James von Moltke and Stuart Lewis:

Risk Deep Dive Deutsche Bank

Thursday, 18th June 2020

Transcript

JAMES RIVETT INTRODUCTION

- Thank you operator and welcome from me to our Risk Deep Dive
- Stuart Lewis our Chief Risk officer is going to speak first
- He will discuss our approach to risk management at Deutsche Bank
- Following Stuart, James von Moltke, our CFO will discuss our capital outlook
- Following the prepared remarks, we will be happy to take your questions
- The slides are shown as part of the webcast and are available for download in the investor relations section of our website, db.com
- But just 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 Stuart

STUART LEWIS COMMENTS

SLIDE 1 - Summary

- Thank you James and welcome from me
- Before we go into the presentation, a few brief comments on my background
- I joined DB in 1996 and have been primarily involved in Risk Management roles
- I've been the bank's Chief Risk Officer since 2012 and during the financial crisis I was Head of Credit Risk Management and Deputy CRO
- During my time at the bank I have managed through the burst of the tech bubble, 9-11, the failure of Lehman, the financial crisis and the Eurozone debt crisis
- The past few months have been unlike anything any of us has seen in our professional careers
- What we’ve witnessed in financial markets, in the economy, in society and in our own daily lives, is truly extraordinary

- It is at times like these we think it's important to provide you with a comprehensive picture of Deutsche Bank's risk profile
- We believe that in the past few months, Deutsche Bank has shown its true strength; we have continued to perform well in difficult circumstances; and we're well-positioned to emerge stronger in the post-crisis recovery period
- Specifically, we believe:
- Having Germany as our home market and being market leader in Germany is a key advantage
- Our conservative balance sheet management, one of the core pillars of our transformation, has enabled us to manage the challenges we've faced
- The investments we have made in risk management and supporting technologies in recent years are paying off, enabling us to manage our risks in a more timely and proactive manner through this period
- Additionally our deep understanding of our well-diversified and relatively low risk loan book gives us confidence in the guidance for loan loss provisions we've published and which we publicly reaffirmed last week
- We will talk about each of these topics, starting first with our position in Germany on slide 2

<u>SLIDE 2 – Our Business is Concentrated in Germany</u>

- We made clear when we launched our strategic transformation last summer that our leadership position in our home market was a core pillar of our agenda
- Germany accounts for 43% of revenues and 47% of our loan book
- We're the clear leader across all four core businesses
- We're the 'Hausbank' to around 900,000 corporate and commercial clients, including Mittelstand companies
- The relationships we have and the position we occupy has allowed us to play a key role in transmitting the German government's programmes especially the KfW schemes, into the real economy

- In the first quarter we reclaimed the number 1 position in German Corporate Finance, with our best market share since 2017, in particular by helping clients raise debt financing
- Across the Deutsche Bank and Postbank franchises, we serve 19 million retail clients of which 11 million are online banking customers
- DWS is the market leader in mutual funds in Germany, with around a quarter of the market
- Simply put, we're happy to have a strong leadership position in Europe's strongest economy, which is proving its resilience in this crisis, as you can see on slide 3

SLIDE 3 – Germany is one of the most resilient economies in this crisis

- Germany is a tough banking market – but in times like these we benefit from its conservative characteristics
- It may be relatively lower-return, but it's also lower-risk, and that's going to be key in the near- and medium term
- Germany came into the crisis in a relatively strong position with low levels of government, household, and corporate debt as well as good levels of corporate liquidity
- Thanks to decisive action and a world-class healthcare system, COVID-19 infection and mortality rates have been less than a quarter of other major western nations
- Fiscal conservatism has allowed the German Government to take aggressive and decisive action
- The programmes of financial support, both in emergency liquidity and financial stimulus amount to around 50% of GDP – larger than other major European nations or the US
- These factors have left Germany well-positioned to relax lockdown measures and recover earlier and faster than its neighbours, and that's an advantage for us

SLIDE 4 - We have transformed the balance sheet since 2009

- Slide 4 gives you some background to what we mean by 'conservative balance sheet management'
- We have transformed the bank's balance sheet since the financial crisis
- Liquidity reserves are almost two and a half times larger – we will talk about those in a moment
- Trading and related assets have declined by 40%
- Within these, derivative trading assets, after taking account of netting and collateral, are now around 30 billion euros, or 3% of the net balance sheet
- And the vast majority of our trading assets today are Government bonds and other highly liquid securities
- Our loan book which now accounts for around half our funded balance sheet has more than doubled since the financial crisis to 459 billion euros
- The growth has primarily come through the acquisition of Postbank
- Today, nearly half of the book is in Germany, with the majority low-risk, retail mortgages
- In a moment we'll go through why the loan book despite being larger is considered safer than in the last crisis
- Slide 5 gives you a summary of the key balance sheet and risk metrics in the same time periods

SLIDE 5 - Stronger balance sheet and risk metrics

- Our Common Equity Tier 1 Capital ratio has risen from 8.7% under Basel II to 12.8% in the first quarter this year
- This is at the high end of our peer group and with a comfortable buffer above our current regulatory requirements
- Reflecting the simplification of our loan book, provisions for credit losses have come down from 100 basis points of loans in 2009 to 44 basis points in the first quarter annualized this year
- Our provisioning levels have been historically lower than peers

- Average VaR has come down by around 80%, and actually touched a historic low in February of this year
- Our funding position is very strong – more than 80% of our funding comes from the most stable sources, the majority customer deposits
- Liquidity reserves are 205 billion euros today and we operate with a 43 billion euro surplus above our requirement to maintain a Liquidity Coverage Ratio of 100%
- Finally, Level 3 assets, which were 88 billion euros in 2008 and 58 billion euros in 2009, are now less than half that, at 28 billion euros
- We'll talk about each of these in more detail – but before we do that, a few words on the way we've developed our risk management capabilities

SLIDE 6 - Benefitting from investments in our control environment

- On slide 6 you can see how we've invested to strengthen our control environment in the last few years
- In total, we've invested around 900 million euros on a cash basis between 2017 and 2019
- We have significantly boosted our capabilities in Anti-Financial Crime and Compliance
- In screening for sanctioned entities and politically exposed persons, we've gone from screening 700,000 names per week to 28 million names per day
- And we can now monitor more than a million voice and written communications per day in 12 languages
- In Liquidity Risk, we comprehensively enhanced our internal stress testing methodologies and refined our funds transfer pricing model
- These enhanced tools are improving our resource allocation decisions
- We have also set up daily 'T plus one' reporting on liquidity risk and our Liquidity Coverage Ratio
- These capabilities are rapidly developing into leading practises and have provided us with confidence as we managed through the recent stress period

- In Credit Risk Management, we have recently launched a new system which covers ratings, workflow and portfolio management
- Across the process from rating assessment to transaction approval, information is timelier and we can slice it more finely – by legal entity, branch, and asset class
- That gives us better integrated workflow and contributes to better and quicker decisions
- Finally, in Market Risk, we have launched Historical Simulation or 'HistSim' risk modelling and portfolio analytics and that gives us better, more accurate and more granular data
- We are currently able to execute around 15 billion trade revaluations per day
- This is also an important step in our FRTB preparation aligning even more closely the relevant capital calculations to our end of day pricing models

<u>SLIDE 7 - Managing credit concentration risk on multiple dimensions</u>

- One of the key considerations as a risk manager is managing concentration risk
- Slide 7 gives you an overview of how we manage concentration risk across all counterparties
- We do this along a number of different dimensions:
- We apply industry risk thresholds across 27 corporate and institutional portfolios
- We set country risk thresholds for all emerging market nations and some developed markets, depending on rating
- We assign specific risk limits and dedicated strategies for specialist risk buckets in Commercial Real Estate, Leveraged Debt Capital Markets and Underwriting
- We also operate hedging strategies to manage the concentration risk of single name exposures
- Our Emerging Market exposures are also supported by other mitigants, including export credit agency cover and private risk insurance
- Finally, around particular events, we conduct ad-hoc stress tests and thematic reviews and may reduce risk if there are characteristics of our exposures that are outside of our risk tolerance

- Recent examples away from COVID have included stress testing our portfolios in Hong Kong and our exposure to oil, including certain oil sensitive countries given the movements in commodity prices
- On slide 8, we look at how these measures impact our pillar 3 disclosures

SLIDE 8 - Significant risk mitigation of loan book exposures

- Loan Exposure at Default under Pillar 3 was 495 billion euros at the end of the first quarter
- Pillar 3 disclosures include some framework differences compared to our IFRS loan book of 459 billion euros, in particular the inclusion of undrawn commitments after applying credit conversion factors
- A significant proportion of Exposure at Default is covered by collateral, guarantees, hedges and other structural risk mitigants which act to reduce Loss Given Default
- Adjusting for the loss given default the exposure is approximately 70% lower at 160 billion euros
- In addition, we have other mitigants including Export Credit Agency contracts and Private Risk Insurance, as well as purchased CDS protection
- The ECA contracts and PRI act as additional protection and help to lower our Probability of Default assumptions
- Let's now turn to slide 9 where you will see how mitigation is applied across our portfolios

SLIDE 9 - Modest vulnerability to loss in lower rated buckets

- Slide 9 shows our Exposures at Default split by internal rating, before and after mitigating measures
- As you would expect, we deploy mitigants more actively in the lower rated parts of the portfolio
- In single 'B' and below, around 70% of the gross exposure is covered by risk mitigation including asset collateral and hedges but also structural risk mitigation, for example in LDCM

- This results in an adjusted exposure in the 'below single B' category of 24 billion euros
- We additionally also hedge some of our larger exposures to Investment Grade counterparties to manage concentration risk
- Although the probability of default of these exposures is low, these higher exposures are hedged to limit our risk of losses driven by a potential jump to default
- Regulatory expected loss across the non-defaulted loan portfolio is around 1.3 billion euros, compared to the 1.3 billion euros of allowances that we currently have in place
- Given our forecast build in allowances in the remainder of the year we feel adequately provisioned against potential losses
- In summary, we feel very comfortable both with the quality of our loan exposures and the mitigants that we have in place
- We fully recognise that this analysis is on a modelled basis, and that begs the question, how actual performance stacks up against models
- We believe our actual performance over the last 6 years supports our view that our models are robust as shown on slide 10

<u>SLIDE 10 - Conservative approach to Provisions for Credit Losses</u>

- This slide looks at the provisions for credit losses we have built compared to the actual charge-offs we have taken over the past six years
- We see a number of points:
- First, the ratio of gross charge-offs to provisions has never gone above 100% - in other words, we have never been under-provisioned in this period
- We hit close to 100% for example in 2016 - that partly reflects IAS39 reclassified assets within the NCOU
- Second, it's a consistent range – charge-offs have been between 77% and 98% of provisions over this period

- Third, we are not grossly over provisioning, in fact we have a historic track record in accuracy
- These factors give us confidence that our provisioning is appropriately conservative and consistent
- Now let's look at the loan book by business under IFRS accounting, on slide 11

SLIDE 11 - Diversified portfolio with concentration in German mortgages

- Around half the loan book is the Private Bank including Postbank
- 60% of this – or around 30% of our total book – is low-risk German retail mortgages with loan-to-value ratios of around 70%
- Only 5% of our book is unsecured consumer finance – significantly lower than for some international peers, notably US banks with large credit card portfolios
- 10% is in Wealth Management - principally secured lending with high collateral values to wealthy individuals and families or family offices, typically with personal guarantees
- The Corporate Bank accounts for 28% of our loan book predominantly trade finance and commercial lending, for example to German medium-sized enterprises
- The Investment Bank accounts for 18% of the loan book across leverage debt capital markets and our 72 billion euro Global Credit Trading portfolio which we detail on slide 12

SLIDE 12 - Global Credit Trading Loan Portfolio: high quality & resilient

- We believe that our portfolio is very conservatively managed
- First, the book is predominantly shorter-duration – around 40% has a tenor of less than two years, and 84% is under five years
- Second, quality is high – around half of this book is investment grade with only 6% rated CCC+ or below
- Third, the portfolio is very well diversified: the average size of exposure is around 40 million euros while the top ten names account for only 11% of the loan book
- Over 40% is in what we describe as Asset-Backed Securities and securitisations

- Here we provide senior financing credit facilities to top tier sponsors and/or experienced originators in well understood asset classes
- Given our senior position, these securities have an average rating of between A and BBB+ with multiple times loss coverage and strong financial covenants
- Our ABS portfolios have been very resilient with average loss rates of just 1 basis point in the last 5 years
- Around 70% of the book is in North America and the bulk of the remainder in Europe
- The ABS portfolio today is different than it was in the run up to the financial crisis
- We no longer act as a principal sourcing loan pools and therefore no longer participate in the equity or other more junior tranches
- The other portfolios of around 17 billion euros are well diversified across a number of sectors including infrastructure and energy, transport and project finance
- We have been especially focused on our 3.6 billion euro aviation portfolio given the challenges facing that industry
- We recently updated our asset valuations to reflect the current market pricing and are comfortable that the expected losses should be modest
- And we also reviewed our 1 billion euro shipping portfolio and feel comfortable here too with the revised valuations
- Commercial Real Estate accounts for around a third of our Global Credit Trading Portfolio which we will detail on slide 13

SLIDE 13 - Commercial Real Estate: high quality, tightly managed

- In aggregate across the Investment Bank and Corporate Bank, our Commercial Real Estate portfolio is around 33 billion euros, or 7% of our total loan book
- Our assets are usually senior in the structure, as first lien creditors , well-protected by high-quality collateral with an average loan-to-value of around 60%
- The portfolio is well-diversified: average exposure size is less than 60 million euros

- We are also well diversified geographically with around two-thirds in the US, one quarter in Europe with the balance in Asia although with limited exposure in Hong Kong
- Our assets are focused on the top tier, most liquid gateway cities including New York, Los Angeles and San Francisco
- We are also well diversified by property type, with around 30% in office space 20% in residential housing and around 25% predominately in mixed-use and industrial
- Only a quarter of our exposure is to harder hit areas such as hotels and retail with limited exposure to new construction risk
- The 2 billion euro retail portfolio is predominately US based with a concentration in New York
- We have been very cautious on retail malls focusing our exposure on prominent locations with strong anchor tenants
- In hotels, our 5 billion euro book is predominately in higher quality assets
- Our exposure to higher risk Hotels and Retail is mitigated by low loan to values of between 50 to 60%
- And finally our tenants are also of a high quality
- To date, we have approved 75 loan modifications, with the sponsor typically contributing additional equity
- Let's now turn to another area we monitor closely, our Leveraged Debt Capital Market portfolio on slide 14

SLIDE 14 - Leveraged Debt Capital Markets Loan Portfolio: low risk

- Our total LDCM portfolio is 11 billion euros, a little over 2% of our total loan book
- The majority, just under 9 billion euros, consists of cash-flow lending, mainly revolving credit facilities
- This is well-diversified with the top-10 names accounting for only around 15% of the portfolio
- Almost all exposures are senior secured 1st –lien facilities

- This book is also well-diversified by industry with very low exposure to shale gas producers
- Exposure to the most 'COVID-sensitive' industries such as real estate, gaming, lodging and leisure, business services, automotive and transportation is about 20% of this portfolio and well-diversified with an average exposure size of 22 million euros
- The balance of our LDCM exposure, around 2 billion euros, is asset-based lending which is exclusively US-based and the loss history is negligible
- Before we leave the Investment Bank and turn to our consumer loan book, a few words on our Underwriting exposures on slide 15

SLIDE 15 - Underwriting pipeline

- Underwriting exposures, which are not part of the loan book as commitments but are recorded at fair value, were around 19 billion euros at the end of the first quarter
- This exposure is very different from in the financial crisis – in particular, we have put systematic measures in place to reduce concentration risk
- The largest component, 8.4 billion euros, is Corporate Investment Grade which consists mainly of bridge facilities for bond issuances by our core clients
- These markets have remained active and open over the past few months
- Another 4 billion euros is in Leveraged Debt Capital Markets
- As I mentioned earlier, we have completely transformed our approach to LDCM since the financial crisis
- Not only is our total pipeline commitment substantially lower than pre financial crisis but our average commitment size is also materially lower
- Today our underwriting portfolio is well-diversified, with an average commitment size of around 250 million euros
- Post the financial crisis, we have established protocols to automatically hedge pipeline market risk

- This approach meant we saw very manageable net mark to market losses during the first quarter
- We have de-risked the remaining pipeline by 15% since the end of Q1, and we expect the vast majority of the pipeline to be de-risked prior to the summer as markets have reopened
- Exposures to the most COVID-impacted areas, which account for around 20% of the LDCM pipeline, should be de-risked over 3rd and 4th quarters
- In some of these areas, while we may sell below par this is typically covered by the flex built into the transactions and fees that we receive
- Of the rest, under 4 billion euros is in Commercial Real Estate which is split roughly 50:50 between CMBS and whole loans
- Here we are also protected by 1st-lien collateral and loan-to-value ratios of 63% on average
- In summary: our pipeline risk in this crisis is very different from what it was going in to the financial crisis in 2008
- We manage underwriting volumes to much tighter levels and further mitigate through single-name risk concentration limits and extensive pipeline hedging protocols
- Now let's turn to the consumer finance portfolios in the Private Bank on slide 16

SLIDE 16 - Consumer Finance – Low delinquency & high coverage ratios

- Our consumer finance portfolio is 24 billion euros
- At 5% of loans we have one of the lowest proportions among major international banks and we will discuss in a moment how this exposure influences provisioning in this environment
- Also in contrast to our American peers, our consumer finance portfolio is predominately current account credits linked to income as well as instalment loans
- Credit cards account for only around 5% of our consumer finance portfolio
- In other words – around one quarter of 1% of our total loan book

- Of the total consumer finance portfolio, 65% is in Germany, where delinquency rates are low at around 50 basis points of loans 90 plus days past due
- Again reflecting the strength of the German consumer and the strength of the government programs put in place we have seen limited changes in recent payment patterns
- The remaining 35% is in the Private Bank International, predominantly Italy and Spain
- Our Italian business is concentrated in the North of the country
- This is the most prosperous part - in terms of per capita wealth, one of the most prosperous parts of Europe
- It was however also the first region of Italy to be impacted by the virus and lockdown measures
- Reflecting the quality of our borrowers and strong underwriting standards delinquency rates in our Italian consumer finance business are amongst the lowest in the industry at around 150 basis points
- Stage 3 coverage of our total consumer finance portfolio is good at around 60% of stage 3 exposures reflecting strong recovery rates
- In Germany and Italy our existing client relationships are supported by legislative moratoria
- Since February we have seen approximately 113,000 requests for payment moratoria, of which 90% approved
- Although we continue to have a good risk-return-relationship in our existing portfolio, we have taken several actions in response to the crisis, including more stringent client selection and setting tighter lending criteria for new business
- In summary, we believe that our loan books are high quality, well diversified and resilient with limited exposures to the most COVID-impacted sectors
- This is a key reason why we remain confident in the outlook for provision for credit losses which we will now discuss starting on slide 17

SLIDE 17 - Consistently low levels of net credit loss provisions

- Despite the growth in our loan book our provisions have been on a relatively steady downward trend since 2013 as you can see on the left hand chart
- This has in part been driven by de-risking of the former Non-Core Operations Unit which we closed at the end of 2016 having reduced RWA by 120 billion euros
- In the core bank we have also completed the targeted de-risking of certain portfolios, most notably in shipping and in US oil and gas
- On the right hand side you can see that, as a proportion of loan book, provision for credit losses has been consistently lower than peer average
- For 2020, first quarter provisions were 44 basis points of loans on an annualized basis or just over 500 million euros – with the increase principally driven by changes in macro-economic assumptions
- Provisions are expected to be around 800 million euros in the second quarter driven to a significant degree by higher stage 3 provisions
- We then expect provisions to be lower in the second half of the year
- To put this in context, we expect to see economies, notably Germany, benefit from the phased relaxation of lockdown measures with government stimulus measures gaining traction in the real economy
- As a result, we re-affirm our guidance of provisions for credit losses of between 35 and 45 basis points for the full year

SLIDE 18 - 2018 EBA stress test not comparable to current environment

- Some of you have asked how to compare the results of the last EBA stress test in 2018 to our guidance for credit loss provisions in 2020
- The short answer is that they are really not comparable, for three reasons as shown on slide 18
- First relates to differences in the EBA’s macro-economic scenario and what we see today
- The EBA scenario assumed a continuous three-year downturn
- We are currently seeing a severe shock followed by relatively fast recovery

- The EBA also made no assumptions of government support
- As we discussed earlier, the current crisis has seen the greatest levels of government measures ever launched
- Second, on methodology
- The ECB imposed overlays in relation to credit losses, equivalent to approximately 20 basis points of loans as part of the stress test
- They also imposed constraints on our internal methodology and models which increased the pace of default migration and the assumed losses
- Additionally, the EBA stress test takes a static balance sheet approach, which as we have explained today is very different to the active hedging and mitigation that we employ to manage our portfolio
- The third relates to results:
- The hypothetical credit losses in the EBA exercise were driven by retail, accounting for 40% of the total
- As we have seen, this does not align with the swift and decisive response to the crisis in Germany, and low levels of consumer leverage
- However, there's one important point of alignment: the EBA results demonstrated that Deutsche Bank was well below peers on credit impairment and as we've discussed, we believe there are sound reasons for that to be maintained going forward

SLIDE 19 - Loan loss reserves in-line with peers on a risk-adjusted basis

- We are also aware of the challenges that you face in your analysis given the significant differences in provision for credit losses between different banks in the first quarter
- There was some discussion as to the reasons for very different levels of provisioning amongst leading European and US banks.
- Slide 19 shows a very strong correlation between the proportion of unsecured consumer finance in the loan books of leading banks and provision for credit losses as a proportion of loan loss allowances

- For some of our peers, consumer finance accounts for between 15 and 25% of their loan books
- For US banks their largest exposures are typically in credit cards where stress loss rates can reach 10% of loans
- However even versus other European peers, our exposure to consumer finance is low
- As we already observed, Germany went into this crisis with household debt levels among the lowest of any western economy
- This macro backdrop combined with our conservative lending standards, plays to our advantage
- There has been a lot of discussion, and speculation, about the reasons for the differences in credit costs among leading banks in the first quarter
- And we believe that unsecured consumer finance, at a time of rapidly rising unemployment, is a key differentiator
- With that, let's turn to the IFRS 9 accounting framework, on slide 20

SLIDE 20 – Accounting for Credit Loss Provisions (IFRS 9) Summary

- IFRS 9 was introduced in 2018 and we went for full adoption from day one whereas other banks decided to use a transitional approach
- IFRS 9 divides credits into three stages:
- Stage 1 refers to performing loans and looks at expected credit losses over a one-year time horizon
- Stage 2 is for credits which are performing but where there is significant deterioration – when looking at the expected credit loss or 'ECL' over the lifetime of the loan
- Stage 3 refers to credits that are non- performing or are in default
- Stage 3 loans will either be subject to individual assessments for non-homogenous exposures while homogenous portfolios in the Private Bank will be subject to an expected lifetime loss

- Importantly, in this forward-looking approach, a rise in provision for credit losses does not need to be the result of a deterioration of the portfolio, but can also be the result of a deterioration of the macro-economic outlook
- In a fast-changing economic environment, the ‘triggers’ which require a credit to move from one stage to the next are important;
- These are:
- From stage 1 to stage 2 a significant increase in lifetime probability of default, rating downgrade, transfer to work-out or a forbearance flag
- Migrations from stage 2 to stage 3 are driven by unlikeliness to pay and going 90 days past due
- Let’s now turn to our loan book by rating, before and after migration between stages

<u>SLIDE 21 - Stage 2 asset increase driven by low-risk clients</u>

- On slide 21, you see the impact of these triggers on our stage 2 assets according to internal ratings
- Stage 2 assets of 44 billion euros include 31 billion of loans and 13 billion of other financial assets at amortized cost
- In the first quarter 2020 we saw 19 billion euros of asset migrations into Stage 2
- It’s noticeable that of the 19 billion euros, these are most pronounced among the highest-rated credits, on the left of the chart
- Here, probabilities of default remain low and as a result, the increase in overall stage 2 credit loss allowances for these counterparties was minimal
- The Stage 2 transfer for these Investment Grade Counterparties seen in the first quarter was almost entirely driven by the deterioration of the macro economic outlook at the end of March, giving rise to a significant increase in the lifetime probability of default.
- This is equivalent to a hypothetical downgrade of these Investment Grade Counterparties, which mostly consisted of Financial Institutions, by 1 or 2 notches

- It is important to note however, that the individual Counterparty Ratings for these Investment Grade credits were mostly unchanged compared to Q4 2019
- We did see some increase in stage 2 driven by Sub-Investment Grade Counterparties which contributed almost all of the increase in stage 2 allowances for credit losses
- These changes were driven by a combination of forward looking indicators, ratings changes and watch list inclusions
- Other financial assets include interest earning deposits and brokerage and cash margin received
- With that, let me hand over to James

<u>SLIDE 22 - Limited impact on RWA from rating downgrades in Q1 2020</u>

- Thank you Stuart
- Let me take you through a few slides on our capital outlook for the remainder of the year
- The capital planning process sits in the Treasury function within Finance, although the governance and steering of our capital management is conducted through our Group ALCO
- This brings together colleagues from Treasury, Risk as well as the businesses to get an all-round picture of our capital position
- Let's start by looking at the impact of COVID-19 on risk weighted assets starting with credit risk RWAs
- As you can see on slide 22 the impact of ratings downgrades in the first quarter was relatively muted, adding a net 1 billion euros to group risk weighted assets
- That said, downgrades did increase in March and our capital outlook assumes that the pace of downgrades accelerates in the second quarter, increasing our Credit Risk RWA
- The impact of the ratings migration is expected to increase credit risk RWA by between 5 and 10 billion euros during the year

- The RWA inflation driven by ratings migrations is likely to be partly offset by a reversal of the drawdown related increases seen in the first quarter
- Some corporate clients have taken advantage of improved market conditions to repay facilities drawn on during March and April

SLIDE 23 - Volatility to drive higher Market Risk Weighted Assets

- Turning to market risk on slide 23
- Market Risk RWA of 25 billion euros accounted for 7% of group RWA at the end of the first quarter
- Market risk RWAs are calculated in part based on 60 day average value-at-risk, or VaR
- VaR and Stressed VaR declined in January and February as we continued our derisking activities
- These reductions were offset by an uptick in March given the significantly higher market volatility
- Average VaR was 24 million in the quarter, but increased to around 40 million on a daily basis by quarter end and remained elevated through April and May
- As a result, Market Risk RWA will increase in the second quarter as the averaging feeds into the calculation

SLIDE 24 - Strong CET1 capital position to weather the crisis

- Slide 24 shows the key drivers of our capital ratio for the rest of the year
- There is even more uncertainty than usual in the timing and the impact of several items
- But, fundamentally, there are three factors at work
- First, COVID-19 impacts are expected to be a headwind of around 40 basis points in the balance of the year
- These headwinds include the additional credit loss provisions consistent with our guidance as well as higher credit and market risk RWA from the factors that I have just described

- The headwinds will be partly offset by the expected release of prudent valuation reserves taken in the first quarter
- Second, our results will continue to be burdened by restructuring and severance and the ongoing wind-down of the Capital Release Unit as we work to substantially complete our transformation in the coming 3 quarters
- Our planning also includes movements in deferred tax asset balances as well as negative movements in OCI principally related to pension assets
- The burden of transformation and other movements are expected to be mostly offset by Core bank earnings and capital generation
- Finally, the impact of these two buckets are likely to be partly offset by the benefits of the regulatory adjustments that have been announced
- These adjustments include the inclusion of a portion of software intangibles in CET1 capital, which should give us an approximately 20 basis point ratio benefit towards the end of the year based on the most recently published draft regulatory technical standards
- Overall, our CET1 ratio outlook is consistent with the guidance we gave around the first quarter results
- At that time we said we would allow our CET1 ratio to dip modestly and temporarily below our 12.5% target as we support clients and the wider economy – we stand by that commitment
- In aggregate we expect the negative impact of COVID-19 to be around 80 basis points from our CET1 ratio in the full year
- Over time these mostly temporary COVID-19 factors should normalize supporting our longer-term target of keeping the CET1 ratio at or above the 12.5% level

<u>SLIDE 25 - Improved distance to regulatory capital requirements</u>

- In this range, our CET1 ratio is at the higher end of our peers
- It is also around 240 basis points or the equivalent of 8.1 billion euros above our regulatory requirement of 10.44% as you can see on slide 25

- And following our Tier 2 issuance earlier this quarter, our buffer to the total capital requirement increased by approximately 37 basis points during the second quarter to 192 basis points

SLIDE 26 - Key conclusions

- Let me summarize briefly on slide 26
- Stuart has outlined why we believe that from a risk perspective we are relatively well positioned to manage through the current stress period
- This confidence is in part driven by the relative strength of Germany as our home market
- Our robust and enhanced control framework has proven to be effective
- We continue to manage our credit risk tightly and the internal stress tests that we have run validate our approach
- Stressing our portfolios most exposed to the impacts of COVID-19 gives us confidence that the downside risks are manageable
- And our capital buffers are well above our regulatory requirements and provide further protection against any unexpected losses
- And, finally, this management team continues to set targets and deliver against them
- Our guidance of credit loss provisions of between 35 to 45 basis points this year remains valid
- And while there are still many moving parts we believe that we will operate with a CET1 ratio in a range around 12.5% throughout the year
- With that we would be happy to take your questions

Question & Answer Session

Adam Terelak (Mediobanca)	Good afternoon. I just wanted to follow up on your comment on second-quarter provisioning. You said it would be driven by stage 3. That suggests some souring in the book already through this crisis and I'm wondering how that squares with the implied guidance for the second half of the year which implies the credit risk charges coming off from the Q2 level and what confidence you have given what clearly is already developing in the book. Then secondly I wanted some clarification on the regulatory impact. In your capital walk at the investor update last year we had 15 billion for 2020, 15 billion more in 2021. How much is in that ten basis points and what is the picture for the 15 billion you're expecting for 2021, is that being pushed out, delayed? Or where we are on that side of things. Thank you.
Stuart Lewis	Thank you for the question. Let me take the first one. Our stage 3 provision assessment is really done bottom-up I guess like all risk organisations within banks we're looking at the whole watchlist of credits and trying to determine given the factors that we see and foresee what the potential for impairment might be on our list of watchlist names and therefore it's very much a bottoms-up, single name-by-name review of credits which is driving that commentary on going forward. I'd expect in the macroeconomic model FLI impacts starting to reduce but the stage 3 names continuing to record CLPs in three and four. Overall though the trend will be peak for total CLPs in Q2, downward into Q3 and 4.

James von Moltke
On the second question, as I mentioned, the visibility is tough at the moment given the number of changes that are going on in timelines and frankly still some uncertainty around which elements of the regulatory actions, exams, reviews and what-have-you; how far they'll be moved out and whether some of the release is temporary or permanent.

I'd say if I were to zero in on just a number in terms of how our glide path has shifted out of 20 into 21 I'd give you a range from five to seven billion of RWA inflation that we think at this point is pushed out but, as I say, it's early days and we'll provide more in the way of guidance for 21 and beyond when we have some more visibility.

In general I'd say that the glide path is similar, in some cases improved, as you know, but similar to what we've been working on since our restructuring announcement in the middle of last year.

Adam Terelak
But the 30 billion total is still applicable.

James von Moltke
We think so. Again it remains to be seen whether some of the actions will be permanent but, yes, we think that's still applicable and of course some of the Basel III final impacts, we think, are moved out by at least a year now.

Magdalena Stoklosa (Morgan Stanley)
Thank you very much and I have to say, Stuart, James, I think the level of detail in this presentation is quite impressive so thank you very much for that. That will keep us going for a few days - or a few more, exactly. I've got two questions. Both are more top-down. My first one is about the change in ECB's

macro scenarios. Over the last couple of weeks we had Andrea Enria commenting about how different the macro scenarios were across various banks of determining provisions in the first quarter and how he urged the banks to use the current ECB projections, both the base and the adverse-case from here. Of course the SSM will be running their own simulation, the vulnerability test in July.

How do we translate those new scenarios or how have they translated into your 2Q forecast and potential thinking going forward? That's my first question.

My second question; we all struggle with how to price in the positive cumulative impact of the fiscal mitigation we're seeing in various countries in Europe, particularly when we look at the short labour programmes or the guarantee loans. When you actually look at those programmes country-by-country where do you see the most positive impact on the development of your provisions in the corporate portfolio across Europe based on your assessment of the positive effects of the fiscal and guarantee schemes? Thank you.

Stuart Lewis

Thank you very much for your questions, Magdalena. To answer question number one, we ran the latest EBA/ECB stress-test through our FLI model. That doesn't have a particularly meaningful impact on our model from the consensus macroeconomic inputs that we used in our model so I think we were doing the sensible thing anyway on using most updated macroeconomic projections.

To your second question, I think we tried to say in the presentation that we view households and corporates in Germany particularly well-supported. I would say that households in Italy are pretty well-supported as well so those would be the areas where we again - as we outlined - have got some pretty big exposures and therefore we would take a view that our clients in those particular areas will perform reasonably well through the remainder of this crisis.

Magdalena Stoklosa — Can I just very quickly follow up? Are you worried about any cliff-edge effect as those programmes roll off into 2021?

Stuart Lewis — I think it would be wrong to say we're not worried about it. We're watching it carefully but again a little bit premature to say what the impacts would be as of today.

Kian Abouhossein (JP Morgan) — Yes, thanks for taking my questions. The first question is on page 24 on your capital movements. I'm just wondering if the 12.3%; do you see that as a low point of the capital ratio this year? And on the ten basis points mitigation improvement, it looks like a very small number, especially when we compare that to some of the peers'. I'm just wondering if you can comment, what assumptions you make around the ten basis... It sounds like a very, very small improving figure, clearly difficult for us to question but if you could maybe put some caveats around what the issue is, why it's not comparable to peers'.

Then on page 11 I'm just interested generally in the 460 billion book, how we should think about duration of the book post-hedge. It's clearly very difficult for us to see except the mortgage book. If you could maybe talk a little bit, where's the long-duration book sitting within that 460 ex-mortgages?

James von Moltke

Thanks, Kian, I'll take the questions in your order. As I mentioned, lots of uncertainties and moving parts in the capital forecast at the moment. We'd certainly like to see that as being a low point but there's obviously - and there's a least a possibility that we'll go beyond that - but I also, as you've heard me say before

We tend to forecast hopefully with some conservatism built into our capital planning so I'd like to think the bias is better and of course as you go then further out in time the question that we're looking at is what is the timeline over which that element of the COVID drawdown that we've called out that is temporary - the time period over which it comes back.

Frankly, in this forecast not that much comes back this year so it's pushed into 21. Short answer; the hope is that that's a low point and we'd like to see some upside potentially but we can't put a floor right now.

On the ten basis points, we've bucketed it together with some of the regulatory pressure that we still see in the balance of the year so we mentioned that there are 20 basis points coming from the software intangibles assuming that we get through that rule-making process and that's effective before the year end.

But there's also the definition of default rules and the NPE backstop, which are negative for our ratio, was part of the original planning and that we have built into that bucket. That's why you see the relatively modest effect here and it also explains why when we gave the original guidance around temporary modestly below; we weren't really leaning on regulatory changes so much as we saw some of them to be temporary and some of the offsets or some of benefits to be offset by the remaining in the forecast. Hope that's helpful.

Stuart Lewis — Then on the average duration of the book, if you exclude the mortgages it's three, three-and-a-half years.

Kian — Three-and-a-half. Anything you would highlight in terms of significantly long and significantly short duration? Anything that you would stress besides the mortgage book?

Stuart Lewis — The shorter stuff clearly in the trade world where trade finance and some of the working capital is short but there's nothing else I would highlight as being a longer duration.

Stuart Graham (Autonomous Research) — Hello. Thanks for taking my questions. I have three, please. The first one is on slide 12; the 31 billion of ABS. Can you just give us more detail what that is by asset class? Is it CLOs; what is that?

Then the second question is, you've guided for 35 to 45 basis points on a whole-book for 2020 but I wonder if you could give us equivalent figures for those key buckets, the ABS, the CRE and the LDCM. What would be the equivalent basis-point figures feeding up into that 35 to 45 for those books, please?

Then the third question is, thanks for the extra granularity on your stage 2 movements. I think you've got 31 billion of loans, amortised costs for which you've got just under 2% coverage, which is a low number versus peers'. How do you arrive at that 2% coverage for stage 2 loans, please? Thank you.

Stuart Lewis

On your first question, the ABS is a combination of CLOs, autos and credit cards. Then your second question was on the 35 to 45 basis points. I think we're not going to give more detail on that. On stage 2 coverage, we think about that on an asset-by-asset basis so for example CLA coverage and LDCM's about 2.7% and we'd need to go through all the different assets to give a break-down, which I frankly don't have in front of me at the moment.

Stuart Graham

The rest of my question is, why would you be so much lower than your peers in that bucket?

Stuart Lewis

I think we've tried to outline that; because we think the quality of the underwriting and the risk mitigants that we have, whether that would be collateral and the mitigation that is built in our structures, the loan to values and all the hedging, CLO activity that we do and are experienced on have been recently strong recovery rates. That would give us comfort that where we currently are is appropriately provided.

I think again if you look at slide 10 that shows that we have provisioned and when we have provisioned our actual write-downs are in line with the level of provisioning.

Stuart Graham

Okay. Sorry to dig because you've obviously given a lot of information here so I feel guilty digging but just going back to the 31 billion, could you just give us a sense of how much of that 31 billion is CLO? Secondly I get it that you don't want to give more granularity on the 35 to 45 but I know in the olden days you used to say CRE would be under 200 basis points in a recession. Is that still valid?

Stuart Lewis

On the CLOs, yes, we've got about 18 billion in CLOs with the balance, I think, split between the autos and the consumer.

Andrew Coombs (Citi)

Firstly I'd echo the thanks for the presentation. I just wanted to come back to slide eight and nine where you give quite a lot of granularity on the corporate exposures and some of the hedging and mitigation that you do. The reason I want to come back to this is when you look at your IRB corporate risk weights they're amongst the lowest in Europe and when you dig a bit further the PD looks fairly comparable and the split of your exposures by credit rating looks fairly comparable.

Where the difference is that your LGD is quite low and it's particularly true if you compare it to Commerzbank. If you could just elaborate a bit more for me on some of the hedging and mitigation steps that you've discussed, which of those specifically alleviate the LGD versus which of those are a PD benefit? Thank you.

Stuart Lewis

I think if you look at the composition of the book - and again we've tried to indicate that in the presentation - we do have in our GCT business a very significant portfolio of structured credit risk and the nature of that structure, whether it's first-lien low loan to values; we talked about some of the securitisation that we do where loss rates have been negligible over the last five years.

I think that's really a reflection of the significant degree of structuring that we have in our portfolio across the loan book, particularly in the investment banking space and the historic performance of that book, I think, even in downturns has proved to be relatively resilient across a variety of asset classes.

The reason that I think we feel comfortable today with the positioning of the book is that we've stuck to asset classes where we've seen that general resilience and we've reduced our exposure to other asset classes which have, in our experience, fared less resiliently. It's really an issue of having a far more structured rather than plain-vanilla lending book that gives us that comfort.

Andrew Coombs

I guess where there's another way is that the point you're making is very much about the underlying exposures and perhaps I'm more interested in the actual hedges and the mitigations in place so I'm just trying to work out the construct of exactly how the hedge works that allows you to reduce some of the LGDs on that adjusted exposure.

Stuart Lewis

For example on some of these exposures if you have ECA or PRI protection in fact we looked right through to a PD adjustments so if something is guaranteed by a AAA ECA agency 95% of the exposure would be at that AAA-rated element with the 5% residual exposure at the underlying rating of the transaction or the counterparty depending on the nature of the actual loan itself. I don't know whether that will give you some indication.

If I look at CRE for example, given the low loan to value then the Loss Given Default on CRE is about 2.5%, has been our observed experience.

Amit Goel (Barclays)

Hi, thank you. I have three questions and thank you again obviously for the presentation. The first one, just taking a step back in terms of thinking about this cycle and potential losses; obviously you mentioned you've been through a few different cycles. I'm just curious in terms of a comparison; obviously versus the post-global-financial-crisis losses. I'm just curious; if you look back even further, say, to 2002, 2003, still when we look at the impairment charges that you're anticipating they seem to be quite low versus some of the other banks, so just curious what your thoughts are on this cycle versus previous cycles.

Secondly, also just coming back to slide nine, looking at some of the PDs and the expected losses and allowances and the guidance that's been given for this year, just trying to understand how much you're thinking the PDs change. For example if I'm looking at the D exposure bucket, there's 15 billion of LGD-basis exposure.

In terms of the coverage I guess you've got something like a 4% PD on that currently if you factor in another billion or so of provisioning so it's doubling or trebling. Is that the thought process in terms of PD there?

Then my third question relates to the actual news from Wirecard today. I'm just curious if there're any comments you could make there in terms of the business relationship and any comments on the exposure that you may or may not have in that situation. Thank you.

Stuart Lewis

Thank you, Amit, for your question. If you look back to earlier crises that you indicated, I think one of the key differentiators is clearly that we have Government support that's going into this current crisis that we've never seen before. I mentioned that Germany has a plan which is tantamount to half its GDP in order to ensure that the economy is sustained. So that would be for me the biggest difference.

The portfolio that we have today is quite different from what it was in the bank in 2001, 2002. That was even before the Postbank acquisition so our amount of exposure in Germany - which again, to highlight the German Government support, is far larger as a percentage of the book than it was in the early 2000s.

Germany did have a recession in 2001 around their working standards and our business model around the German corporate and SMEs is considerably different today. You may recall that certainly in 2001/2002 there were some quite high-profile losses which again were very much jump-to-default-type losses so these were the Enrons, Worldcoms, Swissairs; Marconis of this world. I think those were probably the five big ones that we had exposure to at that time and we took about a billion of provisions against five names, if I recall correctly.

Post that we implemented our hedging strategy and that hedging strategy is absolutely designed to reduce our exposure to these kind of investment-grade fallen angels' junk default risk. I would say that's another element that I would highlight there.

On Wirecard, I won't comment on individual exposures. We've just talked about how we actively manage our concentration risk to ratings at the lower end of the investment-grade spectrum via a variety of mechanisms to mitigate against jump-to-default risk so I'll let you reach your own conclusions on that comment.

Your second question was on PDs. Yes, we do think that PDs will deteriorate as a result of what's going on. We watch the rating migrations on a constant basis and that really informs us of our stage 1 to stage 2 provisioning and clearly also informs us of our stage 3 provisioning impairment events and provisioning arising on the back of that as well. I wouldn't want to make any more comments than that, thank you.

Robert Smalley (UBS)

Hi. Thanks very much and thanks for doing the call; very informative. I'm sorry I missed the end of the answer to the last question because that cut out and it really informs my second question.

My first; when you talk about there are points of CET1 in question, including transformation effects and Capital Release Unit wind-down. Where is that now; is that a steady-state wind down? Do operational risk RWAs lead or lag that and how that works?

Secondly - and it probably goes back to what you were just saying - look at Government mitigation and any kind of release subsidies. How else is this informing you in terms of potential credit problems in 2020 and Q1 of next year? Is there any data or any way that you're shifting this that you're getting any different information, counter-intuitive information than you would think from the outset? Thanks.

James von Moltke

Sure. Hi, Robert. You were in and out a little bit in terms of reception but hopefully we got your questions. Just briefly on Stuart's answer to the PD migration and rating migration, the answer, simply put, is we are watching carefully the ratings migration. We have assumptions built into the modelling essentially that's driving our outlook and so while those assumptions are critical to the future path we're comfortable with that path but it's an area of, of course, intense focus, as we've described.

As it relates to the capital path, yes, we've baked the CRU and then the operating performance of the businesses, of the Core bank into the second bucket so everything we've told you in the past about the deleveraging impact of the CRU is on track and the team has been working around RWA is on track.

The team has been working to execute on that plan. I will say, CRU participates a little bit in that market risk up-tick that we talked about due to volatility so I don't think we'll show in this quarter as much of the progress that in fact has happened on an underlying basis in that deleveraging but that's just timing. The actual risk reduction is taking place as we planned.

Otherwise, as we say, the Core bank, as you can see in our reporting, is profitable, is generating capital and is also managing its balance sheet in line with our expectations. Operational risk RWA really isn't a big feature in 2020. As you know, it was a significant driver of some capital relief in 2019 but it's a pretty modest impact in the balance of this year. We do think there's opportunity further down the line but it's quite a lot further down the line and so we're not looking to that in terms of near-term or even - call it - medium-term benefits.

I'll pass it over to Stuart to talk about the credit path in 2021. I think as a general statement it's early at this point to have a very clear view of 2021. We feel good about the second half but I'll leave it there

Stuart Lewis

I think you're right; it's a little bit too early. There's no explicit data on winning Government support. I think our expectation is for the remainder of the year it will help this growth and it has clearly in certain areas helped to provide much-needed liquidity to certain struggling counterparties. I would say, I think that the market consensus that we use in our macroeconomic model - what we call the forward-looking indicator model, FLI, is reflective of that.

I think really through the rest of the year we'll continue to do what I alluded to earlier. We do a huge amount of bottom-up analysis on our watchlist portfolio. This is an activity which is really always ongoing and our credit analysts are constantly developing views on companies and the impact of the macroeconomic scenario on their ratings as well as the performance of the underlying companies too.

So I still think there's a high degree of uncertainty on trying to give outlooks now into 2021 and we're monitoring the portfolio closely as of today and going forward.

Daniele Brupbacher (UBS)

Thank you, good afternoon. I also wanted to ask about slides eight and nine and I think it's similar to what Andy from Citi asked on the risk mitigation part. Just looking at slide eight, obviously there is a lot of information on the slide so thank you for this. I was just trying to get a little bit better feeling for how safe this risk mitigation is, what could go wrong there, what's the risk in there and what could make that change significantly in any given quarter.

Where're the pressure points there? I still need to digest some of the information on that slide but are there also any kind of accounting dynamics working here? You mentioned financial instruments. How does it look from that point of view, is there for example mark-to-market stuff that is a result of that risk mitigation which is probably hedging an underlying book that is done on accrual accounting? Is there any kind of accounting implication out of this? This is the first question.

On slide nine, the expected loss; if I just add up all the light blue circles there I get to, I think, around 3.7 billion or something. Then you obviously give the risk cost guidance for the whole year which is probably at the upper end a bit more than two billion. Can I compare these two numbers and if not why? What is the delta, how can I look at these two numbers in context? These are my questions, thank you.

Stuart Lewis

On your question on slide eight. This is really our Exposure at default on our accrual book and I don't see any accounting things that are going on across that book so I think I don't need to go further into that one if that's okay.

On your question on page nine. You're asking, if you add everything up then?

Daniele Brupbacher

Yes, I guess that's a yearly expected loss number which is 3.6 billion. Commerzbank across the street has an expected loss of a bit more than a billion. They gave a risk cost of 1.5. They say through the cycle expected loss numbers are very relevant but in any given year it's very different so they did say, yes, this is very relevant so we do look at these two numbers. Or is this something different here? How do I compare the 3.6 versus your upper end of the 35-45 basis point risk guidance? Which is, I guess, two billion or so, a bit more.

Stuart Lewis

The upper end would be two billion incremental or I guess 1.5 is already taken; 0.5 billion in the first quarter on top of these allowances for credit loss during the year so that would be incremental across stage 1 and 2 plus stage 3 specific loan loss provisions.

James von Moltke

Daniele, I think there're three things to think about. One is the existing allowances, which are a part of the puzzle. The second is expected loss over one year and then the full-life loss and then how the new provisions add to the allowances and cover charge-offs. Those features all go into it and underscores our confidence in the allowances and the provisions that we're building. You also have to bear in mind that the defaulted portfolio in your maths is 1.3 if you exclude the defaulted portfolio.

Daniele Brupbacher	Okay. Thank you.
Andrew Lim (Societe Generale)	Hi, good afternoon. Thanks for doing this presentation. It's above and beyond compared to other banks. My first question is regarding economic consumption so we've had a clear sense from the US banks that more conservative economic consumptions should be driving some chunky loan losses in the second quarter. I was wondering to what extent that's also the case for yourself in your guidance for around 800 million for the second quarter. Then my second question is on the impact on capital ratios on page 24. I was wondering if you could give an equivalent guidance for the leverage ratio or even the CET1 leverage ratio as to how you expect this to pan out for 2020. Thank you.
Stuart Lewis	On your first question, we use Bloomberg economic consensus input and we update that on a monthly basis, clearly we've seen some higher impact into the FLI, the macroeconomic model, given that consensus did deteriorate so far anyway during Q2. It remains to be seen how we end up in Q2. It feels like some of the inputs that we use - I look for unemployment in Germany and GDP in Germany, to use two examples. How those end the quarter there's a sense that there is some improvement in outlook, albeit coming from a low basis.
James von Moltke	Then, Andrew, on the leverage ratio, as we look at the potential changes in legislation or regulation we do see a benefit

coming. If both pending settlements and cash in central banks were to be excluded from the denominator in the calculation we'd pick up about 25 basis points and this was again the basis for our capital guidance around the time of earnings. We are extending our balance sheet more than was planned as we came into the year to support clients and the economy during this COVID period. That would include also, incidentally, for example guaranteed loans in the KfW programme so there's additional leverage exposure out there without a great deal of impact on RWA and we think that'll persist for a period of time. I would think we get a near-term benefit, it brings us closer to where we hope to be for the year but then the normalisation of the balance sheet will take a little bit of time and then over time, especially with the additional efforts around leverage exposure in the capital release unit in 2021 and the deconsolidation of the Prime Finance assets next year you'd see us, come back to the glide path that we'd initially envisaged as we announced our restructuring last July; maybe a little better at least temporarily to the extent that, as I say, cash and pending settlements in one case are out for a period of time; in the other case was brought forward.

Andrew Lim — Yes, I think you alluded there to credit draw-downs persisting a little bit more. Is that still quite a strong feature in the second quarter that you've seen?

James von Moltke — Not really on a net basis. We saw a slow-down. There were still some net draws in April but then we saw reasonably quickly in April the beginnings of repayments. We had, had a relatively conservative view about additional draws net during the quarter and so far I can say it's slowed down more than we thought and in fact may swing to a net repayment, by the end of the quarter.

As I said in the prepared remarks, we see that continuing for the balance of the year so we do see some recovery of the credit risk RWA, the five billion that we showed in the slide. We would expect to get some of that back by the end of the year.

Anke Reingen (RBC)

Thank you very much for taking my question and thank you very much for hosting this call. I have a very simple question; apologies if I missed this somewhere. Can you share with us the percentage of your loan book where you've granted a payment moratorium? I see some number in absolute terms on the consumer book but I wondered if you could maybe give us a percentage number.

Then on the guaranteed loans from the Government or by the Government, what is the gross amount and what's the pending and if there's any number you maybe have on the net risk you would carry?

Then lastly on the pricing of risk and loans, has the general spread widened on loans or is there little change? I was wondering; I guess you've probably taken some of the TLTRO funds. What do you think in terms of risk-taking, will you invest them in the business or will they go to ECB or what are the general parameters about how you could use them in the business? Thank you very much.

Stuart Lewis

On your moratoria question, Anke, it's less than 4% on retail where we've granted moratoria and then in the institutional wholesale business it's about 400 names and then in the

Corporate Bank about 500 names. They're larger borrowers in the Corporate Bank. I wouldn't say anything more than that.

On the pricing environment spreads are widening, so new deals are coming to market done at wider spreads and we're also seeing greater flex in some of the non-investment-grade transactions as well.

James von Moltke

We look carefully at the drawing on TLTRO in this auction and obviously at the loan commitments that go with that and so we sized it to what we think we can achieve. I think we're minded to be, if you like, aggressive in the use of that facility, both to support clients and the economy and in recognition of the economic incentive that is built into that programme.

So we've used assumptions in terms of loan commitments that we think are very reasonable in the environment and that help to inform that submission.

Anke Reingen

Okay, thank you. On the guaranteed loans are you willing to share any amounts? Thank you.

James von Moltke

On guaranteed loans it's probably early. I think we may talk a little bit about that at the end of the quarter. We've talked about KfW lending in the mid-single-digit billions, which is probably a good assumption for the quarter but we'll come back to you when we report in July.

James Rivett Thank you, Hayley, and thank you all for joining us. Take care.

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