



Deutsche Bank AG

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Transcript

Speaker Key:

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Philip Teuchner, Investor Relations



Philip Teuchner

Thank you. 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. In the room for Q&A we also have Jonathan Blake, our global head of issuance and securitisation.

The slides to accompany the topics are available for download from our website under 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 note of the precautionary warning at the end of our materials. With that let me hand over to James.

James von Moltke

Thank you, Philip, and welcome from me. In December at our investor deep-dive we gave you an update on our strategy to radically transform our bank by 2022. Our performance in the fourth quarter shows the progress we have made on executing on this strategy. In 2019 we were in line with or ahead of all the key targets and objectives that we have set. Since 2018 we have set realistic targets and delivered against them.

We remain disciplined on costs. We delivered our eighth quarter in a row of year on year reductions in adjusted costs excluding transformation charges and bank levies. We have made further significant progress in our capital release unit. We reduced risk-weighted assets by more than we targeted.

We're also encouraged by the stabilisation that we're seeing in all our core businesses. In the core bank we grew pre-tax profits excluding transformation-related costs and other specific items as we held revenues stable and reduced costs. Our capital ratio increased in the quarter and is at the high end of our international peer group and we continue to manage our balance sheet conservatively.

Our liquidity position remained robust while we prudently redeployed excess cash. Clients support our focused strategy and are actively re-engaging with us, a clear sign that our franchise is intact and this bodes well for our performance in 2020 and beyond.

The recent improvement we have seen in our CDS spreads both in absolute terms and relative to our peers is very encouraging



and supports the business significantly. Lower CDS and bond spreads make us more attractive for counterparties while also lowering our funding costs, which helps improve our profitability.

Let me go through these items in detail starting with our performance against our financial targets on the next slide. Delivering on our near-term objectives sets us up to achieve our long-term goals. In 2019 we executed against all of our financial targets. We reported adjusted costs of €21.5 billion excluding transformation charges and the impact of the global prime finance transfer to BNP Paribas.

Our cost performance was in part driven by the reduction in employees. We ended the year with under 88,000 employees, down more than 4,000 in the year and in line with our target. Since the first quarter of 2018 we've reduced employees by around 10,000.

We committed to keeping our common equity tier one ratio above 13% at the end of the year. We ended the year at 13.6%. Our performance against our group capital ratio targets was principally driven by asset reductions in the capital release unit where we overachieved against our external targets thanks to good momentum towards the end of the quarter. Our leverage ratio stood at 4.2% compared to our target of 4%.

Now let me go a little deeper into our 2019 financial performance on slide five. Our results in both the quarter and the year were impacted by our actions to execute on our transformation, which I will describe on the next slide. In the fourth quarter revenues adjusted for specific items, which we detail on slide 36, declined by 1% in the quarter, reflecting the wind-down in the capital release unit.

Non-interest expenses of €6.4 billion included approximately €1.3 billion of restructuring and severance, litigation and transformation charges. Our net loss in the quarter was a little under €1.5 billion including €400 million of transformation-related deferred tax asset valuation adjustments. For the full year we generated a pre-tax loss of €2.6 billion including €1.1 billion in transformation-related expenses, €1 billion of goodwill impairment as well as €805 million in restructuring and severance and 473 million of litigation charges.

Provisions for credit losses were €723 million, in line with our expectations, and at 17 basis points of loans remained relatively low. Our net loss of €5.3 billion also included €2.8 billion of



transformation-related deferred tax asset valuation adjustments.

As Dixit will detail later, we have reduced our liquidity reserves primarily via lower cash but kept our liquidity coverage ratio broadly stable. To execute quickly on our strategic transformation we took substantial costs in 2019, as you can see on slide six.

Results in the fourth quarter included around €1.1 billion of pre-tax transformation effects. These items included €608 million of transformation-related charges included in our definition of adjusted costs. These charges principally relate to impairments and accelerated amortisation of software intangibles and real estate charges.

Results in the fourth quarter also included a further €400 million deferred tax asset valuation adjustments. For 2019 as a whole we have taken around 70% of our total planned transformation effects. For 2020 and 2021 we expect a lesser but still significant burden on our results. This year we currently expect a further €1 billion of pre-tax charges including €400 million of accelerated software amortisation which is not typically relevant for capital purposes.

We also currently expect a further €400 million of deferred tax asset valuation adjustments. Progress we have made to date gives us confidence that we can successfully manage our capital position through the transformation. To give you a better sense of our underlying performance slide seven shows you our results excluding these specific items.

At a group level the results were obviously negatively impacted by the capital release unit but even here we're executing in line with or slightly better than our planning assumptions. In the core bank, which represents our long-term future and strategic vision, we were encouraged by our performance in the face of our transformation and the challenges presented by the environment.

Reflecting the improved performance in the fourth quarter we held core bank revenues flat in 2019 and grew pre-tax profit by 7% excluding certain specific revenue and cost items. This is a strong achievement against the magnitude of changes we have gone through in 2019.



So while we still have considerable work to do we're happy with our performance this year and in the fourth quarter. Now let me turn to costs in more detail on slide eight.

Excluding transformation-related charges adjusted costs were €5.1 billion in the fourth quarter and €21.5 billion for the full year also excluding the costs associated with the prime finance platform. The full year performance was in line with our communicated targets.

We made reductions in every major category while continuing to improve our technology and controls. The focus on costs will be enhanced by the creation of our chief transformation office as it both defines the framework and monitors execution on deliverables to meet our cost targets.

Let's now turn to capital and our key balance sheet metrics starting on slide nine. Our commitment was and remains to manage our transformation within our existing resources. In this respect we feel even more confident after the fourth quarter. We ended the year with a CET1 ratio of 13.6%, comfortably meeting our prior guidance. This demonstrates the progress we have made in deleveraging as well as the acceleration and validation of benefits in our previous planning.

As in the third quarter we offset the negative impact of transformation costs with the positive impact of risk-weighted asset reductions. As a result we have increased our common equity tier one ratio in the second half of 2019. Our year-end CET1 ratio was around 200 basis points above our pillar two requirement. As you may remember, our requirement was reduced by 25 basis points by the ECB with effect from January 1st 2020.

Outperformance on our CET1 ratio largely reflects stronger than anticipated risk-weighted asset reductions in the capital release unit. Since its creation at the start of the first quarter of 2019 we've reduced risk-weighted assets in the CRU by around 30% to €46 billion at year end.

Looking forward we reaffirm our commitment to keep our CET1 ratio above 12.5% at all times. Given our performance on capital in 2019 we believe we're in an even stronger position to execute against the capital plan we announced in July 2019 and have created some room to allocate additional capital to growing our core businesses.



More broadly we have been managing our balance sheet conservatively and intend to keep doing so as you can see on slide ten. We're focused on maintaining strong credit quality. Provision for credit losses was 17 basis points of loans in 2019, in line with our guidance and at low levels both historically and relative to peers'. This reflects our conservative underwriting standards, strong risk management and low-risk portfolio.

Our loan to deposit ratio was 76% at year end. That reflects a strong and stable funding base, supporting our high-quality and growing loan portfolio. We continue to benefit from a strong, stable funding base as a result of our strategic refocusing and our liquidity position also remains strong. Our liquidity coverage ratio of 141% gives us a surplus of €55 billion over required levels.

The progress we have made already gives us clear line of sight on what we can achieve in 2020 as we summarise on slide 11. For this year we have three key targets; first, as described, to build on the momentum we have generated over the past two years and deliver on our 2020 adjusted cost target of €19.5 billion excluding transformation charges and the impact of the prime finance transfer.

Second, to manage our CET1 ratio to be at least 12.5% as we manage the remaining part of our transformation, a target we're confident of hitting given our stronger starting point. And third, to raise our fully loaded leverage ratio to 4.5% excluding the balances we hold for BNP Paribas and prime finance, principally reflecting further deleveraging by the capital release unit.

Consistent with our previous guidance we expect provisions for credit losses to increase to around 20 basis points of loans in 2020, reflecting a continued normalisation of credit and lower recoveries.

Finally, as we've discussed with you before, we've continued to work on plans to merge our German subsidiary, PFK, into our parent company, DBAG. We are increasingly confident of the feasibility and viability of this decision and have begun the discussions with all the relevant stakeholders. This merger should generate significant adjusted cost savings and avoid potential funding cost increases associated with the implementation of NSFR.

Although there are remaining uncertainties regarding the financial impact of this transaction a conservative estimate of



the potential impact is built into our capital plan as discussed in December.

The pre-tax implementation costs are fully reflected in our planning. The tax impact if any could be incremental to the €400 million of deferred tax asset valuation adjustments we already anticipate and I described earlier. Looking further ahead the progress towards our short-term financial objectives gives us confidence in our ability to deliver on our 2022 targets, including a post-tax return on tangible equity of 8%. With that let me hand over to Dixit.

Dixit Joshi

Thank you, James. In addition to executing on our financial targets we have also made considerable progress in 2019 on several other key areas, as shown on slide 13. These developments are beneficial for the bank, our bondholders and our creditors. During 2019 we saw two changes to regulation that removed significant disadvantages we faced versus our US and European peers.

First in May the trading on senior preferred CDS contracts for German banks and with that for Deutsche Bank started. The preferred CDS better reflects the risk profile that counterparties face in our capital structure. This followed a change in the Banking Act in 2018 that allowed German banks to issue both senior preferred as well as non-preferred debt.

Second, the definition of available distributable items or ADI, relevant for the payment capacity of our new-style AT1 instruments, was significantly broadened compared to the previous link to German GAAP. This significantly increased our payment capacity.

In addition we continued to make progress on our regulatory remediation. In the summer we passed the US CCAR stress test both on a qualitative and quantitative basis. We believe that this demonstrates the regulatory recognition for the significant investments and improvements we have made in our internal control environment.

Towards the end of the year we received further notifications that lower our regulatory requirements. First, the Financial Stability Board has reduced our G-SIB buffer from 2% to 1.5%. We improved in all categories of the score as a result of our efforts to reduce the complexity and size of the bank.

Second, the European Central Bank reduced the pillar two requirement, part of our SREP, by 25 basis points, reflecting our



conservative balance sheet management and improved internal controls. This change is effective since January 1st 2020.

Beyond this visible progress we continue to invest in our technology and our processes. To better allocate resources we rolled out a new funds transfer pricing framework in the summer which better aligns remuneration and charges with funding utilisation across our businesses.

In addition we enhanced a number of our liquidity tools, improving our capability to model and manage client deposits and strengthen the liquidity risk management in our derivatives book. We are now also able to better steer our funding and liquidity needs on both a group as well as an individual legal entity level.

All these investments are allowing us to optimise our resource allocation and restructure our balance sheet to improve our long-term profitability. On the balance sheet transformation we have already made significant progress, as you can see on slide 14.

The net balance sheet definition principally excludes derivatives netting agreements, cash collateral as well as pending settlement balances from our IFRS balance sheet to make it more comparable to US GAAP accounting standards.

Since 2017 we have reduced net assets by around €150 billion as reductions in trading assets and liquidity reserves have been partially offset by growth in our loan portfolios. We have reduced our liquidity reserves by around €60 billion since 2017 and prudently changed the composition towards securities. That said, our liquidity reserves represent a significant portion of the net balance sheet and continue to be in line with peers.

We have reduced trading assets by one-third or around €120 billion, primarily reflecting our decision to exit equity sales and trading. Trading assets now primarily consist of government bonds and short-term secured financing assets in our repo book.

At the same time we have grown our loans at amortised cost by 28 billion on a reported basis or by around €44 billion adjusting for the introduction of the IFRS9 accounting standards. Loans account now for 46% of our balance sheet with around a third of our loan portfolio coming from low-risk German mortgages.



We've also significantly improved the quality of our liability and funding base as you can see on slide 15. At year end more than 80% of our balance sheet was funded by the most stable sources including deposits, long-term debt and equity, up by 10% compared to 2017.

Around 60% of our balance sheet is funded by deposits and our loan to deposit ratio of 76% gives us room to grow our loan book further while we optimise the value of our deposit base. We made good progress in improving the quality of our deposit base. We have reduced our reliance on short-term wholesale deposits and increased more stable retail and corporate deposits.

Consistent with the trading asset reduction we have reduced trading liabilities by 44%, which now accounts for less than 15% of our net liabilities. We've also focused on redeeming expensive long-term debt as our funding requirements have reduced in line with our lower asset base.

Overall, while we have significantly transformed our balance sheet over the last two years, there is more to do. We will continue to see efficiencies on the balance sheet as we run down the remainder of the capital release unit assets and over time we expect an even higher amount of our balance sheet to be funded by deposits as we deleverage and further reduce trading activities.

As James mentioned, the merger of PFK into our parent company provides further simplification of our legal entity structure and enables us to manage our liquidity and funding more efficiently.

Moving now to the development of our regulatory capital ratio during the quarter on slide 16, we increased our CET1 ratio by 24 basis points to 13.6% as we more than offset the cost of our transformation with de-risking the capital release unit. Reductions in risk-weighted assets generated 73 basis points of regulatory capital including approximately 41 basis points from the CRU and approximately 20 basis points from lower market risk in our core bank.

The risk-weighted asset reductions were partly offset by the 47 basis point reduction in the capital ratio from the net loss in 2019. For 2020 we affirm our target to manage our common equity tier one ratio to be at least 12.5% at all times. Please note that on a pro forma basis our CET1 ratio for 1st January 2020 is 13.3% when considering the impact of the new securitisation



framework. This leaves comfortable room for further expected regulatory headwinds as well as targeted business growth.

Slide 17 outlines our leverage ratio development. We increased our fully loaded leverage ratio by 25 basis points in the quarter to 4.2%, slightly ahead of our 4% guidance. On an exchange-rate-neutral basis we reduced leverage exposure by €110 billion including a €49 billion reduction in the capital release unit.

We also reduced our cash balances by around €29 billion partly as a result of our ongoing liquidity optimisation initiatives combined with a seasonal reduction in investment bank balances. We reaffirmed our leverage ratio target of 4.5% this year excluding the prime finance platform to be transferred to BNP Paribas and around 5% for 2022.

This compares to a requirement of 3.75% that will only become binding in the summer of next year. We continue to operate with a significant loss-absorbing buffer above our requirements as is shown on slide 18. At the end of the fourth quarter our loss-absorbing capacity was €30 billion above the minimum required eligible liabilities or MREL, our most binding constraint.

Our MREL surplus increased by €13 billion in the quarter. The increase was driven both by a reduction in total liabilities and own funds as well as a lower MREL requirement. The lower MREL reflects the single resolution board's updated calculation which reduced our requirement by 56 basis points to 8.58 of TLOF, applicable immediately.

In addition the SRB introduced a new MREL subordination requirement set at 6.11% of TLOF. Our buffer against this measure stands at €51 billion. We expect our MREL surplus to remain at a comfortable level in 2020. Our strong surplus positions us well for further regulatory changes which become effective in 2021. These include the switch from TLOF to RWA-based calculation as well as the de-recognition of UK law issuances without a bail-in clause as a result of Brexit.

Moving on to slide 19 which highlights our key liquidity metrics, we reduced our overall liquidity reserves by €21 billion in the quarter, including a reduction of 29 billion in cash in line with our aim to gradually and efficiently deploy excess cash. The reduction in cash balances was due to a combination of several items including the repayment of €11 billion of funding instruments including TLTRO-2 ahead of the original maturity date as part of our ongoing deleveraging actions, a reduction of 10 billion in deposits including non-operational as part of our



repricing initiatives, seasonal movements and our efforts to increase deposit efficiency, €8 billion of cash redeployment into high-quality securities, three billion of loan growth primarily in the private bank and three billion of lower wholesale funding.

Those cash-absorbing measures were partially offset by release in the CRU. We held our liquidity coverage ratio stable at 141% despite the reduction in liquidity reserves as we also reduced the net cash outflows. These were largely due to lower non-operational deposits that were previously placed as cash with the ECB overnight together with the ongoing de-risking in the CRU.

Overall we have a €55 billion surplus above the 100% LCR requirement. Going forward we will continue to prudently manage down aggregate liquidity reserves to target a level of around €200 billion and also target a liquidity coverage ratio of approximately 130%.

Let's now turn to our issuance plan on slide 20. In 2019 we issued €14 billion in aggregate of which roughly 2 billion was pre-funding for 2020 as you can see on slide 20. As mentioned previously we repaid €7.5 billion of TLTRO instruments early and exercised our call right on an expensive legacy capital instrument in the fourth quarter to both manage liquidity levels efficiently and also work towards reducing our overall cost of funds.

In addition we issued our inaugural structured covered bond and plan further issuance in 2020. For this year we plan to issue between 15 and €20 billion in aggregate compared to outflows of 32 billion including our residual participation in TLTRO-2 as we reshape the balance sheet and continue to use our liquidity in an efficient way.

In light of strong market conditions and investor demand we took the opportunity to front-load our issuance plan and have raised €3.5 billion year to date, primarily senior non-preferred instruments. While we have not yet taken a decision on TLTRO-3 any potential participation is likely to be a low lower than for TLTRO-2.

There are five further participation windows for TLTRO-3 providing us flexibility regarding any timing. Roughly half of our issuance plan is in senior non-preferred issuance replacing maturities of €8 billion. Here we also take into account ratings-agency-specific ratios like Moody's LGF or ALAC from S&P.



As you can see we also plan to issue capital instruments this year. However you should not draw any conclusion from this on any upcoming call options on AT1 securities. We want to reiterate that we take these decisions based on several factors, principally economic factors but also including capital demand, the future capital recognition of the instrument, replacement cost and potential FX effects.

In the appendix we show our 2019 pro forma AT1 coupon capacity or ADI. The payment capacity has increased significantly versus this time last year reflecting the change in European law for the respective recognition of capital reserves. The overall payment capacity now covers the annual payments on our AT1 securities around 100 times.

Before moving to Q&A let me conclude on slide 21. 2019 was a transformational year for us in many respects. We built positive momentum in 2019 from regulatory developments and legal changes including the increase in the ADI capacity as well as reductions in our capital requirements. In addition we have invested in tools and capabilities that help us to improve our resource allocation, including management of our liquidity levels.

We have significantly transformed our balance sheet as we reduced risk, improved efficiency and supported business growth. Given our solid CET1 ratio in the fourth quarter of 2019 and disciplined de-risking in the CRU we look ahead with increasing confidence to manage our capital in line with our near-term targets.

We will also maintain our strong liquidity position but aim to continue optimising the composition of our liquidity reserves. While the interest rate environment continues to be challenging the introduction of tiering by the ECB in the fourth quarter of last year together with our deposit repricing initiatives that are being rolled out will help to support our revenue generation. With that let us move to your questions.

Question & Answer Session

Richard Thomas
(Bank of America America)

Thank you very much and thanks for taking my question. You did actually go through the parameters just now in terms of your approach to calling or not your AT1s but I didn't quite catch them all so I would be grateful if you could remind us of those.



And can you also tell us whether you've actually made a decision on the April AT1 that you've got coming up for call? That's the first question.

The second question is on the topic of calls; can you remind us of your policy on the legacy tier-ones and what we should expect to see from you this year given, I think, all of them have a call date this year?

And then finally you were very clear that the guidance that you gave on the basically supply in subordinated of one to two billion; we shouldn't take anything from, you know, your decision to call or not. But I seem to remember in the last call you said that you had excess AT1. Is that still the case and therefore should actually we see that as guidance really about the tier-two part of the stack? Thank you.

Dixit Joshi

Richard, hi. Thank you for joining and I'll try to answer all those in turn. Our policy around call criteria has been fairly consistent through the quarters. We would typically begin with looking at the economic factors including replacement costs but then we would also look at any capital demand, you know, any future capital recognition of the instruments, replacement cost and in some cases the FX effects that arise from the equity treatment of AT1 securities on our balance sheet.

We do note that in the case of the 6.25% AT1 the instrument trades significantly tighter than a new issue and trades less than par. Again there are considerations around effects on our CET1 from FX movements and the accounting treatment and we're also mindful on one of your other questions, on, you know, managing to the glide path to ensure that we managed our 1.5% bucket.

We're pretty confident this year through management of both the numerator and the denominator in managing towards our 4.5% guidance that we've given on our leverage ratio as well.

So I will not be drawn on any specifics regarding a call decision which we would not have made and would make closer to the time on both new-style and on legacy. Suffice to say we will take all of these points into consideration when looking at call criteria.



Robert Smalley (UBS)

Hi. Thanks for taking my question. Good afternoon, James, Dixit and Philip and thanks for doing this call. A couple of things; first on the CRU and the progress you've made there, could you talk about the ability to bring down the operational risk portion in the RWAs? I think on the other call you talked about methodology and model-related benefits. If you could be more specific that would be great.

And also in terms of leverage exposure there it's come down a lot, obviously from prime finance and, I guess, from the equity side given the weighted average life there. But where else was the progress and should we see this stable where it is? That's my first question.

Second on the LCR, targeting 130, I've seen a lot of other large banks in the 120s. Are you keeping that a little bit higher given where you are in deposits and where your ratings are?

And then third to follow up a little bit on Richard's question, when we look at potential for AT1 or tier-two issuance in 2020 is it a definite that you'll be doing something? Because given where you are in terms of your buckets and, Dixit, as you said, in terms of managing the denominator as well it seems that you could push this off to 2021 when you don't have imminent calls there, etc. So is it more optional or is it a definite for AT1 or tier-two issuance?

Dixit Joshi

Robert, hi. Thanks for joining. I mean, I'll start at the end and then hand over to James on the operational risk and the CRU. On the AT1 securities you're right to point out that we would have a requirement at some point to meet the 1.5% bucket. What we've indicated as we do transparently at the beginning of every year is that we plan as best as we can based on the shape of our balance sheet through the rest of the year.

And hence we've put through one to two billion for capital securities which could be tier-one or tier-two securities. Again we will be watching market conditions as well as the shape of our balance sheet through the course of the year to make a determination in that regard.

So is it a must-have into 2020? The answer's no but we plan accordingly and will update on subsequent fixed-income calls as the year goes by.

James von Moltke

So on the CRU and the glide-path from here as well as your op risk question, we're always looking at models and methodology and operational risk RWA and, as we've talked about, we were



able to bring forward some of the opportunities that we saw when we announced our restructuring back in July. So when we say validate and accelerate, our commentary really focuses on the op risk RWA.

The types of changes that we make - I won't go into detail - are in some cases relatively minor methodology changes that can have a relatively significant impact in the RWA. The CRU clearly benefited from a significant portion of that, especially in the fourth quarter and so that was a significant contributor to the beat.

Going forward we wouldn't change either the leverage or the RWA glide-path or end-of-year targets for the CRU. There was a huge effort, as you can imagine, in 2019 to execute on the plan and where possible get ahead of it. We probably take a deep breath as the year starts here in 2020. The team has plans, they've formulated those plans and will get to work executing them but I would expect sort of a relatively flatter performance in Q1 and then we would gain speed as the year goes on towards - on a glide path towards our year end numbers. I hope that helps.

Robert Smalley

That's great and on the LCR you're kind of still keeping it above some - a lot of other large global banks for ratings reasons, for reasons of growing deposits.

Dixit Joshi

The answer is all of the above to an extent. We do manage to a number of criteria, you know, not just LTR but also trying to target our liquidity reserves as I said, in the medium term to above €200 billion but then ensuring that we maintain MREL and TLAC surpluses that can also accommodate any methodology or regulatory changes that would be coming about and then importantly ratings agency criteria as well.

What you would have noted is that we've put a significant amount of liquidity to work in paying down our long-term debt, in reducing our issuance plans through the last year, in allocating to business loan growth as well as increasing the deposit efficiency and hence you've seen some deposit reduction in the fourth quarter.

You know, given all of that we still maintained an absolute LTR surplus in the region of €55 billion so we're fairly comfortable for now that we would continue to target at around 130%, allow it to stabilise at around that level and then take stock and revisit where we take the ratio from there.



James von Moltke

One other thing just to add on LCR - it's James - we report a point-in-time LCR at the end of each quarter so one has to keep in mind that rather than an average we manage it on a daily basis so there can be some volatility but, as Dixit says, our goal over time is to manage it down gradually as part of overall balance sheet efficiency.

Paul Fenner
(Société Générale)

Hi, good afternoon, everyone. Most of my questions have kind of been answered but since I've got you, to start with I think, by the way, the performance over the last six months in terms of what you've done to balance sheet management has been very impressive, so well done to the whole team.

But in a way you've become victims of your own success given where AT1 spreads have come in. Now, you've talked about policy on call, etc, but I just want to get a sense; you know, you mentioned yourself your, you know, the call option for this bond coming up for the call is still slightly out of the money, you know, it's... the back is in the 430s. You could presumably do a new issue somewhere in the early 500s.

One thing that we all struggle with is to understand where the economics kind of lies and how you think about that. Is 100 basis points out of the money, is that too much or, you know, is where spreads are today in terms of refinancing costs, would that kind of make sense given that everything else, your more limited requirement for capital, etc, and buckets so that's the first question.

And the second question is maybe more theoretical; where you decide to call. Are you now in a position where the regulator would not require you to issue a refinancing bond, at least not immediately? Thank you very much.

Dixit Joshi

Paul, hi. Yes, look, we're mindful of the economics on both the new-style call coming up as well as on our legacy calls coming up against the criteria that we will look. We'll begin with the economics on both, as you rightly point out but then we would look at the nuances in terms of qualifications through time.

For example the legacy notes would naturally become very expensive senior funding over the course of the next two years and so we're mindful of not ballooning funding costs and would be thinking about a call decision.



You know, I won't be drawn on what that range is in terms of economics but it's an active discussion as we get closer to the call date. Naturally any call decision, on your last question is done with the approval of the ECB and so we do allow for a suitable period of time to allow for that to happen, which is typically three months prior to the notice date. Sometimes that decision can be forthcoming, you know, in a tighter time frame but we would typically allow for three months.

Corinne Cunningham
(Autonomous)

Thank you very much. Most of my questions have been answered as well but can you perhaps tell us a bit more about what's been factored in when you talk about your reduced cost of funding assumptions? I think particularly here your - all your funding costs have tightened in, you've seen the tier-ones go higher but I'm just wondering, if you don't redeem the tier-ones at the call date would that put a spanner in the works in terms of sending everything wider? How do you think about that, does that just go into the general mix that you talked about in terms of weighing up the decision at the call date?

And then just... you also mentioned the FX impact. If I look back to when that tier-one was issued it was quite a high exchange rate, about 1.38. So given where the current exchange rate is do we have to wait until you've got a particularly strong capital position before you can contemplate any redemption of legacy - not legacy, sorry - of new-style tier-ones?

I've also got a follow-up one, just a quick one on capital. Thank you.

Dixit Joshi

Corinne, hi, happy to run through that and, you know, you're right in pointing out that the FX rate has moved from roughly, you know, 1.36 to around 1.10 and that would be detrimental to CET1 in the region of around €200 million so that would be a consideration amongst all of the others that I mentioned to you.

Now, regarding wider funding costs we're quite encouraged by the tightening of spreads across our entire capital stack through the course of last year. One would hope that, this reflects the the lower risk profile of the firm, the move to more stable funding sources together with the lower reliance on capital market funding.

And you'll see that playing through in our issuance plans as well so we're quite mindful of managing towards lower funding costs and many of the balance sheet actions that we've taken through



the last six months especially but also the last year and that we will continue to take through this year, you know, will have that as the backdrop in terms of optimising funding as much as we can.

One of the reasons why we had called the €7.5 billion of TLTRO as well at the back end of the fourth quarter was again to utilise liquidity in a manner that was, you know, operationally simple whereas we would have more expensive funding sources we could consider elsewhere.

Corinne Cunningham

Okay, thank you. Just a quick follow-up on your capital ratios; you'd been guiding to a floor of something like 12.7% CET1 and your year-end capital position was perhaps a bit better than, I think, you'd been guiding to. Is that just a timing effect, in other words, are you sticking to the 12.7 because perhaps some of the CRU wind-down came a bit earlier than you might have been expecting or is this... should we see this as an actual step change and sustainable improvement in CET1? Thank you.

James von Moltke

So, Corinne, it's James. On the latter question, as you will have heard our comments last week, we are describing it as, I think, a better step-off than we had planned although some elements of the 13.6 is a pull-forward, particularly the op risk guidance that we talked about.

Though portions of it where we are, I think, outperforming our original planning give us more flexibility and, as I described it last week, more room for error. I think it's too early to change the bottom that we discussed last year, 12.7%, given, as you say, there's a bunch of timing issues, uncertainty about the extent of regulatory inflation, you know, all the various things that we're managing to including, as we've pointed out, the desire to ensure that we don't unnecessarily constrain the businesses in terms of their ability to support clients and use the balance sheet to drive revenues.

That said, where we can - again without unduly constraining the businesses - operate at a wider margin to that 12.5% minimum that obviously would be desirable and we'll have more to say about that as the quarters progress in 2020.

Joe Hopkins
(Morgan Stanley)

Hi. Most of my questions have also been answered by now but I've got one left on issuance and one on capital. Just one thing to clarify on the issuance plan; does the planned capital issuance reflect a net need for AT1 so in other words, if you



were to call in April would that increase the potential amount of capital issuance?

And on capital the reduction in the G-SIB capital requirements are helpful for increasing headroom for capital requirements but do you expect the German regulator to follow suit and reduce your domestic systemic buffer as well?

Dixit Joshi

We have placeholders within the plan for any likely actions during the year that we might want to take. Again those deliberations will occur closer to the call dates.

The one billion, as I'd outlined before, is again a placeholder for issuance and thus would be net new issuance through the course of the year, which again we have some flexibility over depending on the shape of our balance sheet through the course of the year.

On the G-SIB, the G-SIB was effective on 1st January 2021. It's a little early, quite frankly, you know, to talk about the D-SIB right now but, you know, this is something that the BAFIN will have to decide on, you know, so can't offer much colour on that right now.

Samir Adatia (Citigroup)

Hi. Thank you for your time today. I guess firstly, with the potential introduction of article 104a can you give any guidance on when you think you'll be able to potentially use this?

Secondly, can you provide some guidance on RWAs for this year, noting last year you outperformed on this? And would be curious to see and understand what your targets are for this year and what areas of the banks you think you'll derive this from.

And then finally you were one of the few banks as part of the SREP process last year to get a reduction in your P2R. Did you also get a reduction in your P2G? Thank you.

Dixit Joshi

So I'll take those, I guess, beginning at the end. You know, we wouldn't really comment on any, you know, P2G discussions with our regulators so, you know, can't really offer, you know, a whole lot of colour there right now but we were encouraged naturally with the P2R reduction, you know, partly a reflection of the strategic repositioning we've done as a firm and the announcements of last July together with the successful execution through the course of the last two quarters.



Regarding CRD5 we have noted some of the talk around the potential changes that one could make on the capital structure. You know, we don't really know and have enough visibility on that just yet. I think that will play out over the next few years and it might also be accompanied by a change in requirement, again all of those would be factors that would play in.

So it's not something that we're able to offer any guidance on today.

Samir Adatia

And then on RWAs can you give some guidance on how you see that developing this year and from what business areas?

James von Moltke

It's James. On RWAs I think we don't have any update to the December 10th investor deep-dive materials. As we talked about, we believe that there's growth that we can achieve in the core businesses, again as we support our clients and build revenues to the extent those revenues are tied to the balance sheet, offset by deleveraging, continued reductions in the capital release unit.

And then the big driver, as we've talked about, is regulatory inflation and our assumptions remain in line with what we showed you in December.

Tom Jenkins (Jefferies)

Hello, everybody. Yes, I will not ask you any more about calling AT1s; that question has been answered. Just taking a side-step, you know, I see you talking both last week and today about the merger of PFK into AG. You know, you've said you're going to go ahead with this. I wonder if you could just run me through a little bit high-level on the timing and process and what not.

You say you're talking to or begun discussions with, I think - quote, unquote - all the relevant stakeholders. I wonder if that is going to include the existing DB bondholders and really how easy you think it may be to sort of transfer the ownership of the trust preferred securities across to AG. If you could just give me some high-level thoughts on that that'd be great.

Dixit Joshi

Sure, Tom. I'll take the second and James can take the first. You know, from a bondholder perspective any merger of the entities will not be detrimental to bondholders on either side and so we'd see exposure being ported over to PFK and so I don't see any negative impact on bondholders who are holding current paper from PFK or Postbank.



James von Moltke

On the timing and process, as I say, we've talked about it now for several months. As you can imagine, we've been working hard on all of the details associated with the potential transaction. Right now it's slightly too early to talk about specific timetables. We need to complete some governance processes internally and then receive some external guidance or assurance on elements of that transaction.

But it's something that we're working on actively and certainly we would hope to give you, the market, more details once those couple of hurdles are met and overcome. As we say, you know, one of the main rationales for the transaction, although there are many, would be managing NSFR requirements which, as you know, were then interpreted or finalised as being an unconsolidated set of measures.

And so this action importantly allows us to manage the group's NSFR requirements, you know, without incurring additional funding costs for, you know, new NSFR, you know, eligible liabilities going forward. So it's an important transaction for us especially on the funding side.

Tom Jenkins

Okay, thanks. Just to confirm, following up on what Dixit said, that obviously nothing detrimental to bondholders so, you know, if I'm a bondholder in the relative safety of PFK, shall we say, from a German retail banking perspective I will not be in any way put in harm's way by merging into a large global investment bank; can I take that as read?

Dixit Joshi

That is very much our intention.

Stuart Graham
(Autonomous)

Oh, hi, thanks for taking my questions; two quick ones. On slide 20, the 14 billion issued in 2019, can you give us the usual detail on the spread over three-month EURIBOR and the tenor?

And then the second question was on green bonds where I think you said at the press conference you plan an inaugural issue. Could you give us a bit of detail on what you have in mind there? Because I think you've been a bit slower out of the blocks on issuance than some of your French and Dutch peers. Thank you.

Dixit Joshi

Stuart, hi. On the second, on green bonds, yes, you will have noted Christian's comments, you know, through the last month and last week at the analyst call as well. You know, we have been planning for a green bond for 2020. I won't be able to give you



a more, firmer timeline but the relevant teams internally are focused on getting one done.

We have an internal framework now in place to allow us to begin to do this and, you know, we're quite confident that, you know, we will get a green bond done later this year.

On the former, you know, I would say 2019 on a blended basis was in the region of, you know, Libor plus 150 and that's for effectively that capital stack that you see on slide - or the debt stack that you see on slide 20. Now, you know, naturally mindful that's now a small component of our overall funding requirements especially with more than 60% of our funding coming from deposits now so the actual overall cost of funding for the firm is significantly lower.

Philip Teuchner

Thank you very much, Hailey, 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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