Deutsche Bank AG

Investor Deep Dive

9 December 2020

Transcript

Speaker:

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STEFAN HOOPS

- Welcome to the Corporate Bank Investor Deep Dive.
- My name is Stefan Hoops, and I have led the Corporate Bank since 2019.
- I joined Deutsche Bank as a graduate and have previously held a number of roles in Markets, Corporate Finance and Global Transaction Banking.

Slide 1 - Summary

- 2020 has been a challenging year for all of us, but despite COVID 19, we have mitigated the headwinds in the Corporate Bank by executing on our strategic initiatives.
- As a result we were able to keep revenues stable year on year which is an outperformance versus the market.
- In particular we have worked hard to manage the interest rate environment, and our credit loss provisions remain low relative to peers.
- This reflects a well-diversified loan portfolio with strict lending standards, strong risk management and robust controls.
- Traditional Corporate Banking is at the very heart of our business and our core franchise has shown resilience in 2020, especially in Germany.
- But to maintain our strength in traditional Corporate Banking we also have to play a role in shaping the future of financial services,
- So we are making targeted investments in specific growth areas where we have a clear competitive advantage.
- You will hear more today about the opportunities we see to do this.
- So let me start with a brief overview of the business

Slide 2 - Corporate Bank at a glance

- The Corporate Bank comprises both Global Transaction Banking and Commercial Banking.

- But from 2021 we will be reporting on the basis of three client focussed segments reflecting our client centric approach – to be clear, this does not require any reorganization.
- I'll talk about these client segments in order of size:
- First, Corporate Treasury Services which is about 60% of the business.
- Our capabilities in cash management and foreign exchange place us at the centre of our corporate clients' business.
- Trade Finance and Lending is the business that Deutsche Bank was originally set up for, which is why we have a longstanding global network across 151 countries.
- Revenues in this segment grew 1% in the first nine months, as we largely offset interest rate headwinds by deposit re-pricing, balance sheet management and ECB Tiering.
- The Corporate and Investment bank have a joint treasury coverage team that sits in the Corporate Bank.
- If you combine growth of 1% in the Corporate Bank with Foreign Exchange and Debt Capital Market revenues reported in the Investment Bank it is clear that Deutsche Bank has a very strong corporate franchise.
- Second is Institutional Client Services which represents about a quarter of our revenue base. This includes:
- Institutional cash management where we are number one in Euro clearing and one of very few banks strong in both Euro and Dollar clearing - we think we can do far more here;
- Trust and Agency Services - which is a niche business growing in mid-single digits providing specialised services to Financial Institutions;
- and Securities Services where we are one of just two pure play sub custodians, which makes us an ideal partner especially in Asia.
- Revenues in this segment are down 7% year on year mostly as a result of declining interest rates in the U.S. and Asia-Pacific, where our ability to offset this is more limited.
- Third comes Business Banking in Germany which is about 15% of our revenues

- Here we serve 800,000 clients - including small businesses, tradesmen, lawyers, doctors and the self-employed - across three brands, Deutsche Bank, Postbank and our digital bank FYRST, which was launched last year.
- These are clients who have historically been underserved but with the advance of digital technology we see this as a strategic growth opportunity which I'll talk about later.
- Revenues in Business Banking were up 1% in the first nine months supported by both volume and fee growth.
- You may remember that last year I told you we are less sensitive to the interest rate environment than you might think.
- Overall, about 40% of 2020 revenues are fee based - we earn fees in Institutional Cash Management, Trust and Agency services, Securities Services and Trade Finance.
- The remaining revenues are Net Interest Income.
- This includes negative interest rates passed on to clients.
- The majority of our Net Interest Income relates to the spreads we earn on lending rather than the underlying interest rate, and just about 15% of the total is generated from deposits.
- As a result, we are less dependent on the level of interest rates than our peers.
- This is one of the reasons we have outperformed the market in a declining interest rate environment.
- As I said earlier, we also have lower credit loss provisions than our peers due to a well-diversified loan book and strong risk management.
- During the year we have been disciplined in executing on the objectives we set out last December so let me update you on the progress we have made.

Slide 3 - Progress against our 2019 objectives

- We told you last year that we had identified 25 billion euros of deposits we would re-price in 2020 in order to pass on negative interest rates.
- In fact we have rolled out new charging agreements on more than 40 billion Euros of deposits, well above our target.

- This brings the total over this year and last to about 70 billion.
- Based on our third quarter run rate, we expect this to generate additional revenues of more than 200 million on an annualised basis.
- Our second growth driver was payments where we said we would double the fees we generate from Fintechs and E-commerce to 200 million euros over the next 3 years.
- We are on track to meet our target, having grown payment revenues 18% in the first 9 months.
- Our investment here was well timed as we are benefitting from a significant increase in online payments as a result of COVID 19.
- Third, we set out our ambition to be the bank of choice for Corporate Treasurers.
- In particular, we aimed to increase Rates and Foreign Exchange revenues with our corporate clients by 5 to 7% per annum,
- and to deliver three "Pay per use" or "Asset as a service" projects in the first half of 2020.
- Foreign Exchange and rates revenues were up 16% in the first nine months with strong growth in the US and Asia Pacific.
- We have also completed several pay per use pilots and roll out is ongoing. I'll talk more about this later.
- Finally, we said we planned to grow our revenues in Asia Pacific by 6% per annum - and I can confirm that we have grown revenues 6% year-on-year despite declining interest rates in the region.
- We have continued to invest in people and technology, and we are benefiting from our combined FIC and corporate banking business in Asia Pacific,
- as well as our integrated markets and transaction banking platform which offers Treasurers solutions to manage payments, liquidity and foreign exchange risk.
- Yet despite our disciplined execution and all our efforts our Return on Tangible Equity is not where we would like it to be….

Slide 4 - Our path to improved profitability

- There are three main factors that explain our return of 4% for the first nine months of 2020.
- First, we have experienced interest rate headwinds amounting to 400 million euros or 8% of our annual revenue - so whilst we have been able to maintain stable revenues as a result of deposit re-pricing, we did not grow them.
- Second, as James has mentioned in his quarterly updates, the bank has changed its cost allocation methodology which has resulted in higher allocations for the Corporate Bank. This is in line with what we announced last year and these costs will reduce over the next couple of years.
- Third, our credit loss provisions in 2020 are higher than expected as a result of the pandemic.
- So why am I still comfortable with our return target of 11 to 12%?
- With the exception of lending, our business lines do not consume a lot of capital, so even slight increases in revenue or cost reductions will have a significant impact on returns.
- As James outlined, there has been a necessary recalibration of our targets, given the change in macro-economic outlook.
- We now plan to grow revenues at a lower rate, resulting in a two percentage point uplift and to reduce costs at a higher rate, increasing returns by four percentage points.
- In addition, we expect credit loss provisions to normalise in the coming years as the economy recovers, which will add another percentage point.
- So let me give you more detail on the revenue and cost drivers that will help us achieve our return target.

Slide 5 - Revenue Opportunities

- Our plan is to grow revenue at a rate of 4% per annum to 5.5 billion by 2022.
- We have broken our key revenue drivers into three categories:

- The first category covers measures which are within our control. They simply rely on disciplined execution.

- This includes continued re-pricing of deposits in order to offset the impact of interest rates, ongoing implementation of account fees in Germany, and increasing fees in Securities Services.
- The second category covers ongoing implementation of initiatives where we have already made real progress - we consider these to be highly deliverable.
- I told you last year we want to be the bank of choice for Corporate Treasurers and to build on our strength in Germany.
- Within this, we see an opportunity to better serve small German businesses in our Business Banking segment as I mentioned earlier.
- This category also includes our continued focus on growth in Asia-Pacific, and our commitment to double payment fees from e-commerce, platforms and fintechs.
- The third category covers targeted investment in growth areas.
- These initiatives are not as well established as Category B but all of them address a market opportunity where we have a competitive advantage.
- This includes asset as a service, a new merchant payments offering, and dvising our clients on their ESG transformation.
- The total impact of all these measures amounts to €500 million over the next two years but this will be partially offset by interest rate headwinds which explains our target of 5.5 billion.
- I want to talk about these drivers in more depth, starting with our ambition to be the bank of choice for the Corporate Treasurer.

Slide 6 - Bank of choice for the Corporate Treasurer

- Put yourself in the shoes of the Corporate Treasurer and imagine what their year has been like.
- For many, it has been career defining given the challenges they face.
- Being by their side and helping them to meet these challenges has further deepened our relationships.
- So this is how we are helping them.
- Their first challenge is managing liquidity;
- For those who need more liquidity we provide lending or help with issuing bonds.
- For those with too much liquidity who want to keep cash, we pass on market rates in multiple currencies, or we offer the option to move surplus liquidity into money market funds in DWS.
- This activity falls within Category A and relies on disciplined execution.
- Treasurers also have to secure their supply chains and distribution channels around the world.
- Our global network across 151 countries, and local presence in 42,
  combined with our strength in supply chain financing,
  make us an ideal partner to help clients navigate these challenges.
- Then they have to manage risk in relation to interest rates and foreign exchange.
- It's been a busy year as corporates have had to adjust their cash flow hedges or provide their subsidiaries with funding.
- Cash flow forecasting is likely to remain difficult until there is greater certainty about when vaccines will make further lockdowns unnecessary.
- And as different parts of the world are recovering at different speeds it's likely that exchange rate volatility will continue at elevated levels.
- These last two areas fall within the category of Business Strategy Implementation which is very much a continuation of what we already do.
- Lastly, we are helping clients manage an accelerating trend where they offer their customers Assets as a Service, rather than selling them products.

Before the pandemic this was typically used as a means for manufacturers to get closer to their end customer.

- Take the example of printer manufacturers – they also want to sell ink and paper to have an ongoing relationship with the businesses that buy their printers.
- During the pandemic, however, providing a service has become more attractive than selling goods for another reason - it helps end customers to reduce their capital expenditure and preserve liquidity.
- So a manufacturer moves from selling printers to selling printing as a service so their customers can turn capex into opex.
- The challenge for the Manufacturer is that the printers cannot just sit on their own balance sheet.
- So the company needs support through a combination of structuring, payment processing and risk management solutions.
- Since we spoke last year "asset as a service" or "pay per use" has become a new business line within the Corporate Bank to take advantage of this opportunity.
- This is an area where we are clearly benefitting from our partnership with Google Cloud.
- As you heard from our Chief Technology Officer, Bernd Leukert, this partnership enables us to combine Google's expertise in data science, artificial intelligence and machine learning with our expertise in financial products.
- So let me now turn to the backbone of our business, the Corporate Bank in Germany

<u>Slide 7 - Corporate Bank in Germany</u>

- We serve more than 900,000 clients in 120 locations across Germany delivering almost half the Corporate Bank's total revenues.
- This makes us the leading Corporate Bank in Germany and we have cemented this position over the last 12 months
- We have done everything we can this year to support our clients from small entrepreneurs to large corporates.

- Together with other banks, we also played a significant role advising the government on lending support schemes and we were one of the leading providers of these loans.
- At the same time, our role as the trusted Global Hausbank – the go-to bank – for German companies has never been more important.
- We are one of the only German banks with a truly global reach and we will continue to invest to help German corporates manage their subsidiaries globally. More than 50% of revenues from our mid to large corporate clients are earned outside Germany.
- And as you heard from Claudio de Sanctis, who leads our International Private Bank, we have also intensified our partnership with the Private Bank to help business owners and entrepreneurs manage their wealth.

Slide 8 - Business Banking

- Within our Corporate Bank in Germany we see an opportunity to better serve our 800,000 small business clients as I mentioned earlier.
- These clients have historically fallen between mid-caps on the one hand and retail banking on the other.
- We now want to give much greater focus to this customer segment as part of our client centric approach.
- So this year we created Deutsche Bank Business Banking by bringing together our Deutsche Bank, Postbank and FYRST brands under one management team.
- We have invested in senior talent by recruiting a Chief Growth Officer, Product Officer and Technology Officer.
- We have also invested in digital capabilities to create an omni-channel offering - for example, by adding business banking products on our mobile app.
- Given our scale in business banking we are an ideal partner for businesses that offer non-banking services such as billing and accountancy. And by partnering with these providers we both understand our clients better and generate additional fee income.

- We serve about a third of the smaller business banking market in Germany and Germany represents around 20% of European business banking - so we are the biggest player in the biggest market.
- We plan to build on this strength in Germany and expand our business bank offering to additional European countries in the near future.
- This is a successful business that is already growing well and we expect it to deliver more than 800m of revenues by 2022.

- Let me move on to Asia Pacific….

Slide 9 - Corporate Bank in Asia- Pacific

- We talked last year about making senior hires in Asia Pacific. Our leadership team is now complete and this year we have been able to capitalise on having the foundations in place.
- As I said earlier, we have grown revenues by 6% year-on-year despite the economic headwinds.
- We have also won recognition for our support of clients.
- This includes Best Treasury and Cash Management bank in South Asia,
- and best "Crisis Response of the Year" where Asia Risk Awards recognised Deutsche Bank as one of the few banks able to provide 24-hour liquidity throughout the pandemic.
- Deutsche Bank's international network means we are very well aligned with trade corridors into Asia Pacific as well as trade corridors within the region.
- We have been using our network to connect Asia Pacific with the rest of the world since 1872 and we have licenses and a local presence in 14 countries.
- Global clients need a global corporate bank that understands local markets and has local banking licences, and in the current geopolitical environment many clients also want a bank that is headquartered in Europe.
- Our strength in the region is all the more important this year when the East is recovering more quickly than the West.

- Our CEO in Asia-Pacific, Alex von zur Muehlen, will talk more about the regional opportunities in his presentation.
- So let's now turn to our targeted growth investments starting with Merchant Payments…

Slide 10 - Payments – Merchant payments

- Here we want to complete our activity across all four parts of the payments value chain which you can see on the left hand side:
- The chain begins with consumers, managing their finances from a personal account.
- They buy something with their credit card in a business-to-consumer transaction; that payment has to be processed to ensure the merchant gets paid; the merchant also needs treasury services such as cash management and foreign exchange; and finally the payment is cleared through clearing and settlement services.
- Deutsche Bank has a strong offering in three of these four areas and we want to get back into Merchant Payments which is currently dominated by fintechs and specialist payment companies.
- In other words we want to complete the entire value chain as we believe the whole is greater than the sum of the parts.
- We have five key competitive advantages in relation to merchant payments.
- First we are the largest issuer of credit cards in Germany so we already have one side of the B2C transaction.
- Second, we are the cash management provider for many corporates in Germany and abroad. If we do both the B2C payment processing and the cash management for merchants then we can offer them integrated reconciliation, which is a great benefit for our clients.
- Third, we have a leading foreign exchange franchise and can manage currency conversions in-house unlike payments companies.

- Fourth, because we are a lender with a strong balance sheet, we own a factoring business and we understand consumer risk, we are able to make a very competitive offer on payments in instalments.
- Of course the fact that we are a bank that is tightly regulated is also an advantage, with greater regulation for fin techs on the horizon under a same service, same rule regime.
- Over the last twelve months we have made a number of senior hires from Fintechs in the payments space, including our new Head of Strategy, Chief Product Officer and Head of Merchant Solutions for the Corporate Bank.
- In Merchant Solutions, we have assembled a strong team and with that team in place, we aim to have a product ready for Europe by the third quarter of 2021, and to have processed our first billion of payments by the end of 2021.

- So let me now turn to ESG….

Slide 11 - ESG client solutions

- As you heard from Christian, sustainability is an important component of our strategy at Deutsche Bank.
- Our focus in the Corporate Bank is very much on supporting our clients' ESG transformation.
- We do that with a range of services across our product suite whether it is green deposits, green credit facilities, guarantees or social project finance.
- Of course the question is whether this will generate additional revenues or simply replace existing revenues.
- My view is that they are likely to be replacement revenues across the industry as a whole.
- However as clients shift from non ESG to ESG compliant products there will be disruption. Those banks doing a better job of helping their clients on that journey will benefit from a redistribution of market share.

- We want to be a thought leader in the development of this market and our confidence rests on the fact that we have really good knowledge of the needs of corporate treasurers;
- we have very strong product offerings across all our business divisions;
- Europe is currently the most advanced region with regard to sustainability; and as a bank we have a deep understanding of EU sustainable finance regulation and standards.
- Our global network means we can also help multinational clients become ESG compliant in most markets around the world, including Emerging Markets.
- Sustainable finance outside of green bonds is a relatively new product and we expect our volumes to increase rapidly over the next years.
- So that covers revenue growth – I now want to turn to cost reduction.

Slide 12 - Cost reduction programme on track

- As I mentioned earlier, we are balancing lower revenue targets with higher cost reductions.
- So we now plan to reduce costs at a rate of 7% per annum to 3.4 billion in 2022.
- We said last year that the majority of savings would come from support and back office functions rather than the front office and that the full impact of these reductions will feed through towards the end of our three year plan.
- The total reduction in the front office will be more than 100 million euros as a result of streamlining our coverage and controlling discretionary spend.
- We expect to reduce front office costs by 6% this year, excluding transformation charges.
- Some of this reduction is the result of lower travel and entertainment costs during the pandemic,

  but we have also completed the integration of commercial and corporate banking in Germany ahead of plan.
- In addition, we plan to make over 400 million euros of savings in our infrastructure functions by removing duplication, looking at the location of our people, bringing technology providers in-house and through higher levels of automation

- To give you just one example, we are rationalising our systems and have migrated more than half the applications we use from legacy systems which will both improve our technology platform and reduce cost.
- We have now made the necessary investment to deliver these infrastructure savings and the reductions will come over the next couple of years.

Slide 13 - Key takeaways

- So in conclusion, over the last twelve months we have delivered a resilient performance in a challenging environment.
- We have taken action during the year on the things that we can
- control and have managed to largely mitigate interest rate headwinds.
- This has enabled us to keep revenues stable and outperform the market.
- Our relatively low credit loss provisions reflect a well-diversified loan portfolio with strong risk management and robust controls.
- While we are passionate about our tradition as the Global Hausbank,
  we are also excited about helping to shape the future of financial services,
  so we are making targeted investment in areas where we have a clear competitive advantage.
- Finally, we remain completely focused on disciplined execution and we are working hard to deliver both our revenue and cost targets in order to reach a Return on Tangible Equity of 11 to 12% by 2022.

Disclaimer

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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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