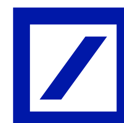


Deutsche Bank AG

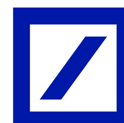
Deutsche Bank Q1 2019 Fixed Income Conference Call

Monday, 29 April 2019 | 15:00 CEST

Transcript

Speakers:

James von Moltke, Chief Financial Officer
Dixit Joshi, Group Treasurer
James Rivett, Head of Investor Relations



James Rivett

Thank you, Jasmin, and good afternoon or good morning and thank you for all 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 their topics are available for download from the creditor information section of 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.

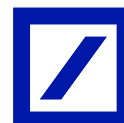
Slide 2 – Executing on our targets with a conservative balance sheet

James von Moltke

Thank you, James, and welcome to you all. Before diving into the results a few words around our decision last week to terminate discussions with Commerzbank about a potential merger. After thorough analysis we concluded that a merger would not have created sufficient synergies to offset the execution risks, restructuring costs and capital requirements related to such an integration. This is consistent with our commitment only to pursue options that we believe are in the best interests of our stakeholders, including equity and debt investors.

Our first quarter results show that we made further progress against our objectives. We performed in line with our internal planning assumptions on a net income basis despite difficult conditions for our market-sensitive businesses. We offset weaker revenues with lower costs and benefited from lower tax expenses.

The performance in our less market-sensitive businesses was solid and several important leading indicators are positive. These trends highlight the underlying strength of our franchise. We remain well on track to reduce costs by €1 billion this year to our recently lowered full year target of €21.8 billion. Our continued progress on costs shows that we are moving in the right direction. We remain disciplined and focused in our execution. At 13.7% our CET1 ratio is consistent with our target and is a signal of strength and stability.



This solid capital position together with our excess liquidity gives us flexibility to exploit revenue opportunities as they arise and to invest in key areas. While maintaining a resilient balance sheet we're working to optimise our funding costs and improve our credit ratings. As part of our balance sheet optimisation measures we have reduced our funding plan by €5 billion for this year. Let me turn to a summary of our first quarter results on slide three.

Slide 3 – Q1 2019 Group financial highlights

Revenues of €6.4 billion declined by 9% year on year on a reported basis but by 5% excluding the specific items detailed on slide 26 of the presentation. Non-interest expenses declined by 8% as we reduced adjusted costs by 7% to €5.9 billion. Provisions for credit losses were €140 million or the equivalent of 13 basis points of loans.

Provisions remain low in an historical context and reflect the low-risk nature of our portfolios and our strong underwriting standards. As a result we generated a pre-tax profit of €292 million and net income after non-controlling interests of 178 million. Our CET1 ratio stands at 13.7%.

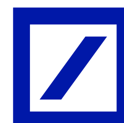
Liquidity reserves were €260 billion and the liquidity coverage ratio stood at 141%, both broadly stable versus year end levels. Let me go into more detail on revenues excluding specific items on slide four.

Slide 4 – Resilient revenues in less market sensitive areas

We're encouraged by the performance and the underlying trends in our less market-sensitive businesses. In our private and commercial bank, global transaction bank and asset management together revenues increased by 1%. In PCB revenues were stable as we grew volumes to offset the ongoing impact of negative interest rates.

We grew revenues in GTB, where we have the fundamentals in place to further increase revenues in the coming quarters. In asset management revenues declined year on year but grew compared to the fourth quarter and we saw positive inflows.

In our more market-sensitive businesses revenues declined by 16% but beneath the headline figures the picture is more varied.



Origination and advisory revenues declined in the quarter, reflecting lower industry pools, but we increased our market share in many geographies and products.

Our sales and trading businesses were negatively impacted by the overall market conditions. Additionally in sales and trading the year on year comparison was negatively impacted by approximately €100 million from the perimeter adjustments we made last year in equities and US rates.

In fixed-income revenues declined by 18% but within FIC our credit and FX businesses performed relatively well and in equities revenues declined by 18%, broadly in line with the overall market performance.

Slide 5 – Well on track to achieve our accelerated cost reductions

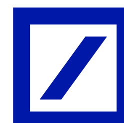
Turning to our progress on adjusted costs on slide five. In the first quarter we reduce adjusted costs by €400 million or 7% to €5.9 billion. Excluding the payments for the majority of our annual bank levies, which we record in the first quarter, adjusted costs were €5.3 billion. On this basis we have reduced our adjusted costs in each of the last five quarters.

Slide 6 – Focused on delivering improved returns to shareholders

We made further progress towards our near-term financial targets this quarter, which you can see on slide six. Generating higher and more sustainable net income is important for all our stakeholders including shareholders, debt investors and rating agencies.

Our main objective for 2019 remains to generate a post-tax return on tangible equity of greater than 4% as a step towards higher returns over time. As we highlighted in our full-year results, improving our return on tangible equity to around 3% is based on things mostly or fully within our control. These factors include executing on our cost reduction plans, continued balance sheet efficiency, performance in our stable businesses and a more normal tax rate.

In the first quarter these items are running in line with or slightly ahead of our internal targets but improved performance in these



areas alone would leave us below our 4% return target. To reach our objective we also need to see a revenue recovery in our more market-sensitive businesses.

Market conditions and our performance in the first quarter were clearly not supportive for this recovery but these revenues are available to us in better market conditions given our leading positions in many of these businesses; we just need to capture them.

To conclude, we are executing on our commitments and are focused on executing against our own plans. We delivered against our 2018 cost reduction plans and are well on track to reach our recently lowered 2019 targets. We continue to manage our balance sheet conservatively and we're making good progress on our control environment and our regulatory commitments.

With these foundations in place we have begun to pivot towards controlled growth. We're encouraged by this quarter's performance which demonstrates the key drivers of growth are in place as we grew loans and deposits and saw higher assets under management with positive inflows.

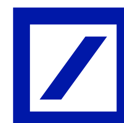
This management team has executed on its promises and we will continue to deliver on our commitments. As we demonstrated in discontinuing discussions with Commerzbank, we will be disciplined as we work to improve our long-term organic capital generation. With that let me hand over to Dixit.

Slide 8 – Well positioned for focused growth

Dixit Joshi

Thank you, James. Starting first with a summary of our well-capitalised, highly liquid and low-risk balance sheet on slide eight. At 13.7% our common equity tier one capital ratio is consistent with our greater than 13% target. We have loss-absorbing capacity of €123 billion which is €19 billion above our MREL requirement. This provides a significant cushion for our counterparties and our depositors.

Our low loan to deposit ratio of 77% provides the opportunity to further support lending growth and our market risk and credit costs are amongst the lowest of our global peers. The liquidity coverage ratio of 141% is €68 billion above our regulatory requirement.



Given our high liquidity levels and investments in our systems we are now in a position to optimise our balance sheet and liquidity. We are on track to generate more than €300 million of revenues for the full year from our optimisation programmes.

These programmes are designed to adjust to changes in market dynamics with our primary focus wherever possible on deploying resources into our client franchises. This quarter we have executed on around €15 billion of measures in aggregate. In the first quarter we deployed approximately €5 billion of our liquidity reserves into higher-yielding assets including loans. We intend to further deploy resources in the coming quarters with up to a further €20 billion depending on market and client opportunities. This will in part include using liquidity in our subsidiaries, which will not affect our disclosed group-level liquidity reserves. Liquidity reserves were however flat as we grew our deposits by a similar amount.

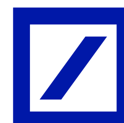
We're also working to reduce the cash component of our liquidity reserves and purchased approximately €5 billion of high-quality liquid assets in the quarter. We have also identified opportunities to optimise our liability profile, which is a capital-efficient deployment of our liquidity. As a result we have reduced our issuance plan for 2019 by €5 billion.

Slide 9 – 2019 issuance plan and contractual maturities

In aggregate, we now expect to issue between 15 and €20 billion as shown on slide nine. With €8 billion issued already in 2019 we have completed roughly half of our full year requirements. The reduction in our plan comes mostly from lowering our preferred and structured note issuance.

We still expect to issue €9 to €11 billion in senior non-preferred instruments this year. Having already issued €6 billion in this format we are flexible now on timing regarding the remainder of the plan.

On TLTRO3 we are waiting for specific details from the ECB which are expected in June and will then assess our potential participation. Generally we think a new TLTRO will be helpful for the industry to avoid a concentration of maturities in 2020 and more evenly spread them over a much longer time frame. Any participation may lower our covered bond issuances as we use some of the securities as ECB collateral instead of issuing directly into the capital markets.



Slide 10 – Development of liquidity metrics

Slide 10 highlights our key liquidity metrics. Our liquidity coverage ratio stood at 141% with liquidity reserves at €260 billion. Over the last 12 months we have reduced our liquidity reserves by approximately €20 billion or 7% including a €40 billion reduction in cash as we allocate to higher-yielding, high-quality liquid assets. In the first quarter liquidity reserves were broadly flat as we funded €10 billion of loan growth with new deposits.

The majority of these deposits were originated in our retail businesses and given their long-term nature provide high liquidity value. For the remainder of the year we expect to manage our liquidity ratios down prudently as we identify opportunities to deploy excess resources.

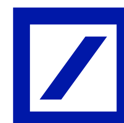
Slide 11 – Capital ratios

Turning to capital on slide 11, we ended the quarter with a CET1 ratio of 13.7%. This represents an 18 basis point improvement from the prior quarter and comes despite absorbing a negative 16 basis point impact related to IFRS16 lease accounting. The increase in the CET ratio was driven by net €3 billion decline in risk-weighted assets.

As expected, market risk RWA declined by €7 billion reflecting the reversal of the temporary increase that we saw in the fourth quarter. Excluding FX effects, growth in credit risk RWA of €9 billion which included the impact of IFRS16 was offset by a €6 billion reduction in operational risk RWA, mainly driven by methodology refinements.

All else constant, our guidance for regulatory adjustments to our CET1 ratio is unchanged from our fourth quarter earnings call. As noted, an 18 basis point benefit from an ECB-approved change to operational risk models is already incorporated in the first quarter results. We see regulatory headwinds of approximately 40 basis points which are not yet reflected in our capital ratios.

Approximately 20 basis points of this decline will occur in the second quarter as we have received feedback from the ECB on a recent asset quality review. The remaining headwinds relate to the ongoing regulatory exams of internal models. Here the



timing and the amounts are uncertain but we currently expect a further 20 basis point impact within the next two quarters.

All said, we remain committed to managing our resources within a range consistent with our CET1 ratio target. Our leverage ratio on a phase-in basis declined by 20 basis points in the quarter to 4.1% compared to our 4.5% mid-term target. On a fully loaded basis our leverage ratio was 3.9%. Excluding FX effects the decline in the ratios reflects an increase of approximately €57 billion in leverage exposure, reflecting seasonally higher pending settlements, increases in client activity in CIB as well as loan growth.

Let me also comment on the G-SIB indicators that we published today, mostly reflecting our active deleveraging in 2018 and our perimeter adjustments in CIB. Ten out of the 12 G-SIB indicators declined year on year.

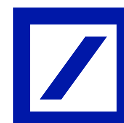
As a result we expect our 2021 G-SIB buffer requirement to reduce by 50 basis points to 1.5%, of course subject to the final FSB assessment in November this year. A reduction would not change our overall CET1 capital requirements or MDA levels as we would expect our domestic SIB requirement to remain unchanged at 2%.

That said, a lower G-SIB buffer would potentially lower our regulatory leverage ratio requirements. Under CRR2 rules the leverage ratio is calculated off the 3% base requirement plus 5% of the GSIB add-on and on this basis our leverage ratio requirement would by 3.75% from 2022. But at this stage our mid-term 4.5% target remains unchanged.

Slide 12 – Minimum requirement for own funds and eligible liabilities (MREL)

Slide 12 provides an update of MREL, our most binding loss-absorbing capacity requirement. We continue to operate with a comfortable surplus to our MREL requirement which we fully meet with subordinated liabilities. Our available MREL in the first quarter was €123 billion, which was a €5 billion increase compared to year end, reflecting our non-preferred issuances.

Our MREL surplus stood at €19 billion at the end of the quarter. The slight decrease compared to the year end level was driven by the seasonal increase in total liabilities and own funds. The Single Resolution Board will review MREL targets of all banks in



the second half of 2019. We do not expect this review to have a material impact on our MREL position.

The next two slides cover AT1 payment capacity as well as credit default swaps. On both topics we expect positive developments in the near term. These changes will be positive for us, our investors and our counterparties and will create a more level playing field for all German banks compared to other EU institutions.

Slide 13 – Additional Tier 1 (AT1) payment capacity

Starting with the payment capacity on new-style AT1 securities or ADI on slide 13, under the current rules coupons of €330 million will be paid tomorrow. Our payment capacity of €921 million is almost three times higher than the required coupon payment.

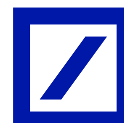
Additionally we have increased general and trading-related reserves to €4.7 billion, which could be used to increase our payment capacity even further. The increase in the reserves reflects the benefits of the merger of Postbank and the Deutsche Bank legal entities. It is the last time that we report this number based on these conservative German GAAP rules.

Starting next year, changes in European legislation related to CRR2 should materially increase our payment capacity and effectively remove ADI as a constraint going forward. We expect the proposed new rules to be published in the official journal in June or July with the new definition becoming effective 20 days thereafter.

Slide 14 – Introduction of senior preferred CDS

Slide 14 shows the upcoming changes to credit default swaps on Deutsche Bank, including the introduction of a new senior preferred CDS. After an amendment of the German bail-in law in 2017 the current CDS for DB references senior and non-preferred instruments. These instruments rank junior to counterparty claims in the creditor hierarchy and therefore overstate the risk to clients and counterparties.

A new CDS contract referencing our preferred senior instruments will be available for trading on 13th May. These changes will bring CDS contracts for Deutsche Bank and other



German banks in line with EU and US peers where either opco or holdco structures or preferred senior CDS instruments are already available. This will allow a more accurate reflection of the position in the capital stack for counterparties and clients and will lower the cost for hedging exposures with Deutsche Bank. With that let me now hand back over to James Rivett to moderate the Q&A session.

James Rivett

Thank you, Dixit. Operator, Yasmin, let's open the line for questions.

Samir Adatia
Citibank

Hi, this is Samir Adatia from Citibank. So my two questions; firstly one on ratings and secondly on the MDA buffer; so looking at the ratings, if two of the three main ratings agencies have you on negative outlook what leeway do you think you have to avoid a downgrade? And have you considered the impact of your non-preferred senior having a high yield rating?
And secondly in terms of the MDA buffer what is the ideal management MDA buffer you're looking to run? Because when taking into account the 40-basis-point regulatory headwinds you've guided for pro forma we calculate your MDA buffer to get to around 150 basis points, one of the lowest amongst the AT1 issuers amongst all European banks, and are you concerned by this? Thank you.

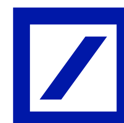
Dixit Joshi

Samir, thank you for the question. On ratings, you know, one of the reasons why we've tailored our issuance plan the way we have is clearly to ensure that we support our rating through the next few years and so in response to the liquidity excess that we have currently we have reduced our issuance plan by five billion to 15 to 20 billion.

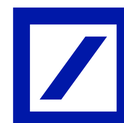
But all of that reduction really comes from covered bond issuance, reducing the amount of structured notes and senior issuance that we do as opposed to the senior non-preferred. And as you know, the senior non-preferred supports our regulatory metrics - MREL, TLAC in the main but then also Moody's LGF and S&P ALAC, and so protecting the rating will continue to remain a key focus for us.

Samir Adatia

So on that, aside from the LGF and ALAC, which you highlight, obviously there's a risk the underlying anchor ratings, the BCA at Moody's or the viability rating at Fitch; you know, that's on negative outlook as well and, you know, based on whether it's profitability or other targets you have there's a risk that could be



	downgraded, you know. What leeway do you think you have around combating that this year?
Dixit Joshi	Looking at the latest rating agency notes, which you will have seen on Friday and through the weekend, the one thing that they do reflect on is our strong solvency and liquidity metrics and in fact go so far as to say that we have excesses that we would be comfortable deploying. And so I think executing on the strategy for us is our primary focus through this year while ensuring that we maintain robust liquidity metrics that ensure we support our ratings.
Samir Adatia	That's very clear and if you can kindly answer my question on the MDA buffer, please.
Dixit Joshi	There certainly is potential over time to reduce our P2R. It's not lost on us that we do have a higher P2R than most of our peer group. You know, we're not concerned in the main with the 150-basis-point buffer given as we've seen from the slides, we run a pretty conservative and a low-risk profile and so can flex the balance sheet and can manage resources as required.
Samir Adatia	That's very clear, thank you.
Paul Fenner Société Générale	Hi, thanks for taking my question. These are all AT1-related and they're all kind of related in scope. The first question is, it's not going to be lost on you that you're one of the highest-yielding certainly of the big G-SIB and so there's an element of concern around coupon skip. I know you're still paying dividends. I just wanted to get a sense of what comfort you can give AT1 holders or potential new investors that, you know, a coupon skip would save you so little money that it's just not something that you would even consider willingly and the regulator would be very unlikely to force you into. Can you just give us a little bit of colour about how you feel around the AT1 skip? The second question is, you may have mentioned this in the past so forgive me; I can't quite remember. You've got 4.5% leverage target including, you know, leveraged products like AT1. What is the CET1 component of that and how do you see the relationship between one and the other? I mean, I guess you kind of get berated by the equity market for not having enough CET1 as well as not having enough total tier-one so I'd love to know, just get a sense of how you see that relationship between total tier-one and CET1 leverage ratio.



And the the third question is, you know, where your thoughts are around potential AT1 issuance to help you in just that thorny issue of the total tier-one leverage ratio. Thank you.

Dixit Joshi

Paul, thank you for those, assuming I remembered all of the questions correctly, let me start with them in reverse order. So regarding likely AT1 issuance, as you can imagine, we wouldn't specifically comment on any contemplated transactions. But what I would say is that as we've demonstrated through last year, we have a number of tools - and I think this answers your second question as well - number of tools at our disposal to both manage the numerator and the denominator through time.

So last year we had flexed the balance sheet removing a significant amount of leverage primarily in our CIB businesses to create both capacity for growth and also to allow us to move up towards our 4.5% leverage target. What you would have also seen in the first quarter is an increase of around 22 billion in pending settlements and the aggregate amount of pending settlements does move quarter-on-quarter; for this quarter was in the region of €40 billion.

This is a treatment that is different from our US peers' for example, who are able to avail of settlement-date accounting as opposed to trade date accounting and this should drop out post 2021. So I think a combination of pendings dropping out, capital accretion through the next few quarters together with the possibility, should we see interesting business opportunities, to issue further AT1 are at our disposal.

Coming back to your first question which is really comfort around the coupon, we'll be paying the €330 million of coupon tomorrow and as we've seen from the payment capacity, the base payment capacity is at least three times the coupon level. You would have seen a two billion increase on the ADI slide which is related to general reserves as the result of the Postbank merger being completed and movement of reserves up to group level.

But overriding all of this, I think, will be the CRR legislation which we would expect will be published in June or July in the journal. That particular piece, the ADI piece; it's our expectation that that will be effective 20 days after publication and would then allow not just reliance on the general and trading reserves but also on further capital reserves, which would be a multiple of the current reserves shown, so in effect would make ADI for these purposes hopefully a non-issue going forward.

Paul Fenner
And, sorry, the question about the relationship between your 4.5% total tier-one leverage target and CET1 leverage ratio.

Dixit Joshi
Yes, we'd look to manage that quite dynamically. We'd obviously look to total tier-one ratio including the tier-one bucket and ensure that we managed that holistically. But again we've shown that we have the flex on both measures to be able to manage that. The leverage ratio of course is not currently binding in Europe. Our G-SIB score - and we've just published that earlier today, as mentioned - our G-SIB score would indicate a 3.75% leverage requirement but we're quite comfortable continuing to manage to both a greater than 13% CET1 as well as in the medium term a move towards a 4.5% leverage ratio target.

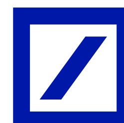
Paul Fenner
Thank you.

Robert Smalley
UBS
Hi. Thank you for doing the call; greatly appreciated, especially where we in the States can hear it during regular hours. Question on LCR, then going back to ratings and a little bit on some strategic developments. On the LCR, you're down to about - to 141% and you talked a lot about optimising that liquidity. Global peers tend to be around 120% so is that extra 20% something that you're building into - as a differentiator or is it something that rating agencies and regulators are mandating and could we expect to see that come down over time, is my first question.

Dixit Joshi
Robert, hi, and a pleasure to do this call in US time. So LCR has come down by around seven points in the last year including a reduction of around 18% in the cash we hold and much of this was premeditated, intentionally wanting to deploy excesses that we have. Now, out of the liquidity deployment that we envisage for this year a portion of that would arise in entities which would effectively have trapped liquidity and so the headline liquidity deployment number would not impact LCR on a one-for-one basis given that the trapped liquidity does not form currently part of our global surpluses that we reflect on.

So a combination of those would mean we'd guide towards lower LCR over time but that would be a result of both franchise and client developments together with market opportunities that we see.

Robert Smalley
Okay, that's helpful. On the ratings and picking up on a point earlier, reading the releases over the weekend they still weren't



unequivocal about ratings and in fact I think some of them wandered a little bit talking about the role of equity holders and optimism or pessimism on equity-holders' part, which I think, by the way, was unwarranted.

Could you talk about or just characterise your conversation with the rating agencies? You had your ratings reaffirmed before the potential merger talks. Have they just, have those conversations kind of gone back to where they were before, are there any other kind of elements that they're looking at and can you isolate two or three things that we can look at from the outside as progress or signs of just continued stability with respect to your ratings?

James von Moltke

So, Robert, hi, it's James here. I'd say, so first of all through the ordinary course as well as around the merger discussions we obviously maintained a very active dialogue with the rating agencies across the board. I would say by and large, yes, it's just, it reverts to the pre-March 17th dialogue. I would say the principal signal that they're looking for to begin to see forward momentum in the ratings - and I would emphasise forward momentum in the ratings - is success in the execution of the restructuring and plans that we've articulated and implemented over the last 12 months.

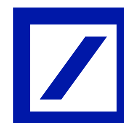
And I think they recognise that we've, as a management team, delivered on the measures that we defined in April of last year, whether it's related to balance sheet management as Dixit has outlined or the cost trajectory that we've been on, delivering against the restructuring actions that we took.

So I see those items in terms of the narrative as being on track. Rather like the shareholders I think the agencies and our creditors are watching our progress towards the 4% ROTE target for 2019 intently and hence the messages in today's presentation and on Friday around our path to that 4% and that notwithstanding the difficult environment of the first quarter we still see ourselves as on a path to the 4% and certainly with the 3% threshold in, you know, based on items that are wholly or partially within our power to control.

So it's an active dialogue focused on forward progress in the restructuring, very comfortable with the balance sheet in all of its aspects around risk, liquidity and I think it's about 2019 demonstrating that we're on a path towards sustainable profitability and capital generation.

Robert Smalley

Great, and then one last one if I could in terms of client engagement. Can you talk a little bit about pipeline in terms of



investment banking and advisory? Also can you just shed some light on the willingness of clients to engage in longer-term transactions, whether it's equity derivatives or others, where they're getting more comfortable with Deutsche Bank credit risk, have you seen any kind of improvement there or any kind of increasing business flow and the longer-term engagement?

James von Moltke

Robert, it's James here; I'll go on the first question. We reported, as we mentioned, origination and advisory revenues down 5% year on year in what we see as about a 10% down revenue pool in the first quarter so we gained share, especially, by the way, in advisory and also in debt capital markets so the first quarter performance was actually reasonably encouraging in a difficult market environment.

We don't comment really on the forward look as a matter of policy so I don't want to go into the pipeline well but I'd say the trends have remained in place in corporate finance.

Dixit Joshi

Robert, I'll take the second really around clients and the franchise around derivatives in particular. I would say the two important criteria for our clients and counterparties there have really been the level of our CDS - and you've seen a material improvement in the level over the last few months - and the second is really the cost of hedging exposure to Deutsche Bank given the current CDS references the incorrect part of the capital structure and the cost that clients are incurring as a result.

And hence the focus across the industry post the German bail-in law changes to get a senior preferred CDS contract launch, which would bring us in line with our peers who either have holdco or opco CDS or already have senior preferred CDS at their disposal. Looking at the significant spread currently between our senior preferred and our senior non-preferred, you know, that is a material welcome development when it goes live on 13th May.

Robert Smalley

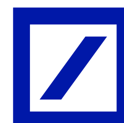
That's all very helpful and again thanks for doing the call.

James von Moltke

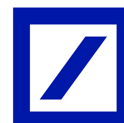
Thanks, Robert.

Corinne Cunningham
Autonomous

Good afternoon; thank you very much for taking our questions. I've got three actually, the first one just relating to slide nine; when you talk about optimisation I wasn't quite sure I fully understood exactly what's been going on behind the scenes and



	I suppose particularly what have you done that wasn't obvious to you when you started off the year ahead's issuance programme? So for example when you spoke to us in February, what's changed between February and March that has enabled you to knock five billion off the issuance requirement?
Dixit Joshi	Corinne, hi; yes, happy to run through that. A number of things; to your question on the components of the liquidity deployment programme, this includes a number of elements, including deployment of cash into securities and you'll see that quarter-on-quarter will be reflected in the mix of cash and HQLA as part of our liquidity reserves. A second component would be investing group-wide surpluses that we have into higher-yielding assets and loans and, as I mentioned, some of this would be in entities where we already have resources that are trapped and usable. The third would be what you've just referred to, which is reducing relatively expensive liabilities when compared to other opportunities; especially when looked at on a post-tax ROTE basis they're very capital-efficient. And then the fourth of course is deployment into opportunities within our core businesses. So for securities in the first quarter we have deployed an additional €5 billion into securities. The primary purpose of that portion of the programme is to lower the drag from holding cash at central banks. It is our current expectation to deploy an additional €5 billion this year but naturally this depends on market developments. The central deployment into high-quality assets and loans; there we've deployed five billion in Q1. The target for the full year would be in the region of around €25 billion. The volume there we will flex depending on growth opportunities in our core businesses but also when we look at liabilities if we see opportunities to reduce liabilities. So given our flight path and forecast for the remainder of the year we feel quite comfortable reducing the plan down from 20 to 25 down to 15 to 20 billion.
Corinne Cunningham	Okay, so essentially it's the LCR that's taking the - is the flip-side of having less issuance.
Dixit Joshi	Having less issuance for sure would guide to a lower LCR but a number of components, as I mentioned in the programme, some which would affect group-wide LCR and some would not. So as an example deploying a dollar of liquidity in an entity which



currently is not fungible and effectively trapped would not actually lead to a reduction in LCR but would lead to an increase in MI for the year.

Corinne Cunningham

I guess I'm just struggling to see on the issuance side in particular the difference, given that you haven't changed your strategic plan, you're sticking with what you set out earlier. I'm just not quite sure how I reconcile those two things; strategy is staying the same, nothing's really changing since February except you now need to issue a lot less.

Dixit Joshi

I think inherently the elements of this programme will be quite dynamic quarter on quarter and, you know, at the back of our mind is usually the forecasting that we would do with our businesses through to the end of the year, which would drive our thinking around the programme. So I think you will see flex in this programme quarter on quarter.

Corinne Cunningham

Okay, thank you. The other two questions; one, I guess this one needs a little bit more expectation but when you talk about redeployment into loans for example, do CLOs form part of that and what's your current appetite for CLOs and what are you seeing in terms of market conditions there?

Dixit Joshi

In large part the loans that we're deploying to really reflect the business that we currently do across the client franchise that we have primarily in CIB in the main these are asset-backed and low-risk-weight-asset transactions that we would put capital into so somewhat different from what we would normally look at in the business but we're specifically targeting a low risk weight for those assets, given this is a central deployment programme that over time we would find the resources to push back into the business.

Corinne Cunningham

And then on conditions for CLOs and the kind of thing you're underwriting at the moment or buying?

Dixit Joshi

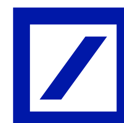
To a limited extent, yes, as I would say asset-backed securities, CLOs as well as structured financing would all form a part of the programme.

Corinne Cunningham

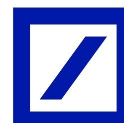
Sorry, and conditions in those, market conditions, the types of things you're buying?

Dixit Joshi

Currently favourable. Again, we would continually reassess the clearing levels for those transactions and one criteria will be what's the benchmark here when reducing liabilities is an



	example and that's led to the five billion reduction in the issuance plan as opposed to putting it to work in assets.
Corinne Cunningham	Thank you. And then last question was just linked to the new preferred CDS when that comes through. Do you have some kind of benchmark relationship between preferred and non-preferred that you're expecting to see there?
Dixit Joshi	It's a good question. I have my view around that but really we would look to the market to set the pricing. I mean, clearly an important reference point is the current spread for our preferred versus the non-preferred, currently there's a spread of around 100 basis points.
Corinne Cunningham	Okay, thanks very much.
Dixit Joshi	And I'd hope we'd be tighter than that.
Corinne Cunningham	Okay, thank you.
James Hyde PGIM	Hi, thanks for taking these questions. I've got one fairly - I hope, a fairly simple one and then one again about ratings and maybe not so easy. This matter of the AQR, asset quality review - an asset quality review reducing CET1 by 20bps this quarter; I just want to understand, is this basically something that involves a stage-three impaired loan increase and something that - in consequence a P&L hit through a loan impairment charge, or is this something to do with the banding, the asset quality banding in determining the risk-weighted assets? That's the simpler one. Then the second question is to do - is on the ratings and I understand you've tried to answer as much as you can but in the event of a downgrade it is very difficult for us to calculate, to understand how much business you - will become unviable for you to do out of the CIB. So, you know, out of the 12.4 billion last 12 months' revenues in the CIB what becomes undoable for you and out of 960 billion of leverage ratio denominator what sort of, what is business - what relates to business you won't be able to do in the event of a downgrade? I mean, the easier one for us to calculate is, you know, your nine to ten billion remaining senior preferred issuance and next year's run-offs, the refinancing cost off that; that we can calculate or guess that but this is a harder one to see. You know, and I'm really looking at what - not so much the, what happens to the senior non-preferred falling to BB+ area but more the



counterparty rating falling with all agencies to BBB. I mean, with Fitch it's already there but I understand, you know, that certain trustee businesses, etc., are not - would not be available to you. So if you can give me some, any help on that that would be very welcome. Thanks.

James von Moltke

So, James, I'll take the AQR - it's James - and I'll start on the ratings discussion and then Dixit can add to that. First of all, no, nothing to do with the stage-three loans, it does not pass through P&L. The AQR reviews have to do with your process for valuation of fair-value assets and, you know, focused on that process, the data and what have you.

The regulatory impact goes through essentially pillar one; it's part of the regulatory capital calculation and a cap deduct as well as an impact on how we calculate the denominator so it just runs through as adjustments to the pillar-one calculation.

With respect to the ratings, look, I think we've articulated on these calls consistently. Management is working to execute on its strategy and do everything to ensure that there is no downward movement in the outlook or eventually in the ratings. We continue to do that and, I think, demonstrate progress against it.

Obviously we build into our stress and contingency planning assumptions about the impact. I'm not going to go into that on this call but I can assure you the balance sheet is structured in a way to defend against that sort of event and, we think, defend the business as well in that eventuality.

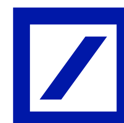
But the point I want to underline is management is working to ensure that such an event does not happen and ensure that our clients aren't disrupted by such an event.

James Hyde

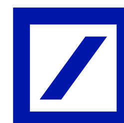
Okay, that's fair enough. Is it fair to say that where the rating agencies were almost sine qua non on saying you've got to reach the 4% target ROTE this year, are you reading a bit more flex on that now from the others?

James von Moltke

I've never seen it as a sine qua non and that may be the interpretation that is behind your question. I think they and frankly we see it as a useful benchmark so that we can demonstrate progress in execution, executing against our plans and I think that the distinction we've made between things inside and those things that are not fully within our control is a distinction that they understand as well.



	And I think they further understand that we think of 2019 as a milestone so we've not felt that it was a sine qua non at all so much as a benchmark against which we can all compare the progress that we're making. And again, as I said in the prepared comments, we feel that the first quarter, notwithstanding the environment that we were in, demonstrated progress against those targets.
James Hyde	Great, thank you very much.
Stuart Graham Autonomous Research	Thank you for taking my question; it's a really nitty-gritty one. You said that there's another 20 billion of liquidity measures to come for the full year and I think you said five billion of that would be in high-quality assets; that leaves 15 billion in loans but I also heard a figure of 25 but I'm guessing it's the ten billion in Q1 plus the 15 for the rest of the year gets you to that 25. Maybe just confirm that's the correct maths. And then the second question was the five billion that you purchased in the first quarter; I'm guessing that's around about 50 million of income; maybe just comment on that and where does that show, is that in the FIC line or where does that show in the P&L? Thank you.
Dixit Joshi	Stuart, hi, yes, happy to take that. Yes, so the answer to the first is yes; those would all add up to the 20 billion over the course of this year. The five billion in Q1 would be at an average - you're almost spot-on - at an average of around 125 basis points, which would naturally accrue through the course of this year.
Stuart Graham	And where does that show in the P&L, which line item does that show?
Dixit Joshi	That would show up as a reduction in the funding costs allocated back to businesses over the course of this year and so would show up in the segmental P&L.
Stuart Graham	Is it going to be in GTB, is it going to be in FIC, is it a bit of everything?
Dixit Joshi	It would be in a combination of those businesses.
Stuart Graham	Okay. All right, that's great, thank you.
James Rivett	Thank you very much. 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. Bye.



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