Deutsche Bank AG

Deutsche Bank Q4 2021 Fixed Income Conference Call

Transcript

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DIXIT JOSHI

Slide 1 – 2021 was a pivotal year for transformation execution

- Thank you Philip and welcome from me
- We are now almost three quarters of the way through the strategy we launched in 2019. The progress we have made shows 2021 was a pivotal year in this transformation journey
- Firstly, we have demonstrated the strength of our franchise
- This is reflected in the market share gains we made in key businesses over the past two years, and we remain encouraged to see client engagement continuing to grow
- Secondly, we continue to work intensively on transforming the bank
- Having booked transformation charges of 1 billion euros and approximately 500 million euros of restructuring and severance in 2021, we have now recognised 97% of our total anticipated transformation related effects
- Our transformational efforts and investments over the past years are paying off and will help drive reductions in our expenses in future quarters and years
- And we continue to be absolutely focused on capturing these benefits through further cost saving measures, so we remain confident we are on the right path to meet our 70% cost/income ratio target
- We also delivered on another important milestone within our Capital Release Unit, by completing the transition of Prime Finance to BNP Paribas
- This means our deleveraging exceeded our plans and our leverage exposure in the CRU is now down to 39 billion euros, from 70 billion euros at the end of 2020, and down 84% since we launched our strategy in mid-2019
- And finally, the transformation delivered significantly improved profitability in 2021
- Our pre-tax profit of 3.4 billion euros more than tripled compared to 2020 despite higher transformation charges
- We reported a net profit of 2.5 billion euros, a more than fourfold increase compared to 2020 and Deutsche Bank's highest full-year profit since 2011, despite absorbing additional transformation expenses
- Now let me take you through the financial highlights of what we have achieved in 2021, and since 2019, on slide 2

Slide 2 – Group performance supports trend towards financial targets

- We have grown revenues and reduced expenses each year since 2019, while at the same time executing on our transformation
- We again delivered positive operating leverage at group level in 2021
- 2021 provision for credit losses declined 71% year on year to 12 basis points of average loans. This reflects the benign credit environment, but also the strength of our conservative loan book and sound risk management
- Return on tangible equity for the Core Bank is 6% for the full year, and 8.5% on an adjusted basis
- This sets us on a clear path to our Group target of 8% return on tangible equity in 2022
- Our focus on transformation has driven a steady improvement in underlying profitability, which can be seen on slide 3

Slide 3 – Transformation drives growth and sustainable profitability

- In the Core Bank, we have more than doubled our adjusted profit before tax since 2019, including an increase of 46% in the last twelve months
- Our improved profitability was a major driver for the three rating upgrades we received in 2021, the latest by S&P in November. This is not only a recognition of our transformation success, but it also further supports our client engagement and revenue momentum
- The Capital Release Unit delivered another year of significant portfolio reduction
- A key driver of higher profitability is our sustainable revenue performance, which I will now turn to on slide 4

Slide 4 – Strong revenue momentum in the Core Bank

- Revenues excluding specific items in the Core Bank stood at 25.3 billion euros in 2021, up 5% compared to 2020 and 11% since 2019
- Revenues in the Corporate Bank were flat year on year, as underlying business growth and continued deposit repricing offset interest rate headwinds, and we are particularly encouraged to see revenue growth accelerate this quarter
- In the Investment Bank, revenues increased 4% year on year compared to a strong 2020, on higher contribution from Origination & Advisory, while Fixed Income & Currencies revenues were essentially flat
- In the Private Bank, strong business volume more than offset interest rate headwinds and the impact of foregone revenues from the BGH ruling in April. As a result, revenues were stable year on year

- Asset Management delivered significant revenue growth of 21% year on year, driven by strong management and performance fees. Assets under management closed at a record 928 billion euros
- Group revenues excluding specific items were 25.3 billion euros, a 9% increase from 2019
- While we benefitted from favourable market conditions in certain business areas, 2021 revenues also demonstrate our ability to offset headwinds in light of our business mix
- And thus, 2021 revenues provide a solid base to grow from here and this is confirmed by the momentum carried through to the first weeks of 2022
- Let me now turn to costs, on slide 5

Slide 5 – Continued cost progress in investment year

- We have reduced our cost/income ratio by 24 percentage points since 2019, with noninterest expenses declining by 14% to 21.5 billion euros over two years
- Year on year, 2021 expenses were up 1%. The increase reflects higher transformation related effects of 1.5 billion euros, up 21% year on year, predominantly driven by transformation charges of 1 billion euros, more than double the amount we booked in 2020
- At the same time, our adjusted costs declined by 1% despite higher volume and performance related expenses, reflecting improved business performance
- 2021 was an investment year and we have made and continue to make significant improvements in technology. These efforts already delivered savings in 2021, however, we made a strategic decision to reinvest them this year to support lower costs in the future
- We have also worked to deliver on our commitment to invest in our control environment

Slide 6 – Strong momentum in all lending businesses during Q4

- Let us now look at topics that drive our revenue performance over the next slides
- Slide 6 provides further details on the developments in our loan and deposit books over the quarter
- On a FX adjusted basis, loan growth in our core businesses has been 18 billion euros. This includes temporary short-term lending growth to support strategic transactions over year-end in the Investment Bank of approximately 7 billion euros which is expected to reverse in the first quarter

- In addition to this episodic growth, we saw again strong momentum in mortgage lending in our Private Bank as well as high client demand in Corporate Treasury Services towards year-end
- Overall, we expect further loan growth in 2022 especially in our Private Bank and Corporate Bank, offsetting the expected normalization of lending activities in our Investment Bank
- Looking at deposits, we have seen an increase of 16 billion euros in the quarter on a FX adjusted basis primarily from ongoing growth in our retail franchise as well as targeted deposit raising to fund the exceptional loan growth in the fourth quarter. We will adjust the size of our deposit portfolio as our loan book normalizes
- In addition to actively steering the size of our deposit book, our momentum in repricing deposits has also continued during the quarter as shown on slide 7

Slide 7 – Deposit repricing momentum will continue in 2022

- At the end of the fourth quarter, we had charging agreements in place on a total of 138 billion euros of deposits, generating quarterly revenues of 126 million euros
- Compared to the fourth quarter last year, we implemented additional agreements on 53 billion euros of deposits generating revenues of 408 million euros in 2021
- Looking ahead, we are confident the momentum will continue in 2022
- Our fourth quarter annual run-rate of around 500 million euros shows that we will see the full annualized benefit of our 2021 repricing measures this year
- We also expect further growth in deposits subject to repricing across the Corporate Bank and Private Bank
- This expansion will offset the ongoing interest rate headwinds in the Private Bank

Slide 8 – Interest rate environment becomes increasingly supportive

- Let me now give you some additional details on how the changing interest rate environment is expected to impact our business on slide 8
- As we discussed last quarter, the interest rate environment negatively impacted our 2021 revenues by about 750 million euros in comparison to 2020, mainly in the Corporate Bank and Private Bank
- Despite this drag, these businesses were able to maintain a broadly stable revenue base as a result of lending growth, fee income and deposit repricing
- We expect the interest rate impact, along with the annualization of deposit pricing actions, to swing to the positive in 2022 and to support revenue growth from this point on, if current forward rates are realized, assuming a constant balance sheet

- Cumulatively, we would expect this impact to reach 900 million euros per annum by 2025
- As short-end rates rise, we will see a reduced drag from our remaining floored deposits and rises in long-end rates will result in hedge portfolios on average being rolled at rates higher than the positions they are replacing
- We also remain positively geared to rate rises above current forward levels from improving deposit margins
- This additional upside is not reflected in the numbers in the graph above. We have provided you with the estimated impact on our revenue base for a 25 basis point rise of interest rates across our key currencies at the bottom left of the slide
- This sensitivity is likely conservative given the opportunities for margin expansion that will arise as rates rise, particularly as Euro rates cross zero
- Just to note, both the expected tailwinds from current forward curves and the sensitivity to additional moves in key rates reflect the impact of deposit repricing actions. That is, these liabilities are treated as floating rate in our modelling

<u>Slide 9 – Strong liquidity position in-line with targets</u>

- Moving to slide 9, which highlights the development of our key liquidity metrics
- In line with previous guidance, over the last twelve months, we actively managed down our liquidity towards targeted levels, standing well above the regulatory requirements at year-end
- During the last quarter high-quality liquid assets decreased by about 10 billion euros
- This is mainly due to matured capital market issuances and strong loan growth across all businesses, including the exceptional temporary increase in lending in the Investment Bank as outlined earlier
- Liquidity deployment was partially offset by deposit increases quarter-on-quarter following ongoing growth in our retail business and targeted deposit funding to support the loan growth during the last quarter
- As a result, the Liquidity Coverage Ratio decreased to 133% by about 7 billion euros quarter-on-quarter
- In 2022 our sound liquidity position will continue to support the businesses while comfortably exceeding regulatory requirements
- The Net Stable Funding Ratio at year-end declined towards our targeted level of 120%, in line with the LCR, representing a buffer of 101 billion euros, comfortably above the 100% requirement

- Strong loan growth in the fourth quarter was supported by deposit growth and the transfer of the Prime Finance business to BNP Paribas, which has been successfully completed at the end of 2021
- The longer-term funding sources for the bank remain well-diversified and continue to benefit from a strong customer deposit base, which contributes about two thirds to the Group's available stable funding sources
- For 2022 we continue to maintain this funding mix which is supplemented by debt issuances as well as capital
- Our Net Stable Funding Ratio is currently supported by our TLTRO-III participation, as is the case with the majority of European banks
- Our planning assumes no extension to TLTRO operations, and we therefore aim to begin pre-paying TLTRO-III to replace it with other sources of funding over the course of 2022
- In case a new TLTRO series becomes available, we will review our planned repayment schedule subject to the terms
- Therefore, our planning regarding TLTRO is conservative, and any new operations are likely to represent a tailwind to our plans

Slide 10 – CET1 ratio improved in Q4

- Turning to capital on slide 10
- We finished the year with a Common Equity Tier 1 ratio of 13.2%, in line with our guidance, and up 22 basis points compared to the prior quarter
- CET1 capital increased in the quarter, adding 17 basis points to our CET1 ratio, as improvements in our valuation control framework led to a release of a regulatory capital deduction. Fourth quarter earnings were principally offset by the deductions for dividend and AT1 coupon
- Higher risk weighted assets driven by core bank business growth, mainly credit risk, were more than offset by lower market and operational risk weighted assets
- CET1 capital now includes a capital deduction for common share dividends of 689 million euros for the full year, meaning that the distribution plans we announced will be neutral to the capital ratio by the second quarter
- For 2022, we expect to keep a strong CET1 ratio of around 13% and in any case above our target of 12.5%
- That said, we expect a moderate decline in our CET1 ratio in the first quarter of this year with some variability during the year, for example from pending regulatory decisions on RWA models
- We expect to finish the year with a CET1 ratio of 13% or higher

Slide 11 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above the regulatory requirements as shown on slide 11
- The distance to our most binding capital requirement has increased by 36 basis points over the quarter and now stands at 279 basis points
- 21 basis points of this increase relate to a higher distance to the CET1 ratio requirement
- 15 basis points of the increase are the result of completely filling the combined AT1/T2 bucket most prominently through our successful 1.25 billion euros AT1 issuance in November 2021
- As announced this morning, we will call our 1.75 billion euros new-style AT1 instrument, which was issued in May 2014. Together with the 1.25 billion US dollar T2 issuance executed this January, this shift from AT1 to T2 further aligns our capital structure with the requirements. We will provide additional details on our 2022 new issuance plan later in this presentation
- Our distance to regulatory requirements has slightly increased to 10 billion euros
- This means we are well prepared to absorb the impact of the most recent BaFin announcement to increase the countercyclical buffer for Germany and to introduce a new systemic risk buffer relating to certain domestic risk positions starting with the first quarter of 2023

Slide 12 – Leverage ratio improved in Q4

- Moving to slide 12
- Our fully-loaded leverage ratio was 4.9%, an increase of 18 basis points over the quarter
- Of this increase, 17 basis points came from Tier 1 capital. Within that 6 basis points came from Core Tier 1 and our successful AT1 capital issuance in November 2021 contributed a further 11 basis points
- Leverage exposure, excluding FX effects, decreased by 8 billion euros quarter on quarter, as continued loan growth in the Core Bank was more than offset by the transfer of Prime Finance balances
- Our pro-forma fully loaded leverage ratio including certain ECB cash balances was 4.5%, in line with our 2022 target
- With our reported leverage ratio of 4.9% at the end of the year we have a buffer of 171 basis points over our Leverage ratio requirement of 3.23%

Slide 13 – Significant buffer over loss absorbing capacity requirements

- We continue to operate with a significant loss-absorbing capacity, well above all our requirements, as shown on slide 13
- As expected, we have received a new MREL requirement and a new subordinated MREL requirement from the Single Resolution Board in December 2021
- Both are now based on RWA rather than Total Liabilities and Own Funds
- As a result, and as per our third quarter guidance, our MREL headroom has reduced by 8 billion euros to 14 billion euros at quarter end
- MREL remains our most binding bail-in ratio despite a 21 billion euros increase in the subordinated MREL requirement, which is now tighter than TLAC
- Our loss absorbing capacity buffer remains comfortable and continues to provide us the flexibility to pause issuing new senior non-preferred or senior preferred instruments for at least 1 year

Slide 14 – Modest issuance requirements in 2022, in-line with 2021

- Moving now to our issuance plan on slide 14
- We issued 20 billion euros in 2021, in line with our issuance plan
- During November and December, we issued roughly 5 billion euros in senior preferred, senior non-preferred and AT1 format, prefunding part of our 2022 issuance requirement
- The 1.25 billion euro AT1 transaction in November paved the way for us to call our 6% AT1 transaction which we announced this morning
- This refinancing was 15 basis points tighter than the 2014 issuance, but also features a more flexible call schedule which is valuable in terms of managing our capital stack
- In aggregate, we issued 6 billion euros less than our total redemptions in 2021
- We saw significant spread tightening over the course of 2021, supported by ratings upgrades from all major agencies. And we remain on positive outlook with Moody’s and Fitch
- Our senior non-preferred spreads tightened by 40 to 50 basis points, significantly outperforming our peer group
- Turning now to 2022, we expect to issue between 15 and 20 billion euros, in line with last year’s plan
- This will stabilise or slightly increase our total debt stack, depending on the final issuance number and the quantum of non-contractual outflows we experience

- The composition is similar to 2021 but we plan to focus more on covered bonds this year
- This will partially refinance planned repayments this year of our participation in the TLTRO programme
- As you will have seen, we took advantage of strong market conditions in early January and issued a dual-tranche transaction in the US market, raising 3 billion US dollars in senior non-preferred and Tier 2 format
- Our plan foresees further senior non-preferred as well as capital issuance over the course of the year and, as in previous years, we will look to be agile in taking advantage of market windows to meet this requirement
- Other transactions take our year-to-date total to 4 billion euros, or roughly 25% of the lower end of our full year issuance plan
- I would point out that the 2022 issuance plan focuses on our primary refinancing instruments and excludes structured note issuance

<u>Slide 15 – Outlook</u>

- Turning to the outlook on slide 15
- 2021 confirmed the resilience and growth potential of our core businesses and this reinforces our confidence in continued business momentum, significantly exceeding our previous 2022 revenue ambitions
- We remain highly focused on cost discipline and delivery of the initiatives we have underway and, as noted, we recognised substantially all of our expected transformation related effects by year-end
- Treasury has also contributed to the better group profitability by improving the efficiency of the balance sheet from several angles, including the management of our liquidity towards targeted levels
- Overall, crystallising the expected savings and a reduction in investments are the key elements of the cost trajectory towards the 70% cost/income ratio target for 2022
- We expect credit loss provisions to be around 20 basis points in 2022
- Our credit portfolio quality remains strong, and we are well positioned to manage emerging risks including geopolitical uncertainties, supply chain disruptions and expected policy tightening
- As noted, we expect to maintain a CET1 ratio of around 13% and in any case above 12.5%, consistent with our target
- With that, let us move on to your questions

Question and answer session

Brajesh Kumar (Société Générale)

Good afternoon. Thanks for this detailed presentation, and of course, taking my questions. I have three, if I may. The first one being can I get some general sense around your call strategy? In light of today's AT1 call announcement you had some kind of stand-alone split target or maybe some split target versus base? And how should we see this in light of your outstanding legacy Tier 1 instruments?

The next one along similar lines, if you can talk about your capital instrument strategy. I see you have €3 billion to €4 billion for Tier 2 AT1. With today's call, you'll be just filling up your AT1 bucket, so is it fair to assume that we can see you active both in Tier 2 and AT1 this year? And finally, one on capital. What are you thinking in terms of an appropriate MDA buffer in light of your increasing capital requirement, say, countercyclical and some sectoral systemic buffer? Thank you.

Dixit Joshi

Brajesh, hi, and thank you for attending the call and thank you for those questions. I'll run through all of those in turn. In the call strategy, and I might sound like a broken record here, but the call strategy always, for us, begins with the economics on a transaction. Naturally, a number of criteria feed into that calculation, including those with regards to our capital and regulatory metrics, the future use of the funding instrument, and so on.

And so, we laid the path in November, as you know, through the issuance of the four and a half percent Euro transaction that we did, and that laid the path for us to enable us to call the bond that we did this morning, this was the 6% 2014 Euro bond. We like the fact that the new issuance we did has an annual call. As you know, the one that we called today has a five yearly call. So, factoring in the flexibility in our capital stack was also an important criteria for us.

To your point on legacy Tier 1 instruments. As you see in the deck, it's de minimis right now, it's around € 600 million, given that we had already called the Postbank Funding Trust II bond. That leaves two other instruments. As you see, we have not called those yet, but those are fairly even on a spread basis, very cheap funding instruments for us, at this moment in time. And so, we deem that to be cheap funding. It qualifies for a number of metrics, like LGF, just as an example. So, at this moment in time, we're quite comfortable with those as funding instruments.

In terms of our future issuance strategy. As you point out, we have, as part of our 15 to 20 billion issuance plan that we've outlined here, and in typical fashion, we give you guidance at the beginning of the year, and then iterate through the course of the year, as our balance sheet and requirements evolved. But 15 to 20 billion is our intended issuance this year. Within that, we have the amount, three to four billion, for capital instrument issuance.

As you've seen, we've been quick out of the gate to start along that path with the Tier 2 issuance, this was the $ 1.25 billion issue that we did in January this year. And then naturally, we'd look at market opportunities to continue to sell the remainder through the course of this year as well.

And the last question on the MDA buffer. What you see on page 11, with our 10.4% CET1 ratio requirement, I think it's important to note that embedded within there is a contribution of a 2.5% P2R, which is much higher than any of our peers in the eurozone.

And then the second is that we are subject, as James mentioned yesterday on the equity call, we are subject to a domestic SIFI buffer of 2%, which is well in excess of the 1.5% G-SIFI buffer. And again, we're one of the few institutions in Europe, which has that dynamic as well. So, we think that the requirement of 10.4% is an elevated requirement, so we more than comfortably need and buffer against.

As you've seen, our ambition is to be above 12.5%, we've ended at 13.2. We've indicated that through the course of this year, we'd be managing capital at least to around 13% by the end of the year. So, we're quite comfortable, that we'll be able to manage our MDA and MDA buffers prudently. I hope that answers all the questions.

Brajesh Kumar: Yes. Very clear, thank you.

Lee Street (Citigroup)

Good afternoon, all. Thanks for the call and thank you for taking my questions. I have three for you, please. Just on ratings, yesterday you spoke a fair bit about the benefit of being upgraded before and that helped you with the margin or other aspects. Obviously, you're on positive outlooks with two agencies. The question is what are your next milestones? What really matters for you in terms of ratings and upgrades here, in terms of actually having a meaningful benefit to your business?

Secondly, you give some disclosure about rate sensitivity. Obviously, it's helpful, but what's more important to you? Is it actually an increase in base rates or is it actually a steepening of the curve, you get to separate it out? To try and talk around that would be helpful. Then finally, well done, you got your buyback approved. My question is given where your stock is trading, why would you not do a bigger buyback, relative to paying a cash dividend?

To me, it would seem to make more sense to be doing a bigger buyback. Just out of interest, any thoughts around that would be much appreciated. Thank you.

James von Moltke

Thanks, Lee. Hi, it's James. I'll take a couple and Dixit might want to add. Briefly on the ratings, it's hard to say. We're obviously highly engaged with the rating agencies. They're very focused on delivery, and when you say what milestones are there, from our perspective, it's just continued disciplined delivery against the objectives that we've set out. And our hope is that good things will follow. I think it's as simple a that.

Just switching to your third question on dividends. Again, Dixit may want to add. It's always a balance that you're striving to achieve. A lot of shareholders would seek the highest possible dividend and place less value on a repurchase. And some are in exactly the opposite camp and believe that the corporate finance value of repurchases, when you're trading below book value, is more important than dividends at this point in time.

And our view is we've achieved a good balance between those views. So for now, we're very comfortable. That's a little bit of the thinking, by way of background.

Dixit Joshi

Lee, hi. This is Dixit here. Just to add, commencing on the path for distribution, including through buybacks, does give us flexibility, depending on the evolution of net income and business through the years. So, we think this is an important early step we have been taking. On rate sensitivity, Lee, what you do see, on slide eight on the lower left, is that we have a material amount of short-term rate sensitivity in euros, as you'd expect.

The first 25 to 50 basis points is probably the most important, given the nature of our deposit books in euros and the prevalence of short deposits. And so, you would find that in the early years [?], but of course, as long rates go up, as the curve steepens, and as we get to roll deposit hedges over a longer period of time, that does, then, feed into our year four numbers, which is the dynamic that you see. So, we are sensitive to both in a slightly different manner. I hope that answers your question.

Lee Street

That's fine. Thank you.

Daniel David (Autonomous)

Good afternoon. Thanks for taking my questions. I've got three. You talk about a 12.5% CET1 target, but I guess you also talk about 13% and staying, or potentially moving a bit higher than 13. So, is it fair to say that the target's really 13%, rather than 12.5%? On SREP, with the German CCyB and the UK CCyB, what's the impact on your MDA in 2023? I'm thinking could Germany go a bit higher than the 75 bps that's been disclosed.

Then finally, just one on climate. Any thoughts or any information you can provide about how climate risk is captured in your ICAAP would be very interesting, given the stress test that has kicked off in Europe. Thanks.

James von Moltke

It's James. I'll start briefly on the first. We've set the target deliberately as a greater than 12.5. There's always some variability in the ratio in each period, and so, the 13 is a good milestone and guide. It should increase over time, as we build to the Basel III final framework level that's needed in 2025. And as we get closer to that 12.5 bound you'd see us taking actions in order to offset the impact of movement on the capital ratio, particularly on the demand side. So, I think it's fair to think of us as likely to run a buffer against the 12.5%.

Dixit Joshi	On the SREP point, and a countercyclical buffer, it's something that we have had sight of within our plan. Again, the timing was somewhat uncertain. It's come in slightly earlier in the plan than we would have expected. That said, we don't view it as a material impact to our trajectory through the next two or three years. We expect that impact to be in the region of around 30 basis points, due to the countercyclical buffer increase, which is very manageable through the period, with a further 20 basis points, approximately, related to the 2% add-on to German mortgage RWAs. On climate, the ECB had outlined that they don't anticipate any increased capital requirements. Again, that's a stress test that we're working our way through as well. On the qualitative side, that will form a part of the SREP going forward. And so, in a similar manner to the SREP process that we've been through before, we will be working with the ECB on that.
Daniel David	Thanks. Could I just clarify that the 30 bps CCyB, is that Germany and the UK or is that just the German CCyB?
Dixit Joshi	That's the German element, which is where about 50% of our loan book resides, which would have the most material contribution. We don't view many of the other regions as having a significant contribution to the lower single-digit basis points.
Daniel David	Great. Thanks for clarifying.
Robert Smalley (UBS)	Good morning and good afternoon and thanks for doing the call. I've got one question on capital and a couple on interest rates. Just going over some ground that you've already gone over and some yesterday too, when you're talking about P2R and MDA calculations, I get the sense that, there's a feeling that the way these are calculated overstate the risk at the bank. Could you talk specifically about what elements of those calculations you feel overstate the risks in the bank? That's my first one. And then on rates, a couple. First, on the deposit charges. As interest rates go up, do deposit charges fall away and at what level is that? Secondly, as you go to pay off TLTRO and do more covered bonds, are you concerned about crowding out in the covered bond market? And will there be any kind of fallout in seeing your press and S&P, as a result of that more issuance,

not only from you, but from others?

Then finally, just in terms of new reference rates. SOFR, Sonia, you've got to write loans with these now. There aren't very good hedges for them, so how are you hedging your exposure to these new reference rates? And given that there could be some gap there, does that have any fallout into your capital calculations, RWA calculations? How does that come through the financials? Thanks

James von Moltke

Thanks, Robert. James here. Thanks for joining the call. On your first question, let me start with the D-SIB versus G-SIB. I think if one accepts that the G-SIB measures represent the systemic riskiness, then on all those measures, 150 basis points would be the right level of increment for that systemic nature. The challenge for us is that although the European scoring mechanism is consistent across countries, the individual national frameworks for translating the score into a domestic SIFI buffer are different, so, the calibration, in other words, is different.

It leaves us with a higher 2% domestic SIFI than some of our peers, who, I think, arguably, on the scores, are at least as, if not more domestically systemically important. And so, it does create a disadvantage for us, in terms of our total capitalisation requirement, relative to those peers, even competing in our own market against those peers. And to your question does it overstate the riskiness? It's obviously in the eye of the beholder. But I think the comparison is directly clear, because the point scoring system is equivalent around Europe.

On the P2R, of course, it's much more nuanced. And there, it's in the gift of the ECB, naturally. And so, it's not for us to second guess their judgement. Over time, our hope is that the changes in our business model, the improvements in the sustainable profitability, improvements in the control environment, and a variety of other aspects, would be reflected, but it's not in our control and we can't really make assumptions about it.

We would just observe that there are peers with relatively similar business models that are lower levels of P2R. So, one would hope that, again, that comparison of MDA has, built into it, these nuanced differences between ourselves and our peers, but I think the market should understand. I hope that's helpful.

Robert Smalley

It is, thank you.

Dixit Joshi

Robert, hi. This Dixit here. I'll take the remainder of the questions. On deposit charging, that's correct. As rates rise, we expect deposit charging revenues to fall off one for one. So, the numbers that you see on slide eight exclude, effectively, deposit charging revenues in the outer years as rates go through zero. On TLTRO, we've been mindful as we were capping the facility before to ensure that we manage the rollover and maturing profile in a manner that does not create any funding cliff for us.

And that's certainly the case now. For example, for this year, we don't think there's a very large requirement to refinance in the capital markets, given some of the assets we have underpinning TLTRO liquid assets. We have put a placeholder in the plan, as you correctly point out, for more covered bond issuance.

One would see more covered bond issuance over subsequent years. But certainly, in our case, we don't see this as imposing a burden from a refinancing position for us. The other is that we have, I would say, significant levers on the deposit side to be able to manage and drive our deposits as needed, and you've seen that over the last two or three years.

In terms of new benchmarks in RFRs. As you say, 1st January kind of came and went, quite frankly, quite smoothly as a result of all of the work done with regulators in the industry, and clients, and industry bodies over the last many years.

We are also issuing liabilities, whether that's directly in capital market form or, or whether it's SOFR or SONIA, or it's through hedging via derivatives. These exposures and bases are manageable, quite frankly, in the way we've managed basis risks before through time as well. We don't see a gap risk here at this stage, but again, we have a basis and gap risk framework that we'll be monitoring those exposures through.

Robert Smalley

That's all very helpful, thanks. And thanks for the detail.

Greatly appreciated.

James von Moltke

Thanks, Robert. Our pleasure.

James Hyde (PGIM)

Hi, Dixit, hi, James. Thanks for doing this call. I've got one clarification and one related question and a totally different one. So, clarification, is that countercyclical plus German mortgage 30bps plus 20bps? Or is 20bps within the 30bps increase? Secondly, the related question is if the Bundesbank is worried about German mortgages, how do you view that in terms of how it could play out? Is it something not really seen in history, German retail borrowers facing problems because of higher prices?

Or is it the developers or real estate companies? Where would you see that playing through, given that you live with fairly low coverage ratios and with your credit risk experience, low deposit charge. Finally, on deposits, on rating and how it may relate to ratings. If we get EU-wide depositor protection preference, you've got 604 billion of total deposits. You never really break them out between the bank and customer, but how much would now rank senior preferred, if you get depositor preference. Or the other way of asking is of that 604 billion, how much is the ones benefitting from deposit guarantees? Thanks.

James von Moltke

Thanks, James, it's James. I'll take the first two. Just to be clear, 30 on the German 75 basis point countercyclical buffer, reflecting the rating of our German portfolio. And additional 20 reflecting the mortgage surcharge. And then probably, depending on what actions the regulators take, another, perhaps, ten basis points washed through the mix… You may be typing, James, and it's making a bit of noise on the line.

So, you could imagine the MDA going from the current 10.4% to around 11%, as those various countercyclical buffers flow through. On the Financial Stability Council's view on the German mortgage market, based on what they've described, they are concerned about, if you like, an overheating reflected in prices and ability to pay, and conceivably, also, lending standards. So, the view is that this action can help offset some of that. And look, it may well do.

Naturally, there's an impact on the economic value of a mortgage contract on the Bank's balance sheets, and so you'd naturally expect an adjustment in perhaps the availability and pricing of the product, which in turn, could have an impact, and would be intended to have an impact, on the performance of the market. When that, therefore, might lead to a different assessment of the margin and a relief of the countercyclical component, all hard to judge, because in a sense, this is an experiment. But I think that's intended cause and effect of how it will play through.

Dixit Joshi

James, on the second, just some context, as we think about that, and we'd like to come back to you, perhaps, a bit later on that. But that 60% of our deposit base is in the Private Bank. When we look at deposits, for example, when treating deposits for MREL purposes, we tend to take a fairly conservative view. As you've seen in our MREL stack, we haven't really included structured notes and, or forms and deposits, and we think that give us some flexibility in our MREL stack going forward. But as to the specific question on the quantum of seniority, that's something I think we can come back to you on.

James Hyde

That would be helpful, thank you very much.

Dixit Joshi

Thanks, James.

Tom Jenkins (Jeffries)

Hello. Thank you, everybody. Just one question. I'm sorry, I was a little bit late to join the call, so if you have addressed it, I do apologise. But I heard Lee's, Daniel's, and Rob's questions, so normally, Lee's first up, so I think I've probably got all the questions. The one I want to ask, and it's an old thing from me, is about your legacies, specifically, your Postbank funding ones and threes, Funding Trust I and Funding Trust III.

And what you're planning on doing with those, given, as I think in your presentation, let me just find the slide, slide 20, you suggest or state they are lose all TLAC and capital MREL eligibility post as of now. I just wondered what your plans are for those. I know you can't tell us exactly when or where, but what your thoughts are.

Dixit Joshi

Tom, hi. Thank you for joining and thank you for the question. Postbank Funding Trust I and III, as you point out, remain outstanding. They're fairly low spread and cheap funding for us, even if they've lost their capital recognition. On a swap basis, they represent good funding for us and qualify for measures like LGF. So, at this moment in time, we're quite comfortable with keeping them outstanding. Again, it's something we'll continue to evaluate, depending on markets and spreads.

We did the call, Funding Trust II, because that was fairly expensive funding, once the capital benefit rolls off. So, we'll continue to manage our stack economically with a keen eye towards regulatory value from many of those instruments. I hope that answers the question.

Tom Jenkins

It does. The follow-on question is what conversations are you having with SRB, in particular, around what we generally deem as non-compliant instruments? Are they okay with you just keeping that standard, as long as they're cheap? Or is that your call?

Dixit Joshi

They're derecognised from our capital stack as of January this year, so they're not included in our regulatory measures, so I think that's important. They're not classified as MREL. And the other, it's at € 600 million out of a capital stack of in the region of € 16 billion. So, de minimis, even if they did count, but they don't.

Tom Jenkins

Okay. So, is that something explicit around that quantum? Is that something explicit, the SRB is now negligible, shall we say, in terms of building priority? Have you had that conversation with them?

Dixit Joshi

Tom, it's not so much and I think the rules are fairly clear, and we've been managing towards those regulatory metrics with full sight of instruments that get derecognised. So, we're fairly comfortable that our actions are fully compliant. We've been managing the stack prudently, and we're always in close dialogue with the SRB around this, including on any call decisions as well. But we'd be happy to answer any specific questions you have.

Tom Jenkins

I'll leave it with you, but if any of the rules were clear, then my life would be a lot easier. Anyway, thank you for that. That's much appreciated.

Philip Teuchner

Thank you. Just to finish up, thank you all for joining us today. You know where the IR team is, if you have any further questions, and we look forward to talking to you soon again. Goodbye.