



Deutsche Bank AG
Investor Deep Dive
9 December 2020

Transcript

Speaker:

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STUART LEWIS

Slide 1 – Summary

- Welcome from my side - I'm Stuart Lewis. I joined Deutsche Bank in 1996 and I've been Chief Risk Officer since 2012
- As we discussed with you in our Risk Deep Dive in June, we entered 2020 with a disciplined risk management framework.
- This gave us a firm foundation to manage through extraordinary stress
- Our high quality loan portfolio, and conservative underwriting standards, positioned us well in respect of credit risk
- We managed both market risk and liquidity risk tightly, through extreme volatility
- Our success in navigating this period was partly due to our investments in systems and processes in recent years.
- We continue to invest, especially in Anti-Financial Crime
- That investment is fully accounted for in the Group's overall cost reduction targets We expect 2021 to remain demanding
- However: we believe we're well-positioned to face these challenges

Slide 2 – Low risk and conservatively managed balance sheet

- On slide 2 you see some of the benefits of this conservative approach:
- Our CET1 ratio is considerably above our regulatory requirements. It has held relatively stable through the year
- Provisions for credit losses remain low compared to peer average
- Our average VaR has risen, reflecting higher market volatility
- However, it remains very modest by historical or comparative standards
- On both liquidity and funding, our key metrics are as strong as they've been at any time since the financial crisis of 2008
- Underlying these strong metrics is our disciplined risk management framework, supported by structures, systems and processes
- We outline this on slide 3



Slide 3 – Disciplined risk management framework

- We went into the COVID crisis in a position of strength
- That's because our framework provided multiple layers of protection
- Our risk appetite is calibrated to capital adequacy and earnings stability
- The threshold for key metrics of the bank are cascaded down to individual businesses
- We employ more than four hundred thousand risk limits, set by country, industry, asset class and individual client
- We manage credit and market risk limits dynamically, and monitor liquidity daily along multiple dimensions
- We make extensive use of credit enhancement via high-quality collateral and structural protection, for example through 'first lien' positions
- Additionally, our loan portfolio benefits from 44 billion euros in CLO and CDS hedges
- Four out of our five largest provisions in 2020 are hedged
- Our dynamic market risk hedging strategy proved highly effective in the extreme volatility in March and April
- Our rigorous stress testing approach takes into account a range of severities
- It's built around a number of historical and hypothetical scenarios
- This enabled us to identify and address potential vulnerabilities in our portfolios
- Likewise for Liquidity Risk, our conservative positioning is supported by stress testing and active monitoring
- That equipped us well to accommodate drawdowns and provide new lending for clients in the first half of the year
- We benefited from well-established crisis management procedures, robust non-financial risk management frameworks, and clear governance around our risk culture and conduct
- Our Anti-Financial Crime and Compliance teams monitor three million transactions and around a million communications, in twelve languages, per day
- A second key factor was: agile and proactive management during the crisis
- We summarise this on slide 4



Slide 4 – Proactive crisis management through COVID-19

- In late 2019 we were already monitoring the onset of COVID in China
- We identified industries vulnerable to the pandemic. That enabled us to conduct impact assessments
- We launched our regional crisis management response in January and our global response in February
- That positioned us well to deal with the market dislocations of March and April
- We continued to run additional stress tests against mid- and long-term scenarios
- We further tightened our risk appetite, principally in market risk but also in credit risk
- We took advantage of periods of strong markets to successfully de-risk our LDCM underwriting pipeline.
- This gave us capacity to keep supporting clients
- Economic uncertainties persist – so we continue to manage and monitor these risks closely
- All of this was underpinned by investments in data, technology and controls over recent years
- Let's take a look at some of these, on slide 5

Slide 5 – Investments have further strengthened our foundations

- In the past four years we've invested around 1.2 billion euros in data, technology and controls
- These investments have strengthened the quality and granularity of our data across all risk disciplines
- We'll continue to invest significantly in technology in 2021, particularly in Anti-Financial Crime or 'AFC'
- We aim to be an industry leader in Sustainability – so we're continuing to develop our framework for climate risk
- Now let's focus on our main risk areas – starting with credit risk



Slide 6 – Conservative loan portfolio

- Slide 6 shows our 433 billion euro loan book by business, geography and focus portfolios
- More than half of our portfolio is in the Private Bank – primarily low-risk German retail mortgages with loan-to-values of around 70%
- More than half is in Germany – which has historically been a lower-risk market thanks to low debt levels and decisive government action
- As a result, our home market was less impacted by COVID than other leading economies
- A relatively small proportion of our loan book – around 15% –consists of portfolios in areas most impacted by the crisis
- We’re confident our risk in these areas is well contained
- Let’s look at these in more detail! I’ll start with Commercial Real Estate, on slide 7

Slide 7 – CRE: high quality portfolio, challenging condition

- Our 29 billion euro CRE portfolio makes up around 7% of our loan book
- We typically benefit from a senior position in the capital structure
- That means we’re well protected by high quality collateral.
- The portfolio is well diversified. Average exposure is less than 60 million euros
- Around three-quarters, or 22 billion euros, is in lower risk assets, such as office, residential or mixed use
- We went into the crisis with conservative loan-to-value ratios - around 60% on a weighted average basis.
- Corporate Bank exposures are 6 billion euros. They’re predominantly German – a former Postbank portfolio
- These have caused no Stage 3 provisions year-to-date
- The remaining 7 billion euros is in higher risk areas. This includes hotels, condominiums and retail
- Quality is high, as is the commitment from sponsors
- Going into the crisis, weighted average loan-to-values were between 50% and 60%



- That's a significant 'cushion' against falls in value
- A smaller subset of this is in what we describe as 'focus' portfolios.
- This exposure is 1.6 billion euros – that's less than 40 basis points of our total loan book
- This small portfolio is diversified across 24 assets, principally US hotels
- For these, indicative loan to value has risen to 80% on a weighted average basis, so we still have a cushion
- Now: a few words on other focus portfolios, on slide 8:

Slide 8 – Other focus portfolios: continue to perform resiliently

- The aviation sector is less than 1% of our loan book
- Exposures are largely secured by new, single-aisle aircraft at major carriers
- We've reduced commitments by nearly 20% this year, and 83% of loans are performing
- In Leveraged Debt Capital Markets, we've reduced exposures by around 50% to 5 billion euros this year
- Our exposure is well diversified and almost exclusively secured by senior, first-lien positions
- Our Consumer Finance portfolio is 24 billion euros, around 6% of our loan book - one of the lowest proportions among major international banks
- It's predominantly current account-linked credits and instalment loans. Less than 10% is credit card lending
- Delinquency ratios are broadly stable. Over 90% of clients who took advantage of moratoria have now resumed payments
- To sum up: we believe our exposures across these 'focus' areas are manageable
- In aggregate, we expect provisioning for 'focus' portfolios to remain elevated, but contained, in 2021
- Now let's turn to the overall picture on provisions on slide 9:



Slide 9 – Provision for credit losses in line with expectations

- With our first-quarter results, at the height of the pandemic, we gave guidance for provisions to be 35 to 45 basis points of loans in 2020
- Today, that guidance still holds true.
- In 2021 we expect provisions to remain above pre-COVID levels, but slightly lower than this year
- If you compare provisions with actual charge-offs over the last six years, you see that we've been conservative in our provisioning
- Charge-offs have never been above 100% of provisions over this period. They've been around 90% on average
- Second, the ratio is lower in 2020 year-to-date, as provisions in 2020 have increased driven by the Covid-19 pandemic
- Charge-offs are a lagging indicator, so over time, we expect this ratio to rise
- We expect a return to the long term average in following years, as the economy recovers and provision levels normalize, as Christian outlined
- With that, let's turn to market and liquidity risk on slide 10

Slide 10 – Market and liquidity risk actively managed in the crisis

- In a fast-changing environment, agility is key to managing market risk
- Our hard work and investments in risk frameworks, systems and processes have paid off!
- As volatility spiked, we reviewed risk appetite dynamically
- We reviewed around 16,000 limits and adjusted over 1,500 of these
- We've rolled out Full Revaluation Historical Simulation VaR
- That enables us to calculate around 30 billion re-pricings every day
- We can analyse and manage risk at a deeper, more granular level
- Preparation, hedging and stress testing helped us manage risk tightly
- That helped our trading business to perform well, as Ram will explain
- We went into the crisis with strong liquidity



- At the end of 2019, reserves were 222 billion euros and our liquidity coverage ratio was 141%
- That gave us the flexibility to support clients suffering liquidity stress
- Liquidity rebounded quickly. By the end of the second quarter, liquidity had risen to 232 billion euros, already above pre-COVID levels
- Liquidity further strengthened to 253 billion euros by the end of the third quarter
- Now let's turn to non-financial risk on slide 11

Slide 11 – Non-financial risk

- These are some results of our work to strengthen our risk culture
- Our non-financial risk costs are now modest by historical and peer standards.
- We continue to make progress in AFC
- For example, we've exited around 60% of our correspondent banking relationships in recent years due to risk concerns, and we've reinforced our 'know-your-client' processes
- We're confident we are on the right track in AFC - but we acknowledge that there is still a significant book of work ahead
- We've established strategic remediation programmes which will address open issues in a front-to-back manner
- These are partnerships between our Risk function and our businesses, in collaboration with our Technology and Strategic Analytics teams
- We're also working on as part of our partnership agreement with Google Cloud
- Now before I sum up, I'll say a few words on the outlook

Slide 12 – Risk outlook: challenging but we are well prepared

- We expect 2021 to be another demanding year for risk management, though not as tough as 2020
- We believe we're well positioned to meet the challenges
- We see credit defaults remaining elevated as governments scale back support schemes



- Our forecasts may prove conservative if a vaccine is widely available early in the new year
- Interest rates will be lower for longer. We expect investors and savers to continue to search for yield
- This is good for some of our businesses, but 'risk off' days will create volatility
- Finally, COVID will continue to impact the way we work. We're not going back to the 'status quo ante'
- The trend of remote working will likely continue
- This will bring new operational risk challenges, and we believe we are well prepared
- With that, let me conclude

Slide 13 – Conclusion

- We successfully navigated exceptional stresses this year
- That was thanks to a strong risk management framework and agile management through the crisis
- We've shown strength across all major impacted risk types
- We've made significant enhancements to our control framework, but the work and investment must continue, in particular within AFC
- And with solid capital and liquidity reserves, we're well prepared to face future uncertainties
- Thank you!



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This transcript also contains non-IFRS financial measures. For a reconciliation to directly comparable figures reported under IFRS, to the extent such reconciliation is not provided in this transcript, refer to the Q3 2020 Financial Data Supplement, which is available at www.db.com/ir.

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