



## **Deutsche Bank AG**

Deutsche Bank Q2 2019 Fixed Income Conference Call

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### **Transcript**

#### **Speakers:**

James von Moltke, Chief Financial Officer

Dixit Joshi, Group Treasurer

Philip Teuchner, Investor Relations



Philip Teuchner

Thank you, Emma, and good afternoon or good morning and thank you all for joining us today. On the call, as always, our CFO, James von Moltke, will speak first. Then, our Group Treasurer, Dixit Joshi, will take you through some fixed income-specific topics. The slides to accompany the topics are available for download from our website, db.com.

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

### **Slide 2 - Driving execution of our transformation agenda**

James von Moltke

Thank you, Philip, and welcome from me. Before we start with a summary of our second quarter results let me give you an update of where we stand with our strategic transformation.

It's obviously early days, but it was crucial for us to start moving on day one. We've begun to de-lever and we have begun to reduce our workforce in the exited businesses. As part of our longer-term plans, we set three objectives for 2019 in our announcement earlier this month.

First, we must stabilise and grow revenues in our core bank. In the first half of 2019, operating revenues in our more controllable businesses were broadly stable or slightly higher and, in these divisions, the outlook is positive given the loan growth and net inflows we reported this quarter. In our core investment bank, work has begun to stabilise the revenue base and to build the foundations to drive returns higher.

Second, this is the sixth quarter in a row where we reduced adjusted costs on a year-on-year basis when excluding the costs related to our strategic transformation and bank levies.

And, finally, we remain committed to maintaining a robust balance sheet and solid capital ratios at all times throughout our transformation.

### **Slide 3 – Q2 2019 Group financial highlights**

Let us turn to a summary of our second quarter results on slide three. The figures were obviously materially impacted by our



strategic transformation. We began to recognise a series of charges starting in the second quarter of 2019 to quickly restructure the bank.

Revenues of €6.2 billion were down 6% year-on-year on a reported basis and by 5% excluding the specific items disclosed on slide 25 of this presentation. We reported noninterest expenses of €7 billion, which included €1.4 billion of transformation charges.

Costs also included €164 million of litigation expenses, principally related to the settlement of a specific case, and restructuring and severance of €92 million. Provisions for credit losses were €161 million or the equivalent of 14 basis points of loans. As a result, we generated a pre-tax loss of €946 million, with a net loss of €3.15 billion.

#### **Slide 4 – Q2 2019 impact of transformation charges**

To give you a better sense of our underlying performance this quarter, we show the impact of our strategic transformation and revised planning assumptions on slide four. On a pre-tax basis, our €946 million loss included €1.4 billion of goodwill and software impairments. So, excluding the transformation charges, pre-tax profit would have been €441 million.

Our reported net loss of €3.15 billion also included €2 billion of deferred tax asset valuation adjustments. Excluding both DTA and the other transformation-related items, net income would have been €231 million.

#### **Slide 5 – Resilient revenues in more controllable areas**

As shown on slide five, revenues in our more controllable businesses of PCB, GTB and Asset Management were broadly stable in the first half of 2019, excluding specific items. In PCB, revenues were broadly flat with growth of 2% in Germany. And, with loan growth in the past 12 months of over 3% across our core PCB businesses, we feel very comfortable with the growth potential despite the difficult interest rate environment.

In GTB, revenues grew by 3%, and we believe this pace of growth is sustainable. In Asset Management, revenues increased by 1%, and the new management team at DWS has generated the



second quarter of net inflows in a row. So, here too, we're confident in the performance.

This means that around 70% of our core bank revenues are stable to growing, but we are well aware that revenues in the rest of CIB have declined and therefore we took decisive action to radically overhaul this business. We're confident that a refocused investment bank under new management can at least stabilise revenues in the coming quarters.

### **Slide 6 – On track with adjusted cost reductions**

Our successful transformation must be based on continued cost discipline. On a constant currency basis, we've already achieved 80% of our previously announced €1 billion cost reductions for 2019, as you can see on slide six.

To reach our recently lowered target of €21.5 billion for 2019, we must reduce our adjusted costs by a further €500 million in the second half of the year to €10.2 billion. These incremental savings will come from the private bank in Germany, where we have recently reached an agreement with the workers' council to restructure the head office and operations functions.

We will also benefit from the workforce reductions as part of our transformation. In addition, we will continue to focus on reducing our non-compensation expenses, including through real estate and vendor rationalisation. And, finally, we will see the full benefits of the sale of our Portuguese retail operations.

### **Slide 7 – Focused on execution to fundamentally change the bank**

Slide seven shows you the progress we've made executing on our transformation. First, we've established the Capital Release Unit with its dedicated management team, which is focused on reducing assets as efficiently as possible. Given the high quality, short duration and natural run-off of these assets, we are convinced that a significant portion will run off very quickly.

We have begun our exit from global equities while retaining a focused equity capital markets platform. We've exited our cash equities positions and have started the process of shutting down systems.



In addition, we've made progress in a potential transfer of our prime finance balances, electronic technology and staff to BNP Paribas. As part of the creation of this unit, we've already notified around 900 employees that their roles will be eliminated.

The reaction from clients has been overwhelmingly positive. We have spoken to over 5,000 of our key investors and corporate clients globally and have very few expressed concerns at this stage. However, we've been cautious in our assessment of the potential revenue impact from these actions, and this caution is reflected in our targets.

Beyond the new transformation, we've made additional progress on our strategic agenda. In PCB, we completed the disposal of our Portuguese operations and we are also seeing the benefits of the investments we are making in our controls, most notably with our result in the Federal Reserve's CCAR process.

### **Slide 8 – Progress towards near-term objectives**

For the rest of this year, we have developed a detailed plan designed to ensure that we can execute against our near-term financial objectives. In summary, on slide eight, we're fully on track to deliver against our 2019 targets. These near-term goals allow us to focus on what we can control and act as guideposts towards our longer-term targets.

In 2019, we're focused on reducing costs and deleveraging in the Capital Release Unit. As I mentioned earlier, we're well on track to reduce adjusted costs to €21.5 billion, excluding transformation-related items this year.

Reductions in the Capital Release Unit and benefits from the integration of the private bank should help us drive adjusted costs down by a further €2 billion in 2020. We will do this while continuing to manage our balance sheet conservatively.

We're committed to using our existing capital resources to keep our CET1 ratio around 13% in 2019 and above 12.5% over time. The reduction in leverage exposure in the Capital Release Unit allows us to target a leverage ratio of 4% this year, rising to 4.5% in 2020. With that, let me hand over to Dixit.



## **Slide 10 – CET1 capital ratio to remain above peers and regulatory requirements**

Dixit Joshi

Thank you, James. Let me start by reviewing our CET1 ratio on slide ten. We ended the quarter with a CET1 ratio of 13.4%, down from 13.7% in the prior quarter. 20 basis points of the decline came from the finalisation of an ECB asset quality review and a targeted review of internal models, or TRIM, with a further ten basis points from the common equity dividend and AT1 coupon payments in the quarter.

Risk-weighted assets were broadly flat as growth in Credit Risk RWA and inflation from TRIM was offset by lower Operational and Market Risk RWA as well as by FX translation.

In line with our previous guidance, we expect our CET1 ratio to be around 13% at the end of the year. This includes approximately €2 billion of impact on CET1 capital from the additional transformation charges and lower risk-weighted assets in the Capital Release Unit. We also expect a further ten basis point impact from additional regulatory feedback in either the third or the fourth quarter.

Going forward, our smaller, less market-sensitive business model allows us to slightly reduce our CET1 ratio target. We are committed to keeping our CET1 ratio above 12.5% at all times. At this level, we will remain comfortably above our regulatory requirements and above our major European peers. When combined with our robust and conservative capital planning, we are comfortable that we can manage our transformation within our existing capital resources.

## **Slide 11 – Addressing concerns around leverage**

Let's now turn to leverage on slide 11. Our fully loaded CRD IV leverage ratio increased by three basis points in the quarter and remained at 3.9%. The improvement was driven by a €31 billion FX-neutral reduction in leverage exposure. Cash balances decreased by €26 billion. We further rebalanced our business mix towards more stable sources.

Loan growth of €8 billion partly offset the €17 billion reduction in leverage exposure in our Sales & Trading operations. The deleveraging in the Capital Release Unit allows us to target a fully loaded leverage ratio of 4.5% by the end of 2020. This is



comfortably above the 3.75% we expect to be set as our minimum requirement from mid-2021.

### **Slide 12 – Maintaining a solid liquidity profile**

Slide 12 highlights our key liquidity metrics. Our liquidity coverage ratio, or LCR, increased by six percentage points in the quarter to 147%. As a result of growth in operational deposits as well as reductions in liabilities in the quarter, both net cash outflows and high-quality liquid assets decreased by similar amounts.

Our liquidity surplus above the 100% regulatory requirement remains very conservative at €66 billion. Liquidity reserves were €246 billion and declined by €14 billion in the quarter, mainly reflecting reductions in term funding liabilities and deposits as well as further deployment within our central liquidity programme.

We grew high-quality securities in our liquidity reserves by €12 billion, reflecting our ongoing commitment to optimise the composition of our liquidity reserves. Over time, given our announced deleveraging actions, we intend to further manage down both our absolute liquidity surplus and our LCR. We are targeting an LCR ratio of approximately 130% and liquidity reserves slightly above €200 billion.

### **Slide 13 – A smaller, simpler, less market-sensitive balance sheet**

On slide 13, we show how we expect our balance sheet to develop in the mid-term. We will operate with a materially smaller balance sheet and lower levels of market funding. We expect to run with a funded balance sheet of a little over €800 billion in 2022, a reduction of around 20% compared to current levels driven by significant reductions in our trading assets and liabilities.

Almost 70% of the balance sheet will be funded by deposits, which will further reduce our long-term funding requirements. Our loan-to-deposit ratio of 73% today should increase to around 80% as we continue to grow our loan book.



#### **Slide 14 – 2019 issuance plan and contractual maturities**

Moving now to our issuance plan on slide 14. Reflecting the deleveraging in the Capital Release Unit, we have lowered our 2019 funding plan to €10-12 billion. With €9 billion of the funding plan for the year completed, we are now flexible on timing for any future issuance.

Our 2019 issuance plan is materially below our contractual maturities of €22 billion. Additionally, with €40 billion of maturities in 2020, including TLTRO, we will further reduce our long-term funding by €35 billion to €40 billion over this and next year and consequently lower our funding costs.

We expect to issue €15 billion to €20 billion annually, down from the €30 billion on average over the last five years. We will continue to issue up to €15 billion a year in senior unsecured instruments. Our issuance plans are likely to include more senior preferred than in previous years.

The remainder of our issuance is planned to be in covered bonds, although we may use some of these assets to participate in TLTRO-III rather than issuing into the capital markets. And, over time, we will consider issuance of capital instruments as we dynamically manage our Pillar 1 requirements.

#### **Slide 15 – Pro-forma distributable items for Additional Tier 1 instruments**

Following the amendment of CRR II in June this year, slide 15 shows our available distributable items on a pro forma basis in 2018. This revised definition of ADI is relevant for AT1 coupons and will be used for the April 2020 payments. The new definition includes our €42 billion of capital reserves and the €7 billion of previously blocked amounts. As a result, ADI is effectively no longer a binding constraint for payments of AT1 coupons.

#### **Slide 16 – benefits for bondholders from our strategic transformation**

Before moving to the Q&A, let me summarise the benefits for bondholders on slide 16. Going forward, we will reduce the volatility of our earnings by focusing on our most stable businesses where we have market-leading positions.



We are launching new tools to better manage our businesses and our resource allocation. This includes changing the way we allocate funding costs across our businesses through an updated funds transfer pricing framework to be introduced in the second half of 2019.

During this rollout, we will initially retain transitional funding costs in our Corporate & Other segment. This will result in contra revenues of no more than €200 million to €300 million in Corporate & Other in 2020 with offsetting improvements in our operating businesses. We expect these retained costs to phase out over time.

Our transformation also comes with a smaller, simpler, less market-sensitive balance sheet. The improved earnings trajectory allows us to slightly reduce our minimum CET1 ratio to at least 12.5%, but we will always maintain adequate buffers above our regulatory requirements.

In addition, our leverage ratio will increase to approximately 5% over time, a level at which we are confident of exceeding anticipated regulatory requirements and which is in line with our peers.

We are also committed to maintaining strong liquidity and funding ratios throughout. Although we will remain an active issuer, our smaller balance sheet and greater deposit funding allows us to reduce our total issuance requirements.

We have noted the encouraging research from the ratings agencies, as well, related to our transformation agenda. We are confident that executing on our plan will lead to improvements in our credit ratings over time. With that, let us move to your questions.

### **Question & Answer session**

Richard Thomas (BAML)

Thanks for the call. Two questions, really, from my side. In the equity presentation, you always have a very helpful slide on the impact of 100 basis points parallel yield curve shift upwards. In the light of yesterday's ECB, can you talk around the impact of lower rates on the plan? Generally, I think there was some expectation of higher rates baked into the plan, and what you're thinking about tiering.

And then, secondly, I did hear what you said about capital instruments. Could you indicate to us when, according to your



plan, you must return to the bank capital markets? Obviously, not this year, but there must come a time when it becomes imperative. So, if you could shed some light on that, please. That's it for me.

Dixit Joshi

Richard, hi. I'll run through these questions, and then James can add to that. We are encouraged by the ECB announcements from yesterday, especially in respect to considering options which would include proposals for tiering, hopefully amongst other additional items which might include asset purchases as well.

Our own analysis, looking at other central bank experiences who have implemented tiering, for example, the SNB or the BOJ, has shown that application of a similar set of rules for euros would result in a material uplift for banks, such as ourselves, who do maintain significant liquidity and balances with the ECB. So, we are watching and waiting for the September meeting. And again, this was an encouraging statement from the ECB yesterday.

What I would say is that our businesses that are affected, and that's largely for euros, our retail business and mainly in Germany, has been subject to lower rates for some time now and been living in a negative rate environment.

And over time, that business mix, the shift to fees and investment income, has been defraying – together with some of our hedging and risk management activities – defraying some of the negative drag that emanates from the lower rate environment. So, we'd continue to do more of the same.

In addition, we would see uplift from our liquidity deployment programme, which we've maintained to the extent that we have surpluses through the period. And you would have also seen a focus on loan growth.

As I mentioned in the presentation, an increase in our loan-to-deposit ratio and especially loan growth that we've seen in the first half of this year with about €14 billion of loan growth, would all be positive revenue through the period. Sorry, Richard, your second question I missed.

Richard Thomas (BAML)

When you really do have to issue bank capital?

Dixit Joshi

We do manage our capital base quite dynamically. Meeting the 1.5% Additional Tier 1 target as well as the 2% Tier 2 target as well as our total capital ratio are all of the considerations that we'll manage through the period.



We have adequate, I would say, new-style AT1 right now at about 1.35% and, on a phased-in basis, we're at more than 2% in Tier 1. So, we have some flexibility. Also, stating the obvious, running a smaller balance sheet, as a result of our restructuring that we've announced, does afford us more flexibility going forward regarding capital instruments.

Richard Thomas (BAML)

Okay. Thanks very much.

Robert Smalley (UBS)

Hi, good morning, and thanks for doing the call. A couple of questions. One, just to clear up something from a couple of presentations ago. On the strategic presentation, on slide 28, you talked about deleveraging in the CRU and operational risk which kind of gets down to about roughly €28 billion.

Could you talk about what that is? Because I think on the equity call, there was some confusion about where certain business units were and what you're considering operational risk. And, is the relief for that in a regulatory negotiation? Or is it more legal? Maybe you could shed some light on that. That was my first question. I have one or one quick ones after that.

James von Moltke

Sure, Robert. It's James. On your op risk question, basically, what happens in the re-segmentation is that the activities that move into the Capital Release Unit, which have operational risk RWA essentially assigned to them today based on the loss history that goes with those activities in our advanced models, AMA approach, the op risk has travelled into the Capital Release Unit with those activities.

So the starting point is simply what was lifted and shifted into the CRU. And, over time, as we exit businesses and activities, we would see a path to reducing op risk RWA at least by as much as we laid out in the presentation on the 8<sup>th</sup>, and potentially by more.

As you say, in the nature of this, it is something that one works through in close coordination with our regulators or supervisors so that they understand model adjustments and the loss history that comes out. It's not something that we do, if you like, unilaterally. But, ultimately, the calculation that we provide and our judgment about the changed loss history is something that informs that glide path in the future.

Robert Smalley (UBS)

That's helpful. And, then, just two other quick ones. One, in the past couple of calls, you talked about more efficiently deploying the liquidity buffer. Given the direction of rates and markets over the past couple of months, can I assume that there are some



gains in that, and have you taken those gains, where would they show up?

And, then, my last question is, since the announcement of the strategic plan, could you give us some flavour on what major counterparties have been telling you in terms of their exposure, what they're doing? How has that changed at all? Thank you.

Dixit Joshi

Robert, hi. I'll take the first bit, and perhaps James can do the second. Regarding the liquidity deployment programme that we announced in the third quarter of last year, we've been actively deploying through the period. Again, this is a through-the-cycle deployment as opposed to a trading book.

We're about halfway deployed versus our revised targets. So, we will continue to look for assets that are low risk weighted, highly secured, super senior in nature that provide a meaningful uplift to cash through the period. So, as opposed to necessarily realising gains, we will continue to deploy along the path that we're at.

James von Moltke

Briefly, Robert, on counterparties, as we mentioned, we had a very substantial outreach programme immediately after the announcement and in that programme, I tell you, the conversation was almost exclusively on the business and the activities that we would continue to do to support and engage with clients and almost not at all on counterparty credit considerations.

So, naturally, in the ordinary course, we engage with counterparties, with their risk organisations and what have you, but in those discussions, as was the case for really most other creditor interactions and the rating agencies, the sense that the strategic transformation is credit positive drives us to a sort of a more attractive profile over time was absolutely the sentiment that we encountered.

Robert Smalley (UBS)

Thanks for answering my questions and for doing the call in US time, as well; greatly appreciate it.

James von Moltke

It's our pleasure, Robert. Thanks for joining us.

Lee Street (Citigroup)

Hello, good afternoon and thank you for taking my questions. I have three, please. Firstly, just on the rating agencies, you mentioned them in your presentations. I presume you've had a lot of discussion with them about the plan.

Are you able just to comment on what the biggest areas of focus for the agencies that DB needs to deliver on through its new strategy to obviously change the outlooks and then ultimately to



any changes upwards towards the ratings, so the biggest areas of focus for the agencies?

Secondly, on slide ten, you highlight an excess 20 basis points of impact on the common equity Tier 1 in the third quarter. Are there any other known impacts on common equity Tier 1 that you can highlight to us as we look ahead beyond third quarter?

And finally, on your Pillar 2 capital requirement, do you think it's realistic that you might get a reduction in that in the next SREP review? They would be my 3 questions. Thank you.

James von Moltke

I'll start – it's James – on the rating agency dialogue. Very constructive and, frankly, detailed dialogue that we had with the rating agencies prior to the announcement, as you'd expect. Really, as you've seen reflected in their notes, the focus is really on execution and, if you like, the quality of execution in the months and quarters ahead.

And, I'd break that down into maybe two or three different buckets. One is the de-risking progress that we make in the Capital Release Unit and, in connection with that, the capital ratio development over time that we're able to manage in the corridor that we've laid out.

I think the second thing, under the theme of profitability, is the path from here. There's obviously an understanding that there's a significant set of charges that come this year and, to a certain extent, next year but they're looking then for us to establish a path to the profitability and the profile of the business that I outlined a moment ago as we get through 2020 and into '21. That obviously has a revenue component but, as we think about it and our responsibility as a management team is controlling the things we can control. So, that's sort of the focus points that I would highlight that you've seen, again, both in the note and in our dialogue with them.

Dixit Joshi

Lee, on the second point around CET1 in Q3, the 20 bps that we have are really related to the transformation strategy that we outlined on the 8th of July, which is around €2 billion offset by RWA reductions in our new plan, including operational risk and de-risking within the CRU. And, we don't see any further, as we stand today, than the 10 basis points from regulatory headwinds for Q3.

And, then, the third point, we obviously don't want to front-run and can't preclude any P2R decisions that will come from our regulators but as a result of running a simpler, less complex,



smaller balance sheet, managing to a 12.5% minimum target, we do think over time will lead to reductions over time.

Lee Street (Citigroup)

Okay. Thank you very much for your comments.

Amit Goel (Barclays)

Hi. Thank you. I've just got two questions. One was just on the capital side. Just curious on the operational risk, what scope is there for reduction through changes in methodology? So, if you are able to move to standardised and how likely would that be.

And then, secondly, in terms of the commentary on the funding costs and the shift to corporate centre, just wanted to understand that a bit better in terms of how that works and why those costs then phase out over time. Thank you.

Dixit Joshi

Sure, Amit. Happy to take those. On operational risk, what you would have seen as well through the second quarter as well some reduction as we reflect changes in the loss history. So, what you would have seen is a lower number of loss incidents coming through in the calculation as well as a smaller average size of new incidents compared to those that fall out of the period. And, I think that's a trend that we see continuing through the period.

Is there scope for methodology adjustments? Naturally, the move to standardised measurement would be a part of the Basel IV package over time, but that would lead to reductions much further along. Our equities exit and the exit of the CRU naturally would lead to some reductions in OR, and we've been suitably conservative in our assessment, as you've seen.

So, the reduction in credit and market risk RWA, very much in our control, moving very quickly on that. We have begun executing on those actions within the CRU in the last 2.5 weeks. And then OR, we've put in a modest reduction through the period, but we will continue to work on that and in conjunction with our regulators.

On the last point around the FTP framework, this is a result of the new FTP framework and rather than cut over all of our balance sheet at once and re-ticket all of the outstanding transactions that we have onto the new framework, we thought it more prudent to allow businesses to start shifting new assets onto the framework over time.

Naturally, as you can imagine, the asset side of the business moves somewhat faster than the liability side of the business and that's really what reflects the transitional effect that we plan to



hold in C&O. And, as businesses start adjusting to that, especially our stable businesses, that effect should diminish through time.

Amit Goel (Barclays)

Okay. Thank you. Are you making an assumption that funding costs come down over time as you execute on the plan and is that effectively being passed through or am I kind of misunderstanding that slightly?

Dixit Joshi

Somewhat different. I would treat those two very differently. The funding cost reduction is independent of the new FTP framework. The funding cost reductions, in the main, are a result of us reducing aggregate funding requirements by about €60 billion through the period, lower amounts of capital markets funding, lower amounts of expensive senior non-preferred funding, a greater reliance and proportion of the relatively cheaper deposit funding coming through, and all of those then result in funding improvements through the period.

The changes that we're referring to FTP really get more granular and allow us to drive business decisions more optimally at the business unit and the trade unit level as opposed to the way we do it today.

Nigel Myer (Commerzbank)

Yes, hi. Good afternoon. I really just wanted to follow up a little bit more on the tiering question. You're obviously quite enthused by the prospect. We know from the ECB that the majority of, or at least half of, non-financial corporate deposits within the area that are held at negative rates are held in Germany.

So, from that perspective, can you just sort of perhaps give us some light in terms of where you stack up in terms of your deposits at the ECB relative to the volume of NFC deposits that you currently take at negative rates and to what extent you have thought about or you expect there to be pressure from those clients to improve the rates on those deposits if the ECB moves to tiering?

Dixit Joshi

Sure, Nigel. On the first one, very hard for me to comment on that given we don't have visibility as to where we rank. Suffice to say that we are a large player in Germany and so do run large amounts of deposits at the Bundesbank, at the ECB. And, so, in terms of impact, we do think it's a meaningful impact depending on the kind of tiering that gets implemented.

Based on some of the scenarios that we've modelled, we do see a material impact for us but I'm afraid I don't really have much visibility into where we actually stack up. Also, the reserve, the methodology typically imposes a multiple of one's reserve



requirements and so it does depend on the nature of your balance sheet and your reserve requirements.

On the second, we have differential treatment depending on the client base that we look at. So, for example, corporate clients right now already get pass-through in terms of negative rates, and then it is in retail where the pass-through effect does not currently take place. So, we will have to work our way through any tiering proposal, but we will know post-September and then can appropriately rethink our strategy.

Nigel Myer (Commerzbank) So, you're saying effectively, you would expect some pass-through of tiering back to the relevant corporate client base?

James von Moltke I was just going to add – it's James – my view is when you're starting from a negative starting point, the beta essentially is zero and should be zero for quite a long time. The ECB hasn't spoken to the nature or structure of a tiering requirement.

But, right now, our reserve requirement relative to our balances is relatively low, it takes a significant multiple for us to begin to break even and it would be a long time before there's competitive pressure to pass along that benefit to clients.

And, certainly, the goal and also the balance of equities in the marketplace is for this to offset the drag on bank profitability rather than be passed immediately onto clients. So, I have a reasonably strong feeling about that early beta, if you like.

Daniel Crowe (GS) Hi, there. Thank you for the call and taking my questions. I just had a question, and you kind of briefly touched on it in your Tier 1 and the leverage ratio. There's about 88 bps in there, so about €3 billion in legacy Tier 1 securities. I was just wondering, is that included in your plan beyond '21, in your leverage ratio or is there some assumption that any of that will get replaced?

Dixit Joshi To the extent that we have the 10% phase-out per annum, naturally, we're looking at where we are versus the cap, and to that extent, we'll look at replacement transactions through the period. Again, very hard to commit to that today but it's an assessment we will make through the period and it is a function of our balance sheet around that time, as well.

Daniel Crowe (GS) Regulatory Tier 1 capital, so it will fall out of your Tier 1? So, just is that number included in your plan for your targets in leverage?

Dixit Joshi Yes. We very much have factored in the glide path for the next few years.



- Daniel Crowe (GS) Okay. So, you assume that it's not there, post-'21?
- Dixit Joshi That's right.
- Daniel Crowe (GS) And, I guess, just a follow on from that, you have them listed as Tier 2s and I think the majority are non-directly issued, so we have the CRR in place, so on your Pillar 3, they're in those Tier 2s. Is that correct now?
- Dixit Joshi These are the SPV issued under the CRR, i.e., ineligible in the future.
- Daniel Crowe (GS) Yes. So, the Deutsche Postbank Funding Trust, effectively. They're non-direct issued, and so they're still included in your Pillar 2 or Pillar 3 reported as Tier 2. I was just wondering, is that something you're updating or have thought about?
- Dixit Joshi Well, Daniel, what we normally do with this is look at both the phase-in as well as the fully loaded ratio from our perspective and then manage through those. They are very much looked at on a phase-in basis today but, naturally, when we come up to calls, we'll make an economic assessment at the time. To the extent that they lose their standing and become senior and expensive senior funding, we will make an assessment as to calling them or not.
- Daniel Crowe (GS) Okay. And, then, just a final question around capital. I know you've talked to the regulator to reduce your capital to 12.5%. Your min CET1 at the moment is 11.8%, but there are a number of banks that disclose Pillar 2 G, which would suggest yours is about 1% now. And, so your plan assumes no dividends. Is that a regulator-driven stoppage, or could you have paid the dividend, or should we assume that actually, you're dipping into kind of regulatory buffers?
- James von Moltke It's James. It was, for one thing, prudent in terms of capital management, the decision to suspend the dividend for the next couple of years. But, the other consideration was that under German statutory accounting, we preserve the ability to distribute capital to shareholders after the period of restructuring.
- So, the dividend and potentially share repurchase capacity that we would have after 2021, under German statutory accounts, relies on us recognising the losses, if you like, in the capital accounts rather than distributable items. And that, you're able to do if you're not paying dividends. So, there was a technical consideration as well as, frankly, capital preservation.
- Daniel Crowe (GS) Okay. But, regulatory-driven is not particularly relevant?



James von Moltke                      Was not relevant, no. The 12.5% represents our view of prudent level to run the company on going forward.

Daniel Crowe                              Okay. Thank you very much.

James Hyde (PGIM)                      It's James Hyde from PGIM, actually. Yes, unusually for fixed income guy, I've got earnings-related questions or earnings capacity questions. The buzzword that emerged in the CEO statements of corporate clarity, how welcome it had become internally, but just wanted to understand the timing of that.

Setting aside the German business where things move in a more glacial phase about when jobs will fall out, etc, looking at the international operations, investment bank and maybe some others, when will people know they're still going to be there? How long will it take so that the sort of impact on getting along and getting on with the new plan can be felt positively at some time?

When will people know? That's the first question for that corporate clarity to really happen. I mean, 900 people, yes, but surely, it's going to be a lot more than that. So, timing and when people can go with whatever they have to go get in terms of revenue.

Secondly, it's more of an observation or a plea. You had a very useful chart on the 8th July presentation of the new business metrics on slide 43. And, then, obviously, things have changed since then with this other equity business that's being retained.

How long will it take for people to be able to have the metrics? I know you said you'd publish before 3Q, the new segmentation but, I mean, we're in a situation where it is on the rating agencies, this earnings capacity is what counts, and we have to guess if your plans for us are realistic; that is our credit decision at the end of day. So, that's just a plea. When can you get that together?

James von Moltke                      Sure. Thanks, James. On the second question, I would expect it to be sometime in early October, so we recognise that's a time to wait. But, as you can imagine, the internal processes of a restatement of prior year financials or prior period financials is a complicated process to go through.

We've tried to provide as much information as possible for investors on the 8th and again on Wednesday as we could, based on the pro forma work. We do recognise that, for a period of time, that gives a little bit less visibility into the company's financials than people would like but we think that resolves itself quite quickly.



And, in some ways, that feeds to your corporate clarity question. Obviously, with the decision to place certain businesses in the CRU, it's given the affected employees clarity as to what their futures are and it's identified, very clearly, the go-forward businesses that we will continue to operate and invest in over time.

There are obviously going to be some additional adjustments, as you point out, in the coming weeks and months but we work to get that restructuring done just as quickly as possible so that we can provide that confidence and assurance to employees as quickly as possible. You can imagine we're working on that literally every day as we announced management teams and execute on the restructuring, and I'd expect it to be very quick.

Axel Finsterbusch (JPM)

Hello. Two questions. The first one is regarding legacy Tier 1 securities. So, my question is, how do you expect to manage these instruments? If I go to slide 19 you have some very interesting statement in that slide, suggesting that in order to continue paying coupons, you may have to call one of these securities, and in a way, in slide 15, you're kind of like giving the same message. So, that's my first question.

My second question is regarding leverage ratio requirements. You're showing that your leverage ratio requirement will be 3.75, including the G-SIB buffer. My question is if you expect to have a Pillar 2R add-on at the leverage ratio level?

Dixit Joshi

Alex, hi. Happy to run through those. Regarding the comment on slide 19, yes, those are the legacy Tier 1s. As you know, they are pusher events for legacy Tier 1 instruments and we're going to be mindful and thoughtful next year as we run through the call dates coming up.

There are some which are, as you see, quarterly, semi-annually and annually, and we'll make a determination at that time. But, naturally, we're going to think about all of our stakeholders in the process when looking at those calls as well next year.

On the second point, it isn't our expectation regarding a P2R add-on currently. In our glide path, as you know, we're aiming for 4.5% leverage ratio by the end of 2020 and, then, an eventual 5% leverage ratio that does put us within the peer group, and we think it's an appropriate level to manage to. And, so we will be well north of the minimum requirement of 3.75%, and we think that will afford us adequate headroom.



Axel Finsterbusch (JPM) One more question, if I may. Do you expect to eventually have an O-SII leverage ratio requirement at the leverage ratio level?

Dixit Joshi Alex, it is not our expectation right now.

Christy Hajiloizou (Barclays) Thank you. Hi, everyone. Two quick ones please. The first one is just on your 2020 issuance. You refer to €15 billion of senior secured instruments. Do you have any initial guidance on sort of the preferred versus non-preferred? There, you're obviously expecting to issue a little bit more senior preferred than in previous years, but any sort of guide on that would be helpful. And, also, given the de-risking plan, any sort of indication around currencies, whether you'll be sort of skewed more towards sort of euros versus dollars?

And, the second question is actually just a quick follow-up on the equity call on deposits and negative rates. James, I think you said on the call on Wednesday that there were legal restrictions in passing on negative interest rates to retail depositors. Just curious if you could just expand a bit more on what those restrictions are. Is it just a straight prohibition on the passing on of rates or is there a little bit more to it? Just curious on that. Thank you.

Dixit Joshi I'll take the first part, Christy, on issuance. What I'd said was that we would look for up to €15-20 billion of issuance, of which a portion would be senior preferred. Now, naturally, senior preferred requirements go down over time as a function of our balance sheet. Not only are we managing to our funding requirements but also ratings agency criteria through the period and, you know, that does reduce given the deleveraging that we're undertaking right now with our balance sheet. We will provide clarity as we always do when we present our full year and Q4 results at the beginning of next year around our funding plan.

What you will see, as you've seen in the second quarter and what you will see through the remainder of the year, is a reduced requirement for senior non-preferred funding given some of the excess liquidity that we do generate as a result of our deleveraging through the course of this year.

In terms of currencies, we will continue to be an active issuer in all of the currencies that we have. Our approach to smaller currencies is really niche and opportunistic depending on where the cross-currency swapped euro equivalent levels would be, but you would expect to see most of our issuance, like in years prior, to be in euros and in dollars.



James von Moltke                      And, on the floor, I believe it's a legal restriction for physical persons that creates the floor, if you like but that same floor doesn't exist for sort of commercial clients and, obviously, not corporate. So, what I was really referring to is work that we have been doing for some time, but we will continue to scrub through the portfolio to make sure that we're doing what we can to pass on negative rates to client segments where we're able but, in general, physical persons, you cannot.

Christy Hajiloizou (Barclays) Perfect. Thank you.

Operator                                      There are no further questions at this time. I hand back to Philip Teuchner of Investor Relations for closing comments.

Philip Teuchner                              Thank you very much, Emma, and thank you all for joining the call today. You know where the IR team is if you have further questions, and we look forward to speaking to you soon. Goodbye.



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