Deutsche Bank AG

Deutsche Bank Q4 2018 Fixed Income Call

February 4, 2019 | 15:00 p.m. CET

Transcript

<u>Speakers</u>:

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

James Rivett

Thank you, Hayley. Good afternoon or good morning to you all, and thanks for joining us today. On our call, our CFO, James von Moltke, will speak first; then Dixit Joshi, our Treasurer, will take you through some of the fixed income specific topics. The presentation is available for download on our website, db.com. After presentation we'll be happy to take your questions.

Before we get started, I would like to remind you that the presentation may contain forward-looking statements, which may not develop as we currently expect. I would, therefore, ask you to take note of the precautionary warning on the forward-looking statements at the end of our materials. With that, let me hand over to James.

James von Moltke

Thank you, James, and welcome to you all. I will discuss the progress we have made in 2018 as well as our priorities and targets for 2019 and beyond. As shown on slide two, in 2018, we delivered on our promises. We grew our reported pre-tax earnings and generated our first full year net profit since 2014. Due to our disciplined resource management, we delivered on our cost, headcount, and leverage exposure reduction targets, and we made good progress on our strategic objectives while further investing in strengthening our controls and processes.

A key priority for us now is lowering our funding costs and improving our credit ratings. We must not compromise on the strength of our capital, funding, or liquidity, but we have to prove that we can generate long-term, sustainable profitability. This, in part, will come from gradually redeploying some of our excess liquidity to help stabilise and grow our revenues.

While the headline revenue performance was disappointing in a tough fourth quarter for us and the industry, we're convinced that in 2018, we have laid the foundations for our growth agenda.

In 2018, we set and delivered against clear and credible targets as you can see on slide three. We committed to targets of reducing adjusted costs to €23 billion and headcount to less than 93,000. Through disciplined execution, we met both these objectives.

We reduced our adjusted costs by €1.1 billion to €22.8 billion, €200 million below our target. As we consistently said, we refuse to repeat Deutsche Bank's history of negative cost surprises in the fourth quarter. With a 15% year-on-year reduction in the quarter, we are pleased to have achieved this. On headcount, we ended the year with 91,700 staff, our lowest level since the acquisition of Postbank in 2010. And even as we put more capital into our businesses, we maintained our Common Equity Tier 1 ratio well above 13%.

Turning to a summary of our full year results on slide four. Reported revenues of €25.3 billion declined by 4% while we reduced noninterest expenses by 5% and kept loan loss provisions flat. As a result, we grew our profit before tax by 8% to €1.3 billion. Net income was €267 million, a significant improvement compared to the previous year. Our CET1 ratio stands at 13.6%. We also improved our leverage ratios to 4.3% on a phased-in basis and 4.1% fully loaded. The liquidity coverage ratio was stable at 140%.

Liquidity reserves decreased by 7% as management took actions to improve our balance sheet efficiency. As part of our liquidity redeployment strategy, which Dixit will discuss later, we have reduced the cash portion within our liquidity reserves by 17% during 2018.

Now let's turn to outlook for 2019 on slide five. This year is another step to reach our long-term return aspirations. Our principal target for 2019 is to generate a return on tangible equity of more than 4%. To reach this goal, we are now committed to reducing our adjusted costs to €21.8 billion and our workforce to well below 90,000. We're confident that we will also manage our risk-weighted assets and our existing capital to keep our CET1 ratio above 13%.

Slide six outlines the progress we have made in 2018 in reducing adjusted costs by €1.1 billion. Despite outperforming our targets in 2018, we are still committed to reducing adjusted costs by €1 billion this year. As a result, we now expect our adjusted costs in 2019 to be €21.8 billion.

The measures executed in 2018 should deliver approximately €500 million in annualised benefits. We start with 6,000 fewer FTEs and benefit for the full year from a lower run rate. To achieve the additional €500 million of savings, we should benefit from our planned additional headcount reductions, synergies from our German retail merger and the completion of the sale of our Portuguese retail operations.

We will also benefit from management's ongoing efforts to reduce non-compensation costs, including further rationalising vendor spending in our real estate footprint. But let me also make clear that we are not taking short-term decisions that impact our long-term investments, especially in our technology and controls. Beyond 2019, we are still committed to further reducing our costs and improving our cost-to-income ratio.

For 2019, our principal objective is to generate a return on tangible equity of greater than 4% as a step toward higher returns over time as we show on slide seven. We expect more than half of the improvement in our returns to result from things mostly or fully within our control. As discussed, these factors include reducing our adjusted costs to €21.8 billion.

We also expect to benefit from measures to optimise our excess liquidity, which we conservatively estimate will add over €300 million to revenues. In addition, we have seen underlying growth in our stable businesses in 2018 and improvements in the drivers of growth, including loan and transaction volumes. We expect this momentum to continue in 2019.

Our tax rate was abnormally high in 2018 and included several items which we would not expect to repeat this year. At a more normal tax rate of 35%, a significantly greater proportion of pre-tax income falls to the bottom line, improving returns to shareholders. But, achieving this improved performance alone would leave us below our 2019 target.

To reach our return objective, our more market centres of businesses would need to see some revenue recovery. We believe that these revenues are available to us, given our growth agenda and our leading positions in many of these businesses, but we need to capture them. Clearly, a 4% ROTE requires better market conditions than we saw in the fourth quarter of 2018.

We have also planned conservatively for increases in provisions for credit losses and litigation in 2019 compared to last year. But in these areas too, we will work hard to minimise the impact of these items. And if the revenue environment does not improve as we expect, we will work to offset any weakness with further cost reductions. With that, let me hand over to Dixit.

Dixit Joshi

Thank you, James. Let us look a bit closer at our balance sheet from several angles. Slide nine shows that we are well capitalised, have high liquidity and run with relatively low-risk levels. Our CET1 ratio at 13.6% is above our 13% target and our Common Equity Tier 1 capital is about €6 billion above our current regulatory requirement. We have loss-absorbing capacity of €118 billion, €21 billion above our MREL requirement. This provides a significant cushion for our counterparties and our depositors.

We also continue to manage our market and our credit risk levels conservatively. Our provisions for credit losses rank amongst the lowest of our global peers at 13 basis points of loans. And having one of the lowest loan-to-deposit ratios of the major European banks and excess liquidity, we are well positioned to support our clients and capture future growth opportunities.

Slide ten details our conservatively managed balance sheet. Compared to our IFRS balance sheet, we exclude € 338 billion related to derivatives netting agreements, cash collateral as well as pending settlement balances. This allows us a more comparable view to US GAAP. Over a quarter of our $1 trillion funded balance sheet is in cash and highly liquid assets in our liquidity reserves.

A further 30% of our assets relate to our trading operations, which are funded by our trading liabilities and unsecured debt. These assets are mostly highly liquid and are used to support our client business and include

— debt and equity securities of €126 billion, with the majority held at fair value in our CIB business;

— reverse repos and securities borrowed of €81 billion, which are collateralised and typically short-dated;

— brokerage receivables of €31 billion, which also tend to be short-dated;

— and derivative assets, after applying netting, of €29 billion.

Our trading assets also includes our €15 billion nonstrategic portfolio. A further 40% of our overall assets are in our high-quality loan portfolios. More than half of the overall balance sheet is funded by stable and relatively low-cost deposits. Including equity, long-term debt as well as deposits, almost 80% of our funded balance sheet comes from the most stable sources.

Turning to our loan book on slide 11. The composition of our loan book is well diversified and low risk. For 2018, our provisions for credit losses were €525 million, flat year-on-year and equivalent to 13 basis points of loans. Around 2/3 of our €4.5 billion portfolio in our Private & Commercial Bank. Our Private & Commercial loans are low risk, recording provisions for credit losses in 2018 of 15 basis points. This portfolio includes €141 billion of low-risk German mortgages.

1/3 of our portfolio is within our Corporate & Investment Bank; about half of CIB loans are in our Global Transaction Bank. GTB loans are mainly in Trade Finance & Cash Management for predominantly investment-grade-rated counterparties. Our leverage finance book is only 1% of our total loans and recorded negligible provisions for credit losses in 2018 and no provisions in the fourth quarter.

Slide 12 provides more details around our Level 3 assets, which stood at €25 billion at year-end 2018. A Level 3 accounting classification is not a measure of asset quality but signals there is at least one valuation parameter that cannot be directly observed in a liquid market.

Our Level 3 assets are revalued continuously both by our businesses but also through our independent valuation teams. These assets are an integral part of our business model as we support liquidity provisioning and risk intermediation on behalf of our clients.

As you can see on the slide, the portfolio is not static with considerable inflows and outflows. Approximately 2/3 of our Level 3 assets at year-end are securities and loans, often backed by high-quality collateral or hedged. The remaining third, or €9 billion, is the positive market value of derivatives. Most derivative assets we hold are collateralised and hedged, for example, through our Level 3 liabilities.

Turning to some details on our non-strategic portfolio on slide 13. As I said earlier, our non-strategic portfolio is around €15 billion of our funded balance sheet. In the last 12 months, we decreased market and credit risk-weighted assets in the nonstrategic portfolio by almost a third to €7 billion. The decline is mainly driven by shipping portfolio sales.

We also reduced leverage exposure by almost a third to €25 billion, mainly by run-off and compression in the single-name CDS portfolio. With revenues, less provisions for credit losses, at a positive €30 million in 2018, the portfolio has not been a drag on our financial performance but running down these assets is one of management's priorities as we look to recycle our balance sheet into higher return and core areas. We will look for ways to accelerate the wind-down of this portfolio where it is economically sensible for us to do so.

Slide 15 highlights that our key liquidity metrics remain highly robust. Our liquidity coverage ratio stood at 140%, a decline of seven percentage points over the quarter. The decline was driven by an increase in business volumes, including commitments. We grew commitments mainly in our global credit trading business during December, reflecting our strong client deal pipeline. Nevertheless, our surplus above the 100% requirement represents a comfortable €66 billion.

Liquidity reserves decreased by 8 billion to €259 billion in the last quarter. The decline was driven by management action to reduce non-operational deposits and to deploy cash, mainly in CIB. We reduced the cash portion of our liquidity reserves by €12 billion in the fourth quarter to 71%. We will continue to manage our liquidity prudently.

We see additional room to optimise liquidity over time in a risk-controlled manner as we show on slide 16. We began this process in the fourth quarter of 2018 and will accelerate this year. First, we have begun to reduce our liquidity reserves by approximately €20 billion in 2018. We achieved this in several ways. We reduced expensive wholesale liabilities, retired high-cost debt through tender offers and open market repurchases and optimised our deposit base, particularly in our Transaction Banking business.

In 2019, we believe that we have up to €30 billion of liquidity to deploy, including at a subsidiary level, which is not captured in our disclosed liquidity reserves. We plan to use these resources to purchase higher-returning but still low-risk assets.

Second, we are working to change the composition of our liquidity reserves. In 2018, we increased the proportion of our liquidity reserves in securities, helped by the merger for our German retail entities that gave us access to Postbank's securities portfolio.

But, still today, over 70% of our reserves are in cash, which places us at the higher end of our peer group. This includes approximately €100 billion at the ECB, costing us up to 40 basis points running. Over time, we believe that we can reposition our liquidity reserves to a more equal balance of cash and securities, and this should allow us to reduce the drag from the impact of negative interest rates. In aggregate, the reduction in liquidity reserves and the change in composition should add approximately 300 million to our annualised revenues.

Moving now to capital. We ended the year with a CET1 ratio of 13.6%, as shown on slide 17. This represents a decline of 43 basis points from the prior quarter but remains well above our 13% target. The decline in the CET1 ratio in the quarter was driven by a €9 billion increase in risk-weighted assets, including €7 billion of market risk RWA. Market risk RWA increased, reflecting higher average Value at Risk and stressed VaR as well as a temporary increase in the incremental risk charge.

On the capital side, we increased our prudential valuation adjustment and increased the conservatism in our regulatory capital charge by €400 million in the quarter. This includes the effect from a recent EBA Q&A limiting the ability to offset PruVal against expected loss shortfall.

Looking forward to the first half of 2019, in line with our prior guidance from January, we incorporated approximately 20 basis points of decline in our CET1 ratio related to the change in lease accounting in accordance with IFRS 16. This will be visible in our reported ratios in the first quarter.

The net impact of regulatory headwinds and pending model changes that I discussed last quarter is now expected to be at the lower end of the range, at 20 basis points. The impact and the timing of these adjustments, though, remains uncertain, but are still expected in the first half.

Outside of the regulatory items, we expect market risk RWA to decline from our December 2018 levels as the temporary factors I mentioned start to normalise in the first quarter. Our current trajectory would suggest market risk RWA to be approximately €4 billion lower in the first quarter, which is equivalent to 15 basis points on our CET1 ratio.

All said, we are committed to managing our risk-weighted assets to maintain our CET1 ratio above 13%. Specifically, we would not expect our risk-weighted assets to exceed €355 billion, including the impact of IFRS 16.

We improved our leverage ratio on a phased-in basis to 4.3%. While there is currently no regulatory leverage ratio requirement for €opean banks, we are working towards our 4.5% midterm target.

On a fully loaded basis, our leverage ratio improved by eight basis points in the quarter to 4.1%. The improvement reflects seasonally lower pending settlements. In 2018, we improved our fully loaded leverage ratio by 30 basis points, reflecting the €148 billion FX-neutral reduction in leverage exposure.

Slide 18 provides an update of MREL, our most-binding loss-absorbing capacity requirement. We are one of the few banks that fulfils its MREL requirement today. We operate with a comfortable surplus to our MREL requirement, which we meet fully with subordinated liabilities.

Our available MREL for the fourth quarter was stable at €118 billion and is €21 billion above our current regulatory requirement. We expect the Single Resolution Board and the BaFin to set our updated MREL requirement in the second half of 2019.

The SRB recently issued its 2018 MREL policy. This includes updates to Brexit considerations, subordination requirements and internal MREL. Our current MREL includes around €7 billion of debt issued under UK law without a bail-in clause, which would no longer be eligible for MREL after a Brexit. Beyond this, we do not believe that the updated policy will have a material impact on our MREL surplus.

Turning to our issuance plan on slide 19. In 2018, we issued €20 billion at an average spread of 60 basis points above your Euribor. This was at the lower end of our plan, reflecting our excess liquidity and accelerated deleveraging in the year. For this year, we plan to raise between 20 billion and 25 billion compared to contractual maturities of €22 billion. So far, we have issued a little over €1 billion, primarily through covered bond issuance.

Our total issuance plan for this year includes €5 billion to €6 billion of covered bonds. Our base case assumes covered bonds to replace collateralised TLTRO. In the event that the ECB announces a TLTRO successor programme, of course, we may reassess our issuance plan.

We also plan to issue €6 billion to €8 billion of structured or preferred senior instruments this year to take advantage of the lower funding costs, given our MREL surplus.

In terms of a preferred CDS contract, we expect that the relevant industry preparatory work will be completed by early March and that other banks should start quoting contracts soon thereafter. Our plan assumes €9 billion to €11 billion of senior non-preferred issuance, similar to our 2018 issuance. This modest requirement, coupled with our liquidity and MREL surpluses, allows us plenty of flexibility in terms of the timing of our issuances.

You will note, we do not plan any capital issuance in 2019. This reflects the lack of any immediate requirement to issue. However, we always monitor the market, particularly in light of the change in the ADI definition that's pending for attractive issuance opportunities.

Before moving to Q&A, let us take a look at our payment capacity for the CRR compliant a new style AT1 instruments. The annual coupons on these instruments are next payable on the 30th April. As you know, our payment capacity is currently calculated based on the Deutsche Bank parent company results under German GAAP, or HGB.

2018 results are preliminary and are subject to change until we publish our annual report in March. Our distributable HGB net income, after consideration of dividend-blocking items, is currently estimated to be at around €1.1 billion. Including the add back of interest paid in the prior year on our new style and legacy Tier 1 instruments, our estimated AT1 payment capacity is around €1.6 billion. This payment capacity is almost five times' higher than the €325 million coupon payments.

Given the comfortable headroom above our coupon payments, the management board may decide to allocate up to €500 million of our ADI to increase our general reserves. Before any management decisions, our HGB reserves stand at approximately €2.7 billion. These reserves could be used to increase payment capacity or offset losses in our HGB accounts.

2018 is expected to be the last year of this calculation given the ADI harmonisation on an European level under the pending CRR2 amendments. This harmonisation is currently in its final stages. We expect the amendments to become law in the second quarter of this year. From then on, the payment capacity of Deutsche Bank's new style AT1s should increase to include certain items, most importantly capital reserves. These capital reserves for Deutsche Bank AG currently stand at €42 billion.

With that, let me now hand back over to James Rivett to moderate the Q&A session.

James Rivett — Thank you, Dixit. Hayley, let's go ahead and open the line for questions.

Operator	And the first question is from the line of Alexander Latter at PGIM. Please go ahead.
James Hyde	Hi, it's actually James Hyde at PGIM. Yes, I've got a couple of questions. First of all, as you say, you will need some better capital markets tailwinds to reach the 4% ROTE, and that was also clear from the equity. The question arises about the rating agencies having now all anchored their rating decisions on whether they think they will make that. And what we struggle with understanding is what happens to an investment bank at opco level or counterparty level falls to BBB flat and that this sort of bail-in funding level is BB+ on average. It’s a bit difficult to compare to even Jefferies, which is, I think, the only example I know of, how they operated, and they came back with something the size of Deutsche Bank. So if you can give us expectations of how that could work out? What sort of collateral postings you would need to do if the rating agencies do act? That's the first question. Secondly, just want to understand a bit more about the deposit movement. So yes, it looks good, that €553 billion that you show in this equivalent in Q3 went to €565 billion, but I really want to understand what we would look at as real or customer deposits in that, and how much is interbank? How much of that would have been really wholesale funded? That was provided in the Q3 slides but not yet in this. I appreciate you have a full annual report to come, but what are the movements? What is happening for the customer business, whether in GTB or PCB, and you could even count some of the Prime Brokerage kind of stuff in there. If you can give us a feel for that because really, you say you have one of the lowest loan-to-deposit ratios, something we can generally only work out to a standard everyone else has at the full year with the accounts. Last year, I would've calculated 84%, and most recently, 89% as simple loan to deposit. How would it really look? It's not really 77. So yes, that was my second question. Thanks.
James von Moltke	Sure, James. Welcome to the call. Thanks for your questions. And just to clarify one thing, I wouldn't call the equity call the main one and this is somehow the secondary call; I'd just say that the equity comes first and the fixed income call, which we think is very important, is second of the two.

James Hyde	It’s really appreciated, thank you. It really is appreciated you do this.
James von Moltke	It’s our pleasure, James. So on the rating agency outlook, as you could imagine, we're engaged in an active dialogue with the agencies. We're acutely aware of where we are rated today on a senior non-preferred basis, and we do view it as a critical objective of ours to put ourselves on an improving trajectory. If I summarise both the commentary that we've seen from the agencies publicly as well as, obviously, I'm not going to comment in detail, but our internal communications with them, I think what they're focused on is seeing us make progress in our repositioning, restructuring plans, much as we did in 2018. So I think the focal point has been delivering on the promises in 2018, demonstrating progress against that restructuring. As I look forward, they, like others, and like management, are focused now on growing revenues and, thereby, increasing the margin in the business and our internal capital generation. So I think that in that case, rating agencies, creditors, equity holders are all aligned in us executing on that objective. I don't think of anything in the rating agency dialogue as somehow hair-trigger. They just want to see us make steady progress against our goals. I will say just as a sideline, not that we contemplate a downgrade, but naturally, our liquidity stresses are built in a way to make sure the company is able to withstand such an event in stress. So we are able to measure and estimate the potential outflows, but again, it's something that is a critical management objective to avoid ever happening. So let me leave it at that.
Dixit Joshi	James, hi, this is Dixit. Yes, I'll tackle the second piece of the question related to both wholesale funding and deposits. As you'd expect, as a large deposit-taking institution, we would have some volatility in our deposit numbers as a function of client flows. At the same time, we've worked to improve the efficiency of our deposit mix. So in the fourth quarter, we're quite encouraged by the growth, both in our PCB business, not just in loans, as you've seen, but also on the deposit front. And also in GTB, where not only have we increased the deposit quantum but also changed the mix of efficiency within the loan portfolio. On the second part of that question, really, related to wholesale funding, you would have seen the decline in cash, and this is

	really the active management of cash through 2018 and deploying it both into productive assets but also into retiring expensive liabilities. And in that respect, we did pay down a chunk of wholesale funding through the course of last year, including in the fourth quarter. This would have typically been expensive wholesale funding. And in light of the liquidity surpluses that we've run, we'll continue to be dynamic around both of those components.
James Hyde	Yes, thanks, Dixit. While I've got you, just to understand, James said, that your liquidity reserves are scaled to maybe end any risk of downgrade. The whole redeployment, which you have explained before and it's very interesting, of the liquidity to greater efficiency, is it inevitably going to be a reduction in HQLA? Or is it mostly a switch from non-yielding HQLA to yielding HQLA?
Dixit Joshi	James, I think you've correctly described in that latter comment, which is that the one bucket that we are focused on, given that we have one of the largest percentages of cash as a proportion of our liquidity reserves compared to almost anyone in our peer group, is really defraying the cost of negative interest rates and so increasing the proportion of HQLA, Central Bank-eligible, government-guaranteed, or similar high-quality liquid assets in that portfolio. And again, those would be in the very low yield pickup range given the secured nature of those assets, but that definitely is one part of the strategy, as you've seen, in the fourth quarter with the move to 71% from 73%.
James Hyde	Okay, thank you very much. Thanks, James, and thanks, Dixit.
James von Moltke	Thanks, James.
Operator	The next question is from the line of Corinne Cunningham of Autonomous Research. Please go ahead.
Corinne Cunningham	Good afternoon, everyone. Thanks very much for the call. A quick one first; it's just about the ADI calculation. Does that include the Postbank consolidation? And if so, where would that have come through on slide 20? And then I've got a couple on liquidity and MREL, but I don't know if you want to just tackle that ADI one first?
James von Moltke	Yes, it does include the inclusion of the Postbank 340g reserves on that slide.
Corinne Cunningham	Whereabouts would they have come through?

Dixit Joshi	So the ADI calculation wouldn't be finalised up until the publication of our formal HGB accounts, which would be in middle to late March. The current expectation around our ADI would be, in aggregate, around €1.6 billion, and again, this is with the 500 million interest add back.
	And as I had mentioned, this might all be a moot point post-May, once the expected CRR gets promulgated and is published in the Journal and allows use of capital reserves. But it would be in the first line in the available distributable items line.
Corinne Cunningham	Okay. So it sounds like a bit less than you were expecting. You were expecting more than 2 billion to come through?
James von Moltke	We brought up some of the Postbank reserves, not all of them. But as you know, in the HGB accounts, there are a lot of moving items. You can't expect a one-to-one relationship between the reserves that we brought up and the current calculation of ADI.
Corinne Cunningham	Okay, thank you. And really to develop some of James' thoughts as well on HQLA, is it possible to split the 29% that you're holding in securities into Level 1, Level 2a and Level 2b?
Dixit Joshi	It would be fairly easy to do, but I think the nature of the assets that form a part of the liquidity reserves is quite regimented to an extent, i.e., in the definition from a regulatory point of view.
	And these typically would comprise, in the case of dollars, would be treasuries and agency debt, or in Europe, it would be government bond debt or debt sponsored by agencies guaranteed by government entities or highly collateralised covered bonds. So it definitely would be no way near sort of Level 2, level 3 assets.
Corinne Cunningham	Okay. So staying Level 1?
Dixit Joshi	Yes. And you had a follow-on question on MREL I heard as well.
Corinne Cunningham	I did, yes. There's a couple of slides, so slides 19 and 25, you said your MREL requirement won't be revised until the second half, but it looks like has it not already been revised? On slide 25, it looks like it's come down a bit. Is that just applying -- I think I'm on the right slide -- maybe it's not that one. It just seems to have come down by something like 7 billion using the percentage of balance sheet instead of RWAs. Am I misreading something there?
Dixit Joshi	We had received our MREL requirement last June. And you will recall...

Corinne Cunningham	Slide 24.
Dixit Joshi	Yes. And you would have recalled at that time that we met the requirements on Day with the surplus that we had. The actual requirements have not changed. And you're right, we will get our new requirements in the second half of this year. The numbers changing is really a function of our balance sheet composition changing in the main, but what we will be watching are the new adjustments coming out of the SRB, including the subordination requirements, which, again, we think we'll comfortably meet given the 21 billion surplus that we currently have.
Corinne Cunningham	And is that your intention to continue to cover 100% in subordinated and not to include any senior preferred even if the rules change that would allow you to do more of that?
Dixit Joshi	Well, naturally, we'd welcome subordination requirements that are lower if it allows us to optimise our funding mix. So we will have to await those rule changes to come through.
Corinne Cunningham	Okay. And just on that slide 24, the bullets say MREL has been calculated at €104.5 billion, and then three points below, it says the requirement is 97 billion. I'm not sure which is the binding figure out of those two and why they would be different?
Dixit Joshi	Happy to come back to you. The binding requirement would be the 9.14% of TLOF. That was the requirement that was transposed out of the RWA methodology when the requirements were put in place, but we're happy to drill into that subsequently.
Corinne Cunningham	Okay, thank you. Thanks very much.
Operator	The next question is from the line of Lee Smith of Citigroup. Please go ahead.
Lee Smith	Hello, good afternoon. It's Lee Street from Citi. A couple of questions here, please. Firstly, on slide seven you mentioned that if you couldn't achieve the market-sensitive, event-sensitive type of revenues then you'd look to cut costs further and to achieve the 4% ROTE target. I suppose my question is if you're not getting those revenues come through, will there be time to cut the costs to still actually achieve that target by the year-end? That'd be my first question. Do you want to take them in turn?
James von Moltke	Sure, it's James. I'll take the first question, Lee. Look, we've said before on these calls, we'd like to see a more flexible expense

base and that's something that we are working to over time. But as it relates to the commentary, yes, we do think there are areas where we could, at reasonably short notice, take down expenses. Obviously, the first thing people think of is variable compensation.

In our case, as a CRD4 bank, that's a little bit less of a lever than one would perhaps like, but it's a lever. We've also highlighted in our commentary that we are preserving the investments in our current plan, and, again, that's an area around which we have flexibility.

The third thing I'd highlight is that in our planning, we clearly have a number of initiatives underway to take down expenses, not just in 2019, but in subsequent years. So I think having done that work, we do have a sort of a list of items that we could potentially accelerate. But naturally, as you point out, some of them end up with a longer lag time before they really impact. But again, we do feel we've got some levers inside '19 to take mitigating action.

Lee Smith	Okay, that makes sense. And a couple of quick ones, please. Do you have a target cost-to-income ratio you're looking towards for 2019, please?
James von Moltke	We're still -- and this is where our guidance has come since June and then subsequently on the second and third quarter calls – we are operating still in an absolute sort of expense target world and we're seeking to transition from absolute expense targets to cost/income ratio targets, frankly, as our cost-to-income ratio normalises. So what we've given back in June was a multi-year target of getting to below 70%, and that's something that we would plan to do rateably throughout this year and the subsequent years, but we're not giving a specific cost-income ratio for 2019.
Lee Smith	Okay, that's clear. And then just two very quick ones. On the pro forma ADIs, I think Dixit mentioned the 42 billion of capital reserves. Would the entire amount coming to the ADIs? Or is it just part of that amount?
Dixit Joshi	So I think once the rule change goes through, what it does do away with is really this restrictive ADI calculation. And so it is our understanding that the entirety of the €42 billion of capital reserves would then be in scope for the calculation.
Lee Smith	Okay, great. And then just finally, and it's touching on what Corinne asked. Apparently, you've got a 21 billion surplus over

	your MREL requirement. Do you have a number in mind of what you're looking to keep in excess of that MREL requirement? Or would that just be informed by the subordination requirements?
Dixit Joshi	Lee, as with any regulatory measure that we're demonstrating adherence to, we would typically have a management buffer internally, and so there will be a portion of that that we will retain for management purposes. That said, we're not just managing to the regulatory guidelines here but we're also sensitive to our rating, and it's very much our intention to ensure that we protect and upgrade our rating from where we are as well. So it's balancing those two considerations. But suffice to say, the 21 billion does give us enough flexibility right now from where we are and especially with the advent of our senior preferred from last year being an additional tool to help lower our funding costs through the year.
Lee Smith	Okay. Thank you for your comments today.
Operator	The next question is from the line of Stuart Graham of Autonomous Research. Please go ahead.
Stuart Graham	Oh, hi. Thanks for taking my questions. I hope you can hear me okay. I had a couple. On TRIM, you said it was a more or less 20 basis point impact. Could you just confirm which portfolio that relates to because we seem to be hearing different things from different banks? And is that everything on TRIM? Or could there be more to come as more portfolios are put through the ECB review? That's the first question. The second question, you mentioned the investments you're making this year, and I think it was 220 million last year. Can you just remind us how much you've done to date and how much there is still to come, please, in the PCB business? And then maybe a final question. I think I understood on the press conference that Cerberus helped you with the Treasury portfolio re-optimisation. If so, what exactly did they do that you couldn't do yourself? What help did they give you there? Thank you.
James von Moltke	Sure, Stuart. It's James. I'll take at least a crack at all three and Dixit can perhaps add. So if I think about TRIM, the near-term impact that we're expecting -- and by the way, the 20 basis points, what we've guided to is the low end of our earlier guidance of 20 to 40, so that is an improvement relative to our third quarter expectations – what is visible to us right now is TRIM for the retail and mid-cap business.

There are further TRIM inspections ongoing. We've had a couple of at least draft indications of no movement for certain of our businesses. But of course, the TRIM process continues and will continue for some time, so the final result for across all portfolios isn't yet fully known to us.

In the PCB area, and I assume that you mean the commentary we've made about the integration of Postbank, I guess, what I'd offer in summary is that we're on track against the plans that we've articulated to the market and also, incidentally, to regulators who've taken a keen interest in the integration plans. As you know, it's a large and complex undertaking. We've been at it for about 18 months and we've hit all of the milestones that we laid out.

The legal entity merger, obviously, which we've discussed; we've announced the combined management team of that new entity; we have a framework agreement with the workers' council around job reductions; and, as we've talked about on this call, we've made good progress in terms of integrating the overall balance sheet and liquidity into the firm-wide numbers.

To answer your question about our synergy commitments, we're on track and we're doing whatever we can to accelerate. One area of acceleration I'd cite is the integration of the mortgage banks on both sides.

And in connection with that, we've, obviously, incurred some costs. We talked about, when we first announced the merger, up to about 1.9 billion of merger-related costs. Right now, over the past two years, we've got about €650 million of that total in our numbers; in other words, in the rear-view mirror, a little around 30%. If we can bring the 1.9 billion down, then perhaps a higher percentage of the total. So we're working hard to both crystallise the benefits and also to manage the expense of what we think as costs to achieve within the overall Postbank integration plan.

The final item about Cerberus, the advisory arm of Cerberus has a number of very experienced Treasury people in it, people that are from the industry, have executed on similar strategies within their former lives, and so that's experience that we're leveraging both to validate the work that Dixit and his team are doing to provide, if you like, comparable views and to, in some ways, augment the team that we have working on this. And we're very pleased both with the cooperation and, frankly, the progress that we've been making.

Stuart Graham	That's great. Thank you for taking my questions.
James von Moltke	My pleasure, Stuart.
Operator	The next question is from the line of Robert Smalley of UBS. Please go ahead.
Robert Smalley	Hi, thanks for taking my call, and thanks for doing it at a time when US investors can conveniently listen in. I had two questions. One is a follow-up on Corinne's, so let me take that first. Just in terms of reinvestment of liquidity, when you had mentioned lower risk, higher yield, does this naturally push you into more government- and agency-type investments in peripheral countries? And can we expect to see an increase of exposure there? And then I'll ask the next one about funding after.
Dixit Joshi	Robert, hi. Yes, happy to run through that. What is not lost on us is just where we've been in the credit cycle and especially this move from QE to QT. And one part in us keeping our liquidity reserves largely in cash over the last two or three years was no doubt that the range of investable opportunities as well was quite slim. So unless you went quite far down the credit curve or took on significant amount of duration risk, there really wasn't yield pickup, and that's now started to change. So this will be an over time deployment. The bucket that we're talking about, which is HQLA lower-risk assets, especially in the switch from cash into liquidity reserves, again, very high-quality government or government-like assets, which are liquid, monetisable, Central Bank-eligible, which would form a part of that portfolio. It is a dynamic portfolio, and we will remain reactive to market conditions through the year.
James von Moltke	Robert, let me add to...
Robert Smalley	Okay, that's helpful. I'm sorry, go ahead.
James von Moltke	Let me add to what Dixit said. It's entirely possible that we'd add a small amount of peripheral sovereigns in the portfolio, given that the yields that are available there are of modest duration. But you have to take that in light of the fact that our disclosed exposure to call it the €o sovereigns in the peripheral countries is very small on a comparative basis. So we don't think of it as a significant incremental risk. In some ways, on a relative basis, we're sort of underweight in what are attractive-yielding assets.
Robert Smalley	Okay, that's very helpful, thanks. And then on funding, you had mentioned talking about lowering your funding costs. In the

past, you've done a couple of tenders. Tenders tend to have two benefits: one is taking out higher coupon debt; the second is, as a sign of strength. Could you talk about how you evaluate the success of the past tenders you have? Have they achieved both of those goals and should we look for more in the future?

Also, you've taken out debt within five years of its issuance in the past. I know, in other jurisdictions, the regulators have not really allowed that. So is that something that you've gotten permission to do? How does that work?

Dixit Joshi	Sure. Happy to take that. On the tender front, as you can imagine, we can't provide any specific forward guidance, given that this is very much a function of where spreads are and also where our liquidity is at that time.

But a case in point was last November, we certainly were not pleased with where our spreads were, given the significant widening. Notwithstanding the fact that itracks' financials over the year had widened significantly, we had widened much more. We ran the liquidity surpluses that we had on any of those measures, TLAC, MREL, LCR as well as internal stress. And at that time it was certainly economic for us to undertake a tender at those spreads. So it's definitely a tool in the toolkit.

We do monitor the market constantly and to the extent that we see an opportunity to do so, we will deploy cash via tender as well. Sorry, Robert, and the second question you had was around debt within five years?

Robert Smalley	Right. So you had tendered for some debt within five years of its issuance, and in talking with some other banks in some other jurisdictions, they said that that's a regulatory hurdle, if not a rule that that wouldn't happen. So is that something that is permissible for you guys? Did you have to go to the regulators for it? Just if you could explain a little bit about how that happens.
Dixit Joshi	Sure. I suspect that relates to capital instruments, so AT1 and Tier 2, but certainly, not relevant for senior. The consideration for senior, from a maturity perspective, may be under one year, for example, and MREL eligibility or ineligibility under one year might be effective, but certainly, no five-year criteria to play there. On capital instruments, naturally, those would require regulatory dialogue and approval.
Robert Smalley	Okay, that’s great, and, again, thanks for doing a call in this time, as well. It’s very helpful to us here.

James von Moltke	It's our pleasure, Robert. Thanks for calling in.
Operator	And there are no further questions at this time. I hand back to James Rivett for closing comments.
James Rivett	Thank you, Hayley, and thank you, everyone, for joining us, and we'll see you in three months. Take care.

Disclaimer

This transcript contains forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of Deutsche Bank. Forward-looking statements therefore speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

By their very nature, forward-looking statements involve risks and uncertainties. A number of important factors could therefore cause actual results to differ materially from those contained in any forward-looking statement. Such factors include the conditions in the financial markets in Germany, in €ope, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets, the development of asset prices and market volatility, potential defaults of borrowers or trading counterparties, the implementation of our strategic initiatives, the reliability of our risk management policies, procedures and methods, and other risks referenced in our filings with the U.S. Securities and Exchange Commission. Such factors are described in detail in our SEC Form 20-F of 16 March 2018 under the heading "Risk Factors." Copies of this document are readily available upon request or can be downloaded from www.db.com/ir.

This transcript also contains non-IFRS financial measures. For a reconciliation to directly comparable figures reported under IFRS, to the extent such reconciliation is not provided in this transcript, refer to the Q4 2018 Financial Data Supplement, which is available at www.db.com/ir.

This transcript is provided solely for information purposes and shall not be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in any jurisdiction. No investment decision relating to securities of or relating to Deutsche Bank AG or its affiliates should be made on the basis of this document. Please refer to Deutsche Bank's annual and interim reports, ad hoc announcements under Article 17 of Regulation (EU) No. 596/2014 and filings with the U.S. Securities Exchange Commission (SEC) under Form 6-K.