our core businesses to date, as well as the additional growth opportunity, in particular from the global house bank concept.

With this revenue growth and the additional efficiency drivers I outlined, we also reaffirm our clear goal for a cost-income ratio of below 62.5% in 2025.

And we also confirm our capital objectives. While we build capital to support profitable growth and absorb future regulatory changes, we continue to aim for a core tier one capital ratio of around 13%. And in this regard, we aim to achieve our capital distribution objectives through a combination of dividends and share repurchases, in line with the previous guidance and aiming for a payout ratio of 15% from 2025 onwards.

And to reiterate this point, we remain fully committed to our capital distribution plan. We have paid a dividend of 0.30 cents per share for the financial year 2022. And with the successful first quarter behind us and a strong capital ratio, we have now initiated the dialogue with the supervisors about the share buybacks which we intend to do in the second half of this year.

Let me summarize by coming back to the journey which we have embarked on within Deutsche Bank. We successfully completed the stage of stabilization and radical transformation at the end of last year. And this laid the foundation for Phase 2, which is all about reaping the benefits from the transformation and delivering long-term sustainable growth. We are now leaner, we are more client-centric, we are more focused, and we have built a strong competitive position in those fields where we are operating.

And as you have seen over the past few months, we have now started to invest in hiring senior people in special areas of growth, be it in the Investment Bank, parts of the Corporate Bank, and Wealth Management. We are convinced that this will enable us to increase our market share, increase our revenues, and build up substantial capital in order to eventually increase the return on tangible equity and shareholder payouts.

As we enter the second half of this decade and embark on phase three, we aim to be positioned to be the market leader in as many segments as possible to decisively shape the future of the European banking industry as the leading global house bank rooted in Europe's largest economy, dedicated to our clients' lasting success and financial security, at home and abroad.

Ladies and gentlemen, thank you very much for your attention. I'm looking forward to discussing themes with you over the next couple of days. Thank you again for attending our conference, and have great two interacting days. Thank you.