



## **Deutsche Bank AG**

Deutsche Bank Q3 2018 Analyst Conference Call

October 24, 2018 | 08:00 a.m. CEST

### **Transcript**

#### **Speakers:**

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



James Rivett

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

As always, there's a lot to cover today, so we're going to try to limit it to two questions at a time but, 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 therefore ask you to take note of the precautionary warning on the forward-looking statements at the end of our materials. With that, let me hand over to Christian

Christian Sewing

Thank you, James, and welcome from me. It is my pleasure to host our Third Quarter Results Call. Before James takes you through the details of the quarter, I wanted to update you on the progress that we have made this period.

Overall, we are on the right path, and we are moving in the right direction. Costs and balance sheets are under control. Focus is now on the top line.

We delivered quickly and in a disciplined manner on what we promised and what is under our direct control.

We have been delivering on costs and further improved our already strong balance sheet.

We are confident that we will meet our target for adjusted costs of €23 billion for the full year. And, this also means that we are on track to be profitable this year for the first time since 2014.

We have made considerable headway on several strategic initiatives this quarter.

In our Private & Commercial Bank, the integration of Postbank and the Private & Commercial client business of Deutsche Bank is progressing well in terms of daily execution. And, what do I mean by that?

We are moving forward with the consolidation of our head office and infrastructure as well as the harmonisation of product management functions across the new legal entity, which will be announced internally shortly. At the same time, business activity



in terms of loan growth is encouraging. And, finally, the sale of our Polish operation is on track to complete before year-end.

In the Corporate & Investment Bank, we have completed the restructuring of our front office in line with our original target. Further workforce reductions, as we said in July, are now more focused on infrastructure and support functions. This enables us to now focus on profitability, returns and on client activities.

In DWS, we completed the outsourcing of our real estate fund accounting as part of our ongoing cost-efficiency efforts. Since the IPO in the first quarter, DWS has shown strong operating leverage, with adjusted revenues up 3% and adjusted costs down by 5%, leading to close to 30% growth in adjusted pre-tax profit.

We are dedicated to delivering on our near-term external targets. This quarter, we have made progress against two of the three targets that I set when I became CEO.

To recap, those were: First, we promised to continuously meet our near-term cost and headcount targets.

Second, we committed to conservative balance sheet management and maintaining a CET1 ratio above 13%; and, third, we pledged to improve our profitability and our return on tangible equity to our shareholders. At the same time, we are determined to deliver on all our regulatory priorities.

Turning first to costs and headcount. We have made significant progress towards our 2018 and 2019 adjusted costs and headcount targets, as shown on slide three. With adjusted costs declining by €115 million versus the prior quarter, we have achieved the commitment we made on the last results call, reflecting management action to control external spend.

On a year-to-date basis, our adjusted costs have declined by 1% or €100 million despite the significant headwinds that we have faced this year. These headwinds collectively amount to around €600 million and include more even accrual of compensation expenses, higher IT amortisation, investments related to our German legal entity merger, and higher bank levies.

We are confident that the fourth quarter costs will allow us to reach our €23 billion adjusted cost target this year.



And, yes, I'm well aware of Deutsche Bank's history of negative surprises in the fourth quarter, and we are absolutely determined to not repeat this.

Today, we are more evenly distributing variable compensation. We will also benefit from lower amortisation of deferred compensation, and we will have lower salaries and benefits from the reduced headcount. Finally, we will maintain better discipline around non-compensation costs.

We are confident that reaching our targets in the fourth quarter will put us on a good path towards the €22 billion target next year for several reasons.

First, we will start 2019 with at least 4,500 fewer headcount than we started with in 2018. Second, we anticipate cost savings from the disposals of our Polish and Portuguese operations. Third, we will start to realise synergies from the merger of our German legal entities. And, finally, the impact of measures identified as part of our cost catalyst programme will materialise, including further optimising our external spend.

Let's now turn to our second objective. We have shown that this management team will ensure that no one doubts the strength and stability of our balance sheet. As a former risk manager, this is very important to me.

As you can see on slide four, this quarter once again shows that we have a strong CET1 ratio, and we are managing our risk levels conservatively. Both our market risk and our credit risk are running close to historical low levels and certainly rank amongst the lowest of our global peers. With over €70 billion of excess liquidity and a CET1 ratio of 14%, we have all the resources we need to grow.

All in all, this means that with disciplined cost management and a very strong balance sheet, we have laid the foundations for future growth.

Our principal near-term target is to reach a return on tangible equity of more than 4% next year, as shown on slide five. To achieve this, we must stabilise and grow over revenues, and we see three levers to do this.

First, we must improve our balance sheet efficiency, for example, by deploying part of our excess liquidity and adjusting the



composition of our strategic liquidity reserve; we started to do so in September.

Second, we will deploy part of our capital into our business.

And, third, we expect to regain market share in our core businesses where we have a leading position by increasing the intensity of client coverage and continuing to invest in automation to drive further scale benefits.

On this topic, we have, quite frankly, the most work to do. We reduced staff and balance sheet significantly in order to focus our business on areas where we have or can reach leadership positions.

We must now deliberately and prudently allocate our resources over time to those businesses where we are competitive, and we see signs of strength within our business already.

Across the bank, we grew loans in the quarter by a little over €7 billion, excluding the businesses that we are exiting in the Private & Commercial Bank. And, let me illustrate with a few examples within our business, turning first to Investment Banking.

In the third quarter, we had a lead role on six of the ten largest corporate finance fee events globally, our best performance for more than five years. Year-to-date, we are the number one global coordinator of IPOs in EMEA, leading four of the five largest IPOs and all three flagship transactions in Germany, including the recent listing of the German brake producer, Knorr-Bremse. In leveraged loans, we grew our market share from 3.9% to 5% in the last 12 months.

Our Transaction Banking business was also successful in many areas, even though revenue declined. In the last quarter, we grew loan balances in the Transaction Bank by 4% sequentially.

In Sales & Trading, the year-on-year revenue trends are weaker than the peers who have reported so far. This has, in part, reflected our greater exposure to the weaker-performing European markets, the impact of our strategic decisions taken earlier this year, and our business mix where certain of our peers benefited from higher revenues, for example, in commodities.

However, on a sequential basis, our performance appears to be in line with the broader market, which suggests to us that we are now moving in the right direction.



In the Private & Commercial Bank, while making progress on the integration, we also strengthened our business with clients in key areas. In our ongoing retail operations, we have grown net new loans by approximately €8 billion this year, including by €5 billion in Germany. Despite implementing repricing measures, our Postbank-branded offering saw the second consecutive quarter of net growth in current accounts.

In Wealth Management, we have been successful in adding new talent. In Asia Pacific, where we have hired significantly into client-facing roles, we saw a revenue increase by 4% versus the prior quarter.

And, in DWS, we agreed strategic alliances with Generali and the alternative asset manager, Tikehau Capital, and won a €1.5 billion pension fund mandate based on a bespoke ESG strategy. We also made further progress on our digital strategy, with additional partners on-boarded to our robo platform, WISE.

In conclusion, we believe the achievements in our quarterly financial results are proof points of the execution focus and discipline of this management team.

And, on revenues, while it will take a little longer, I'm convinced that in addition to the financial resources, we also have the right people and the right solutions for our clients to show progress to you in the coming quarters. With that, let me hand over to James.

James von Moltke

Thank you, Christian. Turning briefly to a summary of our third quarter results on slide six. We generated net income of €229 million and profit before income taxes, or IBIT, of €506 million in the quarter on revenues of €6.2 billion.

On a reported basis, revenues declined by 9%, or 5% excluding specific items which are detailed on Slide 18 of the appendix.

Noninterest expenses of €5.6 billion included restructuring and severance of €103 million and litigation costs of €14 million.

Tangible book value per share of €25.81 is broadly flat compared to the prior quarter. For the first 9 months of the year, we generated €750 million of net income and EBIT of €1.65 billion.

Slide seven shows our adjusted costs or noninterest expenses, excluding restructuring and severance as well as litigation and excluding the impact of FX translation, which had a modest



impact on both the sequential and year-over-year comparisons this period.

Adjusted costs were a little under €5.5 billion in the quarter and declined by approximately 1%, or €60 million, year-over-year.

Compensation and benefits increased by 2%, or €46 million, reflecting higher charges for deferred compensation. We offset the higher deferred compensation with declines in other cost categories as we execute on our plans to optimise spend, in particular, with external vendors. IT costs were broadly flat as we continue to execute on our core investment objectives.

Compared to the second quarter, adjusted costs were €110 million or 2% lower, driven by lower compensation and benefit costs.

As Christian said earlier, we remain on track to reach our adjusted cost target of €23 billion this quarter and to reach €22 billion in 2019.

Slide eight shows our workforce trends. We ended the quarter with approximately 94,700 full-time equivalent employees. We reduced our workforce by approximately 1,450 in the quarter, partially offset by the annual intake of graduate recruits.

In line with our previous commitments, the declines in headcount were mostly focused on our infrastructure staff this quarter as we worked to improve the efficiency of the firm while maintaining our revenue-generating and control capabilities.

Year-to-date, we have reduced our workforce by 2,800, with reductions of approximately 1,200 in CIB, 500 in PCB and 1,100 in our infrastructure functions.

We remain committed to reaching our target of less than 93,000 employees by year-end, including a reduction of approximately 1,400 from the completion of the partial sale of our Polish operations, which remains on track to close in the fourth quarter.

We ended the third quarter with a CET1 ratio of 14%, approximately 20 basis points above the prior quarter on lower risk-weighted assets, as shown on slide nine.

As we have indicated in previous quarters, we expect headwinds to our CET1 ratio in the coming periods. We expect approximately 20 basis points of impact from the change in lease



accounting for IFRS 16, which becomes effective in the first quarter of 2019.

We also expect headwinds from pending supervisory assessments, including TRIM, which may impact us by between 20 to 40 basis points between now and the middle of 2019. The impact and the timing of these adjustments, however, remains uncertain.

Our fully-loaded leverage ratio was unchanged at 4%. Leverage exposure was broadly flat sequentially and down by close to €100 billion versus the prior year, reflecting the strategic actions we took in the second quarter.

For the remainder of 2018, we expect group as well as CIB leverage exposure, excluding pending settlements, to be broadly flat as we continue our efforts to recycle leverage into higher-return areas.

Turning to our segment results, starting with our Corporate & Investment Bank on slide 11.

CIB reported profit before tax of €156 million in the third quarter on revenues of €3 billion, or €3.1 billion excluding a €58 million negative effect from DVA as our credit spreads tightened in the quarter.

Noninterest expenses of €2.9 billion declined by 3% year-over-year. We reduced adjusted costs by 4% as we lowered vendor spend and internalised software development capacity, partially offset by higher variable compensation.

Sequentially, adjusted costs declined by 7%, principally driven by lower compensation costs.

Our risk levels remain conservative, with our trading book average value at risk at €25 million.

Turning to the revenue performance in CIB on slide 12. Global Transaction Banking revenues decreased by 5% year-over-year and 4% sequentially, excluding the second quarter gain on sale.

This is obviously a disappointing performance compared to our previous expectations.





GTB has, in the past, recorded approximately €60 million a quarter of smaller episodic revenue items alongside its day-to-day operations, which did not repeat this period.

These revenues were typically driven by several factors, including credit insurance recoveries recognised in revenues, noncore asset sales and other items which have now largely concluded sooner than we had expected.

We had expected underlying business growth from mandates won at the end of 2017 to more than offset the lower expected levels of episodic revenues.

While we added these new customers to the platform, their business volumes have not yet fully offset these items.

Our core franchise in GTB has the capacity to deliver higher revenues over time, not least as interest rates increase.

Under new management in this business, we are committed to reinvigorating the GTB franchise, which is a core part of our long-term strategy.

In Origination & Advisory, revenues were essentially flat year-over-year as higher equity origination revenues, mainly from completed IPOs, were offset by lower advisory and debt origination revenues.

Within debt origination, investment-grade revenues declined in line with the broader market, while we continued to regain market share in leveraged debt capital markets. The improvements in leveraged debt have helped us maintain our total corporate finance market share in 2018.

In Fixed Income Sales & Trading, revenues declined by 15% versus the prior year, driven principally by lower rates revenues. Rates revenues were impacted by low volatility and reduced client activity, particularly in Europe, which impacts us more than peers given our market presence, as well as the impact of our previously announced and now completed strategic adjustments in the US.

Credit revenues were slightly lower, mainly in securitised and flow credit, while distressed debt revenues were materially higher. FX revenues were slightly higher with good performance in derivatives.



And, finally, emerging markets revenues were higher on a strong performance in CEEMEA, while Asia-Pacific FX and rates were lower, as good performance in Asia was offset by a lower contribution from Australia and Japan.

Compared to the second quarter, FIC revenues were 4% lower as improved volumes and volatility in emerging markets and Asia were offset by rates and seasonally lower FX revenues.

Equity Sales & Trading revenues declined by 15% year-over-year as a strong performance in derivatives was offset by declines in cash and prime.

Slide 13 shows the results of our Private & Commercial Bank, which has remained a solid contributor to group profitability and showed good underlying progress even in a seasonally slower quarter.

On a reported basis, PCB profit before tax of €220 million declined by 37% or €129 million year-over-year. The decline was mainly driven by the nonrecurrence of a €108 million gain on sale in the third quarter of 2017 and higher investment spend.

Revenues of €2.5 billion were down 3% year-on-year on a reported basis, driven by the absence of the gain on sale. Excluding this item and the lower contribution from Sal. Oppenheim workout activities, revenues rose by 2%, or 1% in our ongoing operations, as we offset the continued negative impact from the low interest rate environment with growth in loan revenues.

Excluding exited businesses, PCB generated net new loans of €3 billion in this quarter and €8 billion since the beginning of the year.

Noninterest expenses and adjusted costs, at €2.2 billion, were both broadly flat year-over-year as our cost-saving measures largely offset the incremental investment spend of approximately €70 million to merge our German units and to reshape our international businesses. Excluding the investments, we reduced adjusted costs by 1% in the third quarter year-over-year, reflecting workforce reductions and efficiency gains from previous restructuring programs.

Provisions for credit losses were €87 million, flat compared to the prior year, and highlight the low-risk nature of our portfolios, the



benign operating environment, as well as the small gain from the sale of nonperforming loans.

Despite the increase in investment spend, our retail operations still generated a 5% post-tax return on tangible equity in the quarter and over 6% in the first nine months of the year.

Turning to the business performance in PCB on slide 14. Revenues in Private & Commercial Business (Germany) decreased by 4% year-over-year on a reported basis but rose by 2%, excluding the gain on sale in the prior year quarter. Growth in mortgage and commercial loans more than offset the continued margin pressure on deposit revenues.

In PCB International, revenues declined by 4% on the absence of a recovery recorded last year as well as lower investment revenues, partially offset by loan revenue growth.

In Wealth Management, revenues declined by 3% on a reported basis, reflecting a lower contribution from the Sal. Oppenheim workout activities. Revenues were broadly flat, excluding these items. Wealth Management revenues in Asia Pacific and the Americas grew, mainly reflecting higher lending revenues. Revenues in Wealth Management Germany were lower on muted capital markets activity and lower revenues in discretionary products.

Slide 15 reviews the results for Deutsche Bank's Asset Management segment, which includes certain items that are not part of DWS' financials. Asset Management reported profit before tax of €143 million, a decline of 27%, or €54 million, compared to the prior year.

Results in the third quarter of 2017 benefited from the previously disclosed €52 million insurance recovery related to a real estate fund.

This quarter also included €31 million of noncontrolling interests reflecting the IPO earlier this year which, of course, did not affect the prior year period.

Excluding these items, Asset Management generated positive operating leverage, and profit before tax increased by 21% versus the third quarter of 2017.



Revenues of €567 million were flat versus the prior year period, excluding the insurance recovery, as higher revenues in passives offset lower management fees in active.

We reduced noninterest expenses by 9% year-over-year, driven by the release of a litigation provision relating to a sold legacy business.

Adjusted costs improved by 4%, with lower external professional fees and infrastructure costs partially offset by higher MiFID-related external research costs, compensation and company setup costs.

Assets under management increased by €2 billion in the quarter, primarily driven by favourable market performance and FX movements, partially offset by net outflows, predominately triggered by the US tax reform and the sale of a private equity business in Germany. As a reminder, DWS management will host its analyst call immediately after this call.

Turning to our Corporate & Other segment on slide 16. C&O reported pre-tax losses of €13 million in the quarter, including €101 million of shareholder expenses. Valuation and timing income was positive €94 million, driven by a widening of the euro/dollar basis this quarter.

Finally, let me add one comment about the fourth quarter. We currently expect restructuring and severance in the fourth quarter of approximately €200 million, taking the full year total to around €600 million. This is below our most recent guidance of €800 million, as we achieved more of the intended business repositioning from restrictive hiring than previously expected.

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

Operator

First question comes from the line of Giulia Aurora Miotto from Morgan Stanley.

Giulia Miotto

Hi. Good morning. A couple of questions from me, please. So, the first one on PCB. Could you please give us an update on the merger? You said that the legal merger is proceeding ahead, but I'm more interested in the merger of the IT platforms. So, do we understand it right that you're planning to migrate both banks into a new core banking system? And, what's the timing of that? Or, do you require further investments to achieve that?



And, then, the second question is on CIB. You have completed the deleveraging that you were targeting, but yet the profitability remains quite low. So, do you think now the bank is rightsized or do you see potential to trim further in order to ultimately increase the profitability of this division?

Christian Sewing

Let me take the first question on PCB. So, the integration of the legal entity merger is running according to our plan. Actually, we have certain issues where we accelerated, for instance, in the cross-selling of products through both brands, i.e. Postbank and Deutsche Bank and vice versa. On the operations and platform integration, we always said that this will come after the legal entity integration and after we have moved the head office and the infrastructures together. On this there will be an announcement in the fourth quarter. So, we plan to have further platform integration in 2019 and 2020, and we stand by our previous synergy targets on this € 900 million. .

James von Moltke

On the CIB question and rightsizing, we have completed the front-office footprint refinements that we announced in the second quarter. At this point, obviously, as Christian said earlier, the focus is on stabilising and growing the revenue base from the target client footprint, but also driving efficiency in the platform. When we talk about infrastructure costs, it goes beyond that, to talk about just the efficiency of delivery, the technology infrastructure that we deploy and other areas from which we think there's continued cost savings without changing the client footprint. Hence, our confidence about rightsizing but also more operating leverage from that business going forward.

Operator

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

Kian Abouhossein

The first question is related to your targets. So, we are clear about this year and next year's target on cost and the 4%-plus ROTE target. Can you look a little bit further? You've taken this 10% aspiration target out in 2021. It's now a longer-term aspirational target, and you've done that, I think, already last quarter. Your cost guidance of €21 billion, is that still intact? And, how should we think about ROE progression beyond 2019, beyond that 4%-plus?

The second question is related to GTB. And can you explain why GTB isn't performing better? I know you outlined some of it, but it also looks like you're still losing market share, and I'm just trying to understand if I'm correct or not in that.



And, the last question is related to Sales & Trading. You indicate that you're performing in line with the market, but when I look at your numbers against peers, either quarter-on-quarter or year-on-year, it looks weaker. And, if I look at one of your competitors which just reported today in Europe, the first one besides you, you also look weaker. So, I'm just trying to understand why you're confident that you're in line with market performance.

James von Moltke

On the targets, first of all, whether the normalised environment that we all expect to come, particularly around interest rates, is 2021 or thereafter is really the uncertainty. We continue to build our plans towards our 10% target on ROTE and drive the businesses towards that target.

But, the timing, whenever you think about a normalised operating environment, is the uncertainty that we face, and that is part of our market environment. But, as Christian and I said last quarter, we are focused for the time being on delivering our near-term targets on changing the trajectory of the businesses and building from there towards those long-term targets.

Kian Abouhossein

Sorry, just to interrupt. The €21 billion, is it still a target?

James von Moltke

What we want to do is step away a little bit from the absolute expense targets and move towards, as I said in June at an investor conference, more towards the cost/income ratio of managing the business but we think the absolute targets are good for this year and next. Our full expectation is to remain on a strong downward trajectory in terms of costs thereafter.

Kian Abouhossein

Okay.

James von Moltke

In GTB, as I said in the prepared remarks, we were disappointed with the performance this quarter. It didn't meet our expectations as we closed out the second quarter. As I mentioned, there are episodic revenues which, in some ways, are part of the business, in particular, credit insurance recoveries which flow through the revenue line which we've had as part of recent quarters and, frankly, we expected to be part of this quarter. We were unlucky in a small number of items which could have added €20 million to €40 million in the quarter.

Our underlying growth was actually more or less in line with our expectations at around €20 million to €25 million in the businesses. We think that could have been stronger and, frankly, our expectations were for a little more in underlying growth. And it has to do with, if you like, the capture of our pipeline which is



running slightly less than had previously been our experience. That's something we're heavily focused on and working to, to ensure we turn around and capture the full pipeline and something we'll work very intensively now with Stefan Hoops to execute on.

And, finally, in Sales & Trading, all banks are different in terms of the spread of our businesses, the markets that we're operating in. What we pointed out was that based on what we had seen so far in terms of peers reporting, the sequential trends, were much more in line with where we think the market has been than the year-on-year comparison. And, to us, that's encouraging. We're focused on turning the corner here in terms of the revenue development, stabilising the platform and building from here. And, as I say, on that sequential performance, we see some signs of achieving that.

Christian Sewing

Kian, potentially, I can add one thing on GTB because that is very important to me. And, I think James said everything that, of course, just by the headline number, this was then a disappointing quarter with the revenue decline, but he explained why. We are winning mandates, actually more mandates.

In all the client meetings I have, GTB is considered as world class business. And now we have a person where we do exactly that, what you asked in July in the analyst call. We are further integrating the coverage between Transaction Banking and Fixed Income. I think that is the strength of Deutsche Bank. With this client feedback we have, with the mandates we win, I'm very confident that we can turn that over time into increasing revenues, so I'm not nervous about that one.

Kian Abouhossein

Okay, that's very helpful. If I may, very briefly, you have a €70 million investment in PBC but you don't indicate this is a one-off. Can you just tell us is this ongoing, what that is? I mean, you explain it, but why is it not a one-off, why is it in the normal numbers.

James von Moltke

Sure. Look, it's a comparison to last year's third quarter and reflects just how much more we're investing across the businesses. So, as we called out, the German domestic merger is costing us in a ballpark of €40 million to €50 million more than was the case last year.

But, as I've called out in other sort of public forums, we're also investing in our Italian and Spanish businesses. We're investing in Wealth Management, both in infrastructure and in bankers, as



Christian pointed out earlier. So, there's a significant programme across the businesses, and we call out that that represents about €70 million on a year-on-year comparison, meaning that the underlying expense progress that we're making is better than the headline numbers.

The other thing, so to answer your question, a fair amount of that is recurring for now, but will begin to generate the benefits in terms of cost savings and synergies for the merger that we'd expect. The one other item I'd call out is we are also spending to manage the transitions of our Portuguese and Polish operations out of the company. Those expenses will be transitional, if you like, and come to an end next year.

Kian Abouhossein

Very helpful. Thank you.

Operator

Next question comes from the line of Andrew Coombs of Citi.

Andrew Coombs

Good morning. One just numbers question and then one broader question on the revenue opportunity. So, on the numbers question, restructuring charges. You've previously guided to €800 million for 2018, another couple of hundred million for 2019. You're running at €380 million for the 9 months '18, so it looks like it's coming in well below. And, as you mentioned, the CIB front-office restructuring is done, so should we assume lower restructuring charges going forward compared to your prior guidance?

Second, broader question on revenues, could you – it comes in two parts, I'm afraid – but deploying excess liquidity from September, could you just give us an idea of how much of a drag the excess liquidity currently is, so what revenue opportunity from redeploying that is?

And then, secondly, you talked about recapturing market share. I know previously, you've given a 42 basis point number for the prime and repo balances that you've lost, so that points to about €300 million revenue attrition. Presumably that has now played out. I just wanted to check, is there any second-order consequences that you've seen from that, as well? Thank you.

James von Moltke

First of all, on the restructuring charges. As I said at the end of my prepared remarks, we're now calling for a lower number than the original €800 million, at around €600 million, which would imply €200 million-odd in the last quarter of the year of restructuring and severance.





There are a number of drivers as to why our current expectation is lower than before. Frankly, we've been able to achieve the repositioning that we intended more efficiently in terms of those restructuring and severance charges. It hasn't changed, the scope of our repositioning but we have done it more cheaply than we originally expected. Of course, when you come up with numbers, they are always very assumption-driven in this area, and we've just done better than our assumptions in terms of the repositioning.

In terms of revenues from excess liquidity, if you look at what we disclosed publicly in liquidity reserves, they run around €270 billion as we closed this recent quarter, and that's a level that's reasonably in line with the past few quarters.

Of that, about €200 billion is in cash, so it doesn't take very much in terms of incremental, if you like, risk tolerance to move the needle pretty significantly in terms of what our strategic liquidity reserve is throwing off in revenue terms. So for every €10 billion of investment of that cash, we think we can generate 50 to 100 basis points of additional yield without taking a really significant risk or, certainly, well within our risk appetite in terms of OCI credit risk that we take there.

Remember that a lot of what that cash is simply sitting at the Bundesbank earning negative 40 basis points, and it's that drag that we can, I think, do more to offset.

In terms of the restructuring, as we said, it's complete. Have there been impacts in the third quarter? Absolutely, as we called out.

The deleveraging, we noted, would represent the relatively lower-yielding assets on the balance sheet, particularly in prime and repo. We have, of course, seen that impact in the third quarter. At least to date, we don't see significant second-order impacts. As we've said before, we're very focused on stabilising the franchise, on working with our clients, on regaining the market share and to be honest, leverage has not been a big part of those conversations.

Andrew Coombs

That's very clear. Thank you very much.

Operator

Next question comes from the line of Jeremy Sigee with Exane.

Jeremy Sigee

Morning. Just a couple of questions both on CIB, please. So, firstly, just coming back on this question about franchise stabilisation, I just wondered, can you give us any rough numbers



on the revenue give-up and the cost saves that you've achieved now from the US rates shrinkage and the CEEMEA equities closure? That would just help us understand, I think, the underlying trends a bit better.

And then, secondly, it was striking that you talked about leveraged loan business gaining market share quite significantly which, I think, comes at a time when a lot of people are getting quite cautious about overheating in that marketplace. And, I just wondered if you could talk about your perceptions of that and how you're making sure the business you're doing is kind of safe business, if you like.

James von Moltke

Sure. I'll take the first, and Christian will take the second piece of that. Look, it's hard to really parse out in detail the impact of the specific actions, in particular, in the rates business in the US. There's obviously a lower book that we carry there, the lower repo that we outlined, and there is some degree of loss of revenues.

In terms of market position where we remain, again, that's hard to parse out. If you think of the geographic mix of revenues, especially in rates in the quarter, it was more favourable in the US and so I think, on a relative basis, we gave up some market share because of that geographic distribution.

Christian Sewing

I think, in particular, our structuring expertise and the expertise we have in the leveraged and structured business is one where Deutsche Bank has ranked top for the last 10 to 15 years. We have both the underwriting skills on the business side but, in particular, also our expertise on the credit side.

I've seen that in my previous job for a long time, we certainly are not increasing our risk appetite. We are underwriting in line with our existing risk appetite. I think the market sees the strength of our business.

If I look at the underlying diversification of the portfolio, if I look at our syndication and sell-down successes we have, I'm absolutely confident that we are not taking undue risks. I think we are seen as one of the better banks in this business and, therefore, we see increasing volume. And, again, with the expertise we have both on the front office but, in particular, also on the credit side, we feel absolutely confident.

Jeremy Sigeo

Thank you.



- James von Moltke                    One additional item, Jeremy. You might have erroneously thought we were exiting CEEMEA equities in the way you phrased your question. I just want to be very clear. We have not and are not exiting CEEMEA equities.
- Operator                                The next question comes from the line of Jernej Omahen with Goldman Sachs.
- Jernej Omahen                        I have three questions, but I'd just like to pick on this liquidity management point. So, if I understood this correctly, you basically think that you can run with a lower liquidity buffer, so you can run down some of your liquidity coverage ratio and essentially save the negative 40 basis point deposit rate at the central bank. Is that right or not?
- James von Moltke                    Well, no. Liquidity is a complicated area, Jernej. First of all, what I really was referring to was a redeployment of liquidity buffer that we currently hold in cash into securities with a reasonable risk in terms of the credit and the duration risks of the securities. On a comparative basis, our liquidity reserves are much more conservatively managed than our peers, so it's removing some of that excess drag from a very conservative liquidity management profile that we have.
- On the buffer side, we do think there's room to remove some of what we'd characterise as very conservative buffers and assumptions in the way we've been running liquidity for the past couple of years.
- As you know, some of our liquidity management had been in reaction to the idiosyncratic position we found ourselves in at the end of 2016. And, we've worked through a lot of the modelling and the buffer construction and, yes, we do think there's some opportunity to do more on the buffers, but we'll be prudent and cautious as we take that action.
- Jernej Omahen                        So do you think the rating agencies would feel comfortable with a lower liquidity buffer or a differently invested liquidity buffer? You don't think it makes a difference?
- James von Moltke                    We discussed liquidity as well as capitalisation and a variety of topics with the rating agencies. Yes, we think they'd be comfortable. We go through our modelling and our assumptions in detail with them. And, again, if you look at our relative ratios, you can see that they're conservative compared to peers, giving us some room to run slightly less conservative buffers and, if you like, help the revenue line.



Jernej Omahen

There's been no meaningful litigation charge this year. What's the expectation for Q4? And, the second question I have is, we now have a full quarter of the S&P downgrade. Just looking at the deposit number, it seems to be €7 billion lower Q-on-Q, but I think you grouped customer deposits with interbank. And, I was just wondering, had the S&P downgrade had any impact on either customer activity or, indeed, customer deposits?

James von Moltke

On litigation, you've seen obviously in the recent quarters that we struggled to forecast it and, typically, are concerned that litigation numbers will come in higher than they actually do. It's based on, frankly, individual events in a portfolio of matters that we're addressing. And, the trend recently has been for us to have settlements inside our expectations and fewer new matters coming through. So, we're encouraged by the way that's run.

The fourth quarter is always a little tougher, so we would give you the outlook that it would be higher than the average of the first three quarters this year. That isn't based on specific items that we see that necessarily look out of trend with the recent past so much as the possibility that there can be a downside surprise, connected with the fact that the fourth quarter is just a long quarter until we close the books for the year in late February or early March, and so we have events that can run that long.

In terms of the S&P downgrade, in certain businesses, there has been client reaction to it. It obviously reinforces the focus we have on improving our ratings. And, incidentally, just going back to the earlier question, the rating agencies' main concern is not about balance sheet, solvency, liquidity, it's about profitability and we think we're helping our case by driving profitability in this way.

But, back to deposits, there were in certain businesses, there was some reaction but it was reasonably isolated and not something that causes us any concern. We can win back that business as customers get comfort, and we move forward in time.

Operator

Next question comes from the line of Stuart Graham with Autonomous Research.

Stuart Graham

Your VaR is very low. CIB, VaR was down 3%, again, Q-on-Q. And, I think you keep saying you can take more risk, and yet it doesn't happen. So if I was running a trading desk at Deutsche, I can only think of two reasons why that would be the case. Either I'm thinking, why bother, I'm not going to get paid anyway, or my



funding costs are just so high, I can't make a decent return in taking that risk. So, I wonder which of those you think it is or if there's a different explanation. That's the first question.

And, then the second question is, on the €21 billion cost target for 2021, maybe I'm the last to realise this but I didn't realise that was now officially dead. But, I think you said that you expect costs to keep coming down, and you're targeting €22 billion in 2019. So, two years out, I kind of would've thought €21 billion was still the right area to aim at.

I'm just confused on what message you're trying to send us here because I guess we're all anchored on you were going to hit costs, but this is kind of telling me that it doesn't feel like you think you can hit that cost number. Maybe you could reassure me on that. Thank you.

James von Moltke

I want to get away from absolute cost targets, but the reality in stepping away from the €21 billion is we don't think €21 billion is good enough, looking forward to be on track for our return targets.

So, the short version is we hope that we will be doing better than that, but we'd start to express that in a cost/income context. Again, our mission from here is pretty simple, it's grow revenues and reduce expenses on a trajectory that creates the operating margin that we're all looking for and, hence, our trajectory to '21 and beyond needs to be to build that margin.

Stuart Graham

Sorry, James, could I just challenge you on that? I mean, you've got, culturally, a cost problem at Deutsche. I mean, I don't think the way to beat – well, in my opinion – the way to beat €21 billion is to take €21 billion away. Why don't you just say it's €20 billion and just keep beating your people up? I mean, cost/income ratios, how do I, as a desk manager, manage a cost/income ratio? If you can give me a hard cost target, I can manage that much better.

James von Moltke

And, Stuart, you're pointing out a difference in between our communications with you and the market, so externally versus internally, where we build plans, hold people to their commitments and are working to drive efficiencies in the company over several years. And, we are seeing a real change in the culture and the determination around the company, which is encouraging. We've pointed out our sequential decline in adjusted costs was €100 million just since the second quarter.



So, that annualises to €400 million of savings that we've achieved over that period. And, I think it's demonstrative of the work we're doing and the path that we're on. So, we are doing what you suggest which is working intensively with the managers on what they can do, but also what the organisation as a whole can do in sort of removing excess cost in our processes around the company.

Going to your question about risk-taking in CIB, I won't restrict myself to two reasons why that might be the case. We are being disciplined about sticking to our return hurdles. Funding costs play a role in that, but I wouldn't say necessarily an overwhelming role. The third quarter is seasonally a slow quarter and, as it happens, we had some ebb and flow of the Corporate Finance committed deals, just run-off as we close the quarter. I don't think of that as a trend.

The other movements in risk-weighted assets were more about a de-risking in the nonstrategic portfolio, operational risk and some model and data improvements. So, we don't think it's necessarily representative of the underlying business. Of course, we'd like to see more. And, we were encouraged there is a leading indicator that loan growth ticked up in the quarter. And, I'd like to think that's green shoots for continued growth in loans and the associated net interest income, but there'll be more to talk about in the future quarters on that.

Christian Sewing

And, Stuart, I can reiterate on both sides. James is right, we shouldn't restrict to two reasons. I mean, look what kind of restructuring we have done in CIB in Q2, partially also in Q3. This is now completed in the front office. This always has an impact and effect, so I wouldn't take just the two reasons you cited for the low VaR.

With regard to cost, honestly, I think we have to show you credibility, first of all, this year and next year. This is what we are focusing on and we will deliver. James was pretty clear that our further trajectory is also clear; it goes further down, it goes materially further down, and we are managing that on a weekly basis. But, the most important is that we regain your credibility this year and next year, and that is where our focus is and everything else is managed internally here with pretty absolute hard numbers.

Stuart Graham

That's fair. Thank you for taking my questions.





to do with how your legal entities are structured, how you manage the fungibility of liquidity around the organisation in addition to your investment choices and incidentally, the behavioural modelling of the balance sheet.

We've got a lot of work to do in the years to come. I think there are significant improvements that we can and will target but we do so in close cooperation with the regulators so that they see the progress that we're making and that it's being executed on prudently.

In terms of the revenue guidance, I would say we moderated guidance just a little bit this quarter versus last to really reflect a slightly weaker third quarter than we'd initially expected, so where we are as we sit here today.

We have internal rules on how we set the guidance and we wanted to be a little bit cautious about the boundaries there, but there is no sort of dramatic message. I won't go into particular percentages. We want to be careful about giving you quarterly guidance given that parts of our revenue base are market-driven. But, I wouldn't read too much into that guidance signalling given that it's only one quarter as we were thinking about how we look at the balance of 2018.

Operator

Next question comes from the line of Jon Peace with Credit Suisse.

Jon Peace

My first question is on the PBC business. The adjusted IBIT, in the first nine months of this year, is running at about half the level of last year. And, I just wondered, what sort of synergies are you expecting for 2019 from the head office consolidation? How quickly can that business sort of return to its former run rate?

And, my second question is just around the RWA outlook. You indicated some upward pressure due to a TRIM exercise. What's your outlook at the moment for organic RWA growth across the various businesses? And, is there any update at all on Basel IV?

James von Moltke

Sure. We're not giving specific information about the synergy numbers in PCB, certainly not in a short-term horizon. As you know, we've been very clear about working towards the €900 million that we gave when we first announced the merger of those two banks, and we're well on track to achieve that.

As Christian said earlier, we actually are now seeing those synergies both on the revenue and the expense lines, and we





think that progress will continue. And, as you pointed out, the head office integration is to come, and we expect to see benefits from that. That's all baked into our 2019 expectations.

In terms of RWA it's single-digit billion euros of redeployment in RWAs as we work with the ongoing businesses to seek out good client opportunities and good return opportunities. There is still some runoff of our nonstrategic or legacy positions that helps us. And, as I mentioned, we have operational risk and other changes in RWA that are apart from the underlying trends.

On TRIM and the other regulatory assessments, frankly, it's too early to say. We've gone through a bunch of reviews, both for TRIM and otherwise. We get initial feedback. We engage in an iterative process with the regulators on those reviews. What the final results and final answers will be, in particular, for TRIM, which is a horizontal review across the industry, so our initial feedback then gets combined with an industry-wide view and results in final feedback from the regulators, hence, the uncertainty that we communicate to you. But, we've given out a range of ratio impact over the next several quarters and I think that's the best we can do for the time being.

Operator

The next question comes from the line of Al Alevizakos with HSBC.

Al Alevizakos

I'm going to stay with the regulations on capital but I'm going to move slightly to leverage. I asked the question last quarter whether the target of 4.5% is still valid. And, also, James, there was recently a proposal by the BIS regarding the treatment of cleared derivatives. And, given that you've got a big derivatives book, I was wondering whether you have any initial analysis for us on what it would mean on your Tier 1 leverage ratio. And, as a second question, do you see the G-SIB buffer that you've got in your capital ratio reducing as the balance sheet is shrinking?

Because other banks have actually been growing and, at the same time, you've been reducing your balance sheet about €100 billion in the last three quarters.

James von Moltke

On leverage, absolutely, the 4.5%. We will continue answering your question in the same way, which is that 4.5% is our target. We intend to build to it over time. There's a numerator and a denominator in that calculation and we'd expect to grow the numerator over time and manage the denominator.



To your point about the BIS in both clearing and also, by the way, netting sets on the balance sheet, there are efficiencies that we can achieve in how we measure and manage the leverage exposure associated with the underlying client activity. And, that's something we're investing time and resources in to be able to manage to have an efficient balance sheet, which is, I guess, a similar impetus as on the liquidity side.

In terms of the G-SIB buffer, we do look at it. As you know, we were close to the boundary to move down one bucket at the end of last year but given that the domestic D-SIB is, at this point, our binding constraint at 2%, even if we move down a bucket on G-SIB, it would not change the G-SIB surcharge that we live with, which, as you're pointing out, in the early 2020s will become part of our leverage ratio and add to the required level at half of the G-SIB surcharge, so at 1%.

Operator

Next question comes from the line of Anke Reingen with RBC.

Anke Reingen

First, on the €23 billion cost target for this year, given you're running as you could actually beat it. The €23 billion, could you potentially do better or would you use any buffer to make additional investments?

And, then, coming back to the capital impact from that of the 20 to 40 basis points, which is very much appreciated and I understand there is uncertainty. But, I just wonder, in the past, you said there could be about 20 basis points from the guaranteed funds. Is that sort of like included in that 20 to 40 basis points? And could you assume then the rest, i.e. 20 basis points, is TRIM?

James von Moltke

Christian and I both want to be in a world of under-promising and over-delivering. As you can see mathematically, we've positioned ourselves to be on a good path to hit the €23 billion potentially beat the €23. Mathematically, at about €5.6 billion of ACB in the fourth quarter, we would be there. We'd like to see improvements quarter-on-quarter, but there's always some degree of variation and, if you like, bookings in the fourth quarter that can take place.

And, so we're cautious about being more aggressive on that but, certainly, very confident of the €23 billion, and we would be keen to deliver a beat on that. And also, our focus is really, at this point, on setting ourselves up for 2019 and our €22 billion target. As I mentioned in response to an earlier question, we think the progress we made in the third quarter is important in terms of



delivering the path that Christian outlined earlier towards that €22 billion.

On the 20 basis points from guaranteed funds, you're correct. That was in our earlier outlooks in the first quarter. Based on our current expectations that impact has gone away as a near-term headwind. And, that's based on our expectations now that the matter will be addressed the CRR over time, and in the CRR it will have a transition period and play out over potentially several years, so that's less of a near-term consideration for us at this point.

Anke Reingen

So, the 20, 40 basis points is basically just TRIM?

James von Moltke

TRIM and other regulatory assessments.

Operator

Next question comes from the line of Amit Goel with Barclays.

Amit Goel

One, just again on costs. I'm just curious, you gave fairly kind of specific guidance at a conference during the quarter in terms of where you'd expect to land for Q3 and, obviously, you've come in slightly better, maybe about €70 million, €80 million better. So, just curious, how much visibility you have on the costs and/or where did you find the incremental savings in the period?

And, the second question, just on the litigation, on the contingent liabilities and the comment about some new matters offset by reclassifications. Just curious what those new matters were. And also, within that, just curious if there is any risk from any correspondent banking relationships.

James von Moltke

Sure. I'll take them in reverse order. To be clear what I was saying is that we have fewer new matters rolling into our litigation portfolio. And, so there's nothing significant that is new that we would call out. Obviously, we provide extensive disclosure in our interim reports and annual reports on what is there. And, if you look at it, you won't see new matters, which hopefully answers the totality of your question without going into any detail.

On the cost guidance, you're right, we thought we'd be rounding down rather than rounding up to €5.5 billion, so to us, that's a pleasant outcome. We're talking in the tens of millions rather than €70 million or €80 million, frankly. There is always some degree of variability as you close the books for a given quarter or a given month



I think some of what we saw in September was, frankly, pull forward from the fourth quarter, hence a little bit of caution to Anke's earlier question about what we expect the sequential trend to be in the fourth quarter. But, we saw evidence of the discipline that Christian referred to in his opening comments, that we simply manage now expenses week-by-week on a run-rate basis, and whether that's compensation, non-compensation expenses across the board, bringing a great deal of scrutiny and focus to it and that's something we'll continue, not just in the fourth quarter but the years to come.

James Rivett

Thank you very much, and we will speak to you all very soon.

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