Deutsche Bank AG

Deutsche Bank Q4 2018 Analyst Conference Call

Friday, 1 February 2019 | 08:00 a.m. CET

Transcript

Speakers:

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

James Rivett

Good morning and thank you all for joining us today. On our call our CEO Christian Sewing will speak first, then James von Moltke, our CFO, will take you through the earnings presentation which is available for download on our website, DB.com. After the presentations we'll be happy to take your questions.

Before we get started, I just have to remind you that the presentation may contain forward looking statements which may not develop as we currently expect. I'd 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, CEO

Thank you, James, and welcome from me. I will discuss the progress we have made in 2018 as well as our priorities and targets for 2019 and beyond.

Starting on slide two, I'm pleased that in 2018 we have delivered on our promises. We generated our first full year net profit since 2014, and we grew our reported pre-tax earnings. Due to our disciplined execution, we delivered on our cost and head count reduction targets. And we generated positive operating leverage in 2018. We view all these achievements as the first steps in our return to more sustainable profitability.

We also made good progress on our strategic objectives, while we further invested in strengthening our controls and processes. That said, the headline revenue performance was below our and your expectations in the fourth quarter. This was driven by the challenging industry conditions and the specific news which impacted us directly. But with costs and our balance sheet firmly under control, we now move to controlled growth.

We are convinced that in 2018 we have laid the foundations for our growth agenda. We are making sustained investments in our core businesses and are showing improvements in key revenue drivers such as the substantial growth in loans. We expect these impacts to show up in our revenue performance in 2019.

Let me address all of these points in turn, starting with our return to profitability on slide three.

Our goal is to materially improve returns to our shareholders over time while maintaining a strong capital ratio. In 2018 we grew our profit before taxes by 8% to €1.3 billion. And we earned a net profit for the first time since 2014. This was achieved despite a high tax rate of about 75% which was due to specific tax items.

Without these items, our net profit would have been more than €700 million. But our return on tangible equity was less than 1% on a reported basis. Clearly there is much more work that we need to do to reach our targets for 2019 and beyond.

In 2018 we set and delivered against clear and credible targets. As shown on slide four, we committed to targets of reducing adjusted costs to €23 billion and head count to less than 93,000. Through disciplined execution, we met both these objectives. We reduced our adjusted costs by €1.1 billion to €22.8 billion, €200 million below our target. As we consistently said, we refused to repeat Deutsche Bank's history of negative cost surprises in the fourth quarter. With the 15% year on year reduction in the quarter, we are pleased to have achieved this. This is what we promised, and we are sure that this is sustainable.

On head count, we ended the year with 91,700 staff, our lowest level since the acquisition of Postbank in 2010. And even as we grew volumes in our businesses, we maintained a common equity tier one ratio above 13%.

Slide five shows, beyond our financial progress we executed on our key strategic objectives in 2018.

In our corporate and investment bank, we reshaped our franchise to focus on our core strengths. This included reducing leverage exposure in CIB by more than €130 billion, mainly in equities and US rates. We said we would achieve this leverage reduction by the end of 2019. We reached our target 18 months early.

A strategic repositioning impacted our near term revenues, but we are now able to reallocate resources to our core businesses to generate returns for shareholders. We remain the leading European bank with global reach. And in fixed income overall we maintained our position as the leading European player and the fourth largest globally.

In our private and commercial bank, we took steps to integrate our operations, completing the legal entity merger of Postbank and Deutsche Bank. This is the largest merger ever overseen by the ECB, and we delivered on time. We also finalised our business model adjustments with the integration of Sal. Oppenheim and the partial sale of our Polish retail operations. We further optimised our branch network with 230 branch reductions in 2018.

In asset management, we completed the initial public offering of DWS during the first quarter of 2018. The IPO better positions DWS to benefit from future growth opportunities as they arise. In the face of challenging market conditions, DWS accelerated its cost reduction and signed strategic partnerships with Nippon Life, Tikehau and Generali. Put simply, we achieved all of our strategic objectives on or even ahead of schedule.

As with our cost discipline, we are equally focused on our regulatory road map, and we made good progress and are executing against our regulatory objectives. We have continued to invest in our controls, especially in anti-financial crime. As the press has recently reported, we are all well advanced in our internal reviews around Danske and Panama. To date, we have found no evidence of shortcomings on our part.

As you can see on slide six, our balance sheet is conservatively managed. This allows us to absorb market volatility, and at the same time positions us for future growth opportunities. At 13.6% at the end of the fourth quarter, our CET1 ratio is at the high end of our global peers. And as we previously said, we increased risk weighted assets in our businesses to support growth this quarter.

Our liquidity coverage ratio of 140% is €66 billion above our regulatory requirement. In 2019 we expect to benefit from a strong focus on managing this liquidity position in a more efficient way. finally, on any measure, we manage our risk levels conservatively. At 77% we operate with one of the lowest loan to deposit ratios of all major European banks. And our market risk and credit costs are amongst the lowest of our global peers.

And let me be even clearer on this point. Our asset quality and our lending book is of top quality and is well positioned for lower growth rates in the global economy. We are not concerned about a material downward trend in the economy and do not expect any meaningful impact on our portfolio.

So, with the foundations set, let us turn to our outlook for 2019, starting with the adjusted costs on slide seven.

We made great progress in 2018 in reducing adjusted costs by €1.1 billion and out performed our target by €200 million. This year, we are still committed to reducing adjusted cost by €1 billion even from the lower starting point. The measures executed in 2018 should deliver approximately €500 million in annualised benefits. We start with 6,000 less people and benefit for full year from a lower run rate.

To achieve the additional €500 million of savings, we should benefit from our planned additional headcount reductions, the synergies from our German retail merger and completion of the sale of our Portuguese retail operations. We will also benefit from management's ongoing effort to reduce non-compensation costs, including further rationalising vendor spending in our real estate footprint. As a result, we are committed to reducing our adjusted cost to €21.8 billion in 2019.

But let me make also very clear that we are not taking short term decisions that impact our long term investments. Especially in our technology and controls. And if the revenue environment does not develop as we expect, we will seek additional savings. Beyond 2019 we are still committed to further reducing our costs and improving our cost income ratio.

One driver of revenue growth will come as we responsibly optimise our balance sheet.

As slide eight shows, we began this process in the fourth quarter and will continue throughout 2019. First, we have begun to reduce our excess liquidity reserves. In 2018 we reduced our liquidity reserves by approximately €20 billion, and this year we believe that we have up to €30 billion of liquidity to redeploy, including at a subsidiary level which is not captured in our disclosed liquidity reserves.

We plan to use these resources to purchase higher returning but still low risk assets. Second, we are working to change the composition of our liquidity reserves. Over 70% of our reserves today are in cash, including approximately €100 billion at the ECB, costing us 40 basis points running. Over time we believe that we can reposition our liquidity reserves to a more equal balance of cash and securities. In aggregate, these actions should add over 300 million to our annualised revenues.

And finally, with our low loan to deposit ratio we are well positioned to grow loans. During 2018, excluding disposals, we have grown loans by over €20 billion, including by seven billion in the fourth quarter. We believe that the combination of liquidity deployment and loan growth positions us well for revenue growth in 2019.

Slide nine shows the areas where we expect to grow.

Generally we should benefit from underlying market growth. Our private and commercial bank and global transaction bank, which account for 55% of our revenues, operate in structural growth markets. In our corporate and investment bank, we plan to continue to grow revenues in our global transaction banking and FX platforms.

We are making targeted investments, including hiring in our core fixed income and debt origination businesses. And we are also integrating our corporate and institutional sales force to increase the quality and intensity of our dialogue with our clients. This should improve our wallet share with our core customers. In our private and commercial bank, we grew loans and deposits in 2018 and expect this trend to continue. A significant contribution to growth will come from further building out our consumer finance business and relationships with our Mittelstand customers.

We also expect to improve fee income through repricing and growth in assets under management as we benefit from our relationship manager hiring in our core wealth management markets. Our investments in digital, both in the consumer and investment products, should also drive further volume growth.

DWS is well positioned to deal with the challenges facing the asset management industry. We plan to leverage our new partnerships to accelerate growth. We will also invest in product innovation across active alternatives and responsible investing. Building on our leadership position in Europe, we intend to make targeted investments in our coverage, mostly in the Americas and in Asia.

For 2019 our principal objective is to generate a return on tangible equity of greater than 4% as a step towards higher returns over time.

We expect more than half of the improvement in returns to result from things mostly or fully within our control. These factors include reducing our adjusted cost to €21.8 billion as I described. We also expect to benefit from the measures I highlighted to optimise our excess liquidity, which we conservatively estimate to add over €300 million to revenues.

In addition, we have seen underlying growth in our stable business in 2018 and improvements in the drivers of growth, including loan and transaction volumes. We expect this momentum to continue in 2019. As I said, our tax rate was abnormally high in 2018 and included several items which we would not expect to repeat in 2019. At a more normal tax rate of 35%, a significantly greater proportion of pre-tax income falls to the bottom line, significantly improving returns to shareholders.

But, achieving this improved performance alone would leave us below our 2019 target. To reach our return objective, our more market sensitive business would need to see some revenue recovery. As I just described, we believe that these revenues are available to us, given our growth agenda and our leading positions in many of these businesses. But we need to capture them. Clearly, at a 4% ROTE requires better market conditions that we saw in the fourth quarter of 2018.

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

To summarise, we delivered on our targets in 2018 and we are working hard to do the same in 2019. This year is another step to reach our longer term return aspirations. For 2019 our principal target is to generate a return on tangible equity of more than 4%. To reach this goal, we are now committed to reducing our adjusted costs to €21.8 billion and our workforce to well below 90,000.

We are confident that we will also manage our risk weighted assets and our existing capital to keep our CET1 ratio above 13%. We have the ability to generate higher revenues and will take advantage of opportunities as they arise. With that, let me hand over to James von Moltke.

James von Moltke, CFO

Thank you, Christian. Turning to a summary of our fourth quarter and full year results on slide 12. In the fourth quarter, in difficult conditions for the industry, we generated positive operating leverage. Revenues of €5.6 billion declined by 2% year on year on a reported basis, or 5% excluding the specific items detailed on slide 29 of the presentation. Non-interest expenses of €5.6 billion declined by 19% and included the restructuring and severance of €181 million and litigation of €39 million.

Adjusted costs declined by 15% to €5.4 billion. Provisions for credit losses were €252 million. As a result, we generated a loss before tax of €319 million. Our effective tax rate remained elevated, reflecting the impact of non-deductible expenses and certain deferred tax adjustments which drove a net loss of €425 million. Tangible book value per share of €25.71 is broadly stable compared to the prior quarter and over the year.

For the full year 2018, net income was €267 million, with profit before tax of €1.3 billion. Our full year tax rate was impacted by around €400 million of one-time items related to deferred tax assets and share based payments that we would not expect to repeat this year. Reported revenues of €25.3 billion declined by 4%, while we reduced non-interest expenses by 5%.

Slide 13 shows our adjusted costs, excluding the impact of FX translation. FX translation provided a modest headwind in the fourth quarter, but a benefit on a full year basis. For the full year, adjusted costs of €22.8 billion were €200 million below our target. We reduced adjusted costs by 3%, or €800 million, despite absorbing higher bank levies, increased amortisation, Brexit costs and the investments Christian has outlined.

The reduction was driven by efforts across the bank, including the effects from headcount reductions in compensation and benefits costs. We also benefited from our efforts to optimise spend, most notably with external vendors. IT costs increased, reflecting higher amortisation and our ongoing commitments to invest in our infrastructure and controls. As Christian said earlier, we are confident that we can reduced adjusted costs to €21.8 billion in 2019.

Slide 14 shows our internal workforce trends. We ended the year with just under 92,000 full time equivalent employees. We reduced our workforce by approximately 6,000 in the year, including 1,900 who left the company in connection with the completed disposals. We remain committed to reducing our workforce to well below 90,000 by the end of 2019. The majority of the reductions this year are forecast to be on our retail and infrastructure areas. These numbers do not include the additional progress we have made on reducing our external workforce, which also contributes to our cost reductions.

Slide 15 shows that since 2016 we've accelerated our investments in our control functions, most notably in anti-financial crime and know your customer processes. This slide is designed to give you a flavour of our overall regulatory spending, and excludes the spending embedded within PCB and asset management.

Since 2016, we have invested approximately €700 million in upgrading our key control functions. These investments have enabled us to improve across the spectrum of prevention, detection and investigation. We are running more automated processes with improved transaction filtering and client review capabilities. And, beyond our investments, we have also significantly reduced our presence in high risk countries, products and client groups. We believe that our control spending will peak in 2019 and we can then begin to use technology to extract savings.

We've continued to make progress on our litigation issues this year, as shown on slide 16. We've now partially or completely resolved 19 of the 20 highest risk matters that we've discussed for the last few years. Litigation reserves declined to €1.2 billion at the end of the fourth quarter, principally reflecting settlements. We reached settlements in principle reflecting a further €100 million, which should close in the first quarter.

Our estimate of contingent liabilities was broadly stable versus the end of 2017, but increased by €400 million in the quarter to €2.7 billion. The sequential increase in contingent liabilities reflects a series of smaller matters, and does not in any way relate to the Danske or Panama Papers related matters recently discussed in the media.

Turning to our provisions for credit losses under IFRS9 on slide 17. IFRS9 was introduced in January 2018 for European banks, and has three stages of classifying loans. Broadly speaking, stages one and two reflect the risk profile of performing assets, also factoring in the macro economic outlook. While stage three reflects our lifetime loss expectations on defaulted assets. For 2018, our provisions for credit losses were €525 million, flat year over year, and equivalent to 13 basis points of loans.

In the fourth quarter, provisions for credit losses were higher than in the previous quarters of 2018. The increase was mainly driven by higher stage one and stage two provisions on performing loans. As you can see on the slide in the appendix, our stage three loans decreased by €262 million in the quarter. This decrease was primarily in CIB and was mainly driven by a weakening in the global macroeconomic outlook, reflecting the forward looking information element of IFRS9.

The increase in provisions also included an adjustment to the calculation methodology on certain loans on which we hold insurance protection. In total, these items accounted for well over half of the increase. Model recalibrations also had a beneficial impact in the first nine months, which did not repeat in the fourth quarter. Stage three provisions on credit impaired loans also increased, compared to the unusually low results in the first nine months, mostly in PCB.

Finally, our leveraged debt capital market portfolios performed well. These portfolios recorded no provisions in the fourth quarter, and provisions were negligible in the full year.

We ended the year with a CET1 ratio of 13.6%, as shown on slide 18. This represents a decline of 43 basis points from the prior quarter, but remains well above our 13% target. The decline in the CET1 ratio was driven by a €9 billion increase in risk weighted assets, including €7 billion in market risk RWA.

Market risk RWA increased, reflecting a higher average value at risk and stressed VaR and a temporary increase in the incremental risk charge. On the capital side, we increased our prudent valuation adjustment and increased the conservatism in our regulatory capital charge by €400 million in the quarter. This includes the effect from a recent EBA Q&A, limiting the ability to offset pru-val against the calculated expected loss shortfall.

Looking forward to the first half of 2019, in line with our prior guidance, from January, we incorporated approximately 20 basis points of decline in our CET1 ratio, related to the change in lease accounting in accordance with IFRS16. This will be visible in our reported ratios in the first quarter. The net impact of regulatory headwinds and pending model changes I discussed last quarter is now expected to be at the lower end of the range, at 20 basis points. The impact and timing of these adjustments remains uncertain, but are still expected in the first half.

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

All said, we are committed to managing our risk weighted assets to maintain our CET1

We improved our leverage ratio on a phased in basis to 4.3%, compared to our 4.5% midterm target. On a fully loaded basis, our leverage ratio improved by eight basis points in the quarter, to 4.1%. The improvement reflects seasonally lower pending settlements. In 2018 we improved our fully loaded leverage ratio by 30 basis points, reflecting the €148 billion FX neutral reduction in leverage exposure.

Slide 19 addresses how we have operated, and will continue to operate, with a conservatively managed balance sheet. Our balance sheet is highly liquid, low risk and well capitalised. Over a quarter of our €1 trillion funded balance sheet is in cash and highly liquid assets and our liquidity reserves. A further 30% of our assets relate to our trading operations, which are funded by our trading liabilities and unsecured debt. These assets are highly liquid and are used to support our client business.

Our trading and related assets include approximately €80 billion of reverse repos and securities borrowed. These assets are fully collateralised and are typically short dated. A further €30 billion of trading assets are brokerage receivables, which also tend to be short dated. Of the remaining trading assets, approximately €70 billion are in equities securities to hedge our client positions, with a further 50 billion in government bonds.

Our trading assets include €15 billion of assets in the non-strategic portfolio, which is shown in more detail in the appendix. Although a small part of our portfolio, running down these non-strategic assets is one of management's priorities as we look to redeploy our balance sheet usage into higher return areas.

A further 40% of our assets are in our well diversified and high quality loan portfolios. Two thirds of our loans are in our private and commercial bank, of which half are in low risk German mortgages. One third of our loans are in our corporate and investment bank. Half of our CIB loans are in our global transaction bank, mostly in trade finance, and therefore short term, high quality and collateralised to investment grade counterparties. 1% of our loan portfolio is in leveraged finance.

Our loan to deposit ratio of 77% gives considerable room for further growth. On the liabilities side, close to 80% of our balance sheet is funded from the most stable sources. This includes approximately half from our low cost and stable deposit base.

Turning to our segment results, starting with our corporate and investment bank on slide 21.

In 2018, we executed on our strategic adjustments quickly and effectively. We reduced adjusted costs by over €700 million, or

6%, and we are on track to reduce adjusted cost in CIB by at least €1 billion in 2019 compared to the 2017 level. These strategic actions also led to a reduction of €137 billion in our leverage exposure. With the restructuring complete, we start 2019 with a solid base on which we can stabilise and grow our revenues in what we hope will be normalised market conditions.

In GTB specifically, we expect to grow revenues in 2019 with higher net interest income and improved pipeline conversion. We also believe that some of the leading indicators for growth are in place. We grew loans in CIB by €11 billion or 8% over the year, and by three billion in the fourth quarter alone.

This quarter, we also showed positive operating leverage despite a very challenging operating environment for the industry and the idiosyncratic issues we faced.

Reported revenues of €2.6 billion included €123 million of positive specific items as detailed in the appendix. Excluding these items, revenues declined by 10% year on year, while we reduced adjusted costs by 19% or €635 million to €2.7 billion.

Front office compensation and benefits costs declined by close to €400 million, driven by our head count reductions and lower variable compensation in the quarter. We reduced non compensation and infrastructure costs by approximately €235 million, as our cost optimisation programmes yielded savings across the platform.

Turning to our CIB revenue performance in the fourth quarter versus the prior year period on slide 22. Global transaction banking revenues were €996 million, supported by approximately €50 million of episodic items, including insurance recoveries. GTB revenues grew year on year, and sequentially, driven by higher net interest income and transaction growth, most notably in cash management.

Origination and advisory revenues declined by 23% as growth of €34 million in advisory and equity origination was more than offset by the decline in debt origination revenues.

In advisory, we had our best quarter in three years, reflecting especially strong deal flow. The decline in debt origination revenues reflected lower market activity, especially in our areas of strength in leveraged and high yield markets. Our debt origination business has started 2019 well, and we have a good pipeline for conversion in the first quarter.

In fixed income sales and trading, revenues declined by 23% or €240 million versus the prior year period, driven by challenging conditions in both credit and rates.

FX revenues rose, reflecting higher market volatility and solid flow. In credit, our lending businesses continued to perform well, and we took advantage of market opportunities to deploy balance sheet. This should benefit our credit revenues in the coming quarters.

Flow credit and securitised trading were negatively impacted by the mark to market impact of widening spreads in the quarter, as we continued to make markets for clients. Rates revenues fell, reflecting challenging market conditions and our strategic adjustments in the US, as well as especially difficult trading conditions in Europe.

Equities sales and trading revenues were essentially flat year over year, with improved performance in derivatives offsetting lower prime and cash revenues.

Slide 23 shows the results of our private and commercial bank. In 2018 PCB generated a post-tax return on tangible equity of close to 5%.

We achieved this return while sustaining continued investment in our strategic initiatives, and despite the ongoing headwind from negative interest rates. Our returns did start to benefit from the €900 million of pre-tax synergies that we ultimately expect from the Postbank integration.

In 2018, PCB generated positive operating leverage. Revenues at €10.2 billion were stable compared to the prior year as we grew volumes to offset the ongoing negative impact from the low interest rate environment.

We grew loans by €10 billion, excluding exited businesses, with the growth mainly in Germany. This loan growth was broad based across all business units, most notably in commercial clients, mortgages and consumer finance. We also grew deposits by €12 billion in our ongoing businesses.

We reduced non-interest expenses by approximately €490 million or 5% year on year, in part supported by lower restructuring charges. Adjusted costs declined by 1% or €95 million. This reflected the benefits of our continued cost discipline, our reorganisation measures and reduced head count. At the same time, we continued to invest in our businesses.

In 2018 we increased investment spend by approximately €220 million as we merge our German units and reposition our international businesses. In 2019 we expect the synergies from the Postbank integration to more than offset our continued merger related investments. Provisions for credit losses were €406 million.

At 15 basis points of loans, we continue to demonstrate the low risk nature of our portfolios, and our strong underwriting standards.

Turning to the PCB revenue performance in the fourth quarter on slide 24.

Revenues in private and commercial business Germany grew slightly versus the prior year period. Growth in mortgages and consumer financed loans, as well as smaller asset sale transactions offset the ongoing negative impact from deposit margin compression. In PCB International, revenues grew 5%, reflecting loan growth especially in consumer loans in Italy.

In wealth management, revenues declined by 4% on a reported basis, and by 13% or €52 million excluding the impact from Sal. Oppenheim workout activities and a property sale. Wealth management revenues in Asia Pacific showed continued good momentum. Revenues in EMEA and Germany declined, reflecting the absence of a smaller asset sale in the prior year and lower client activity, driven in part by the introduction of MiFID II regulations in January 2018.

Slide 25 reviews the results for Deutsche Bank's asset management segment, which includes certain items that are not part of DWS's financials. Market conditions were challenging in 2018, with US tax reform and lower demand for European retail funds posing challenges to DWS and the asset management industry. DWS is adapting to the market conditions by further accelerating cost reductions.

In line with its communicated target, DWS maintained a management fee margin of 30 basis points and above in both the fourth quarter and the full year. Assets under management decreased by 5% or €37 billion in 2018, partly reflecting negative market performance.

Net outflows of €23 billion were driven by three issues. First, the impact of the 2017 US tax reform which resulted in corporate profit repatriation. Second, we saw outflows resulting from specific low margin insurance mandates, partly due to corporate actions by our customers. And finally, retail driven outflows from lower market demand, higher market volatility and under performance of two active flagship funds in the first half of 2018.

We do not expect these trends to repeat in 2019, and the underlying performance is more encouraging. In the fourth quarter our passive business, the second largest in Europe, took nearly 30% of exchange traded inflows in the fourth quarter, while flows into our flagship funds turned positive.

2018 revenues of €2.2 billion declined by 14%. One third of the decline was driven by lower performance fees, most notably in one alternatives fund that typically recognises such fees every other year. Another third came from the absence of a recovery and the sale of certain businesses last year. The remainder was attributable to lower management fees as a result of the lower assets under management.

We reduced non-interest expenses by 4% to €1.7 billion and adjusted costs by 7% to 1.6 billion. Adjusted cost declined as we lowered infrastructure costs, professional fees and performance related compensation to offset higher MiFID II driven research costs and IPO related start up costs. As a reminder, DWS management will host its analyst call immediately after ours.

Turning to our Corporate & Other segment on slide 26. We reported pre-tax losses of €97 million in the quarter, mainly driven by €107 million of shareholder expenses. For the full year, pre-tax losses were €396 million, mainly driven by shareholder expenses. Pre-tax losses improved by €670 million compared to 2017. The improvement reflected several factors, most notably the absence of currency translation adjustments related to disposals in 2017.

To conclude, let me make a few comments about the outlook.

As Christian discussed, we are focused on achieving our return on tangible equity target of greater than 4% on our path to deliver improved returns for shareholders over time. Roughly two thirds of the improved return should come from factors in our direct control, such as reducing costs and redeploying our balance sheet.

Based on the progress that we made in 2018, and the discipline that we have instilled in the organisation, we are confident in our ability to reduce adjusted costs to €21.8 billion.

And we will look for additional cost measures if the revenue environment does not develop as we expect. As a result, we expect to generate positive operating leverage in 2019.

Part of the improvement in returns must come from higher revenues in our market sensitive businesses. We know these revenues are available to us in constructive markets. Provisions for credit losses are likely to increase slightly from 2018 but to remain low versus historical levels, in the mid-teens in basis points of loans. The increase reflects less benign forward looking indicators in stage one and two provisions, but with defaults expected to be broadly stable.

We remain vigilant, given the risks to the economic outlook. Our current plan suggests and effective tax rate of 35% approximately in 2019, although the exact rate will be influenced by our absolute level of profitability. We will also maintain our CET1 ratio above 13% through ongoing management of our risk weighted assets and existing capital.

Finally, we estimate that our payment capacity for our AT1 instruments to be around €1.6 billion, as shown on slide 34 of the appendix. This is before considering any additional available general reserves, and is comfortably above the €325 million in coupon payments scheduled for payment in April 2019.

On the common equity dividend, the management board intends to propose to the supervisory board a distribution of 11 cents per share in 2019, with respect to 2018 earnings. With that, let me hand over to James Rivett for the Q&A session.

James Rivett	Thank you, James. Mia, let's now open the line for questions.
Operator	The first question is from the line of Daniele Brupbacher with UBS.
Daniele Brupbacher	Yes, good morning and thank you. On slide eight you already talked about market risk RWA in Q1 and some of the other headwinds. Can you just give us an overall outlook for H1 with regards to CET1 capital ratio, and more specifically how do you expect risk weighted assets to develop? And then secondly, I'm not sure you are able to comment on this, but obviously there were quite a few press articles regarding potential M&A and

capital measures. Are you ready and able to comment on these stories?

And then lastly, revenue is obviously down 23%, probably a bit worse than expected. Can you just give us a bit of a broader update on what you've seen year to date and what your outlook is for this year, or the first half? That would be useful. Thank you.

James von Moltke, CFO

Sure, Daniele. I'll start with your question on the capital guidance and where we stand there. So if I just quickly review the guidance we provided in my prepared remarks. We starting point is a strong ratio in absolute terms and on a peer comparison. On the guidance, the net of it is that we expect a decline of about 25 basis points in the first half of the year, incorporating IFRS16, the regulatory items that we mentioned and that we've been engaging with the ECB on partly offset by the normalisation of market risk RWA.

That should get you to a ballpark of about 13.3%. And within these items as I noted, it reflects our expectation that regulatory items come in at the low end of the range I provided in October.

We think this ratio is strong, but we're obviously focused on managing what is in our control, such as capital demand, and anticipating as much as we can conservatively those things that are outside of our control.

Capital deployment is within our control, to your question. For practical purposes, we're managing to an RWA cap somewhere in the range of €355 billion at the high end, with the increment to the year-end level really reflecting the €4.5 billion that came on from IFRS16.

There are things outside of our control, and those have principally been regulatory and accounting changes, but I think as you've seen we've been able to anticipate and offset those items over time. So we feel very confident on our capital level, which is more than sufficient to support our current plan, and that of course affects everything we think about in terms of forward guidance.

Daniele Brupbacher

Very clear, thank you.

Christian Sewing, CEO

And, Daniele, to your second question on all the rumours. We have our plan and we are working very hard on realising this plan. And we take a lot of comfort from 2018. We set our targets and we achieved each and every of our targets in 2018, and that gives us a lot of confidence that we can work and that we will execute on our plan in 2019. That is our plan, we believe in this, and on everything else we do not speculate and we do not comment.

Daniele Brupbacher: Okay, thank you.

Operator: Next question is from the line of Jon Peace with Credit Suisse.

Jon Peace: Thank you. So my first question is on slide ten. Your outlook for ROTE. You've put the market share recovery into market/event sensitive rather than more controllable. But are there things that you're doing specifically to try to recover some of the market share in fixed income in particular? And is it different to what you've been doing before in terms of potential for success?
And then just thinking about the ROTE development, the 4% target, can we just clarify that's a stated number but it excludes the AT1 costs. And as you look beyond 2019, how quick do you see the potential for further improvements? Thank you.

Christian Sewing, CEO: I'll take the first question with regard to your question on the market share recovery. I think we always have to put this in relation to the year. In 2018, we had a very deep restructuring in our Corporate & Investment bank. We did all this in the second and in the third quarter. We acted very swiftly and to the point. In the fourth quarter obviously we had difficult market conditions and we also had specific issues around Deutsche Bank given the raid we saw in November.

But the fundamental market position which we have, in particular in the fixed income business, is very, very strong. We remain among the top four banks globally and we are the strongest EU bank. And we know that we have the expertise and we also know that we have the access to our clients, the franchise, and we can see that in our daily flows.

So if you just think about what kind of headwinds we particularly had in 2018, but with the foundations being right, with the capital in place so that we can make investments.

Within CIB, the first incremental investment goes into our Global Transaction Bank and into our fixed income business. We also believe that with improved market conditions versus the 4th quarter of 2018 that we can recover here.

James von Moltke, CFO	And just briefly, Jon, on the AT1 coupon. That's correct. The ROTE and the net income we use for that purpose is before deducting the AT1 coupon.
Jon Peace	Thank you. And in terms of the longer term development of ROTE, where do you see it beyond 2019?
James von Moltke, CFO	We provided the framework for our forward planning in our June presentation, and so we would think of it as steady steps from here to our 10% aspirations. We've talked about that being dependent on market factors and other things, rather like we've described for 2019, but that remains our planning and our core belief, and we're confident about that forward path.
Jon Peace	Thank you.
Operator	Next question is from the line of Stuart Graham with Autonomous Research.
Stuart Graham	Hello, thank you for taking my questions. I had two. You seem very focused on loan growth as a way to grow revenues. I wonder if you could comment on the kind of ROEs you're seeing on those new loans, please? And then the second question is on the Q1 base effect. If I recall you profit warned on Q1 CIB revenues last year, but from memory I think January started very strong and then the quarter tailed off. I think that's right. Maybe if I'm wrong you can correct me. So as you think about the revenue growth you need to achieve the 4% return on tangible target and what you've seen in January so far, how do you feel today about showing year on year revenue growth in CIB for Q1? Thank you.
James von Moltke, CFO	Sure, Stuart. I'll give you a couple of pieces of the puzzle to your first question. We do see loan growth and deposit growth which existed in PCB as drivers of future revenue growth, naturally in a banking business. And so we're encouraged by that momentum that we saw in 2018 and carrying into 2019. If we think about what we think the margins look like, for example in certain of our domestic and international consumer businesses, we're looking at 100 to 120 basis points on mortgages, depending on whether we're writing them in Germany or internationally. And then much higher yielding consumer finance loans. That is obviously a range based on credit quality but that goes up to 600 basis points, so a significant improvement compared to mortgages and hence our commentary about growing consumer finance. And in the

	commercial markets, those tend to be in a low 200s kind of margin. The RWA content of our loan book as we grow it is, in and around 25%. So that gives you a sense before costs what the economics of that loan growth look like to us. Again, we think that's an important indicator of both the health of the franchise and drivers of future growth.
Stuart Graham	Okay.
Christian Sewing, CEO	Stuart, and to your question on the performance, consistent with our recent practice which we have now done for the last three quarters, we won't specifically speak to our business performance that early in the quarter. I would say though that we have been working to put the more idiosyncratic issues that arose around our name in Q4 behind us as quickly as possible, and that will certainly then help. And we have seen signs of improvements, as you can for instance see at our CDS spreads. Now overall it also depends how the overall economy is doing, and there my commentary would be relatively similar to what you have heard from our peers over the recent weeks, and that is in my view a generally more constructive tone in the capital markets versus Q4. And while there has been some deceleration of economic growth globally, and also and especially in Europe, we do not see the conditions that make a recession likely. That is also the clear tone I get from our corporate clients around the world when I just summarise all my meetings I had last week in Davos. People still see growth, the fundamentals are satisfactory and that will also help our long term growth in the business.
Stuart Graham	Thank you. Maybe I could just follow on. James said that debt origination had started well, but if I look at deal logic you're down 20% year on year in DCM and you're down 60% year on year in loan underwriting. So I'm guessing that well is versus Q4? And again going back to my earlier question, I recall January was really strong for you last year, so is it just you're facing a strong base effect looking backwards? Not talking about this January, but just looking back at last January.
James von Moltke, CFO	We're commenting not on a comparison basis, Stuart. We're commenting on the pipeline events that we've already seen in the quarter to date. We've been involved in a number of marquee

transactions in high grade debt capital markets, so that was really the background to our comment.

Stuart Graham — Got it. Thank you for taking my questions.

Operator — Next question is from the line of Andy Stimpson with Bank of America Merrill Lynch.

Andy Stimpson — Morning everyone. Thank you for taking my questions as well. One on FIC revenues and one on loan losses, please. So firstly on FIC revenues, clearly down a bit more than what we were all expecting. You've seen the leverage exposure come down significantly in the quarter. I just wanted to know how much of that decline was seasonal and how much of that is permanent as a result of the perimeter changes that you've made? I guess there I'm just trying to gauge how much balance sheet you've really got freed up, ready to redeploy, or if seasonality in one quarter means there's not much room to grow there.

And I guess on the same theme with the risk weighted asset headwinds, you mentioned for the first half it seems there's not much room for risk weighted asset growth, so I guess the growth redeployment has to come from the leverage side.

On the second question, on loan losses, I appreciate the quality of the book is generally very good and you're very happy with all of that, but what kind of GDP downgrades would we need to see for loan losses to start increasing more meaningfully? Is it a downgrade to 1% GDP growth? Or do we have to get to zero or negative for that to really make a difference? I guess things aren't really that bad yet in the fourth quarter but you already highlight IFRS9 as front loading some of those loan losses already in the fourth quarter. So just trying to get an idea of how that evolves, please. Thank you.

James von Moltke, CFO — So there was a lot in there, Andy, I'll try to tackle… So, yes, the leverage ratio reflected a seasonal decline in pending settlements, so you'll see that increase slightly in the first quarter. We don't think that's a material burden on our ability to continue to support and grow client business. We feel comfortable about our ability to redeploy the leverage exposure savings that we created in 2018.

Your point on the credit environment, what we're seeing in terms of rating migration at the moment is actually more of a deceleration of upgrades than an acceleration of downgrades. So while that's obviously something that we watch carefully, at this point there's nothing in either our portfolios or what we're seeing in our obligors to suggest a deterioration in the environment.

You're correct that there are sensitivities clearly now that IFRS9 incorporates forward looking indicators, and as we described that was a major portion of the increase in our stage one and two provisions. There is sensitivity to the economy built into those models. It's not just economic growth, incidentally, it's unemployment. So interestingly as we see still relatively strong employment conditions, we may see some nuances in how that develops going forward. But just to reiterate, no real change in the quality of our portfolio or what we're seeing in terms of the obligors.

Andy Stimpson	Okay, thank you.
James von Moltke, CFO	I think I missed one of your questions, Andy. I apologise.
Andy Stimpson	No, I think you covered the two. They're just very long questions. I like to have a big market share on the call. Just to come back on the leveraged exposure. So I guess 4.1% leveraged exposure, if we see the seasonal rebound, I guess if we're seeing at 4% it just doesn't seem that there's that much to redeploy. How much do you think you've got to redeploy into 2019?
James von Moltke, CFO	Andy, part of it is just driving efficiency in the use of the leverage exposure, which as you see we did some of last year. The pending settlement difference in the December 31st numbers was 22 billion, so you'd expect to see a little bit of that come back. But that tends to be relatively small - single digit basis points.

In terms of how we think about the room available to us, I'd point out that our phased-in ratio which is the one against which we measure our medium term target, climbed to 4.3%. So a significant improvement over the course of the year. Closer to our 4.5% target.

The other thing I'd point out is we spent some time going through the balance sheet in some detail and how we see the composition, the riskiness, the credit quality, the liquidity aspects of that balance sheet, which is why you hear us often not focusing as much as I think some analysts focus on the leverage ratio.

Because in the leverage ratio of course you're capitalising 26% of your balance sheet which is in cash and high quality liquid assets.

So risk weighted measures seem to be better at capturing differences between different balance sheets across the industry..

Andy Stimpson

Sure. Thank you very much.

Operator

Next question is from the line of Kian Abouhossein with JP Morgan.

Kian Abouhossein

Yes, hi. My first question is on the ROTE guidance, 4% plus. If I just do the simple math of your cost and I leave the provisions unchanged, you give the tax rate. I need around 4.5% growth in revenues adjusted for the 300 million, assuming that definitely comes through. So underlying growth has to be something like 4.5% in 2019 compared to 2018. Why are you comfortable with that number, considering market environment? And should that not be the case, do we have other measures and can you discuss the other measures that you could take in order to get to that 4% plus ROTE guidance?

The second question is related to your liquidity. You mentioned that you have plenty of liquidity as a percentage of balance sheet, and I wonder why that's the case. Is this a regulatory requirement? And if so, what would be the trigger for you to be allowed or yourself to make the decision to more aggressively not just reinvest that liquidity but actually reduce it?

And then the last question I have is on Postbank if I may. You mentioned the legal entity is concluded, but can you give us a quick update where we are on staff reduction and branch reduction, just so we know we can track roughly where we are at this point. Thank you.

James von Moltke, CFO

So a lot of questions, Kian. I'll try to tackle some, I think Christian will also add to them. We feel good about the momentum in the businesses that underlie the ROTE walk. A significant amount of the uplift in ROTE comes from the stable banking businesses where, as we've described, we see momentum. And that should contribute I'd say conservatively 1% to that growth. The tax rate as we've talked about a further 1%, and expenses and liquidity deployment makes up the balance.

So we feel comfortable that those things are both visible to us and in our control. As Christian outlined, when we think about the more market sensitive businesses, we think we have strong franchises, well positioned in the market environment that we're in to perform, and frankly recover some of the market share we lost in 2018. And as we put the restructuring behind us, the stability and our ability to execute we think gives us the confidence in driving performance in the market sensitive businesses.

We recognise that the step off in the fourth quarter makes the growth rates look higher, and you gave us a firm wide growth rate number. But again by being market sensitive they can also recover quickly and we think we've made the right investments, have the right market positions in the core areas that we've defined to execute on that.

Christian Sewing, CEO

Let me comment a bit on the integration of Postbank and Deutsche Bank in Germany. Let me first say that we are fully on track against our plans which we articulated both to the market and to our regulators. And I really would like to re-emphasise this has been a large and complex undertaking over the past 18 months, and there is far more than simple reduction in branches and people.

With the legal entity merger completed, we announced the combined management teams. We have, and you know that is in Germany a necessity, we have established a framework agreement around all job reductions for the coming years. We can also now leverage the liquidity overhang on the back of the waiver which we got last year.

So all in all, completely on track with the synergy commitments of €900 million by 2022, and we are doing everything also to accelerate those. As an example, I would cite the merger and the subsequent integration of the Deutsche Bank and Postbank mortgage companies, which we have even brought forward.

With regard to branch closures, we always said that we would finalise the individual programmes on the Postbank side and on the Deutsche Bank side in 2018. That was on the one hand the management agenda in Postbank and that was horizon programme in the Deutsche Bank. We completed that and on top of that we even closed already 240 branches on top of these programmes. We also reduced 5% year over year in FTE terms, but far more will now come from the integration with the new management team now in 2019 and the following years.

So in this regard we are well under way. We have already optimised our sales structure and sales organisations. We've completed the head office restructuring and now we are moving on to planning the implementation for both the IT and operations integration. So a lot of work has been done, and as James said we are starting to see the real synergies from the integration from 2019 on, but I think you also understand that in 2018 we already did a lot in order to reduce the cost there.

James von Moltke, CFO

Your third question was about liquidity and our confidence in being able to deploy the liquidity. I break it into very…

Kian Abouhossein

Sorry to interrupt. It's not deploying the liquidity. It's why you need that much liquidity in the first place.

James von Moltke, CFO

Yes. So it gets to the answer I wanted to provide. We've carried buffers for conservatism that we now feel more confident about being able to take down. That conservatism exists within our liquidity and the ratios that we report. There's also in our legal entity structure areas where there is trapped liquidity, and part of the programme here is to put that trapped liquidity to work, use it more efficiently.

There's a third element that goes to models and data enhancement, which frankly is a net flow of improvements, some which make our models more conservative, some less conservative. But net net it improves our modelled or stressed liquidity view. But overarching all of that is just a much greater confidence in our management reporting abilities to be able to reduce the buffers that we've carried and put them to work. Essentially reduce the drag that this has created.

Kian Abouhossein

Just ask, is there a regulatory requirement to have this level of liquidity? Or is this purely your own choice?

James von Moltke, CFO

It's not a regulatory requirement. The regulations speak to LCR and other things, and also ask that every company have their own measures of stressed liquidity management. They naturally look at that, but the decisions on buffers that we hold is our decision. The regulators engage with us on all aspects of this, whether it's the model enhancements and our capabilities, so they're certainly involved in the discussion, but the decisions are ours and we feel confident in our ability to execute them.

Kian Abouhossein

Thank you.

Operator

Next question is from the line of Jeremy Sigee with Exane BNP Paribas.

Jeremy Sigee

Good morning. Thank you. A couple of questions on the leverage ratio, and actually I was a bit surprised by your comment when you said that some analysts focus on the leverage ratio. My feeling was very much that you've been encouraging us to focus on that metric as the binding constraint and the key medium term target, so I was a little surprised that you seemed to be downplaying that.

If you do want us to focus on the risk weighted ratio, I think you need to talk quite a bit more about FRTB impact, Basel IV impacts, what your go-to ratio will be with those impacts in a way that I don't really feel that you have. So I wondered if you could comment on that shift in emphasis, and at some point open up about those regulatory impacts.

Second question, linked to that really, is the 4.5% medium term target for leverage ratio still a hard requirement or are you viewing that more as an aspirational soft goal with a bit of management buffer in and it doesn't matter whether or not you make it?

And then the third question on the same subject is whether there is scope for you to move towards that ratio with more reduction in leverage exposure as you have here? Because it sounds not from your comments. It sounds very much like you're talking about seasonality having helped you but reversing slightly and you're talking about redeploying leverage ratio, reinvesting it rather than making net reductions in leverage exposure. So it doesn't sound like that's going to help you hit the ratio. So three questions on leverage, please.

James von Moltke, CFO

So Jeremy, let me clarify, because we don't see it as a shift. I think we've spoken reasonably consistently about being more focused on the CET1 target of 13%. The reason we talked about leverage in the middle of the year was more about the reallocation of resources and trying to focus our resources. This was both the balance sheet resources and human resources, or talent if you like, and refocusing our client footprint. Of which leveraged exposure was one reflection.

Broadly speaking, banks today we have to manage to a wide range of metrics. So it's multiple constraints. But I want to be clear that our thinking has consistently been that the risk weighted ratios have been the ones that better reflect how we manage our business and think about our balance sheet extension than leverage ratio. Although leverage ratio of course will be a regulatory requirement which requires that you be conscious of it and manage it. So hopefully that clarifies a little bit how we think about it.

Jeremy Sigee	So just on that then… Sorry, go on.
James von Moltke, CFO	With regard to Fundamental Review of the Trading Book as you mentioned, it's sort of an interesting case of why it is that we have not wanted to talk about inflation in RWA coming from changed regulations. The path of FRTB is actually a good example of how, when you have first versions of rules, second versions of rules, revised rules and then a clearer view on implementation, the world looks very different when it comes to the ultimate implementation. We see the more recent refinements to FRTB frankly as being much closer to our expectations, an improvement again aligning the regulatory standard with how we observe and manage risk. So I think that's again an important example of how we look at the world. And then to the glide path on the target, I think we've been consistent in saying that the 4.5% is a medium term target that we would build to over time. And that over time is several years. I'd say the early 2020s. Acknowledging that there are a number of drivers of that. There's the common equity and also other equity components in the numerator, and then the denominator items that we talked about.
Jeremy Sigee	Could you quantify the FRTB impact then, now that we do know the rules? Because I seem to recall you last quantified Basel IV in 2015 I think. I think it's been a while since you've given us guidance on it.
James von Moltke, CFO	I think I will wait on that. The refinements are relatively recent, but they're in line with and frankly below the earlier planning that we had built into our forward look on the CET1 ratio. Remember that it's introduced in 2023, so it's an effective rule with a pretty long transition time, hence again we're not quite as forward looking as perhaps you'd like us to be in how we give guidance on these things.
Jeremy Sigee	Okay. My observation is that some other banks are quantifying it and they're building it into their three year plan. They're trying to get to the right place for that by the end of 21 kind of timeframe, but maybe it's a topic for another day.
Operator	And the next question is from the line of Magdalena Stoklosa with Morgan Stanley.

Magdalena Stoklosa	Thank you very much. Good morning. My questions really are on costs and once again on capital deployment. Now on cost, when we look at the slide 11, I was hoping for more granularity on the cost savings plan, and my first question would be on the personnel cuts. Which businesses or which functions are likely to be affected by the cuts from here? That implied 3,000 employees. And also is there geographical differences that you are seeing within that personnel cost cuts? And also on the non-people side, you've mentioned the vendors, the real estate optimisation, but are there any larger projects in your cost cutting portfolio that you would want to call and tell us about? So that's one. And we've concentrated on the savings, but where are your underlying investments going within the next 12, 18 months would be very interesting too. And then on the capital deployment, we've talked about a couple of things. Where do you see your capital used, we've talked about loans. But within CIB in particular which business areas do you find attractive here, particularly when you think about the margins you can earn? Thank you.
James von Moltke, CFO	Sure. Thanks, Magdalena. Welcome back.
Magdalena Stoklosa	Thank you.
James von Moltke, CFO	A few comments just on costs. As Christian noted in his prepared remarks, the emphasis in 2019 will be on PCB and in particular driving towards the synergies that we've outlined related to the Postbank integration. But also further efficiencies in, broadly defined, the infrastructure that supports our businesses. So we are very conscious of providing stability in the front office, or the client facing businesses after the restructurings that we went through in 2018. We also have significant room on non-compensation expenses. In 2018 it probably fell 40:60 compensation versus non-comp, but that doesn't mean we'll stop on non-comp either. We have highlighted vendor spend and also professional services areas. We intend to keep working on that. We intend to keep pursuing the internalisation of currently externally sourced activities. So as a parenthetical I'll say that the head count targets that we publish are net of some reasonably significant amount of internalisation that we have done and will continue to do. We took down, as we measure it, the external workforce by about 40% last year. And lastly I'd highlight continued improvements

in our real estate portfolio where, as we have shrunk as a company, we are able then to drive some benefits from also a shrinking real estate footprint.

As we said, though, we are also working to drive efficiencies out of the IT investment, and so I think in that tech spend we're at a pivot point. There's still a significant amount of spend going into controls or regulatory remediation programmes, but we are seeing the shift more into both business oriented improvements, digital investments.

We have some I think superb digital properties like the Audubon platform that we're continuing to invest in. So we are seeing a shift as we go into 2019 and beyond of that investment into not just regulatory and also not just efficiency oriented investments, but also business oriented investments that we think will deliver benefits over the years.

Magdalena Stoklosa

Can I just follow up on one thing? Because of course when we think about the PCB Postbank merger, we have the 900 million of net cost saves in mind that you I think in the past looked to 2021, 2022 to deliver. Did I understand correctly that some of that can potentially be coming earlier when you called that merger as a key to the cost saves in a much shorter period of time?

Christian Sewing, CEO

So first of all, we confirm the 900 million and wherever we can obviously we will accelerate. But for the time being we left the plan as it is, with the 900 million. But Frank Strauss is working on various issues to accelerate these synergies for instance the merger of the two bauspar or mortgage companies has been accelerated. So you will also see that the one or the other synergy from that is coming in earlier.

The 240 branch closures which we have seen in 2018, that is actually an over delivery versus that what we planned, and there you can see that speed is put on each and every part of that integration.

Magdalena Stoklosa

Thank you.

Operator

And the next question is from Al Alevizakos with HSBC.

Al Alevizakos

Hi, good morning, thank you for taking my questions. Got two questions. The first one is on leveraged finance. I was surprised to see that your leveraged finance overall exposure has been only four billion, like 1% of your loan. Because one of your competitors last week, which I assumed that was smaller, suggested that they've got double this exposure. So I'm just trying to wonder what you define as leveraged finance? Maybe there is a different definition in you compared to the market. And also I would like to know a bit more about also the trading inventory that you've got in this business, and that's question number one.

And then question number two about the leverage ratio target. I've asked that question last quarter, but now you've got a better view of your potential SIFI given that you know now the 2018 full year balance sheet. Do you believe that potentially you could move down from 2% to 1.5 for this year's SIFI list? Thank you very much.

James von Moltke, CFO

Sure. It's James. On leveraged lending, I don't know if you're looking at a difference between drawn exposure, so when we fund a loan, versus commitments. Obviously we track both, and as we've disclosed both the funded and the commitment pipeline are things that we track very carefully but represent relatively low proportions of our overall loan book.

Ultimately the business is an originate and distribute business, and so for us we focus on the underwriting quality of the origination in the business, but then on how it's risk managed in terms of managing de-risking trajectories, which we've done frankly very well on. On managing concentrations. Managing hedging. It's overall relatively low exposure and one that we manage very carefully. Again, I'm not sure exactly what the comparison you're drawing, but it may be in a difference between funded and un-funded.

On the SIFI surcharge, it's obviously something that we measure and manage to. We've been historically at the low end of the 2% bucket. We have I think been managing our balance sheet more and more tightly. Whether we're in a position to slip down a bucket is always hard to tell, because it's a relative ratio, so it depends on how much your numbers have moved compared to the industry.

I will say though that as we look at all the aspects of managing a balance sheet which, to Jeremy's earlier question, has multiple constraints on it, that consideration to the G SIFI measures is one of those things. You'll see that we significantly brought down for example notional exposures in the derivative book last year, which is one aspect of the G SIFI charge. So we can't tell at this point whether we will drop a bucket, but it's not a definitive goal

	of ours. Our goal is to manage the business and drive returns and profitability.
Al Alevizakos	Thank you.
Operator	In the interests of time, we have to stop the Q&A session and I hand back to James Rivett.
James Rivett	Thank you very much, and we'll see a lot of you in the next few days.