Deutsche Bank AG

Investor Deep Dive

9 December 2020

Transcript

Speaker:

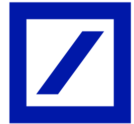
James von Moltke

Slide 1 – Summary

- Hello and welcome also from me. I'm James von Moltke, Group CFO. I've been with the Bank since July 2017
- Christian has outlined our strategic vision and priorities
- I'll now take you through the details of our financial ambitions, where we stand today, and the path we see to 2022
- In summary:
- The work we've done on transformation has positioned us well to achieve our goals
- For 2020, we're on track with, or slightly ahead of, our plans
- Looking forward, the macro-economic challenges have intensified
- But the underlying performance of our franchise, and the additional actions we have taken, position us to continue our progress toward our 2022 ROTE target
- We remain focused on delivering all aspects of our plan
- This positions the company to distribute around 5 billion euros of capital to shareholders, starting in 2022
- Let's now go through the different aspects of the plan, starting on slide 2

Slide 2 – Significant improvement in profitability

- A core objective of our transformation is to improve sustainable profitability
- That means generating positive operating leverage by growing revenues and, at the same time, reducing costs
- And we've done that in each quarter of this year, in the Core Bank and at a Group level
- This has driven significant improvements in profitability
- Improved Core Bank profitability has offset the negative impact of the Capital Release Unit wind-down, and higher provisions for credit losses given COVID-19
- More of the Core Bank's profitability will flow to the Group's bottom line, as the impact of the Capital Release Unit wind-down diminishes, provisions for credit losses normalize, and as we put transformation costs behind us



Slide 3 – On track to achieve financial milestones

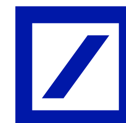
- As Christian said, we remain on track to reach our 2020 milestones, set out on slide 3
- We reaffirm our 19.5 billion euro target for adjusted costs excluding transformation charges and expenses eligible for reimbursement related to Prime Finance
- We remain confident in our guidance for provision for credit losses, which Stuart will discuss
- Our leverage ratio stands at 4.4%, tracking to our 2020 milestone of 4.5%
- Our Common Equity Tier 1 ratio, at 13.3%, is comfortably above our minimum threshold of 12.5% over the period to the end of 2022
- De-leveraging in the Capital Release Unit is also on track
- Delivering on our 2020 milestones provides a solid step-off for driving toward our 2022 targets
- Principally, the path to our 8% return on tangible equity objective

Slide 4 – Our path to higher returns

- Slide 4 shows the key elements of that path
- We're conscious that any plan is impacted by the operating environment
- The headwinds we face have intensified since our strategy announcement in July last year
- However, we have demonstrated that this management team is capable of finding a path to its objectives, despite these changes
- Today, my colleagues and I will provide you with an outline of our current plan, in which we continue to see a path to our 8% RoTE goal for 2022
- We recognise that this is an ambitious plan in a challenging environment
- … but, based on where we stand today, it's achievable
- Let me now take you through the different elements, starting with revenues, on slide 5

Slide 5 – Working to offset additional headwinds

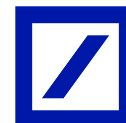
- At our Investor Deep Dive last year, we described our revenue plan of 24.5 billion euros in 2022



- Since then, we have performed ahead of plan in several areas
- First, as Christian highlighted, our businesses have outpeformed our prior assumptions
- We now expect our core businesses to generate around 800 million euros of additional revenues compared to our expectations one year ago - I will come back to this shortly
- Second, we said we'd lower funding costs
- Since then, our credit spreads have tightened, as the market has started to recognise our progress
- Simply by maintaining spreads on our unsecured instruments atcurrent levels and continuing our focused management of balance sheet resources, our funding costs will be approximately 200 million euros lower than our prior estimate
- Third, we are ahead of plan in passing through negative interest rates
- We have pricing agreements in place on accounts with 75 billion euros of deposits
- Relative to our assumption last year, we are currently generating around 100 million euros more revenue from this action, than we expected a year ago
- Regrettably, headwinds have intensified, most notably the interest rate outlook
- Compared to last December, the movement in forward interest rate curves has reduced our revenue forecast for 2022 by a further 1.2 billion euros
- Our assumptions on interest rate headwinds may prove conservative
- For example, we do not include any benefits from additional tiering or other measures by central banks
- The net result is that our current revenue plan of 24.4 billion euros in 2022, is broadly in-line with our planning assumption of a year ago
- We see this as achievable, even against a challenging backdrop

<u>Slide 6 – Businesses delivering on growth initiatives</u>

- Slide 6 outlines the revenue growth areas that our business heads will discuss later
- Karl and Claudio will outline the Private Bank's revenue progression based on loan and AuM growth as well as repricing actions
- Stefan will explain the growth opportunities for the Corporate Bank, principally in Asia,and our strategic initiatives in payments and SME banking



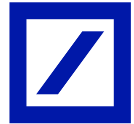
- Mark and Ram will explain why a sizeable portion of the revenue improvement the Investment Bank has achieved in 2020 should be sustainable
- They will describe how the benefits of client re-engagement combined with our targeted investments, position us well - even as the industry wallet normalises
- Finally, Asoka will outline why expanded partnerships and new product launches, including in ESG, should support the Asset Management top line
- In addition, we've been working intensively on cross-business collaboration. We're already seeing results, as Fabrizio will explain
- Building on these initiatives, let's now turn to our revenue assumptions by segment, on slide 7

Slide 7– Updated revenue growth assumptions

- For the Core Bank overall, we still expect revenues to grow by around 1% per year in the period from 2018 to 2022
- Some of the specifics have changed, but we are performing in-line with, or better than, our original plans - especially in the Investment Bank
- With almost half of this period now behind us, we've generated 2% growth in the Core Bank, comparing the last 12 months to the year 2018
- In the remaining 9 quarters through 2022, we now expect Core Bank revenues to be broadly flat
- This development is driven principally by two factors:
- First, we expect modest revenue growth in the Corporate Bank and Private Bank
- The expected growth rates in these businesses are consistent with the underlying growth we see today
- This underlying growth should feed through to the top line as the interest rate headwinds roll off, consistent with the current forward curve
- Second, in the Investment Bank, we do expect that we'll give back some of the outperformance we've seen in 2020 as conditions normalise, but we expect toremain well ahead of our 2019 revenue level
- Now let's turn to costs, on slide 8

Slide 8 – Reducing our adjusted cost targets

- We see a clear path to our new 2022 cost target of 16.7 billion euros, below our prior target of 17 billion euros



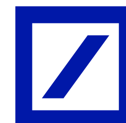
- The improvement is driven both by the momentum we've created on cost management so far, and by additional measures we've identified
- Some of these formed part of our response to COVID-19
- For 2021, we aim to reduce adjusted costs to around 18.5 billion euros, of which almost 80% is already in our run-rate
- Consistent with our prior plans and guidance, we do not expect a linear path of cost reductions to 2022 due to the investment burden we expect in 2021
- We plan incremental investments of 300 million euros next year, principally in our German IT integration, as Bernd and Karl will outline
- These investments position us to generate the savings required to reach our revised 2022 target and put us on a path to additional efficiencies in future years
- All our busineses will contribute to these cost reductions as you can see on slide 9

Slide 9 – all businesses contributing to cost reductions

- From 2018 to the end of 2020, we will have reduced adjusted costs by 3.3 billion euros – more than half way toward our new 2022 target
- In the business session today, my colleagues will go through our assumptions in their respective businesses on our path to delivering a further 2.8 billon euros in savings by 2022
- The first stage of our strategy focused on front-office reductions – these are now largely behind us
- Our targeted front-office hiring plans in both the Investment Bank and Wealth Management, which Mark and Claudio will outline, are fully factored in to our plan
- Reductions are increasingly focused on our infrastructure functions and the Private Bank, principally in Germany
- On slide 10, we describe how this path breaks down by cost item

Slide 10 - Targeting additional reductions in adjusted costs

- We expect around 1.4 billion euros of annual savings in compensation and benefits, as we reduce our workforce
- IT costs should decline by almost 900 million euros, reflecting efficiency gains and more focused investments, as Bernd will describe



- We also anticipate savings of around 200 million euros in professional services – building on the savings we've already achieved in this area
- Part of the reductions across both IT and professional services comes from the internalisation of currently outsourced activities
- We expect additional savings of around 100 million euros in occupancy costs
- That compares to our assumption of flat costs in this area a year ago
- These additional savings represent new initiatives we have identified over the past year, including in response to COVID-19
- Beyond 2022, we expect occupancy costs to decline further, as we complete the migration to more efficient campuses in both London and New York
- Finally, our plans include assumptions on bank levies which are shown on slide 11

Slide 11 – Bank levies should follow balance sheet reductions and simplification

- Bank levies have cost us around 2 billion euros over the last three years. That's equivalent to 30% of the entire German banking sector's contribution
- Going forward, we assume that the Single Resolution Board maintains its original target for an overall fund size of 55 billion euros
- On this basis, our contributions should decline to between 300 and 400 million euros in 2021 and 2022 respectively
- The SRB is currently contemplating raising the total fund size to above 70 billion euros
- Under that scenario, our bank levy assumptions would increase by around 300 million euros in each of the next two years
- Let me now turn from adjusted costs to transformation-related effects

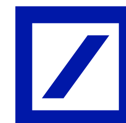
Slide 12 – Transformation-related effects

- Slide 12 compares the assumptions we made last year to our current plans
- Total spend through 2022 is broadly unchanged from our original plan, but we've made refinements in specific line items
- We expect Deferred Tax Asset valuation adjustments to be lower, reflecting our improved profitability and outlook
- This will be offset by higher costs in two areas
- First,restructuring & severance

- This is driven partly by the higher involuntary redundancies we'll need to make, to offset the lower voluntary attrition we have seen since COVID-19
- We are also working on measures to reduce the workforce in a cost efficient, but socially responsible manner
- This includes agreements with third parties, for example the sale of Postbank Systems and the Prime Finance transfer
- These two agreements will result in almost 3,000 employees leaving the company with their jobs preserved
- Second, we see about 100 million euros of incremental transformation expenses for real estate
- By the end of this year, we will have put 85% of the total transformation-related effects we anticipate between 2019 and 2022 behind us
- Now let me turn to the Capital Release Unit on slide 13

<u>Slide 13 - Capital Release Unit: Consistent, measured execution</u>

- The CRU has focused on three aims:
    - reducing RWAs
    - cutting leverage exposure
    - and lowering costs
- So far, the pace of execution against all three has been strong
- Specifically:
- We reduced RWAs by 33 billion euros, or nearly half, since the end of 2018
- In CET1 terms, this implies the release of over 4 billion euros of capital, helping to offset the transformation impacts I just refered to
- We have cut leverage exposure by 191 billion euros, or nearly 70%, supporting our leverage ratio and improving our overall balance sheet efficiency
- Adjusted costs have come down by nearly half since the second quarter of 2019 – representing a reduction of 1.5 billion euros since 2018
- We have driven down the direct costs of the businesses moved into the CRU, particularly Equities
- We have also targeted – at source – the drivers of allocated costs, including trading books, systems and legal entities
- Reducing costs is one lever to reduce the P&L 'drag' of the CRU
- The other, is limiting the negative revenues on our wind-down efforts



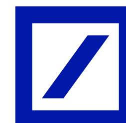
- The negative revenues from de-risking have proved to be more modest than we originally assumed, as we show on slide 14

Slide 14 – De-leveraging impacts materially better than planned

- At last year's deep dive, we estimated that CRU would generate negative revenues in the range of 100 to 250 million euros per quarter, principally driven by de-leveraging
- So far, we have outperformed that guidance
- From CRU's inception to the end of September we have recorded 400 million euros of derisking costs associated with approximately 420 discrete de-leveraging events
- 98% of these events have been P&L neutral or occurred broadly in-line with our existing marks
- De-leveraging has generated material negative P&L relating to only 8 events
- For these, we have seen or expect the positive lifetime capital impact to outweigh the upfront negative P&L cost
- For 2021, we expect a similar, or slightly lower, revenue burden from de-leveraging, despite a slower pace of RWA reductions, as we detail on slide 15

Slide 15 - Continued focus on economically rational deleveraging

- The glide path of asset reductions in the CRU will slow over the next 2 years
- By the end of 2022, we expect RWAs to be down to 32 billion euros
- This is in-line with our original target
- The remaining 9 billion euros of credit and market risk RWA is structurally challenging to exit but will carry limited market and valuation risk
- As we analyse the expected remaining portfolio, it maybe more economically rational to hedge this portfolio from thereon
- We believe that this decision reflects a better outcome for shareholders although it means leverage exposure will be higher than we originally estimated
- From 2022 onwards, the residual assets in the CRU are likely to incur only modest hedging and funding costs
- These costs should decline as assets roll off over their remaining life
- The weighted average life of this portfolio today is 6 to 7 years
- Now let's turn to the CRU's third objective: reducing costs, on slide 16

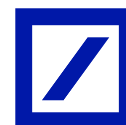


Slide 16 - On track to reduce cost by 2.5 billion euros by 2022

- So far, we have reduced adjusted costs in the CRU by nearly half, to 1.8 billion
- In the next two years, we aim to reduce costs by an additional 1 billion euros
- We expect to achieve this through the completion of the Prime Finance transfer, lower bank levies, and reductions in costs allocated to the Unit
- Our original plan was for residual costs of around 1 billion euros in 2022
- We've identified an incremental 200 million euros of savings, thanks to the implementation of our Driver Based Cost Management program
- This program has reduced the expected residual costs to around 800 million euros
- We're confident that we have the tools and management focus to reduce residual costs further over time
- To sum up: the CRU has made excellent progress in reducing RWA, leverage exposure and costs
- with revenue impacts which have been significantly better than our expectations of last year
- Reducing the capital allocation to the Capital Release Unit is a central element of our resource allocation plans, which we outline on slide 17

Slide 17 – Disciplined resource allocation

- Disciplined resource allocation is a core element of our strategic planning
- The underlying trends are broadly consistent with our prior disclosures
- Capital allocated to the core businesses should increase, as we wind down the CRU
- The Private Bank and Corporate Bank should see higher capital allocations reflecting our growth ambitions in these areas
- In the Investment Bank, we are reallocating existing resources into higher return areas – maintaining our discipline despite the improved revenue outlook
- Consequently, capital allocated to the Investment Bank should be broadly stable to today, at a little over 40% of the Group total
- Equity allocated to Sales & Trading activities, across the Investment Bank and the CRU, should continue to decline from around 40% of the Group total at the end of 2018, to around 30% by 2022



Slide 18 – Improving returns over time

- On slide 18 we set out our goals for returns in our core businesses that support the path to our 2022 targets
- We remain committed to our overall return target
- But the returns in individual businesses differ from our original assumptions, as we'll discuss in the business sessions shortly
- On slide 19, we set out how the different businesses contribute to the overall Core Bank return target in 2022

Slide 19 – Our path to improved Core Bank returns

- In the first nine months of 2020, Core Bank post tax RoTE improved to 6% on an adjusted basis, up from 3% in the same period of 2019
- While the relative contribution between the core businesses has changed, we continue to see a path to a Core Bank return of least 9% in 2022
- This level of return in the Core Bank is consistent with our Group return target which we set out on slide 20

Slide 20– Our path to improved Group profitability

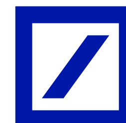
- As you can see, the majority of the improvement in Group RoTE should come from factors in our control: cost reductions and the wind-down of the CRU
- Delivery on these elements alone will improve our RoTE by 6 percentage points compared to the 9 month 2020 level
- Additionally, we expect provision for credit losses to return to more normalised levels by 2022, as Stuart will explain
- We assume a modest decline in Group revenues, consistent with the normalization in investment banking we have mentioned in 2022 compared with the first nine months of 2020 annualized

Slide 21 – Prudently deploying resources to offset headwinds

– As I described earlier, we have measures in place to offset the additional interest rate headwinds

– Capturing these revenue opportunities will require some balance sheet growth relative to our prior expectations

– We now expect our balance sheet to be more or less unchanged from the Q3 2020 level



- We expect to redeploy some of our excess liquidity into loan growth in the Corporate Bank and Private Bank
- As a result, we foresee improvements in the leverage ratio, but at a slower pace
- Our 2022 ratio assumes that the temporary exclusion of cash deposited with central banks lapses, which negatively impacts our ratio by [40] basis points
- Taking these factors into account, our new target is 4.5%, still comfortably above our 3.75% regulatory requirement from 2023

Slide 22 – Well positioned to offset regulatory headwinds

- These return targets that I outlined earlier take full account of future regulatory inflation, which we outline on slide 22
- We take a conservative approach to planning for this
- To date, our assumptions for the total impact of regulatory inflation have been broadly accurate
- However, the timing has been somewhat slower than we anticipated
- By year end 2020, we will have absorbed 10 billion euros of additional inflation
- This includes 6 billion in the first nine months with around 4 billion euros to come in the fourth quarter
- Our 2021 outlook is unchanged at 15 billion euros
- Compared to our prior forecasts, we now expect the 5 billion euros of inflation related to the definition of default to shift into 2022
- Looking further out, our assumptions on the impact of the Basel 3 final rules remain unchanged
- Overall, we expect organic capital generation to keep us in line with requirements, without any further positive benefits from rule changes
- Greater clarity on regulatory headwinds gives even greater confidence relating to the capital outlook through the remainder of our transformation
- This gives us a clear line of sight to our updated capital path, on slide 23

Slide 23 – Managing our capital position

- Our current CET1 ratio of 13.3%, provides sufficient headroom to absorb anticipated regulatory inflation and to support growth in our core businesses
- In the near-term we are committed to keeping our CET1 ratio above 12.5%

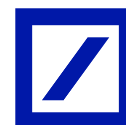
- As organic capital generation by the Core Bank improves, more falls to the bottom line for distribution to shareholders
- We are commited to using capital in a disciplined manner
- Our plan assumptions, and the likely path of regulatory inflation, are consistent with returning 5 billion euros of capital to shareholders starting in 2022
- Subject to regulatory approval, we would look to begin dividends and share buybacks in 2022

Slide 24 – Financial targets

- On slide 24, we summarise our updated financial targets for 2022
- Some of the constituent parts have changed, for the reasons we've discussed
- However, our overall commitment to our post-tax return on tangible equity targets, both for the Group and the Core Bank, remains unchanged
- With that: let me conclude

Slide 25 – Conclusion

- We have made significant progress
- We're on track to meet or exceed our 2020 objectives
- We recognise that going forward, execution risks have risen, notably due to the macro-economic uncertainty around the impact of COVID-19
- However, the improved outlook in our businesses, and other measures, are currently sufficient to offset the increased headwinds
- We are committed to making further progress toward our goals
- As we will demonstrate, our path may change, but our destination remains the same
- This management team is committed to our 2022 targets
- This includes an 8% post-tax ROTE in 2022
- We are confident along our journey to higher returns on capital as well as return of capital
- Thank you



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