Deutsche Bank AG

Investor Deep Dive

9 December 2020

Transcript

Speaker:

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MARK FEDORCIK

Slide 1 – Summary and introduction

- My name is Mark Fedorcik and I'm the Head of the Investment Bank. I would like to introduce Ram Nayak, our Head of Fixed Income who will be presenting alongside me today.
- Over the next 30 minutes, we will take you through an overview of our business. We will look at the progress we have made towards the goals we set out in 2019, our ongoing strategy and how this will deliver improvements in our return on tangible equity.
- Our objectives are entirely consistent with those we set out when we presented our plan for the strategic transformation of the business a year ago:

    1. Deliver **sustainable revenue growth** in a **well-controlled manner;**
    2. Focus on tangible franchise improvements through deepening **client intensity;**
    3. Grow with **consistent resources;**
    4. **Reduce costs.**

Let's start with an overview of the business on slide 2

Slide 2 – Investment bank at a glance

- In 2020 we have delivered 7.4 billion euros of revenues in the first three quarters of the year. This translates into a profit before tax of 2.6 billion euros.
- The Investment Bank is split into two divisions that cover a competitive and well-established portfolio of businesses.
- Origination and Advisory has seven focused industry coverage groups. We have a strong Debt origination business across both Investment-grade debt capital

markets and Leveraged finance. Our advisory business is positioned to grow and our equity capital markets business remains competitive.

- In Fixed Income and Currencies, we are the bank of choice for our priority clients. Our product offering is targeted, with a strong global franchise. In particular, our Financing and Foreign Exchange businesses are market leading.

- Across the Investment Bank, we generate the majority of our revenues in our home European market. And as Christiana and Alex will outline, we have a strong footprint in the US and leading businesses in Asia Pacific.

- Our journey towards transformation started in 2019.

- On slide 3, I'll now walk you through the progress we have made towards our objectives since then.

<u>Slide 3 – Material progress made</u>

- Firstly let me talk about **revenues.** We have delivered four consecutive quarters of year-on-year growth. We believe that more than half the revenue growth delivered in 2020 is sustainable and not purely linked to the strong market conditions.
- Second, **costs:** we have delivered this revenue growth whilst materially reducing our cost-base. On a year-on-year basis, we have seen four quarters of cost reductions. As a result, our adjusted cost-base has reduced by 400 million euros in the first three quarters of the year. In addition to this, our funding costs have also decreased by 225 million euros year on year.
- Third, **clients:** we cover our client-base with increased intensity, and in a more targeted way. This has led to increases in revenues of 25% across our Platinum clients and 42% with our top 100 institutional clients.
- Finally, this has all been delivered with an **efficient utilisation of our financial resources**. We've kept Risk Weighted Asset consumption broadly flat, excluding

regulatory inflation, as we've efficiently re-allocated capital across the Investment Bank.

- Let's look at each of these in more detail. Starting by drilling down into our revenue story on slide 4

Slide 4 – Revenue growth is anchored around client engagement

- In 2020 the Investment Bank is forecast to generate close to 9.1 billion euros.
- We believe that this will reduce slightly in 2021 as markets normalise, reaching a revenue base of around 8.5 billion euros in 2022.
- So the question is, how are we going to do it?
- In **Origination and Advisory**, the 400 million euros of revenue growth from 2019 is driven by both a focused client group, and the consistent intensity with which we have covered clients.
- Our strong **Debt Capital Markets** and **Leverage Finance** franchises will remain integral, particularly with regard to ESG.
- We will also continue to expand further into sectors such as Healthcare, Industrials, Consumer and Technology Media and Telecom, where we see strategic opportunities for our advisory business and cross border activity.
- In **Fixed Income**, we will grow revenues by 1.2 billion euros. There are two key drivers: continued transformation of various businesses and the front-to- back re-engineering of our platform. This is supported by the increasing confidence our clients have in Deutsche Bank's credit profile and our capacity to deliver.
- In **FIC Financing**, we're not targeting an overall increase in revenues. Instead we will focus on maintaining disciplined risk management across our diversified portfolio and deployment in targeted sectors, such as asset-backed securities.

- I'll now take you through our Origination and Advisory business performance on slide 5

Slide 5 – O&A outperformance and market share gains

- We have continually outperformed the industry fee pool in the first three quarters of this year. This momentum has continued into the fourth quarter.
- In the third quarter of 2020, we delivered market share growth of 20 basis points year on year, reaching our highest level in six quarters.
- In **Debt Capital Markets** we grew share by over 110 basis points. In particular, we have seen strength with **Sovereigns**, **Supranational** and **Agencies**. We are continuing to focus on our cross-border expertise, playing to our strengths. **ESG** remains an ongoing priority for the business, with a number 3 ranking for Green Bond issuance volumes in the third quarter. **Debt Capital Markets** is a cornerstone of the bank's overall ESG strategy
- In **Leveraged Debt Capital Markets**, we ranked number 2 globally for the third quarter and our growth is underpinned by targeting areas of strength, such as **Leveraged Buyout** financing.
- We have proven our **Equity Capital Markets** and Equities business model works, with our market share in the third quarter increasing by 90 basis points. Clients are increasingly comfortable with our ability to deliver for IPOs, Follow-ons and SPACs; a key strength. We will continue to focus on **Equity Capital Markets** for our clients and are committed to providing quality research.
- **Advisory** remains a growth priority. The market share decline you see versus third quarter last year hides the fact that our quarter on quarter market share has increased for three consecutive quarters in 2020.

- Let's look at how our client intensity will continue to drive growth on slide 6

Slide 6 – Client intensity: Driver of O&A revenue growth

- The revenue growth we target and have delivered is only possible thanks to the client intensity we have demonstrated.
- We remain focused on serving our clients. We have a highly motivated coverage force and client interactions have increased by 55% this year – even through the height of the pandemic.
- Throughout 2020 we have refined the client perimeter, reducing the number of clients designated as Platinum by 10%. This enables us to further focus on and deepen relationships with clients of the bank as a whole. Importantly, **this is not just across the Investment Bank, but also the Corporate Bank**. A large number of our clients utilise services such as Cash Management, Trade Finance and Escrow services. This cross-divisional coverage is critical to our ongoing success.
- The increased intensity helped improve our market share with these Platinum clients by over 20% versus Full Year 2019. And we will build on this momentum into 2022.
- I'll now pass you over to Ram to walk through the changes we are making to the Fixed Income business, and the results this will deliver, starting on slide 7.

RAM NAYAK

Slide 7 – Transformation is the driver behind FIC revenue growth

- Thank you, Mark
- Last year I highlighted a number of businesses that were either underperforming because of specific internal factors, or were simply under-invested in. We also outlined our plans to stabilise the Fixed Income franchise.
- I'm glad to report that we have made **material** progress since then, with revenues up **31%** over the last 12 months. However, we've all seen the outsized revenues within FIC across the industry as a result of the large market dislocations earlier

this year, and now that the normalization of these markets is well under way, I suspect that the question on everyone's mind is whether these revenues are sustainable.

- This chart shows our year on year change in monthly revenues. As you can see, even **prior** to the huge market dislocation created by the pandemic, our **FIC revenues grew by 47% year on year from October to February**. Following the market normalization that started to occur after the first Covid-19 wave, our FIC year on year revenue growth **continued** at 39%.
- **In other words, our entire revenue outperformance in 2020 took place on either side of the most volatile 3 months of the year**. I think that clearly demonstrates that the revenue growth we delivered in 2020 was driven primarily by the actions we took to sustainably transform our business, and was not **that** dependent on the unprecedented volatility that occurred.

- Let's look at this transformation in more detail on slide 8

Slide 8 – In FIC, we are stabilising and growing businesses

- On this page I just have one simple message.
- [SLOW] We believe that over half the revenue growth delivered in 2020 is sustainable and combined with new initiatives will result in 2022 revenues in excess of 6.7 billion Euros in FIC.
- This sustainability of revenue is driven by the transformation we have undertaken in a number of our businesses.
- As you can see on the chart, 2019 was a low point for FIC revenues at 5.5 billion euros.
- The light green columns represent revenue growth generated in 2020 that is sustainable, while the dotted rectangles represent those 2020 revenues that we do not expect to recur once the market fully normalises. **These sustainable revenues**

would have generated 6.4 billion in 2020, even without the impact of the market dislocation. The light blue bar then shows the remaining revenue growth that will come from future initiatives. **The result is a 2022 FIC business with sustainable revenues of 6.7bn.**

- Let me explain why I believe these revenues are sustainable.
- Let's start with the second column which represents the growth in revenues due to the elimination of inefficiencies in our funding cost. This is now largely complete, and has enabled the Bank to reduce it's liquidity buffer by **15 billion euros**. Along with some other items, this will result in an annual saving in our funding cost of **220 million euros** in 2020. Not only will this saving continue into 2021 and 22, but we expect **incremental** reductions of about 100 million euros as we continue to optimize our funding requirements.
- Let's move to the next two columns, which represent our Rates and Credit franchises. We highlighted last year that we were unsatisfied with the way some of these businesses performed in 2018 and 2019. And we took a series of steps to transform some of the underperforming areas.
  - We put the right people in place
  - We developed a clear and focused client strategy
  - We materially strengthened our risk discipline
  - And we invested in technology in order to improve our controls, enhance our pricing and improve the client experience

- You can see the impact of this in our European Rates business, with sustainable revenues growing considerably in 2020 as a result of the improvements in many areas, such as our European Government Bonds business. **Our improved market share in European Rates would have delivered incremental revenues of 200 million euros using a pre-pandemic 2019 Rates wallet.**
- A similar story applies to our Flow Credit businesses. While we have always had a top 3 Credit franchise, our secondary flow business has lagged. So we decided to focus on rebuilding that franchise in Europe and the US. The rebuild of our

European flow credit platform is largely complete, with a focus on Algos, ETFs, indices and portfolio trading, and is driven by investments in technology – in particular e-trading – and in people. The results are clear, with sustainable incremental revenues of over a 100 million euros, **again**, using a pre-pandemic wallet as a reference point.

- And as you can see on the chart, we have similar experiences in both **Foreign Exchange** and **Emerging Markets**.
- In summary, the revenues represented by the light green bars are due to tangible improvements that have already been implemented to transform the business. And we expect them to endure even if the industry wallet in those businesses reverts to 2019 levels. In aggregate, this amounts to around 900 million euros, a quarter of which is funding, and the remainder is from business transformation.
- And finally, we have additional initiatives, represented in the light blue bar for 2021 that we estimate will generate an additional 250 million euros even in a normalized market. A third of this is from the further reduction in funding costs we just discussed, and the balance from a rebuild of our US Flow credit franchise and further deepening our cross-sell into corporate banking relationships in the Emerging Markets and in Western European.
- **Together this makes up the 1.2 billion euros that takes us from 5.5 billion euros in 2019 to 6.7 billion euros in 2022**

- Now let's look at how our client strategy has helped drive this transformation on slide 9

Slide 9 – Client strategy is integral to FIC growth

- Our client strategy is focused on the four areas that you can see across the top of this slide.
- I won't walk you through all of the detail here, but a few examples will help illustrate the success of this approach.

- We have been focused on those products that are most relevant to our clients, and have been gaining share here. Our market share in **European government bonds** and in Euro **SSA issuance** is the highest it's been in the past 5 years.
- We have syndicated high profile deals for **Italy** and for the first time in 10 years, **France.** In **Germany** we led the first Bund syndications since 2015, along with the inaugural green bond and the EU SURE issuance, highlighting the importance of ESG to our business.
- Let's move on to our Client Engagement. There is no escaping the fact that since 2016, we have seen a number of clients reduce the level of activity that they have undertaken with Deutsche Bank. However, the improvement in our credit outlook means that we are seeing clients reengage. For example, we can see a clear trend of regaining market share in Foreign Exchange with global asset managers. Much of this activity is in bilateral OTC products, which emphasises the increasing comfort that clients have in facing Deutsche Bank.
- Next, we are focussed **on our most important clients**. We have grown revenues by over 40% across our top 100 institutional clients in the first nine months of the year. And with our home market clients, this increases to a gain of 45%.
- Finally, a meaningful part of our increased client volumes are driven by technology. Our performance in electronic markets has been extremely strong this year. G3 bond and Swap volumes are significantly up year to date, with our market share increasing by over a 100 basis points, clearly illustrating the successful delivery of our electronic platforms.

- Lets move to slide 10 and look at how we intend to continue to deliver our business transformation whilst we materially reduce costs.

Slide 10 – IB transformation to further improve profitability

- We have already made significant progress in reducing costs across the Investment Bank. From 2019 to 2022 we will have removed 1 billion euros, or 18%, of the cost base from a platform that will have increased revenues by 22% during the same period..
- About half of this cost reduction has already been delivered.
- As we explained a year ago, the focus of cost reduction is across three categories: the Front Office, Technology, and Infrastructure.
- In the front office, the initial focus was on **right-sizing our headcount**: this is now down over 10% from the second quarter of 2019 just before we started restructuring the business. This is broadly complete.
- We are also focussing on creating tools to improve productivity in the front office, whether that be via automated pricing tools, or workflow tools that enable more efficient processing of client activity. 80% of our bond pricing is now automated and we saw during the COVID-19 period that our platforms could absorb daily trading volume spikes of more than 100%. This work will continue and is combined with disciplined expense management across the franchise.
- We continue to make excellent progress with our **Technology change**. As Bernd mentioned, the **migration to single platforms** is well underway. We have decommissioned 19% of the total number of applications we have identified, and the required work on the remainder is well progressed.
- Finally, as we said last year, we continue to move to a simplified set of straight through processes and standardized platforms, and as we complete the migration of our businesses to these platforms, we will continue to automate Risk, Finance and Treasury functions, resulting in a material reduction in manual processes.
- Across Technology and Infrastructure we will save over 450 million euros of additional costs annually by 2022.
- The front-to-back nature of the transformation is best exemplified by our FIC Re-engineering programme on slide 11

Slide 11 – FIC reengineering driving efficiency & growth

- FIC Re-Engineering is a complete redesign of our business processes and platforms, from the moment a client engages with us to the point the P&L is booked in our ledgers.
- Very simply, we are targeting three benefits here:
- Firstly, **we are focused on improving our understanding of our clients.** Timely insight of client activities and behaviours drives the way we cover them, whether it's providing them with cheap liquidity or with customised solutions. In short, it helps us align our services with our client's needs.
- Secondly, **we are ensuring we can monetise the value of pre and post-trade activities.**
- For example, the provision of automated prices to traders ensures tighter bid-offers and more consistent pricing. The automation of pre-trade controls such as credit checks strengthens our controls framework. And the decommissioning of multiple systems for documentation and cash settlement reduces the cost and improves quality of execution. **So we end up with better pricing, lower costs and better controls**.
- Finally, from an infrastructure perspective, FIC Re-Engineering eliminates duplicative platforms and applications and uses front office systems to directly source the Risk and P&L data required by the Finance and Risk functions, delivering cost savings as well as enhanced controls.
- **To recap, the whole transformation process drives revenues and at the same time reduces complexity, manual processes and costs. It materially improves the client experience, and allows us to do all of this in an enhanced control environment.**

- I'll now hand back to Mark to discuss our disciplined approach to RWA deployment on slide 12.

MARK FEDORCIK

Slide 12 – Revenue growth without business-led RWA increase

- Thank you Ram.
- We really want to stress that our business growth plan is driven by the transformation and client intensity we've outlined. It will not be driven by a dramatic increase in the capital base of the Investment Bank.
- From 2019 to 2022, we expect our RWA will increase from 117 billion to 133 billion euros. Of this**, the net business-driven growth will effectively be flat.** The inflation you see in the chart comes from non-controllable items, primarily regulatory inflation.
- Two key factors are helping us achieve this. We assess the Investment Bank as a portfolio of businesses and reallocate resources from one business to another as required to target the most efficient return. And, we've invested heavily in developing efficient hedging mechanisms.
- Our growth is controlled and **will not fuel incremental capital allocation to the Investment Bank.**

- Now, on slide 13, let's look at our loan portfolio.

Slide 13 – Continued disciplined approach to lending

- We strive to maintain a high quality, well-diversified loan portfolio across geographies and various industry sectors. At the end of September 2020, the investment bank loans portfolio stood at 73 billion euros. **This is effectively flat versus the same point last year.**
- Secondly, the portfolio is extremely well diversified across multiple sectors, including Asset backed securities, Leverage Finance, Commercial Real Estate and other sectors, such as direct lending and Transportation, infrastructure and energy.

- Third. The portfolio is extremely well structured and within our Credit businesses the average loan duration is only two to three years.
- Fourth, and as Stuart touched upon, within Commercial Real Estate we are primarily focused on concentration risk and Loan to value. For example, in US Commercial real estate only 28% of the exposure is to New York assets. Our Loan to Values remain at levels we are comfortable with.
- Lastly, Leverage Finance. **We syndicated 99% of our capital commitments in the first 3 quarters of this year.** We focus on high-quality distribution and hedging unfunded commitments.
- We have benefited from active risk management hedges in the first and second quarters of this year, resulting in no net losses to the portfolio
- **In summary, we do not have any concerns with the quality and structure of our loan book.**

- Let's talk about how we turn this transformation into improved profitability on slide 14

<u>**Slide 14 – Our path to sustainable profitability**</u>

- The detail we have walked you through today demonstrates why we are confident the investment bank is on a firm path to improving profitability.
- Our 2022 target is based upon three key factors that you can see here:
- Conservative revenue assumptions.
- An expected improvement in credit loss provisions as we see the markets normalise.
- And the continued cost reductions that we are driving, building upon the progress and discipline we have already achieved.
- Our target is that the return on tangible equity of the Investment Bank will be around 10% in 2022.

- I’ll now conclude with slide 15

Slide 15 – Conclusion

- We remain fully committed to our four key objectives.w
- We are confident that our **revenue performance is sustainable.**
- We are **seeing increasing client engagement** as a result of our targeted focus and our clients’ comfort in working with Deutsche Bank.
- We have **delivered material cost reductions and have the roadmap in place** to meet our 2022 targets.
- The growth we have delivered and will continue to deliver will **not result in a significant increase in resource utilisation.**
- To reiterate we are committed to deliver a Return on Tangible Equity of around 10% in 2022.
- On behalf of Ram and me, 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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