



**James von Moltke at Barclays Financial Services Conference,  
New York**

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**Transcript**



Amit Goel: Thank you, ladies and gentlemen, for being here. And thank you, James von Moltke, CFO at Deutsche Bank, for being with us today.

James von Moltke: A pleasure, Amit. Thank you for having us.

Amit Goel: The format of this presentation is going to be a fireside chat, followed by audience-response questions.  
So, without much further ado, we'll crack on. I'll start actually with one of the big topics, obviously, we have today. So, in terms of the global macro outlook, how do you see that at this stage? And if we were to see a recession, how does that impact your ability to hit your targets?

James von Moltke: Thank you, Amit, again. Thank you for having us. Delighted to be here presenting at your conference.

The macro environment has become more fragile, and that's something we've seen over the past several months. Obviously, that concern is being reflected in the financial markets and, to some degree, has been taken up by central banks trying to take action on the monetary policy side to avert a larger impact of uncertainties including the trade war.

For us and our businesses, when we announced our strategy transformation on 7th and 8th July, we presented a forward financial model that looked at businesses growing on a compound rate over the next several years somewhere between zero to 3% and, in total assumed 2% growth in our core businesses. That was a growth rate, leaving interest rates aside, that we didn't think was heroic, we thought was modest and in line with GDP growth.

At that time, we were looking at around 1% GDP growth in Germany, with around 2% growth in the U.S. So we didn't plan with very aggressive GDP growth rates although current expectations may have be a little below our plan GDP growth rates, but not significantly.

We are a bank so of course our businesses are somewhat dependent on GDP growth. We live with our clients and their activities. But I don't think the recent slowdown represents a significant headwind relative to our planning assumptions.

It's also of course a question of what the environment looks like from now. In Germany while we may well be in a technical recession, with slightly negative GDP growth in the second and third quarters of this year and a relatively low growth rate forecast for the balance of the year. But it remains an economy at or near to full employment, and there are lots of positives out there despite some of the headwinds that



the global economy is facing and Germany of course, as a significant exporting nation, faces itself.

Amit Goel: Okay. Thank you. So, in that context is there – can you give us some conviction in terms of some of the revenue aspiration? So, the €25 billion that's been put out there, how would you look to do that?

James von Moltke: So, again, the compound growth rate in the low single digits does not feel especially heroic to us. And revenues in 3 of our core businesses our Corporate Bank, Private Bank and Asset Management – are growing today. The revenues in these more stable revenue sources are growing again in the low single digits, from loan growth, growth in investment products, growth in fee and commission income as well as some degree of optimization of our balance sheet usage and growth in clients. All of these drivers feed into that low single digit growth rate. And so, we feel like there are levers in those businesses to continue to grow at that pace.

In our Investment Bank, as you may have heard us say in July, we do expect some impact on revenues from businesses adjacent to our equity sales and trading operations which we have decided to exit. But we see a recovery from that and, altogether over the planning period see flat revenues in our Investment Bank.

All of those things lead to revenues in the low €20 billions. Our plan assumes between €24 billion and €25 billion at the end of our planning period. We think that remains achievable. But we are obviously facing a headwind from interest rates and will need to work to offset as much as we humanly can. Those offsets can come from pricing, the impact of tiering to the extent the ECB puts through tiering as well as greater efficiency of balance sheet usage.

So, this is the path we are continuing to work towards. And we think, as I said, there are a number of levers that we can and will pull to make sure we stabilize and grow revenues from here.

Amit Goel: Got it. So, just on that point, in terms of interest rates, how are revenues impacted if interest rates remain low for longer?

James von Moltke: So, naturally, they are significantly impacted, and it depends on a lot of things. We're more sensitive to the short end of the curve; and so, where Euribor or Eonia rates are. That clearly over the past several months that's come off quite a lot, but it can equally begin to improve and go the other way. Our planning assumption had been that the three-month rate would cross zero in 2022, which was the rate outlook at the time. I think at this point the expectation is that the three-month



rate is at about at minus 60 basis points in 2022. So, that clearly represents a headwind on interest rates.

In our walk-on revenues, the improvement in interest rates would have delivered about €600 million of revenues, and I'd say at least that much in revenue is now at risk if there isn't a recovery of rates to the types of levels we were talking about. Again, we do have some levers to offset that, whether that's balance sheet efficiency, some of the other actions that I mentioned. And so, the task from here is to work to offset as much as we can of the rate headwind.

Amit Goel: Got it. And maybe changing tact a little bit, another question we get a lot is, why should we believe that you'll be one of the first banks to be able to cut costs significantly whilst you grow revenues and to reduce assets at the same time?

James von Moltke: Sure. We laid out a cost program or a cost trajectory that would see us taking out around €6 billion from our expense base, compared to the 2018 fiscal year. And your question is, what's the impact on revenues?

A little more than one-third of the cost takeout relates to the exit from businesses that we've put into wind-down in our Capital Release Unit. So, it has a direct impact on revenues that we know and plan for going away.

A little less than one third relates to synergies in our Private Bank, and those synergies are largely driven by the Postbank-Deutsche Bank merger in Germany and some additional actions that we're working to take in those businesses. Here I would say that the revenue sensitivity to the cost reductions is a little bit less than in other businesses.

And the remainder of the cost reductions will come from the infrastructure areas; so, not client-facing and, therefore, the impact on revenues is limited. So, we need to work to keep the front offices unaffected as possible from changes in the infrastructure provision.

Remember, also revenues are helped by technology investment. I wouldn't think of this equation as being only about personnel and expense reductions. There is an efficiency impact of technology investments, both in how you can take cost out, but also in how you can drive revenue improvements which support the revenue trajectory with investments.

Amit Goel: Okay. And just on that, in terms of investments and growth, how are you looking to grow, say, within the new Corporate Bank?



James von Moltke: Well, that's a great segue because the Corporate Bank is a great example of where we can really drive revenue growth with technology investment. Our restructuring plans foresaw that the lion's share of the technology investment wallet that was going into our Equities businesses is being retargeted now at the Corporate Bank. I think with very deep relationships that we have in the Corporate Bank, the product capabilities that we have today, and the ability to focus more investment in technology to support that business, going forward, it can be a direct driver of new revenues.

I was thinking about this as we were getting ready to announce the strategy change. There are a handful of clients that I'm directly involved in, as the senior sponsor. I can think of one example where we recently lost an RFP for business in Asia with this client. And the reason was we were slightly behind in terms of technology in a specific aspect that they required in their business relative to the competition.

As we invest in technology, we make up any gaps like that. We're able to service the clients, service the clients' needs, and be at least at and ideally, ahead of the competition in terms of what we can offer. And I can tell you, in a lot of our client base we will win a tie in those areas. And that's where I feel like we do have an opportunity to not just grow with the market, but hopefully regain some market share as we invest and focus on, especially, the Corporate Bank.

Amit Goel: Okay. Thank you. And then just turning back to the Investment Bank, just trying to understand in terms of the further restructuring will this not put the revenues there under more pressure? And could we still end up seeing further deleveraging plans in the future?

James von Moltke: So, I'd say two things. One is, as I said earlier, yes, we anticipated that there are adjacencies in the core of our Investment Bank that may be impacted by the strategic changes that we announced. I will say as we sit here today that the impact so far appears to be less than we might have modeled and expected in terms of client impact on those businesses. From what we're seeing so far we're quite encouraged.

We had an outreach program to clients in our institutional client base immediately after the announcement. We went to about 5,000 of our clients at relatively senior levels to both describe what we were doing and hear back from them what their feedback was. And the number of clients that used us as a markets intermediary across both Rates and Equities who said that the Equities sales and trading exit would impact their willingness to do business with us in rates was in the low-single-digit percentages. Frankly this client reaction positively surprised us.



Now, that has to be now demonstrated in them living up to or behaving in a way that's consistent with that feedback. And certainly, what we've seen so far suggests that's the case. So, the immediate sort of impact seemed to be quite encouraging relative to our expectations.

And if you look at those businesses and let's focus on FIC for a moment – we have truly an excellent world-class franchise in Global Credit Trading. Where we act in structured credit, in structured lending, securitization, some distressed products is basically unaffected by our strategic announcements. That is a leading franchise and is unaffected by the restructuring.

If you go beyond that, our Foreign Exchange Trading franchise is in a significant portion related to our corporate franchise. And it's one of the ways in which the Corporate Bank and the Investment Bank, will have very strong ties in terms of product capabilities and the servicing going forward. Again, Foreign Exchange trading is largely or entirely unaffected by the restructuring.

You come then to Rates where we clearly need to take some action to make that business as profitable as we can make it. We are a significant player, but it has struggled in terms of profitability, particularly against the resources that it consumes.

And so, we've been at work now reshaping that franchise, leveraging again investments in technology so that we can – particularly, in the vanilla products – be as straight-through processing and as technology-oriented as we can be. On the other side of the barbell, leverage the franchise that we have in structured products in more complex derivatives where we have been a very strong service provider. So, that portion of the business is in the process of being reshaped. We're optimistic that we'll make some real progress there under Ram Nayak's leadership.

So, the short version of all of this is we – early returns are to be optimistic about the impact and to focus on what is a strong franchise that's largely unaffected by the decisions that we've made.

Amit Goel: Okay. Thank you. And then maybe just switching a bit more into the deleveraging and the execution. So, within the Capital Release Unit, so far how much have you reduced the assets and full-time employees? We see some big numbers for the group already. And what is the glide path over the next 12 months?

James von Moltke: The short version is we are on track. I won't give you specific numbers of deleveraging in July and August, but it's been moving along well. We are well on track to the year-end targets, both for Risk Weighted



Assets and for leverage exposure. And you'll see at the September 30th, based on what we can see today, us having made real progress towards those deleveraging goals, which is encouraging. Of the many aspects of this restructuring, we had to get moving on the Capital Release Unit deleveraging quickly. We did. Credit to that management team. We've been after it now for a couple of months and are well on track.

You had asked a question about deleveraging in the core businesses as part of an earlier question. There, it's about selection and being disciplined about capital allocation. But I do think we are focused on choosing our clients appropriately –putting our resources in our core client segments – and being disciplined about usage of balance sheet against hurdle rates.

Amit Goel: And on capital, can you rule out a capital raise in the next two years?

James von Moltke: I'll always be cautious to speak in categorical terms, but it's absolutely the right thing to have announced this restructuring and execute this based on our own resources. We're confident that we can do that, that we have the levers in our hands and that we're comfortably on a glide path that will allow us to do that. So, our starting point is 13.4% Common Equity Tier 1 ratio; well ahead of any of our minimum regulatory or internal requirements.

We think we can comfortably manage within the corridor that we've set ourselves. And essentially, because of the nature of the CRU deleveraging. We essentially finance the restructuring that we've announced through that deleveraging. And while we keep that on track, we keep a comfortable distance from the minima that we've set ourselves of maintain a Common Equity Tier 1 ratio of at least 12.5%.

And then at the same time, the deleveraging, because it's low Risk Weighted Asset content with relatively high leverage exposure set of businesses – particularly, in Equities – we should be improving our leverage ratio over time, in line with our announced targets.

Amit Goel: Okay. So, to be fair, that overlaps a little bit with my next point, but it was – how comfortable are you that you will manage your CET1 ratio above the 12.5% over the next two years and that you will improve that leverage ratio, as well?

James von Moltke: So, again, it is a minimum that we have set ourselves, to remain above the 12.5% at all times, and we think we've got the ability to manage that corridor and levers to offset any surprises. So, very comfortable.



On the leverage side that programmatically comes. We've set a target to be at 4% for this year, 4.5% at the end of next year, moving towards 5%. We're comfortably on the glide path, given that the Capital Release Unit represented about €280 billion of leverage exposure. And that comes down quite quickly. The bulk of that leverage exposure comes off by the end of next year. And as I say, we're well on track.

Amit Goel: Okay. And on the RWA front through the deleveraging, on the op risk, how do you reduce that component over time?

James von Moltke: When we came out in July we showed total RWA declines out of the CRU and then broke that between credit and market risk, on the one hand, and operational risk RWA, on the other hand. We see both coming down, but the Operational Risk less and more slowly than credit and market risk RWA.

And that's a function of really how an advanced model, AMA, has to approach operational risk RWA. What happens over time is your loss history changes. So, one of the things that happens is as you exit equities – such as it was, it was a relatively modest loss history from the equities business. But those events fall out of your history, and that improves the op risk RWA.

There can be model and methodology changes over time, all of which need to be reviewed and ultimately not so much approved but not objected to by the regulators. And there's a glide path there on op risk RWA that's part of our deleveraging, one where, as we said in July, we see some opportunity to perform better than the glide path that we showed in those materials.

Amit Goel: Okay. And maybe changing tact a little bit, there's been a lot of discussion about your U.S. presence, the plans pre and post, etc. Post restructuring, what will your footprint look like in the U.S.? And which products would you be offering and which kind of clients would you be targeting?

James von Moltke: There was lots of speculation about what strategic steps we would take. And in many respects, the idea that it would be a U.S. or a geographic set of strategic decisions rather than a business line-, client-oriented set of strategic decisions always missed the mark. We always said the U.S. is and will remain a critical geography, a critical part of the business for us, going forward.

And frankly, to us as a management team there are obvious reasons why that's the case. Our presence in the U.S. is a critical component of what we do to support our clients across all of our businesses. But let's start with the Corporate Bank. The fact that we are a dollar clearer and





have a very large presence in the U.S., both for international clients but also U.S. clients doing business in the U.S. and doing business internationally, that is a core component of what we offer. Dollar capabilities are critical. So, the Corporate Bank has a major presence, and set of activities here is absolutely strategic for the company, going forward.

In the Investment Bank, Corporate Finance is a strength for us in the U.S. We serve industry verticals globally, and the U.S. is an important market in really all of those industry verticals.

If I go to the institutional franchise, dollar capabilities and dollar products are a critical component of being able to serve clients. Think of a corporate issuer in Debt Capital Markets. We have to have dollar issuance capabilities and on the back of that, we have to have dollar swap capabilities.

This integrated set of product offerings to provide solutions to clients where the U.S. dollar is a critical component of our clients' needs, to us that's always been very clear and core to the franchise. So, we can't be more clear about that.

And lastly, the two other businesses that are represented in the U.S. are Wealth Management and Asset Management. Again the U.S. is a critical market, both in terms of clients domestically that we serve in Wealth Management and in DWS, but also the investment product capabilities, the access to dollar capabilities in the U.S.

So, the short version of all that, the U.S. and the U.S. dollar is a big part of our global strategy and a big part of what clients look to us to be able to provide. It was never a geography that we thought about exiting. We made, global product decisions that had an impact on the U.S., but driven by that global product footprint.

Amit Goel: Okay. Thank you. And now just maybe into the slightly more kind of recent times, but appreciate it's early days in the restructuring and you've obviously made some comments, but I'm just curious about in terms of how the restructuring has been progressing so far and what are the things that have kind of surprised you in these kind of initial stages.

James von Moltke: We are tracking against all of our milestones. The short answer is again, like in the Capital Release Unit we are on track. I talked about the creation of the Capital Release Unit and the early stages of the deleveraging – and by the way, particular progress in managing the Equities exit, and I'll come back to that.



We have been working on the restatement and we will be in a position to show restated financials in the new segment format for you in early October. That's a huge amount of work.

Each of the management teams of the new segments has been defined at the first, second, and, in some cases, third level, and that's rolling through the organization. And those managers have taken over responsibility and have begun to execute on strategies, which includes cost, headcount, reshaping in order to both capture the expense opportunities but orient the businesses towards each of their new strategies.

So, on all of those dimensions an enormous amount of progress in the only two months, or so since we announced the strategy.

Amit Goel: Got it. And then also – I get the question a lot – how are Q3 revenues developing to date and also, in particular, say, core? And any color you can give about the broader IB performance?

James von Moltke: Sure. We have had a policy on not commenting on capital markets revenues intra-quarter, because you're always chasing the week, the month that you've had. The critical thing is this halo that I talked about, the adjacency to businesses that we have decided to exit, where we've been quite encouraged. And our goal in our Investment Bank is to stabilize revenues over the next several quarters and hopefully, as we move forward, to track the market and competitor performance and to begin to rebuild market share. So, that's our goal and, hopefully, what we'll see this quarter and in the coming quarters.

Importantly, though, – and here, I will provide an update – what we've been telling the market is 70% of our revenues are in the relatively more stable businesses of Private Bank, Corporate Bank, and Asset Management. And over several quarters now, we've been growing revenues on those businesses – despite the headwinds that they've faced – of around 1% or 2% year-on-year depending on the business, which again is in line with our long-term trajectory that we outlined as part of the plan. And that's certainly something that we hope and expect to continue to deliver this quarter.

So, again, I think good progress on the execution of the strategy, but to kind of the origin of your question it's also critical to make sure we preserve and maintain momentum across the businesses.

Amit Goel: Okay. Thank you. So, with that, we'll actually turn to the audience-response questions.

So, with that, we can actually turn to the audience for some questions. We have a few minutes left, and then we obviously have a breakout



session afterwards. So, if you have any questions, raise your hand and we have a microphone.

Unidentified Audience Member: Hi. If you can share with us what are your thoughts on tiering, what are the possible scenarios and sensitivities that would be helpful. Thank you.

James von Moltke: Sure. We've a starting point is most tiering proposals essentially identify a level of reserves held at the central banks that would be given preferential pricing. So, the two questions is, what's that level and how preferential is the pricing?

In my mind, that preferential pricing should be to zero. I don't see really a strong case for doing it in between zero and the deposit rate, and it may be tough to see them paying a positive interest rate the way that it's done in Japan. But who knows? It's the extent of pricing, and certainly my hope would be that it's zero.

For us, the big question is the balance that would benefit from tiering. One way to think about it is the multiple of the reserve requirements. Germany has the largest excess reserve requirements of all of the countries in the euro system. And we are a measurable component of that. We have had in terms of balances European central banks anywhere between €75 billion and €100 billion every night.

So, if you just scale that, to us you can envisage an impact that goes up to €400 million, if you just do 40 basis points against the entire balance of €100 billion. I wouldn't expect it to be quite as generous as that, but that's sort of the range of outcomes.

And then the only other question really is whether it's retrospective or forward-looking. Our instinct is it should be retrospective so you don't create incentives in the markets.

But those three things are really the two are the most important drivers of what the financial impact for us are. And if you're the ECB, you're looking for a structure that doesn't distort the money markets. So, it alleviates some of the pressure on banks but doesn't start to compete with the monetary policy goal, which is to move down money market rates, lending rates, and incentivize investment in the economy.

Amit Goel: We'll wrap it there. Okay. No more questions. Thank you very much.

James von Moltke: Thanks, Amit. Appreciate it.

Amit Goel: Thank you.



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