Deutsche Bank AG

Investor Deep Dive

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Transcript

Speaker:

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Claudio de Sanctis

KARL VON ROHR

Slide 1 – Summary

- Today, my colleague Claudio de Sanctis and I will talk you through the commitments we gave you last year
- How we are successfully implementing cost reduction measures and becoming more efficient
- How we are capitalizing on the strengths of our advisory capabilities, to grow fee and commission income
- And how the execution of our cost and revenue objectives will result in a RoTE of 8 to 9% putting us on a path to higher returns in the future

Slide 2 – Private Bank at a glance

- Slide 2 gives a summary of the Private Bank which is made up of our two businesses, the Private Bank Germany and the International Private Bank
- We account for a third of the Group's revenues, around half of its staff, and we serve about 22 million clients in over 60 countries globally
- We have nearly half a trillion euros of Assets under Management and nearly a quarter of a trillion of euros in loans
- We are the number 1 bank for private clients in Germany, operating through the Deutsche Bank and Postbank brands
- These businesses account for almost two thirds of total Private Bank revenues
- The International Private Bank, which we created in the summer by combining our "Wealth Management" and "Private and Commercial Business International" units, accounts for just over a third of our revenues
- Since we met last year, we've made substantial progress in our strategic agenda, as you can see on slide 3

Slide 3 – Material progress made

- We met all the objectives we promised last year, despite the unexpected operational challenges we've faced from Covid, and we've made substantial progress beyond them
- We've accelerated the integration of Deutsche Bank and Postbank in Germany and have consolidated some of our central and head office functions
- We've also agreed balances of interest with our employee representatives which will allow us to further rationalize our head office and operations in Germany
- We are also making progress to offset the interest rate headwinds:
- By increasing account fees and other re-pricing intiatives we've achieved a 100 million euro uplift this year
- We've also successfully grown client volumes with 20 billion of net new loans and flows to assets under management in the first nine months of the year
- Converting deposits to investment products is helping us grow the share of revenues we earn from fee and commission income
- We have also made progress in our international transformation, creating the IPB and delivering a full system migration in Italy, in the midst of the first wave of Covid
- The related restructuring is in the final stage of negotiations with the employee representatives and we are confident we will reach an agreement by year end
- These operational achievements have translated into our financial performance in the first 9 months of 2020 as you can see on slide 4

Slide 4 – 9M 2020 performance

- The combination of volume growth and higher fee income allowed us to broadly offset more than 400 million euros of headwinds that we faced from interest rates and reduced business activity in the peak months of COVID-19
- Commission and fee income grew by 6%
- We reduced costs by 5% and are on track to deliver around 400m of cost reduction this year thus creating operating leverage

Slide 5 – Adjustments to 2022 plan

- On slide 5 you can see the adjustments we've made to our revenue and cost targets
- This is the result of two factors:
- First, as James von Moltke alluded to, lower for longer flattened yield curves have forced us to reduce our 2019 to 2022 revenue growth ambitions to 1%
- We are working hard to make up for the shortfall, but it simply won't be possible to fully offset these headwinds by 2022
- Second, as Bernd Leukert explained, the decommissioning of legacy Postbank systems will be moved by six months into 2023
- To ensure system resilience we plan with around 200m euros additional investments in 2022 to successfully complete our IT migration to a single platform in Germany by Year-End 2022
- The realisation of the full benefits will now only come through after 2022
- I will talk about this in more detail later

Slide 6 – Drivers to improve profitability

- Slide 6 shows you the drivers that will improve our profitability
- First, we will continue to execute on our cost reduction plans, that - other than the impact from the IT migration - remain unchanged
- Across the Private Bank we expect to lower adjusted costs by 800 million euros from 2020 to 2022 in addition to the 400 million delivered in 2020
- Of these 800 million, 400 million will come from Germany
- As my colleagues Bernd Leukert and Fabrizio Campelli laid out, we are working closely together on our German platform integration, leveraging the experience of TDI and the Chief Transformation Office
- Around 300 million cost reductions will come from the IPB which Claudio will speak about shortly
- And we will implement 100 million of structural measures
- Second, we will grow our revenues

- Our business model is well suited to helping clients preserve wealth – a core driver of the strategy that Christian outlined earlier – so we will leverage our advisory capability to grow assets and loans under management by more than 30 bn next year
- We will also capitalize on the growing demand for sustainable investments by partnering with DWS to develop ESG solutions
- And we are embedding ESG targets into our performance management
- Overall, we expect these actions to enable revenue growth of 2% CAGR between now and 2022

Slide 7 – Our path to improved profitability

- Let me revisit the slide we showed you last year, showing the path to improved profitability
- It will continue to be affected by Covid and the challenging economic outlook, we didn't expect last year
- I have already elaborated on how we are responding to pressure on revenues to offset low rates by not only growing our loan book but primarily by focusing on higher fee and commission income
- The cost drivers I outlined will deliver most of the improvement to our profitability
- We continue to manage our lending standards very conservatively
- As a result we expect our RoTE to be at around 8-9% in 2022, on a path to higher returns beyond that
- I will now hand over to Claudio, who will talk about the progress in the International Private Bank

CLAUDIO DE SANCTIS – INTERNATIONAL PRIVATE BANK

Slide 9 – International Private Bank

- Thank you Karl it is a pleasure to be here
- I am excited today to introduce you our new International Private Bank
- Our vision is to be the house of choice for family entrepreneurs globally
- We are uniquely positioned to provide these family entrepreneurs with a one stop solution for all their private and company needs, both on the asset and on the liability side
- It will also be my pleasure today to show you the progress we made since we last met and explain you how we will produce sustainable profitable growth over the next two years
- Let's then have a closer look at our International Private Bank:
- Our scalable core business is in continental Europe but we also have a profitable fast growing franchise in Asia and the Middle East, which accounts for over a quarter of our revenues and we also operate one of the leading UHNW franchises in the United States
- In Personal Banking, we have around three million clients, primarily in Italy and Spain, acting as a feeder to Private Banking & Wealth Management
- On top of being a global Wealth Management franchise, we benefit from competitive scale: we have almost half a trillion euros of client business volume, which in 2019 generated over three billion euros in revenues, with over two thirds generated in our Private Banking and Wealth Management business

Slide 10 – Levers to drive profitability

- So let me explain you why we created the International Private Bank?
- We were driven by several strategic opportunities, the most prominent and immediate was the merger of the Wealth Management and Private Banking activities
- Bringing these businesses together gave us some quick wins on cost, by combining platforms, products, operations and management

- For example we reduced the number of product functions from 7 to 3, we reduced 50% of the senior executive positions and we merged our central, product and infrastructure teams
- From a revenue perspective , this merger allows us to leverage WM products for Private Banking clients, for example deploying WM lending services to the whole franchise in Belgium
- The next step will be to unlock further potential by more closely aligning our WM and SME business banking offerings, starting in Italy and Spain
- The personal wealth and the business interests of these families are often very closely interdependent and our approach to holistically cover entrepreneurs private and commercial needs, is a competitive differentiator
- Finally our retail banking franchise has an appealing brand for affluent client segment and we are located in the key affluent regions within our markets
- Let me focus now, on how we differentiate ourselves in our segment strategy

Slide 11 – A unique client proposition

- Firstly with the creation of the IPB, we are best positioned to fulfill the needs of family entrepreneurs, certainly as the house of choice in Europe, but also globally when there are European connectivities
- By delivering our combined Wealth Management and Business Banking services, from an early stage, we can accompany these family entrepreneurs as they move from small to medium caps

Slide 12 – Bank for family entrepreneurs: client example

- Then we can accompany them further as they grow from medium to large cap, by providing access to all of the services of our Corporate Bank and Investment Bank and this is not just a theoretical strategy, we are already doing this with many of our clients, to give you an example, we accompanied this Italian SME relationship into Wealth Management and now more broadly across the bank and by doing so, we have been able to triple the revenues over just a few years

- In fact when I took over IPB, I was surprised by the set of capabilities DB has to serve SME family entrepreneurs, particularly in Southern Europe– it is the first time in my 20 years' of industry experience that I have such a complete offering for this segment
- Secondly, we aim to globally be a preferred investment partner for sophisticated UHNW and HNW families
- To these counterparties we offer industry leading products such as Strategic Asset Allocation, we provide solutions to their most complex lending needs and provide full access to our Investment banking solutions in Fixed Income and FX - which are the primary needs for most UHNW families
- And lastly, we have an appealing premium brand in Europe for affluent clients and aim to capture a larger share of their financial needs, as well as maintaining this important pipeline for Private Banking

<u>Slide 13 – 9M 2020: achievement to date</u>

- Now let me show you the progress we made since we met last year
- In Wealth Management we delivered positive jaws year on year, with revenues up 3% and adjusted costs down 7%, both better than peer group average
- The revenue outperformance was driven by investing in more relationship managers, which contributed to a near three-fold increase in net flows in investment products
- As promised, we also launched our Strategic Asset Allocation solution, with over 2,400 mandates signed in WM since May
- On the cost front, our focus on entrepreneurial families, simplified our product offering and reduced complexity in the support functions, resulting in a 12% reduction in non-revenue generating staff
- In PCBI, despite headwinds from COVID and the interest rate environment, revenues remained more resilient than many of our peers
- Adjusted costs were flat compared to last year, as we have been finalizing stringent cost measures since the creation of IPB, some of which were delayed by COVID, but which are now in implementation

- As I already said, our Asia and US franchises continue on their path of sustainable growth, but the most pronounced momentum was in WM Europe (including Germany), where we grew ahead of our peers after the turnaround efforts of the last few years
- Now we aim to replicate the same results by putting the scale to work in the broader European IPB franchise, whilst continuing to invest in Asia and the US

Slide 14 – Revenue growth drivers

- Now let's turn our attention to our plans for 2021/22
- Our ambition is to keep delivering positive jaws, increasing our revenues on average by 5% per year, whilst reducing costs by a further 300m euro by 2022
- Our 5% revenue target is net of weaker interest rate environment, market headwinds and FX movements, so excluding these factors, the underlying growth rate would be 8%
- As already outlined, this revenue growth will be driven by our focus on entrepreneurial families but also through our continued conversion of deposits and non-invested assets into investment solutions
- I outlined last year how we believe the simplicity, low cost and performance of our new Strategic Asset Allocation mandates, are redefining the wealth management industry: we will now roll-out SAA to the whole domestic clients' base in Italy, Spain and Belgium and we will also launch an ESG version of SAA early next year
- In fact in terms of ESG, in fact we plan to integrate ESG criteria into all our investment process, in line with the values of Deutsche Bank

Slide 15 – Cost efficiency measures

- Turning now to our costs, if you look at the next two years we intend to achieve all of this whilst reducing costs by at least 300m euro and this is net of strategic investments, which are key to supporting our growth
- We will continue to focus the combined businesses towards our target client segments

- For example, we will re-position the branch network to focus on our wealth, entrepreneurial families and affluent clients and aim to close a further 60 branches by 2022
- We are also continuing to invest into platform digitalization as well as rolling out the agile way of working to further reduce IT costs
- To conclude, I hope I have been able to show you at least a glimpse of the potential of the International Private Bank
- We are well on the way to becoming the house of choice for family entrepreneurs, we have demonstrated that we deliver against our objectives and we have a clear focused plan in our control to drive sustainable profitable growth
- Thank you very much and back to you Karl

KARL VON ROHR – PRIVATE BANK, GERMANY

Slide 16 – Private Bank Germany at a glance

- Thank you Claudio
- Let us now turn to the Private Bank Germany
- To recap: We are the leading retail bank in Germany with two very complementary brands: Deutsche Bank and Postbank
- We have a genuinely nationwide presence, with currently 1,300 branches, a broad self-service network as well as a comprehensive digital offering
- Our two brands serve around 19 million clients and almost half of them also bank with us online
- Our revenues are well diversified
- Given the interest rate headwinds, we are capitalizing on our investment advisory capabilities to shift our revenues more rapidly towards commission income
- We can see on the next slide, that this strategy has been working in the first 9 months of this year

Slide 17 – PB GY: Strategy is paying off

- The Private Bank Germany generated operating leverage of 4%, better than our major European retail banking peers
- We achieved this result by delivering against both our revenue and our cost priorities
- We held revenues broadly stable with good growth in assets under management and lending
- Converting deposits into investments and repricing continued to good growth in fee and commission income of 7%.
- Adjusted costs declined by 5%
- Following the completion of the legal merger of our Deutsche and Postbank brands, we’ve consolidated our head offices, central functions and operations
- This includes reducing our operations headcount by 10%, with further consolidation to take place in the next two years
- Our cost reduction measures will be supported by the recently announced sale of Postbank Systems AG to Tata Consultancy Services, with around 1,500 employees becoming part of TCS
- Looking ahead, we are very much aligning our strategy closely to market trends

Slide 18 – PB GY: Benefiting from key trends

- The German market, despite heavy competition, does present opportunities
- Germany has a strong and stable economy, a strong savings culture, good loan growth and low loan loss rates
- We have a well-established financial services sector, but rapidly changing customer behavior is driving fundamental changes to our distribution model, gradually away from branches and towards digital solutions
- So the future will favour those with advisory capability to help clients protect their wealth, with product innovation to address the opportunities from sustainable investment needs, and those with scale and with the determination to adapt to this new landscape

- These trends play to our strengths and our strategy
- We are well placed to capitalize on the wealth preservation trend and grow our advisory business
- We have an established brand, a network of over 4,000 highly qualified and motivated advisers and a broad product and service range that increasingly covers the ESG spectrum
- We have strong partnerships with DWS, and with the insurers, Zurich and Talanx with whom we've recently extended our relationship
- We are well placed to grow our lending portfolio – of course prudently – through our over 3,000 specialist mortgage advisors
- On the cost side, we are realizing synergies from our German integration, by consolidating our central functions, reducing overhead and personnel
- The integration of our systems onto a single platform is in train and we are continuing to re-balance from branches and self-service infrastructure, towards digital delivery
- Let's now look in more detail at the revenue and cost numbers

Slide 19 – PB GY: Key revenue growth drivers

- Over the next two years, we expect to keep revenues broadly flat as our growth will offset the interest rate headwinds
- We are targeting loan growth of around 6% per annum
- To grow the advisory business, we are targeting the further conversion of some 7 bn euro of deposits into investment products
- We will convert 3 billion this year so this is an achievable target, and will get us to the 10bn we promised last year and it will be one aspect of increasing the share of our revenues from commissions
- To support this, we will upskill up to 200 of our people to become financial advisors
- With ESG becoming much more relevant in our clients' investments decisions we'll work with our product partners to expand our ESG offering ranging from an ESG portfolio screening to offering sustainable products mirroring classical products

- We'll also increase fee income by re-pricing certain accounts and services
- For example, we recently introduced account management fees for all new clients with deposits of over 100 thousand euros and will extend this to existing clients over 100 thousand euros starting January 1, 2021
- In our digital offering, we'll include our full range of products, and these will be fully purchasable online, thanks to our automated e2e processes
- As Christian said in his presentation, our best in class mobile banking app will play an increasingly crucial role
- We record steadily increasing visits and reached an average level of more than 20 logins per user and month
- The app will become our main access channel with improved functionality
- As an example, we plan to bundle our digital investment offering - like our online broker "Maxblue", or our Robo Advisor "Robin" and our deposit platform "Zinsmarkt" - to create a convenient and integrated service to people wanting to invest money
- So we know, headwinds are there, but we have a path and most importantly we have a highly motivated and highly qualified sales organization that wants to compete and wants to grow further

Slide 20 – German IT platform consolidation

- Let us now look in more detail at our German retail platform integration
- This is a major project which we are managing together with our Technology, Data and Innovation department, as Bernd outlined in his presentation
- We are migrating the Postbank platform and its 12 million clients onto the Deutsche Bank infrastructure – also to build on the opportunities created by our Google partnership
- The timing of the decommissioning of applications is now six months later than we originally anticipated
- Even on the revised timetable, the benefits of this project are significant, on both costs and revenues

- On revenues, the partnership with Google will help us build a modernized front-end with integrated innovative offerings
- On costs we will benefit from running 1 platform instead of 2
- Also, we will simplify processes, further downsize operations, and achieve a higher flexibility through a modular architecture and lower costs through cloud transformation
- From 2023 onwards, as the investments end, we will begin to generate significant net cost savings, reaching the full run rate of 300 million by 2024
- The sale of Postbank Systems to TCS - will also minimise the risk of having remaining stranded costs burdening our expense base
- The cost savings and the slightly higher investments are incorporated into our updated cost targets which I will detail on the following slide

Slide 21 – Key efficiency drivers

- Turning to our other cost reduction measures, if you exclude the higher cost of the IT integration, we are well underway to achieving the envisaged cost savings with 400 million delivered in 2020
- We continue to focus on the strategic priorities we presented last year – that is operations, our distribution network and central functions – and we are in full implementation mode
- We are consolidating and harmonizing our Operations, automating back office and customer processes
- We expect to process more than 90% of our "paperwork" digitally by 2022
- The second area where we are continuing to tackle costs is our distribution network
- In Germany, branches across the banking sector reduced by on average 17% between 2016-2019
- For Deutsche Bank and Postbank, branches reduced by almost 30%
- So we have addressed this already for quite a while, and we won’t stop

- As more clients moved online during Covid, we announced that we would close a further 200 branches, evenly split between our two brands
- We're also consolidating our self-service infrastructure, and will reduce our self-service footprint by about 10%
- These changes to our distribution network will deliver 100 million euros in savings by 2022
- Our final focus is on further reducing the cost of our central areas, where we have been operating two head offices and many other duplicated functions
- We have agreed balances of interests with the workers councils for our Head Office and Operations units that will allow us to reduce our population by around 40% and 30% respectively
- Savings in our real estate costs will further enhance these reductions, as a much higher degree of flexibility becomes the norm following the pandemic
- On the cost side, like on the revenue side, you see us determined to do what needs to be done, with important progress with our employee representatives and in full execution mode

Slide 22 – Conclusion

- Now, let me conclude Claudio's and my session for the Private Bank: despite some of the headwinds we are facing and building on and encouraged by the progress we're making in our transformation:
- We firmly believe the Private Bank will achieve a 2022 RoTE of 8-9%
- We'll do that by continuing to rigorously execute our cost efficiency programme with discipline
- And by capitalizing on the growth opportunities we've outlined in Germany, and in the International Private Bank
- We have taken very fundamental decisions, we are supported by a strong and determined management team, and we have highly qualified and motivated staff that wants this organization to succeed
- Thank you very much

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