



## **Deutsche Bank AG**

Deutsche Bank Q1 2020 Fixed Income Conference Call

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### **Transcript**

#### **Speakers**

James von Moltke, Chief Financial Officer

Dixit Joshi, Group Treasurer

James Rivett, Head of Investor Relations



James Rivett

Thank you, Stewart, and good afternoon or good morning and thank you all for joining us today. On our call as always our CFO, James von Moltke, will speak first. Then our group treasurer, Dixit Joshi, will take you through some of the fixed-income-specific topics. In the room for Q&A we also have Jonathan Blake, our global head of issuance and securitisation. The slides to accompany the topic are available for download from our website at [db.com](http://db.com)

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

James von Moltke

Thank you, James, and welcome from me. This is an extremely challenging and unprecedented time for all of us and none of us have full visibility on how the situation will develop. But it is in times like these that our bank can prove its resilience and its value to society and all our stakeholders. Despite the turbulence we have continued to execute on our transformation we are very happy with our performance in the quarter as we outperformed our internal expectations for both revenues and costs, specifically in the core bank.

We also made solid progress against our strategic priorities. We are benefiting from our conservative balance sheet management and this stability is enabling us to support our clients. With the right strategy and with Germany as our home market we believe that Deutsche Bank can strengthen its competitive position in these difficult times.

Slide four shows a summary of our financial performance in the quarter. Group revenues were flat year on year at €6.4 billion as growth in the core bank offset the wind-down of the capital release unit. Non-interest expenses of €5.6 billion included €503 million of bank levies in the quarter as well as approximately €190 million of restructuring and severance, litigation and transformation charges.

Provisions for credit losses increased to €506 million or the equivalent of 44 basis points of loans on an annualised basis. We generated a pre-tax profit of €206 million with profit after tax of €66 million. Our results in the quarter were impacted both by our ongoing actions to implement our transformation as well as the initial impact of the COVID-19 pandemic, the most material of which we discuss on slide five.

In the first quarter provisions for credit losses included approximately €260 million of incremental provisions, which we



will discuss shortly. Our CET1 ratio was negatively impacted by around 40 basis points from COVID-19 factors. The impact on our CET1 ratio included a net €400 million of incremental prudent valuation deductions. These deductions reflect the increased pricing dispersion and wider spreads given the market volatility in the latter part of the quarter.

COVID-19-driven increases in risk-weighted assets of €7 billion included higher credit risk RWA due to ratings migrations and €5 billion from draw-downs on credit facilities. We would expect for credit risk RWA to return to more normal levels as clients replace the drawn facilities with cheaper long-term funding.

The movements in liquidity reserves and risk-weighted assets were well within the range of stress outcomes that we plan for. And finally, level three assets increased by €4 billion in the quarter to €28 billion. The increase was driven by temporary factors which we expect to normalise over time, as Dixit will describe later.

Turning to provision for credit losses on slide six, provisions were €506 million or 44 basis points of loans in the first quarter. Roughly half of the provisions relate to COVID-19 impact, principally against stage one and stage two performing loans. Most of the increase was driven by updates to macroeconomic variables, changes in credit ratings in segments particularly impacted by the crisis as well as the higher draw-downs.

We updated our approach this quarter, reflecting the ECB recommendation to moderate pro-cyclicality. Our forward-looking indicators now incorporate a three-year averaging of macroeconomic forecasts. Our forecasts are based on consensus estimates at the end of March.

Updating the assumptions to the current market views would have increased our provisions for credit losses by approximately €100 million. Our total stage three provision of €276 million in the quarter included around €30 million related to COVID-19. Our stage three provisions increased slightly and reflect a small number of specific events consistent with our prior guidance.

Including the provisions taken in the first quarter we ended the period with €4.9 billion of total allowances for credit losses. This amount includes €4.3 billion of allowance for loan losses, equivalent to 95 basis points of loans.

Slide seven shows the progress we have made on revenues in our core bank. In the corporate bank revenues were flat as we offset the pressures from the interest rate environment with loan growth and deposit repricing benefits. We continued to



actively reprice deposits in the first quarter and are on track to pass through the negative interest rates to €25 billion of deposits in 2020 as part of our 2022 targets.

Investment bank revenues grew by 15%, up in both fixed income and origination and advisory. The first quarter showed further stabilisation and improvements in market share in our target market. In the private bank revenues increased by 3%. This growth was supported by the strong performance in wealth management, where we continued to benefit from strategic hiring in prior periods.

We grew loans and volumes to broadly offset the ongoing interest rate headwinds. In asset management growth in management fees was offset by interest rate-driven changes in the fair value of certain guaranteed funds. Despite the market conditions at the end of the quarter DWS has continued to grow assets in our core areas, most notably through our strategic partnerships and ESG funds.

We're determined to not let the current environment disrupt our cost reduction plans. Excluding transformation charges and bank levies, adjusted costs declined by 7% year on year to €4.9 billion, as you can see on slide eight. At the end of the first quarter we have put 73% of our transformation charges behind us. The progress we have made in the first quarter puts us on a good path to achieve or outperform against our €19.5 billion target for 2020.

Slide nine repeats a slide that we have shown you consistently. We have been managing our balance sheet conservatively and intend to keep doing so through this period of volatility. With a 12.8% CET1 ratio at quarter end we are comfortably above our regulatory requirements despite absorbing 30 basis points of regulatory headwinds at the start of the quarter.

This sound capital position gives us scope to continue to deploy resources to support clients in these challenging times. As we disclosed on Sunday, we are dealing with a great deal of uncertainty around the CET1 ratio path from here. We've therefore taken the deliberate decision to allow the CET1 ratio to dip modestly and temporarily below our target of at least 12.5%. We believe that this is the right thing to do for all of our stakeholders, including our debt and equity investors. Over time as the temporary factors I referred to earlier normalise we expect our CET1 ratio to return to the 12.5% level.



Our loss-absorbing capacity was €18 billion above our most binding MREL constraint. We are one of the few European GSIBs that already comply with the fully-loaded requirements. We kept our strong liquidity position with reserves of €205 billion and an LCR of 133%.

Our results also show that we continued to operate with low risk levels. We continue to manage our market risk exposure tightly. Our value at risk on an average basis remains low at €24 million and we are focused on maintaining strong credit quality.

I'm sure you've seen the rating actions S&P took last week on multiple European banks, including us, to reflect the potential impact from the coronavirus. We appreciate that S&P recognises our strong balance sheet. This should be the key criteria, together with the continued execution of our transformation agenda, to determine our forward ratings trajectory. We will not deviate from our agenda and will do everything in our power to maintain our current ratings and improve them over time.

Before I hand over to Dixit let me conclude with a few remarks on our role, on how we see us as well-positioned in the current environment on slide ten. With our refocused strategy we're now operating in businesses with market-leading positions, providing industry-leading solutions. Germany is our home market where we generate approximately 40% of our revenues.

In the corporate bank as the hausbank to nearly one million small and medium-sized companies in Germany we are well-positioned to help clients through the crisis. In investment banking for the first time since 2017 we've regained our position as the market leader in German corporate finance year to date.

In the private bank and DWS we're helping our private customers to navigate through turbulent conditions. We are the leading retail bank with 19 million customers and the leading retail asset manager. We also believe that Germany is relatively well-positioned to manage through the macroeconomic turbulence. The Government has put in place a series of well-designed programmes which should provide support quickly to the broader economy.

We are pleased and proud to have contributed to this process both in the design and implementation of the programmes and given the strong fiscal position the German Government is well-positioned to take additional action if required.

The German consumer and corporate sectors are relatively well-positioned to deal with this crisis. Consumer debt levels are amongst the lowest in the Eurozone and the developed world.



German small and large corporate customers are also operating with the lowest levels of leverage and highest levels of liquidity in the last 30 years.

We feel fortunate to have Germany as a home market in volatile times. With that let me hand over to Dixit.

Dixit Joshi

Thank you, James. Let me start with a review of our net balance sheet on slide 12. This view excludes derivative 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 transformed our balance sheet significantly over the last years. This provides a robust foundation as we continue to execute on our transformation and manage through the challenging macroeconomic environment. On the asset side around 20% of our net balance sheet is in cash and Government securities as part of our liquidity reserves.

Roughly half comprises our loan portfolio, which we will discuss shortly. Trading assets account for roughly a quarter of our balance sheet. As our low value at risk indicates, this is a conservatively managed book with tightly controlled risk limits and includes our secured financing activities with low credit risk as they are well collateralised.

On the liability side trading liabilities increased over the quarter and account for less than 20% of our net balance sheet. This increase largely reflects seasonal variations as well as increases due to recent volatility and does not reflect any material shift in our funding profile.

More than 80% of our balance sheet is funded by most stable sources. Deposits now account for around 60% of our liabilities. We have worked to improve the quality of our deposit base over time, which consists mainly of retail and corporate deposits. Only 2% of the net balance sheet is from unsecured short-term wholesale funding. Our overall funding base has proven to be very resilient and now allows us to actively support our clients in this challenging environment.

Let us now take a closer look at our loan portfolio on slide 13. Our loan books are well-diversified across the businesses, customer segments and regions. Around half of our total loan portfolio is in the private bank, mainly German mortgages with conservative loan-to-value ratios and low delinquency rates.

In wealth management almost all our loans are secured, typically by high-quality liquid stocks and bonds with



conservative loan-to-value. 90% of our commitments in the corporate and investment banks are to clients rated investment-grade and from a regional perspective our loan books are also well-diversified. Approximately half our portfolios are in Germany with a further 20% in EMEA and the US.

The next slide gives you an overview of our exposure towards focus industries. In commercial real estate our exposure is predominantly firstly in mortgage lending with an average 60% loan-to-value. Our portfolio is diversified across a broad range of high-quality properties, typically in gateway cities.

Our oil and gas exposures are focused on the investment-grade majors. We have very modest exposure to non-investment-grade exploration and production segments. In retail we have contained our exposure to strong global names with very limited exposure to non-food retailers.

Within the airline space our exposures are secured at conservative loan-to-values with the unsecured portfolios biased towards national flag carriers in developed markets. And finally our leisure portfolio is small and focused on large hospitality industry leaders with minimal exposure to cruise ships and tour operators.

In summary, we believe that our loan book portfolio is low-risk and well-diversified and our risk profile is supported by our comprehensive stress-testing framework and proactive risk management.

Slide 15 provides more details around our level three assets, which stood at €28 billion. Level three assets increased by €4 billion in the quarter. The increase was driven by a reclassification of some inventory into level three due to the increased dispersion in market pricing towards the end of the quarter. This was mainly in relation to derivative transactions, where the material components of the underlying risk are typically hedged.

We also saw higher carrying values on existing level three derivative inventory, mainly driven by movements in interest rates. These increases were largely offset by equivalent increases in level three liabilities. As conditions normalise some of the market-related effects should reverse and therefore reduce the current level of prudential valuation deduction and level three assets.

That said, developments in the nearer term are difficult to predict and will depend on market dynamics. Just to reiterate what we told you previously, a level three classification is not an



indicator of risk or asset quality but an accounting indicator of valuation uncertainty due to lack of observability of at least one significant valuation parameter.

We have several safeguards in place to mitigate the valuation uncertainty, including prudential valuation adjustments of €700 million and the exchange of collateral with derivative counterparties. In addition our level three assets are revalued continuously both by our businesses and also through our independent valuation teams.

Let me now walk you through the development of our liquidity, capital and issuance metrics, starting with liquidity on slide 17.

We believe that our ability to manage and steer our liquidity through the quarter is a testament to the investments we have made in our data, governance and tools in recent years and also to the stability of our funding base given the reshaping of our balance sheet. With signs of stress appearing in markets in early March we implemented heightened governance and increased the frequency of our reporting, including on our committed facilities.

In the quarter we deployed €18 billion into supporting our existing clients' drawings on committed facilities with a further seven billion of new loans. As a result we ended the quarter with liquidity reserves of €205 billion and a liquidity coverage ratio of 133%, both above our targets. We remain committed to providing liquidity to support our clients.

To that end we've earmarked €20 billion of additional lending in the second quarter including - half of which is funded by KfW. We are comfortable operating below our targets temporarily but will prudently maintain buffers above our regulatory thresholds. As the market environment normalises we would expect to see our liquidity reserves and liquidity coverage ratio return closer to current levels.

Moving now to capital on slide 18, our CET1 ratio was 12.8% at quarter end, down roughly 80 basis points from the prior quarter. Approximately 30 basis points of the decline came from the impact of the new securitisation framework we have discussed with you in previous calls.

In line with our stated strategy we also continued to fund our business growth across our core businesses, which consumed roughly ten basis of capital in the quarter. Our CET1 ratio was impacted by around 40 basis points as a result of COVID-19, which James described earlier. As noted, we would expect for the COVID-19 items to sustainably normalise over time as the macroeconomic situation stabilises and we will maintain ample





buffers above our regulatory requirements, which we will discuss on the next slide.

Our CET1 ratio at quarter end was approximately 240 basis points above our recently revised regulatory capital requirements. The reduction in our CET1 ratio requirement reflects the recent ECB decision to implement CRD5 article 104a with immediate effect. This allows us to partially meet the pillar two capital requirements with AT1 and tier two capital.

In addition several countries have lowered their countercyclical capital buffers as a reaction to the COVID-19 crisis. These measures have resulted in a 114 basis point reduction of our CET1 ratio requirement which now stands at 10.44%. Our most binding capital requirement is now on the total capital ratio with a buffer of 155 basis points or the equivalent of €5 billion headroom in capital terms.

More importantly we now have tier two issuance available as a tool to improve the distance to our tightest regulatory capital requirement. Our leverage ratio was 4% at quarter end, as described on slide 20. The ratio declined 21 basis points in the quarter.

This decline was principally driven by COVID-19-related impacts, most notably increased draw-downs on credit lines, as already discussed in the liquidity section, and higher net derivatives and trading exposures, and an atypical increase in pending settlement balances of around €20 billion, which came on top of the usual seasonal increase in pendings post the year-end low which we do not include as COVID-19-related.

Other changes in the quarter reflect mostly seasonal balance sheet increases, including a further rise of approximately 20 billion in pending settlement claims and other seasonal movements in our trading-related balances. These other more seasonal effects were materially offset by the benefit to our leverage ratio from our US\$1.25 billion AT1 issuance that we completed in February.

At 4% our reported leverage ratio is well above the requirement of 3% that is currently scheduled to be introduced by mid next year. This is despite our ratio being burdened with around 20 basis points of temporary effects from pending settlement balances, which will reduce to near zero with the introduction of CRR2 next year and bring us in line with current treatment for US and Swiss banks.

In addition we have around a ten basis point drag in our ratio from the prime finance platform being transferred to BNP Paribas. Our leverage ratio is already above the requirement of



3.75%, which we so far expected to come into play from the start of 2022. It is now likely to apply from January 2023 following the European Commission proposal earlier this week for a change to the regulation.

Excluding central bank cash from leverage exposure - also consistent with the European's proposal - would, if implemented, increase our leverage ratio by approximately 20 basis points. We continue to operate with a significant loss-absorbing capacity, well above our requirement, as is shown on slide 21.

At the end of the first quarter 2020 our loss-absorbing capacity was €18 billion above the minimum required eligible liabilities or MREL, our most binding constraint. We have significant buffers and are among the few European global systemic important banks or GSIBs that already comply with the fully-loaded MREL requirements.

Our buffer has reduced with the balance sheet expansion which includes a seasonal increase in pending settlements and loan growth. In addition we saw a slight reduction in our eligible senior non-preferred securities as certain maturities fell below one year. We continue to operate with a comfortable surplus above our requirements and have sufficient headroom to absorb the upcoming regulatory and methodology changes which will become effective in 2021.

These proposed changes include the switch from the total liabilities and own funds or TLOF to an RWA-based calculation. The surplus also gives us flexibility to reduce our issuance plan for this year, as will be discussed on the next slide. During the first quarter we issued €5.6 billion, primarily euro and sterling senior non-preferred issuances in January and a US dollar AT1 issue in February.

The issuance of AT1 was designed to support the call of a legacy tier one instrument, the US\$ 800 million DB Contingent Capital Trust 2. We now expect to issue €10-15 billion in 2020, down from our previous 15 to 20 billion assumption. The reduction is driven by two factors. First, our senior non-preferred issuance plan is informed by multiple constraints, including TLAC, MREL and rating considerations.

As our latest outlook has sufficient headroom across all of those we intend to issue less senior non-preferred than originally anticipated, whilst reserving a significant surplus over the TLAC and MREL requirements. Second, we will make use of the various central bank facilities, including TLTRO3 to raise part of our funding.



The majority of our remaining 2020 issuance is likely to come in senior preferred, structured or potentially covered bond issuance. This reduced issuance requirement allows us to be flexible in terms of timing and market conditions. We will continue to review our issuance needs and consider tier two issuance to manage our MDA buffer in light of changes to article 104a.

In conclusion on slide 23, the improvements in our technology allow us to more accurately and effectively manage and allocate our resources. Our balance sheet is low-risk and funded by highly stable sources. We have excess liquidity, capital and MREL above our regulatory requirements and our refocused strategy, operating in businesses where we're market-leading, has put us in a strong position to support our clients as they need it.

We will also continue to look for ways to further improve the efficiency of our balance sheet and this includes ongoing progress on our deposit repricing programmes as well as the optimisation of our liquidity resources. We will also continue to maintain adequate buffers above all regulatory requirements under which we operate.

In short, we believe that we are well-positioned to deal with the current challenging environment. With that let us move to your questions.

Richard Thomas  
(Bank of America)

Yes, thank you very much for the call. A couple of questions, two or three questions from me if I may. Just on the liquidity reserves, they really are down quite a lot - if you think a year ago they were at 260 and now they're at 205 so there's been an awful lot of movement there. Can you be a bit more specific about where we're heading in terms of the use of this important liquidity buffer and will we ever return to anything like the high levels that we've seen in 2019? First question.

Second question; we hear you on lower issuance this year, potentially even lower now that the ECB's made all these announcements just this afternoon. Next year is a bumper year for senior non-preferred redemptions, I should say. There's 18 billion. I know some of that will be running out of the ratios this year but is it likely that you will have a big year's SNP issuance either later this year or actually next year?

And then finally what are your thoughts on what you have to do or not to do to stay investment-grade at senior non-preferred level? Thanks.



Dixit Joshi

Richard, hi and thank you for joining. I'll take those, you know, in turn. With regard to liquidity reserves and LCR, you know, you'll recall that we've built up a significant surplus of liquidity from the end of 2016 onwards. As we've improved our capabilities, as we've announced the strategic restructuring of the firm last July and been executing on that restructuring – that has afforded us the flexibility to actually run with lower levels of liquidity reserves but still with sufficient surpluses to all of our minimum criteria.

Whether it is the surplus that we've had on MREL, the significant surplus that we have on TLAC, surpluses to our own risk appetite at an internal level or with LCR where we had a €43 billion surplus at the end of the first quarter.

So I think we've been quite deliberate in managing down excesses and we've done that through continued investment in our data, our technology, our governance and of course executing on the restructuring of the firm as well, which has tilted us to a much more stable funding base.

And all of those in aggregate have helped us in the lead-up into March of this year. To answer your question on whether we return to those high levels I'd reiterate that our business-as-usual targets are in the region of around - an LCR of around 130% and liquidity reserves of around 200 billion.

Given that this represents over 40 billion of excess at these levels we are comfortably set-up to even absorb a second stress that is similar to the recent environment that we've had. It is hard to say of course when this market environment will change and how long this environment will prevail but we do intend to work closely with our clients to support them, as Christian reiterated yesterday.

And throughout that we'll continue executing on our business strategy as well and if necessary we will operate, on a temporary basis, below the stated targets but of course always above our minimum levels.

Regarding your question on issuance for next year, we do not need to refinance the full 18 billion of senior non-preferred maturities next year. Partly that's because the 18 billion really falls out of our MREL calculation during the course of this year. As an example eight billion already fell out during the first quarter and the remainder will be derecognised during the course of this year so that's very much embedded into our planning into 2021.

And that partially drives the ten to €15 billion revised outlook we've now given for funding for the year, which includes about



three to six million of senior non-preferred funding. We do intend to reduce that surplus through the course of this year. I would point you to our 2022 maturities of € 8 billion, which I think would be a better guide for what normalised potential new issuance is likely to be.

On your third question around ratings, what I would say is that we're maintaining not only all of our regulatory criteria that we're managing to but also naturally ratings agency constraints and have been quite deliberate with our funding plans throughout to ensure that we've been robust.

You would have also noted the consultation that's out from Moody's around potential changes to the LGF framework. I don't really want to pre-empt any outcomes from that but that does also have the likelihood of some positive benefit for us on senior non-preferred - but again depends on the final outcome.

James von Moltke

And what I was going to add: First of all, as you'd expect, we've had a very engaged and frequent dialogue with the ratings agencies as we have gone through this crisis and the industry has gone through this crisis. We intend to maintain that dialogue.

I think the answer to your question is if we simply execute on our strategic plan we will deliver on the key element here of our ratings story, which is moving the company to sustainable profitability. There is a comfort with our balance sheet, the risk management and other aspects of the ratings story.

I think beyond that if I were to look for a silver lining in this dark cloud that we're all sort of living through it's that we hope that this crisis will give us an opportunity to demonstrate that the focused business model, the conservative balance sheet management that we've talked about, the risk management and risk appetite discipline that we have is pressure-testing the company and that will give investors as well as rating agencies some kind of real-world proof of the company's resilience in an environment like this.

Brajesh Kumar  
(Société Générale)

Hi, good afternoon all; Brajesh from SocGen. I've got two questions, please. The first one is on your MDA hurdle. I see that you have adjusted for P2R composition and for the cyclical buffer but why would you not use a capital conservation buffer, why can't you do this? I see that one of your Austrian peers today has exactly done that but why are you being siloed from doing that?



And my second question is on provisions. What's the amount of the provisions that are built without any government guarantees and how much do you think will be the percentage from government-guaranteed loans that you are bringing in on your books? Thank you.

Dixit Joshi

So, Brajesh, I'll take the first and James will take the second. On the first question, you know, as you point out, we have taken into account the countercyclical buffer as well as the changes that arise from 104a and the ability to use AT1 and tier two to fill our pillar two requirement.

We've also noted the statements from the ECB that the capital conservation buffer might be used in the crisis but, you know, quite frankly at this stage that is not something that we have factored in or necessarily rely on so we do not see that that the capital conservation buffer at this stage can be excluded from MDA.

James von Moltke

On the government guarantee point, as we said yesterday on the call, you know, IFRS9 provisioning made only a few adjustments to the typical kind of granular bottoms-up process, one of which was that we considered for certain obligors in the most affected sectors where there was the possibility or likelihood of government support for those obligors that potential government support or the impact of that support in our ratings adjustments.

I would say it had a modest impact frankly on what the IFRS9 reserve might otherwise have been so not the largest part of the sensitivities here but it is a factor that we think is appropriate to understanding the creditworthiness of the obligors in our book in this environment.

Brajesh Kumar

Okay, and then what about that question on what percent of government guaranteed loans do you think you'll end up having.

James von Moltke

Look, the balances are growing. I think it depends on which programme. The KFW programmes are divided by segment. Some of them are essentially grants; some of them are 100% guaranteed, some of them are 80% KFW and 20% the lending bank. We think it's relatively considerable in the at least single digits, potentially in the double-digit billions that we will be disbursing in these programmes.

And that's part of –our commitment to society to support those programmes. Those assets end up on our balance sheet, as we say, with a modest risk to us although they obviously are leverage exposure for a period of time that's with us and is part of the increase in the balance sheet so they're essentially



recorded as loans even though the risk piece of it is more modest.

James Hyde (PGIM)

Hi, thanks for doing this call. Yes, I've got two questions. One of them is page 28 of the report and the paragraph a few pages after; stressed net liquidity position. What does it mean when that's gone to negative? I mean, it's a swing of 36 billion minus which is technically more than the decline in the HQLA so is that basically now assuming that is greater derivative - greater postings for downgrades that have to happen, greater degree of collateral posting? And how am I meant to read this swing to negative in that ratio? That's the first question.

Secondly, I mean, I don't know if you've had a chance for the kind of disclosures that we get from UK banks but, I mean, today I wanted to ask about, in terms of the stage one and two or scenario ECL provisions. I mean, there's one bank today, Lloyds, for instance; it says, you know, this is what the stock-op provisions should be with a 10% probability if we get to a particularly - or what they say is the worst outlook they... outcome they're looking for and that, you know, you can add the provisions that have to be added on for that.

Can we sort of have any indication in terms of your worst scenario, how much more you have to increase the provisions by in that scenario? Is there a sort of number we can sort of, you know, hang our hat on and sort of compare to pre-provision profit, etc.? That's it.

Dixit Joshi

James, hi. This is Dixit here. Thank you for joining. As I said in our remarks that we have been quite pleased with the way our liquidity, our modelling and our risk management has really functioned through what was an extraordinary stress period. To begin with our internal stress measures or SNLP, an eight-week measure for an extreme stress, it gave us a fairly clear and a fairly early indication of movements, arguably faster than the regulatory stress test.

Second, you know, we do think that the test is conservative in many ways. For example the way liquidity resources in branches and subsidiaries are treated it essentially means we manage in normal times with fairly healthy buffers at the parent level.

And as you think about the number important to realise that with it being an eight-week stress it effectively now captures a second hypothetical eight-week systemic and idiosyncratic stress in addition to the one which we have just gone through, which you see manifesting in our numbers.



Also the measure, being conservative, does not, give any credit to future or current additional collateral mobilisation from central banks, nor does it include resources that are trapped or held at subsidiaries' and branch level.

I must also say that when looking at the components of the model our liquidity risk drivers that inform the model all performed far better than model while committed facilities were roughly in line. So, all said and done, you know, coming out in a reasonably good position at the end of the first quarter.

James von Moltke

And, James - it's James - the ECL sensitivity or expected current loss sensitivity is sort of an interesting science. I don't want to go into sort of worst cases. What I can assure you is that from the very earliest days of the crisis our risk colleagues have been analysing the portfolio against the scenarios and looking at downside scenarios and updating that analysis dynamically through the process.

If I think about the sensitivity of the expected credit loss to some of the variables, it tends not to be all that sensitive to individual variables and that's why - as we on yesterday's call talked a little bit about - our outlook in terms of provisioning.

But to give you an example, if the eurozone GDP were 1% worse than our forecasts the corporate and sovereign portfolio would move in ECL terms by about 35 million so these are not huge numbers.

Now, ECL is a multi-factor variable. There are other portfolios and so there clearly are sensitivities here but in orders of magnitude they're quite manageable as we look into the future.

James Hyde

Great, thanks. Just to understand Dixit's answer. The stressnet liquidity position; I'm trying to think this through. So if you had, let's say, a TLTRO tender date that came in this eight-week period does that mean you can just build up the... that position could be improved because TLTRO's like three years and that just makes up for this liquidity?

Or is the use of that collateral for other central bank facilities already assumed in that calculation?

Dixit Joshi

No, James, we don't assume reliance on central bank facilities but of course those are available for use, especially given the expanded facilities that we've seen. I'd also point out that we hadn't raised incremental funding to address the negative level given we're quite comfortable with both our liquidity profile, the forecasting ability that we had, the commitment facilities, data improvements, going to intra-day in some cases that we had and so felt quite comfortable.





The other point I'd mention is that the point of the internal stress measure is to allow us to adequately position liquidity reserves prior to any crisis arising and not really to react in the middle of a crisis and so that's really what the measure has allowed us to do. We've prepositioned adequate liquidity on the way in and over time as clients' behaviour normalises and our balance sheet normalises we'd expect to restore SNLP back to previous levels or above risk appetite.

Robert Smalley (UBS)

Hi, thanks. A lot have already been asked and answered. A few questions on the asset quality side; in terms of what we saw in the last quarter, I know you spoke about - in the other call about a lack of deferrals among German clients but one on the trading side; should we see any issues with tracking counterparties' collateral calls or any other kind of restructuring of relationships there or any structured note covenants breached given the movement in the market? That's one.

Two, on price of oil; when you were probably looking at this at first we saw the big decrease in the price of oil. Now we have a much lower for longer kind of scenario ahead of us. How does that change how you're looking at your oil and gas exposure?

And then lastly on commercial real estate, could you give us a little geographic breakdown? Looking at slide 14 and while I'm assuming German customers come under the mitigations programmes that you outlined I'm also thinking that a lot of your commercial real estate is outside of Germany, in the States potentially. What are tenants saying at this point, are you restructuring relationships there?

And in the past you've been a big lender to Las Vegas and Atlantic City, which have suffered a big draw-down in terms of tourism. Could you address all of that?

Dixit Joshi

Robert, hi. Sure, I'll do the first two and then James can take the third. Very important for us when we started seeing some of the early signals of the stress - and our stress model, as I mentioned earlier gave us some of that indication and gave us that indication towards the end of February.

This helped us start prepositioning and taking management action that would allow us to accommodate some of the draw-downs that we were seeing or that we expected to see.

Part of our sort of health check on a daily basis is to really watch exactly what you've been saying, which is margin calls, whether that's clients posting margin to us, whether it's Deutsche Bank posting margin to other counterparties, the health of the



clearing system more widely, together with flows of both collateral and cash between clients, ourselves, clearers and custodians.

And, in spite of what was truly record volatility and movement, which naturally resulted in a higher volume of margin calls as well as a higher absolute magnitude of margin calls, the health of the financial system - and including from our perspective - was actually quite good.

There were hardly any major outages across the system, you know, in terms of failed settlements, breaks, etc., and that's something that we monitor fairly closely.

In terms of covenants, structured notes, , commodities is not a business that we have and we had divested out of a while back. I'm not aware of any sensitivity we've had through the period, to really oil in particular related to liquidity.

But in aggregate it is something we monitor along all of the other margin calls that we have. We're also in close contact with all of the CCPs and the clearing houses given the, you know, the significant percentage of the industry exposure that has now migrated to the CCPs over the years.

And once again, I've seen no sign that would concern us, not even at the peak in March.

James von Moltke

And so, Robert, just to build on what Dixit just said about the margin calls, we were very pleased, gratified with the operational resilience that our organisation showed in managing collateral calls, settlements in light of the circumstances, it was extremely smooth and credit to our people who manage those processes.

On oil and gas, as we said in our earlier remarks, you know, our exposures there are quite manageable, skewed to the investment-grade and majors. You may recall that we essentially exited oil and gas in North America a few years ago and sold those portfolios so our overall exposures there are much lower than a typical industry sort of portfolio would be at.

Commercial real estate obviously is a significant business for us and we disclose on page 13 the - or in the slides the exposure. That is sort of skewed towards major city, high-end commercial real estate and, as we point out, with relatively low loan-to-values.

The casino and gaming exposures... we do have some but it is a much more modest level than it has been in previous years, a decade ago. I hope that's helpful.



And just geographically, to give you a sense, the CRE portfolio's about 60% North America or US and the balance of course rest of world with a fairly significant portfolio in Europe and Germany.

Lee Street (Citigroup)

Hello. Afternoon and thanks for doing the call. I hope you're all well. Three questions from me, please. Firstly, just on the focused industries that you highlight on slide 14, I think that's just - that's for your loan book. Are there sort of, you know, quantifiable exposures outside the loan book that you can give us any note just to give us a context for those, you know, whether it's in the investment bank or trading books, etc.?

Secondly, on stage two loans there was a sort of decent up-tick in those in the quarter. Any comments on what drove the increase and just why the level of provisioning that attached to that increase in stage two didn't seem to match the level of increase in the actual stage two loans?

And just finally, does the sort of current period of market weakness, does that impact on, you know, or harm your ability to achieve your, I guess, deleveraging calls for the non-core unit? They'd be my three questions. Thank you.

James von Moltke

Sure. Hi, Lee. Thanks for joining us. So in terms of other exposures that are of a credit nature, of course in the derivative books counterparty credit is a feature, something that's managed and hedged and we feel very comfortable with.

In the trading books we obviously have a large credit trading business. Those are fair-value books and so go through rigorous price controls and monthly, quarterly valuation processes including with our auditors and so, changes in those valuations are essentially recognised up-front.

So I think those are the areas of significant additional credit exposure that's on our balance sheet. On the stage two, there obviously is a migration of stage one to stage two that takes place based on stage two triggers and associated reserving. There's also a migration into stage three of elements of those reserve balances.

It's sort of a feature of IFRS9 that the removal of obligors from stage two into stage three, changes the reserving and there's not a one-to-one relationship between the stage two reserves and the stage three reserves in that flow so you can see some changes, ebbs and flows between those balances over time.

On the deleveraging, we obviously are looking at the market environment very carefully and working with - through the CRU



- with both counterparties and clients to continue on our path and not be disrupted in that deleveraging. We're actually quite comfortable that the market environment - at least based on what we're seeing today - won't disrupt that path.

There was obviously a pause in March as people sort of adjusted to work-from-home and the changed circumstances but we have resumed auctions, we've resumed our engagement with counterparties and actually the pause gave us an opportunity to catch up on some of the operational processes around novation and what have you and so there's continued progress then on the deleveraging that comes between transactions or bargains that are agreed and the balance sheet recognition in the derivative book of the deleveraging.

So a lot of work underway. Our planning was sort of skewed to the second half and if we think in some respects the market can offer some opportunities in a derivatives book to accelerate, not only to slow down deleveraging.

Jakub Lichwa (RBC)

Hi, there; a few questions from me. One is on market risk. I noticed that you took a benefit of the ECB release so without quantifying what the impact has been can we get assurance that the back-testing exceptions will be essentially ignored and pretending they never happened and will never have to make it back to the model, even once the temporary period is finished?

And also can you give us some comfort that, you know, you are using this time to reduce your market risk at the same time as opposed to, you know, making the most of this period when you're using the old model and running with higher number of exceptions on a daily basis? So that's number one.

Number two will be on costs. I appreciate you're doing a great job actually reducing the costs but if we took the situation a bit to extremes would you... I mean, obviously you - given the nature of the business that you have there is some variable compensation there. Is there some slack there, is there some flexibility that you have in your mind where you could actually reduce the cost, increase the pre-provision profit without impairing the franchise significantly? And I mean by that reducing it in a relatively quick way.

And finally on stage three loan, I mean, it sounds curious and thinking whether you can give us any comfort in, well, in any way where the loans would have been or where the provisions would have been had there not been any government measures; so that's one.



Or maybe to ask differently- say you have a client which is facing problems, it's an existing client. Obviously you have now a client, you have access to a KfW line. Can you actually go and refinance the existing lines with the KfW loan and effectively transfer the credit risk onto KfW? Thank you.

James von Moltke

So let me try to tackle this quickly. So, as we said yesterday, the change in the ECB treatment of the multiplier offset the impact of our outliers and why is that? Well, the former may be temporary. Obviously it's for the ECB to judge whether that becomes permanent or whether it outlasts the period of time over which the outliers would create, if you like, inflation in our multiplier.

I would also add that we are in the process of updating our models and framework and there may be changes then to the market risk RWA that go with that, if you like, upgrade of our capabilities there so other movements. And there's also the averaging, so one would expect market risk RWA to increase in Q2, reflecting the averaging impact which is a 60-day impact and the March volatility, the April volatility feeding more fully into the RWA number.

On costs, as you'd expect, we are looking at all levers to manage our cost base in a way that helps us to offset the likely impact of this COVID environment both on revenues and loan loss provisions. Work has been underway on that for several weeks and management is committed to do everything in our power to offset the pressure on the P&L coming from this environment and therefore protect capital.

As it relates to stage three, I guess a couple things; the KfW programme; there is a credit process that has to be entered into by the extending bank so it isn't, you know, without a credit assessment and naturally with the 20% that we hold as an incentive to make sure we make good credit decisions.

There's also an expectation that the corporates would use not just those facilities to manage their liquidity; would also use existing bank facilities or other capabilities. Ultimately, you know, if borrowers get into difficulties, you know, the outcomes would be similar in terms of work-out of troubled loan exposures that we do in the ordinary course.

So we work with obligors in the ordinary course of these processes and we would expect to do that in this instance as well. I hope that helps with your questions, Jakub.



- Tom Jenkins (Jefferies) Hi, thank you very much. Most of my questions have been answered, certainly all the technical ones. Just if I may, could I ask for a little progress report on the PFK merger, where you're at, what our timing expectancy should be on that and, I suppose, also what it means for debt issued out of the old PFK or Deutsche Postbank?
- Dixit Joshi Tom, hi. Yes, sure. The merger remains on track for May. From a debt perspective, as would occur in a merger like this, issuances that are currently obligations of PFK whether that's senior preferred, preferred depositors or any other obligations that the PFK entity has would become obligations of DB AG and those would rank pari-passu with the respective elements of the creditor hierarchy in DB AG.
- So we see that as quite a smooth process into May.
- Tom Jenkins Okay, so there's no confusion or contention around old PFK bonds, especially the deeply subordinated ones, causing an issue in terms of there being Delaware law and complications around that, you know, a transfer of obligor being a material fact.
- Dixit Joshi It's not something that's hit our radar and certainly not our expectation that the transfer of obligations will not occur quite smoothly.
- Daniel David (Autonomous) Hi, thanks for taking my questions. Just a couple of quick ones. Can you just comment on your tier two issuance plans given you've got a transitional shortfall and appear to be taking the full benefit of the pillar two 104a dilution?
- And then secondly just to touch on LCR again, can you give us any colour on what LCR looks like in dollars and euros, not just the high-level number? Thanks.
- Dixit Joshi Daniel, hi. On tier two, you know, as you point out we have now the flexibility to issue tier two to the extent that we'd like to fill our pillar two requirements with either tier one or tier two.
- I wouldn't say there's a transitional shortfall. I mean, with a 240 basis point buffer at a CET1 level and a 155 basis point buffer at the total capital level that does leave us fairly well-positioned with where we are today.
- That said we do have the flexibility now to consider tier-two issuance and naturally, as you'd expect, that's something that we will be discussing and considering through time.
- From an LCR perspective, you know, our most binding constraint on LCR is really LCR at a group level on an all-currency consolidated basis The currency comparisons become





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