



**Deutsche Bank AG**

Q2 2020 Fixed Income Conference Call

July 31st, 2020 | 14:00 CEST

**Speakers:**

James von Moltke

Dixit Joshi

Philip Teuchner



Philip Teuchner

Thank you, Emma. Good afternoon or good morning, and thank you all for joining us today. On the call, as always, our CFO, James von Moltke, will speak first. Then, our Group Treasurer, Dixit Joshi, will take you through some fixed income-specific topics. In the room for Q&A we also have Jonathan Blake, our Global Head of Issuance & Securitization and Ralf Leiber, Head of Group Capital Management. The slides that accompany the topics are available for download from our website at db.com.

After the presentation, we'll be happy to take your questions but, before we get started, I just want to remind you that the presentation may contain forward-looking statements which may not develop as we currently expect. Therefore, please take note of the precautionary warning at the end of our materials. With that, let me hand over to James.

James von Moltke

Thank you, Philip, and welcome from me. Let me start with a summary of our financial performance in the second quarter on slide three. Revenues of €6.3 billion increased by 1% as growth in the Core Bank offset the exit from Equities trading.

Non-interest expenses of €5.4 billion included an additional €116 million of bank levies compared to the second quarter of last year, as well as €445 million of restructuring and severance, litigation and transformation charges. Non-interest expenses in the prior year period included €1.0 billion of goodwill impairments and €350 million of transformation charges. Provision for credit losses was €761 million or the equivalent of 69 basis points of loans on an annualised basis.

We generated a pre-tax profit of €158 million or €419 million on an adjusted basis, excluding items detailed on slide 39 of the appendix. As Dixit will discuss later, our liquidity position was strong as both reserves and LCR rebounded from first quarter levels.

Slide four updates a chart we showed you last quarter, with the management estimates of the most material impacts of the COVID-19 pandemic. Compared to the first quarter, results in the second quarter saw a more rapid normalisation of some of these impacts than we initially anticipated, in particular capital and liquidity reserves.

Incremental provisions for credit losses related to COVID-19 were approximately €410 million, which I will discuss shortly. There was a positive impact of approximately 12 basis points on our CET1 ratio from COVID-19.

Increases in market risk RWA, reflecting higher market volatility and higher Credit Risk RWA from ratings migrations, were more than offset by several impacts. These included the repayment of credit



facilities, lower derivative exposures and the reversal of most of the increase in prudent valuation adjustments recorded in the first quarter.

The repayment of committed credit facilities and reduced client demand for lending increased liquidity reserves by €12 billion. And, finally, Level 3 assets of €25 billion decreased by €2.0 billion. The decline reflected the partial reversal of the first quarter migration of assets into Level 3, which had resulted from the greater dispersion in market pricing at the end of the first quarter, as well as reduced balance sheet carrying values.

Looking forward, the path of the pandemic remains uncertain, but we see the developments in the quarter as positive. Our strategy is focused on improving sustainable profitability by generating positive operating leverage through a reduction of costs and growth in revenues.

As shown on slide five, operating leverage has been positive for three quarters in a row for both Group and Core Bank, driving significant improvements in Core Bank profitability. Over the last 12 months, Core Bank adjusted profit before tax has grown by 18% to €3.1 billion. Core Bank profitability has enabled us to absorb the costs of de-risking in the CRU, where the reduction of risk-weighted assets is running as we anticipated. As we make further progress with the wind-down of the CRU, the underlying performance of the Core Bank should become more visible in our group results.

You can see that on slide six. Core Bank revenues were €23.7 billion over the last 12 months. At the Investor Deep Dive, we showed a 2022 revenue plan of €24.5 billion, consistent with an 8% return on tangible equity target. This implies an annual revenue growth rate of around 2% from current levels and compares to the 5% growth that we have reported in the Core Bank in the last 12 months.

With the client momentum that we have created and the changes we have made to our business model, we're confident of achieving these plans even when current market dynamics normalise.

Slide seven shows some of the key revenue drivers. The Corporate Bank operates in an attractive market despite the challenges of the current interest rate environment. We've demonstrated that we can largely offset these headwinds with repricing and volume growth. We've grown corporate cash transactions by 8% and loans by 1% over the last 12 months.

The Corporate Bank has also been essential in supporting corporates, including in Germany. Combining all the German government



programmes, we have been the most active bank in this space.

In the Investment Bank, our strategy is to focus on our core strengths. Overall, revenues in Fixed Income & Currencies grew by 39% year-on-year with FIC trading, excluding financing and specific items, up by more than 75%. We achieved this performance with broadly stable levels of RWA, excluding regulatory inflation. This demonstrates efficient resource utilisation and is enabled by a combination of prudent risk management and higher quality client flow.

In the Private Bank, we're focused on offsetting the pressure from negative interest rates with volume growth. In the second quarter, the Private Bank captured €5.0 billion of net inflows in investment products and €3.0 billion of net new client loans.

Unsurprisingly, new consumer loans and investment products declined during the lockdown. With the reopening towards the end of the second quarter, we are now seeing a rebound in volumes, in some areas even tracking above last year.

In Asset Management, we're building on the momentum that DWS has generated. Inflows were €9.0 billion in the quarter. Assets under management increased by €45 billion in the quarter and €24 billion over the last 12 months. Asset Management also implemented further decisive cost measures in direct response to the COVID-19 environment.

We remain determined not to let the current environment disrupt our cost reduction plans. We've now reduced adjusted costs, excluding transformation charges and bank levies, for the tenth consecutive quarter as you can see on slide eight.

Year-on-year, adjusted costs declined by 8% to €4.9 billion. The further progress we have made in the second quarter puts us on a good path to achieve or outperform against our €19.5 billion target for 2020.

Turning to provision for credit losses on slide nine, provisions were €761 million in the quarter. As I just mentioned, a little over half or €410 million of these provisions related to COVID-19 impacts. Approximately half of the COVID-19 provisions are against Stage 1 and Stage 2 credits with the remainder against Stage 3 loans. Stages 1 and 2 provisions reflect the weaker macroeconomic outlook relative to March 31, a management overlay to account for uncertainties in the outlook as well as downgrades to client credit ratings. Consistent with our guidance, Stage 3 provisions increased in the quarter and were mostly in the Investment Bank.



Including the provisions taken in the first quarter, we ended the period with €4.9 billion of allowance for loan losses equivalent to 112 basis points of loans. As a reminder, we feel this level of provisioning is in line with our peers on a risk-adjusted basis, calibrated to the relative exposure to consumer credit lending.

Let us turn to the broader macroeconomic outlook on slide ten. We continue to expect a robust recovery in some major economies starting in the second half of this year, although it will take longer to return to the pre-COVID GDP levels than initially anticipated.

The EU stimulus package should support the economic recovery in Europe, including our home market, Germany, beginning in 2021. We're happy to have a leadership position in Europe's strongest economy, which is proving its resilience. Germany came in into the crisis with low levels of debt. This fiscal conservatism has allowed the government to take aggressive and decisive action in response.

Germany benefits from a combination of an effective social security system, one of the largest loan and guarantee programmes worldwide, and €130 billion in certain stimulus packages. Economists, therefore, expect Germany to suffer less and to recover quicker than most many other countries. This economic stability comes together with low levels of household and corporate debt, a historically stable housing market, as well as good levels of corporate liquidity relative to other leading economies. Therefore, German companies and consumers are in a relatively better position to weather the current environment.

All of this contributes to the resilience of our German loan book, which accounts for about half of our total loan portfolio. But, of course, uncertainties will persist for the time being. We must not be complacent and have to continue to execute on our transformation agenda.

Let me summarise our progress on page eleven. Looking back on the first year of our transformation, we're on track with or even ahead of the objectives that we set ourselves. Our new strategy is paying off. The momentum we have within the Core Bank more than offset the wind down of the Capital Release Unit, elevated provisions for credit losses from the pandemic and transformation impacts.

We therefore are confident that we will reach our 2022 targets and show a clear path with being profitable in the second quarter and in the first half of the year. By now, over three-quarters of our expected transformation charges are already behind us and we have achieved this with both capital and liquidity being stronger than our internal plans at the end of the second quarter.



This positions us well to continue supporting our clients through conditions which remain challenging. We also continue to work on our technology, including the partnership with Google, which aims to improve offerings to clients and infrastructure efficiency. And finally, we shaped our sustainability strategy and issued our first green bond. With that, let me hand over to Dixit.

Dixit Joshi

Thank you, James. As we execute on our transformation, we will continue to balance, manage our balance sheet conservatively. Slide 13 repeats a slide that we have shown you before. You can clearly see the impact of COVID-19 in our Q1 financials. Results in the second quarter saw a more rapid normalisation of some of these impacts than we originally expected and, in particular, capital and liquidity reserves.

As we announced last week, we ended the quarter with a CET1 ratio of 13.3%. This reflects lower loan balances driven by higher-than-expected repayments of credit facilities by clients that were initially drawn in reaction to COVID-19. In part, these facilities have been refinanced through debt capital markets instruments.

While loans declined in the second quarter, they are still up by €8.0 billion since year-end 2019. Our loss-absorbing capacity was €19 billion above our most binding MREL constraint, stable versus the prior quarter. We are one of the few European G-SIBs that already comply with the fully-loaded requirements.

Liquidity reserves increased significantly over the quarter to €232 billion. Our solid capital and liquidity position gives us scope to continue to deploy resources to support clients through challenging conditions.

We are also focused on maintaining strong credit quality. Provisions for credit losses of €761 million in the quarter are consistent with our previous guidance and our full year outlook. This reflects our conservative underwriting standards and the low-risk nature of our loan book. As we have communicated before, our exposure to credit cards and other unsecured consumer lending is low relative to our international peers.

Let us now look at our net balance sheet on slide 14. This view excludes derivative spending, netting agreements, cash collateral and pending settlement balances from our IFRS balance sheet to make it more comparable to US-GAAP accounting standards. We have structurally changed our balance sheet and created a more stable and efficient base that has allowed us to manage through recent events while keeping our transformation on track.

Liquidity reserves account for roughly a quarter of the net balance



sheet. Our loan-to-deposit ratio declined slightly and, at 77%, provides significant room to conservatively grow loans in coming periods. Funding from most stable sources represents 81% of our net balance sheet, or 85% including TLTRO.

Looking now a bit closer at our capital ratios starting on slide 15. Our CET1 ratio of 13.3% at quarter-end increased by 42 basis points sequentially. This includes an approximately 12 basis point increase from COVID-19 effects, as James discussed earlier. Approximately 11 basis points of the ratio increase came from regulatory changes associated with the CRR Quick Fix. These changes included the application of the revised SME support factor as well as the first-time application of the IFRS 9 transitional approach.

Excluding COVID-19 and CRR Quick Fix impacts, we saw approximately 13 basis points of improvement from continued de-risking in the Capital Release Unit. Additionally, the Core Bank generated seven basis points, principally reflecting lower risk-weighted assets in the Investment Bank and Corporate Bank.

The buffer above regulatory requirements for the CET1 ratio increased by 44 to 283 basis points, as shown on slide 16. The total capital ratio was 17.5% at quarter-end. Here, we have increased our buffer by 90 basis points in the quarter to 245 basis points.

Including the Tier 2 issuance from late June, which only settled in July, the buffer increases to around 260 basis points on a pro forma basis. This translates into an equivalent of €9.0 billion headroom in capital terms.

Despite the challenging market conditions for much of this year, we have successfully issued around €3.0 billion of Tier 1 and Tier 2 instruments to optimise our capital position and to increase our distance to MDA. This serves us well to support clients through the coming periods.

Our leverage ratio was 4.2% at quarter end, an increase of 20 basis points, as shown on slide 17. Approximately 16 basis points of the improvement came from the change to a net treatment of pending settlement payables and receivables. This change follows the implementation of the CRR Quick Fix and was an acceleration of a previously agreed rule change that would ordinarily have taken effect only from June 2021. This approach now aligns European banks with long-established practice at US banks and Swiss peers.

Foreign exchange translation and Tier 1 capital movements contributed approximately five basis points. Excluding central bank cash from leverage exposure, consistent with the flexibility provided



by the CRR Quick Fix would, if implemented, further increase our leverage ratio by approximately 20 basis points to 4.4%. Our leverage ratio is already well above the requirement of 3.75%, which we expect to apply from January 2023.

Both liquidity reserves and liquidity coverage ratio increased in the quarter, as you can see on slide 18. The increase reflected higher cash balances, a trend that we have seen across the sector.

Loans declined by €17 billion as clients began to repay credit facilities that were drawn in the first quarter. Customer deposits increased by €9.0 billion across the Corporate and Private Bank, offset by €3.0 billion lower wholesale funding deposits.

We also participated in Central Bank open market operations, including TLTRO III. As a result, we ended the quarter with liquidity reserves of €232 billion and a liquidity coverage ratio of 144%, both well above our targets. Over time, we will prudently manage that towards our target levels, although given the unprecedented events in the first half of the year, we feel comfortable operating with a temporary excess.

Slide 19 shows the substantial progress that we have made in passing through negative interest rates to our existing corporate and high net worth customers. At the end of the second quarter, we had charging agreements in place for around €60 billion of deposits generating revenues of €45 million in the quarter. That is already ahead of our full year goal and is on track to contribute well over €100 million of revenues on an annual basis. The positive revenue development is predominantly driven by higher deposit retention.

Looking ahead, as our implementation focus will increasingly shift towards clients with smaller balances, the trend of deposits and scope for deposit charging as well as the associated revenues is expected to flatten in the coming quarters. In our Private Bank in Germany, we have changed our pricing policy and now pass on negative interest rates to new accounts above €100,000 as announced last quarter. Our key priority, however, remains to actively engage with our customers and advise on liquidity solutions and alternative investment products to help clients offset the negative interest rate environment.

We continue to operate with a significant loss-absorbing capacity well above our requirements, as shown on slide 20. At the end of the second quarter, our loss-absorbing capacity was €19 billion, above the minimum required eligible liabilities or MREL, our most binding constraint.

In 2021, we expect a few changes to affect our loss-absorbing





capacity, including: a de-recognition of bonds issued under U.K. law following Brexit, the switch from a TLOF-based to an RWA-based MREL requirement, a higher subordinated MREL requirement becoming applicable post changes in European law at the end of this year, and we will see reductions in eligible liabilities in the second half of this year from outstanding senior non-preferred issuances falling below the one-year maturity threshold, which are not fully offset by new issuances. Nevertheless, given our significant buffer, we are well positioned to absorb these regulatory changes.

Slide 21 shows our updated issuance plan. We reaffirm our previous guidance of an issuance plan between €10 billion and €15 billion in aggregate but have amended the composition from the previous quarter.

During the second quarter, we issued €3.7 billion, taking our year-to-date issuance to close to €10 billion. Of note, in the quarter we issued Euro and US dollar Tier 2 and our inaugural green senior preferred bond. The Tier 2 issuances put us in a comfortable position as they increased our buffer above regulatory requirements by a further 50 basis points.

The inaugural green bond issuance marks an important step in our sustainability strategy and forms part of our target of at least €200 billion of sustainable financing and green investment products by 2025.

In terms of the rest of the year, the majority of our issuance is likely to be in senior non-preferred format. Given our strong liquidity position and modest requirements, we will be flexible in terms of timing.

Looking further into the future, we believe that our balance sheet composition requires less market funding than in the past and we can manage with lower issuance volumes. For example, we don't need to refinance the €17 billion of senior non-preferred instruments maturing in 2021.

As part of our overall funding strategy, we raised €30 billion through the ECB's TLTRO III programme. We may increase our take-up towards the maximum capacity of approximately €40 billion in future rounds.

In conclusion, on slide 22, we have successfully navigated the initial impacts of the COVID-19 pandemic. Our balance sheet remains low-risk and funded by highly stable sources. The improvements we have made to the composition of our balance sheet, combined with the investments in our technology, allow us to more accurately and effectively manage our resources. The progress we have made in



these areas is also reflected in the positive outcomes of recent regulatory stress test, including CCAR.

On the CET1 ratio, a lot of uncertainty remains regarding the economic environment, client behaviour and potential regulatory actions. That said, given where we ended the second quarter, we currently see significant room to continue supporting clients while maintaining the ratio above our 2022 target of 12.5%. We expect to prudently manage down our liquidity buffers towards our target levels over time and, consistent with our previous guidance, we expect provision for credit losses of 35 to 45 basis points of loans for the full year.

In summary, we will continue the disciplined execution that you have seen from this management team over the last few years. Consistent delivery on our transformation path is also a critical factor for the ratings agencies. All agencies, the majority of which have published longer ratings reports in July, acknowledge our progress. A recent example is the removal from negative watch by Fitch.

Execution on our short-term objectives keeps us on the path to deliver our 2022 targets. These include a significant improvement in organic capital generation with a target of post-tax return on tangible equity of 8%. At the same time, we are focused on maintaining a strong CET1 ratio and improving the leverage ratio over time. With that, let us move to your questions.

### Q&A session

Robert Smalley (UBS)

Hi. Good morning, good afternoon and thanks for doing the call. A couple of questions. First, if we could touch on slide 28 in the appendix, and this is an update from the deep dive on risk.

When we look at these risk mitigation numbers in the clear boxes, could you talk about the commercial real estate exposure there and how you're thinking, in general, about commercial real estate, given what's going on and how that ties in at all with your overall commercial real estate outstanding? That's my first question.

Second question, we're just seeing a lot of government programmes coming in, in Germany. How are you looking through that and trying to make sure that once we get to the other side of some of that, we don't have a cliff-like experience in terms of credit quality?

And then, finally, on funding. Number one, Dixit, you just mentioned



that €17 billion number is probably not going to be as large. If you could give us some kind of area for 2021 in terms of senior non-preferred funding. Is it similar to what we're seeing this year, number one? And, number two, you did a Tier 2 deal in US dollars. You paid a pretty high coupon for it. Does this lead you to think about doing more issuance in Euro, sterling and other currencies? Thanks.

Dixit Joshi

Rob, this is Dixit. I will kick off with sort of the latter questions, and then James will jump in on the prior ones. On the 2021 maturities that we have, as I said in my prepared remarks, the €17 billion that we have actually does roll off through the course of the next 6 months. If you think about the first 6 months of next year is already effectively deducted from our MREL calculations already and reflected in the surplus of €19 billion that we have.

Furthermore, between now and December, the rest of that €17 billion rolls out of our MREL calculation and so very much being factored into our issuance plan and requirements for next year.

As I've said, as a result of the deleveraging of our balance sheet and the move to a much more stable funding base and a greater reliance on deposit funding, that does afford us more flexibility in senior non-preferred issuance and on balance, compared to years prior, as you've seen, we have a lower reliance on capital markets issuance.

That does play a part as well in our revised issuance plan or the mix of the issuance plan between now and year-end, which as you see from a senior non-preferred perspective, has a range of up to another €3.0 billion to €4.0 billion of issuance between now and year-end and that reflects some pre-funding of commitment that we might have for next year. And so, all in all, we're being appropriately conservative when we look at our funding plan but in summary, the €19 billion surplus on MREL affords us a lot of flexibility.

On the second point, what you've seen is you have seen us diversify the currency mix to the extent we see pockets of it of investor demand. And, yes, I agree with you to the extent that, again, pricing lends itself to opportunities. It's something that we will be considering.

As we stand right now, we've done around €3.0 billion of issuance. In capital instruments in the first half of the year, which affords us a lot of flexibility around timing going forward. I hope that's helpful.

James von Moltke

Robert, it's James. On the first two questions on risk mitigation. The CRE portfolio is now at about €30 billion. If you look at the slide that we provide that you referred to, slide 28, it does skew to the non-investment-grade in those buckets, but I couldn't give you the details



of how much in each bucket.

To be honest, our outlook for that segment is sort of unchanged to our earlier discussions. We've been watching it extremely carefully given the impact of the pandemic on commercial real estate.

I think the starting point for us was a strong one, given that as we came into the crisis, loan-to-values were at around 60% of the portfolio and while, of course, there's been an impact on the cash flowing of the projects and the valuations of commercial real estate, we continue to think the portfolio is resilient and, to date, there have been very few defaults. So, we're watching it extremely carefully, as you can imagine.

We've also, by the way, seen some secondary liquidity develop in that market and where we have, and we've executed that the valuations have been pretty much in line with our views and marks. So, again, it's trended in line with our original outlooks.

On the government programmes, it's also a very good question. It's something we're watching carefully because of the fear that there's a cliff effect. Now a couple of things that I'd say, first of all, while the legislative moratoria are rolling off, there have been a number of actions that the industry has done on a voluntary basis.

So, if I think about households, they're getting support from the government, and the banking industry is continuing to support them and, to date, where we haven't seen sort of a cliff effect, although naturally that could still lie ahead.

In terms of the future, our sense is the KfW programme, as an example, is still open in Germany and actually, we've been surprised, if anything, at the lesser take-up than we might have expected. So, our assumption is that some of the liquidity demand has been simply pushed into later quarters but there is still support for the corporate balance sheet out there.

And, of course, some of the both fiscal and monetary support in Europe is coming later than is the case in the States. The recovery package that the EU agreed on, it only starts on 1st January '21 and, of course, fiscal support is ramping up with asset purchases. So, as we sit here today, we don't see that cliff effect, but it's something we're very watchful around.

Christy Hajiloizou (Barclays)

Hi, everyone. I have three-and-a-half questions. The first one is on the stressed net liquidity position. You disclosed that in your quarterly report and I noticed that, obviously, in the first quarter, that was negative, but it seems to bounce back quite nicely in the second



quarter.

You referred to, obviously, a normalisation in the economic environment but you also refer to countermeasures that you've deployed and sort of methodology enhanced. I'd be curious actually what some of those look like. If you could just explain what proactive measures you've taken on your side to improve that.

The second question is on loss-absorbing capacity. You obviously still have a strong MREL and TLAC buffer over your binding level but on the slide 20, you are flagging up some headwinds, which went through, for example, a higher subordination requirements and the exclusion of UK law, etc. Can you elaborate more around those expected changes and how it affects your buffers?

And then my third question, I was curious on your IFRS 9 assumptions, I was reading the quarterly and you have a table showing available forward-looking information and I noticed that the unemployment rate for Germany in this table was only 4% on average over each of the three years shown on the table.

Obviously, Germany, you refer to it suffering a lot less and recovering quicker than other Euro economies but I was still surprised. How should we read the data point in the context of your provisioning so far going forward? Are you actually using this as your baseline input and, if so, is it a big driver to the lower than peer credit loss provisions you've taken so far? So, any colour on that would be helpful.

And then my half question is just on capital. I don't recall if you've ever disclosed your TRIM impact or quantified it. If not, is that a figure you have to share as a sort of potential headwind in H2 and 2021? Thank you.

Dixit Joshi

Christy, I'll take sort of one, two and maybe four, and then leave IFRS 9 for James. So, just on SNLP, as you rightfully point out, SNLP was negative at the end of Q1 for the obvious reasons around loan drawdowns and reduced liquidity at the time.

We have been pleased with the way our liquidity modelling and the way our management has functioned through the stress period and thereafter. As we mentioned a quarter ago, this internal stress measure for us gave us a much clearer view and was an earlier indicator of movements than the regulatory stress test would.

We tend to think of the SNLP test as a conservative test in a variety of ways. For example, to your point on countermeasures, it does not include any potential to mobilise collateral and then finance that with central banks.



And so, during the second quarter, we've looked at executing on low-cost measures that will improve the metric without compromising on any of the conservative stance that we've taken. And, these measures included mobilising some collateral, accessing TLTRO III and also some client initiatives which would target targeted deposit optimisation initiatives, which didn't impact liquidity directly but improved the contractual term profile of our liquidity portfolio.

As a result of all of these, including some normalisation of conditions in the client business, we've seen our SNLP improve by around €43 billion in the quarter. And, roughly speaking, that €43 billion can be broken down into about €27 billion of improvement as a result of increased liquidity, around €11 billion as a result of deposit optimisation, and around €4 billion on other methodology enhancements.

So, in summary, I would say that I'm pleased with the performance. We're very comfortable with our liquidity position, and it's a good jump-off as we enter the second half of the year where there are some uncertainties through that period.

The second question around MREL. As I've mentioned, with the €19 billion surplus and not needing to rely on any grandfathering, we're well set to manage against some of the regulatory items that might arise. There's a number of them that will come around and that we factored into our forward planning for the first quarter of 2021.

Firstly, between now and the end of this year, we have factored in fully the roll-off of all of the €17 billion of senior non-preferred that falls under the one-year window next year.

And, then you have the regulatory changes which come in and the first would be the switch from a TLOF-based to a RWA-based methodology, which we expect to be around €4 billion to €6 billion of impact. We expect the subordination requirement to increase, and that's in line with the direction from the SRB.

Secondly, Brexit and the de-recognition of S&P MREL-eligible liabilities or non-eligible liabilities would impact our ratio as well. And then, thirdly, we will be taking active management decisions to reduce the outstanding stack of capital market instruments that we have, which will also reduce the MREL surplus. But, again, the starting point of €19 billion gives us tremendous flexibility as we enter that period.

And then, on your last question, the TRIM impact, which we were previously anticipating in 2021 which might pose some downside in the fourth quarter of this year, we estimate it in the region of around €6.0 billion of RWA impact.



James von Moltke

And then briefly, on the macroeconomic forecast, you're right, that 4.1%, we've talked about the averaging that we've deployed as a methodology to drive the IFRS 9 provisioning and the macroeconomic variable that is captured in that three-year average for German unemployment in the Bloomberg consensus as of June 30 is 4.1%. It actually has a high point in that three-year period of 4.4% in Q4 this year and so that's essentially the path that's built into the modelling

Now, your question is two things. One is the sensitivity of the portfolio and obviously, German unemployment is one of the variables that we're sensitive to, so we're clearly watching it carefully.

As to the scenario itself, one thing one needs to remember is just the German social structure, including the availability of Kurzarbeit, a pre-existing programme that enabled furloughing of workers.

So, one of the features, we think, in the German economy that will lead to greater resilience and then ultimately less unemployment is this idea that workers, their jobs are being supported by the government in an interim period until they return. Now, obviously, there's some risk to that outcome but, again, it remains a reasonable central case, even with the recent economic data out of Germany.

Lee Street (Citigroup)

Hello. Good afternoon, all. Three questions from me, please. On your slide, you show you need about a 2% per annum revenue growth to hit your €24.5 billion target. I'm just wondering, can you give us a bit of colour by each division what revenue growth do you think you'll actually do if you break it down between Corporate, Investment Bank, Asset Management, etc. or any thoughts around that would be really helpful.

Secondly, just on your Stage 2 balances of around €52 billion. How should we think about that? What proportion can we sort of realistically expect would translate from Stage 2 into Stage 3? That would be really helpful to understand.

And then, just finally, you show in your slides, obviously, it looks like you're taking a bigger proportion of provisions within Stage 3 relative to Stages 1 and 2, that's compared to other banks. Just any thoughts around why that is and why that might be a little bit different with Deutsche Bank as compared to some of the other banks there? That would be my three questions. Thank you.

James von Moltke

Lee, again, thanks for joining. I would refer you to the Investor Deep Dive materials from December 10th. We gave some sense of what we thought, for each of the four businesses, the path was to the 2022 RoTE targets.



Now of course, we live in a dynamic world. And their paths will be different over time, no doubt, and I would say what we've seen in the last 12 months is a relative outperformance against our expectations, of course, in Investment Banking and a more difficult path for Corporate Bank and Private Bank, naturally given the rate environment. And Asset Management, by and large, is performing reasonably in-line with our expectations, although there was, of course, a dip in market values in March through the end of May but it's sort of recovered to where we were thinking.

So, there may be sort of shifts in what the pattern looks like but, overall, we still are confident, as we mentioned, that we have a good path to the €24.5 billion and a relatively modest sort of growth now over the 2.5 years remaining. Admitting, of course, that we've probably seen an over-indexing of the revenue environment in Investment Bank in the first half of this year and the headwinds from interest rates will persist.

In terms of Stage 2, I'm not sure, to the second part of your question, exactly what you mean by the comparison to peers on Stage 3 composition. Stage 2, as you've seen, there was a significant increase, a near doubling of that bucket for us over the year-to-date.

Now, interestingly, as we said in the first quarter calls, what you have there is some actually very sort of strong credits but where there's been rating movements that has caused us to downgrade them between buckets. So, still relatively low expectations or probabilities of default in those names, hence the significant increase in Stage 2 buckets and not as large an increase in the provisioning.

As to the likely movement between the buckets, that's of course the major question that we all face. Moving to Stage 3 depends on those Stage 3 events, essentially defaults or recognition that obligors are unable to pay. We do have a baseline expectation built into our forward guidance and, of course, the path of that is going to be a critical driver of the CLPs going forward.

Lee Street

All right, that makes sense. Just on the provisions, it just looked to me like other banks seem to be taking a bit more Stage 1 and 2 provisioning relative to Stage 3, where you had a bit more coming through into Stage 3 provisions relative to Stages 1 and 2 in the quarter. That was just to understand if there's anything behind that.

James von Moltke

Well, look, we had some Stage 3 events that we would call out as sort of idiosyncratic, unrelated to COVID. Not clear to me that necessarily continues into future periods. So, if you sort of subtract the €200-odd million from - that we say is Stage 3 and that was COVID-related, you had €300 million that wasn't. While somewhat consistent with recent





quarters, I think that would probably be high relative to our current expectations for the balance of the year.

Tom Jenkins (Jefferies)

Yes, hello. Thank you very much, gents. I've got a question this time on slide 20, going back to that one, if you'd be so kind.

You mentioned the exclusion of bonds issued under U.K. law following Brexit starting 2021. No huge surprise, but I've been through pretty much every single liquid tradable bond in that sector and I haven't been able to find a UK law bond of note or a foreign or bond that doesn't have German subordination provisions or German resolution provisions.

Without asking you for the specific items, because I know that's probably not what you want to do, but have you got any idea of the quantum of bonds that will become excluded post '21 and is there a schedule, a sliding scale, if you like, of the exclusion? Is it up until the maturity in a certain period of time or a call date or that sort of thing? If you could give me some colour on that, that would be great.

Dixit Joshi

Sure, happy to. From an MREL perspective, we have about €5 billion of bonds that we would look to derecognise in January of next year. Again, very comfortable with that, as you can tell. It's very much baked into our glide path and funding requirements and our forward view on MREL. So, we're not just looking to the €19 billion surplus but it's really how that evolves over the next few periods.

I would have given you the items, but we'll leave that to Jonathan to do subsequently if that's something that we would like to do. It is something that we can manage quite comfortably.

We also have tools at our disposal, which we wouldn't really trigger right now. For example, consent solicitations on LMEs or exchange offers, etc. Just given the surplus that we have and the starting position we have, we wouldn't see a need to do that right now.

So, we're factoring it in, and we're managing towards that. We're cognisant of both the regulatory items like this as well as the roll-off of bonds that fall under one year and it's managing all of those. I hope that's helpful, Tom.

Tom Jenkins

Yes, that's great. So, that €5 billion, is it mostly or entirely in the senior non-preferred stack or is the senior preferred that you can include in your sort of MREL qualification rather than anything specifically subordinated?

Dixit Joshi

No, senior non-preferred.

Tom Jenkins

Senior non-preferred. Fair enough. And then, just in connection with



that, very quickly, obviously, seeing UK law bonds excluded post Jan '21, I assume and I know what assume means but I assume that, therefore, we can take a similar stance on non-EU bonds post-2021 as per sort of previous, i.e., if you've got a Cayman Islands, Delaware law, New York law or Delaware law with New York law on subordinated guarantee, that sort of thing, does that get excluded post-2021 in its entirety? There's no attempt to try and keep that on in any different way, shape or form?

Dixit Joshi No, this is a specific comment that's related to, really, Brexit and really, de-recognition related to Brexit, i.e., the €5 billion is really UK law-specific.

Tom Jenkins Yes, but all other legal frameworks and issues around those still stand? Is that correct?

Dixit Joshi That's right.

Jakub Lichwa (RBC) Hi, there. Thanks for doing the call. One question is about the NPS supply. I noticed you adjusted it. You mentioned, I think, in the Q1 call that part of the reduction was due to Moody's methodology adjustment. I think they are thinking of delaying it or doing some U-turn on it, as published in June. Have you already included it in the revised expectations now? So, that will be one.

And a second, on the Stage 2. You did say that the rating downgrade drives the finance of this bucket but are you able to comment what sort of rating gets you to Stage 2 or what is the probability of default you assign that gets you from Stage 1 to Stage 2, please? That's it. Thank you.

Dixit Joshi Jakub, on LGF we have noted that Moody's timeline has been pushed out. It is our view that the consultation as envisaged and, quite frankly, our expectation of consultation as we see has the likelihood of having some upside positive impact for us. Let's not forget that's very much a forward-looking measure, not necessarily a point in time measure, so it is something that we watch closely.

As you know from previous calls, we're very sensitive to our ratings and so protecting the rating remains important and including LGF. In previous quarters, we've messaged that we've continued to issue partly to ensure that we maintain ratings agency criteria. That will be no different, whether with the current LGF requirements or any potential improvements that we get from LGF, as well.

James von Moltke Jakub, on Stage 2, actually, we put in a slide on this in our Risk Deep Dive from June 18<sup>th</sup>, slide 20. I guess, two ways to triangulate. The triggers are an increase in lifetime probably of default or a rating



downgrade, transfer to workout, forbearance measures, 30 days past due or a watchlist inclusion.

So, there's a range of Stage 2 triggers and actually, we watch the trends of those things as well as obviously the event itself, so it's something we are watching carefully. One of the interesting things, I think, of the presentation of our slide that was referred to earlier, is the range of the PD bucket that is in each of them, which is hopefully also each of the PDs that correspond to each of the ratings buckets, I think, also gives you a sense of what that looks like.

James Hyde (PGIM)

Hi, James. Hi, Dixit. I have a question that's really a follow-up to Jakub's and earlier, Lee's question. You have what is probably a drop in the ocean compared with UK and Southern European banks, €16 billion of moratoria and forbearance measures. I just wanted to know, are these €16 billion one-for-one included in the €52 billion Stage 2?

James von Moltke

No, they're not. Because, specifically, the moratoria guidance is written that if the obligor prior to the onset of COVID was performing, you would not include the availing themselves of a moratorium as being a staging driver. But, there's, obviously, other movements in the portfolio that are COVID-related that would have led to the Stage 2 but the moratoria are not, themselves, drivers. There are certain instances where we give forbearance, so the voluntary forbearance measures that we provide can obviously influence our staging.

James Hyde

The key question in all this and I suppose what Lee was trying to get at is the, effectively, your full year provision guidance means €1.5-2 billion, which is sort of really not much for a crisis and I'm trying to think whether these moratoria and forbearance loans would be the trigger factor to make that go above €2 billion, given the fact that your pre-provision profitability is not much above that.

James von Moltke

The total of €16 billion, which is an addition of three unlike things. I don't think of as being especially meaningful as a guide to that. I think the driver is simply what Stage 3 events take place that would result in incremental provisioning relative to the Stage 2 provisions against the same credits that we currently hold, and then what happens in the migration into and out of.

And then, of course, macroeconomic variables. As the outlook moves around, either improves or deteriorates, that will influence what we refer to as the forward-looking indicators. So, the provisions that we take, principally in Stage 2, is driven by the change in outlook.

James Hyde

Thanks. And, finally, €32 billion of CRE. Is it a meaningful proportion of that Stage 2?



James von Moltke I'm not going to disclose the amount that is in Stage 2. As I said earlier, it's a portfolio we're watching carefully. In the measures that we have taken, whether it's offering lender concessions to the sponsors, that portfolio would certainly fall in the list where we have taken such measures.

By and large, I'd also add we've seen very, I think, constructed sponsor behaviour in that portfolio. So, where lenders have been providing restructurings or forbearance, often it's been associated with incremental equity provided by the sponsors. So, it is absolutely a portfolio that a certain amount will be in Stage 2 and some in Stage 3 and needs to be monitored carefully.

James Hyde Great. Thank you very much. Have a great weekend.

James von Moltke Thanks, James. Thanks for joining.

Operator At this time, there are no further questions. I hand back to Philip Teuchner, for closing comments.

Philip Teuchner Thank you very much, Emma, and thank you all for joining the call today. You know where the IR team is if you have further questions and we look forward to talking to you soon. Goodbye.

#### *Disclaimer*

*This transcript contains forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of Deutsche Bank. Forward-looking statements therefore speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.*

*By their very nature, forward-looking statements involve risks and uncertainties. A number of important factors could therefore cause actual results to differ materially from those contained in any forward-looking statement. Such factors include the conditions in the financial markets in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets, the development of asset prices and market volatility, potential defaults of borrowers or trading counterparties, the implementation of our strategic initiatives, the reliability of our risk management policies, procedures and methods, and other risks referenced in our filings with the U.S. Securities and Exchange Commission. Such factors are described in detail in our SEC Form 20-F of 20 March 2020 under the heading "Risk Factors." Copies of this document are readily available upon request or can be downloaded from [www.db.com/ir](http://www.db.com/ir).*

*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 Q2 2020 Financial Data Supplement, which is available at [www.db.com/ir](http://www.db.com/ir).*



*This transcript is provided solely for information purposes and shall not be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in any jurisdiction. No investment decision relating to securities of or relating to Deutsche Bank AG or its affiliates should be made on the basis of this document. Please refer to Deutsche Bank's annual and interim reports, ad hoc announcements under Article 17 of Regulation (EU) No. 596/2014 and filings with the U.S. Securities Exchange Commission (SEC) under Form 6-K.*