



James von Moltke

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Transcript



Rohith Chandra-Rajan: Good morning, everybody, and thank you very much for joining us. I am very pleased to welcome James von Moltke, Deutsche Bank's CFO. James, thank you very much for making the time to be with us today. I would like to focus on the strategic challenges that face the sector. And clearly, there is a lot going on underway in terms of what Deutsche Bank is doing. But I wondered if I could, perhaps, start with an update on the current environment across your key markets in Consumer and Corporate?

James von Moltke: Sure, Rohith. Thank you for hosting me today. I am delighted to be with you in this virtual format. Look, we are, in a way, fortunate. The spread of our business and I'll just talk about it from the perspective of the loan book is 50% in Germany more or less, about 10% in Asia, and 20% in the us. And so relatively speaking, the mix of our business is towards some of the economies that are doing, on a relative basis, reasonably well in this sort of Covid recovery period.

Now, of course, a lot depends on the shape of the recovery from here. We have gone through the sharp v that we all expected into Q2, into Q3. And now, the interesting question is the slope of the recovery from here. I think we all now expect that we won't recover the level of GDP that we left at the beginning of 2020, perhaps, until at the end of '21 or into '22, and naturally, that has an impact on our business.

If I break it down by businesses, though, I have to say, we are seeing encouraging signs. If I start with the Private Bank, for example, whether it is in the investment product area or in mortgages, we have now recovered to a level above where we were last year in terms of production at this time. And so we are encouraged by that recovery. Consumer lending has been a little bit slower to come back but we are seeing a recovery in there as well relative to Q2.

In the Corporate Bank and that is the second of the businesses that we have that is particularly impacted by interest rates, we are also seeing some encouraging signs, whether it is commercial lending in Germany, the level of transactions or transaction volume that we are seeing in our payments business that is up in the high single digits year-on-year. Those were encouraging signs of momentum.



And then, of course, as you have seen, the industry had, I think, a strong year across a range of investment and banking product areas, which we've, of course, participated in as well. You have seen very strong first-half performance in our Investment Bank, and that has been very encouraging to us. And equally, the Asset Management business regained inflow in the second quarter at about € 9 billion, and a total of € 45 billion increase in assets under management in the second quarter. All of those things are encouraging signs in the business, notwithstanding the very unusual environment we've been in.

I do not diminish the challenges. As you said at the outset, interest rates represent a significant challenge for our industry but what we are doing is, in a very focused way, working to offset and overcome that particular challenge.

Rohith Chandra-Rajan:

Thank you. And I guess M&A has come into sharp focus in the sector over the recent days and weeks. Do the regulators comments about the potential use for bad will change your views on that as all? And then, I guess, on a couple of specifics, how are you thinking about Commerzbank and, perhaps, prospects for your non-German, European businesses?

James von Moltke:

I will, as always, avoid being specific about M&A commentary. We have been, I think, pretty consistent in our public statements on this, which is, we do expect consolidation to pick up in Europe. The European banking market is more fragmented. That is particularly true in Germany. And we think that the industrial logic of bank mergers, the need to achieve greater scale, at least among the larger banks, is appropriate or valid industrial logic.

Of course, for Deutsche Bank, we have been focused on executing on our own strategy, and we think that strategy would prepare us to engage in merger activity when the time comes and the right opportunities arise. So we are expecting this wave but we are also working hard to prepare on our side.

Again, I don't want to go into specifics, but I guess two things to say. One is domestic M&A in Germany, as you saw with our decision last year, frankly presents some challenges because of the specific structure of the German market. We took the view last year that executing on our own strategy was the most value-enhancing strategy for our shareholders, and we think



that the last 12 months or 18 months have proven that to be true.

And then, there are going to be, from time to time, more opportunistic situations that we pursue, where we are very focused, again, on executing the strategies in our core businesses. But within those businesses there may be more opportunistic ways to grow or accelerate the execution of those strategies. And so from time to time, we will likely have a look at smaller opportunities.

Rohith Chandra-Rajan: Thank you for that. So I mean, you mentioned your strategy, and there is clearly a lot of work underway there. I am just wondering in terms of execution, particularly coming through this year, how has Covid impacted your ability to execute that transformation in this environment and achieve your longer-term goals? And I think you are still reiterating your headcount targets for the year-end, despite the slowdown that there was in execution of that in the first half of the year.

James von Moltke: Sure. Rohith, we have been very focused on, not allowing the Covid environment to set us back in terms of our restructuring, the transformation of a company. And so very deliberately, we have maintained the focus. We have been executing with real discipline across the company on the transformation actions, the milestones that we had set out for ourselves. My colleague Fabrizio Campelli, who runs our transformation office, talked about it much earlier this year, how we divided, we articulated our overall transformation strategy into as many as 60 or 70 sets of deliverables, and we are tracking in a very focused way on executing those things.

One piece of evidence for that is our cost trajectory. Where last year, in 2019, we took out € 1.2 billion of costs and achieved our targets for that year. This year, we had a target of removing another € 2 billion of expenses from our cost base against a target of € 19.5 billion, and we are well on track to doing that.

In an odd way, the Covid environment has, if anything, sharpened the execution focus. And I think we demonstrated that in Q2 with a series of announcements and actions that we have taken as a management team. So we are very proud on the basis or in our ability to keep that process on track.



You mentioned headcount as part of the puzzle. We don't have a specific target for the end of this year. When we announced our restructuring back in July of last year, we set out a target of 74,000 full-time equivalents for the end of 2022. That implies a glide path and I would be lying if I didn't say that the last couple of quarters have probably set us back a little bit against that glide path. That means that we have got to work harder to regain the glide path. And of course, as you would expect, that has been an area of focus for us over the last several weeks and months.

The hiatus in involuntary separation that we announced that we would do early in the Covid environment was only for six weeks. We think it was appropriate. I think today, the larger challenge is lower levels of attrition in the business and across the company.

As you would expect, the Covid environment has caused people to be a little bit less mobile, and we are seeing that in our attrition statistics. And that means that we need to work a little harder. It may be a little bit more expensive, in terms of restructuring and severance charges, for us to get to our goals in 2022. But as I say, we remain just as focused on execution as we were prior to the Covid pandemic.

Rohith Chandra-Rajan: Thank you. So continuing, I guess, on the cost theme, you have talked in the past about looking for ways to accelerate the cost reduction. I wonder if you could just expand a little bit on that in terms of what sort of areas you are looking at and how significant that could be.

James von Moltke: I will start with the more obvious ones that I think everybody is seeing, which is less travel, entertainment, marketing expense that we are obviously seeing in our numbers this year. And as we look forward to 2021 we would like to continue to carry some of that benefit forward based on changes in behaviour and the amount which our people travel, the amount of usage of telecommunications both for internal and for client-facing interactions.

I think the second area of real focus for us would be occupancy, so our real estate footprint. When we announced our strategy a year and a little bit ago, there was a relatively sizable goal that we set out in terms of overall footprint reduction. But we said that over the period to 2022, occupancy



expenses would be basically flat, and that is because we are entering into a sort of a double lease period associated with two major properties that we will go into in the next couple of years, one in New York and one in London.

As we look more carefully at our real estate portfolio and revise some of our assumptions and become more aggressive about how we want to use the space, given what we are learning now about the way the workforce will choose to engage and choose to work every day, we think there is some opportunity to actually bring occupancy down as well. And it goes beyond those lines, but those are areas of real focus at the moment.

Rohith Chandra-Rajan:

Thanks for that. And I guess another significant part of the transformation program is the Capital Release Unit. I guess progress there in the first half of the year was a bit slower than might have been expected. So just wondering what your expectations are for the full year. Do you think you will be able to execute the plans as intended by the end of the year? So is that on track, and what that means in terms of sort of RWA reduction, leveraged capital, and any impact on earnings?

James von Moltke:

We remain very focused on delivering our end-of-year RWA target of € 38 billion in the Capital Release Unit. As you say, the first half was a little bit slower against that glide path, but underlying progress was actually quite encouraging.

And when I say "underlying," it meant that the de-risking actions that we executed, meaning positions that we exited during the first half, represented about € 5 billion of RWA relief. And that was offset, though, by some increases, about € 2 billion in, if you like, Market Risk RWA principally, and some small amount of credit risk RWA that came with the change in the environment. So the net number that you saw was a little bit lower than what we actioned during the first half.

I think that is temporary and so we will catch that up at some point in time as markets normalize. But we remain focused on, that year-end target, which means we need to work a little bit harder. We are progressing in that deleveraging exercise, de-risking in the CRU in a very encouraging way. We have ongoing auctions across the various books that we have in CRU, typically in small size that you don't really see in the marketplace but with very engaged counterparties who have



grown used to the sort of supply that we put out there. And we have been on the whole, very pleased with the results of that.

So short version is we remain on track. You see a little less of it because of these dynamics but we are very focused on that capital release. I will say one other thing, Rohith, just going back to the Q2 results. We did say at that time that we were behind our leverage exposure a glide path in the CRU, which we think we will recapture next year, including with the transfer of the Prime Finance business to BNP Paribas. But I would add that we have taken that down by about 60% since we announced the restructuring, or almost € 170 billion in leverage exposure.

So we have made really good progress, and we have indicated that we expect to take about 10 to 15 additional off the balance sheet in leverage exposure over the next couple of quarters. So we think continued very solid progress in Capital Release Unit.

Rohith Chandra-Rajan:

Thank you. And another key area of the transformation was investing in the control environment. Could you talk about how that is progressing and what the current areas of focus are?

James von Moltke:

Well, I think really well. I think the external sort of visibility that you might have is the resources that we have put to work there. So in the past several years, we have essentially tripled the resource, whether that is expressed in euro terms or in full-time equivalent terms. And in the case of anti-money laundering or AFC, anti-financial crime, we have quadrupled the resources. So we think we are investing, and we are doing so visibly.

We need to see the benefits of that in terms of an improved control environment and we do every day see the improvements in our surveillance capabilities, in our reporting capabilities, also across policy and technology. So we are we are executing on a multi-year plan and are pleased with the progress that we are seeing.

Of course, some of that is hard to see tangibly on the outside, but I think the measures you see in terms of regulatory events that speak a little bit to the control environment, by and large, they have been in the right direction in the past year or two. With the SREP decision late last year on the part of the ECB expressed confidence in the direction the company was taking,



and also the CCAR pass in June was a result, we were working hard to achieve with the Federal Reserve. Impossible to line those up, necessarily, one by one but I think evidence of forward movement as we as we address improvements in the control environment.

Rohith Chandra-Rajan: Ok. And if we could then move on to revenues. Again, a key area of focus. Obviously, Investment Banking was strong across the industry in the first half of the year. How much do you think that was a pull-forward of future revenues, or are you anticipating ongoing structural change in the industry?

James von Moltke: We did right at the outset, we saw real momentum in our businesses in the investment bank. And that is in part our participating in a more favourable environment in the first half of this year. It is in part delivered by the improved focus that we have since announcing our restructuring. So our businesses and the Investment Bank are much more focused in terms of the clients, the client perimeter, who we do business with, and also the product capabilities. So we think that the restructuring last year actually positioned us better to participate in the improved environment.

If I look forward a little bit, the third quarter has seen some of the momentum carry through from the first half, which is encouraging. Even as the market, as you have seen in terms of volatility and bid/ask spreads, has begun to normalize. That said, as you saw with some of the guidance that our competitors gave last week, the investment banking revenue environment has continued strong.

I think if I put us on a relative basis to that guidance, if you take the average probably, at this point, at least in line with or ahead of what our peers have guided so far. And so that is encouraging. Again, for us, part of it is our own race, and the franchise improvement that we have seen which we are hopeful will carry forward into future periods even as the market environment normalizes. As to your question, Rohith, about pull-forward, always hard to tell. Of course, some of the financing activity won't be repeated at the record levels that you have seen in recent months, but equally, the benefits of volatility and bid/ask spreads doesn't necessarily tell you that the future will be demonstrably worse. And actually, some of the corporate activity, you know, is a reflection of corporates



adapting their strategies and their capital structures to the changed environment.

Rohith Chandra-Rajan: Thank you. And more broadly across the business, the Investor Deep Dive last December flagged your ambition to grow revenues. Clearly, interest rates are a challenge and have become more challenging so far this year. So can you talk about the progress that you have made so far in terms of offsetting some of those headwinds and being able to grow the revenues, and then, also, how you might tackle the emerging increase of increased headwinds in terms of interest rates?

James von Moltke: I agree with you, Rohith, that it is a critical part of the story and the path for us, no question. I think over the past year or so, I think we have put a lot of the concerns that investors originally had to rest. I think we made the strategy decisions that were the right ones for the company. We have executed against our cost path over time. We have demonstrated an ability to manage capital to or above the levels that we laid out at the time. And we are continuing to manage credit, I think, carefully in a very difficult environment.

So with all of those sort of investor factors ones that we have been working hard on, revenues becomes a critical part of the path from here towards our goals for 2022, which was a return on tangible common equity of 8%. Now there is no question that the environment has been more difficult than we might have expected a year ago July. And in particular, the interest rate environment has been has been a challenge.

And so as you say, at the Investor Day last year, the businesses articulated, for each of the businesses, strategies to begin really growing revenues, to get on the front foot with clients and within our franchise. And it has been gratifying to see this year how the businesses have remained intensely focused on those strategies. So to throw out a few examples, we talked a lot about deposit repricing in the corporate bank and the private bank.

We have been executing on that and we intend to continue executing on that. Corporate Bank articulated strategies around Asia growth, fintech growth, the payments strategies. And we have made, real progress executing on those strategies. In the Private Bank, the investment product area is a key growth opportunity. But even so, it doesn't take that



much revenue growth in the Private Bank to deliver on its returns objectives, because a bigger part of the story was expenses. Nevertheless, working very hard to execute on their strategies, as you've also seen.

The Investment Banking question, as you say, is pulled forward in a market environment in the next couple of years but to my point about the franchise focus, we are very encouraged with the momentum. And then, Asset Management is continuing to execute and is performing in line with our expectations at this point for the year.

So if I put all that together, I do see it as execution on track with or ahead of our expectations, despite the fact that the environment has changed and, clearly, interest rates have represented a challenge. We talked in the second quarter earnings about the last 12 month revenue level, and that was at € 23.7 billion of revenues in the 12 months to June 30, 2020, in the Core Bank.

Now, we have negative revenues for the time being in the Capital Release Unit but we think that that 23.7 number was an important number in terms of defining the gap between where we are today and our aspirations for 2022. And so we are continuing to work intensely on formulating the strategies to get there and on executing them.

Rohith Chandra-Rajan: So does that mean that you are despite the changes in the environment, you are still confident in terms of meeting that 8% RoTE that you just mentioned? Or do you think there is a need for additional restructuring on top of what was initially indicated last December?

James von Moltke: It's the key objective that we are working towards as a management team. So as you would expect, every quarter, we are tracking performance against our plans and expectations. And then, in the annual planning cycle, we will work in a deeper dive with all of the businesses and areas to make sure that we remain on track in terms of all of the aspects of that path whether revenues, costs, capital, and the capital allocation, and, otherwise, balance sheet usage. So that is a process that we are very intensively involved in.

It naturally is the case that there have been pressures. And we talked about that, a year ago when the first leg down happened



in the revenue environment because of euro interest rates. And I think we demonstrated over the past 12 months that we were able to offset that, again, by executing on our plans and our strategies. So that will remain a key focus, and absolutely, the revenue growth picture that we need to achieve is the top of the funnel, if you like, or the key element of getting to the 8% target that we have set for ourselves in '22.

Rohith Chandra-Rajan: Thank you. And if I can just come back to net interest income for a moment, can you talk about your TLTRO III strategy in terms of what you have drawn, and how you are deploying it, and what the earnings impact you expect from that is?

James von Moltke: Sure. Look we drew € 30 billion in June in the new facility. Some of that was rolling collateral from the older facility into the new facility. And we indicated an expectation that we would draw the full amount of the allocation or our eligibility of TLTRO III given the incentives that were built into that program.

Over the life of the program it's always a little bit difficult to measure but over the life of the program, if you compare it to three-month euribor, and you assume that we meet all of the targets around loan growth that are built into that program, we would think it conveys a benefit of about € 250 million, again, relative to that reference rate which is helpful in the environment that we are living through.

By and large, we are seeking to replace other liabilities on the asset side while we also grow the loan book as much as we can prudently in the current environment. So we think it's been a very well-constructed program for the banking industry, and I think we signalled very early on that we intended to draw it to its fullest and deploy it on the balance sheet as effectively as we can.

Rohith Chandra-Rajan: Thank you. An area that was clearly much in focus in the first half of the year and, I think, still is very much at the forefront of people's minds, we are thinking about near-term asset quality. And your coverage levels are substantially lower than many of the European peers but what gives you the confidence that despite that, those lower levels of coverage, that the impairment charge could fall materially in the second half of the year?



James von Moltke:

Look, what I would say at this point is we provided guidance back in April of what we expected the credit loss provisions to be for the full year, and that guidance was 35 to 45 basis points of loans. We actually reaffirmed that guidance in June, when Stuart Lewis and I did a risk deep-dive on the 18th of June, and then, again, with 2Q earnings. So we have we have remained very consistent in our guidance, and we remain that today. I would reaffirm that same guidance, as I sit here towards the end of the third quarter, that that remains our view.

Now, if you just do the math of what that 35 to 45 basis point range is and actually, realistically, at this point, take the upper end of that range it would suggest that after taking about € 1.3 billion of provisions in the first half, we would run in the second half at about € 500 to € 700 million. And that remains our base case expectation. If I translate that into where we would expect to be in the third quarter, based on what we're seeing at the moment, it would probably be about € 300 million of CLPs in the third quarter.

So the short version, Rohith, is we remain in terms of the portfolio evolution going all the way back to April, we remain very much in line with our expectations at the time. Naturally, we are watching very carefully how the portfolio evolves and the credit cycle evolves. Back in June, in the risk deep-dive, we focused in on the set of industries we think were most impacted by the Covid environment. And naturally, we are looking at that portfolio very carefully running stress tests, looking at individual credit events with our clients, and then, on a portfolio basis, also looking at the private bank portfolios.

As I say, it's been tracking more or less as we have expected. And so as we sit here today, we would simply reiterate the guidance. I will add one point. Going into '21, naturally, there is a lot of uncertainty in the environment. And so we would expect a continued elevated level of credit loss provisions relative to where we were pre-covid. Still, on a relative basis, Deutsche Bank has a low level of provisions and a high-quality portfolio, we believe, so some of this will carry over to '21. But it remains within the range of our expectations and quite manageable.

Rohith Chandra-Rajan:

And if the recovery stalls, what sort of indication would that have in terms of your expectations for loan losses, and are



there particular parts of the book that you would be more concerned about?

James von Moltke:

Well, that is always hard to say. As I mentioned, we run stress tests, and those stress tests tend to be quite severe in their assumptions. So I don't have any expectation that, even if the recovery stalls, it will look like our stress tests at this point. But naturally, it's prudent to run that and learn from what that analysis tells you.

I think that the challenge is that the corporate world needs to learn to operate in an environment that is different in terms of capacity utilization and, in an odd way, economic growth to what we were expecting when we started the year. And when I say "in an odd way," we are all seeing this in the statistics. Economic growth, measured against the trough in Q2, is actually higher than we might have expected at this point, and we think it will remain higher than trend for the next couple of years, particularly in our core markets. But naturally, the level of economic activity has declined.

So we will see how that adjustment takes place. We will see how the impact of fiscal and monetary support but particularly fiscal, in this instance impact our borrowers over time. But again, we are not seeing a significant sensitivity to a softening of expectations around credit.

I will say, as I said a moment ago or just reiterate we have got our eyes very, very closely on the focused industries and the focused portfolios that we are working to manage, if you like, dynamically through this crisis. But as we sit here today, it remains very much within the range of our expectations.

Rohith Chandra-Rajan:

Thank you. And then, capital we touched on in relation to the CRU earlier. And the CET1 ratio, there was a significant increase in the second quarter, up 42 basis points to 13.3%. I was wondering if you could just talk us through the moving parts and how we should think about the capital ratio through the remainder of this year.

James von Moltke:

Sure. Well, capital has been a fast-moving target this year, given both the environment changes as well as some of the regulatory changes. We think we have given ourselves a very good step-off at the June 30 level of about 13.3% in CET1 terms, very strong step-off into the second half of the year. It's



given us some capacity to grow loans and support the economy, which has been our intention to do throughout the crisis. And so we are continuing to manage it towards a level that would be above our call it our 2022 targets of 12.5%. We would like to continue to manage our capital above that level, notwithstanding our guidance back in April that we were going to be a little bit more flexible around that floor, given the need to support the economy.

So quite comfortable, and I think given the step-off and the path since then has given us more confidence about that capital path. I will say at this point, the risk to the outlook is the restarting of some of the regulatory dynamics that we faced when we came into the year. So as you know, there was a hiatus of about six months of new letters, new findings in areas like, for example, the targeted review of internal models, or trim. And as that process restarts, we would expect to see some of the headwinds begin to come back into our outlook in the back half of the year. Net-net, we don't know where that lands. There is also the change in the treatment of capitalized intangibles for software that is coming through. So a little bit of uncertainty, if you like, on the regulatory side, but as I say, through the end of the year, we feel we have got a comfortable path to maintain our CET1 level at or above that-- and potentially, considerably above that 12.5% level.

Rohith Chandra-Rajan: And the regulatory stop on dividends is something that hasn't impacted you directly this year, but could you talk a little bit about the path to dividend resumption?

James von Moltke: Absolutely. We did announce, as you say, that that dividend suspension didn't affect us because we announced last July an intention not to pay dividends in respect of the '19 and '20 financial years. But we did indicate at that time and it remains our current expectation that we would restart capital distributions in '22 in respect of the '21 financial year. And we think we are very much on track.

One part of our restructuring that we announced in July was the way we manage capital and the expectation that we would not only manage capital through the restructuring period, but also build the capital that we need to deal with the regulatory inflation, including Basel III final implementation, and pivot



towards distribution to shareholders. We are very focused on that.

I know it was while there was uncertainty about whether we would succeed in our capital objectives and path, particularly in the early six or eight quarters of our restructuring, that wasn't so much on the mind of investors. We have never lost sight of that goal, and absolutely, that remains our intention. And we look forward to advancing the restructuring and getting to that point.

Rohith Chandra-Rajan: Thank you very much, James. And I think we are going to have to wrap things up there. It's certainly been a very interesting conversation. And so I would really like to thank you for your time today.

James von Moltke: My pleasure, Rohith. Many thanks for your time and for hosting us today. We're delighted to be here.

Rohith Chandra-Rajan: Thank you.

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