



## **Deutsche Bank AG**

Deutsche Bank Q1 2020 Analyst Conference Call

Wednesday, 29 April 2020 | 13:00 p.m. CEST

### **Transcript**

#### **Speakers:**

Christian Sewing, Chief Executive Officer  
James von Moltke, Chief Financial Officer  
James Rivett, Head of Investor Relations



## James Rivett

- Thank you, Emma, and thank you all for joining us.
- As usual on our call our CEO, Christian Sewing, will speak first, followed by our chief financial officer, James von Moltke
- The presentation, as always, is available for download in the investor relations section of our website, db.com
- Before we get started let me just remind you that the presentation contains forward-looking statements which may not develop as we currently expect
- We therefore ask you to take notice of the precautionary warning at the end of our materials
- With that let me hand over to Christian

## Christian Sewing

### **Slide 1 – Executing well in unprecedentedly challenging conditions**

- Thank you James. Good afternoon and welcome from me!
- I hope that you and your families are all safe and healthy
- This is an extremely difficult time for everyone and at this stage we do not have full visibility on how the situation will develop.
- This is the perfect “black swan” event – an event none of us has experienced in such a dimension before
- But, it is in times like these that our Bank can prove its resilience, its experience and moreover its value to society and all our stakeholders
- And I am proud of the way the Bank has responded
- The investments that we have made into our technology have supported our operational resilience with the majority of our employees working from home
- With our refocused strategy we are now operating in businesses with leading positions providing industry-leading solutions
- This means we are at the center of the dialogue with our clients at a time when they need us most



- We are very happy with our performance in the quarter and we outperformed our expectations for both revenues and costs, specifically in the Core Bank
- Our client franchise is absolutely intact
- We have not let the recent turbulence distract us and we have continued to execute in a disciplined manner against our cost targets
- As a result, we reduced adjusted costs excluding transformation charges and bank levies for the 9<sup>th</sup> quarter in a row on a year on year basis
- And we also made solid progress against the strategic priorities set out in July and at the Investor Deep Dive in December
- The transformation is even ahead of plan
- We are benefiting from our conservative balance sheet management and this stability is enabling us to support our clients through these difficult times
- They are at the center of what we do and the business is on the right track
- We are regaining market positions
- The swift and decisive actions that the German government has recently taken and the strong fiscal position of the public and private sectors mean that our home economy is well positioned to fight the crisis
- We believe this further supports our mission, which we set out when we launched our strategy: to be 'aligned with the strengths of our home market economy'
- 10 months after the announcement we are absolutely convinced that our strategy is the right one
- As a result we feel well positioned as 'the leading bank with a global network' in Europe's strongest economy
- Do we underestimate the severity of the challenge facing the global economy?  
Absolutely not
- But with the right strategy, scale and leading franchises globally, a relentless focus on execution, strong balance sheet and with Germany as our home market, we believe that Deutsche Bank can strengthen its competitive position in these difficult times
- Let me briefly discuss these themes



## **Slide 2 - Strategic transformation driving growth and profitability**

- While James will go into the details, a few words from me on the first quarter performance starting on slide 2
- Overall, I am pleased with the progress that we have made in the quarter
- Revenues were flat year-on-year with material growth in the Core Bank offsetting the exit from Equities Sales and Trading in the Capital Release Unit
- The CRU performed in-line with our internal plans
- Adjusted group pre-tax profit increased as lower costs and higher core bank revenues offset the higher provisions for credit losses and the drag from the Capital Release Unit
- In the Core Bank, the combination of revenue growth and lower costs generated significant positive operating leverage in the quarter
- Core Bank pre-tax profit grew by 32% year-on-year to 1.1 billion euros, excluding specific revenue items, restructuring and severance and transformation charges
- This corresponds to a Core Bank pre-provision net revenue of 1.8 billion before bank levies
- This performance demonstrates the resilience of this company and the progress we are making

## **Slide 3 – 9<sup>th</sup> Consecutive quarter of annual adjusted cost reductions**

- The management team and I are determined to not let the current environment disrupt the execution of our cost reduction plans
- We delivered against our internal targets again in the first quarter as you can see on slide 3
- Excluding transformation charges and bank levies, adjusted costs declined by 7% year-on-year to 4.9 billion euros – our 9<sup>th</sup> quarter in a row of reductions
- At the end of the first quarter we have put 73% of our transformation-related effects behind us
- We currently have more than 20 core transformation initiatives in flight under the responsibility of our Management Board members, overseen and managed by the Chief Transformation Office



- These initiatives will continue despite current market conditions
- The progress we have made in the first quarter and the projects underway put us on a good path to achieve or outperform our 19.5 billion euro target for 2020

#### **Slide 4 – Growing revenues on the back of intact client franchise**

- Turning now to the Core Bank starting on slide 4
- I am happy with the progress that our businesses have made towards the strategic objectives we laid out in December
- This progress makes us even more confident that the strategy is the right one
- In the Corporate Bank revenues were flat as we offset the pressures from the interest rate environment
- The team continued to actively reprice deposits in the first quarter
- This puts us on a good track to pass through negative interest rates to 25 billion euros of deposits in 2020 as part of our 2022 targets
- The Investment Bank grew revenues by 15% with revenues up in both Fixed Income and Origination and Advisory
- The first quarter showed further stabilization and improvements in market share in our target segments
- In Fixed Income, excluding specific items as well as movements in CVA and FVA which we book in the businesses, FIC revenues would have increased by 25%
- Our strategy to refocus our Rates and Emerging Markets franchises in 2019 are working with revenues from our corporate clients growing 30% year-on-year
- In Origination and Advisory our strategy is also paying off, specifically in Debt Capital Markets where revenues were significantly higher
- We increased market share in our European and German franchises to the highest levels since 2017
- In the Private Bank, revenues increased by 3%
- This growth was supported by the strong performance in Wealth Management where strategic hiring in prior periods has started to pay off – again consistent with what we told you in December



- And in our German and international businesses we have continued to grow loans and volumes to broadly offset the ongoing interest rate headwinds
- This includes the conversion of deposits into investment products, with a 4 billion euro net inflow in the quarter
- 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 core areas, most notably through strategic partnerships and ESG funds

### **Slide 5 – Strategic priorities supporting cost reduction path**

- On the cost side, our core businesses also continue to implement their objectives
- Slide 5 shows our adjusted costs excluding transformation charges
- In the Corporate Bank, we held costs largely stable in the quarter excluding the impact of higher internal service cost allocations we have discussed in prior quarters
- The changes in internal cost allocation are part of the control and technology investments we have made to better steer our businesses and to reduce costs over time
- The Corporate Bank also made progress on its strategic initiatives and benefited from reorganization measures implemented last year
- We particularly focus on efficiency optimization in Germany and across infrastructure functions
- In the Investment Bank, costs declined by 15% in part driven by the front office headcount reductions implemented in 2019 as well as lower internal service cost allocations
- We made progress on reducing infrastructure costs without further compromising our front office capabilities
- In the Private Bank costs declined by 2% with further progress on the integration of the Postbank and Deutsche Bank retail operations with 70 million euros of run-rate synergies now achieved



- In Asset Management, costs declined by 7% as they implement their cost efficiency programs

### **Slide 6 – Maintained strong balance sheet**

- Slide 6 repeats a chart 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
- Our January guidance of above 13.0% for the first quarter would have been conservative
- Excluding the impact of COVID, we would have been at 13.2%
- This sound capital position gives us scope to continue to deploy resources to support clients in these challenging conditions
- As we made clear in our release on Sunday night, it is our deliberate decision and Deutsche Bank's priority to stand by its clients without compromising on capital strength
- We kept our liquidity position strong at 205 billion euros, comfortably above regulatory requirements, while providing an additional 25 billion euros in loans to our clients
- And our funding position has rarely been stronger than today: we continue to fund our balance sheet through stable sources, predominately our low cost deposit base
- Our results also show that we continue to operate with low risk levels
- We continue to manage our market risk exposure tightly
- Our average value-at-risk of 24 million euros remains low
- And we are focused on maintaining strong credit quality
- Provision for credit losses increased, reflecting a normalization from historically low levels that we already anticipated in our outlook
- We also absorbed the initial impacts of the COVID-19 pandemic
- Our 4.3 billion euros of allowances for loan losses, or 95 basis points of loans



- This represents a prudent level of cover relative to our conservative loan books which we discuss on slide 7

### **Slide 7 – Low risk, well diversified loan portfolios**

- Our loan books are well diversified across our businesses, client 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 values
- 90% of our commitments in the Corporate and Investment Bank 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
- In short, our loan book is low risk and well diversified – the results of the EBA stress test in 2018 support this
- So from a risk perspective we feel well positioned to navigate the current environment

### **Slide 8 – Well positioned in this crisis as Germany's leading bank**

- Strategically too, the core pillars of the mission we laid out last year are well matched to the current environment as you can see on slide 8
- The strategic changes we made in July are taking the bank back to the strategy we were founded for 150 years ago
- With the Corporate Bank at the center of our strategy we have put German, European, and multinational companies at the heart of what we do
- We assist these clients with our market-leading positions in cash management, trade finance, foreign exchange, financing, strategic advisory and investment advice



- With an extremely solid foundation we are there for our clients - as risk managers and advisors in difficult times
- These are the real strengths of our bank
- Such strengths have never been more crucial than today, when so much depends on how fast the global economy, trade and investment can recover
- Germany is our home market where we generate almost 40% of our revenues
- In the Corporate Bank we are positioned to be the bank of choice for corporate treasurers – that mission is even more valuable in times like these
- As the Hausbank to nearly 1 million small and medium sized companies in Germany here too we are well positioned to help clients through this crisis
- Year to date and for the first time since 2017 we have regained our position as the market leader in German corporate finance
- In the Private Bank and DWS we are helping our clients 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
- Thanks to the strong and decisive actions of the Government, the German support programs of around 730 billion euros, amounting to around 22% of total GDP, are the highest of any major country
- Working in partnership with us, there are now a series of well-designed programs which should provide support quickly to the broader economy
- 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 the 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



## Slide 9 – We have reacted quickly to the challenges

- As a Bank our core mission is to be there for our clients and provide a safe home for our employees through good times as well as challenging ones
- As you can see on slide 9 our employees have risen to the challenge and have continued to perform
- Our people have coped with a major disruption in their work environment – around 65 thousand logging in remotely day by day
- They have maintained the operational resilience of Deutsche Bank and have gone the extra mile for our clients; and all this, at a time of concern for the health and wellbeing of their families, and themselves
- In December, I talked about reinvigorating the spirit of the bank with greater collaboration across our businesses
- The last few weeks have shown what is possible here with staff helping out in other areas of the bank most notably in processing new client applications
- I am also proud of the way that we have been able to help the communities in which we operate
- And in our businesses we have been active in helping our clients to access schemes implemented by the German government
- In the Corporate Bank, to date we are processing 5,200 applications under the German government's KfW program with a volume of 4.4 billion euros
- In this regard, we are uniquely positioned to provide clients access to the services they need in a timely and efficient way
- Since mid-March, the Investment Bank has helped corporate and government clients raise 150 billion euros of debt to fund their financing needs
- And we improved to a number 2 market share position in electronic US treasuries, helping to fund the federal government's support programs
- In the Investment Bank the positive momentum has continued in April, particularly in our trading businesses and Origination and Advisory
- In the past five weeks we have been involved in nearly half of all investment grade bond issues for corporates in Europe



- In the Private Bank, we have continued to be there for customers thanks to the dedication of our staff
- We have kept more than 80% of the Deutsche Bank and Postbank branches open and our call centers have handled a 30% increase in inquiries
- We have also seen a significant increase in securities transactions
- And DWS as a fiduciary has continued to support clients when they need us most
- DWS Direkt has seen a 50% increase in retail inbound sales and 25% more visits to the website
- In all these examples we are helping clients and the economy, deepening our relationships with clients while growing our loans and earning fees
  
- In summary
- We are proud of the way our people have performed in these difficult conditions
- Deutsche Bank is on the right track strategically and financially as demonstrated by our first quarter results
- Our refocused strategy means we are operating in businesses where we have a leading position with industry leading products
- It is our priority to stand by our clients and the community to navigate these challenging times together
- Our balance sheet is strong enough to support growth in these turbulent times
- We have a resilient and crisis-proven management team
- For this management team, our priority is simple: it's all about execution especially in conditions like these
- In the first quarter of 2020, as in 2019, we have delivered on all our targets and objectives
- Revenue momentum across the Core Bank continues to build
- On costs, we are confident of reaching our adjusted cost target or beating it for this year and we are working on additional cost reduction measures
- We also continued to manage our balance sheet conservatively, and keep our capital and liquidity ratios well above our regulatory requirements
- This positions us well to meet a temporary increase in client demand for balance sheet commitment over the next few quarters



- As Germany's leading international bank we also believe we operate from a solid macro-economic and political backdrop
- In short, we have positioned Deutsche Bank to be a core part of the solution to the current crisis
- With that let me hand over to James

### **James von Moltke**

#### **Slide 10 – Q1 2020 Group Financial Highlights**

- Thank you Christian
- Let me start with a summary of our financial performance on slide 10
- In the first quarter, revenues were flat year-on-year with growth in the Core Bank offsetting the wind-down of non-core businesses in the Capital Release Unit
- Non-interest expenses of 5.6 billion euros included 503 million euros of bank levies in the quarter as well as approximately 190 million euros of restructuring and severance, litigation and transformation charges
- On a reported basis, the group generated positive operating leverage of 5%
- Provision for credit losses increased to 506 million euros or the equivalent of 44 basis points of loans on an annualized basis
- We generated a pre-tax profit of 206 million euros with net income of 66 million euros after tax
- In the Core Bank, we generated a post-tax return on tangible equity of 6.6%, excluding bank levies
- Tangible book value per share was 23 euros 27 cents, essentially flat to the fourth quarter

#### **Slide 11 – COVID-19 impact on financials**

- Our results in the quarter were impacted both by our ongoing actions to implement our transformation as well as the initial impacts of the COVID-19 pandemic, the most material of which we detail starting on slide 11



- In the first quarter, our provisions for credit losses included approximately 260 million euros of incremental charges which I will discuss shortly
- Our CET1 ratio was negatively impacted by around 40 basis points from COVID-19 driven effects
- Our capital includes a net 400 million euros of incremental prudent valuation deductions, reflecting increased pricing dispersion and wider spreads driven by the market volatility in the latter part of the quarter
- COVID-19 driven increases in risk-weighted assets of 7 billion euros included higher Credit Risk RWA due to ratings migrations and 5 billion euros from drawdowns on credit facilities
- The drawdowns on credit facilities also reduced our liquidity reserves by 17 billion euros and were primarily in our corporate relationship lending portfolio and leveraged debt capital markets
- The movements in liquidity reserves and risk weighted assets were well within the range of stress outcomes that we plan for
- And finally, level 3 assets of 28 billion euros increased by 4 billion euros in the quarter
- The increase was driven by a reclassification of some inventory into level 3 due to the greater 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 3 derivative inventory, mainly driven by movements in interest rates
- These increases were largely offset by equivalent increases in level 3 liabilities
- As conditions normalize, some of the market related effects should reverse and therefore reduce the current levels of prudent valuation deductions and level 3 assets
- That said, developments in the nearer term are difficult to predict and will depend on client behaviour and market dynamics
- We would also expect for credit risk RWA to return to more normal levels as clients replace the drawn facilities with cheaper long-term funding



## Slide 12 – Provision for Credit Losses

- Turning to provisions for credit losses on slide 12
- Provisions were 506 million euros or 44 basis points of loans in the first quarter
- As I just mentioned, roughly half of the provisions relate to COVID-19 impacts principally against stage 1 and stage 2 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 drawdowns
- We updated our approach this quarter reflecting the ECB recommendation to moderate pro-cyclicality
- Our forward looking indicators now incorporate a 3 year averaging of macroeconomic forecasts
- Our forecasts were 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 euros
- Our total stage 3 provisions of 276 million euros in the quarter included around 30 million euros related to COVID-19
- Our stage 3 provisions increased slightly and reflected 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 euros of total allowances for credit losses
- This amount includes 4.3 billion euros of allowance for loan losses, equivalent to 95 basis points of loans
- And, as shown on the next slide we are comfortable with our exposure to the industries most impacted by the initial impacts of COVID-19

## Slide 13 – Limited exposure to most impacted industry sectors

- Slide 13 builds on the materials that Stuart Lewis our Chief Risk Officer presented at the Investor Deep Dive in December
- In commercial real estate our exposure is predominantly first lien 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 and 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 with a manageable level of exposure to the most impacted industries
- And our risk profile is supported by our comprehensive stress testing framework and proactive risk management

#### **Slide 14 – Capital ratios**

- Turning now to capital on slide 14
- Our CET 1 ratio was 12.8% at quarter end, down by roughly 80 basis points from the prior quarter
- Approximately 30 basis points of the decline came from the impact of the new securitization framework we have discussed with you in previous calls
- In-line with our stated strategy we also continued to fund our business growth which consumed roughly 10 basis points of capital in the quarter
- Our CET1 ratio was impacted by around 40 basis points as a result of COVID-19 which I described earlier
- Our CET1 ratio at quarter end was approximately 240 basis points above our regulatory requirements which now stands at 10.4%
- The reduction in our CET 1 ratio requirement principally reflects the recent ECB decision to implement CRD five Article 104a with immediate effect



- This allows banks to meet 45% of their pillar 2 capital requirements with AT1 and Tier 2 instruments
- Our leverage ratio was 4% at quarter end, a decline of 21 basis points, principally from COVID-19 related effects
- Other increases in leverage exposure were broadly offset by the benefit of the AT1 issuance in February
- Excluding Central Bank cash from leverage exposure – consistent with the European Commission’s proposal published yesterday – would, if implemented increase our leverage ratio by approximately 20 basis points
- Turning now to liquidity on slide 15

### **Slide 15 – Liquidity**

- We ended the quarter with liquidity reserves of 205 billion euros, or roughly 20% of our funded balance sheet
- With a liquidity coverage ratio of 133% at quarter end we have a 43 billion euro surplus above the 100% LCR requirement
- Liquidity reserves declined by 17 billion euros in the quarter, reflecting drawdowns on committed credit facilities
- Given our excess liquidity, we believe that we are well positioned to maintain our liquidity coverage ratio comfortably above 100% while supporting ongoing client drawdowns and new lending
- Overall, we are happy with the way that we have managed our liquidity through the recent period
- This is a reflection of investments we have made in liquidity management and modelling in recent years
- And, our excess liquidity and our stable sources of funding provide us with a solid foundation as we look forward



### **Slide 16 – Transformation related effects**

- As Christian has said, we continued our strategic transformation in the first quarter as you can see on slide 16
- Results in the quarter included 177 million euros of transformation effects, including 84 million euros of transformation related charges, which form part of our definition of adjusted costs
- These charges principally relate to impairments and accelerated amortization of software intangibles as well as real estate charges
- As of the end of the first quarter we have now recognized 73% of our total planned transformation effects
- We are committed to the disciplined execution of our transformation agenda despite the challenging environment and our estimated transformation effects for 2020 and 2021 are unchanged from our previous guidance
- In the remaining three quarters of this year, we expect to take an incremental 800 million euros of pre-tax charges, including 200 million euros of accelerated software amortization which is not relevant for capital purposes

### **Slide 17 – Adjusted Costs**

- The progress we are making on our transformation agenda is increasingly visible in our cost performance as shown on slide 17
- In the first quarter, we reduced adjusted costs by around 500 million euros or 9% year-on-year excluding the impact of foreign exchange translation and the transformation charges I described earlier
- Adjusted costs included 98 million euros of expenses associated with the Prime Finance platform being transferred to BNP Paribas which are reimbursable and therefore excluded from our target
- We made progress in all major cost categories
- Compensation and benefits expenses fell, in-line with the reductions in internal workforce



- IT costs declined reflecting lower amortization given the impairments taken in 2019 while our cash IT spend was broadly stable and within our target range as we continue our investment program
- Professional service fees declined as we further improved the efficiency of our external spend
- Other costs declined reflecting reductions across a number of areas, including occupancy
- With that, let us turn to our segments starting with the Corporate Bank on Slide 19

## **Slide 18 - Segment Results**

### **Slide 19 – Corporate Bank**

- Pre-tax profit of the Corporate Bank was 132 million euros in the quarter
- Excluding transformation charges and restructuring and severance which we detail by business on slide 34 of the appendix, the corporate bank generated 168 million euros of pre-tax profit
- This equates to a 5% post-tax return on tangible equity excluding bank levies
- Revenues of 1.3 billion euros were up 2% compared to the fourth quarter but were essentially flat year-on-year
- The Corporate Bank made further progress on its strategic priorities this quarter, including continued progress on deposit repricing measures to offset the challenging interest rate environment
- At the end of the first quarter, we had charging agreements in place for approximately 40 billion euros of deposits and are well on track for the targets we set at the Investor Deep Dive in December
- Non-interest expenses increased year-on-year in part reflecting higher transformation charges
- Adjusted costs excluding transformation charges also increased, mainly reflecting the change in internal service cost allocations that we discussed with you in the second half of last year



- Provisions for credit losses were 106 million euros for the quarter and mainly related to a few single name events as well as the updated macroeconomic environment
- Risk weighted assets and leverage exposure increased in the quarter, mainly reflecting client draw-downs on credit facilities
- Turning to the Corporate Bank revenue performance by business on slide 20

#### **Slide 20 – Q1 2020 Corporate Bank revenue performance**

- Cash Management revenues were essentially flat, as the impact of the negative interest rate environment was partly offset by the acceleration of deposit repricing measures and the benefit of ECB deposit tiering
- Trade Finance and Lending revenues were stable, reflecting solid lending volumes and wider spreads at the end of the quarter
- Securities Services revenues declined reflecting the non-recurrence of a one-time gain in the prior year period, while Trust & Agency Services decreased as a result of U.S. interest rate cuts and lower client activity
- Commercial Banking revenues were essentially flat, as higher volumes in Commercial Lending and higher payment fees were offset by lower deposit revenues
- Turning now to the Investment Bank on slide 21

#### **Slide 21 – Investment Bank**

- We were pleased with the financial performance in the Investment Bank in the first quarter
- This builds on the momentum that we have seen since September 2019
- The Investment Bank generated a pre-tax profit of 622 million euros with a 9.5% post-tax return on tangible equity excluding bank levies
- The Investment Bank also made significant progress on its strategic objectives as we work to reduce costs in technology and infrastructure support and grow revenues



- Revenues of 2.3 billion euros grew by 15% year-on-year excluding specific items driven by strong market conditions early in the quarter as well as further growth in our client franchises
- We saw further client re-engagement, with revenues increasing by over 40% with our top 100 institutional clients
- Noninterest expenses of 1.5 billion euros declined by 15% year-on-year
- Adjusted costs excluding transformation charges also declined by 15% driven by lower service costs as well as lower bank levies
- Front office headcount also declined by 7% year-on-year driven by the restructuring activities initiated last year
- Provision for credit losses of 243 million euros or the equivalent of 111 basis points of loans increased in the quarter driven by the deteriorating market outlook
- Leverage exposure increased reflecting seasonally higher pending settlements and higher trading activity

#### **Slide 22 – Investment Bank revenue performance**

- Revenues in Fixed Income Sales & Trading increased by 16% year-on-year excluding specific items as shown on slide 22
- Strong performance in Rates, FX and Emerging Markets offset the exceptionally challenging market conditions at the end of the quarter in Credit
- Unlike some peers, our fixed income revenues include all valuation impacts relating to credit and funding valuation adjustments on our inventory
- In Rates, revenues doubled from the prior year period reflecting higher market activity
- Foreign Exchange revenues were significantly higher reflecting higher market volumes and higher volatility
- Emerging market revenues increased significantly principally in Asia with strong increases in corporate and institutional client flows with excellent risk management
- Across Rates, FX and Emerging markets, revenues were also supported by the benefits of our refocused strategy that we laid out in December with continued



improvements in client engagement and strong growth in our institutional and corporate franchises

- In Credit, revenues declined reflecting the challenging market conditions in March which were only partly offset by effective risk management and a strong performance at the start of the year
- Revenues in Origination and Advisory increased by 8% due to strong growth in Debt Origination driven by higher fees in both Investment Grade and Leveraged finance as well as the net impact of mark downs on commitments and associated hedges
- At around 4 billion euros, our non-investment grade bridge exposure is significantly lower than in 2008
- Across Origination and Advisory, we continued to regain market share most notably in our core German and European markets

### **Slide 23 – Private Bank**

- Slide 23 shows the results of our Private Bank
- The Private Bank reported a pre-tax profit of 132 million euros in the quarter
- Excluding specific revenue items, restructuring and severance as well as transformation charges pre-tax profit was 197 million euros with an adjusted post-tax return on tangible equity of 5% excluding bank levies
- The Private Bank continued to execute on its strategic transformation
- Consistent with our strategy, we continued to grow loans and fee income to offset the ongoing headwinds from negative interest rates
- Our new business generation continued in the quarter as we grew net new client loans by 2 billion euros and generated net inflows of 4 billion euros into investment products
- We continue with the integration of our operations in Germany and expect to complete the legal entity merger as planned in the second quarter
- PCB International is focused on rolling out the new core banking platform in Italy in the second quarter and continues its efficiency programs in its markets



- Revenues in the Private Bank increased in the quarter, principally driven by a strong performance in Wealth Management where we benefitted from increased client activity and our relationship manager hirings in prior periods
- Noninterest expenses increased by 5% year-on-year reflecting higher restructuring charges as we implement our cost reduction programs
- We reduced adjusted costs excluding transformation charges by 2% year-on-year offsetting higher internal cost allocations
- Cost synergies related to the German merger amounted to approximately 70 million euros in the first quarter
- Provisions for credit losses were 139 million euros or 24 basis points of loans reflecting the normalization of provisions we have discussed previously
- 

#### **Slide 24 – 1Q Private Bank revenue performance**

- Revenues of 2.2 billion euros increased by 2% on a reported basis and by 3% year-on-year excluding specific items as shown on slide 24
- Revenues in Germany declined by 1% reflecting the higher funding and liquidity costs that we discussed with you last quarter
- As Manfred detailed in December, our strategy in Germany is to grow volumes and fees to offset the ongoing interest rate headwinds while we continue to optimize the efficiency of our operations and technology
- In the first quarter we grew fee income from investment products, reflecting the success of targeted product initiatives and grew loans by 2 billion euros, notably in mortgages
- PCB International revenues increased by 3%
- Higher revenues loan and investment product revenues, combined with re-pricing measures more than offset interest rate headwinds and the initial impacts of the Covid-19 related slow-down in client activity mainly in Italy and Spain
- We grew revenues in Wealth Management by 17% excluding workout activities
- This growth was driven by a strong performance across all regions, in particular in capital markets products in Emerging Markets in the first two months of the year



## Slide 25 Asset Management

- As you will have seen in their results this morning, DWS performed well in the challenging conditions as you can see on slide 25
- To remind you the Asset Management segment includes certain items that are not part of the DWS stand-alone financials
- Asset Management reported a pre-tax profit of 110 million euros in the quarter, an increase of 14% from the prior year period mainly driven by lower costs with revenues broadly flat
- Noninterest expenses declined by 6% with adjusted costs excluding transformation charges declining by 7%
- The reduction in costs reflected ongoing efficiency initiatives, lower volume related costs as well as lower compensation expenses
- Compensation and benefits declined principally reflecting lower equity-linked deferred compensation expenses given the decline in the DWS share price over the quarter
- As a result of the strong cost discipline, Asset Management generated 5% operating leverage in the quarter
- Assets under management of 700 billion euros declined significantly in the quarter, driven by the market disruption at the end of the quarter
- Net flows were modestly negative with 2 billion euros of outflows, as the strong inflows from January and February were more than offset by industry wide outflows in March
- By product, net outflows in Fixed Income and Passive in the quarter were partly offset by net inflows in Cash, Equity and Alternatives

## Slide 26– Asset Management revenue performance

- As shown on slide 26, Asset Management revenues were broadly flat to last year as the growth in management fees was offset by the negative change in fair value of guarantees driven by the low interest rate environment
- Management fees increased by 9% reflecting higher average assets under management given the net inflows and strong market performance in 2019



- Performance and Transaction fees were 17 million euros in the quarter primarily reflecting fees earned in our real estate business
- Consistent with the guidance that DWS management gave this morning, we would expect performance and transaction fees to normalize in 2020 compared to the elevated levels recorded principally in the second and fourth quarters of last year
- Other revenues were negative 51 million euros , predominately due to the negative change in fair value of guarantees

### **Slide 27 – Corporate & Other**

- Corporate & Other reported a pre-tax loss of 24 million euros in the quarter, compared with a pre-tax loss of 15 million euros in the same period last year
- Positive movements in valuation and timing were offset by movements in a number of smaller items
- Funding and liquidity charges also increased slightly, consistent with the changes in funds transfer pricing we have discussed in prior quarters
- Let me now discuss the Capital Release Unit on slide 28

### **Slide 28 – Capital Release Unit**

- The Capital Release Unit continued to implement its strategy in the first quarter
- Revenues in the first quarter were negative 59 million euros, or negative 82 million euros excluding Debt Valuation Adjustments
- This was slightly better than the range we provided at the Investor Deep Dive as we benefited from hedging and risk management gains as stock markets declined and volatility increased
- We also recognized the first full quarter of cost reimbursement from BNP Paribas
- These benefits partly offset funding and credit valuation adjustments and de-risking impacts
- We made significant progress on reducing costs in the Capital Release Unit in the quarter



- Excluding bank levies and transformation charges, adjusted costs declined sequentially driven by lower internal service cost allocations and lower non-compensation direct costs
- Total noninterest expenses of 694 million euros were essentially flat to the fourth quarter as 247 million euros of bank levies in the quarter were partly offset by lower litigation, restructuring and severance as well as transformation charges
- Risk weighted assets and leverage exposure were slightly lower in the quarter as the de-risking and the roll off of assets was partly offset by market driven increases
- In the first quarter of 2020, CRU continued to de-risk across the portfolio in line with plan while also progressing novations from auctions completed in 2019
- The team also laid the foundations for the pipeline of asset sales targeted for the remainder of the year
- This approach is consistent with the strategy that we laid out at the Investor Deep Dive
- We continue to target lower RWA and a significantly lower Leverage exposure by the end of 2020
- We do not see the current market conditions as a major impediment to our disposal plans
- However we will remain dependent on functioning capital markets and the active participation of clients and counterparties
- Before I close, a few words on our financial targets on slide 29

### **Slide 29 – Outlook and Conclusions**

- We have set a series of short-term targets in previous years to help demonstrate our progress towards our longer-term goals, principally a post-tax return on tangible equity of 8% in 2022
- For 2020 we had set three targets:
- First, as we disclosed on Sunday, we are dealing with a great deal of uncertainty around the CET1 ratio path from here
- We see opportunities to support clients



- We have therefore taken the deliberate decision to allow our CET1 ratio to dip modestly and temporarily below our target of at least 12.5%
- We believe that this is the right decision for our shareholders and all our stakeholders
- Over time, as the temporary factors I referred to earlier normalize, we expect our CET1 ratio to return to the 12.5% level
- The decision to remove this target in the short-term does not consider the potential for further regulatory changes that could benefit our ratio
- As a result we reaffirm our 2022 CET1 ratio target
- Second, on leverage ratio
- Assuming no changes in the definition of leverage exposure - for example to exclude cash, government securities or government guaranteed lending - we are now unlikely to reach our fully-loaded leverage ratio target of 4.5% this year as we continue to support our clients during this crisis
- Over time as client demand normalizes and we execute on the deleveraging program in the Capital Release Unit, we believe that we will restore our glidepath to a leverage ratio of around 5%
- Third, on adjusted costs we are on track to reach or likely improve upon our 19.5 billion euro target excluding transformation charges and the impact of the Prime Finance transfer
- We have also updated our outlook statements in the earnings report to reflect our current expectations for revenues this year both at a group and business line level
- For the group, our revenue expectations are now marginally lower than our earlier planning assumptions as the outperformance in the first quarter is offset by lowered expectations later in the year
- Provisions for credit losses are now forecast to be in a range between 35 and 45 basis points of loans in 2020
- We expect the majority of these provisions to be taken in the first half of 2020 with a normalization later in the year
- This reflects our expectations of the macro-economic impact from COVID-19 including the effect of the Government support programs



- While the current environment is challenging we will continue the disciplined execution that you have seen from this management team over the last two years
- We are operating in a highly unpredictable environment but at this stage we see no reason to change our 2022 post-tax return on tangible equity target of 8%
- Consistent with our previous guidance, the largest driver of our improved returns will come from cost reductions
- In this respect as I said earlier we are at least on track to reach our objectives
- With that, let me hand back to James - and we look forward to your questions

### Question and answer session

Daniele Brupbacher  
(UBS)

Thank you. Good afternoon. I wanted to firstly ask about the European Commission package announced yesterday. You briefly mentioned it during your remarks. It is already possible to somehow quantify the impact of that? I'm really thinking about the IFRS 9, NPL dimension, the leverage ratio dimension and those probably software intangibles. On the leverage ratio side, when I read the release from the European Commission, it sounds like these are temporary measures. How do you look at it? I mean, if Central Bank reserves are being taken out, what's really then the leverage ratio? How do you look at that, what's the benefit of this?

Secondly, you briefly mentioned group revenues and the revised expectations as well. You expect group revenues to be up. Consensus for the group, I think, at this point is down 10% for the year. So, there seems to be a bit of a different view there. I was just wondering, you obviously expect sequential declines, but what kind of market environment do you need to meet a flattish group revenue picture? More qualitatively I guess and verses Q1, and probably just volatility levels and all that.

Then lastly, the MDA trigger level going from 11.6 to 10.4, but you don't really change the 12.5% target longer-term. Why not? Why do you keep it at that level? Do you disagree with this approach that basically you can use AT1 for P2R? Or do you want to just be at the reassuringly high level for you 81 holders? Thank you.

James von Moltke

Thank you, Daniele. It's James here. I'll take the first and third questions on capital and then ask Christian to speak to group revenues.



So, first of all the EC package announced yesterday, and this by the way would be a conservative estimate, would deliver as you say, a 20 to 30 basis point benefit into our CET 1 ratio. The largest part of that would be the treatment of software intangibles and I think we've talked about that in the past. That's a significant drag for us, a significant deduction in our ratio. It's an 80 basis points deduction in total from our ratio today.

So, with the 20 to 30 basis points of benefit that I'm giving you, it would only be about a quarter of those intangibles coming back into capital.

It all depends on how the EBA sets the regulatory technical standards. There are two other items around reduced risk weighting factors and the reset of the transition to 100%, that deliver, you know, maybe together 10 basis points into the CET 1.

On leverage ratio, we talked about that being just the exclusion of cash which would be a 20 basis point benefit to our leverage ratio. As you were saying, it's temporary. I'm not sure it changes necessarily our strategic thinking about the balance sheet. But certainly it helps us report higher ratios and maybe look at the use of the leverage balance sheet a little bit differently, but obviously only over a temporary period.

So, in short, we welcome this package. If implemented it would certainly help the ratios. Our announcement on Sunday night anticipated that there may be some changes in definitions coming, but noted that we weren't essentially building those into our outlook. So, we think about the 12.5% ratio still as a good management level. A good target to hold. So, I want to be clear. We're not abandoning the 12.5% CET1 ratio target, but rather feel that it's a sensible place but we may dip as we say moderately and temporarily below. The regulatory changes would certainly help us to sustain a higher ratio.

We think that will remain the case about the 12.5%. You mentioned with the wider gap to MDA, we simply view it as creating a bigger gap. At least for now we would not contemplate changes in our targeting, reflecting article 104a. So, with that, I'll hand it over to Christian.

Christian Sewing

Yes, thank you Daniele for your question. Let me start with the investment bank. First of all, I'm confident that we have kind of at least flattish revenues in the investment bank. Because that's what we have seen now as a continued development since our restructuring in the third quarter. It started actually with management changes and the focus on the key businesses, be it in



FIC or debt capital markets, in September, went through Q4, and the same development we have seen through Q1 but also in April.

The key is really that this bank has decided to focus on its strengths in the investment bank. Don't forget, in 75% of our revenues we are in a top five market position. Hence, we simply can see clients are re-engaging, re-entering with us, and that's our focus.

In this regard, I do believe with the basic understanding that I think the heat of the crisis we will see obviously in Q1 and Q2. But looking at the revenue development of the first four months, I'm confident that we can achieve the goal which we outlined before.

If I go the overall group, I do believe we have a lot of resilience. Also here, let's not forget we have 40% of our revenues in Germany. For the time being, we are the kind of go-to place in Germany for corporate clients, for private clients. This is the time where it's not all about only the digital capabilities we have, but in particular our advisory capabilities.

We are talking actively to private clients about their investment advice. How we can do it better. The same on the corporate side. In this regard, I do believe that with the programmes we have in place with the financial health we have in Germany, we have a very, very good chance of actually capturing market positions here. That overall with the focus on these four businesses makes us confident that we can achieve flattish revenues or slightly below 2019. So, I'm confident there.

Jernej Omahen  
(Goldman Sachs)

Yes, hi. Good afternoon from my side as well. I have three questions please. So, Christian you kicked off the presentation by saying that the path of this public health crisis is not really known. I got the sense that we continued the presentation by giving some pretty strong assurances for the outlook for credit losses and then the outlook for revenues as well. I would just like to take a step back and ask a broader question. So, you have been in European banking for a long period of time. How likely is it in your mind that the nonperforming loan formation and the credit loss cycle this time around will be better than what you've seen in 2008, 2009, 2011 and 2012? So, even with all the government support in there. That would be my first question.

My second question would be just staying with the loss guidance of 35 to 45 basis points. So, just looking at the EBA stress test estimate for Deutsche Bank, which was based on German GDP contracting



by 2% in year one, 3% in year two, they had a peak loss at 82 basis points. Your guidance, or Deutsche Bank's guidance, seems to be targeting broadly half of that. Again, what gives you the confidence that will materialise?

My last question is just on the ability to restructure into what seems to be a deep recession and a spike in unemployment. To what extent do you feel that particularly the headcount reduction that have already been agreed with your partners and stakeholders in the bank still holds true and you'll be able to execute on that? Thank you very much.

Christian Sewing

Thanks, Jernej. Let me take number one and three, and James can talk about the details of the calculation of the 34 to 35. Now, first of all, I do believe actually, and I think I can speak for most of the banks, but obviously best for Deutsche Bank, we will see lower loan loss provisions than in the crisis of 2008 for three reasons.

Number one, in particular in Germany the programme which has been done and the umbrella which has been provided by the government is far stronger, because it actually contains two elements. It provides immediate liquidity support. There are programmes in place which actually already address the long-term solvency problems of corporates.

Also, when you look at how the take up of the short-term worker support (Kurzarbeit), is taken up by almost 4 million people. That provides actually a scheme that people are capable of controlling their financials, repaying their financials. Do we need to also potentially also go for one, two or three months of moratorium? Yes, we have for the time being 50,000 individual clients asking for that, but we have 19 million clients. So, overall, even after six weeks', that is a manageable number and I feel with the robustness of this umbrella given by the government with KfW structured also by ourselves in combination with the government, that is the first safety net.

Secondly, I think the entry point corporates went into this crisis is completely different than in 2008. I was at that point in the credit risk management team. The average equity position, the average liquidity which was on the balance sheet of the corporates, is not comparable to the one we see right now. So, overall, I would say the resilience of our clients is higher.

Number three. Now, the best person to answer that one is obviously Stuart Lewis. I think we also learnt our lesson from the times in 2007/2008. When I look at the structure of the portfolio, you have



seen James reference this but also on my slide, with regard to concentration risk. With regard to active hedging. With regard to trying to actually allocate the risk out, we are doing a far better job. In this regard, I do believe that these three items plus the healthier balance sheet of banks to absorb losses is a major difference, at least for Deutsche Bank. That makes me confident that the numbers which we have given out for the 2020 loan loss provisions is a number which we will and we can achieve.

With regard to the ability to restructure, this is not impeding us at all to do that what we want. We are clearly discussing that with our partners. There is not stop at all in the discussions with the workers' council on our restructuring plans. That means we will continue. Therefore, James and I are so confident that we are achieving the 19.5 billion cost goal for the end of the year. So, there is no stop to it.

Let's not forget, the last four weeks have indicated to us where we can save costs on top, and we will do everything in Q2 and Q3 to implement that. That is not only cutting costs in terms of headcount or personnel. That is cost with regard to travel. That is cost with regard to real estate. We will change the way we are working, absolutely, and hence we even have further ammunition actually to reduce our costs. James.

James von Moltke

Thanks, Christian. So, taking the comparison with the EBA stress test, it's always hard to compare theoretical stress test scenarios to the real life stress we're living through. But we'll give it a little bit of a try.

If we focus on credit provisions, I think the starting point actually picks up on two points that Christian just made. First of all, what's different in this cycle? Government support is potentially a significant difference. Secondly, we're a different company. Smaller balance sheet, we've exited certain areas. So, some of the credit exposures that we would've taken losses on if you go back to the December 2018 balance sheet, simply aren't here anymore.

I think further there are some technical differences in how that comparison works. To begin with, it's a three year total loan loss or credit number, and we're talking at this point about 35 to 45 basis points this year. There's also an ECB add-on to that number that goes beyond what we calculate our provisions to be. The ECB add-on represents 10% to 12% on top.

So, some real differences and I think the last point I'd make, I'd go back to a point Christian said. You know, the stress tests essentially



assume that management does nothing to manage sort of credit outcomes or the portfolio. So, it takes what I would call a static balance sheet. That's clearly not a real world scenario.

So, a lot of differences. We're obviously alive to the comparison, but we think, again looking at our detailed modelling, there are very good reasons to see this as quite different in terms of likely outcome relative to that stress test.

Jernej Omahen

Could I just maybe ask one follow-on? The EBA's peak on one year loss is 82 basis points. The one which you're guiding for is 34 to 35 basis points. EBA for that one year loss assume GDP contraction of 2%. We're looking for Eurozone GDP contraction of 10% plus this year. I just want to say that optically it just looks odd. But I think the question is different.

Deutsche Bank was break even this quarter on what is a very, very strong revenue. If I take the average revenue of the previous four quarters, the bank would've made a loss of broadly 400. So, I was just wondering, assume that you're wrong and the credit loss is not 45 basis points, but it's closer to EBA's estimate of 80 basis points, what are those dynamic actions that the bank can take to offset this event?

James von Moltke

So, let me again just start with a comparison. The environment that we're dealing with we would see as much more severe in the quarter one GDP decline than most scenarios that we do stress testing on, which typically are over much longer periods of time. With the recovery starting still in our estimation already in Q3.

So, the length of this downturn is a critical determinant in what the ultimate credit losses will be. Of course, there will be a diminution in the credit position of most corporates, as they put on some debt to cover expenses in a period of time while revenues are suppressed. But I think the length of this downturn is a significant difference to others.

I don't want to go into lots of downside analysis. As you know, one of the benefits of all the work that has happened over the last ten years has been that banks are very capable of doing their downside work, and also understanding what mitigants are at our disposal to offset both profitability and capital impacts of more severe downturns. So, it's something that we're, you know, very conscious of, that we keep well refreshed and we're comfortable with our position navigating through this environment.



Christian Sewing I'll put one more sentence to what James has just said. Also on the mitigants, don't forget if you quote the Q1 that this is the quarter of the majority of the bank levies. So, that we also had to digest, plus the mitigating measures we have, I would say that there is a cushion for us also to handle that situation.

Christof Blieffert (Commerzbank) Good afternoon. Two questions please from my side. There were articles in the press recently that foreign banks are pulling back from the German market. How much do you see this as an opportunity for German banks and for Deutsche Bank in particular to gain market share, and related to this, what is your view on margins and corporate lending during the COVID-19 crisis?

Secondly, on the KfW support scheme, here it would be helpful if you could share the economics of the programme, and in particular whether there's a fee from KfW for banks passing through the loan to the client. Thanks.

Christian Sewing Well, thank you. Let me take these questions. Obviously, as we said, that is an opportunity for us. A, it is our understanding that in particular in your home country, with that background we have, we have to use this time and have to make sure that we are at our clients' sides. Yes, we are seeing a certain development of other banks reducing their commitments, also to German large caps but also to mid caps, where we feel we have the understanding. As long as our risk appetite is there, because we will not water-down our risk standards for these clients, then we are there and we jump in then.

I have to tell you, it is not by incident that we are back number one in corporate financing in Germany. You have seen that also with regard to the DCM issuances. If I look at the market share we have with the KfW applications, where in the usual programmes 80% of the risk was with KfW or even more and the rest is with us. We have actually a market share which is above our normal market share in the business.

That means that clients are actually looking for advice from Deutsche Bank, and hence I think it's an opportunity with the balance sheet we have, with the market positioning we have, that we take the opportunity. Again, I think in this regard it's fortunate that we're in Germany with the backdrop of the government support.

Secondly, on the KfW programme from a profitability point of view, these are actually well designed programmes in terms of the margin



set out. You can't actually now do a one size fits all, because it depends on the underlying programme. We have various programmes, but overall, from a profitability point of view, this is not below our threshold and hence actually we are supporting these things. Again, it also shows that in the set-up of the programmes, this was not only a programme which was set up by Berlin and the KfW but with active participations of the German banks, including us. Hence, we are happy to support these programmes also from a profitability point of view.

Andrew Lim  
(Societe General)

Hi, morning. Thanks for taking my questions. So, you talked about your capital ratios, but I particularly wanted to focus on the leverage ratio. I was wondering if you had the same expectation with expansion in the balance sheet, that this ratio would fall a bit further, and if so, to what level? I ask this question because back in early 2018, this ratio was only 3.36%, so not too different to where it is today, and at that point, we had to undertake a restructuring plan at Deutsche Bank. So, just wondering about your thoughts in that regard.

Then my second question is, in your financial report you talk about loans in moratoria. So, I guess this is also one factor why maybe your loan loss guidance is maybe more benign than some people might expect. But could you give us a bit of colour as to how much of those loans are in moratoria across the whole group? Then going forwards, what would change your accounting treatment of those loans, such that they might be regarded as non-performing under IRFS 9? Thank you.

James von Moltke

Sure, Andrew, let me start with your leverage ratio question. So, first of all, the ratio that you cited I think has to be in your planning or your modelling not ours. So, we feel comfortable that even with the expansion in the balance sheet in the core businesses, we can sustain the leverage ratio more or less where it is now, without changes in the definition, as the growth in core is offset by the deleveraging in the capital release unit.

So, we feel comfortable with the stability of the ratio from here. Of course, the change in definition helps. It has been an ongoing question why clearly risk free assets should be part of that ratio, and I think the 20 base points of help in our leverage ratio as I explained earlier.

Remember also that pending settlements come out of the definition in 2021. So, within a year, that part of our leverage exposure would



also settle down. So, again, we're comfortable. I think we've often communicated our comfort not only where our leverage ratio is, but with the path and improvement over time.

As relates to moratoria, you are correct. The guidance and in some cases the way the programmes are structured, we would not treat an otherwise credit-worthy obligor as going into stage two, based on the indication of seeking the forbearance of a moratorium as the sole indicator.

That does not mean that if there's credit deterioration otherwise, that loan would not deteriorate from a staging perspective or a rating perspective. Certainly, for a period of time this will help individuals and corporations, particularly small corporations, dealing with the cashflow implications of this crisis. Again, assuming the economy begins to recover in the third quarter, they would then re-establish their normal operating rhythm with a normal cashflow profile, you wouldn't expect much deterioration in the credit quality of the obligor, other than the additional debt that's taken on over that three month period.

Frankly, it goes to the point that Christian made a moment ago, about the design of the KfW or government support programmes. It really provides from the individual all the way up to the large corporation an ability to manage the cashflow implications of this crisis without a deterioration necessarily of their credit standing. Including at the very low end. These are forgivable loans. They're essentially grants to small businesses. Which of course is very helpful to the economy. I hope that helps.

Piers Brown (HSBC)

Yes, thank you for taking my call. Just coming back to the provision for credit loss, just looking at the composition, I mean, you're obviously booked more in terms of stage three loans than you have stage one and two, which I guess at this point in the cycle is sort of noteworthy. I wonder if you could just share a little bit more in terms of the economic inputs into how you've assessed the stage one and two provisions.

I think you've given some economic forecasts on page 19 of the report in the outlook statement. But I don't know whether those are the same as what you're actually using in terms of the credit loss provision modelling. So, maybe you could just expand on that.

The second question is just around the restructuring and severance charge this quarter, which I think was 88 million. I mean, I hear



everything you're saying about not having any issues in terms of implementing the restructuring as you planned, but just in terms of that number being below the run rate for the 500 million full year target, I wondered if you could just give a bit of colour on that. Could we just expect there to be catch-up in coming quarters in terms of what you're booking for restructuring and severance? Thanks very much.

James von Moltke

Sure, thank you. So, a couple of things. You mentioned stage three. We think it's very natural that the stage three bucket is relatively moderate at this point in the cycle. Naturally, as we see defaults in this credit cycle you would expect there to be more stage three exposures and hence loan loss or the allowances travelling, migrating from stage two to stage three.

As you saw in our disclosure, page 12, there is very little that we would see as COVID related stage three provisions taken this quarter. Which we think is entirely natural for the very short time elapsed between the onset of the crisis and the end of the quarter.

To your question about the macro assumptions, we use consensus estimates. As I mentioned, we used 31<sup>st</sup> March consensus estimates. Clearly, things have moved on since the end of March and the outlook today is more severe than it was then. Hence, as I mentioned, about 100 million additional provisions had you moved that forward to the end of April.

There is a difference between therefore what is built into the model there, relative to our firm outlook. So, we think about our forward planning more, bearing in mind the outlook that we describe in our earnings report as distinct from what is built into the IFRS modelling.

Restructuring and severance, it's actually often the case that you see much higher restructuring and severance charges towards the end of the year than the beginning. As we are actually executing in many cases on the measures against which we built reserves at the end of last year. In some sense, the pipeline refills and then we recognise new reserves as new actions become essentially defined to the level where we can recognise them under the IFRS standard.

In this quarter, for example, the restructuring and severance was largely to do with the savings we expect to extract from the German legal entity merger, as an example, and we'll continue to see some level. I would think increasing towards the end of the year, as more and more of the actions that we expect to take in 2021 are then reflected in the reserves that we take in 2020.



Piers Brown                      Okay, that's perfect. Could I just have a quick follow-up on the expected credit loss. You talk in the report about following ECB guidance and driving adjusted inputs, based on longer-term averages. Can you just explain how the mechanics around that work, and what sort of trough GDP numbers you might be using in terms of some of the more adverse scenarios you might be running?

James von Moltke                So, the scenario is the same. It just extended the horizon to three years and removed some of what would've been significant procyclicality that would come from the early quarters of the event. So, if you think about it this way, you'd look at an annual GDP number as the driver of the IFRS 9 provision, rather than the very sharp first quarter event.

We think that's appropriate. We think the guidance from the ECB made perfect sense. Particularly given the shape of this crisis and the expected path of GDP going forwards. Had you not done that, it would've brought in some excessive procyclicality that would've seen us build excess reserves or provisions in the first half of this year, and then released them in the second half of this year, which clearly makes no sense. So, that's how I'd think about the averaging as it was applied here.

Again, we think that was a very sensible outcome. It didn't suppress the reserves so much as make sure that the timing of the reserves makes more sense against the likely path of both ratings migration and ultimately obligor defaults.

Adam Terelak  
(Mediobanca)                      Good afternoon. I had a couple of questions, one on capital and then back to reserving. On capital, I think I'm a bit surprised by the lack of an increase in market risk RWA. I just wanted to know whether that's an averaging thing and whether that could come into the second quarter and beyond, and then how sticky some of this RWA inflation is likely to be. I know there's a lot of uncertainty involved, but whether we should really be thinking about some more permanent COVID-19 impacts to the denominator of your capital before you get some relief, it sounds from the commission package from yesterday.

Then on the provisioning, I just wanted to understand a little bit more on the build and some of the moving parts. The stage two assets have gone up by, or doubled almost, by 19 billion or so. But the provisioning attached to it has been very, very modest. I just want to understand what is driving that, why the numbers are so low



at this stage and what sort of forbearance is coming through on IFRS 9 guidance or what might be driving that. Thanks.

James von Moltke

Sure, Adam, thank you. On capital, and this is why we pointed to the 40 basis points and the likelihood that it comes back, you're absolutely correct. On each of their own schedules, I would expect the components of the capital drawdown to come back. So, if you take the three major parts: Prudent Valuation, market risk RWA and then committed facility drawdowns, over two or three quarters we'd expect those drawdowns to get paid back. So, that comes back to us over time.

The market risk RWA, as you point out, did not move in the quarter. We do expect increases to come in Q2 as the volatility feeds into the averaging. Then that'll wash out over a one year period after that. Equally, prudential valuation will reflect now, as we've now done in the first quarter accounts, the higher market dispersion. But that again will wash out of the prudential valuation and that should normalise the capital come back over time.

So, our view is that it is really almost all temporary. As markets normalise, the only thing that wouldn't be temporary would be those either of the ratings that migrated that become non-performing over time or the new drawn facilities that potentially become non-performing over time. Incidentally, given the forward-looking nature of IFRS 9, some of the provisions that we built in the quarter were provisions against the new lending that took place. So, there is, a forward looking element there as well. Can you just repeat your second question so I make sure I cover it?

Adam Terelak

Yes, it was on stage two loans up 19 billion but the reserves attached to it kind of 100 million or so. So just why that number is so small and if it's to do with the nature of the IFRS 9 three year averaging and pay down assumptions.

James von Moltke

One thing you need to remember is you think about the assets sizes in each bucket and the related allowances. As you are seeing a migration, you're not just seeing migrations of assets into the stage two bucket and the associated provisions. You're also seeing a migration from stage two to stage three. So, ultimately, you need to look at the net of those two things.

Magdalena Stoklosa  
(Morgan Stanley)

Thank you very much and good afternoon. I will come back to the previous question around market risk weighted assets, because I have to admit that I struggle a little bit with the lack of inflation with



that particular line. Because we have seen quite a significant inflation in market risk weighted assets in a couple of your peers. So, my question really is, have there been any kinds of really significant changes within the modelling of your market risk weighted assets? Or would you be able to maybe quantify the relief that the ECB has put through on 16<sup>th</sup> April on that calculation maybe? So, that's the question one.

Question two. I know we've talked a lot about revenue side expectations this year, but are there other risks that you see, maybe particularly in the retail commercial bank, where the level of activity, the level of spend, potentially the level of lending may actually fall off, impacting revenues negatively? Given how huge the disruption is in the second quarter from the perspective of macro. Thank you.

James von Moltke

Thanks, Magdalena. So, the market risk RWA is pretty simple. If you look at page 47 of our earnings presentation you can see that the increase in VaR (Value-at-Risk) driven by the volatility. Volatility has really only spiked at the end of the quarter. So, it didn't really feed into the averaging to a significant extent. That's why we'd expect to see that now come through in Q2. Ultimately, you've heard some talk about VaR outliers in the marketplace. So, for us, which may be different to peers, what happened is the ECB action to reduce the multiplier was offset by some increase in that would have come from VaR outliers. So, those two things offset and all you had was the relatively limited amount of volatility at the end of March in the averaging.

Christian Sewing

With regard to the corporate bank and the private bank on the revenue side, overall I think we have offsetting items. Of course, in the corporate bank, for instance, the reduction in the US dollar interest rate is an additional headwind for us. On the other hand, what I said before, in particular by our strategic growth initiatives, but in particular the fees of the additional lending which we are doing here in Germany, also now the benefit of the ECB decisions from introducing the deposit tiering. The good work that has been done in actually repricing the deposits and we have done that throughout the first quarter, and that programme will continue in Q2 and Q3, we believe that this offsets actually obviously certain headwinds you have in some other subparts of the business.

In the private bank, we do believe that in particular in some areas there could be less engagement. For instance, Italy and Spain, you will see that in the consumer finance business there is less demand. On the other hand, you will again see that the number of people and



the clients coming to us asking for investment and advice, reallocating their portfolios is one of the mitigants.

Secondly, the deposit tiering introduced at the end of Q4 helps. Hence, we see also there good chances to mitigate the reduction of revenues in some parts. So, overall, we believe that in both areas, corporate bank as well as the retail bank, in corporate bank we can stay almost flattish, and retail bank only a slight decrease.

Kian Abouhossein  
(JP Morgan)

Yes, thanks for taking my questions. First of all, I think you have produced the best earnings report of any of your peers. Because it adequately discussed the COVID-19 issues, which a lot of the peers don't do. So, thank you for that. In respect to that, since you're doing a more longer-term scenario of economics in your numbers, in your IFRS 9 numbers, and you highlight here on page 19 the base case, can you just tell us also since you're doing it three year rather than just one year, can you tell us in that context what GDP assumptions you have for Eurozone and the US as well for '21 and '22?

In that context, I don't fully understand why your provisions will change. Sorry, how the three year scenario will impact your stage one loans, because stage one loans only assume 12 months forward looking expected loss. So, I don't fully understand how that works. If you could just explain that.

The second question is on your leverage loan book. Can you tell us on your bridge book or leverage loan book, whatever you want to focus on, what the mark down was? Also, you mentioned fixed income, some credit write-downs, if you could explain that.

James von Moltke

First of all, I'll refer you to Bloomberg consensus estimates at the end of March to see the economic assumptions over the three year period. They have annual GDP numbers that are down in the first two years and then up. They're clearly not as severe as I suspect what will go into the models this year and hence the incremental provision number that I cited in my prepared remarks.

An interesting point is brought out by your comment on stage one. Interestingly, part of the pro-cyclicality is in stage one because of the very sharp, movement in GDP in the first period actually creates a significant multiplier of the probability default in the stage one bucket. That suddenly even with that one year expected loss that you build for stage one, it actually creates some of the pro-cyclicality in the earlier methodology. So, interestingly and perhaps counter intuitively, the pro-cyclicality is in the higher quality buckets.

In terms of leverage lending, as we noted, we had about 4 billion euros of commitments at the end of the quarter. We were I think



conservatively positioned and in the leverage lending space our hedges almost entirely offset the mark down, the mark to market on the bridge commitments. When I say almost entirely, I'd say four fifths of the amount that was the initial mark to market loss. So, I think it shows you how conservatively we were positioned going into the crisis.

Thank you for the call out on the earnings report. We appreciate the feedback.

Stuart Graham  
(Autonomous)

Hi, thanks for squeezing me in. I have two questions please. First, what's your assumption for credit risk RWA inflation due to ratings migration this year please? Second, it's another question on provisions, I'm afraid. What would your 35 to 45 basis points guidance be if you'd stuck with your old eight quarter model and assumed government support measures were wholly ineffective? So, basically no management overlays, you just let the models do their thing.

James von Moltke

So, Stuart, I don't have to hand the exact number of credit risk RWA increases that we see for the balance of the year. We do see some additional inflation coming from both book extension and further ratings migration. We built that into our forward look on the CET 1 ratio. One thing that I just remind you of though as you think about both the credit risk and the market risk RWA increases that are coming at us, in our planning they will now be offset by some of the changes that the ECB announced around regulatory inflation that's no longer coming at us.

So, you'll recall we had about 60 basis points of expected regulatory inflation for the year and we've seen 30 basis points of that in January. The RWA associated with the rest of the inflation, 8 billion euros or so, we don't think any longer materialises which is why you may wonder why our outlook shows a relatively moderate change in the RWA relative to our earlier expectations.

I don't want to go into the extent of sensitivity, of the loan loss provisions to all of these other assumptions. It's frankly sort of irrelevant to the world that we're actually in in the sense that government support does exist. Given the modelling which IFRS requires to be very granular and bottoms-up, what you do is get a great deal of insight in terms of how the book is expected to perform over time. So, we think that central case is a good one for now.



Again, I just point to the pro-cyclicality that would otherwise have been created. I don't think investors or frankly the clarity of bank capital ratios would've been helped by a strongly pro-cyclical degree of build at this point in the cycle.

Stuart Graham

I accept that point. I guess what I struggle with is how do you know if the government support measures are worth 5 basis points, 10 basis points, 15 basis points? How do you know? I mean, there's no precedent. How do you calibrate that?

James von Moltke

Well, they're built into the ratings that our credit officers assigned to each obligor. It's again very granular. It's not an overlay that we applied to the determination of the provisions, but rather each credit officer in assigning ratings and looking at the migration, assessing the likelihood that an obligor would benefit in some way from the government programmes. I honestly think we've probably stayed on the conservative side of that in how we assigned those ratings changes. As you'd expect, the credit officers are minded to be conservative at the beginning of a crisis, so I would think of that ratings migration or the. If you like, again, I'll use the words suppression of ratings migration as having been moderate in our judgement at this point.

Amit Goel (Barclays)

Hi, thank you. Thanks for the presentation. So, two questions. I guess one just again following on from the asset quality point. So in my head where I'm trying to reconcile, you showed the key focus industry exposure about 52 billion. Then the incremental provision being the 260 million. So, roughly 50 basis points on that. So, how are you managing that key industry exposure?

The second question I had was relating to the assets which were reclassified to level three. So, I think that was about 2 billion. I just wanted to get a sense. If you had used the observable, I guess, parameters, what would've been the potential marks on those assets? Thank you.

James von Moltke

Let me go in reverse order just to hit the level three. So, it was 4 billion euros of an increase in total. The way you should think about our guidance here is that there was relatively little that happened in terms of portfolio changes over the quarter. The increase in that balance was mostly driven by changes in the environment. They're fair value assets and liabilities. So, the change in any valuation is fully reflected in our accounts. I can't speak to specific what on that population of assets and liabilities were the gains and losses? But it's fully reflected in the first quarter results.



So, the observability just had to do with the dispersion and in some cases the observability of the parameters that go into those valuations. So, in our judgement, assets were migrating from level two to level three in that. So, in short, they're marked.

Christian Sewing

I think actually page 13 of the earnings presentation is in this regard a good page to again through the pockets of focus. First of all, as James laid out before, obviously an individual name by name review we are doing in that portfolio, because these are the larger names which are fully under the scrutiny of the credit officers. If you then go into the individual sub portfolios, in the oil and gas, 80% of the net limits we have is to investment grade names. We have on the other portfolios, for instance, in commercial real estate but also aviation when we talk about sub investment grade ratings, you have a high degree of collateral with loan to values where I would say this is rather conservative.

Then in sub portfolios where I would agree with you, where the biggest risk is like leisure, we are very small, with hardly any concentration risk or absolute industry leaders. So, looking at that and here I come back also to the times as a risk manager. I think this bank has really learnt how to manage concentration risk, how to actively hedge it or collateralise it, and hence I think we have a good handling on this 51 billion euro portfolio in total.

James von Moltke

Just one thing to add to what Christian said. Remember that the expected credit loss, which frankly moved relatively marginally in the quarter on our total portfolio of loans, and in fact moved by less than our provision in the quarter, reflects also all of the credit mitigants that are in place. Whether that's hedging, CLO cover, in addition to the rating of the obligor and the collateral valuation. So, there's a lot of protection here that just goes beyond what we're focused on, on the slide the Christian referenced.

Andrew Coombs (Citi)

Hi. Thank you. I'll ask a quick question and then just a follow up on the reserve build but from a bigger picture perspective. On costs, you're obviously very confident you can still hit the 2020 target or potentially even beat the target. That's despite some of the announcements about suspending redundancies in this environment. I know when you previously talked about the cost walk, the biggest component of that was coming from compensation. I know when you drilled down into the investment bank at your investor day, of the 1.2 billion I think only 0.2 billion was coming from the front office from actions you have already done.



The majority was coming from back office cuts you still had to do. So, could you just elaborate on what exactly gives you the confidence on the cost save target and what it's substituting in to the lower compensation costs that you would've otherwise had? Where have you found cost saves elsewhere to achieve it? That would be the first question.

The broader question on reserving. I appreciate everything you've said. I appreciate the position you've been put in between what the auditors request and what the EBA is requesting. I have a lot of sympathy for the point on avoiding procyclicality. But obviously the approach you've adopted is very different to your peers, especially the UK and US banks, but also a number of European banks.

So, given the huge amount of subjectivity we now have, not only on scenario assumptions, disclosure but now even the approach that has now been adopted, is there any discussion with the ECB, with the EBA about trying to get more consistency between the banks on this? Because to some extent, it is destroying the credibility of bank reporting at the moment. Thank you.

Christian Sewing

Potentially, I start with the cost one. Where do we take the confidence from? To be very honest, from various items. Number one, we have achieved now for nine quarters our cost target. That tells you that we have full discipline, full control and management visibility into compensation costs, but also non-compensation costs, which was simply not available 24 months ago. So, the work finance has done in order to allow deep dives to find where additional cost savings are is brilliant, and it helps us to actually navigate.

Number two, I think we need to a little bit potentially clarify what we said with the pausing of the restructuring. We said that in the first phase of this crisis, where everybody was personally affected, we don't want to communicate for that time additional individual layoffs. We started at the end of March, beginning of April, and we are now actively reviewing when we are actually regaining that.

Because with the lifting of the restrictions in the regions also here in the home country, where a lot of restructuring is done, we will also resume that. We are committed to this transformation and restructuring.

Thirdly, we have 70 individual initiatives underway. Out of those, only 30 initiatives are actually tailored at compensation-related issues. We have 30%. So, the remaining 70% are non-comp related. So, of course, even with a potential temporary pausing of new



individual discussions, you are full steam on and we are full steam on implementing the other cost measures.

Fourthly, the last four weeks have shown us, as I said before, opportunities to cut additional costs. If we look at our travel costs, if we look at our entertainment costs, if we look at the real estate costs, all this is underway. Therefore, we have a chief transformation officer who is doing nothing else, and looking at the chances and opportunities of what we have experienced over the last four weeks.

Actually, thinking about, what can we implement now long-term? That will also result in cost reductions. That combined with the track record this management board has built makes us confident to achieve the 19.5 euros or even be better than that.

James von Moltke

I'll take the question about reserving. Actually, I share your concern about the comparability and that's something that we talked about both internally and with our regulators. It is interesting that this crisis came upon the industry at a point in time where US GAAP filers were switching to CECL. So, as a starting point, even the comparability across periods for some of our competitors was hard to establish.

I think if you go back to first principles, you have to compare each bank on the basis of the portfolio risks that they have. A big starting point is, does a bank have a credit card portfolio? For us, our consumer unsecured is a relatively small part of the book overall. So, I think it's entirely natural that you'd expect significant differences in the total provision level that we would take relative to some of our peers. I think also a geographic spread is a piece of that, in addition to some of the things we pointed out about our portfolios, specifically related to the most impacted sectors. I think that would be the first point that I'd make.

I think secondly, it's worth spending some time looking at the resulting allowance level. So, rather than looking at P&L provisions, look at where banks have ended up in terms of their allowance for loan losses, or their allowance for credit losses against the portfolio. Interestingly, there you would actually see us pretty well in line with a number of our peers, once we exclude the credit card portfolios. Suggesting in a way that if our underlying portfolio is in fact less risky as we think it is than at least some of the comparables, our allowance is in fact on a relative basis at least in line if not relatively more conservative. So, as I say, share your view on the challenges, thinking about accounting standards and changes in



methodologies. But I don't think that undermines an ability to assess the appropriateness of both provisions and ultimately allowances.

James Rivett

Thank you, Emma, and thank you all for joining us today. We appreciate your interest. We realise there are also several questions that we didn't get to. The investor relations team will reach out to follow up. We look forward to speaking to you all soon. Be well.

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