Deutsche Bank AG

Deutsche Bank Q2 2022 Fixed Income Conference Call

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Prepared remarks by Group Treasurer

Speakers:
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DIXIT JOSHI

Slide 1 – Solid results despite challenging environment

- Thank you, Philip, and welcome from me
- It is a pleasure to be discussing our second quarter and first half 2022 results with you today
- Since the end of the first quarter, conditions for the global economy and the macro environment have become more challenging
- The pressures will impact our 2022 cost/income ratio target
- We are continuing to work towards our return on tangible equity targets for both the Group and the Core Bank, even though the path ahead of us is more challenging
- Nonetheless, despite an unprecedented operating environment, we are transforming our bank and once again have proven our resilience
- We delivered Group revenues of 14 billion euros for the first half of 2022, an increase of 4% year on year
- We generated an 8% return on tangible equity, up from 6.5% in the first six months of 2021
- We also improved our profitability and efficiency. First half post-tax profit of 2.4 billion euros was up 31% year on year, driven by positive operating leverage
- Our cost/income ratio was 73% for the first 6 months, 5 percentage points lower than the comparable period last year
- Finally, we continue to adhere to prudent risk management principles and processes. Provision for credit losses was 22 basis points of average loans in the first six months, including a management overlay, reflecting elevated market uncertainty
- Our capital position remained stable. We finished the second quarter up compared to the first quarter, with a Common Equity Tier 1 capital ratio of 13%

Slide 2 – Resilient loan book with strong risk management

- Moving to slide 2, in 2020, as the pandemic caught the market by surprise, we went through our balance sheet to explain why we felt we were well positioned to navigate through that environment
- And while the current crisis presents different challenges and many unknowns, what has not changed is our loan book, which is low risk and well diversified; nor have we changed our approach to risk management
- On the items we can control, we have always managed our balance sheet conservatively and intend to continue to do so through this period of volatility
- And as the outlook evolves, we monitor the development of macro-economic forecasts and will update our allowances based on what we see in the environment and in our portfolios

Slide 3 – All core businesses demonstrate clear momentum

- Moving to slide 3, you can see that the momentum across our businesses, especially in the past six months, supports the delivery of our 2022 plans at the divisional level
- In the Corporate Bank, business growth continued despite the more challenging market, as we diligently executed on our strategy
- We saw this reflected in loan growth which, alongside interest rate tailwinds, contributed to an increase in interest income. This led to a 10% return on tangible equity
- In the Investment Bank, our leading FIC franchise saw strong client activity with growth across both institutional and corporate clients, which marked the highest first half FIC revenues in ten years
- Despite the unfavorable environment for Origination & Advisory activities, M&A revenues were 65% higher year on year
- All-in, the Investment Bank delivered a return on tangible equity of 14%
- The Private Bank had strong half-year results with a return on tangible equity above 9%
- Asset Management delivered revenue growth of 6% year on year, driven by higher management fees, despite the volatile market environment

- At the same time, the business continued to invest in growth initiatives and platform transformation and delivered a 22% return on tangible equity
- Looking back at the progress of the Core Bank since the start of the transformation, we have improved profitability significantly. First half profit before tax of 3.7 billion euros more than doubled compared to the same period in 2020

Slide 4 – Significant improvement in pre-provision profit

- Moving to slide 4, we are encouraged by the performance in our Core Bank, which delivered a 10% return on tangible equity in the first half, up from 9.3% in 2021
- On a pre-provision basis, we made significant progress on our profitability, as we diligently executed on our plans to make our divisions more focused, profitable and efficient
- While we benefited from market volatility, this also created some offsetting effects, visible through our Corporate & Other line
- We are especially pleased to see the improvements in our stable businesses, with Corporate Bank, Private Bank and Asset Management increasing their pre-provision profit contribution to 60%, while our Investment Bank continues to perform, driven by our FIC franchise
- We expect many of these trends to remain in place and to be beneficiaries of interest rate hikes in the coming years
- Overall, with a Core Bank pre-provision profit of 4.3 billion euros in the first half, the improved operating margins create a stronger protection from a tougher macro-economic outlook

Slide 5 – Ongoing progress, despite pressures

- Moving to slide 5 to take you through our journey to deliver improved operating margins
- In 2019 we introduced a new strategy, which included focused investments in our core businesses, particularly into technology and controls

- This plan and these investments helped us to significantly increase our return on tangible equity, from being in negative territory just two years ago, to 8%
- However, the macro-economic environment changed materially, resulting in headwinds which impacted some of our planned cost reductions, most notably from inflation, higher compensation and foreign exchange, which are likely to stay with us for the balance of the year
- And while the recent market volatility has been favorable for some of our businesses, we also saw offsets via the larger-than-expected drag from valuation and timing differences in C&O
- Reflecting these items and using a conservative approach, achieving our cost/income ratio target for this year is no longer realistic without sacrificing long-term potential. Therefore, we have amended our cost/income ratio guidance for this year to the mid to low 70s
- However, we are executing on our plans and considering the uncertain environment, we will work on additional measures to ease the pressures we are facing

Slide 6 – Resilient loan & deposit development

- Let us now look at topics that drive our revenue performance over the next slides
- Slide 6 provides further details on the development in our loan and deposit books over the quarter
- Loan growth across the bank has been 12 billion euros or 5 billion euros on an FX adjusted basis
- In line with prior quarters, we saw continued strong momentum from mortgages and collateralized lending in our Private Bank, high client demand in Corporate Bank as well as loan originations across our FIC Financing and Trading businesses
- Loans in our leveraged debt business have remained flat quarter on quarter
- Deposits grew by 1 billion euros compared to the previous quarter when adjusting for FX, and given the macro-economic environment, we expect this lower growth rate to continue

- Deposit margins have started rising in line with the improved interest rate environment

Slide 7 – Net interest margin has begun to increase

- Let me now provide some detail on the evolution of our net interest margin on slide 7
- As we flagged to you last quarter, our NIM has started to rise, in large part due to the more favorable interest rate environment
- The NIM increase was driven predominantly by short-term US dollar interest rate rises in the first half of 2022, but it was also supported by higher longer-term Euro rates that benefited the deposit books as we roll over hedge portfolios
- The NIM increase was also driven by approximately 6 basis points in positive one-off effects, as it still includes a 2-basis-point effect from the minus 1% TLTRO bonus rate
- Average interest earning assets were up modestly reflecting US dollar strengthening and underlying loan growth, offset by lower average cash balances
- Looking to 2025, we now expect the revenue benefit from interest rate curves relative to 2021 to be significantly higher than the 2 billion euros we previously guided for
- Even accounting for increased issuance costs implied by current credit spreads, the environment is more favorable than the outlook we shared with you at the March Investor Deep Dive
- Normalizing for the one-off effects just mentioned, we expect NIM will continue to rise due to the favorable interest rate environment

Slide 8 – NII sensitivity shows additional revenue upside

- Let me now give you some additional details on net interest income sensitivity on slide 8
- Further increases in rates above current market-implied levels will continue to add to the interest-rate-driven tailwind

- Over time, the largest impact is from long-end rates as we roll over our hedge portfolios to higher levels, particularly in Euro. However, in the shorter term rises in non-Euro rates will also provide a tailwind
- The interest rate tailwind we had guided at roughly 400 million euros for 2022 at the Investor Deep Dive now stands at over 700 million euros, albeit with partial offset due to higher issuance costs

Slide 9 – Strong liquidity position in-line with targets

- Moving to slide 9, highlighting the development of our key liquidity metrics
- Despite the increased market volatility, our liquidity and funding metrics remain robust and aligned with target levels
- The stock of our high-quality liquid assets decreased by about 6 billion euros during the second quarter
- This is mainly due to continued loan growth
- The deployment of liquidity was partially offset by further deposit inflows particularly driven by growth in the Private Bank Germany
- As a result, the liquidity coverage ratio slightly decreased by two percentage points to 133%
- The surplus above minimum requirements decreased by about 4 billion euros quarter on quarter to 51 billion euros
- In line with previous quarters, our average daily LCR over the past three months was at about 131% and underlines our proactive steering of the balance sheet towards target levels
- While we remain committed to support the businesses, we continue to manage the LCR conservatively towards 130% for the remainder of 2022
- The net stable funding ratio decreased to 116% which is within our target range and with a surplus of 83 billion euros comfortably above the 100% requirement
- The decline is mainly driven by loan growth as well as the roll-down of TLTRO 3

- Given current economics we expect to repay our TLTRO funding at contractual maturity dates but continue to manage the maturity profile in order to avoid cliff effects
- The longer-term funding sources for the bank remain well-diversified and continue to benefit from a strong customer deposit base, which contributes about two thirds to the Group’s available stable funding sources
- For the remainder of the year, we aim to maintain this funding mix, which will be supplemented by debt securities issued in line with our issuance plan

Slide 10 – CET1 ratio increase driven by earnings

- Turning to capital on slide 10
- Our Common Equity Tier 1 ratio ended 14 basis points higher compared to the previous quarter at 13%, in line with our previous full-year 2022 guidance
- This ratio increase principally reflects higher CET1 capital from strong organic capital generation during the quarter net of deductions for dividend and Additional Tier 1 coupon payments, and losses in Other Comprehensive Income
- CET1 capital now includes a capital deduction for common share dividends of 450 million euros for 2022
- A 3-basis-points drag on our CET1 ratio came from FX translation effects, reflecting the significant Euro weakening over the quarter
- Risk weighted assets, net of FX, were marginally down compared to last quarter
- Market risk RWA increased, principally from an increase in the quantitative VaR / sVaR multiplier
- This increase was more than offset by a reduction in credit and operational risk RWA

Slide 11 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements as shown on slide 11
- In line with the CET1 ratio development in the quarter, the distance to the CET1 ratio capital requirement has increased by 14 basis points and now stands at 253 basis points or 9 billion euros of regulatory capital
- Our available AT1 and Tier 2 capital is at or slightly above the respective regulatory requirements, which brings our Total Capital ratio distance to MDA to 261 basis points
- This provides us with a comfortable starting point as we manage through the coming quarters

Slide 12 – Leverage ratio unchanged on a like-for-like basis

- Moving to slide 12
- Our leverage ratio, including ECB cash, was 4.3%, a like-for-like increase of 5 basis points over the quarter
- Higher Tier 1 capital from strong quarterly earnings and the recognition of our 750 million euros AT1 issuance, which settled in early April, added 10 basis points to our ratio
- This was partially offset by a negative 3-basis-point impact from FX translation effects, reflecting the significant Euro weakening in the quarter and a 2-basis-point reduction from higher leverage exposure, including Core Bank growth
- With our reported leverage ratio of 4.3% at the end of the quarter we have a buffer of 131 basis points over our leverage ratio requirement of 3%

Slide 13 – Significant buffer over MREL/TLAC capacity requirements

- We continue to operate with a significant loss-absorbing capacity, well above our requirements, as shown on slide 13
- The MREL surplus, as our most binding constraint, has remained stable at 15 billion euros over the quarter. Increases in available MREL from new

issuances were offset by the expected and previously advised increase in MREL requirements, which we received in May

- Our loss-absorbing capacity buffer remains at a comfortable level and continues to provide us with the flexibility to pause issuing senior non-preferred or senior preferred instruments for approximately one year

Slide 14 – Substantial portion of issuance plan already achieved in H1

- Moving now to our issuance plan on slide 14
- The quarter was characterized by challenging market conditions in general with high levels of interest rate and credit spread volatility
- In this context, we are pleased to have completed roughly three quarters of our issuance plan year to date
- In the second quarter, we issued a total of 4 billion euros, spread across preferred, non-preferred and covered issuances
- During July, we issued a further 1.3 billion dollars senior non-preferred, taking our year-to-date total to just over 14 billion euros
- For the full year, our issuance plan remains between 15 and 20 billion euros, although we are likely to end the year closer to the upper end
- Having completed a significant portion of our issuance plan for the year provides us flexibility in timing of new issuances and also helps to manage our overall cost of funding
- You may have seen that we announced an up to 1-billion-dollar tender offer for four dollar-denominated senior non-preferred securities yesterday
- We do not expect the need to replace the repurchased securities in senior non-preferred format, but may consider senior preferred issuances depending upon liquidity needs
- The public tender offer is designed to proactively manage our debt maturity profile and to provide liquidity to bond investors
- We have received several questions regarding our approach to calling capital securities in general and in particular regarding a Tier 2 deal that was issued prior to June 27, 2019

- The requirement for Tier 2 instruments to include "bail-in language" was introduced with a change to Article 63 of the CRR in June 2019
- The instrument under discussion was issued in 2013 and already included bail-in language meeting the CRR requirements
- The instrument will thus continue to be eligible as Tier 2 regulatory capital beyond June 28, 2025 and until its legal maturity
- Further requirements for "bail-in language" as provided for in Article 55 BRRD are not applicable given the instrument was issued before the date of transposition of BRRD into German law on January 1, 2015
- This has been confirmed by recent guidance from the SRB

Slide 15 – Outlook

- Turning to the outlook on slide 15
- The strong performance in the Core Bank is testament to the quality of our businesses and the strength of the franchise, despite the challenges ahead
- Therefore, we can confirm our revenue guidance of 26 to 27 billion euros for 2022
- However, the current environment and uncertainty are unprecedented, and we see pressures, including on expenses and credit costs
- We remain committed to our cost measures and we will continue to execute on our 2022 plan
- Consistent with our previous guidance, our provision for credit losses remains at around 25 basis points of average loans, including the currently expected impact of the war in Ukraine, slowing growth in our core markets and other dislocations
- We remain confident in our full year CET1 ratio target of greater than 12.5%
- On the issuance side, we are happy having issued a substantial amount of our plan already in the first half of the year, which protects us to some degree against higher funding costs
- In addition, we had some positive news from the rating agencies side in the quarter with Scope upgrading our ratings while DBRS Morningstar

raised the outlook to 'positive' – an encouraging signal especially in the current environment

– We will remain in close dialogue with our rating agencies as we feel we still have potential catch-up on a relative basis
– With that we look forward to your questions