Deutsche Bank AG

# Sellside Briefing

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Transcript

James Rivett

Welcome to our first pre-close sell-side briefing. I will begin with about a ten minute introduction where I will run through a summary of all the information and guidance that we provided at the various virtual events this quarter. And then myself and the rest of the IR team are happy to go through any of the questions that you have got.

We will make a transcript of this event available that we will publish on our website and you are obviously free to use anything we say here in your commentaries, research reports or as you update your financial forecasts.

And, just as a reminder, we will release our equity earnings materials on Wednesday 29th July around 7:00 am CET for all you early birds with a fixed income investor call on Friday the 31st.

Let me begin with just the very big picture. The primary objectives of the strategy that we laid out exactly 12 months ago are completely unchanged and that was to work on improving the long-term sustainable profitability of the bank while managing our balance sheet conservatively.

And, despite the short-term headwinds and some opportunities that COVID-19 presents, we have during the quarter reiterated our 2022 targets mainly that we continue to work towards the 8% return on tangible equity. We are focused on reducing adjusted costs to the EUR 17 billion target. We will maintain and CET1 ratio of at least 12.5% despite the regulatory changes with the leverage ratio increasing to around 5% over that time.

As part of the longer-term objectives you are aware that we have continued to set a series of short-term targets and, for 2020, those are focused on costs and capital. First, on costs, what we have said is that we remain on track to reach the EUR 19.5 billion of adjusted costs this year excluding the costs related to the Prime Finance business being transferred to BNP Paribas. Those Prime Finance costs, they have been running at about EUR 100 million per quarter, so 400 million for the full year.

The EUR 19.5 billion adjusted cost target for 2020 excludes some of the transformation-related expenses that we spoke about, principally related to charges for real estate, as well as software impairments. As we said in December and have reiterated, these transformation charges, they are also expected to be around EUR 400 million this year. We took about EUR 84 million of those in the first quarter and the balance, just over 300 million, you should expect to be spread pretty evenly throughout the year.

Another aspect of costs, obviously not part of the adjusted cost definition but within non-interest expenses, we continue to expect to take approximately EUR 500 million of restructuring and severance charges in 2020. Here, we took about EUR 88 million in the first quarter and the balance, again, a little over 400 million will be taken in the rest of the year and will principally impact the Private Bank, as I will discuss in a little bit.

Secondly, on the CET1 ratio which was around 12.8% at the end of the first quarter - we said around the Q1 results that we may allow the CET1 ratio to dip modestly and temporarily below the 12.5% as we take the decision to support client growth and manage through this period.

James von Moltke, our CFO, laid out the current path that we see pretty clearly about two weeks ago. Obviously, the timing and the magnitude of many aspects are really uncertain, so the impact in any one quarter is a little bit more difficult than even usual to predict.

But, with that in mind, for the second quarter we said that the COVID-19-related impacts are expected to be a headwind of between 20 and 30 basis points on the CET1 ratio against that 12.8% level I just mentioned in the first quarter. These headwinds principally relate to the elevated provisions for credit losses, the impact of the ratings downgrades on credit risk RWA, as well as the impact of high value at risk or VAR on the market risk RWA.

For the full year, we expect the CET1 ratio to be in range of around 12.3% percent at year-end and that is basically because the headwinds that we see remaining from COVID-19 are partly offset by the benefits of some of the regulatory changes.

For all funding and capital people out there, since the end of the first quarter we have issued two Tier 2 notes. In May, we issued a EUR 1.25 billion Tier 2 bond and we priced a USD 500 million tranche yesterday.

These issuances are designed to take advantage of the recent regulatory changes which allow us to partly fill our regulatory capital requirements with AT1 and Tier 2, rather than common equity. In total these two issuances increased the buffer to our total capital regulatory requirements or MDA by around 50 basis points, so taking that number to around 200 basis points, based on the March pro forma numbers.

On the funding side, we issued our first every green bond. That was part of our sustainable finance path, which included the sustainable finance targets for 2025 we laid out at the AGM. And then on funding, we announced our participation in the June round of TLTRO-III. That was around EUR 30 billion and included repayments of EUR 15 billion of other central bank facilities, principally TLTRO-II. Our total TLTRO capacity is around EUR 40 billion, so we still have room to increase our participation in future rounds if we see the need.

Next topic, provisions for credit losses or CLPs. We said at the Q1 results, in the initial stages of the COVID-19 lockdown that CLPs this year should be in the range of 35-45 basis points of loans. We then this quarter filled in a bit more of the detail saying we expect CLPs to peak in the second quarter at around EUR 800 million before returning to more normalised levels in the second half of the year.

We have reaffirmed the full year guidance at several events in the quarter, even as consensus has updated its macroeconomic forecasts. To probably pre-empt one of your questions, we gave our last update on CLP guidance for both Q2 and the full year after the Wirecard announcements and left them unchanged.

Consistent with the comments that Stuart Lewis, our Chief Risk Officer, made at the risk deep dive, we typically hedge our exposures, particularly in the lower weighted segments and, as a result, our net exposure to Wirecard is small. We won't really go into a lot more detail but I think that's sufficient to give you some comfort as to where we are.

Our guidance for provision for credit losses is lower than many of our peers. We think, in part, this reflects the relative strength and the response to COVID-19 by the German government. It also reflects the low level of unsecured lending that we have within our portfolios. We do continue to believe that to have Germany as a home market is a good place to be, a good defensive place to be relative to most other major economies at this time. And, just as a reminder we get a little over 40% of our revenues and assets in Germany.

Before we go to your questions, just some of the trends that we have highlighted in our core business for the quarter. Starting first with the Investment Bank. Christian and James both said, starting in the fourth quarter and reiterated several times since then, that the momentum we can see in our core client franchises is building and we really do think that the refocused strategy is beginning to pay off.

In addition, consistent with what you have heard from many of our peers, IB performance for the industry will have been supported by significantly higher market volatility compared to the second quarter of last year as well as, to a certain extent, the tightening of credit spreads compared to the end of the first quarter. It's just also worth bearing in mind for your models that in the second quarter of 2019 the IB revenues benefitted from specific items of about EUR 83 million. That was the combination of DVA as well as an investment that we have in Tradeweb.

In the Private Bank it's a tougher quarter. As we laid out in our strategy at the investor deep dive in December, the key strategy of the Private Bank is to offset the ongoing headwinds of negative interest rates with higher volumes and fee income. That strategy remains absolutely unchanged. But, while we kept many of the branches open in Germany, as you would expect, COVID-19 did have a negative impact on volumes compared to the first quarter and the prior year. Nothing surprising in that statement.

Also, remember that around 20% of Private Bank revenues are from the international businesses, principally in Italy and that is Northern Italy and Spain which were heavily impacted by the lockdown. And, just as a reminder, Private Bank specific items in the second quarter of 2019 were about EUR 23 million.

Despite the challenges and all of the issues that COVID-19 produced, the Private Bank does continue to execute on its strategic objectives and against the cost targets that we laid out a year ago and in December, primarily in Germany.

We made some more progress this quarter. We closed the legal entity merger of the retail subsidiary, PFK, into Deutsche Bank AG in May. We recently announced, at the end of the quarter, that we will integrate the international retail and wealth management businesses under one management team, and we also further reviewed the business structure and portfolios including a decision to realign our digital ventures portfolio in Germany.

Unsurprisingly, these transformation impacts will have negative one-off revenue impacts, higher restructuring expenses in the quarter and the rest of the year, although all consistent with the guidance that we kind of laid out or I sort of laid out earlier and we've mentioned several times.

A little bit longer than ten minutes, apologies, but very happy now to take your questions.

Jackie Inecke (Morgan Stanley)

You mentioned the Tier 2 and obviously looking at the P2R split, I think it's possible you could issue another 1.7 billion of Tier 2 and you're still below the, let's say, efficient level. So, have you got more plans to come with Tier 2 this year?

James Rivett

Look, generally I think we have been pretty opportunistic and dependent on markets. We agree with you, directionally speaking, around the amount of headroom that we have, so we will continue to look at it. There are no plans at this stage but we will remain opportunistic. Issuing bonds at 500 basis points over is not our favourite thing to do but we will continue to do it as market demand is there.

Jackie Inecke

Just on the ratings agencies, last time I was in Frankfurt, which was obviously pre-COVID, Moody's sounded like they were going to give you all the time in the world, they were kind of content with the progress that they were seeing but obviously the world has changed and we're seeing negative outlooks pretty much everywhere and you already have a negative outlook at Moody's and S&P. What can you tell us about your conversations with the agencies now?

James Rivett

it's a good question because it's obviously an area that we are super fixated on, given where the ratings are. I would say we are in exceptionally regular dialogue, particularly at the outbreak of the COVID pandemic. The agencies' issue is not around our balance sheet or risk levels or liquidity or capital, it's been around the same things that we are focused on, which is our ability to generate organic capital.

And here, therefore, what they have really been focused on is does COVID-19 impact our ability to execute on the transformation. And I think generally we are continuing to execute. We feel like we are on track with the short-term and the long-term targets and I think, as a result of that, the agencies feel pretty happy about the position that we are in. Obviously, they're continuing to monitor it.

That's probably one of the reasons why you saw the decisions that Fitch took, so taking us off rating watch negative and moving it to outlook negative,  was because of what they can see in terms of the execution.

So, I would say generally we are really focused on it. I think that we went into this year hoping that the progress that we would make could potentially lead to at least the removal of some of the negative outlooks and hopefully, then, start to move the ratings higher to where we think they should be. That has probably been delayed a little bit but nothing has changed in the focus and I would say that we have had a really good dialogue with them and we will continue that.

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| Anke Reingen (RBC) | If I can please follow on. It's Anke, from RBC. Thank you for all the detail but I just wondered on the capital ratio, this is about completeness for expectations for the second quarter, if you don't mind to repeat the things we should keep in mind and also to what extent the regulatory changes already impact your Tier 2 ratio. And then, just to confirm the AT1 costs, they're accrued on a quarterly basis rather than come out of the capital once a year. Thank you. |
| James Rivett | Good questions. What we have said around capital is on the slide that James presented at the risk deep dive two weeks ago now, and it was slide 24, from memory. There we laid out all the drivers that we see for the rest of the year. I would say that what you see start to impact in the second quarter is some of the ratings downgrades.<br><br>You will also see the impact of higher VaR, because that's a 60-day average and obviously VaR at period end of the first quarter was lower than it was through the average, so that starts to bleed into the ratio.<br><br>And then, obviously, we have got the COVID-19 impact of the credit loss provisions. I would say that those are the things that are the negative drags. In addition we take the AT1 coupon payments when they are paid, so that's another part of the headwind in the second quarter, not COVID-19 related but a headwind that we face.<br><br>Offsetting that you are not going to see a lot of regulatory benefits this quarter. Most of the regulatory changes are later in the year. The biggest positive one's being the treatment of software assets or software intangibles. That, right now, feels like a fourth quarter event, as well as some of the other things that come through more in Q3, but mostly Q4, for the regulatory benefits. |

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| Alastair Ryan (BofA) | James, it's Alastair, at BofA. Have you said what you're doing with all that TLTRO, please? |
| James Rivett | A couple of things. Obviously, liquidity is not a problem of ours. I think what you will see us continue to do, we will use it partly to fund client demand, also partly at the margin to take out some of the more expensive funding that we have. So, it will effectively be used for those two things, in the main, just within the confines of running the liquidity ratios where we sort of guided them to, Alastair. |
| Andrew Lim (Société Générale) | Hi. Thanks for doing this call, by the way. So, just on some broader thoughts. You haven't talked about dividends or buybacks and I just want to tie that in with the capital guidance that you've given. It's still looking pretty good on the CET1 ratio. Any thoughts on that going forward as to when we can ramp up on the dividends and maybe even buybacks? |
| James Rivett | The strategy is unchanged and the targets are unchanged for the long-term. There is a plan that starting from 2021 earnings, so starting in 2022, the dividend payments and then also thinking about means of returning other excess capital through either additional dividends or buybacks, and that very much remains the case today as it was then.<br><br>When you trade at the sort of multiples that we trade at, we think we have enough capital to be able to fund the growth that we have within the business and, as we free up capital out of the capital release units, that a large chunk of that can be returned to shareholders over time. So, that's really still the plan. No dividend plans before that but that's the plan from basically 2022, that's totally unchanged. |
| Andrew Lim | But, there isn't any target ratio you have in mind to exceed before you start contemplating that? |
| James Rivett | No. The commitment is the CET1 ratio of 12.5%, leverage ratio around 5.0% and we get there arithmetically as the capital release unit rolls off, plus we benefit from some of the regulatory changes. The exclusion of cash as well as pending settlements in aggregate add 25 basis points or so to the ratio.<br><br>We benefit from those things so we think that the natural equilibrium is 12.5% CET1 ratio, 5.0% leverage ratio and that we're pretty much there by 2022 and then, therefore, there's excess capital. Everything that gets generated is then, effectively, excess capital to get returned. |

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| Magdalena Stoklosa (Morgan Stanley) | James, hi, it's Magdalena. Just a couple of follow-ups from one perspective. In Q2, what have you actually seen in terms of corporate credit growth, both from the perspective of what you're doing through the guaranteed funds and what you're doing outside of that? It's my first question.<br><br>And, my second question, and I know you may decide not to attempt this, what is your discussion about the vulnerability test with the SSM and what do you think, what sort of clarity are you likely to see at the announcement at the end of July because it just seems that Enria is talking about being able to provide some clarity on prudence of provisioning capital at the end of July which is, of course, in the middle of the bank's reporting season? |
| James Rivett | Maybe, if I take those in order. Generally, and this is consistent with what you have heard from most other banks, I think what we've seen from a client drawdown perspective is, it was obviously very elevated through March and into April and as capital markets, debt markets, have effectively returned to normal, you've seen particularly bigger and better rated corporates paying back facilities and issuing in the capital markets.<br><br>So, I think that sort of drag has certainly slowed, which is why you hear us talk about the pressure on the CET1 ratio being mostly now around ratings migrations rather than drawdowns that you had in the first quarter.<br><br>On KfW I think the last number was the number that James gave at the risk deep dive where we talked about KfW loans only being in the mid-single-digit billions and I think that's probably as good an assumption as we can provide right now.<br><br>In terms of the ECB stress test, I'm going to repeat the answer that Stuart gave you two weeks ago, which is that we have run the latest stress test through our FLI model. It doesn't have a particularly big impact on the way that we think about our macroeconomic projections. So, I think we feel that that supports the base case and the guidance that we have set for this year.<br><br>In terms of how does that stress test get implemented? Quite frankly, I don't know. There's been lots of talk about is it July, is it later? I assume it's July but not seeming that there is any big impact on us at this stage, and that's consistent with what Stuart said 12 days ago. |

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| Stuart Graham (Autonomous) | James, it's Stuart. Could I ask a couple of questions? The first one is you mentioned you're going to move to transitional CET1, I think. Does that impact Q2 and I think that's about 14 basis points? That's the first question. And the second question is if I look at FIC consensus, it's 1,410 but it looks like there's some low numbers in there. Somebody is at 975. That would be just kind of flat year-on-year.<br>Is there anything in your business, specific to Deutsche, which has been going particularly poorly which would explain why you should be flat when US peers are talking about FIC numbers up 30, 50, 70%? |
| James Rivett | I will take the second one first. When I look at consensus, the higher numbers have come out later in the quarter, so I think there's an age bias within those numbers. Business mixes are obviously different. I don't think there's anything in what we've said that would suggest that we should be performing materially different, in a different direction than the rest of the street.<br><br>That's not to give you a number but, directionally, there's nothing different about our business model. I think if you look at some of the stats around market volumes and market volatility, I think you've seen rates FX do quite well and, as I said, you've obviously seen some credit spread tightening. So, that's a relatively long way of saying there's nothing in our business that should be very different than our peers.<br><br>The IFRS 9, still to be determined. We'd like to hope that we have it done by the end of Q2. I don't think it's likely to be that big of a number. We haven't given guidance but it's not likely to be that big but, yes, still waiting to see. |
| Stuart | That's great. Thanks. |

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