Deutsche Bank AG

Investor Deep Dive

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Transcript

Speaker:

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CHRISTIANA RILEY

- Good to be with you virtually today, I'm Christiana Riley, CEO of Deutsche Bank in the Americas.
- Deutsche Bank in the Americas has been on a long journey.
- It is an evolution that I watched at a distance from Frankfurt for most of my career.
- In my tenure as CFO of our global Investment Bank up until 2019, I had close personal involvement in its transformation. In that position I drove the changes to the model we undertook last year that have decisively impacted and greatly improved the economics of our business model in the Americas.
- And now, as regional CEO, I am leading the ongoing transformation each day.

Slide 1 - Summary

- As a consequence of the decisions we have taken, Deutsche Bank in the Americas is necessarily different.
- We are not the bank that we were.
- Since the global crisis, there have been many questions around Deutsche Bank in the Americas:
- **"What is the Americas business and its competitive platform, how accretive is it to the group's results, and what level of risk is being taken for that return?"**
- I will answer these today.
- I will explain what our business in the Americas is, how it fits into the group, and unpack the de-risking of our platform which has led to higher returns.
- And I will share with you where we are heading.
- The size, power and attractiveness of the domestic market for financial services in the Americas is well understood.
- But it is also extremely attractive to our European and Asian clients.
- Our ability to provide access to the US market is an essential part of Deutsche Bank's global offering.
- As evidence thereof, 70 percent of our revenue from corporate clients in the region is derived from clients headquartered outside the US, and 30 percent from American companies.

- Of the 70 percent of corporate revenue coming from outside the US, two thirds comes from clients in our broader European "home" market, and one third from clients in Asia. Alex will share more on the attractiveness of our business in the US for our Asian clients shortly.

<u>Slide 2 – We are now smaller, simpler, and stronger</u>

- Turning to slide number two, since the global financial crisis, we have become smaller and simpler, and as a result, we are stronger, as this slide clearly shows.
- We have exited unprofitable businesses, reduced our client perimeter to be focused on client relationships rather than league tables, and no longer take outsized risk.
- This has resulted in exactly what we intended – increased stability and predictability of returns.
- Reflecting in the first instance on the **size and scale of our operations** – I draw your attention to the top row of the chart.
- The bank is a fundamentally changed institution relative to our position in 2007, 62 percent smaller in terms of our total assets.
- Since our strategic announcements in July 2019, the picture for the core bank has been largely stable – our strategy has been one of optimization, as you will see in subsequent slides.
- Moving down to the next row of the chart to reflect on our **returns in the region**:
- The material reductions in underproductive assets have driven a 41 basis point improvement since the crisis. A full quarter of that improvement – 11 basis points – resulted from improvements implemented since July 2019.
- Lastly, reflecting on the bottom two lines of the chart, and the improvements our refocused business model have enabled in terms of **workforce and cost efficiency**:
- We have made considerable progress, with adjusted costs and workforce down by more than one third since 2007 and by 13 percent since the second quarter of 2019.

- Consistent with the path of reductions that Mark and Ram outlined at the Investor Deep Dive last year, the majority of the reductions to date have come from the front office.
- Going forward, we are increasingly focused on infrastructure costs while maintaining our investments in technology and controls.

Slide 3 – DB Americas at a glance

- But our story is not about shrinking.
- On the contrary, our businesses in the region, now properly focused, have a clear growth trajectory.
- As slide 3 shows, the region's revenues for the first 9 months of 2020 are at 3.8 billion euros, or 21 percent of the group.
- Our costs are 19 percent of the group, and our use of the group's balance sheet is highly consistent, with 21 percent of risk weighted assets utilized by the region.
- The Investment Bank makes up about 60 percent of regional revenue, with the remaining 40 percent comprising the Corporate Bank, Private Bank and Asset Management.
- Our decision to focus the Investment Bank on its strengths has clearly been the right one, as demonstrated by four consecutive quarters of revenue growth since the end of 2019.
- Our regional **Origination & Advisory** footprint is now on a stronger foundation, as we target our approach to sectors where we have particular expertise.
- The strengthening of Origination & Advisory is evident in our outperformance of the global fee pool in each of the last three quarters, to which the Americas business was a key contributor.
- In **FIC Financing**, we have particular regional strengths in Commercial Real Estate, Asset-Backed and Leverage Finance. These businesses win domestically as well as add their expertise to the group and strengthens the firm as a global leader in these businesses.

- And as you heard from Stuart, the credit risk in our financing businesses are not outsized compared with the group, and the group isn't outsized relative to the street.
- Our **FIC Trading** business in the region is centered on our Foreign Exchange, Rates, Credit Trading, and Emerging Markets businesses.
- The evolution in the Investment Banking platform over the past 18 months has been remarkable.
- It has given us a strong platform in the Americas and, as you have heard earlier from Mark and Ram, we are seeing a resurgence of client engagement as a result.
- An example of the power of our franchise delivering for our global clients is T-Mobile's inaugural investment grade bond issuance to finance its merger with Sprint earlier this year.
- We coordinated all aspects of the transaction, attracting an order book peaking at over 75 billion dollars.
- The strength and quality of the order book allowed our client to upsize the transaction from 10 billion to 19 billion dollars.
- The transaction occurred in April of this year in the depth of the lockdown, during a period of market volatility and was the thirteenth largest bond offering on record.
- Deutsche Bank also acted as strategic M&A advisor to T-Mobile on the merger with Sprint as they embarked on building a nationwide 5G network in America.
- Despite the challenges of COVID-19, 2020 has been a year of stabilization for our franchise and of increasing business with our target clients, giving us a strong platform going into 2021 and 2022.

Slide 4 – Strategic changes driving higher US IB returns

- Turning now to the Investment Bank's returns in the region, which given the significance of that business and its regional capital consumption, is the key driver of improved performance.
- When I was operating as CFO of the global Investment Bank in 2018, it was abundantly clear that the US Investment Bank could not provide an adequate

return to shareholders with the resource drag that our equities franchise put upon the firm.

- Looking at the left of this slide, you can see from the gray bar the capital consumed by equities was significant.
- The Investment Bank's regional return on tangible equity was only two percent, due to the significant drag of the underperforming leverage-intensive Equities platform.
- Our new strategy has released substantial capital and has, contributed to the increased returns in the Investment Bank, which are around nine percent for this year.
- 2020 was a particularly good year. The conditions were historically unprecedented with Debt Capital Market volumes being fueled by rate cuts has, albeit offset somewhat by returns on our lending book. We also saw record Sales & Trading volumes.
- The Investment Bank in the Americas is exceeding the Group return on tangible equity target two years ahead of schedule.
- Looking ahead to what are probably more times, we nonetheless expect the 2022 return to increase to approximately 11 percent, with the improvement coming from lower infrastructure costs and increased client activity.

<u>Slide 5 – The work continues</u>

- So where do we as a region go from here?
- We fully expect the positive momentum of increased shareholder returns to continue. As you can see on slide five, three factors that are driving this.
- **First,** we see continued opportunities for recovery of market share to **drive revenues** in the region.
- Our model in the Americas stands to benefit from the multiple structural trends that Christian said before as growth drivers:
- We expect to see increased **global financing demand post-COVID**, as corporates reestablish themselves and renew their investment programs.

- The increasing demand for **financing driven by digital and green transformations** will also be a growth-driver for us.
- And also, the rise in demand for **sustainable finance** presents many opportunities as we play our role in both aiding, and accelerating, this transformation. Leveraging our EU experience, I expect this to be particularly strong in the US given how the next US administration is expected to focus upon this.
- We also expect revenue growth from our controlled **expansion in credit** to new clients in focused sectors, in particular Health Care, Industrials, Consumer and TMT.
- In the FIC **Sales & Trading**, we expect additional revenue as we build upon the market share gains that have occurred this year.
- With the growing confidence in the market that Sales & Trading has stabilized, and with improvements in our credit outlook, we are seeing the normalization of our wallet share with core client relationships.
- All of these factors explain why we see the Investment Bank's revenue continuing to strengthen across the region.
- **Secondly, reduced costs and improved controls** are also driving our improved return outlook.
- We continue to invest in greater automation and strengthened controls, which in turn drive more efficient and effective infrastructure.
- My team is working on securing an additional half a billion of savings through automation which will significantly improve the region's utilization of resources.
- **Lastly**, and never to be underestimated, **improving our culture** in the Americas is vitally important, and is a key element of our improved returns.
- We have seen a meaningful increase in confidence and pride internally in the region – contributing to lower attrition and a greatly improved ability to attract new talent to the platform.
- I'm focused on our people in the Americas as we drive forward a more dynamic culture.
- And we are making excellent progress on what it means to be a successful, diverse employer in this market.

- Progress against these three drivers supports a regional return on tangible equity of over 10 percent by 2022.

Conclude

- To conclude:
- The Americas region is essential to our global client base, and our business here is once again strengthening.
- We are taking increasing advantage that we are here, at the cross-roads of global finance and in the world's largest economy.
- We are firmly grounded in our identity as a European bank in the Americas, opening up the depth of the American marketplace to European clients, and in return providing our US-based clients access to the global marketplace.
- Deutsche Bank in the Americas is transformed. We are smaller, simpler and stronger. We take less risk and are more profitable.
- Our revenue outlook is increasing, and our costs declining.
- Our culture has improved and continues to strengthen.
- And pride is rapidly returning to the firm with all the benefits that brings to retention, recruitment and performance.
- Our contribution to the group's return on tangible equity has improved materially, is increasing each year, and based on the strength of our core businesses is contributing well to the Group's 2022 target.
- All strong progress, and the journey continues.
- 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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