



Deutsche Bank AG

Deutsche Bank Q3 2019 Analyst Conference Call

Wednesday, 30 October 2019 | 13:00 p.m. CET

Transcript

Speakers:

Christian Sewing, Chief Executive Officer
James von Moltke, Chief Financial Officer
James Rivett, Head of Investor Relations



James Rivett

Thank you, Emma, and good afternoon or good morning and thank you for joining us today. As usual on our call our CEO, Christian Sewing, will speak first and then James von Moltke, our CFO, will take you through the rest of the earnings presentation, which is available for download at db.com

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

Christian Sewing

Thank you James. Good afternoon everyone and welcome from me.

In July, we spoke to you about our strategy to radically our bank by 2022. Today we can tell you, we are on track: the trends in the Core Bank, the performance in the Capital Release unit, headcount, costs, and capital are all running in line with or better than we planned. The longer-term story will be a key part of what we discuss with you at the investor deep dive on the 10th of December – I hope as many of you can join us for that Today, I will focus on the progress we made in the quarter towards our four objectives for 2019, starting on slide 1

Slide 1 –Tangible progress on our strategic transformation

The management team is absolutely focused on execution We're delivering on our near-term objectives, which sets us up to deliver on our long-term goals First, we told you we would continue to manage our balance sheet conservatively – this is our non-negotiable starting point Our initial results are encouraging. Our Common Equity Tier 1 ratio was stable in the quarter, and at the high end of our international peer group

Second, we said we would refocus our strategy on four core businesses which have strong positions in attractive markets and which are all profitable. We also said we would grow revenues in our less market sensitive areas And here, as you'll see in a moment, the underlying trends are encouraging with positive drivers

Third, our Capital Release Unit is up and running, and delivering. We made significant progress in reducing risk



weighted assets and leverage exposure in the quarter. We're confident of hitting our objectives for 2019 and beyond

Finally, we continued our work to reduce costs. We've reduced adjusted costs year-on-year, excluding the bank levy and transformation charges, for the seventh quarter in a row. We are on track to hit our full-year 2019 target. Let me now give you some detail on each of these points starting on slide 2

Slide 2 – Conservatively managed balance sheet

We have been managing our balance sheet conservatively and will keep doing so. In the first quarter since launching our strategy, we are on track

Our Common Equity Tier 1 ratio was 13.4% unchanged from last quarter. This performance reflects the prudent way we manage our capital. It also shows our determination to fund our transformation from our existing resources. We are also focused on maintaining strong credit quality. Provisions for credit losses are 15 basis points of loans year to date – a low level, both historically and relative to peers. That reflects our conservative underwriting standards, strong risk management and generally low-risk portfolios. Our loan-to-deposit ratio was 74%, reflecting a strong and stable funding base supporting our high quality and growing loan portfolio.

Finally, our liquidity position was strong. Our Liquidity Coverage Ratio of 139% gives us a surplus of 59 billion euros over required levels. Let me emphasize again that a robust and solid balance sheet was the foundation for our restructuring. This balance sheet quality will not change. Let me now look at how our businesses have performed, on slide 3

Slide 3 - Stabilizing revenues

As I said, we are focused on stabilising, and then growing revenues. Overall, revenues in our core businesses were down 3% excluding specific items. That reflects multiple headwinds: a slowing global economy, a technical recession in Germany and an even tougher interest rate environment. And of course, the performance also reflects some impact from the fundamental transformation that we have launched. This quarter we need to look beneath the headline results.

In the Private Bank, we offset most of the interest rate headwinds with solid growth in Wealth Management and our International business. We grew volumes, including 4% loan



growth while fee income rose reflecting the 3% increase in assets under management year-on-year.

Credit quality is robust and margins on average increased. In the Corporate Bank we grew revenues 6% with growth across our Global Transaction Banking and Commercial Banking units. That included 7% loan growth. And in Asset Management, DWS showed its third sequential quarter of net inflows. Revenues were flat excluding the negative impact of lower interest rates on guarantees in certain retirement products. So revenues were marginally up year-on-year in total across our more controllable, less market-sensitive businesses - of the Private Bank, the Corporate Bank, and Asset Management.

These businesses accounted for over 70% of core bank revenues. Investment Bank revenues declined by 3% excluding specific items. We see this as a satisfactory result, in particular given the uncertainty around our strategy at the start of the quarter. Our transformation did have an impact on our performance in the Investment Bank although the trends were in-line with our internal targets and we believe that we are starting to put these issues of uncertainty are now almost behind us.

Within the Investment Bank we have some areas of real strength. Origination & Advisory grew strongly with increased revenues in both Debt Origination and M&A against a broader market that was flat. Revenues also grew in our market-leading Financing businesses. We continued to deploy balance sheet in our core lending franchises and benefited from strong capital markets activity, most notably in asset backed securities and commercial real estate. And FX revenues were resilient in the face of further declines in market volatility. So across our stable businesses and the majority of our Investment Bank, revenues either grew or were stable.

In our view this is a good result given the magnitude of changes we announced. The decline in revenues came from Rates and Emerging Markets Debt, which James will discuss later.

The new management teams in both businesses have already taken action to stabilise the franchises. We are pleased with the early momentum that both showed at the end of the third quarter. We are committed to maintaining robust, broad based Rates and Emerging Markets platforms. Turning now to the progress we have made in deleveraging the Capital Release Unit on slide 4.



Slide 4 – Progress deleveraging the capital release unit

Our target is to reduce risk weighted assets in the Capital Release Unit by 20 billion euros in 2019, to 52 billion euros. We have just 4 billion euros left to do in the fourth quarter to reach our target – so we have already largely reached our goal. We reduced leverage exposure by 73 billion euros in the quarter and by over 100 billion euros year to date.

We are confident in reaching our full-year target of reducing leverage exposure in the Capital Release Unit to around 120 billion euros. Our leverage target assumes that we close the transfer agreement with BNP Paribas for Prime Finance and Electronic Equities in the fourth quarter. At the end of the third quarter, leverage exposure related to this transfer was around 40 billion euros. Roughly half of this amount should reduce soon after the closing of the agreement. The remainder, related to client balances, will transition over time.

Now let me turn to our progress on cost reduction on slide 5.

Slide 5 – on track to reach adjusted cost targets

Stripping out transformation-related charges, which James will discuss in a moment, our adjusted costs were 5.2 billion euros in the quarter. Excluding these charges and bank levies, we recorded our 7th consecutive quarter of year-on-year reductions and again we are in line with our plan and guidance we gave you last time. Compared to the first quarter of 2018, we have reduced our quarterly adjusted costs by around 450 million euros, or 1.8 billion euros on an annualized basis. This quarter we showed continued cost discipline with reductions in every cost category except for planned investments in technology.

The reductions we have achieved in the first nine months put us on track to deliver our full-year target of 21.5 billion euros. We expect to reach this target despite absorbing almost 300 million euros of FX translation headwinds this year. And we remain committed to our longer term target of a cost base of 17 billion euros.

Before I hand over to James, a word about our strategic execution on slide 6.



Slide 6 – on track delivering against key milestones

The new leadership team has wasted no time in delivering on a series of key milestones since July. In the past 100 days, we have: Executed on key changes in governance, organisation and financial reporting. We aligned non-financial risk, compliance and anti-financial crime into a single function. This is part of our wider commitment to strong controls. We have also redefined our technology strategy to further support our transformation and our cost reduction targets.

Group headcount is below 90,000 internal employees for the first time since the acquisition of Postbank in 2010. The Capital Release Unit is up and delivering. We have completed major steps to enable us to exit from our Equities Sales & Trading operations. We have begun the shut-down of applications and related infrastructure across Cash and Derivatives. In our core businesses we have also made progress.

In our refocused Equity Origination franchise, the initial evidence is encouraging. We have priced 27 transactions with a further 28 in the pipeline since announcing our strategy in July. These 55 mandates support our view that our Equity Capital Markets business can develop well without secondary Equity Sales & Trading capabilities. We're also seeing greater collaboration across our businesses.

A couple of examples:

FX4Cash, our online, real-time FX hedging tool developed in partnership between the Corporate Bank and the Investment Bank had its best revenue quarter ever.

The good growth we showed in Wealth Management was in part driven by the performance of our family office and Institutional Wealth initiatives which are run in partnership with the Investment Bank.

To sum up: we're delivering on our targets and we feel comfortable that we have laid the foundations for a successful restructuring and improved business performance. We're managing our capital and balance sheet conservatively; we're stabilizing revenues to position ourselves for growth; our Capital Release Unit is deleveraging on schedule, and we're keeping up the pace of cost reduction.

In the first quarter of our transformation and with the uncertainty that comes with such a major restructuring, we feel good about the way our franchise is performing.



Clients have embraced our new business model. We are gaining share in Origination & Advisory, we are growing loans and we are generating net inflows in assets under management.

With that, let me hand over to James.

James von Moltke

Slide 7 – Q3 2019 Group Financial Highlights

Thank you Christian and good afternoon from me. I'll start with a summary of our Group financial performance on slide 7. Adjusting for specific items detailed on slide 23 of the presentation, revenues were 5.4 billion euros in the quarter, down 12% year-on-year. The decline was driven by the lower revenues in the Capital Release Unit and Corporate & Other. Noninterest expenses were 5.8 billion euros. This includes 234 million euros of restructuring and severance and just under 200 million euros of transformation related charges reported within our adjusted costs. Transformation charges in the quarter consisted primarily of software impairments as we implement our technology transformation to help reduce costs in future periods. As we laid out in July, these transformation charges will be a part of our results for several quarters.

Stripping out these charges, adjusted costs were 5.2 billion euros, down 4% year-on-year. Provision for credit losses of 175 million euros remained within our target range and included a benefit of 104 million euros from the net effect of annual updates to the forward looking indicator element of our Expected Credit Loss model and the regular quarterly update to forward looking macro-economic variables. Excluding these benefits, provisions for credit losses increased, reflecting lower recoveries and higher provisions taken on defaulted and impaired exposures.

Our net loss was 832 million euros. The negative tax rate includes 380 million euros of Deferred Tax Asset valuation adjustments taken during the quarter that we anticipated and communicated to you when we launched our strategy in July. Tangible book value per share was 24 euros 36 cents, a 1% decline from the second quarter.

Let us focus on results for our Core Bank in the quarter on slide 8.



Slide 8 – Q3 2019 Core Bank financial highlights

The Core Bank, which excludes the Capital Release Unit, was profitable in the quarter on a pre-tax basis, with positive results in all four core businesses. Core Bank pre-tax profit of 353 million euros, included 315 million euros of restructuring & severance, transformation related charges and a negative impact from specific revenue items, all of which are detailed in the appendix. Core Bank revenues were 5.6 billion euros excluding specific items, down 3% with around half of the decline coming from Corporate & Other. Adjusted costs declined by 2% excluding transformation charges. Both risk weighted assets and leverage exposure increased in the Core Bank as we grow business volumes including 9% loan growth year-on-year in selected core client segments.

Slide 9 – adjusted costs

Turning to adjusted costs on slide 9. We reduced adjusted costs by 296 million euros or 5% year-on-year excluding the impact of foreign exchange translation and 186 million euros of transformation charges. Compensation and benefits expenses declined reflecting the reductions in internal workforce of around 4,750 we have made in the last 12 months as well as an alignment of some of our benefits policies globally. Professional service fees declined by 5% as we further improved the efficiency of our external spend. Other costs declined reflecting reductions across a number of areas, including occupancy, and were supported by recoveries. We kept our IT costs broadly stable and within our target range as we continue our technology investment program.

Turning now to capital and leverage on slide 10.

Slide 10 – Capital ratios

Let me underline what Christian said: we are committed to maintaining our capital strength through our strategic transformation and we're encouraged by these initial results. In the quarter, our de-risking efforts generated almost 45 basis points of capital, including approximately 20 basis points from lower Operational Risk which we realized one quarter earlier than planned. Excluding Operational Risk, de-risking in the Capital Release Unit generated almost 25 basis points of capital, offset by around 15 basis points of growth in the Core bank and about 5 basis points of regulatory headwinds associated with the Targeted Review of Internal Models we



have discussed previously. Together with the negative impact of our transformation on earnings, our Common Equity Tier 1 ratio was stable at 13.4%.

We reaffirm our target to manage our Common Equity Tier 1 ratio around 13% in the fourth quarter with the decline driven by multiple factors including transformation charges and updates to pension liabilities, including tax effects. Our fully loaded leverage ratio was stable at 3.9% in the quarter despite a headwind from foreign exchange translation. On an exchange rate neutral basis, we reduced leverage exposure by 39 billion euros including 77 billion euros of deleveraging in the Capital Release Unit. In the fourth quarter, we expect our leverage ratio to be 4% rising to 4.5% by the end of 2020.

Before going through the details of our divisional performance, a few words on the recent resegmentation of our financial results. Our third quarter results reflect the finalization of our new corporate structure and our new perimeter that we laid out in our restated financial disclosures in early October. Additionally in the third quarter we have introduced a new funds transfer pricing methodology and made changes to the way we allocate the costs of internal services. These changes have no impact on the group financials or our targets but do impact some of the current quarter business unit variances and performance. And, we will further refine our cost allocations with the introduction of driver based cost management tools in the first quarter of 2020. These changes are part of the series of investments in our management tools that we have discussed previously. These investments will help us drive better and faster decision making, better accountability and improved resource allocation.

Slide 12 – Corporate Bank

Turning to the results of our Corporate Bank on slide 12.

The Corporate Bank is growing, profitable and made good progress towards its strategic objectives this quarter. Revenues grew by 6% year over year, reflecting good business momentum as we grew loans by 7%. The loan growth was encouraging as it came in our targeted growth areas including Asia and in our German commercial client business. Revenues benefitted from a more normalised level of 'episodic' items in our Global Transaction Banking business that we've discussed in previous results, as well as from FX translation. Excluding these items,



Corporate Bank revenues grew by around 2% on an underlying basis.

Adjusted costs excluding transformation charges were 973 million euros, flat to the prior quarter but up substantially versus the prior year. The increase reflects higher spending on controls and technology as well as the impact of higher internal service cost allocations reflecting some of the changes I mentioned earlier. Provisions for credit losses were 76 million euros in the quarter reflecting the benefit of the recalibration and input update I mentioned earlier as well as a few specific items. As a result our Corporate Bank generated 254 million euros of pre-tax profit and an 8% post tax return on tangible equity.

A few words on Corporate Bank revenues in more detail on slide 13.

Slide 13 – Q3 2019 Corporate Bank revenue performance

We grew revenues in our Global Transaction Banking business by 8%. Cash Management revenues increased slightly and benefited from balance sheet management initiatives, including a shift from Euro to US Dollar deposits and adjustments to our deposit pricing strategy. Corporate Cash Management transaction volumes grew by over 12% globally, with the fastest growth in Asia-Pacific. Trade Finance revenues increased, supported by increased lending activities in Germany and Asia. Trust & Agency Services revenues also rose, mainly from higher Corporate Trust revenues in the US as well as a solid performance in Depository Receipts. Securities Services revenues declined in line with our expectations after our exit from Equities Sales & Trading. In Commercial Banking in Germany, revenues rose by 1%, driven by loan growth of 4 billion euros, which helped offset the pressure of low or negative interest rates.

With that, a few words on the Investment Bank, on slide 14.

Slide 14 – Investment Bank

Our refocused Investment Bank includes our Origination and Advisory businesses and our Fixed Income and Currencies Sales & Trading operations. We set three objectives for our Investment Bank – stabilize revenues, reallocate resources and reduce costs - and the management team made progress on all three this quarter. Revenues declined by 3% excluding DVA and the valuation of a specific investment.



The underlying trend however is more encouraging. The vast majority of Investment Banking revenues were in businesses which were either stable or grew in the quarter; the issues were highly localised and partly reflect specific factors that we're addressing. We continued to reallocate assets to our more stable, market leading financing businesses in the Investment Bank as we work to improve returns and the stability of revenues within the business. We grew loans in the division by 4 billion euros in the quarter and 13 billion year on year, predominantly in our Asset Backed Securities and Commercial Real Estate businesses.

Finally, we broadly offset the lower revenues with reductions in adjusted costs which declined by 3% excluding transformation charges. The decline partly reflects around 500 involuntary leavers during the quarter, the run-rate effect of strategic actions taken in recent periods and lower internal service cost allocations.

Turning to the Investment Bank's revenue performance by business, on slide 15.

Slide 15 – Q3 2019 Investment Bank revenue performance

Revenues in Fixed Income Sales & Trading were 1.2 billion euros in the quarter. In Financing, our biggest business within FIC, revenues grew reflecting increased client activity and the benefit of loan growth I mentioned earlier. In Flow Credit revenues rose year-on-year as we started to benefit from investments in previous periods while Distressed debt trading revenues declined from a strong prior year quarter and reflecting the episodic nature of that business. Credit also benefited from lower funding cost allocations due to changes to our funds transfer pricing methodology I discussed earlier.

Revenues from Foreign Exchange trading declined slightly reflecting low levels of market volatility. Foreign Exchange revenues were supported by the strength of our corporate related flows which reflects the partnership between our Corporate and Investment Banks.

In contrast, Emerging Markets Debt and Rates saw revenue declines year-on-year. In Rates, results were impacted by our business restructuring and by the loss of 37 million euros on a specific investment as detailed on slide 23 of the appendix. Additionally, we faced challenges earlier in the quarter in a



couple of specific areas of our European business, as we worked through some leadership changes and suffered some losses.

Performance later in September was encouraging with good pipeline execution in Europe, while the US performed solidly across the quarter. In EM debt, we were affected by challenging markets in Latin America and in Argentina in particular and suffered some trading losses as a result. We believe that performance has now stabilized under new leadership, with improved results in September.

As Christian said, we are committed to maintaining robust and broad-based Rates and Emerging Markets franchises and have taken significant actions to restructure these businesses. We are encouraged by the early momentum we see. In Origination and Advisory, revenues rose 20% year-on-year, outperforming the global fee pools which were flat overall, and down in our core focus areas of EMEA and Leveraged Debt Capital Markets. Advisory revenues grew by more than 50%, reflecting strong performance in the Americas, Healthcare and Industrials and benefited from the closing of certain deals originally expected in the fourth quarter. The outperformance versus the global fee pools was driven by strength in Debt Origination revenues, with our Leveraged Loan and High Yield businesses both gaining market share in the quarter according to Dealogic.

Equity Origination revenues declined slightly year-on-year, as we repositioned our franchise to our core industry verticals. As Christian mentioned, we are encouraged by the performance of our refocused ECM franchise with 55 mandates won since July.

Now let me turn to the Private Bank on slide 16.

Slide 16 – Private Bank

Our Private Bank, too, made progress towards its objectives this quarter. We reaped further cost synergy benefits from the integration of our German units and generated volume growth across our businesses with revenue growth in our International businesses and Wealth Management. Revenues declined by 2% adjusted for specific items as growth in business volumes partly offset the negative impact of lower interest rates.

We reduced Adjusted Costs excluding transformation charges by 1%. Synergy benefits from our German integration offset our ongoing investments in Wealth Management and higher internal service cost allocations.



Having generated approximately 150 million euros of cost synergies in the year-to-date, we are on track with the integration of our German operations.

Provision for credit losses benefited from the factors I mentioned earlier, and at 13 basis points of loans year-to-date remained at a low level, also reflecting the low risk nature of our Private Bank portfolios. We grew loans by 4 billion euros and assets under management also increased by 4 billion in the quarter.

A few words on the revenue performance by business, on slide 17.

Slide 17 – Q3 2019 Private Bank revenue performance

In the Private Bank Germany, revenues declined by 5% driven by the interest rate environment which was only partly offset by growth in volumes. We grew loans by 2 billion euros, our sixth consecutive quarter of client loan growth, notably mortgages, and we generated the third consecutive quarter of inflows in investment products.

In Private Bank International revenues grew by 5% driven by a strong performance in loan and investment revenues and by re-pricing measures in investment products and accounts. Wealth Management grew revenues by 5% excluding a lower benefit from Sal Oppenheim workout activities, supported by FX translation effects. We grew net new assets, net new loans and revenues, most notably in Asia and the Americas and from our Institutional Wealth Partnership and Family Office Initiatives in conjunction with the Investment Bank.

The growth in Wealth Management was in part driven by our select hiring programs where we have increased revenue generating staff by more than 10% in the last four quarters. I'll now turn to results for our Asset Management segment on slide 18 which includes certain items that are not part of DWS's standalone financials.

Slide 18 – Asset Management

As you will have seen in their results published this morning, DWS is on track to reach its 2019 net inflow and adjusted cost / income ratio targets driven in part by faster than planned realization of cost saving measures.



Despite the industry-wide fee pressures, revenues were essentially flat year-on-year excluding the negative impact of falling interest rates on the fair value of guarantees in certain retirement products. Adjusted costs were down 6% excluding transformation charges, reflecting successful delivery on cost initiatives. Net new money was positive for the third successive quarter, at 6 billion euros, with positive inflows across our target growth areas of Passive, Alternatives and Multi-Asset. In the year to date the business has attracted cumulative net new money of 13 billion euros. Assets under Management rose by 33 billion euros to 754 billion—the highest level since 2015, driven by a combination of exchange rates, market performance and inflows.

With that let me turn to Corporate and Other, on slide 19.

Slide 19 – Corporate & Other

Corporate & Other reported a pre-tax loss of 161 million euros in the quarter, compared with a pre-tax loss of 23 million euros in the same period last year. The larger loss was driven by higher funding & liquidity charges which reflect certain funding costs held centrally as part of our new funds transfer pricing framework I mentioned earlier. As we noted in July, these costs should be around 200 million euros per year in 2020 and should materially amortize over a 5 year period. Shareholder expenses were 47 million euros above the prior year period on higher restructuring expenses while litigation expense was 74 million euros higher.

In addition, the positive impact of Valuation & Timing differences was lower than in the prior year period.

Let me now discuss the Capital Release Unit on slide 20.

Slide 20 – Capital release unit

The Capital Release Unit was formed in July and was quick to begin executing on its deleveraging plan and simplification efforts. We reduced risk weighted assets by 9 billion euros to 56 billion euros, across credit, market and operational risk. We also reduced leverage exposures by 73 billion euros, largely driven by reductions in Equities positions.

The Capital Release Unit recorded a loss before taxes of 1 billion euros. Revenues were negative 223 million euros, principally reflecting the 100 million euros of specific items, principally Debt Valuation Adjustments and an update to a valuation



methodology. Revenues were also impacted by hedging costs and de-risking losses on portfolios, some of which are now fully de-risked.

Operating revenues, net of funding and liquidity charges were close to zero. Non-interest expenses of 790 million euros included 123 million euros of restructuring and severance and litigation and a further 87 million euros of transformation charges. We reduced adjusted costs excluding transformation charges by 6% quarter on quarter driven by lower headcount and we began to implement our non-compensation cost reduction measures.

We realize that the Capital Release Unit is hard to model from the outside so we want to give you a sense of what it will look like. This outlook is consistent with the financial plans we laid out to you in July. We expect revenues to be negative as the contribution from the ongoing operations and the expense reimbursement from BNP Paribas are more than offset by de-risking costs which will remain volatile. Adjusted costs, which annualized to 2.7 billion euros in the third quarter should decline in a fairly linear way to 1 billion euros in 2022 with the exception of the bank levies allocated to the Capital Release Unit in the first quarter and a step down in costs following the technology and client migrations to BNP Paribas. And, as we highlighted in our July presentation, we will work to reduce the residual costs within the Capital Release unit as fast as possible.

And to repeat: these projections have been fully reflected in our financial plans and capital outlook over the next few years.

Before I close, a few words on the group outlook on slide 21.

Slide 21 – Progress towards near-term targets

Overall: we are on track against our near-term objectives. We're on track to deliver on our adjusted cost target of 21.5 billion euros for 2019 excluding transformation charges. We expect provision for credit losses to increase in the fourth quarter as part of the expected normalization from recent low levels. For the full year, provisions for credit losses are expected to be in the mid-teens or slightly higher in basis points as a proportion of loans. We now expect restructuring and severance charges to be around 700 million euros in 2019 compared to our previous 1 billion euro forecast.

This reduction lowers our 2019 to 2022 cumulative restructuring and severance estimate by the same amount to



slightly less than 2 billion euros. The lower estimate reflects more efficient use of our budgets than we had previously forecast as well as lower spend as a result of the BNP Paribas transfer. Transformation charges, which form a part of our adjusted costs, are now expected to be up to 1 billion euros this year. The transformation charges primarily relate to software impairments as we implement our technology transformation. We will manage our capital resources to keep our Common Equity Tier 1 ratio at or above 13% through year-end, while maintaining a substantial liquidity buffer.

As we have said before, we are focused on growing revenues in our less market-sensitive businesses and building on the momentum we can see in the Investment Bank. The market expectations for forward interest rates present a headwind to our revenue aspirations for 2022 that we outlined in our July presentation. However, we have identified a series of mitigants to offset these headwinds.

First, the perimeter adjustments we announced with the second quarter results increase revenues in the Core Bank. Second, our businesses have begun more systematically pricing and charging for negative rates and the Corporate Bank and Wealth Management are well advanced working with clients on this. Third, we continue to deploy excess liquidity including through the loan growth you have seen. And finally, the introduction of tiering by the ECB which we had not assumed in July should improve revenues by more than 100 million euros per year. So while the interest rate environment is challenging, it does not warrant a change in our 2022 revenue aspirations or return on tangible equity targets.

With that: we look forward to your questions.

Question & Answer Session

Daniele Brubacher (UBS) Yes, good afternoon and thank you. I had a question first on technical and then a more of numbers question. On the capital side in the July presentation, I mean, you showed the expected capital ratio trajectory and I think it became clear that 2020 is probably the low point according to your budget so I think it's quite a crucial year in that sense.

And I was wondering whether you could update us on your thinking around MDA trigger level and potential reductions



there going into next year given that you make rapid progress on the non-core reductions, which I think is key in that context.

And then secondly - sorry - just on these restructuring charges and transformation charges could you also give us a bit of a guidance for 2020 on transformation charges? I think you mentioned the one billion for this year but what about next year?

And then also on slide 25 in the July presentation you gave us the details of the severance and restructuring charges. Just for me to be crystal-clear here, does that include the transformation charges or not? Thank you.

James von Moltke

Daniele, thank you for the questions. On capital we had indicated in July an expectation that our capital requirements would come down over time as we executed on this strategy. We remain hopeful of that but it's not something we are able to announce at this time. It's something that we've been working on and it is built into our forward expectations.

Obviously it's important and we're very focused on maintaining a sufficient buffer above our MDA triggers and hence the guidance we've provided in terms of our capital ranges and our minimum levels going forward.

On the transformation charges you're correct to point to page 25 in the July presentation and as we look to 2020 and beyond our view right now and our planning is entirely consistent with where we were in July. You heard me say in the prepared remarks that there's a bit of a reduction in what we're planning in terms of severance charges but that is partially offset by higher transformation charges that we expect at this point, again principally software impairment.

That shift, remember, is actually capital-beneficial because the software intangibles are already deducted from capital whereas severance charges would go to capital.

Jernej Omahen
(Goldman Sachs)

Good afternoon from my side as well. I've got three questions, please. So the first one is more of a conceptual nature. So since you've announced the restructuring what has the response been from your clients? And what I have in mind is, number one, what's the response been from your corporate clients and secondly what's the response been from your institutional clients where they had business with you both in equities and fixed-income, ie, are you seeing a knock-on effect from exiting equities in your FIC businesses as well or are you keeping that share?



The second question I have is on negative rates and the ability to pass this on. James, I think the last time - I asked the same question on the last call and your response was along the lines of, there are legal limitations to what we can actually pass on particularly to the retail customers.

If I ask the question this way - what's the proportion of your German deposit base where you think you could pass on negative rates? - broadly what would the answer to that question be?

And the third question is the following; so since you last updated the market one of your larger competitors in Germany also released their own restructuring plan with their own target. I think they're targeting at a modest 4% return in 2022 assuming successful restructuring and I was just wondering, you know, given the similarity of the domestic businesses what do you think is the key differentiator for Deutsche Bank domestically or in your domestic franchise that gives you optimism that Deutsche can deliver a return higher than that? Thank you.

Christian Sewing

I go for your first and your third questions. Client response has been actually very positive on both sides; corporate and also institutional clients. Obviously you can immediately also see it on the corporate side with the revenue development which we have seen in Q3. Corporate customers very much like the fact that we focus with our own division on that segment.

In particular in Europe Deutsche Bank is always seen as having the corporate bank as its DNA and to focus on that with its own division with a strong financing business with a strong transaction bank is obviously welcomed. We can in particular also see the bridge from Germany into Asia.

That is partially an answer also to your third question, that the global nature of what we can offer to corporate customers is unchanged and where we further invest into this is highly welcomed. And therefore I'm not only pleased about the 6% revenue increase which we saw in Q3 but I'm confident that we see revenue increases then going forward.

On the institutional client side the echo was also positive for the same reason I mentioned; because we presented clarity. We clearly said where we are in and where we are out. During the first three weeks after July 8th we contacted slightly more than 3,000 of our clients who are doing and have equity businesses



with us. Only 3% of these clients came back and said that they have stopped doing business with us in other products which we maintain.

Obviously it's too early to call it a success but what I can see with the momentum in Q3 is that these clients are also thankful for the clarity and that they maintained their relationships in particular in those products which we maintain.

So overall the external feedback on the strategy is very positive. The same, by the way is true internally. Our people know for what we stand, what we are doing and that we provide a clarity.

On your third question with regard to the comparison, I don't want to talk about a competitor but we have different business models. First of all I think if you look at our revenues which we see globally only 30 or 32% come from Germany with the rest being international and our transaction bank in particular is a huge difference.

And in Germany - to your question - this transaction bank also makes a difference actually versus our competitors, not only the one you mentioned but also the other ones.

I think the international business we offer for the corporates through the transaction bank is a big competitive advantage, providing greater profitability. In our private banking business we are more focused on affluent customers and therefore more focused on fee income.

I think there are also clear differences in the way we acquire clients and hence I think this explains the different approaches and also the different levels of profitability.

Last but not least, when we come to the difference I think we started restructuring very early. In Germany we started in 2016 with a material branch reduction, both in Postbank but also in the (Deutsche Bank branded) blue bank. That is also a different approach. Therefore we have a cost advantage simply because we executed earlier.

James von Moltke

Jernej, on your second question, as we talked about, we are, as you'd expect going through our deposit portfolios great detail to look at client segments where we feel we could do more in terms of passing on negative interest rates.

As I mentioned on the last call, we see that this is more difficult in the private bank business than in corporate or institutional deposits and we don't see an ability to essentially, adjust legal



terms and conditions of our accounts on a broad-based basis. However we do see an ability to have individual client conversations and especially in larger deposit relationships, essentially implement a version on a smaller scale of tiering that you'd see around client relationships in the corporate bank or wealth management.

So we've done that analysis. We're in the early stages of implementing. If I were to give you a really round number in terms of the percentage of the deposit base that could potentially lend itself to those types of actions I'd give you a ballpark of about one-fifth.

Now, I don't want you to interpret that as a clear expectation that we'll be able to implement those types of relationships across as large a share of the deposit base, but to give you an order of magnitude at this point in terms of our analysis of the size of the potential opportunity in the Private Bank.

Jernej Omahen

Thanks a lot. James, just to follow up on the last question, would you welcome a deposit outflow at this point?

James von Moltke

The short answer is yes. We have relatively speaking a very low loan-to-deposit ratio so we have the funding to contemplate losing some deposits as a reaction to pricing actions that we've taken or will take in the future.

Now, of course we look at the overall client relationship when we make decisions about where to impose or charge those negative rates so it is a very granular and sort of individual discussion, hence my reticence about telling you the entire one-fifth we'd actually execute on.

I would also say, in the period of time leading up to and subsequent to the ECB action we did see a change in sentiment, especially in the German market. The market environment has generally begun to recognise that the banks can no longer shield clients from the cost of the negative interest rate policy.

And so the early days, the early experience in terms of client reaction would tell us you're unlikely to see as big of an impact and an expectation that we have that some of this will be a broader market event than simply one banking house.



Jon Peace (Credit Suisse) Yes, thank you, good afternoon. The first question; I just wanted to clarify a couple of the comments you made on targets so, James, when you were talking about the 2022 group revenue aspiration being unchanged, is that the 25 billion you had on slide 22 from July? And then on the 2019 costs you're at 21.5 billion on an adjusted basis plus one billion for transformation so it would be 22.5 billion for this year.

And then my second question was just on the sort of medium-term capital outlook. Do you have any updated thoughts, please, on the impact and the timing of Basel 4?

James von Moltke

Sure, Jon. Yes, correct in both cases. In the rounding our 2022 revenue expectation was about 24.8 billion euros. We talked about obviously seeing interest-rate-related headwinds on a forward basis there but then we talk about what we see as mitigants that should offset, all or most of that interest rate headwind; those mitigants, as we said are perimeter adjustments, pricing, deposit pricing, fees and commissions and hopefully growing AUM perhaps a little quicker than we'd intended.

Also there has been a little bit of an improvement in our thinking from FX rates, from tiering and from additional actions around balance sheet improvement. There are moving parts across that planning but by and large we're targeting in and around that earlier level.

We're not sitting on our hands as the environment changes. We're looking for offsets and of course the interest rate environment reflects market expectations and sentiment today. You've seen, through the third quarter changes in market outlook for interest rates from the low point in mid-August to where we began and where we ended the quarter. So it's a dynamic environment but our targets are consistent with our July.

On adjusted costs EUR 21.5 billion is correct and it excludes what we've defined as transformation charges. Just as a reminder, our adjusted cost definition in ordinary circumstances includes things like amortisation or impairments of software intangibles and certain of the real estate actions that we're taking.

But given the size at the moment and the non-recurring nature of these charges we've pulled them out and shown the impact



of those charges quite transparently. So you're right that the operating cost number would be about a billion higher than the EUR 21.5 billion adjusted costs base excluding transformation charges.

On Basel 4, the implementation is dynamic in some respects. We follow it carefully. We're obviously very engaged in advocacy. I would say that, our internal planning is broadly unchanged with what we shared with you in July. That said, I do think there's been a shift in tone somewhat in the political sphere around the way we should implement Basle 4 in Europe.

That's encouraging because, as I think you may have heard me say on previous occasions, the way that Europe chooses to implement Basel 4 very much within the framework of what was agreed in the FSB but in the details of how the rules are structured and calibrated we think there's a wide range of outcomes.

And obviously the less onerous it is on the banks the better for credit intermediation in Europe and the cost of capital. So that's giving us a slightly more optimistic tone in our thinking about implementation but no changes in our planning because we want to plan on the conservative side. Hope that's helpful.

Christian Sewing

Let me potentially reiterate that point from what James just said. Over the last 18 months, I have never seen a bigger interest from the political side also in our home country here on Basel 4 implementation, what it means, how we compare to US banks.

So while this kind of interest does not immediately result in a solution. The politicians are very much engaged, want to have our analysis and to listen to us and they want to have our proposals.

I have also not yet experienced such an alignment among the European banks as I've just seen in Washington at the recent conference. So I think everybody is aware that this is something which we jointly have to address and not only as banking institutions but also together with the politicians and here I see real progress.

Andrew Stimpson
(Bank of America)

Afternoon, everyone. First question on leverage exposure, please; in the IB that was up 34 billion quarter on quarter. That seemed like a lot to me; I mean, this is about half of the CRU reduction you saw in the quarter went right back into the IB. I felt like, at the July presentation, this was more likely to be used



to grow the other core divisions so what - just interest - what drove that increase and is that seasonal, could that unwind into year end at all?

And then secondly on the private bank, the new time series that we all had made it seem like costs were going to come down much quicker there and I guess it's partly a problem with getting used to that new time series and any seasonality there perhaps.

But underlying costs were up 3% quarter on quarter and the slides there referenced wealth management hiring. Is there more to come in terms of those cost investments before we see the savings come through? Because obviously the cost savings target you've put for that division's quite big so I'm just wondering if you can talk about how... the trajectory of how we get there, whether that's more back-end-loaded, please. Thank you.

James von Moltke

On the Investment Banking leverage - you're right - it's part of our strategic direction. While we intend to grow loans, the extent of that growth was probably greater than we would have expected. About a third of that growth is just the impact of FX translation and so that is not in our control.

Of the remainder about 50% is from derivative mark-to-market changes and the other 50% from inventory bouncing back from relatively low levels at the end of Q2. Into year end we would expect inventory to decline as we see pending settlements come off.

And the derivative mark-to-market changes have been a result of the level of interest rates and so just the in-the-money parts of both the asset and liability side in today's yield curve has increased. You'll see that on our balance sheet for a period of time and very likely - or that runs off then over time as well.

So I won't call it all accidental but most of it is not driven by specific strategic changes or decisions.

On the private bank costs, yes, it's getting used to a different segmentation. The other thing is that as I mentioned some of the internal service cost allocation changes that we've been making and the Private Bank was actually impacted so better than what we are seeing reported is truly going on in the organisation.



That said, we are essentially right now of having synergies - I mentioned the EUR 150 million year to date in the German retail - offsetting still reasonably large investments we're making in the Private Bank.

We do expect that relationship to change as the synergy realisation gathers pace in Germany and also, as you see the pace of investment in some places change. So an example that I've cited in the past is the investments we've made in technology in Italy. That goes away in the middle of next year so you do see some roll-off of investments that's part of the picture today. I hope that's helpful.

Kian Abouhossein
(JP Morgan)

Yes, thanks for your questions - for your time. My questions are just coming back to the revenues, the 24.8 billion target. Last time on the call we were discussing short rates breaking even in Europe mid 2021. The current EURIBOR curve is indicating February 2025. How do we square the target with the current interest rate outlook and forward curve and should we expect a more new guidance considering the change in interest rate expectations by the market?

And in that context, coming back to private banking, you make an RE of two; your target by 22 is 12-plus. Can you explain to us how you get there without a more aggressive interest rate outlook and what other measures you can take if you're still sticking to your interest rate outlook in order to get there?

And the third one is on the CRU. If I strip out the DVA that's a cost run-rate of around 100 million in the revenue line so negative 100. If I look at your risk-weighted asset reduction and adjust for op risk then we're looking at about 1.5% cost per risk-weighted asset reduction. What I'm trying to understand is how much will it cost you on average to reduce risk-weighted assets so we can clearly assume some kind of revenue reduction in our model if you can help us with that.

James von Moltke

Sure, Kian. Thank you for the questions and I'll start on them and Christian may want to add. On EURIBOR, you're absolutely right in the sort of the change in the environment and the assumptions that we made. As we mentioned at the time based on the implied forward rates at the end of May, that's obviously moved around considerably over the course of the months since then and really the EURIBOR rate represents a headwind to revenues, especially for the Private B but also for the Corporate Bank. Our deposit books are impacted there, as you can see in our net NII sensitivity disclosures.



I think it's important to note that those interest rates changes over time can go in both directions. So then the question with an acknowledged headwind - and you'll recall that we separated out the interest component of revenue growth through to 2022 in our presentation.

Clearly that EUR 600 million and potentially more is at risk and so that helps you define how much of an offset we need to achieve from some of the other items that we mentioned as mitigants in our forward planning.

That leads quite neatly to the Private Bank ROTE and, as you can see, it's over the past couple of years run in a range of between two and 4% and so clearly there's a steep hill to climb in the Private Bank.

To your other question, expenses are a big part of the Private Bank ROTE expansion story given the extent of merger synergies and other expense benefits that we aim to extract but the revenue line will be challenged from the interest rate environment and there the work is greatest to offset it from the types of measures that we outlined but we continue to work towards the targets that we set in July.

Christian Sewing

Yes, there's not a lot to add from my side. On the Private Bank revenues, as James is saying, I think we have intensified all our measures to re-price but also again to increase our efforts to move deposits in other kind of investments.

But in order to compensate potential headwinds we also have a project under review to merge the PFK into DB AG.

Now, this is under review but you can see that this management is very active in looking for compensating measures. So I think it's not only a revenue story where we make good but obviously fully adhering to the German retail merger synergies of EUR 900 million, where as you heard EUR 150 million has been brought in in the first nine months, and then obviously looking also for further measures.

On the CRU de-risking cost, as you pointed out, with the specific items that we call out this quarter of DVA and valuation methodology updates on some positions in CRU, I don't think this quarter is going to be representative of de-risking costs as a percentage of the asset reduction.

So to begin with the asset reductions, relatively speaking, were in more liquid categories and where frankly our execution was



better than our internal planning so we're pleased with the early results there in de-risking.

That said, there were some risk costs in the portfolios that are scheduled for de-risking and some that have now been completely derisked so that added in the CRU to the negative revenues this quarter. As we've now bedded down the portfolios we can risk-manage them independently. We're comfortable with our sort of risk profile and our ability to manage so in future quarters it will probably be more purely a de-risking cost than perhaps it was this quarter.

All of which is to say, I would not draw that relationship at this point; it's a little bit too early.

Kian Abouhossein

Can you give us any steer how we should think about the revenue run rate in the CRU? Because clearly that's a difficult one for us. Is there any relationship that you can put against risk-weighted assets on any other context?

And if I just may ask one more time, the 600 million on interest rates; clearly the curve has moved further out from May so if I would do a rerun of your numbers of how much come from interest rate that number would be significantly bigger today than 600 million. Is that correct?

James von Moltke

What we pulled aside in May as interest-rate-related or driven; that would all or most or more would disappear. The underlying compound growth rates that we gave you in May excluded the impact of interest rates so we wanted to be able to separate what we'd think of as underlying growth from loan growth from fee and commission income growth from assets under management growth - essentially those non-balance-sheet items - from the interest rate impact and that was the compound growth rate we were talking about.

In terms of the revenue picture in the CRU, the portfolio itself doesn't throw off a significant amount of revenue, especially on the derivative side. It does have some hedging cost that is an ongoing cost so I'd say a relatively, small revenue contribution from the portfolio over time.

Once the Prime Finance transfer with BNP Paribas closes there will be a revenue recognition from the expense reimbursement element of the transaction. That's essentially a gross-up and so there'll be an offsetting continued operating expense but you'll see impacts in both the revenue and expense lines going forward.



Then you will have on top of that de-risking costs. The net of that I would expect to be negative on an ongoing basis but how negative is something we'll need to talk about in future as we establish sort of a more visible run rate.

Kian Abouhossein

Sorry; if I may one more time on the CRU before I forget; you will only sell assets if you can sell the hedging as well; right? Or you will be willing to keep the hedging and sell the assets?

James von Moltke

No, the assets and the hedging comes off. It's one of the complexities of moving a portfolio over, is some of the assets are and some aren't cashflow-hedged. We've been working through those details as we go along. It's obviously part of the overall, you know, risk management picture but we can now isolate the two portfolios.

Stuart Graham
(Autonomous Research)

Oh, hi. Oh, thank you for taking my questions. I had two, please. First on provisions, you mention the net 104 benefit from model refinements and the annual calibration of your models. Can you explain why that's a benefit? Whereas I would have thought given the challenging macro outlook that would have been a negative.

And the second question is on the loan growth in the IB division, which is running at 22% year on year and seems to be very focused on CRE and AVS. Most of your peers are growing at mid single digits so can you discuss what you see as your secret sauce, I guess, which allows you to deliver such very strong loan growth at a time when many of your leading peers are unable to do so? Thank you.

James von Moltke

Sure, thanks, Stuart. On the update of the expected credit loss model, we do that work annually and one of the key aspects of it is to calibrate the losses the model predicted versus our actual loss history and expectations. Those updates relate to macroeconomic variables, the regression methodologies, the observation periods that we choose and obviously the forward-looking variables that we feed into the model.

So all of those things are reviewed and checked against, the fit against loss history and that's what resulted in the benefit in this quarter. To your point about the timing what it tells us is that we overbuilt reserves against those forward-looking indicators in the past relative to the expected loss components that we see in our portfolios.

You know, that EUR 100-million-odd net benefit, should be considered against a EUR 4.5 billion balance sheet loan loss



provision, not really against the ongoing quarterly level of Credit Loss Provisions that we're taking.

Christian Sewing

Stuart, on your second question it really comes down to our strength and to our core DNA as a financing bank. We always said that through the time but in particular the focus of this strategy was designed to further foster our financing business. There we see a good pipeline but I can reassure you, like we have done it in the past, we are not changing and we have not changed our risk appetite, our underwriting standards.

And if I view our loan loss provisions and risk history through the cycle you'll see that not only from the underwriting standards but also from an active risk management I think we are superior and therefore the quality of the portfolio is unchanged but it plays simply to our strengths.

So it's not undue risk-taking. We have the strength, we have the client franchise and in particular with the focus on this business there is obviously even more demand.

James von Moltke

Stuart, one other just thing to point out is FX translation is a significant part of that growth so in the back of the presentation you'll see slide 32 in the presentation where we present the growth rates both with and without the FX impact year on year. So it's a little less than you were citing ex the impact of FX.

Stuart Graham

But 17% is still very strong. Isn't it?

James von Moltke

Yes, and it contributes to future revenues.

Stuart Graham

But can I just ask one clarification, James? You mentioned 20% of deposits could be re-priced negative in answer to an earlier question. Was that all deposits or private bank deposits? I wasn't quite clear.

James von Moltke

That was Private Bank deposits so the analysis behind that is if you were to make some assumptions about where you could begin to impose, a tiering-like structure in that deposit base it could affect up to about that level of the deposits; again round numbers.

What you're actually able to do, as I say, depends on the market environment, depends on your dialogue and relationship with the client. And, part of the other question was are you willing to see deposits walk out the door. At our level of liquidity the answer is yes; you want to retain the client relationships and in particular in wealth, asset management, advisory-type products



Adam Terelak
(Mediobanca)

but the deposit part of the relationship is obviously economically less valuable.

Oh, yes. I just wanted to come back actually on the deposit re-pricing. You seem to be relatively confident you can pass on negative rates but how do you think about that relative to the senior debt you're looking to take back in the next couple of years? Clearly with where senior spreads are at any deposits is actually cheaper funding so whether the decisions you're making on deposits is led by the liability restructuring strategy.

And then secondly was on operational risk and that's come in probably below where you're guiding and below expectations. I just wanted to see if you could give us a bit more of an update on what you can do on operational risk in the core business and what the AMA model you've got there and the relationship you've got with the regulator there in terms of bringing that number down... Thank you.

James von Moltke

Sure, thanks, Adam. On liquidity, we're doing all of the above in terms of balance sheet optimisation so, as you know, we are allowing some of our unsecured debt to roll off and that saves us the coupons that are relatively high-spread.

Of course, deposits are cheaper sources of funding than unsecured liabilities but the two have different constraints, when you think about it. The unsecured bonds are part of, our capital stack to meet MREL requirements so there's a level at which we would bottom them out. That's part of the cost of funding on a blended basis of our businesses.

The deposits are another part of our funding base, have a pretty different set of characteristics in terms of liquidity, as to what the value is of those deposits in our liquidity modelling but also, as I say, the nature of the relationship and other features of that deposit relationship. So one can act on both fronts at the same time as you optimise your liability stack.

On the Operational Risk RWA item we did make some progress in our modelling and engagement with our supervisors during the quarter that was a little bit quicker than we'd intended. That's a positive frankly.

We think there is more room to go as we reshape the company in terms of the AMA models that govern our Op Risk RWA. The dialogue with our supervisors is very constructive in this regard. It is always hard to tell over what time period and in respect of which adjustment we're going to reach agreement. Hence we're



relatively reticent or conservative about that portion of the deleveraging but it's something that we're working very active on and, I would say, have a very constructive dialogue with our supervisors on.

Adam Terelak

Just to follow up on that dialogue, does that include the look-through requirements in terms of a standardised model and how that might look on a Basle 4 basis?

James von Moltke

It does.

Anke Reingen (RBC)

Yes, thank you very much. I just have two questions. The first is - sorry if I missed it - on your pension hit on the core tier one ratio in Q4. Can you please give us a bit more clarity and is there also something on trim to come? I think there might be potentially another five basis points.

And then on the prime brokerage and modelling of the CRU, can you please come back to your earlier comments so were you basically suggesting the cost there to the whole exposure is gone but there might be a benefit to the revenues? And what sort of like magnitude of numbers are we talking about in terms of revenues and costs? Thank you.

James von Moltke

Sure. Let me take you through those in terms. So the pension adjustment that we indicated was part of our capital planning for the fourth quarter; relates to a process that we do from time to time, looking at the mortality in our portfolio.

You will recall we made a partial adjustment last year around changes in mortality tables. That work has gone on into this year and we'll make final determinations of the defined benefit obligation at the end of the year so we're just anticipating in our planning expectations based on what the current analysis suggests.

On TRIM (Targeted Review of Internal Models) we did reflect in the third quarter the amount that we were expecting from the ongoing feedback. We don't expect additional regulatory-related items in the fourth quarter. The next TRIM impact we expect some time in 2020 but it is always hard to say when but our expectation is it would be sometime around the middle of the year so Q2 or Q3 2020 and again that's built into our forward capital planning.

On the transfer of the prime brokerage to BNP Paribas just to provide a little bit more colour, during the transition they will receive the margin from the business net of an expense



reimbursement that we receive from them and so those two items will be recognised in our revenue lines on a net basis.

We'll continue to recognise the expenses to operate that business as we do today. On the balance sheet side they will take almost all of the RWA and around half of the leverage exposure onto their balance sheet through a synthetic transfer mechanism; think of it like a swap.

Economically it's quite similar to simply transferring assets and having a transition services period. That is, they receive the benefits and burdens of the business and we have a gross-up of the relevant costs across revenue and expense lines.

And obviously within the expense lines we're going to be working overtime to bring that to a break-even for the business before allocated cost and also be working on taking down the allocated overhead over time.

As to specific amounts we're not going to disclose that at this time and we'll wait for closing and then you'll see it in our financial results going forward.

Anke Reingen

Thank you very much. On the pension, is it about 20 basis points or how much should we pencil in?

James von Moltke

It's less than that but again embedded in the guidance we've given.

Amit Goel (Barclays)

Hi, thank you. So, I mean, I've got a couple of questions just coming back actually a little bit to the targets and the kind of revenue aspiration. I mean, obviously in July, you know, the starting point was, you know, either, I guess, the 22.8 and then maybe the 23.4 billion of revenue and I think you've helped clarify some of the mitigants against some of the interest rate headwinds that, you know, that we could see.

But I'm curious; I mean, for example if I look at Q3 core revenues, you know, just some simple back-of-the-envelope maths and I times by four, I'm getting to current levels of more like 22.2 or so. So just really wanted to understand also that delta and what you kind of had expected for core revenues to do in the process.

And then in terms of the targets, curious; I mean, obviously the comment in the report about, at this stage you continue to have the 2022 revenue aspirations and targets unchanged; but does that mean that, come December 10th, we could see some revisions to those targets or what is it that would lead you to adjust on those areas?



So that's my main question and the second was just for clarification on service cost allocations but we can have that afterwards.

Christian Sewing

Amit, it's Christian. So I think in particular for the outer year James gave already a lot of guidance so we absolutely recognise that there is headwind from the interest rate curve but please also take into account that since July 8th we had a series of mitigating measures.

You know, we announced on call at the end of July for our Q2 results that there is a new or a different calibration actually, what remains in the core bank and what is in the CRU bank. I think we quite in detail said how much and how intense, intensified we have our work on re-pricing in particular in the Corporate Bank but also in parts of the Private Bank.

And now while this is still two-and-a-half or three years out, I tell you, if I simply look at the Q3 revenues in the core bank, including, by the way, in the investment bank, and compare that to our internal plan numbers we are clearly better than our internal plan.

Already in this quarter in the Private Bank in Germany we faced certain headwinds in the interest rate environment. However we made good via other revenue streams which were better than we initially thought; also, by the way, in the Investment Bank.

So for us at this point in time there is no reason to reduce that goal. We know that we need to work on certain mitigating measures. We have laid them out and that is also exactly the work we are doing right now while we again review and confirm our planning for the next couple of years and then we'll give you further details on 10th December.

Amit Goel

Okay, thank you. And in terms of the second question - this is more clarification - I just want to check, in terms of the service cost allocation changes, do those just affect Q3 or in the restated numbers we have for the previous quarters do those already also reflect those service cost allocations or is this just a delta in Q3? Thank you.

James von Moltke

In our restatement we applied the allocation keys that reflect today's segmentation over history. We did not apply all of the changes that have updated those keys to the history that we did in the third quarter so you do see some change in the variances as a consequence of that.



And there's some degree of shifting or, if you like, phasing within the year so it's a bit of a mixed story in terms of the impact. We tried to give you a sense of where it might be a driver of the variances in our prepared commentary.

We have done a huge amount of work over the last two years to be able to look at and charge for internal services based on specific drivers and so that is a charging mechanism that we will implement from Q1. We're planning on that basis in this year's planning round.

I will say that the direction of travel in those allocation keys has brought the businesses closer to what we think is that driver-based charging mechanism and we also included a pro forma overlay for that in the numbers that we provided in July from a planning perspective.

So we've been transitioning to that in this new methodology. It does create some noise in terms of comparisons but it's putting us in a very different place in terms of transparency and management capabilities.

Andrew Coombs (Citi)

Good afternoon; two questions from me, please. Firstly on some of the mitigating measures that you've mentioned to offset the rate headwind, I think you provided a lot of colour on the perimeter adjustment, the impact of tiering, charging on negative rates and I want to come back to the excess liquidity reduction.

This is something you talked about just over a year ago and we saw the LTR dropping 148 to 140 last year. It's since kind of stabilised at that level so I just want to get clarity of whether you still think that can drop further and move more into line with peers and the potential benefit there.

And then my second question was with respect to the fixed-income revenue progression; down 10% year on year so it is worse than peers. You flagged that with distressed debt and also EM there're some specific issues with the quarter versus the prior period but I'm more interested in rates.

You obviously have done quite a sizeable restructuring of that business as well and so I just want to check; is that largely done, is that a step change that we should see this quarter and we shouldn't see any further headwind there or is there still some more pressure to come through? Thank you.



Christian Sewing

Andrew, let me start with the second question. So overall I really do think that we have to dissect the fixed-income business into three. As James was saying, I think we have done very well in the financing business; we have done well in the FX business and always see that in the context of the restructuring which we have announced. Such a restructuring which is the largest one over the last two decades in Deutsche Bank is obviously impacting in particular the main unit which is addressed and hence you have certain impacts then also on the fixed-income business.

In the rates business we have seen weakness in the set-up, in the governance. We made changes to that and since we have made the changes in July and August we have seen a very good momentum in September and we believe that this is a core offering of Deutsche Bank. We think we have the right structure, the right set-up and again from the numbers I can see I'm actually quite confident that we can now reach our targets.

The same, by the way, applies to the second weaknesses which we had in the fixed-income which was emerging markets. There I think we cleaned up our books and we have a strong risk management. We have a strong leader where like in rates, that we linked that business to our corporate franchise which really made a difference from September on and therefore I think we are rightly set up and I'm confident that we can reach our targets there.

James von Moltke

So, Andrew, on balance sheet optimisation, just short answer to your Liquidity Coverage Ratio question; we published 139% this quarter and we'd indicated in the past that we do see opportunity to continue to bring that lower prudently towards more like 130%. It takes some time as we put in improvements but we're on a path towards that.

The liquidity deployment that we've talked about; the principal area has been investing in assets out of treasury. We've done that to an extent, a little less than we had originally envisaged but we have built a portfolio there that is producing revenues.

And then secondly we've gone much further in terms of allowing unsecured debt to roll off; that's helped. We've also found that with the growth opportunities that have shown up in the businesses relative to our earlier planning it's obviously better to do the lending in our core businesses and we've sort of seen more of that optimisation take place in the core business growth



than in treasury. But we've been pursuing really all of the above as we benefit from balance sheet optimisation.

Andrew Lim
(Societe Generale)

Hi, thanks for taking my questions. So if we look at the private banking net interest margin historically, it seems to be deteriorating at a faster pace these past two/three quarters. I was wondering why you think that's the case. I'm wondering specifically actually whether mortgage prepayments are included within that net interest income and whether you're seeing a faster rate of mortgage prepayments lately.

And then my second execution is just on the costs; your 21.5 billion target for this year implies that you should make 5.7 for the fourth quarter so, given what you made in the third quarter, that seems quite achievable. Are you prepared at this moment to say that you can beat that 21.5 or should we expect some kind of fourth-quarter seasonal chew-up in costs? Thank you.

James von Moltke

Thanks, Andrew. On the NIM in Private Bank, yes, it's down from 2.1% to 2.0% so it essentially fell in the rounding a little bit in the last couple of quarters. What you see there broadly is the impact of the interest rate environment; that is predominantly but not exclusively a euro book.

On prepayments I don't have an answer for you right now in prepayments in general. There have been prepayment activities in certain of our mortgage books including internationally but to us it is not, you know, apparent as a major driver of NIM in the numbers you're looking at.

Christian Sewing

If I may add, James, I think in most of the credit segments - also in the private bank actually - the margins on the loan book increased so we can clearly see a positive development there, I think, even in almost all categories, be it mortgage financing, commercial loans and consumer finance; we see an improving margin just to make the old story round.

James von Moltke

That's right. So on expenses, no, no basis to revise our target for this year or next. What we're very focused on is managing our run rates over time and you see that progression in the slides we show. You also see what we need to achieve in Q4 in order to remain on track so we think we're on course here but managing everyday expenses tightly in the company to bring down that run rate.

Magdalena Stoklosa
(Morgan Stanley)

Thanks very much. I've got a couple of follow-up questions. Well, first on your re-pricing efforts because you've mentioned the adjustments to the product pricing strategy in GTB; you've



also mentioned the kind of pricing changes in wealth as well to protect margins going forward. So what are those pricing levers that you are actually putting through? So that's the first question.

The second one is, how should we think about the impact of the role of the equity business in the transaction bank in particular? You've kind of mentioned some impact on the security services. Just wondering if we could quantify that.

And my last question is really about the, what should we think about the BNP transaction into 2020. I think on slide four you gave us the expected leverage impact in 2019 but what are the milestones in early 2020 that we should look at for the finalisation of this transaction? Thank you.

James von Moltke

So on deposit pricing it's pretty simple; it's that you will pass on a negative rate something approaching what we pay or equivalent to what we pay for deposit balances that exceed a certain level and I think that'll be reasonably consistent throughout the marketplace.

There may be instances where customers would prefer to pay fees depending on the type of activity or the segment within which we're operating and, as I say, the overall customer relationship, the value of that relationship is critical because for every euro we take we're essentially writing a cheque to our clients.

On the roll-off of equities within the custody business, it was a modest impact but did have an impact on the growth in our trust and agencies, securities and custody business but was not an enormous or disclosable level of revenue there.

In terms of the BNP Paribas milestones, the first step is to close the transaction on receipt of regulatory approvals. That's something that we would still anticipate for Q4. Then in 2020 we'd have the type of economics that I described, which is essentially a net margin plus a gross-up of costs in both the revenue and expense line for us that is in direct terms neutral to pre-tax profit.

And that relationship will continue more or less until the final transition of the business that we're essentially operating on BNP Paribas' behalf during dependency and then go away at the end of that period. The long stop date is 2021.



On the balance sheet perspective we essentially retain or recognise the leverage exposure to do with direct customer business. The rest of, if you like, the hedging balance sheet is synthetically transferred to BNP Paribas so the 20-odd billion will move around based on customer balances but an amount like that should be with us for some time.

Operator

There are no further questions at this time.

James Rivett

Thank you, Emma, and thanks, everyone, for joining today. We look forward to seeing you all on 10th December in Frankfurt. Speak to you soon.



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