



**James von Moltke at BofAML Annual Financials Conference 2019,  
London**

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**Transcript**



Andy Stimpson (Research analyst, Bank of America Merrill Lynch):

Good afternoon everyone. Thank you for joining us all again. It is a great pleasure to have the Deutsche Bank Chief Financial Officer James von Moltke join us at the conference again for the third time.

James von Moltke (Chief Financial Officer, Deutsche Bank):

Pleasure.

Andy Stimpson: Maybe if we start with a very broad open question to start with. It has been almost three months since the big reveal and the new strategy. Maybe just tell us how things have been progressing so far.

James von Moltke: Sure. Happy to, Andy. So, let me start just quickly with what we announced in July with our strategic repositioning.

First of all, we are exiting a couple of relatively sizeable businesses most notably Equity Sales and Trading. We were downsizing in Rates Sales and Trading and a handful of other assets, went into what we call our Capital Release Unit, and I will come back to that.

Secondly, we are focusing our ongoing or core businesses around four key client groups and businesses going forward. That is our Corporate Bank, our Investment Bank, our Private Bank for retail customers and Asset Management.

Thirdly, we are focused on cutting costs to improve our margin that way with a significant programme over several years. But at the same time we want to continue to invest, especially in technology, but also in our controls.

And finally, we have a commitment to managing capital, allocating capital, in a sharp and targeted way.

So those were the announcements that we made in July. And how is it going?

I think we are making tremendous progress against all of the goals that we set for ourselves when we made that announcement. We moved directly into execution of those strategies.

The Capital Release Unit is well advanced in executing on the deleveraging actions creating itself as a unit management team, governance, but got to work right away on the deleveraging actions.

In our core businesses, each management team, especially where there was a significant amount of change, has gotten to work, executing on



their strategies, announcing their leadership teams and making the changes that they needed to make to orient those businesses towards their strategies.

We are on track against our expense targets for the year. That was an important feature. We laid out a goal to be at €21.5 billion of adjusted costs excluding transformation related items for this year. And that is something that we are working on every day.

With respect to investments, these are ongoing. Of course, investment, governance, how we invest in technology, the choices that we made is an ongoing process.

On capital, as I said, the deleveraging in the Capital Release Unit is providing the resources for us to execute on this restructuring while keeping our capital levels at capital our targeted levels.

So those are the elements of what we are doing. And the main message for you is all on track, and we have made, a significant amount of progress here in the third quarter.

Andy Stimpson: Good to hear. Now, the summer has been pretty tough for the whole banking sector. I think that is fair to say, with rates, the global macro outlook looking worse and the PMIs that were reported on Monday were pretty awful. In that context, I think you have already said you are looking for €24 to €25 billion target revenues consensus may be below that still already, but what macro backdrop do you need to see to hit those revenues? Does it need to improve? Or are we okay at this?

James von Moltke: It is always moving. The markets will mark-to-market every day, the economic outlook and the interest rate environment. We obviously are highly cognizant of those things.

We are managing in the environments that we see, and you see every day. But if I think about it strategically, there is nothing about the environment that we are seeing and have seen over the summer that changes the direction that we are going in, or really over the long term our ability to hit some of our targets that we have laid out.

Now, obviously one could wish for a better macro backdrop than we have had in the last couple of months, but when we were talking about targets, it is really 2022. So interest rates clearly have moved significantly since May when we were working on our plan. And that is a headwind to our then revenue objectives.

One thing you need to remember is we are sensitive more to the short term rates and they can move around and so, we will see. We thought at the time that short term rates might pass through the zero bound



sometime around 2021 or 2022. That was based on implied forward rates at the time. That has come off for now for sure, but we will see how the economy tracks.

In terms of growth, we had made relatively conservative assumptions about economic growth, in the 1% range in Germany and Europe, perhaps 2% in the US. While I think in the near term, our growth assumptions may be a little above current consensus expectations, again, what matters is over the long term, how the economy is growing.

So short version, we could certainly imagine a better backdrop, but we are working towards our revenue targets within the bounds of what is possible again, given the interest rate environment. And that is why I conceded that some of the revenues that we had originally baked into our 2022 simply will not be there. How much remains to be seen.

Andy Stimpson: Yes – you said you are more sensitive to the short end. Is tiering a bit of a wash for you?

James von Moltke: It is better than a wash for us. I mean, it is a net positive for us. And by the way, it is not just the banking sector. I think the economy would benefit from a steeper yield curve and I think a little bit more dynamism in the economy, which I do not think interest rates are frankly helping on.

But yes, we are more sensitive to short term rates, at least for now, given how we are positioned. And clearly, we would like to see short-term rates go up.

The ECB has introduced tiering by basically applying a six times multiple to required reserves. For us, that means that about €30 billion of our reserves would benefit from the advantaged interest rate of zero.

The remainder of our reserves would be subject to the minus 50 basis points.

So, the net of that calculation is slightly positive. But I think the overall issue is the interest rate environment and how we navigate through that.

Andy Stimpson: Yes, and so – because as you said there that the curve has flattened a lot. Is the €24 to €25 revenues that you spoke about – is that partly factoring that in to the long end impact of the investment portfolio?

James von Moltke: It does. It factors that in over several years and also the cumulative impact. And now, of course, what we need to do is figuring out how we are going to offset some of that and preserve as much as possible of



the revenue goal that we set out, which, as I said, is approaching €25 billion in revenues in 2022. That would allow us to hit our ROTE target.

Having experienced some amount of interest rate driven decline, on a forward basis, we have to go to work figuring out how to offset that. And the offsets are things like deposit pricing, fee changes and obviously seeking to build as quickly as we can in our fee-generating businesses off of our base of Assets under Management.

And so, there is a lot of work that we are doing to figure out how much of that interest rate headwind we will be able ultimately to offset.

Andy Stimpson: Good. And you mentioned deposit pricing. So a key topic probably in Germany, more than anywhere else. Where are we on ever being able to pass on negative rates to retail?

James von Moltke: We are very cautious about whether in a mass retail setting we would be able to pass on negative rates for legal reasons, including documentation requirements and other reasons, including politics.

But in all of our other portfolios of deposits, whether that is higher-end retail, wealth management, corporate, commercial portfolios, we are going to look very hard at what the pricing adjustments should be. I am sure you have heard from other banks, I think the ability that the banking industry has now to shield portions of its client base from the impact of negative rates, has simply gone away. We need to be much more robust about passing on negative rates.

Andy Stimpson: Yes. Thank you. So, all my questions, I have just realised they are all sad questions. I should have put in some happier ones. But Germany is now in a technical recession and some other parts of the world are heading that way as well. What does that mean for your risk appetite and what kind of levels of GDP decline would Deutsche start taking more loan loss provision because we are all still getting used to the new loan loss accounting. Is that the metric you would like at if you were all of us.

James von Moltke: First of all, we will not make any changes to our risk appetite because we have remained very disciplined in our risk appetite. We had a bit of a deep dive on this. We did not widen the risk box and now have to close it. We have remained very disciplined on credit. So, we feel good about our entry point.

As we talked about in the second-quarter results, we do expect to see an increase in credit loss provisions in the quarters and years to come, but it is because we are coming off a very, very low base in the low teens in terms of basis points relative to loans at amortised cost. It was



about 13 basis points last year, 14 basis points in the first half of this year. And so, we indicated that we see these loss rates climbing off of the low base that we have been at.

At the moment, I have to say, we are not seeing a broad-based change in credit conditions. There have been idiosyncratic credit events for sure. And we are watching very carefully.

The incidence of stage two triggers to me is one of the best leading indicators now that we are fully in an IFRS9 world and getting used to managing the books in an IFRS9 world. We are watching those stage two triggers carefully. And while there have been small movements, we do not see a broad-based trend at this point.

Andy Stimpson: The movement from stage one to two, not two to three.

James von Moltke: Exactly. From stage one to two is where you see the most significant move in credit loss provision. Stage two is where you significantly increment to the expected loss and so those stage two triggers are what would drive a P&L recognition in any given quarter.

Andy Stimpson: Got it. Thank you. And you mentioned already that the corporate bank that you have put at the centre of your new strategy. What is the ambition of the new corporate bank going forward? I mean, we certainly see, or I certainly see, many other banks saying that they are going to push into corporate banking and in particular, even in Germany. I mean, that to me says that there is going to be more pricing pressure going forward and the thing which is the focus of the new strategy.

James von Moltke: Yes. The reason you hear that is because we think it is a great business and others do too. We think we are very competitive in it and have a great client base, a great competitive product offering.

It is a very attractive business also in its financials. When you see our restated numbers, you will see that it is about a 9% ROTE business historically and it is something that we think we can build from. So, we feel very good about the business.

It has always been competitive. So, I do not think the fact that it is, as you say, somewhat in vogue at the moment and has been price-competitive for quite a long time. So we do not see that as a change in our environment.

We think that the focus that we can bring by virtue of having a dedicated management team, putting more of our investment dollars or euros there and capital will help us grow that business.



It is a 5 billion business that Stefan Hoops is leading, and with a great client franchise. And I think should go from strength to strength.

You may be aware there is another conference going on this week, which is Sibos, and our people are there. Christian spoke there today and the client resonance that we get supporting the strategic decision, the focus on corporate bank as part of our strategy or a focal point of our strategy and the investments, it is tremendous.

Andy Stimpson: Good. And is the plan there – because I guess we are going to see if you have got the more pricing pressure there. Is that where your pushing balance sheet and capital into to offset that margin pressure? Or is it shifting that model more to fees?

James von Moltke: It is a mixture of all those things. It is a liability-driven business in cash, asset-driven in trade and commercial banking. And it is fee-driven across a variety of products, including custody and agency services. It has a nice mix of balance sheet and fee-driven income. As I said, it has been competitive on pricing for a very long time. It is a place where you have to assume that there is going to be pricing pressure in any given year. And you need to offset that pricing pressure with efficiency improvements and with new product innovations. But that has been the nature of that business for many, many years.

Andy Stimpson: Okay. Thank you. If we switch now to the Investment Bank. Certainly, that is where the majority of the big changes are coming from. How have the clients reacted to that restructuring so far? I know we would spoken about adjacency businesses. I think you have given us some reassuring comments on that. So, interested if that is still the case? And then is that something you will see in the numbers? Or is that just conversations and then we need to look for that to come back at a future period?

James von Moltke: I think both. It will probably take some time to fully reflect itself with the numbers. When we did our resegmentation and the restructuring that I mentioned earlier, we created an Investment Bank out of the old Corporate & Investment Bank, with the Corporate Bank going in another direction and certain activities going to the Capital Release Unit. What remains in the Investment Bank is our origination and advisory franchise, as well as our Fixed Income and Currencies business. And within the new Investment Bank, as we said back in July, about 75% of those revenues are in business activities where we are one of the leading players.

So, I think the starting point is focusing on the things that you do well and have a leading position in. And if we look at both the trends this



year, that decision has played out to be the right decision, focusing on the things that you are good at.

Client reaction has been more positive than we might have expected. We got a clear message from our capital markets clients that the decision not to serve them in equity sales and trading, by and large, overwhelmingly would not affect their decision to continue to use us as a service provider in fixed income and currencies. So that was quite positive feedback.

And looking at daily market share data and that type of information, it seems to be bearing out that client behaviour has not significantly changed around our decision. So that is encouraging.

As we talked to back about in July, we did make assumptions that there would be some read across into adjacent businesses that, whether it is corporate finance or fixed income and currencies, there would be some impact in terms of clients pulling back, client behaviour.

That change in client behaviour has been less than we might have assumed, but as you also indicated in the way you phrased your question, it needs to play out over several quarters to see that that has really playing out.

One factoid I will give you that we think is very encouraging. There was some discussion after we made our announcement. Can you continue to be a primary equity house once you have exited from equity sales and trading?

Since July we have won 21 equity capital markets mandates and we have executed on a number of those during the quarter and there are a number still to come. So, we have not seen, as you might have expected, that much of a pullback in terms of client activity with us as a primary equity issuer.

So early days, it is encouraging.

Andy Stimpson: Good. And does that – I mean, maybe a cheeky question here. If it has gone that well already, does that, kind of, embolden you to think, well, maybe if we have to, we could go further? If you have managed to slice off different bits and it has not affected the rest?

James von Moltke: No, with 75% of our Investment Bank revenues in market leading positions. We are a global leader in global credit trading, global leader in FX. We are a significant player in rates, but rates is an area where we need to refashion the business model to make it more profitable and do so against the resources that we have there. And we have got



nice positions in a variety of our corporate finance businesses. I would highlight leverage debt capital markets, commercial real estate, and we have extremely competitive debt, capital markets offerings alongside what we do in equity capital markets and M&A. So, all of those areas remain core areas.

And the important thing is, Andy, they are core to the client franchise that we have and what clients need from us. Again, our conversations with corporate clients after the announcement showed that they are very comfortable with what we are doing and capabilities we have to serve them again in corporate finance underwriting and also essentially risk intermediation where corporate clients are using us to manage interest rate risk or currency risk.

Andy Stimpson: Sure. No one has asked on the iPad yet what has happened in the third quarter? So, I will pretend that someone has.

James von Moltke: Sure. We set out three main deliverables for the third quarter in July. They were to demonstrate continued growth in what we call our stable businesses in three of our four core businesses, retail banking or what we call the Private Bank, Corporate Bank and Asset Management. That we continue the trend that we have shown over several quarters of slow, slower perhaps than we would like, but year-on-year growth.

Second, was continuing on our expense trajectory of sequential expense reductions towards the targets that we have set out for this year and next.

Thirdly, evidencing a path towards our year-end targets for risk-weighted asset and leverage exposure reductions.

And on those three things that have been our core focus points, I think when we report on Q3, you will see we have made progress in all those three areas and are on track against our targets.

Andy Stimpson: Coming back to deposit pricing, can you tell a bit about the practicalities? Will it be some kind of fee structure? Will it be negative interest rates? Will there be some caps introduced so minor deposits will not be affected? And how deep or how much do you think you can charge before people go out and opt for physical cash?

James von Moltke: It very much depends on the client base. And by the way, I do not want to front-run because our business managers are making those decisions and communicating them as we speak to clients.

I want to be a little bit cautious about how much I say. But if it is a commercial client, we will start to impose negative rates on their



accounts. And the practicalities are you need to communicate that and then implement it. And of course, clients can react in various ways.

In retail, you are more likely to go down a path of fee structures, whether that is account fees or other things. That is work that we need to do and begin to implement.

In the more corporate and also wealth management, you are likely to see some version of tiering, if you like, a mini tier where you would offer preferential rates up to some cap, and then once you are over the cap, then we would start to pass on negative rates.

So, a mixture of all of those tools. In some business areas, we have been doing that for several years. Now we need to look much more carefully and ensure that we are doing that across the client base. But it would be a mixture of all of those tools appropriate to the client base.

Competitive reaction is going to be hard to tell. My own view is the industry is going to be doing this, I will not say in tandem, it will sound like an inappropriate statement, but recognising that everybody now sees the same pressure and that pressure is likely to be around for an extended period of time,

I would expect pricing actions to take place across the industry. So, we would be operating, in terms of making these changes, in an environment where one would hope not to significantly disrupt that client base.

Andy Stimpson: And the physical cash?

James von Moltke: You know, it is hard for me to judge. I think there is already – and you have seen gold as a substitute and other things. I think you will see more of that behaviour for sure. It is an irony, but that in this environment, the deposit is actually one of the most attractive investment alternatives in terms of risk, liquidity and yield. So that is an interesting fact that we live with.

Andy Stimpson: Maybe if we follow – we have got another question that I will just ask on the asset side. You can tackle that a different way by moving further up the risk curve on the retail lending and pushing more into consumer loans. What is the thinking there? Is there any temptation to do that?

James von Moltke: And this is one of my bugbears about monetary policy, because, as you say, it does, in a way, push the banking sector up the risk curve, which has a prudential impact as well. It tends to reward risk-taking and punish relatively conservative. We are going to stick with our credit box



and remain, I think, cautious, despite some of the signals that the monetary policy provides.

That said, we have been growing, for example, our unsecured consumer lending among other regions in Germany. And so that is something we want to continue to do. It is off a relatively low base, but it is I think, an attractive, risk-adjusted return segment and therefore an area that we have been investing in steadily over time and will continue to do so.

So, again, our nature is to be cautious on credit risk. But I think there are some areas where our skills are very strong, our client base is good, and I think we can exploit lending opportunities a little bit more.

Andy Stimpson: Yes, I was wondering if you could talk I guess, in response to some of the Trump trade tariff rhetoric. There is been press speculation about fiscal policy being used in Germany and I was wondering if you could talk a little bit about how that could play out, whether you think this is a one-off German thing, or do you think we could see more fiscal policy on top of just the monetary policy?

James von Moltke: It is so hard for me to comment. Ultimately, it is a political judgement. But if I go to what our economists are looking at and saying and frankly, the advice that one can naturally give is if you can borrow at a negative rate, obviously not unlimited amounts, but significant amounts of resources and invest those resources sensibly, that would seem like a good thing to do.

And I think, there could be significant benefits across the economy, both in terms of aggregate consumption, but also, in creating a steeper yield curve, which benefits not just the banking industry, but also benefits, pension investments and many other things would have an economic impact more broadly. So, it is from the perspective of our economists, something we would certainly endorse.

But it is going to be a political decision as to whether the German government is willing to do that and if so, how it would intend to put those resources to work.

The most recent initiatives on climate-related issues, as I understand it, are within the idea of a non-deficit spending government environment. So, it has not yet transitioned to the point where you would have deficit spending. But it is certainly a possibility and the economic arguments are reasonably favourable for that.

Andy Stimpson: Thank you. Maybe I will move on to at least my favourite topic of capital. We have the timing of risk, different risk weighted asset,



inflation from the regulators. Plus, you have the headwinds turning from weaker macro backdrop. So, I guess in theory, if that means revenues are weak, then, in theory, everything else stays the same. You would get closer to the 12.5% Common Equity Tier 1 level than you would originally have hoped for a few months ago. So, firstly is that an unfair statement? But then also, what are some of the levers? You talked about the levers you could pull. If you did start to get near to it, could you elaborate on what those could be?

James von Moltke: Yes, in principle the way I think about it is capital is at the bottom of the funnel and everything feeds into capital, whether it is revenues, expenses, loan loss provisions, your tax rate and then, of course, resources. And also, some less tangible things including data quality, models and methodology changes all get baked into that particular cake.

But yes, in principle, if over a medium-term, your revenues are going to be lower and absent other levers to offset that, your internal capital generation will be less, and that would over time affect your ratio.

As you say, we do have levers, and we have been quite vocal about our ability to manage in a corridor, which I think to some seems quite tight. But we believe we have got the tools to ensure that we do so. Part of, every quarter, every year's, planning processes, is understanding what the levers are, when to pull them and to what extent. So that is an ongoing process.

Our goals for this year were to keep our Common Equity Tier 1 ratio at or around 13%, recognising that there is some risk-weighted asset inflation coming at us in 2020.

And overall, the deleveraging in the Capital Release Unit does have the effect not just of financing the restructuring, but also offsetting some of the regulatory inflation and to a lesser extent providing some resources for the core business to go.

So, looking at all of the levers and very focused on managing to that capital quarter that we laid out in July.

Andy Stimpson: Okay. I guess what we have seen in the past with many banks is that some of the levers they have pulled for them to fix the balance sheet end up having a detrimental impact on the P&L.

James von Moltke: Yes, and it depends on what it is. One area of focus that we talked about in July and remains an area of focus is operational risk weighted asset. We are investing a lot of time and effort engaging heavily with



our regulators on how operational risk-weighted asset number will evolve.

Secondly, I say this as the fifth of the five elements of our strategy focus is the even more intense focus on capital allocation and the use of capital. So, getting lazy assets off the balance sheet.

But you are right, at some point, and we seek to defer as long as possible, at some point the actions that you take to preserve the ratio would have an impact on revenues and hence the goal is to use every lever to optimise that calculation.

Andy Stimpson: Great. Thank you. And on the iPad, there is a number of questions here around your credit ratings and how sacrosanct those are and how you are managing around that, and how it would affect your term funding costs.

James von Moltke: We have been very clear in a number of forums that our credit ratings are an intense focus for us, ensuring that we preserve our ratings and over time improve them. As you can imagine, therefore, the rating implications of the restructuring that we announced in July, where we are very front and centre in our thinking.

We have a degree of confidence that over time the actions that we have taken, in particular, reorienting the company away from a capital markets dependency and towards what we refer to as these more stable revenue sources, will be credit-positive as we get through the several quarters of restructuring.

That has been very much a focus as we formulated the strategy. And my assumption is that as we execute on that strategy, you will see some of those benefits coming through.

Generally, and we have talked about this over several quarters, we have been working to optimise and improve our balance sheet efficiency. So, the ratings in our spreads are one element of our overall funding costs.

But even without moving the ratings, we can take actions to improve our funding costs around again, balance sheet efficiency. So, we have been acting on that. You may have noticed that we have not issued debt in senior non-preferred format since we announced our new strategy. And so we are allowing debt to run off of the balance sheet to help the amount of unsecured spreads we pay.

Andy Stimpson: Maybe if I ask one here on the non-core division. You have had a non-core division and they have run it off and then there is a new one here



and I know you have announced that you have signed the agreement with BNP on the prime side. What are the choke points that you are looking at in terms of getting that down as quick and as capital efficient as possible, and what your view is on the write-downs you are going to have to take with the assets in there and whether actually the negative rate outlook has had a positive effect on that?

James von Moltke: It does help a little bit to the extent that there is interest in buying yielding assets which is a helpful backdrop.

So, a few comments on the Capital Release Unit. First of all, it is a tremendous credit to Frank Kuhnke and his team who got to work right away. That team has been able to address the entire equity sales and trading platform that we had in one way or the other within a quarter of announcing our intentions.

So, within a month, we were flat on risk in cash positions and essentially out of the cash equities business. You may have seen some press commentary that we have now successfully auctioned off what we called our flow equity derivatives books in, I think, very favourable market environment, and that has gone well.

And then with the announcement on Monday morning of the definitive agreement with BNP Paribas, we have now got a path to exit and transition our prime finance business over the next couple of years. And so, we are very pleased with that progress, again within a single quarter.

More broadly, as you say on choke points, in some ways, the equities positions had a lot of leverage and not so much Risk-weighted assets and relatively speaking, on the more liquid side. So, that was always part of our plan and we have executed on that, I think very well, and again, credit to the team.

We have also been at work looking at other assets and asset classes and divesting during the quarter. So, it has not been only on the equity side, but it has been a high degree of focus. We go forward from here with discipline, portfolio by portfolio, seeking the opportunities, putting things into the market and attempting to exit in the most economical way you can.

Now, to your question about potential loss content. That is something that we have estimated so that you can, for capital planning purposes and other reasons, have a point of view and by and large, you hope to do better than your expectations. And that is certainly my hope and expectation for here.



But hopefully rather like the revenue adjacency point, we have planned conservatively, and we will see the development really over the next several quarters.

We have got five more quarters to go where the most significant amount of that deleveraging takes place. And if I think about the third quarter, we are off to a very good start.

Andy Stimpson: Great. I will just sneak one in on level three assets. I know you have explained that a lot and actually it has cycled through, it is not as a illiquid as it always seems, but how much of that is sitting in the Capital Release Unit?

James von Moltke: Only about a third of our €25 billion of total level 3 assets is within our Capital Release Units. So, call it €7 or €8 billion. Just taking up part of your earlier question, the Non-Core Operations Unit of several years ago had a number of assets, illiquid, hard to value and a very different portfolio from what is in the Capital Release Unit today.

The Capital Release Unit is overwhelmingly fair value assets, some cash positions, some derivatives, mark to market, and much of it is liquid. So quite a different portfolio. There was what we call non-strategic portfolio that we used to disclose that also went to the CRU. That was about 7 billion of RWA, and I think only 1.4 or so billion of it, the last time we disclosed it was level three.

Andy Stimpson: Perfect. Perfect. I think we will leave it there. Apologies if I did not ask your questions which came up on the iPad. We will have the breakout session so do feel free to come and ask it there but thank you very much James.

James von Moltke: My pleasure. Happy to be here.

Andy Stimpson: Thank you.



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