



Deutsche Bank AG

Deutsche Bank Q1 2019 Analyst Conference Call

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Transcript

Speakers:

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



James Rivett

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

Just before we get started, I 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, and welcome from me.

Slide 2 – We remain committed to improving returns to shareholders

I would like to start with a few comments on our announcement from yesterday to discontinue the discussions with Commerzbank. The potential in-market merger was no doubt a major opportunity and it was right for us to review it carefully. But, having analysed this situation in detail, we could not find a business case that would deliver sufficient value to our shareholders, in particular given the execution risk involved. Despite excellent collaboration with our counterparts at Commerzbank, our analysis showed that the net synergies would negatively impact our ability to deliver against our near and long-term targets, and our commitment to these targets remains unchanged.

The first quarter results show that we made further progress towards our targets in difficult conditions for our market sensitive business. Overall, the net results in the first quarter was in line with our internal planning assumptions as we offset the weaker revenues with reductions in costs and we benefitted from lower tax expenses.

But, while we made progress in the first quarter in many areas, we do recognise that there is work for us to still do and we will continue to review alternatives to deliver our short-term targets on our path to improving our long-term profitability and returns to shareholders.

Turning now to our first quarter results, we reported net income to shareholders of €178 million, a 48% increase versus the prior year. The performance in our less market sensitive businesses was resilient.

We continued to invest into our businesses and several important leading indicators are positive. We grew loans by €10 billion and assets under management improved by €70 billion in the quarter. This



highlights the strengths of our franchise. The results in our sales and trading business reflected the impact of the reshaping we completed in 2018, as well as some of the toughest market conditions of any first quarter in recent years.

Excluding the bank levy, we further reduced our adjusted cost for the fifth quarter in a row, and we remain well on track to reduce costs by €1 billion this year on our way to our recently lowered full year target of €21.8 billion.

We have established the discipline and we clearly created the momentum. Our continued progress shows that we are moving in the right direction and we remain focused on our execution.

We also continue to manage our balance sheet conservatively. At 13.7%, our CET1 ratio is in line with our target and it's a signal of strength and stability. Assuming an equal spread of the bank, annual bank levy across the four quarters of 2019, our post-tax ROTE would have been 3.6% in the first quarter.

But, as we made clear when we presented our 2018 results, reaching our 2019 ROTE target depends on factors within our direct control but also on factors which are more market or event sensitive. Our 4% target remains a stepping stone to higher returns over time. Let me address these issues in turn, starting now with revenues on slide three.

Slide 3 – Resilient revenues in less market sensitive areas

The majority of our less market sensitive businesses have proven to be resilient.

In our private and commercial bank, global transaction bank and asset management, revenues increased by 1% excluding specific items and we are encouraged by the performance and by the trends in several important leading indicators.

In PCB, revenues excluding specific items were stable as we grew volumes to offset the ongoing impact of negative interest rates. We grew revenues in GTB where we have the fundamentals in place to further increase revenues in the coming quarters. In asset management, revenues declined year-on-year but we grew revenues and saw positive inflows compared to the fourth quarter.

In our more market sensitive businesses, revenues declined by 16%, but beneath this headline figure the picture is more varied. Origination and advisory revenues declined in the quarter, reflecting lower industry fee pools. However, we increased our market share in many areas,



including in the US and EMEA. And by product we were joined first in US IPOs and we have returned to a top five position in global leverage debt capital markets.

In our sales and trading business, the parameter adjustments we made last year in US rates and equities negatively impacted our revenues by approximately €100 million compared to the first quarter of 2018. In fixed income, our revenues declined by 18%, but within FIC our credit and FX businesses performed relatively well, and in equities our revenues performed in line with the broader market.

Slide 4 – Focused on growth and delivering on our promises

The next slide shows that we continue to execute on our promised growth initiatives in the first quarter.

In our corporate investment bank we grew loans by €13 billion over the last 12 months. This includes growth of €5 billion in the first quarter, of which one billion was in GTB. We continued our targeted front office hiring, including in fixed income and debt origination, and we completed integrating our corporate and institutional salesforces this quarter.

As a result of these changes, flow related revenues in GTB, FX rates and credit from our top investment banking clients showed good momentum this quarter and we expect this trend to continue in 2019. These trends show the strength and importance of our product offering to our core corporate and institutional partners, and highlights the untapped revenue potential as we refocus our coverage and resources on our most important client groups.

In our private and commercial bank, the leading indicators of revenue growth are encouraging. In our ongoing business over the last 12 months we have grown loans by €13 billion and deposits by €20 billion. This includes €3 billion of loan growth and €7 billion of deposit inflows in the first quarter. We also generated net asset inflows in wealth management for the first time in three quarters. Growth in wealth management was focused in emerging markets, including Asia where we first began to reinvest into our franchise.

In asset management, DWS saw net inflows for the first time in more than a year, including more than €3 billion from our strategic partnerships. And, as promised, we launched new products focused on alternatives and responsible investing.

Bottom line, we are delivering on the growth initiatives that we promised.



Slide 5 – Well on track to achieve our adjusted cost target

Let me now turn to costs on slide five.

We are focused on controlling those factors we can control. That includes reducing our adjusted cost by a further €1 billion in 2019 to our €21.8 billion target.

We reduced adjusted costs by €400 million in the first quarter to €5.9 billion, excluding the payment for the majority of our annual bank levies which we record all in the first quarter, adjusted costs were €5.3 billion.

On this basis, we have reduced our adjusted costs in each of the last five quarters and we are well on track to reach our full year target, and we will work to offset revenue weakness with further cost reductions.

Slide 6 – Maintained strong balance sheet with prudent risk management

We continue to manage our balance sheet conservatively, as you can see on slide 6. Our balance sheet allows us to absorb market volatility and positions us for future growth opportunities.

At 13.7%, our common equity tier one ratio increased by a net 18 basis points in the quarter after absorbing accounting and other changes and is consistent with our greater than 13% target.

Our liquidity coverage ratio of 141% is €68 billion above our regulatory requirement and, as in the previous quarters, our market risk and credit costs are amongst the lowest of our global peers.

Slide 7 – Focused on delivering improved returns to shareholders

We made further progress towards our near-term financial targets this quarter, as shown on slide seven. Our main objective for 2019 remains to generate a post-tax return on tangible equity of greater than 4% as a step towards higher returns over time.

In the first quarter, we performed in line with our internal planning assumptions on a net income basis as we offset weaker revenues with lower costs and we benefitted from lower tax expenses.

As we highlighted in our full year 2018 results, improving our return on tangible equity to around 3% is based on things mostly or fully within our control. These factors include executing on our cost reduction plans, optimising our liquidity deployment, performance in our stable business and a more normal tax rate.



In the first quarter these items were in line with or even slightly ahead of our internal targets, but improved performance in these areas alone would leave us below our 4% return target.

To reach our return objective, we also need to see a revenue recovery in our market sensitive business. Market conditions and our performance in the first quarter were clearly not supportive for this recovery, but these revenues are available to us in better market conditions given our leading positions in many of these businesses, but we need to capture them.

That said, compared to our internal plans some of the revenue weakness was offset by lower provisions of credit losses, as well as lower restructuring and severance and litigation.

To conclude, a year ago we made three promises to you and we have delivered on all of them.

First, we made a commitment to lower costs, we over delivered against our 2018 plans, and are well on track to reach our recently lowered 2019 targets.

Second, we made a commitment to manage our balance sheet conservatively; our metrics show that we continue to do this.

And third, we are making good progress on our control environment and our regulatory commitment.

With these foundations in place and while remaining disciplined on costs and controls, we have begun to pivot towards controlled growth. As mentioned, we are encouraged by this quarter's performance which demonstrates that key drivers of growth are in place. We grew loans and deposits and saw higher assets under management with positive inflows.

In short, this management team has executed on its promises and we will continue to deliver on our commitments. Our decision to discontinue discussions with Commerzbank does not change that. With that, let me hand over to James.

James von Moltke Thank you, Christian.



Slide 8 – Q1 2019 Group financial highlights

Turning to a summary of our first quarter results on slide eight, revenues of €6.4 billion declined by 9% year-on-year on a reported basis, but by 5% excluding the specific items detailed on slide 20 of the presentation.

Non-interest expenses of €5.9 billion declined by 8% and we reduced adjusted costs by 7% to €5.9 billion. Provisions for credit losses were €140 million or the equivalent of 13 basis points of loans.

As a result, we generated a profit before tax of €292 million, a net income attributable to Deutsche Bank shareholders of €178 million. Tangible book value per share of €25.86 has increased by 1% compared to the prior quarter and over the last year.

Slide 9 – Adjusted costs

Turning to adjusted costs, which as I noted declined by 7% year-on-year on a reported basis. FX movements, most notably the strengthening of the US Dollar, represented a headwind to reported costs in the first quarter on a year-on-year basis.

On an FX neutral basis, we reduced adjusted costs by approximately €540 million or 8% year-on-year.

Compensation and benefit costs declined by €178 million on lower salary expenses given the workforce reduction of almost 5,700 in the past 12 months.

IT costs declined by €90 million that remained in the recent spending range. At around 15% of our total adjusted costs, our ongoing commitments to invest in our IT infrastructure are unchanged.

Professional service fees declined by over 20% or €87 million, reflecting our ongoing efforts to eliminate and optimise external vendor spend. Other costs declined by 10% or €130 million, reflecting lower occupancy costs and reductions in several other line items. Bank levies of €604 million decreased by €59 million year-on-year. This decline reflected adjustments we have made to the balance sheet over the past several years and a positive impact from the German legal entity merger.

We reduced our workforce by approximately 300 in the quarter on a net basis. As we indicated last quarter, the majority of the reductions were in our infrastructure functions and in PCB while we maintained



staffing levels in the CIB front office. We remain on track to reduce our workforce to below 90,000 by the end of 2019.

Slide 10 – Capital ratios

Turning to capital on slide ten, we ended the quarter with a CET1 ratio of 13.7%. This represents an 18 basis points improvement from the prior quarter and comes despite absorbing negative 16 basis points related to IFRS16 lease accounting.

The increase in the CET1 ratio was driven by a net €3 billion decline in risk weighted assets. As expected, market risk RWA declined by €7 billion, reflecting the reversal of the temporary increase we saw in the fourth quarter. Excluding FX effects, growth in credit risk RWA of €9 billion, including the impact of IFRS16, was offset by a €6 billion reduction in the operational risk RWA mainly driven by methodology refinements.

All else constant, our guidance for regulatory adjustments to our CET1 ratio is unchanged from our last earnings call. As noted then, the 20 basis points benefit from operational risk models we anticipated is already incorporated in the first quarter results.

We see regulatory headwinds of approximately 40 basis points which are not yet reflected in our capital ratios. Approximately 20 basis points of this decline will occur in the second quarter as we have received feedback from the ECB on a recent asset quality review. The remaining headwinds relate to the ongoing regulatory exams of internal models. Here the timing and the amounts are uncertain, but we currently expect a further 20 basis points impact within the next two quarters.

All said, we remain committed to managing our resources within a range consistent with our CET1 ratio target.

Our leverage ratio on a phased-in basis declined by 20 basis points in the quarter to 4.1% compared to our 4.5% midterm target. On a fully loaded basis, our leverage ratio was 3.9%. Excluding FX effects, the decline in the ratios was driven by a €57 billion increase in leverage exposure, reflecting seasonally higher pending settlements, increases in client activity in CIB, and loan growth.



Slide 12 – Corporate & Investment Bank (CIB)

Turning to our segment results, starting with our corporate investment bank on slide 12.

Revenues of €3.3 billion declined by 13% year-on-year on a reported basis, or by 10% excluding specific items. The revenue performance reflected a slow recovery from the challenging market conditions that we saw in December 2018 and the impact of perimeter adjustments executed since the first quarter of last year.

Despite the market conditions, underlying drivers showed continued momentum. We grew loans in CIB by €13 billion or 11% year-on-year and by €5 billion or 4% since the fourth quarter. The loan growth was mainly in our credit businesses within FIC and also in GTB and will support revenues in the coming quarters.

Non-interest expenses of €3.4 billion declined by 7% year-on-year, reflecting the strategic actions taken in 2018 and continued cost discipline.

Provisions for credit losses of €23 million reflected a number of specific stage three items which were partly offset by a recovery. Provisions in the prior year period benefitted from a net release in our shifting portfolio. As a result, CIB generated a pre-tax loss of €88 million which included €535 million of the group's bank levy.

Slide 13 – CIB business unit performance

Turning to our CIB revenue performance in the first quarter versus the prior year period on slide 13.

Global transaction banking revenues increased 6% to €975 million, driven by higher net interest income, particularly in cash management.

Origination and advisory revenues declined by 5% as significantly higher advisory revenues were offset by lower revenues across debt and equity origination, reflecting a decline in industry wallets. In advisory we regained market share, both quarter over quarter and year over year. In debt origination revenues declined, reflecting a slower market environment, although we increased our market share. The decline in equity origination revenues was in line with the broader market.

In Fixed Income Sales & Trading, revenues declined by 18% excluding specific items. The decline was principally driven by lower rates



revenues which were impacted by challenging market conditions and our perimeter adjustments in the US. Credit revenues were slightly lower, mainly in distress debt which saw a strong prior year performance, whilst low credit revenues were materially higher. Revenues in FX trading declined slightly, reflecting lower market volatility.

Equity Sales & Trading revenues declined 18%, with lower revenues across all products given our perimeter adjustments last year and the challenging market conditions.

Slide 14 – Private & Commercial Bank (PCB)

Slide 14 shows the results of our private and commercial bank.

PCB generated a pre-tax profit of €287 million and a post-tax return on tangible equity of 6.4% in the quarter.

Revenues of €2.5 billion declined by 5% year-on-year on a reported basis, reflecting the lower specific items. Excluding specific items, revenues were flat compared to the prior year as we grew volumes to offset the ongoing negative impact from the low interest rate environment.

Provisions for credit losses were €117 million. At 17 basis points of loans, we continue to demonstrate the low risk character of our portfolios and our strong underwriting standards.

We reduced adjusted costs by 4% or €89 million, reflecting our continued cost discipline and the benefits of our reorganisation measures, including the disposal of our retail operations in Poland. Costs included approximately €30 million of German merger related investments, a similar level to the first quarter of 2018. Headcount declined by around 2,400 in the last 12 months and by approximately 300 in the quarter.

Slide 15 –Q1 2019 PCB business unit performance

Turning to revenues by business in PCB on slide 15.

Excluding the €156 million gain on a property sale in the prior year period revenues in PCB Germany increased by 2% as we grew loans to offset the ongoing negative impact from deposit margin compression. PCB Germany gathered €5 billion of net new assets and grew loans by €7 billion in the last 12 months, most notably in commercial loans and mortgages.



In PCB international, revenues declined by 4%, reflecting the absence of a smaller asset sale in the first quarter of 2018, as well as a change in the treatment of loan fees in Italy. Higher loan revenues, mainly in consumer finance and commercial banking as well as repricing measures, partly offset the continued negative impact on deposit margins.

In Wealth Management revenues declined by 7%, excluding the impact from work activities related to legacy positions in the Sal Oppenheim franchise. The decline mainly reflected lower assets under management at the end of the fourth quarter of 2018 and the impact of divestitures during the last year.

Wealth management showed improving momentum with net asset inflows of €3 billion in the quarter and €5 billion of loan growth in the last 12 months. Growth was particularly pronounced in the emerging markets, which mainly reflects our operations in Asia Pacific.

Slide 16 – Asset Management (AM)

Slide 16 reviews the results for Deutsche Bank's asset management segment which includes certain items that are not part of DWS financials.

DWS had a strong start to the year following a challenging 2018 with positive net flows and a recovery in market performance. Revenues declined by 4% year-on-year, reflecting lower management fees resulting from net outflows and the market decline in the fourth quarter, partly offset by the absence of a loss on the sale of a discontinued business in the first quarter of 2018.

We reduced adjusted costs by 11%, reflecting actions to lower infrastructure expenses and professional service fees.

As a result, we increased profit before tax on a year-on-year basis by €24 million or 34%. Adjusting for the non-controlling interests this quarter, which were not present in the prior year period, pre-tax profit would've increased by 77%.

Assets under management increased by 6% or €42 billion in the quarter, reflecting improved market performance and supported by positive FX movements as well as net inflows. Net inflows totalled two billion in the quarter or seven billion excluding cash products. We saw inflows in several key areas, including passive alternatives and in our flagship products, including Top Dividende and Concept Kaldemorgen. As a reminder, DWS management will host its analyst call immediately after ours.



Slide 17 – Corporate & Other (C&O)

Turning to our corporate and other segment on slide 17, we reported pre-tax losses of €4 million in the quarter compared to a loss of €167 million in the prior year period. Shareholder expenses of €115 million were offset by a number of positive items, including valuation and timing differences of 41 million and non-controlling interests of 32 million.

Slide 18 – Outlook

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

As Christian discussed, we are working towards our near-term targets on our path to deliver improved returns for shareholders over time. We continue to manage items within our direct control with discipline and drive performance in our businesses.

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

We also maintain our CET1 ratio above 13% and keep our strong liquidity profile.

Provisions for credit losses are still expected to increase slightly from 2018, but for the full year will remain low versus historical levels in the mid-teens in basis points of loans.

On revenues, we will continue to build on our core strengths within our sales and trading franchises, and we are focused on growing our loans and assets under management as leading indicators of revenue growth in our less market sensitive businesses.

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

James Rivett

Thank you, James. Operator, let's open up for questions. I'm going to try, as usual, to limit you all to two. If you could respect that, that would be great.



Question & Answers

Andy Stimpson
BoAML

Two questions from me, firstly on strategy, following the end of exploring the merger with Commerzbank then we're refocused back onto the numbers, and in that regard we can see from consensus the market is already not expecting you to reach the 4% return on tangible equity target for this year. So can I ask therefore if at this time you expect to deliver a new strategic plan and, if so, what kind of timeline you might be working to? Is that the summer, after the summer, is that much nearer term, please?

Secondly on leverage, leverage exposure went up a huge amount in the quarter and the CET1 leverage ratio went backwards. How much further back can that ratio go for you to still be comfortable? I know you've got the target on the tier one leverage ratio of 4.5% in the future and it's not going to be a straight line to get there, I understand that, but I'm just wondering in the meantime what we should think of as the floor for that ratio, please. Thank you.

Christian Sewing

Thank you, Andy. Let me respond to your first question and James can take the leverage question.

I will broaden the response to cover the strategic questions you all may have more in general.

Let me be very clear that we will not be drawn on speculation about what other options we have considered, or what options are or are not under ongoing consideration. You should also not draw any conclusion from this unwillingness to comment. There is no information content that should be drawn from this statement.

As we just described in our comments, our first order of business is that we have a plan against we continue to deliver.

And I think you have seen with the Q1 results in a very challenging market that we remain focused on this plan and that we are executing against this plan. I think you can see and clearly hear that we have full determination to deliver in the coming quarters.

Of course we operate in a dynamic industry and as a result we will continue to review alternatives, as I said, that could potentially accelerate our existing objectives.

I will also say is that our non-negotiable starting point is that Deutsche Bank will remain a globally relevant financial services institution present and serving clients in the key geographies, and that includes



the US and Asia and obviously our home markets in Germany and Europe.

And, because there have been rumours, we have consistently said that we expect DWS to remain a core part of our strategy going forward. You will understand that I won't comment on some specific rumours, but we have consistently indicated that we intend to participate in the consolidation which we expect to occur in the asset management industry.

This was one of the key reasons to take that company public last year. I think it's important that I made this broader statement because I can imagine that some of you have questions in this regard.

James von Moltke

Thanks, Andy. On the leverage ratio, we do obviously manage to internal targets and we set those targets well above the future regulatory minima that exist.

In terms of leverage exposure, it's a resource that we manage the way we do RWA in terms of setting limits for the businesses, but obviously allowing businesses to earn revenues deploying those resources and you saw that in the first quarter.

We also point out the seasonality that always exists between the fourth quarter and the first quarter as pending settlements increase seasonally. As we have previously pointed out, pending settlements will be excluded from the calculation of leverage exposure in the future so this will not be an issue.

I don't want to go into the internal minimums that we manage to, but we're looking at an outlook that keeps us at or above four through the year on a phase-in basis. The 4.5% target, as you point out, is over time and is compared to our phase in ratio which we point out.

We intend to publish our G-SIFI calculation next week. Based on the most recent data that would be effective in 2022, would see us going down to the 1.5% bucket and so creating additional room between our 4.5% leverage ratio target.

The eventual regulatory requirement incorporates half of the G-SIFI surcharge.

So we continue therefore to feel very good about our ability to manage the leverage ratio and continue to deploy those resources to support revenues in the businesses.

Andy Stimpson

That's great, thank you. Going down a G-SIFI bucket is based on year-end data implies that you will go down a bucket did I understand that right?



James von Moltke Yes, based on what we can tell from the industry data, our estimate is that we would come out at around 310 points on that score, which is reasonably within the 1.5 bucket. Of course that all needs to be finalised based on industry data, but based on what we'll publish next week that would be our result.

Magdalena Stoklosa I've got a few questions. The first one is about costs. So this is something that you've stood, the target is something that you've stood by kind of very, very strongly. The delivery of last year is also a testament to that, but let me maybe draw you on a slightly different conversation. You have two cost kind of targets. One which is an absolute cost target for 2019.

Morgan Stanley

But another commentary today I thought was quite interesting is that despite the fact that you are restructuring the cost base structurally, you still leave yourself a certain amount of operational flex in the more kind of business as usual kind of costs to be able to respond to any additional revenue pressures. Would you be able to kind of give us a sense of how much of that cost flex there still is should the revenues surprise on the down side? So that's my first question.

And my second question could help us understand the trajectory of your core equity tier one ratio from here? We have seen the movements that resulted in a 13.7 by the end of the first quarter. You have also indicated there are kind of regulatory charges coming your way, and of course we all at the back of our minds have your target of 13% also. So can you just kind of talk about what's coming, what are the impacts, and how we should look at it through the quarters of 2019? Thank you.

Christian Sewing Thank you. So that we are all clear, there is one key cost target for this year and that is the 21.8 billion and we are highly confident that we achieve that, not only with the track record which we have established in 2018 but with the development high we have seen now in Q1.

Of course as a good management team you always look for further options to further reduce cost, but it's too early now to judge what that potential number could be. If you see overall challenging markets like we have seen in Q1 then it makes sense to try to find out where you can go for incremental cost saves.

We have demonstrated that in 2018 when we had the 23 billion cost target and we over achieved against that target. For this year our goal is to not only to achieve the 21.8 billion euros but if the environment is challenging we will do everything to go further down. But the 21.8 billion is cast in stone and we will achieve that.



James von Moltke On the capital trajectory, the guidance is basically for 13.3% incorporating everything that we see for the balance of the year. So we intend to manage, in a range around that 13.3% level, assuming the remaining regulatory feedback comes as we expect. So it's just a question of managing the denominator carefully and optimising those in the balance of the year.

Magdalena Stoklosa Just to follow up, quite a few banks have started talking about the impact of the TRIM exercise; is that something that you're prepared to do?

James von Moltke That's the 20 basis points that we're still uncertain of the timing and, frankly, the quantum. You know, we based our estimates based on the dialogue that we have had and the feedback process that exists there. We've had a number of TRIM reviews and that forward look reflects our best estimate of the remaining impact in 2019.

Kian Abohussein
JP Morgan If I look at your outlook statement, one area that consensus are very different from your statement is the CIB revenue outlook where you indicate a slight increase for the year while consensus is down roughly 4% year-on-year, and clearly your perimeter changes are a headwind. So, what gives you the confidence that we have a different seasonal environment? I know that March has been better and it looks like April has been much better as well. Are the numbers so significantly improving that you feel so comfortable to make that statement? Is it that you feel material momentum and market share gains? Is it the transaction bank? Can you really explain your rationale for that and why consensus is incorrect?

And the second question is, if I may sneak two little ones in, one is the Asset Quality Review. You mentioned the 20 basis points impact; I just wanted to understand this number. I wasn't aware of these 20 basis points. And then secondly also your bank levy, I think you paid 900 last year; what should we expect for this year? Thank you.

James von Moltke Thanks, Kian. So on consensus, in our outlook we've adjusted clearly to reflect the actual performance in Q1 whereas our earlier outlook statements reflected estimates at that time and we adjust the outlook for current expectations about the balance of the year. We expect a more sustained and better environment than certainly, we saw in January and February, but we don't want to get drawn into specific commentary on the current market environment or what exactly underlies our future view in terms of market environment.

Your point on seasonality is a fair one. This is a year in which the extent of a typical seasonal benefit in Q1 wasn't present in the industry and



that means the quarterly comparisons will be a little different this year than perhaps other years.

The other thing that is true, as you all saw, was Q4 was also an extremely difficult quarter for the industry and the financial market and a big question will be what does the Q4 environment look like in 2019? So, all of that is baked into our forward look .

On the Asset Quality Review (AQR) point, we've called out for several quarters now that the impact that we expect from some of the regulatory exams that we've been going through. The first of the two exams was related to AQR and the second relates to ongoing feedback from TRIM reviews. This is one that we've expected for some time. It just so happened that the letter arrived on our doorstep in early April so will be reflected in our April numbers but was not in our March numbers. That was in the high teens in terms of basis points impact on our CET1 ratio.

And on the bank levy, it was 604 million euros this quarter. That's the Single Resolution Fund which is the overwhelming majority of the bank levies although there are some smaller levies in other countries we operate in. The bank levies are separate from deposit insurance costs.

The 900 includes the deposit insurance costs. For the bank levies we had a year-on-year reduction in the levy.

Jon Peace
Credit Suisse

Yes, thank you. My first question is could you talk about where we are with taking a little bit more risk on your liquidity portfolio? How much incremental have you generated so far and how much further do you think there is to go? And the second question is, can you talk about how you're thinking about your funding costs at the moment? Any actions you're taking to try to improve them and whether that might constrain your ability to take a bit more risk on the liquidity portfolio?

James von Moltke

Sure. As Christian indicated, we have made good progress on the liquidity optimisation efforts that we talked about last quarter and we feel we're on track to our targeted revenue impact, which we described is more than 300 million for the full year. I will say, though, that we originally targeted investing more of the liquidity reserves into the higher yielding securities that are non-HQLA (High Quality Liquid Assets), as well as deploying additional resources in our HQLA portfolio.

At the margin, we have scaled back the asset purchase programme a little bit, this is a non-HQLA piece, as we actually have seen greater opportunities to deploy resources in client businesses. You can see



that in the loan growth numbers we have reported, which is obviously always our preferred use for liquidity deployment. But nevertheless, we are on track against the revenue impact for the full year of liquidity optimisation in general, which includes, to the second part of your question, additional optimisation of our liability profile.

So we'll measure, deployment on the asset side against actions that we could take on the liability side to deliver the same, or in some cases, certainly on a risk adjusted basis, greater value to shareholders.

Andrew Lim
Société Générale

Hi, good morning. Thanks for taking my questions. In PCB you've talked again about deposit and margin compression and it seems for a very long time now that we've had this issue. Can you give a bit more reassurance that this might end at some point in the future? Secondly, I'd like to talk about AML (Anti-Money Laundering) issues. I know you've said that you've done nothing wrong, but it just strikes me as inconceivable given that you can have so much correspondent banking flows related to Danske. I think it's about 150 billion euros.

So my more specific question here is how is it that your compliance systems don't flag up that such a huge amount of flows associated with Danske Estonia and you did not file a suspicious activity report? And, if it does, what do you do with it, what do the regulators do with it, and what's the ultimate action?

James von Moltke

Sure. I'll take the first question. When we talk about deposit margin compression, it basically reflects the reinvestment of deposits against which we have an assumed duration, and over time the longer-term our investment revenues run off in the lower rate environment. Some of those are very long-term investments, if you assume that the duration of some deposits goes out as much as ten or more years, and so that continues to roll off.

That's what we refer to as deposit margin compression. When we give a forward look of the calculation, our calculations take into account the reinvestment rate which reflects the market environment at any given time and the implied forward rates.

So one of the reasons you continue to hear us talk about margin compression is that over the past year and several quarters we have seen the reinvestment rate assumptions come down, reflecting today's interest rate environment. So ultimately the answer to your question is around the reinvestment opportunities against the model viabilities improve over time and that's really a monetary policy question.

Christian Sewing

Andrew, let me address your AML question. I think you'll remember from our Q4 2018 announcement that we took the unusual step in the



annual media conference of discussing those matters at some length and at more length than we usually do. But out of respect for the confidential nature of these matters, it was always our intention to revert back to our normal practice of refraining to comment, unless and until there is a significant development that we are authorised to discuss.

And I can tell you there are no such developments and hence we were not providing any updates on the matters. But what we said in Q4 remains the case today. We have not identified wrongdoing and have not been informed that any regulators or enforcement agencies have reached a different conclusion. However, we remain cautious because these are ongoing investigations which need to run their course, and until now the only costs expected are the ones associated with conducting our internal investigations.

Let me also say that I think Deutsche Bank over the last years has done a lot to upgrade its controls. We have invested a lot. And we said that whatever we do on cost reductions will not impact anything we do on regulatory remediation. We feel that our overall control environment has improved significantly and there we are very confident.

Amit Goel
Barclays

Hi, thank you, and good morning as well. Yes, so just coming back, on the first question. I appreciate you said you don't want to be drawn on kind of other options, but I just wanted to make sure I understood the message correctly. So, in the statement yesterday where you say you continue to review all alternatives to improve long-term profitability and shareholder returns, that's more of a kind of business as usual type statement.

In terms of the plan and the execution, I guess you believe you're delivering so there's not necessarily any kind of update that we should be looking for. But, if you were to see further opportunities you would, address that at that time. The reason why I ask is because when I look at the profitability obviously, you state the 3.6% ROTE with the bank levy taken on a pro-rated basis.

But when I also do similar calculations based on the adjusted returns, and I'm getting more like a 2.5% return so, still quite far off the 4%.

And the second question is relating to the commentary in the outlook statement about striving for additional cost savings if the revenue environment does not develop as we expect. So just curious there in terms of, obviously I appreciate the 21.8 billion target for this year, but, how much potential flex could there be if the environment is a bit tougher than anticipated?



Christian Sewing Amit, let me take the first question, though I think I'm not telling you anything new beyond that what I said right at the start. Yes, we have been reviewing a range of alternatives over the past weeks and months. Frankly, this work needed to be done as we needed a realistic basis from which we could compare the path of a potential domestic merger with other plans.

And, as I said, the Commerzbank transaction was obviously a significant focus for us, given that it had presented itself as an opportunity, and it was essentially time barred so we needed to respond. Having done this now, our full work and our full attention returns to executing on our existing plan.

Again, I think we have shown in a very, very difficult and challenging Q1 that we can deliver, that we are in line with our internal planning for 2019, and that we are now trying to do everything to further accelerate our standalone plan. So it is too early to share a detailed update on our thinking, but we have been deliberate in the use of our language about improving the long-term profitability and shareholder returns.

James von Moltke Amit, on your cost flexibility question I think, Christian covered it. It's always hard to give any precise view about, how much we can do. As Christian said, we turn over every rock as we think about expense savings for this year, and also creating the glide path to the future year expense ambitions that we have.

We talked last quarter about some of the areas and some of the levers that you pull, whether that's investment spending, compensation or other things. They are clearly things that we look at and you've seen us take some action already in the first quarter to offset the revenue weakness we saw.

One other just item I want to mention is against our absolute cost target we are dealing with some headwinds from FX and, even flat at the 21.8 billion euros means we are working hard to improve but also to offset FX. This really means that we're driving the numbers down even further relative to our original planning assumptions last year. FX can obviously change in the course of the year, but the work isn't always revealed, if you like, by the headline number.

Amit Goel Okay, thank you, and just a slight follow-up on the first part of the question. I'm just thinking in terms of when you do look at alternatives to improve long-term profitability and shareholder returns, how do you do it differently versus, say, what you did last year when you came in and/or in previous strategy reviews?

James von Moltke Well, there's an ongoing process of managing the businesses every month, looking at resource deployment, looking at the profitability of individual transactions, of client activities and the cost item we just



talked about. So we challenge ourselves and challenge the businesses, and I think the key point to note here is we're always looking for ways to improve against the baseline that we've articulated to you.

Alevizos Alevizakos
HSBC

Hello, good morning. Thank you for taking my questions. So, my first question, you talked about the FX headwinds in costs, but clearly also you had some tailwinds in revenues from the FX rates and could you give me two numbers; what was the underlying improvement in GTB revenues in constant currency, because I've seen the 6% higher year-on-year but I wonder what it is basically if you were to strip out the FX effect? And secondly, am I right to believe that you have dropped more market share through the lower perimeter in fixed income than equities? And then a small second question, what is the guidance for the corporate and other for the rest of the year given that the quarter was very positive? Will it be around minus 150 million per quarter? Thank you very much.

James von Moltke

Thank you. On the currency, you're absolutely right. When we're speaking to currency on the cost basis, we're talking about an absolute target and hence I think it's important to point out.

You're right that a strengthening Dollar versus Euro delivers slight improvements in the margin. I'll point to page 23 of the investor deck where we show, a rough split of the differences between revenues and expenses expressed by currency where the revenues are higher in Dollars than the expenses, so there is that benefit.

On Corporate & Other, it can be a volatile segment and one of the things we do is try to allocate all costs that can be allocated out of Corporate & Other, whether that's funding or operating expenses to the businesses. Some of the volatility, for example, for hedging risks on the balance sheet you see reflected in Corporate & Other and, as we've pointed out, shareholder expenses. The shareholder expenses are reasonably steady in a range of kind of 90 to 110 million euros per quarter, depending on the amount of severance that's taken in those areas.

The hedging results, which we call valuation and timing differences and to a lesser extent the treasury items which we attempt to clear to zero are items that throw some volatility. So the short version is it's always hard to predict what that Valuation & Timing result will be. In this quarter it was positive.

In terms of market share loss in FIC, we've seen some amount of what I'd call adverse rotation compared to what the market opportunities were in the first quarter. Particularly there seems to have been strength in commodities and US mortgages areas in which we don't participate.



I think the environment in Europe was a little bit weaker than the US too. We've also, as you mentioned, had the perimeter adjustment impact which you're seeing this quarter which will fade in the coming quarters.

Christian gave some, orders of magnitude on the impact of the perimeter adjustments at about 400 million euros on an annualized basis. We also saw some idiosyncratic headwinds in the fourth quarter that abated in the first quarter as time progressed, but that last item is frankly hard to measure in terms of when you're making market share comparisons.

I'm sorry, one other thing as I look at the list of questions you asked, GTB, part of the growth reflects the benefit of having revenues in US Dollars, especially net interest revenues, given the increase in rates in the US over that 12-month period. So it is certainly a factor in the 6% year-on-year growth. But even excluding FX impacts, revenues in GTB grew on a year-on-year basis.

Jeremy Sigeo
Exane BNP Paribas

Thank you. I've got two questions, one strategic and then one on number specifics. The strategic question is on the announcement yesterday about abandoning the merger talks. It seems to me that a lot of the major financial impacts were fairly clear from quite early on in the process in terms of, heavy execution risks, heavy restructuring costs that you refer to.

So I'm wondering really what you feel you discovered as you went through the six-week process, whether there are things you hoped might be better that turned out not to be, or whether there are things that you discovered turned out to be worse than you had expected. Because it seems that a lot of the big shape of it was fairly clear from fairly early on, so I just wondered what you felt you discovered during the process that ultimately led to that decision not to proceed.

And then secondly, my numbers question is much more straightforward; could you just tell us what you expect the cost of the AT1 coupons to be next quarter and what you expect the cost of restructuring and severance to be for the full year? Thank you.

Christian Sewing

Thanks, Jeremy, let me take the first question. If you get presented with the chance that the number one bank can merge with the number two in the strongest economy in Europe, you obviously take a close look because simply from an industry consolidation over the next years not only in Germany but also in Europe it is something where I think a management should look at it and should also have a thorough view at it.



And I also honestly do believe that just the top down analysis on certain assumptions which you may have made before is simply not sufficient, because the truth at the end of the day, whether the net synergies are sufficient enough to also provide the adequate returns for shareholders in such a complex integration, you only find out if you are doing a detailed due diligence.

And I have to say that these discussions have been more than constructive, but then you also go obviously into details that you see cost synergies but also potential revenue dis synergies, because you have also quite a high overlap in clients especially in Germany. And when you then net out all the cost synergies and revenue dis synergies, you come up with a number and compare that to the execution risks where we simply believe that on a net basis it is not enough to convince our shareholders to do such a transaction.

But I would say it was never a complete black and white story, it was a very serious assessment that we have done. I'm also very glad that we have done this because it really tells me what the right way for us is, but you can't just simply judge on it from a top down without doing a diligent review.

James von Moltke

So on the numbers questions, the AT1 coupons are paid in the second quarter and is around 325 million. On the severance assumptions that we made, as we said, in the walk to 4% there are assumptions built into our planning about severance cost.

In terms of a range, I'd say it is likely to be between 200 - 300 million euros of restructuring and severance in the full year, reflecting what we had initially assumed in terms of restructuring actions in 2019. Obviously that's a budget that we manage as well based on a number of factors, but that's what's built into our planning and we look to optimise the use of those resources.

Jernej Omahen
Goldman Sachs

Yes, good morning from my side as well. I have two questions, please. The first one is on funding and I'd just like to ask this question, so the last time Deutsche did a benchmark unsecured bond issue was in February and that was done at elevated spreads. Can I ask, when is the next benchmark planned?

And, more broadly, with the CDS now back up to above 170 basis points, it's broadly twice the level of Deutsche Bank's European or US competitors. What happens to the CIB revenues if funding costs stay at this level throughout the year?

The second question is on M&A and I'll try and ask it in a way that allows you to say something. So, Christian, before you said in the opening



statement that you came to the conclusion that this transaction would have resulted in dilution to your return on equity targets to which Deutsche Bank is committed.

That implies that you have certain M&A criteria in mind against which you judge potential transactions. What are those criteria? Is it simply that the transaction needs to be at least EPS neutral? Is it a certain return on investment hurdle? Anything you can share on that I think would be helpful. Thank you very much.

Christian Sewing Happy to go first on your second question. Honestly, I always make that quite simple. Anything which we potentially consider must be accretive and incremental to our existing internal stand-alone plans and that from an ROTE point of view in particular because you know as well as I do that even if it's only a little bit incrementally positive, the execution risk with an M&A transaction is huge and therefore I always compare any potential alternative to our internal medium and long-term plan. That's what we did, with Commerzbank and that's the habit I have and I will stick to that.

James von Moltke On funding, Jernej, as you mentioned, and we have our fixed income investor call on Monday when Dixit and I will talk to issuance plans for the full year. But, as I said to answer an earlier question, we obviously will work to optimise funding costs, both in the size and the profile of our funding needs. When we focus on the senior non-preferred, which were the issues that we did in February, a couple of points to note.

We've announced a funding plan in non-preferred senior of 9-11 billion euros for the full year. We've achieved more than half of that plan having issued six billion euros year to date. We think of non-preferred senior as essentially a capital instrument. The driver of senior non-preferred issuance is TLAC, MREL and the Moody's Loss Given Failure ratio that we manage to.

We pass a portion of those credit spreads to the businesses in their funding costs so naturally it has an impact on the returns and the yield calculation that our businesses do when we price business. We work to optimise those costs and they are already essentially embedded in the way we compete for business today. Is it a modest competitive disadvantage? Sure, but it's something that we work with and we manage and we hope to improve over time.

Jernej Omahen Just one very short follow-up. Are there any scheduled reviews by the major rating agencies of Deutsche that you're expecting over the course of this quarter, and are you expecting any action either way, to the extent you can comment?



James von Moltke So, Jernej, we can't and don't comment on specific interactions with the rating agencies, nor do we have visibility into their processes and timing. All I will say is we engage very actively with the rating agencies. I think they've published some commentary on us recently given the strategic announcements, so that's all I'll really say there.

Anke Reingen
RBC Yes, thank you very much for taking my question. I just had a small follow-up question. In terms of your potential to address costs any further, looking at the percentage change year over year where the reduction in compensation is impressive and the largest part. Where would you see the additional flexibility in bringing costs down any further? And then I wondered about the proposals in the US about potential liquidity and capital rules for US subsidiaries or IHCs. Do you already have an initial assessment and is that all in line with plans? Thank you very much.

James von Moltke So, we've talked about cost flexibility and I don't have much more to add. We are really focused on both comp and non-comp, and I think you've seen in the past several quarters significant movement on both and that's something we'll continue to work through.

On the IHC capital rules and the proposals, there was also a liquidity proposal to consider. But on all it is still early days.

We think both the capitalisation and liquidity levels are extremely robust in our US entities, but will work through the notice of public rulemaking process in the US and, if there are any adjustments that are necessary. But take our strong capital and liquidity as a good starting point.

Stuart Graham
Autonomous Research Good morning. Thanks for taking my questions. I had two. The first one is, I hear that you don't want to be drawn on the details of any possible further restructuring plans, but can you at least rule out raising fresh equity to finance the upfront costs of any further restructuring plan?

And the second question is, I don't quite understand your revenue guidance today. On March 22nd when you published the annual report you said you expected revenues to be slightly higher year-on-year whereas now you say essentially flat. Yet, I think March was a good month and many peers have said that that's continued into April, so I don't understand why you're unhappy with slightly higher today if you were happy with that when you published the annual report. Thanks.



- Christian Sewing Stuart, as I said before, we will not be drawn on any of the options under consideration and there is no information content that should be drawn from our lack of comment on any of them. But please also be guided by the capital ratio which we have published. We are at 13.7% CET1 ratio which is an improvement versus last quarter, so we are focusing on our plan and I don't want to speculate any more on that.
- James von Moltke And so, Stuart, on the outlook, we obviously refreshed our forward view and now bake in the full first quarter. In that, you know, we have benchmarks against which we key our guidance and there's a modest change that slipped within that benchmark so we update. It's nothing more than that.
- Stuart Graham But I guess when you made the statement with the annual report you knew January and February, March was better, so surely you'd be more positive on revenues, not less positive on revenues.
- James von Moltke We knew a great deal about March, too.
- Stuart Graham So it's got worse since then?
- James von Moltke So you look, you don't just bake in the existing quarter, you also look forward for the full year. I think the important point here, is that our forward guidance remains consistent with our full year targets and that we've been able to offset the revenue weakness in the first quarter and our outlook, reflects everything we know as of the date hereof.
- Adam Terelak
Mediobanca Yes, morning. I had a couple of questions on operational risk. Obviously you've updated your AMA model, but I want to look at the loss data side where you've had a bit of a tick down as well. What is the outlook for that and should we expect further reduction as losses are pushed further out into the history? And what impact would you take if you saw further charges after a relatively clean year last year for litigation?
- And secondly, how would you expect operational risk RWA to develop if you were to change the business perimeters? So if you were to shrink certain businesses, would it mostly stick with you given it's litigation driven?
- James von Moltke Yes, operational risk RWA in general takes a long time to feed in the evolving dataset and for historical loss events to fall out of the dataset. So what we're talking about today is really a methodology change and less of an impact from data changes, although there have been steady improvements in the underlying loss event data. The impact on operational risk RWA from perimeter adjustments takes a very, very long time to feed through.



There isn't in regulation necessarily a direct linkage. between business activities that you've exited no longer feeding into your operational risk dataset. We have obviously exited businesses several years ago, US securitisation is a great example, against which we still have to carry the op risk RWA and that's simply the system as it exists, but it's of course subject to regulatory guidance and feedback.

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