Deutsche Bank AG

Pre-close briefing call

September 30th, 2020 | 15:00 CET

Speaker:

James Rivett

James Rivett

- Thank you Hayley. Hello to all of you.
- This quarter we have opened our briefing call up to the buy-side too.
- I will be begin with a 10 minute introduction where I will run through a summary of all the information and guidance we have provided in the quarter at various events
- Myself and the rest of the IR team who are all on the call will then be happy to take your questions
- We will produce a transcript of this event that we will publish on our website
- Nothing that we say here will be material non-public information so you are free to use it in your commentary as you update your financial forecasts

- Let me start with the big picture. The primary objective of the strategy we laid out last year is to improve our long-term sustainable profitability while managing our balance sheet conservatively
- These objectives remain unchanged. **<u>During the quarter we reiterated our commitment to our 2022 targets, namely:</u>**
    - We continue to work towards an 8% ROTE
    - We still target adjusted costs of 17 billion euros
    - And we aim to do this while maintain a CET1 ratio of at least 12.5% and with the leverage ratio increasing to around 5%

- As part of the path to our longer-term objectives, we have set cost and capital targets for 2020
- Firstly on **<u>adjusted costs</u>**, which exclude restructuring and severance as well as litigation
- We remain on track to reach the 2020 target of 19.5 billion euros excluding costs related to the Prime Finance business being transferred to BNP Paribas and transformation related charges principally around real estate and software impairments
- Prime finance costs should be approximately 400 million euros this year or roughly 100 million per quarter
- We expect transformation related charges to also be around 400 million euros, of which we took 179 million euros in the first half. We expect the balance of the transformation charges to be taken broadly evenly across the remaining two quarters of the year
- Looking beyond the third quarter, I would just remind you of the comments that James von Moltke made at the Bank of America conference
- COVID-19 has led to lower workforce attrition than our prior assumptions
- This will not have an impact in the third quarter, but if lower attrition were to continue for an extended period we may need to moderately increase our restructuring and severance cost assumptions in future quarters

- On the **<u>CET1 ratio</u>**, we have highlighted that there is a lot of uncertainty around several drivers including client behavior and the impact of ratings downgrades on credit risk RWA
- Regulatory headwinds which were delayed due to COVID-19 are now returning, although they are not likely to be an impact in the third quarter
- In addition to potential regulatory headwinds, in the fourth quarter we also expect to go live with our new Historical simulation model for market risk
- With a CET1 ratio of 13.3% at the end of the second quarter 2020 we feel well positioned to be able to absorb these pressures

- Our strong capitalization together with our high liquidity levels gives us the capacity to support clients as and when demand increases

- Beyond our big picture objectives, we have also given guidance around 2020 **provisions for credit losses**
- This guidance has remained constant since the start of the pandemic
- We still expect provisions for credit losses this year to be in the range of 35-45 basis points of loans
- At a recent conference, James von Moltke walked through the math of that guidance for the second half of the year
- After taking 1.3 billion euros of provisions in the first half, and assuming the upper end of the range – so 40 to 45 basis points – suggests provisions of around 500 to 700 million euros in H2 2020
- Of this, we expect third quarter provisions to be around 300 million euros
- While we have not given official guidance for provisions for credit losses in 2021, James gave indications on the likely direction of travel
- With the caveat that the environment remains highly uncertain, we expect provisions for credit losses to remain elevated compared to the past few years before COVID-19
- That said, we expect provisions to be manageable
- Our outlook on provisions for credit losses is based on the high quality nature of our portfolios with a high proportion of secured lending to high quality borrowers
- It also reflects the relative strength and response to the COVID-19 crisis by the German government
- We continue to believe that having Germany as a home market which accounts for around 50% of our loans as good place to be relative to most other major economies

- Turning to some of the trends we have highlighted in our business. Starting first with the **Investment Bank**
- Since Q4 2019 we have consistently said that we can see positive momentum building in our core IB client franchises as our refocused strategy begins to pay off
- For the third quarter, our US peers gave indications on the year-on-year growth they expect across their trading businesses
- Compared to the mean of their forecasts of around 12% year-on-year growth we currently expect to have performed in-line with or better than their guidance
- The performance we expect to see in FIC this quarter excludes the impact of specific items, namely DVA and Tradeweb, which had a negative impact on our revenues of 99 million euros in Q3 2019
- In Origination & Advisory, as you can see in the Dealogic data, we have continued to stabilize and in certain areas improve market share in the quarter across debt and equity origination

- The trends in the other businesses remain broadly unchanged from the second quarter levels
- In the **Private Bank** for example, our strategy remains to offset the impact of negative interest rates with higher volumes
- Here we have seen some encouraging early signs in production, with mortgage and investment sales volumes now tracking above last year
- The Private Bank continued to execute its strategic objectives and cost targets that we detailed in December, primarily in Germany

- Of note, we announced the plans to close an additional 100 or 20% of the Deutsche Bank branded branches excluding Postbank
- These changes are expected to have a limited impact on our business reflecting the changes in customer behavior we have seen recently and the strength of our digital offerings
- These adjustments are consistent with the objectives that we laid out at the investor deep dive

- Before going into Q&A just a quick remarks for the fixed income focused attendees on the call
- Earlier this month we issued a total of US $3.25bn senior non-preferred notes across two tranches with strong demand
- This largely completes the Group's senior non-preferred funding plan for the year – although we may take advantage of markets to pre-fund our requirements for 2021

- With that, Hayley, I'm happy to take questions

Question and Answer Session

Magdalena Stoklosa (Morgan Stanley)

Thanks very much. And James, thank you very much for hosting the call. Just a couple of things from me. So, the first question is about cost offering. You have been quite clear from the perspective of how you expect the second half of the year to pan out. But what interests me is that elevated comment from the perspective of 2021. Could you just remind us what is the lower end of the market estimates in your most recent conversations or consensus? So that we have a view of what it means in numbers. So, question number one.

Question number two. When you talked about capital and disclosed some of the regulatory charges coming back, and I assume that, particularly, TRIM by the fourth quarter of this year, could you just remind us what sort of magnitude are we talking about here? Either for the end of this year or impact you may see in 2021.

And my third question is, really, could you just remind us of your view of the CRU progress? You've got the risk-rated assets target there for the end of the year, how are you tracking how that's looking? Thank you.

James Rivett

Hi. The consensus range for provisions for credit losses in 2021 is, right now, between 1.2 billion and 2.5 billion euros, so you can drive a truck through the middle of that range. But the mean is around 1.8 billion euros. And by the way, the consensus number are published on our website.

When we talk about elevated we mean elevated versus the 500 million or so that we've been running at in 2017, 2018 and 2019, as well.

And I think the point that we're trying to make here is that our path of credit-loss provisions is likely to be smoother than for, say, many of our US peers, who have built large reserves this year and are most likely to be releasing those provisions starting next year.

In terms of the regulatory inflation, you're absolutely right. I think TRIM is by far and away the biggest one that we're talking about. We said, I think James has said, in certain conversations that's up to 6 billion euros of RWA inflation. Unclear when that comes, Magdalena, whether that's Q4 of this year or next year.

I think the potential offset that could happen is the treatment of software intangibles, where that could be a capital benefit of up to 800 million euros for us. And again, there, we don't know the timing. That could be Q4 as well.

And finally on the progression in the Capital Release Unit (CRU). At the Investor Day in December, Louise laid out the targets we have set. Within those targets she also highlighted the need to be slightly flexible when it came to the approach that you would take in any given period.

What we said at the second quarter results was that we saw volatility-driven increases in market-risk RWA through the first half of the year. As a result our focus for the balance of this year would shift slightly to RWA reductions to offset that inflation that we saw rather than leverage exposure.

None of that changes the longer-term trajectory. It's just a slight shift in tactics and as I said consistent with what Louise laid out.

Here, nothing is really changing in that regard. We're continuing to execute. These markets product challenges and opportunities. But, certainly, nothing to change the guidance.

As we progress the asset reduction programs we are also focused on getting the costs out. Which I think has always been part of the plan.

Kian Abouhossein (JP Morgan)

Yes, hi, just a very quick one. At the recent conference, the statement was made that there's been relatively low natural turnover. And it sounded like that could impact your cost-saving plan, maybe a delay, it wasn't said. But I just wanted to understand why was the statement made and how does it affect your restructuring charges?

James Rivett

Hey, Kian. We made this point because it is something in response to the question that was asked things that have changed for good or bad as a result of COVID.

	I think everybody has seen it, the fact is, that there are fewer people leaving for opportunities right now. And, obviously, natural attrition is a part of what would drive down your employee reductions and, therefore, your cost reductions. There's nothing in what he said that impacts the third quarter or, I would say, very near-term cost trajectories or even FTE reduction in trajectories. But yes, if it were to continue for a period of time, then you would have to think about alternatives. The point that James was making was exactly to your question, which is what would the response be? The response would probably be to take marginally higher restructuring and severance charges to effectively get people off the platform. If you like, involuntary versus voluntary attrition. Yes, and you would take those, let's say, next year in 2021, with a view to maintaining the 2022 cost targets. So, this would absolutely not be about giving anything up, this is just about a slight change in the balance. And it's marginal.
Jeremy Sigee (BNP Paribas)	Hi there. Thank you very much. At the risk of being pedantic, can I just carry on the CT1 discussion because it was very helpful hearing your discussion of the moving parts? But if I take those two big moving parts, they seem to net, basically, to neutral if you're adding 6 billion on the RWAs, but then you're gaining 800 on the software intangibles. So, those sound like they roughly cancel out, depending on timing. So, I guess what that leaves is the HISIM impact. I don't know how material that could be, plus, then, volume growth. Are those the two remaining variables, is that fair, and can you quantify what the HISIM might be?
James Rivett	Yes, so, look, HISIM is not a big one. Yes, it is plus or minus single-digit billion euros. But it's one of those things that we're still finalising what the numbers will ultimately look like. But you're right, Jeremy, that those two things kind of net out to zero, but the fact is that if the timing on these issues breaks the wrong way you could have all of the bad guys in one quarter and then none of the good guys, which would have an impact on the ratio. But you're right directionally about the way that those two things offset each other.
James Rivett	Excellent. I'm going to assume that that's because it was all so crystal clear. Thank you very much. Look, you guys know where we are if you need us. Otherwise, you will be seeing a relatively large amount from us.

We've actually got our Q3 earnings on Wednesday, October 28th and the fixed income call on Friday, 30th.

And all of you, mark your calendars, sign up for those of you that haven't, for our Investor Deep-Dive on Wednesday 9th December, which as you can imagine, this time, is going to be a fully-virtual event for the audience.

With that, speak to you all soon. And stay healthy and well.

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