Deutsche Bank AG
Sustainability Deep Dive
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– Transcript –

Gerald Podobnik – Managing ESG Performance

- Welcome back, and I hope you enjoyed the first half of the event.
- I'm Gerald Podobnik, CFO of the Corporate Bank and Co-Chair of Deutsche Bank's Sustainability Council. I also serve on the Sustainable Finance Committee of the German government
- I'd like to start with the challenges and opportunities as I see them from a Finance perspective, based on my experience of implementing sustainability performance management for our bank during the past year
- The challenges are quite significant – we're still in relatively new territory and under substantial time pressure
- But, as Christian said earlier, the opportunity for the banking sector is historic
- Turning to the challenges: three stand out:
    - **First:** we lack commonly accepted definitions of what ESG activity actually is – there's no single global taxonomy, although the EU taxonomy project represents an important step in the right direction;
    - **Second**: we see multiple overlapping frameworks to define disclosure rules;
    - **Third,** and most important: there's no clear linkage between <u>targets</u> and <u>impact</u>
- That is exactly where we see the opportunity: we aim to turn **ambition** into **impact**
- How are we going to put that into practice?

- Our approach is driven by three key levers
- It starts with **target-setting** – our targets are:
    - <u>Embedded</u> into the bank's mainstream strategic planning process;
    - <u>They're granular</u>: broken down into three divisions, ten sub-businesses and five regions – in other words: it's clear who's accountable!
    - <u>They're near-term</u> – there's no kicking the can down the road …
    - And: they're <u>transparent</u> as well as <u>measurable</u>

- Then we give our targets teeth, by linking them to **incentives**
  - We include ESG Key Performance Indicators or KPIs on the balanced scorecards we use for senior management compensation
- And finally: **reporting** is key for credibility
  - Every transaction claimed to be within scope is independently reviewed by Group Sustainability and Finance and screened against our taxonomy –Viktoriya Brand will say more on this shortly
- We believe all three pillars are essential to turn our targets into actions. In other words, we're determined to avoid not just *'greenwashing'* but also '*greenwishing'* – that is, declaring grandiose ambitions with no clearly-defined path to achieving them

- A year ago, we announced our target for 200 billion euros of sustainable financing and investments, cumulatively, between January 1, 2020 and the year-end of 2025
- Given the progress we're making, we're now bringing that goal forward by two years to the end of 2023
- For us, setting targets was not just about <u>quantum</u>, but above all about <u>quality</u>
- We were very specific about timing in order to maintain momentum
- And we were quite clear what is in scope and what isn't. We exclude significant ESG investments already in DWS which, as a listed subsidiary, has its own set of targets
- We put three areas in scope:
  - Financing, such as loans, and other instruments
  - Capital markets issuance – for example, our bookrunner share of green or social bonds
  - And the period-end stock value of investments in ESG assets in the Private Bank, in the form of ESG funds and the like
- Most international banks have also articulated their ambitions for sustainable activities by now
- While some banks have targets spread out over a decade or more, <u>our</u> accelerated targets are over the most concentrated time horizon
- And we are deliberately staying out of the race for the highest volume targets
  - By contrast: <u>our</u> targets are near-term, transparent and measurable
- Now, a few words on our second key lever: **incentives**

- Deutsche Bank uses a holistic balanced scorecard to measure and manage performance
- This was initially created to set incentives for Management Board members, but has now been rolled out beyond the Group Management Committee

- We don’t start from zero on ESG:
    - Almost all senior leaders already have targets on gender diversity or feedback culture
    - And around half of them have targets for improving governance or regulatory remediation
- For sustainability, we have added three key performance indicators since the beginning of this year: sustainable business volumes, ESG ratings, and targets for our own operations
- Both the <u>original</u> and <u>additional</u> KPIs drive compensation decisions
- The link between sustainability targets and compensation is strongest for Management Board members, as it directly affects both short-term and long-term incentives
- I’ll now come to our third lever: **reporting**

- As already set out by the businesses, by the end of the first quarter we achieved absolute volumes of 71 billion euros.
- These are comprised of 31 billion euros of capital markets issuance in the Investment Bank, 24 billion euros of financing across all businesses in scope of our targets, and 16 billion euros of assets under management in our Private Bank
- We also slice our transactions <u>by category:</u>
    - As you would expect, *environmental* was in the lead and still accounts for around 45%
    - *Social,* at 17%, is growing fast, having gained increased relevance during the pandemic
    - And in addition to ‘use-of-proceeds’ based categories, we also see substantial growth in *sustainability-linked* products, at 26%. Here, the financing cost depends on the borrowers’ performance against certain ESG metrics
- <u>Finally, from the client perspective:</u>
    - Corporates and financial institutions are together around 50%
    - Sovereigns, supranationals and agencies or ‘SSAs’ are 21%
    - Private individuals are 29%
    - So you can see that ESG is now part of every sector of the economy and society

- We also aim to measure the <u>impact</u> of our activity
- As a first step, we classify our business according to the UN’s Sustainable Development Goals or SDGs
- Attribution to SDGs is not simple – it’s art as well as science!

- Some categories overlap with each other, and a single transaction can contribute to more than one SDG
- Unsurprisingly, environmental impact is most prominent, but with the UN SDGs we can give you additional insights into the areas our business are contributing to
- Now let me conclude with a few words on **our path to enhanced reporting**

- We see three clear steps:
  - **The first** has been to set absolute volume targets and to build performance management infrastructure around them
    - As you see, our priority has been to make this as rigorous and transparent as possible
  - **The second** is to split the enhanced granularity along the different dimensions we have just discussed
  - **The third** will be to measure and report the impact that our sustainable financing and investment activities have on the world around us
    - For example, by reducing greenhouse gas emissions linked to our financing portfolio or managing the composition of our balance sheet using the Green Asset Ratio
    - To do that, we need to understand the carbon footprint of our clients today
    - This depends on reliable and consistent data – my colleague Chris Jaques will discuss this shortly
    - But impact reporting will go beyond carbon emissions
    - Over time, the market will develop models that measure the impact of businesses on water consumption, land usage, biodiversity and social aspects

- To sum up:
  - We have firmly embedded sustainability reporting into the way we manage our company
  - We are determined to measure not just the **volume**, but also the **impact**, of our activity, and to enable Deutsche Bank to complete the path from **ambition** to **impact**.

- With that, let me hand over to Viktoriya Brand.

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