



## **Deutsche Bank AG**

Deutsche Bank Q4 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, Stewart, and good afternoon or good morning, everyone, and thank you for joining us. As usual on our call our CEO, Christian Sewing, will speak first, followed by our chief financial officer, James von Moltke. The presentation, as always, is available for download in the investor relations section of our website, db.com.

Before we get started let me just remind you that the presentation contains forward-looking statements which may not develop as we currently expect. We 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

### **Slide 1 – Strong execution on our strategic transformation**

- Thank you James. Good afternoon everyone and welcome from me!
- In December at our Investor Deep Dive, we gave you an update on our strategy to radically transform our bank by 2022
- Our performance in the fourth quarter shows two things
  - o A) we have seen further good progress and
  - o B) that our strategy is working
- And, we will continue to execute in a disciplined manner
- We are in line with, or ahead of, all our key targets and objectives that were to be achieved in 2019
- Since 2018 we have set realistic targets and delivered against them
- We remain disciplined on costs
- We delivered our eighth quarter in a row of year-on-year reductions in adjusted costs excluding transformation charges and bank levies
- Our capital ratio increased in the quarter and is at the high end of our international peer group
- And next to capital and costs where we have delivered now for a while, we are also encouraged by the stabilization that we are seeing in our core businesses
- Clients support our focused strategy and are actively re-engaging with us - a clear sign that our franchise is intact
- And this bodes well for our performance in 2020 and beyond



- Let me go through these themes in detail, starting with our performance against our 2019 objectives on slide 2

### **Slide 2 – Delivered on all objectives in 2019**

- Delivering on our near-term objectives sets us up to achieve our long-term goals
- In 2019, we executed against all our financial objectives
- We promised adjusted costs of 21.5 billion euros excluding transformation charges and the impact of the global prime finance transfer to BNP Paribas, and we delivered
- Our cost performance was in part driven by the reduction in employees where we ended the year at under 88 thousand - down more than 4,000 in the year, and in line with our target
- Since the end of the first quarter of 2018, we have reduced employees by around 10 thousand
- We committed to keeping our CET1 ratio above 13% at the end of the year – and we delivered
- Our CET 1 ratio at the end of the fourth quarter was 13.6%
- We promised a leverage ratio of 4% at year-end – and we delivered 4.2 %
- Outperformance against our group capital ratio targets was principally driven by asset reductions in the Capital Release Unit where we overachieved against our external targets thanks to good momentum towards the end of the quarter
- Let me now go a little deeper into our 2019 performance on slide 3

### **Slide 3 – Stabilizing and building momentum in the Core Bank**

- In the Core Bank, which represents our long-term future and strategic vision, we were encouraged by our performance in the face of our transformation and the challenges presented by the environment
- Reflecting the improved performance in the fourth quarter, we held Core Bank revenues flat in 2019 and grew pre-tax profit by 7%, excluding certain specific revenue and cost items which James will detail shortly



- This is a strong achievement against the magnitude of changes we have gone through in 2019
- At a group level the results were obviously negatively impacted by the Capital Release Unit
- But even here we are executing in line with or slightly better than our planning assumptions
- So while we still have considerable work to do, we are happy with our performance this year and in the fourth quarter
- Let us look in more detail at the Core Bank revenues on slide 4

#### **Slide 4 – Stabilizing revenues**

- One of our core objectives when we announced our strategy in the summer was to stabilize and then grow revenues
- In the second half of 2019 – the first six months of our strategic transformation – we have grown Core Bank revenues excluding specific items slightly compared to the prior year period
- We achieved this result despite many headwinds including an even tougher interest rate environment and a slowing global economy
- Looking at the year-on-year performance by business in the second half of 2019
- Revenues in the Corporate Bank were flat as we grew loans, principally in Germany and performed well in Asia to offset the ongoing impact of negative interest rates
- And we started to actively reprice deposits in the fourth quarter which should begin to offset some of the impact of negative interest rates during 2020
- We grew revenues in the Investment Bank by 7% in the second half and by 22% in the fourth quarter with a strong recovery in fixed income
- The focus and changes we have implemented in the third quarter are paying off
- This is our first quarter of year-on-year growth in the Investment Bank for eleven quarters, with a strong recovery in our fixed income business
- Fixed income revenues increased by more than 30% in the quarter led by our rates business which doubled and ongoing strength in our credit businesses



- Our flow businesses recovered well, helped by the improvement in our credit spreads
- Revenues in the Private Bank were broadly stable
- We offset the headwinds from negative interest rates with growth in loan and investment product revenues, repricing and benefits of our hiring in Wealth Management in prior periods
- Asset Management continued its recovery with revenues up 12% in the second half reflecting higher performance fees in certain core funds
- Now let me turn to the progress we have made on costs on slide 5

#### **Slide 5 – 8<sup>TH</sup> Consecutive quarter of annual adjusted cost reductions**

- Excluding transformation charges, which James will detail shortly, adjusted costs were 5.1 billion euros in the fourth quarter and 21.5 billion euros for the full year also excluding the costs associated with the Prime Finance platform
- The full year performance was in line with our communicated targets
- We made reductions in every major category while continuing to improve our technology and controls
- Cost management will be a significant focus under the leadership of Fabrizio Campelli, our Chief Transformation Officer
- Let's now turn to capital on slide 6

#### **Slide 6 – Maintained strong CET1 ratio**

- Our commitment was and is to manage our transformation with our existing capital resources
- In this respect we feel even more confident after the fourth quarter
- We ended the year with a CET1 ratio of 13.6% comfortably meeting our prior guidance
- As in the third quarter, we offset the negative impact of transformation effects with the positive impact of risk weighted asset reductions
- As a result, we have increased our Common Equity Tier 1 ratio in the second half of 2019



- Our year end CET1 ratio was around 200 basis points above our pillar 2 requirement
- As you may remember, our requirement was reduced by 25 basis points by the ECB with effect from January 1<sup>st</sup> 2020
- Outperformance on our CET1 ratio largely reflects stronger than anticipated risk weighted asset reductions in the Capital Release Unit
- Since its creation at the start of the third quarter of 2019, we have reduced risk weighted assets in the CRU by around 30% to 46 billion euros at year end
- Looking forward, we re-affirm our commitment to keep our CET 1 ratio above 12.5% at all times
- Given our performance on capital in 2019, we believe we are in an even stronger position to execute against our capital plan we announced in July 2019 and have created some room to allocate additional capital to growing our core businesses
- More broadly, we have been managing our balance sheet conservatively and intend to keep doing so as you can see on slide 7

#### **Slide 7 – Conservatively managed balance sheet**

- We are focused on maintaining strong credit quality
- Provision for credit losses was 17 basis points of loans in 2019, in line with our guidance, and at low levels, both historically and relative to peers
- This reflects our conservative underwriting standards, strong risk management and low-risk portfolios
- Our loan-to-deposit ratio was 76% at year end. That reflects a strong and stable funding base supporting our high quality and growing loan portfolio
- Our liquidity position also remains strong
- Our Liquidity Coverage Ratio of 141% gives us a surplus of 55 billion euros over required levels

#### **Slide 8 – Building momentum in our franchises**

- Looking forward, our solid performance in 2019 should provide a good base for future growth



- Our achievements last year also begin to highlight the underlying strength of our franchises and the benefits of our strategic decisions
- Slide 8 shows some examples of the underlying momentum that we can see building
- The Corporate Bank operates in a highly attractive market, with good returns and stable underlying growth
- In 2019 we grew corporate cash transactions by 9% and loans by 5%
- In the Investment Bank, as we said in our Investor Deep Dive in December, the actions that we have taken to restructure our operations are bearing fruit – and faster than we expected
- We see clear signs of higher client engagement around our more focused business model
- In addition, the ‘negative halo’ effect of our business exits on our core client relationships and adjacent product areas has been less than we anticipated
- We are also encouraged by the performance in the Investment Bank at the start of the year and are focused on further stabilizing revenues
- In the Private Bank, we are focused on offsetting the pressure from negative interest rates as well as executing on the integration of the Postbank and Deutsche Bank retail operations
- On both measures we are off to a solid start
- We grew our loan book by 9 billion euros across the German and the International franchise and in our Wealth Management business
- And in-line with our commitments we generated 200 million euros of cost synergies from the integration
- In Asset Management, we are building on the momentum that we have generated with our fourth consecutive quarter of net inflows in 2019

#### **Slide 9 – Confidence in strategic delivery**

- Let me summarize on slide 9
- For this management team, our priority is simple: it’s all about execution
- In 2019 we have delivered on all our targets



- For 2020 and beyond we aim to continuously deliver, quarter by quarter, on the strategic objectives and financial targets we have communicated to you
- On revenues, the momentum across the Core Bank is building
- The recent improvement we have seen in our CDS spreads both in absolute terms and relative to our peers is very encouraging and supports the business significantly
- Lower CDS and bond spreads make us more attractive for counterparties, while also lowering our funding costs which helps improve our profitability
- We continue to progress our regulatory remediation agenda
- Some of this progress was visible to you in 2019, most notably our performance in the US Federal Reserve's CCAR exam, the Financial Stability Board's reduction in our G-SIB classification, and the ECB's decision to reduce our Pillar 2 capital Requirement
- We are determined to maintain our progress with regulators in coming periods
- We are confident of sustaining our momentum on cost reduction in 2020 and reaching our 19.5 billion euro target for adjusted costs excluding transformation charges and the costs associated with the Prime Finance platform
- That puts us on a path to deliver on our 17 billion euro target in 2022
- On capital, we look ahead with increasing confidence, given our solid CET 1 ratio in the fourth quarter of 2019
- Overall, we are aware of the uncertainties in the external environment – and these are incorporated into our financial plans and the targets that we laid out in December
- Since then there are even signs that our macro-economic assumptions may be on the conservative side
- Put simply, at this stage we can say that our transformation has started very well, we are on track against all our objectives and are increasingly positive in the outlook
- And with 70% of the expected total transformation effects now behind us, we are satisfied with what our teams have accomplished in this short time frame
- With that let me hand over to James



## James von Moltke

### Slide 10 – Q4 and FY 2019 Group financial Highlights

- Thank you Christian
- Let me start with a summary of our financial performance on slide 10
- Our results in both the quarter and the year were impacted by our actions to execute on our transformation which I will detail shortly
- In the fourth quarter, revenues adjusted for specific items shown on slide 30, declined by 1% reflecting the wind-down of non-core businesses in the Capital Release Unit
- Noninterest expenses of 6.4 billion euros included approximately 1.3 billion euros of restructuring and severance, litigation and transformation charges
- Our net loss in the fourth quarter was a little under 1.5 billion euros including approximately 400 million euros of transformation-related Deferred Tax Asset valuation adjustments
- Tangible book value per share was 23 euros 41 cents, a 4% decline from the third quarter mainly reflecting the net loss in the period
- For the full year, we generated a pre-tax loss of 2.6 billion euros, including 1.1 billion euros in transformation related charges, 1 billion euros of goodwill impairment as well as 805 million euros in restructuring and severance and 473 million of litigation charges
- Provision for credit losses was 723 million euros, in line with our expectations and at 17 basis points of loans remained relatively low
- Our net loss of 5.3 billion euros included 2.8 billion euros of transformation-related deferred tax asset valuation adjustments also in line with our expectations

### Slide 11 – Transformation related effects

- To execute quickly on our strategic transformation we took substantial costs in 2019 as you can see on slide 11
- Results in the fourth quarter included around 1.1 billion euros of pre-tax transformation effects



- These items included 608 million euros of transformation related charges, included in our definition of adjusted costs
- These charges principally relate to impairments and accelerated amortization of software intangibles and real estate charges
- Results in the fourth quarter also included a further 400 million euro Deferred Tax Asset valuation adjustment
- For 2019 as a whole we have taken around 70% of our total planned transformation effects
- For 2020 and 2021 we expect a lesser but still significant burden on our results
- This year, we currently expect a further 1 billion euros of pre-tax charges, including 400 million euros of accelerated software amortization which is not relevant for capital purposes
- We also currently expect a further 400 million euros of deferred tax asset valuation adjustments
- Progress we have made to date gives us confidence that we can successfully manage our capital position through the transformation
- Let me now turn to the results for the Core Bank in the quarter on slide 12

#### **Slide 12 – Core Bank financial highlights**

- The Core Bank grew revenues by 5% on a reported basis and by 8% excluding specific items
- Operating leverage was positive in the quarter, as we reduced adjusted costs excluding transformation charges by 2%
- Risk weighted assets were flat as the reduction in operational risk RWA was offset by increases in regulatory inflation and business growth in the Private Bank
- Leverage exposure increased as we grew business volumes including 8% loan growth
- Let's now look in more detail at costs, on slide 13



### Slide 13 – Adjusted Costs

- In the fourth quarter, we reduced adjusted costs by around 380 million euros or 7% year-on-year excluding the impact of foreign exchange translation and the transformation charges I described earlier
- Adjusted costs included 102 million euros of expenses incurred in the fourth quarter associated with the Prime Finance platform being transferred to BNP Paribas which are reimbursable from December 2019 onwards
- For the full year adjusted costs also declined by 7% to 21.6 billion euros, or 21.5 billion excluding the Prime Finance costs in the fourth quarter
- In both the fourth quarter and the full year we made progress in all major cost categories
- We reduced compensation and benefits expenses, reflecting the reductions in internal workforce
- Professional service fees declined as we further improved the efficiency of our external spend
- Other costs declined reflecting reductions across a number of areas, including occupancy
- Consistent with our commitments, we kept our IT costs broadly stable and within our target range as we continue our investment program
- Let me now move to discuss our capital ratios on slide 14

### Slide 14 – Capital ratios

- We increased our CET 1 ratio by 24 basis points in the quarter, to 13.6% as we more than offset the transformation effects with de-risking in the Capital Release Unit
- Reductions in risk weighted assets generated 73 basis points of capital on an exchange rate neutral basis, including approximately 41 basis points from the CRU and approximately 20 basis points from lower Market Risk in our Core Bank
- The asset reductions were partly offset by the 47 basis point reduction in the capital ratio from the net loss
- For 2020, we reaffirm our target to manage our Common Equity Tier 1 ratio to be at least 12.5% at all times



- On a pro-forma basis our CET1 ratio at 1st January 2020 is 13.3% when considering the impact of the new securitization framework we have discussed with you in previous calls
- This gives us capacity to absorb further anticipated regulatory headwinds as well as targeted business growth
- We increased our fully loaded leverage ratio by 25 basis points in the quarter to 4.2%, slightly ahead of our 4% guidance
- On an exchange rate neutral basis, we reduced leverage exposure by 110 billion euros, including a 49 billion euro reduction in the Capital Release Unit
- We also reduced our cash balances by around 29 billion euros as part of our ongoing liquidity optimization program combined with a seasonal reduction in Investment Bank balances
- We re-affirm our leverage ratio target of 4.5% this year excluding the Prime Finance platform to be transferred, rising to around 5% for 2022
- Turning now to our businesses, starting with the Corporate Bank on slide 16

#### **Slide 16 – Corporate Bank**

- Excluding specific revenue items and approximately 800 million euros of goodwill impairments, transformation charges and restructuring and severance which are detailed by business on slide 29 of the appendix, the Corporate Bank generated a pre-tax profit of 939 million euros in 2019, with a post-tax return on tangible equity of 7%
- On an underlying basis the performance in the Corporate Bank was consistent with our financial objectives
- However, the performance in the fourth quarter and full year was impacted by our strategic transformation, lower levels of episodic items and changes to cost allocations, in addition to the challenging interest rate environment
- In the fourth quarter revenues declined by 5% year-on-year principally driven by lower episodic items
- Excluding these items, like credit recoveries and certain smaller one-off gains, which we have discussed with you in previous results calls, Corporate Bank



revenues were broadly flat as we grew volumes and fee income to offset the impact of lower net interest income principally in Cash Management

- For the full year too, revenues were broadly flat
- Excluding specific items and episodic effects, revenues increased slightly as we grew volumes to offset the negative impact from interest rates
- The benefits of repricing which we began to roll out more widely late in the fourth quarter of 2019 as well as the full benefits of tiering should help support our revenue performance over the coming quarters
- We feel comfortable that the Corporate Bank can, as we indicated in December, on average grow revenues at 4% over the next three years
- This reflects the progress we are making on our growth initiatives, for example in Asia, together with the repricing measures I just mentioned
- That said, for 2020 our plans assume growth closer to the levels seen last year principally reflecting lower levels of episodic items
- Adjusted costs excluding transformation charges increased materially in both the fourth quarter and full year
- The increase reflects higher spending on technology and controls, as well as the change in internal service cost allocations following our recalibration last year
- These effects are in-line with the guidance we provided in the third quarter results
- We believe that the run rate of these higher costs is largely reflected in our reporting and will be fully reflected after the first quarter of 2020
- We should start to see the benefit of ongoing cost reductions being reflected in both sequential and year-on-year comparisons in the second half of 2020
- We expect the Corporate Bank to generate positive operating leverage in this year and beyond
- Provisions for credit losses were 104 million euros in the fourth quarter and 286 million or 24 basis points for the year
- The fourth quarter was impacted by a few idiosyncratic events, the majority of which were outside Germany, with stage 1 and stage 2 provisions remaining at low levels
- Turning to the Corporate Bank revenue performance by business on slide 17



### Slide 17 – Q4 2019 Corporate Bank revenue performance

- Global Transaction Banking revenues declined by 6% mainly reflecting lower episodic items
- Within Global Transaction Banking, Cash Management revenues declined reflecting the impact of the negative interest rate environment with very limited benefits of tiering or repricing in the period
- Trade Finance revenues were essentially flat in the quarter, but up 6% for the full year as lending and trade flows grew strongly in Asia and Germany
- Securities Services revenues declined reflecting our exit from Equities Trading and lower episodic items
- Commercial Banking revenues declined 2% on a reported basis, as growth from lending was offset by spread compression on deposit products
- However, on a full year basis revenues were up by 4%
- Turning now to the Investment Bank on slide 18

### Slide 18- Investment Bank

- As Christian mentioned we are happy with the momentum that we see building in the Investment Bank
- In the fourth quarter revenues increased by 22% excluding specific items
- For the year, revenues declined by 3% excluding specific items with Fixed Income Sales & Trading essentially flat and lower revenues in Origination & Advisory
- Adjusted costs excluding transformation charges declined in both the quarter and full year
- The reductions were driven by lower compensation and benefits expenses given the reduction in workforce, lower service cost allocations as well as continued disciplined management of non-compensation costs
- Excluding specific revenue items and approximately 430 million euros of restructuring and severance and transformation charges, the Investment Bank generated a pre-tax profit of 863 million euros in 2019 with a post-tax return on tangible equity of 2%



- Consistent with our strategy to invest in our core franchises we grew loans by 16% in 2019

#### **Slide 19 – Q4 2019 Investment Bank revenue performance**

- Revenues in Fixed Income Sales & Trading were 1.2 billion euros in the fourth quarter a 31% year-on-year increase on a reported basis or 34% excluding specific items as shown on slide 19
- Credit Trading saw strong year-on-year revenue improvements reflecting better performance in Flow Credit across all regions and particularly in Europe, while distressed debt revenues were also higher
- Credit Trading also benefitted from disciplined risk management, targeted investment in prior periods and increased client activity
- In Rates, revenues almost doubled from the prior year quarter, with improved performance across all regions most notably in Europe
- Foreign Exchange revenues were broadly flat despite lower market volatility
- In Emerging Markets our structured businesses continued to perform well with a significantly improved performance in flow trading compared to the prior year
- Origination and Advisory revenues declined by 12% year-on-year relative to a strong prior year period
- Advisory revenues were significantly lower following a strong third quarter where we saw several transactions booked earlier than anticipated
- Revenues in Debt Origination increased by 27% outperforming a growing market with market share gains in both Investment Grade and High Yield
- In Equity Origination we continue to win mandates, with our activity level in the fourth quarter similar to third quarter levels and consistent our expectations when we announced our strategy last July
- Let's now turn to the Private Bank on slide 20



## Slide 20 – Private Bank

- The Private Bank continued to execute on its strategic priorities in the fourth quarter and full year with revenues excluding specific items broadly stable and reductions in adjusted costs excluding transformation charges
- Excluding specific revenue items and approximately 900 million euros of restructuring and severance, goodwill and transformation charges, the Private Bank generated a pre-tax profit of 524 million euros in 2019 with a 3% post-tax return on tangible equity
- Revenues in the fourth quarter and the full year were impacted by the negative interest rate headwinds, partly offset by growth in loans and assets under management and the benefits of re-pricing efforts
- Excluding transformation charges we reduced adjusted costs by 5% in the quarter and 4% in the full year including the 200 million euros in German merger cost synergies we had previously indicated
- Provision for Credit Losses was broadly stable in the full year and at 15 basis points of loans reflecting the conservative nature of our portfolios and strong underwriting standards

## Slide 21– 4Q Private Bank revenue performance

- Revenues in the Private Bank declined by 4% on a reported basis or 2% excluding specific items as you can see on slide 21
- We grew revenues in our International operations and Wealth Management to broadly offset lower revenues in Germany
- Revenues in Germany declined by 7%, primarily reflecting higher funding and liquidity-related costs as well as lower contributions from asset sale transactions
- We are working on a series of loan and asset under management growth and re-pricing measures in our home market to help mitigate the interest rate headwinds
- In our International business we grew revenues by 3% as growth in loan and investment products, combined with re-pricing measures more than offset the interest rate headwinds



- Wealth Management grew revenues by 11% excluding the impact of Sal. Oppenheim workout activities
- This reflects our relationship manager hiring programs in prior periods as well as strong market conditions
- Let me now turn to Asset Management on slide 22

### Slide 22 – Asset Management

- As you will have seen in their results published this morning, DWS continued its strong performance
- To remind you Asset Management includes certain items that are not part of the stand-alone DWS financials
- Excluding restructuring and severance and transformation charges, Asset Management pre-tax profit of 539 million euros increased by 31% year-on-year despite higher non-controlling interests following the IPO in the first quarter of 2018
- Asset Management enjoyed its best revenue quarter since the second quarter of 2017, with revenues also growing 31% year-on-year in the fourth quarter and by 7% in the full year
- Assets under management were 768 billion euros at quarter end, up by 103 billion euros or 16% during the year
- The growth in AuM was driven both by market performance and four consecutive quarters of net inflows
- Our flagship products delivered significant outperformance, while the number of 4- and 5-star rated funds further increased
- Noninterest expenses in the fourth quarter increased reflecting higher compensation and benefit expenses
- For the full year, noninterest expenses were broadly stable given management's ongoing efforts to control expenses
- As a result of the strong revenue performance and cost discipline, Asset Management generated significant positive operating leverage with a 6 percentage point improvement in the full year cost income ratio to 73% on a segment basis



- The DWS adjusted cost income ratio was 68% for 2019

### **Slide 23 – Asset Management Q4 revenue performance**

- The strong performance in Asset Management revenues in the fourth quarter was principally driven by significantly higher performance fees as you can see on slide 23
- Performance and transaction fees were 104 million euros in the fourth quarter, up from 23 million in the prior year period driven primarily by performance fees in our flagship multi-asset products in Germany
- Consistent with the guidance that DWS management gave this morning we would expect for performance and transaction fees to normalize in 2020 compared to the elevated levels recorded last year
- Management fees grew by 6% year-on-year, reflecting the strong market conditions and consecutive quarters of net inflows which more than offset the impact of margin compression
- Net inflows were 12 billion euros in the quarter and 25 billion euros in the full year mainly in our targeted growth areas of Passive, Alternatives and Multi-Asset
- Other revenues were 15 million positive, versus a negative 30 million euros in the prior year quarter, partly reflecting a positive change in the fair value of guarantees
- With that let me turn to Corporate and Other, on slide 24

### **Slide 24 – Corporate & Other**

- Corporate & Other reported a pre-tax loss of 154 million euros in the quarter, compared with a pre-tax loss of 109 million euros in the same period last year
- The improved year-on-year performance reflected higher revenues from Valuation & Timing differences mainly due to interest rate effects, offset by higher litigation costs
- Funding & liquidity charges increased reflecting certain funding costs held centrally as part of our new funds transfer pricing framework I have described on previous occasions



- As we noted in July, these costs should be around 200 million euros per year in 2020 and should materially amortize over a 5 year period
- Let me now discuss the Capital Release Unit on slide 25

#### **Slide 25 – Capital Release Unit**

- The Capital Release Unit continued to execute on its deleveraging plan in the fourth quarter as we move toward a smaller and simpler balance sheet
- As Christian detailed earlier, we reduced Risk Weighted Assets and Leverage Exposure in the CRU slightly faster than our internal projections, while the net income drag was less than we planned
- Revenues in the fourth quarter were negative 164 million euros, excluding DVA, within the range we provided at the Investor Deep Dive
- Revenues were impacted by mark-to-market effects as well as hedging and de-risking costs
- Noninterest expenses of 691 million euros declined by 75 million euros from the third quarter principally driven by lower Compensation and Benefit costs given the front office headcount reductions
- We reduced risk weighted assets by 10 billion euros in the quarter including 3 billion of operational risk
- Leverage exposure declined by 50 billion euros in the quarter mainly driven by reductions in equities
- Before I close, a few words on our 2020 financial targets on slide 26

#### **Slide 26 – Our near term objectives and financial targets**

- The progress we have made already gives us a clear line of sight on what we can achieve in 2020
- For this year, we have three key targets
- First, as described, to build on the momentum we have generated over the past two years and deliver on our 2020 adjusted cost target of 19.5 billion euros excluding transformation charges and the impact of the Prime Finance transfer



- Second, to maintain our CET1 ratio above 12.5% as we manage the remaining part of our transformation – a target we are confident of hitting given our stronger starting point
- And third, to raise our fully-loaded leverage ratio to 4.5% excluding the balances we hold for BNP Paribas in Prime Finance, principally reflecting the further deleveraging by the Capital Release Unit
- Consistent with our previous guidance we expect provisions for credit losses to increase to around 20 basis points of loans in 2020 reflecting a continued normalization of credit and lower recoveries
- Finally, as we have discussed with you before we have continued to work on plans to merge our German retail subsidiary, PfK into our parent company, DBAG
- We are increasingly confident on the feasibility and viability of this decision and have begun the discussions with all the relevant stakeholders
- This merger should generate significant adjusted cost savings and avoid potential funding cost increases associated with the implementation of NSFR
- Although there are remaining uncertainties regarding the financial impact of this transaction, a conservative estimate of the potential impact is built into our capital plan as discussed in December
- The pre-tax implementation costs are fully reflected in our planning
- The tax impact, if any, could be incremental to the 400 million euros of deferred tax asset valuation adjustments we already anticipate and I described earlier
- Looking further ahead, the progress towards our short-term financial objectives gives us confidence in our ability to deliver on our 2022 targets, including a post-tax return on tangible equity of 8%
- With that, let me hand back to James - and we look forward to your questions



## Question and answer session

Andy Stimpson  
(Bank of America)

Afternoon, everyone. Thanks for taking my questions. First question on capital; it was a decent-sized beat on capital today but, James, I think you said on a media call that you're still thinking that would trough at about 12.7%. I'm just wondering what the moving parts are from here and whether there was a bit more seasonality in the risk-weighted assets this quarter that you'd expect to come back in the first quarter or why or if there's more inflation or why not think that you could be above that 12.7% trough level during 2020.

And then secondly please on the corporate bank, revenues and costs were both a little weaker. I just wondered if you could talk about revenues and the pressure on margins and how you think that will develop. I think you said you expected flat revenues in 2020. I'm not sure if I heard that correctly; if you could just clarify that.

And then on costs, the greater tech spend there is presumably on things like compliance and AML (Anti-Money Laundering) is a factor in there and just how progressed those projects are and whether there's an investment phase that we should expect to reduce at some stage during 20 or maybe it's even after that. Please, thank you.

James von Moltke

Sure, Andy, thanks for the questions. So first of all, at this point we don't want to move that guidance up but I'd say it's a conservative position that we're taking here. To give you a sense of the moving parts, 13.6% is what we report for December 31<sup>st</sup>.

We talked in the past about the regulatory inflation or headwinds including the securitisation framework. If you go back to the December presentation, the regulatory inflation in all of 2020 we assumed was around 60 basis points so if you pro forma that we have 13% as a starting position. Everything else that happens this year, whether it's deleveraging in the capital release unit, some degree of losses from the restructuring, earnings in the core bank and investments in balance sheet growth in the core bank all of that nets out against that 13%.

How big a buffer we carry against the 12.5% minimum we're going to have to see based on both the timing of all of these events as well as frankly the market opportunities for the businesses to grow balance sheet to support client activity. So with all of those things baked into the pie, as you may have heard me say on the media call, we think there's clearly a larger



margin for error and potentially some ability to grow balance sheet beyond what had been originally foreseen in the plan.

But I think I'd like to be conservative at this point in thinking about where we trough given all the moving parts and also the timing that I mentioned. So I hope that's helpful as to why we're not moving guidance today but we're also very cognisant that the market is looking for us to maintain a healthy buffer to the 12.5%.

On the corporate bank, as Christian mentioned, there are a lot of moving parts in that revenue line. I think the starting point is on a full year four of five major businesses grew revenues – namely Cash Management, Trust and Agency, Trade Finance and Commercial Banking are all growing. There was a slight decline in Securities Services for a number of reasons including our own perimeter adjustments.

But competing with that growth is of course the interest rate environment as well as some of the episodic items that we mentioned. Revenues were also impacted a little bit by FTP (Funds Transfer Pricing) charge coming through to that business which nets out of the numbers that we're reporting.

Remember in the third quarter we reported 6% year on year growth and we said the underlying trend was in the low single digits. In the fourth quarter that reversed largely driven by the episodic items but we would argue that the underlying trends are just as they were in the third quarter with a little bit more transient pressure on interest rates given central bank actions in the second half that of course we'll now work to offset given repricing, tiering and all the other items that we also described to you. With that, Christian, I'm sure, will want to add strategically.

Christian Sewing

On an underlying basis we are happy with the progress we are making, Andy. You know, I think at the IDD (Investor Deep Dive) in December Stefan Hoops talked about the deposit charging, the growth in Asia, the increase in payment fees, the growth in TAS (Trust and Agency Services) business, only to name a few, is supporting the underlying 4% growth.

James was referring to the episodic items, which we plan a little bit more conservative for 2020 but the underlying engagement, the client feedback and all we can see in terms of mandate clearly supports that what we told you on the investor day.



Also these items I just mentioned - deposit charging, growth in Asia, the increased payment fees - you know, each of those is estimated to provide approximately 100 million over the next three years and we will start seeing these benefits in 2020 and it makes us comfortable that we achieve our goals.

James von Moltke

Andy, I'm reminded - sorry for the long answer but you asked about the investment cycle in corporate bank and I think this is also an important area to describe to you. First of all, as you remember, there was a restatement exercise we went through last year. There we made changes in funds transfer pricing and internal cost allocation so a lot of moving parts inside our segments and in some ways none more so than the corporate bank.

We think we are at or very close to a finalisation and a final basis for our external reporting of that segment which now gives us a clear basis for future reporting and performance. In other words, comparisons should not be influenced by these items.

That said, as you point out, there has been investment so the technology and particularly Know-Your-Customer (KYC) cost increases are real and pertain to that business. I would say we seek to continue investing in IT in the Corporate Bank. It's a critical element of our competitive position and frankly it's the largest beneficiary of a reallocation of our tech budget away from equities as we wind down that business.

And KYC remains critical although in that area one would hope that in the not-too-distant future we sort of crest the wave in terms of our investment and begin to deliver efficiency based on the cumulated investments we have made in the past several years.

Daniele Brupbacher (UBS)

Yes, good afternoon and thank you. First question is just on the rate headwinds and on the media call again you mentioned those and I think you quantified them at around 230 million in the private bank so I was wondering whether you could give a similar number for other units and how you think about that going into 2020, what more is to come here.

And probably in this context as well how you think about, you know, how much of that can be compensated by volumes and margins. It feels like your working assumption seems to be that it should be largely compensated by volumes but if you could just confirm that.



And then you mentioned a few times the FTP model and that that impacts also the divisional - or I think you mentioned it in the context of corporate bank. I know you described it in the past but could you be a little bit more specific and give us some numbers around what that really means, if there's still a transition period, do we have to take that into account when we model future revenues for the divisions?

And just very lastly, also on the media call you stressed the importance of the US market for Deutsche. I think that's well-understood. Could you just give us some examples of sub-markets where you feel you're gaining or regaining market share? That would be very useful. Thank you.

Christian Sewing

Daniele, we simply gave the one number for the Private Bank because obviously this is most dependent and sensitive to the interest rate environment, in particular to the ECB decision we saw in September last year.

And yes, we are planning to compensate the interest rate impact in full going forward also in the Private Bank. How? We said that in the Private Bank but also in the Corporate Bank we are consistently growing loans, by the way, within the risk framework we have.

For instance, we drew up an initiative in the German mortgage business last year which went very well. We are very active, as Manfred Knof said on at the Investor Deep Dive in December, in switching deposits into investment funds and actually we are making good progress on that also in January. That looks quite favourable, what the private bank is doing.

And as for the Corporate Bank, as I just outlined, there are other initiatives, not only the active repricing where we have very constructive discussions with our clients and where we think we will see the first positive impacts from the repricing in 2020.

Also there has been underlying growth in the business segments, growth in Asia, in Trade Finance and so on. So overall while obviously this interest rate environment is hurting we have reacted appropriately and think we can compensate that.

James von Moltke

Daniele, we have talked a little bit about the work that Dixit and the treasury team have been doing together with the business to revamp our funds transfer pricing framework. What we're doing is essentially aligning it with the liquidity buffers, the unsecured spreads, the capital charges that the businesses bring to the balance sheet as well as the benefits and burdens



of balance sheet usage in a way that aligns that charging more closely with clear drivers and the regulatory environment that we operate in.

So that's the principle behind it. We think it gives the businesses much better, more precise and also more controllable drivers and funding cost numbers that they can then build into their third-party pricing. We will provide some disclosure of the impact of these businesses as we get to the annual report so that you can trace it through.

The number, in the Corporate Bank year-on-year is probably in and around €20 million. There are other treasury effects as well that go in and out so it's one of a number of factors but to your point, we will and we have at this point got to a steady state on FTP. In the first and second quarters of next year there will still be some small variances driven by it.

Your market share question has to do with the United States and the Investment Bank. I'll leave that to Christian and maybe add some.

Christian Sewing

Yes, I think the first answer to that is what we have done globally, Daniele, also refers to the US. We believe that with the focus of the Investment Bank now on where we are relevant and where we have a leading market position we can also grow our business in the US and exactly that we have done there.

If I just give you some examples, in high-yield and investment-grade issuance are in particular areas where we have been strong and will be strong. Also in Commercial Real Estate we clearly have performed well in 2019 and we have seen increasing revenues.

Again with the risk appetite we have in place, with the risk management we are confident that we can stay the course. You have heard a little from James that we are starting from a better position from a capital point of view. That also allows us in a selective way to also allocate a bit more capital to our business where we are strong and we are making use of it.

But I think the focus which we have applied for the Investment Bank but also Corporate Bank globally also applies to the US and there we see the growth in those areas where we are leading.



Andrew Lim  
(Societe General)

Hi, good afternoon. Thanks for taking my questions. I just wanted a bit more clarity on that capital guidance that you gave. I think last year you said that you would have a Q1 trim impact amounting to about 40 basis points. You didn't talk about it here. Are you saying then that this falls into 2020 and is within that 60 basis points impact that brings you down to around 13%? And then just on the corporate bank, if you could clarify on that tech spend so your overall costs have jumped up for the fourth quarter. I think you said that that was going to be the run rate going forward and that we should wait until the second half of this year before we can see that maybe come down a little bit. Perhaps if you could give a bit more colour there; thank you.

James von Moltke

Andrew, let me jump in on the CET1 guidance. Yes, the regulatory impact that we described in 2019, barring one smaller item was recognized last year so we go into 2020 really almost 100% in line with the guidance we gave you in December. There's one small item that moved from Q4 2019 to Q1 2020 but by and large you should focus on that €15 billion number that we gave you for regulatory inflation on the RWA line for 2020.

Christian Sewing

On costs in the Corporate Bank, we have seen higher adjusted costs mainly from higher technology costs and control costs as well as changes in the way we have charged the internal services to the businesses.

Of course with the efficiency savings we have in mind and are in the plan for the Corporate Bank and we are performing absolutely in line with our plans. The adjusted return on equity for the Corporate Bank was around 7% in 2019. We gave you the target for 2022. That is driven by the revenue growth we outlined but also by taking certain efficiencies which are also beneficial to the Corporate Bank over time.

Jernej Omahen  
(Goldman Sachs)

Yes, hi. I have two questions, please. The first one is on page two where you lay out the achievements for this year and I don't want to take away from these achievements because I agree with you; I think they are substantial. But obviously there's one category missing here which is the profitability or the profitability target.

And I wanted to ask you the profitability question in the following way; for the full year and for the quarter what was the underlying return on tangible equity for the bank as a whole?



And I guess by underlying I would also just like to ask a sub-question as to what your preferred definition of that would be.

And my second question would be on the performance of the investment bank and again I think it's healthy to see that the revenues are up year on year and particularly in FIC, which were up a third or 33% year on year in the quarter. But again, you know, it was a very good quarter for FIC. Your, some of your global - well, your global competitors on average are up 64% in FIC year on year which suggests that the market share loss continues. And I just wonder, you know, to what extent do you feel you have stemmed that market share attrition.

And the final sub-question - I guess that's now number three; I said it was going to be two, I'm sorry but the final sub-question on the investment bank is revenues are up but returns, as I understand it or as you present it, are down to 1%. How do you think about that as well? Thank you very much.

Christian Sewing

Let me start with my view on the Investment Bank and then for the return questions I will hand over to James. First of all, Jernej, if you have seen three years of year over year revenue declines it is very reassuring that in the Investment Bank with the focus which we have decided in July we see the turnaround.

And to be very honest we have seen that momentum and that turnaround now consistently since September. We made the necessary changes to certain business within the Investment Bank in July and August and from September onwards we have seen quite good momentum.

Now are we already there from a profitability point of view and also from a growth rate point of view where potentially all our peers are? No, because we always said that this is a long-term transformation, we need to focus, we need to adjust, we need to also invest into the simplification of our Fixed Income (FIC) business, which we are doing.

I do believe that from a profitability point of view and from a growth point of view there will be a gradual improvement. However the most important is the client engagement and client engagement is clearly up and that obviously is supported by our CDS spreads. It is also supported by the focus and clarity we have now; who we serve in the Investment Bank and what we do not.

Last but not least from a market share point of view, let's wait, I think, for all the institutions coming out with their numbers for



the fourth quarter, including all the Europeans. Secondly I would also say in the FIC business let's not only look on a year on year but also on a quarter over quarter basis. On this measure we do not look bad and hence I think we should take a little bit more time to justify or to judge on our market shares.

James von Moltke

Jernej, on profitability obviously we're acutely aware of the sizeable loss this year and hence the focus that we put on the transformation effects to help you understand what the underlying performance looks like. Of course we want to limit the time we speak about underlying performance but if you look at the Core Bank numbers excluding transformation charges is probably the best number to look at. On that basis, the pre-tax profit is about €2.8 billion against € 42.5 billion of allocated equity.

If you tax-effect that income, it gives you a Return on Tangible Equity of somewhere in the 4-5% range. This is the number that we have to drive up, as we talked about, to 9% as our goal in 2022. The way we present it as a transformation charge is intended - and also, by the way, the BNP Paribas transaction which includes leverage and expenses - is intended to give you a sense of all the things that then fall away by 2022 making 2022 pretty much a clean year barring small restructuring expenses and obviously the loss mostly from expenses that will remain in the Capital Release Unit (CRU) that we want to lift from that point.

Adam Terelak  
(Mediobanca)

Good afternoon. First I've got a question on capital outlook and then a follow-up on the investment bank balance sheet. On the capital outlook can you just confirm that your year-end CRU balance sheet targets still hold for 2020?

And then one of the moving pieces I think we haven't got much colour on is operational risk. You've clearly come in ahead again this quarter. Could you give us some guidance on where that might go as it remains pretty material for the walk this year and if it does come down further does that change the 25 billion guidance you have for Basle 4 in 2024, which I understand has a reduction of op risk embedded into it?

And just a technical point; is there an AT1 accrual in CET1 capital at year end? And then moving on to the investment bank, you've flagged lower leverage ratio denominator from liquidity management. I want to understand how much funding benefit



has come through into the fourth quarter print as a result and how much more you can do on liquidity because I've also noticed that the LCR is actually up Q on Q despite this. Is this something in the denominator we need to worry about that might rebound into the first quarter? Thank you.

James von Moltke

So lots of questions that warm a former treasurer's heart. On the Capital Release Unit; we are sticking to the targets that we laid out. We think we've given ourselves a helpful hand in terms of where we got to at the end of last year. It gives us a little bit more flexibility in terms of timing and the manner of disposal of assets, which is encouraging.

On the operational risk RWA, as you say, we have, I think, been very successful in bringing forward effects that we described to you in July as potential outcomes and with the hard work particularly of our risk colleagues we were able to exceed our own expectations as to how much and how soon we were able to achieve methodology and model-related benefits in RWA.

At this point I would probably guide to flat from here so we're not expecting additional significant moves there. But we do expect and have built into our forward capital planning some additional benefit, as you point out on the overall Basel 4 glide-path.

On the leverage ratio we've been talking to you and also to our fixed-income investors for some time on work we've been doing to improve the efficiency of our balance sheet. The leverage ratio did benefit, as you point out, seasonally from lower cash - we think that by and large is sustainable - and also seasonally from pending settlements which, as you know, do go up again as activity increases.

So I wouldn't expect the leverage ratio to stick in the first quarter necessarily; perhaps dip and then go back over the course of the year to our year-end target

I don't see anything unusual in the Liquidity Coverage Ratio (LCR). We have been working to bring it down as we drive efficiency in the balance sheet but what you're seeing is significant declines in the outflow component of the LCR ratio essentially offsetting declines in High Quality Liquid Assets (HQLA) and net inflows.

So we've been seeing essentially efficiency offset the reduction in cash and liquidity reserves, which is good for the company and our earnings profile; improving earnings efficiency without



sacrificing the stress liquidity value that we see on our balance sheet.

The AT1 coupon is paid - is accrued when paid so that's a 2020 event.

Adam Terelak

So it's a double - it's a catch-up. It's a catch-up measure.

James von Moltke

Exactly, as you've seen in prior years first and second quarters are burdened with some catch-up there but that's all of course built into our capital planning.

Kian Abouhossein  
(JP Morgan)

Yes, hi, thanks for taking my questions; two more detailed ones and one just more general. First of all the 100 million plus in killing off deposits benefits and that number of 100 million plus; can you talk about how much you have achieved at this point and actually where you book it, in what division in the first quarter?

And then secondly the BNP transaction; you mentioned the associated benefit on the revenue side that you booked and you talked about part of it being booked. I'm wondering how much more there is to come and in what quarter and should we assume there's more to come in the 2020 year in the first quarter and where do you actually book that reimbursement?

And then third one is just on fixed-income; I mean, the environment, from what I can see, is very strong on credit. The breakdown you gave at the investor day illustrators you're very heavily credit-gearred now in fixed-income and clearly you indicated the year has started well but can you be a little bit more specific around your thoughts around your fixed-income business considering your material gearing was the best part of performance year to date, how you're seeing the environment from your business perspective on the credit side.

James von Moltke

Thanks, Kian. Tiering goes to the businesses essentially through funds transfer pricing so the benefits, accrue to them in proportion to the liquidity reserves that they generate for the company. We began to see that benefit in November when it became effective so essentially two-thirds of the run rate you would have seen in Q4.

On the BNP Paribas side that transaction - so we don't want to confuse you with this presentation but we want to stay consistent with our original targets that we set for €21.5 billion of adjusted costs for this year, €19.5 for 2020. We haven't



moved our adjusted cost targets to reflect the incremental expense relative to our original planning. Our planning had not foreseen keeping the prime finance business operating as part of our expense base but rather had we not pursued the transaction with BNP Paribas it would have run down much more quickly.

So what we're describing to you is the incremental expense that we will book in essentially operating that business for BNP Paribas at the level that is reimbursable under the agreement and that will be reflected in CRU revenues as a positive.

Now, we call out €102 million in the fourth quarter. That is the level of expenses that would have been reimbursable had the transaction closed on 1<sup>st</sup> October. In fact it closed effective 1<sup>st</sup> December so we are eligible to have about one-third of that reimbursed for the fourth quarter.

Going forward it'll be the full run rate over time a slightly declining reimbursable cost base frankly as we transfer over time small elements of the business to BNP or personnel and infrastructure to BNP Paribas.

But what we will essentially adjust out of our cost base is the reimbursement recapture that essentially nets out at the pre-tax profit line.

Christian Sewing

Kian on your fixed-income question. Overall in fixed-income, be it in rates, in currencies, in emerging markets, we did changes last year, as we said on the Investor Deep Dive, and it simply gained momentum so it's not only a credit story. I also said that the improved CDS level and the perception around Deutsche Bank also in the debt capital markets obviously help us in our day-to-day flow business. So I'm or we're satisfied with the momentum we see in the various products.

Now, on the credit side this is our strength. Let me also talk a little bit more broadly from an economic point of view. I think we are even seeing a slight improvement in the economic environment globally. At least two uncertainties have been slightly taken away with the phase one of the trade agreement between the US and China.

We also have less uncertainty all around the Brexit and we can see that economic forecasts are slightly up compared to our last earnings call at the end of October. We also see in our portfolio that there is no deterioration from an overall credit point of view



so yes, momentum, given our changes in that business, is clearly picking up, not only in credit but also in the others.

And on the credit side this is, I think, one of our key strengths we have and we are dealing in an economic environment which is still weaker than we have seen it in 2017 or 2018 but clearly a slight upgrade since October.

Kian Abouhossein

And, Christian, if I may just add one more quick one, I mean, if I look at your performance this year the restructuring clearly is on plan. You could, you know, make some arguments around revenues in the transaction bank, etc, but generally you explained that very well.

Where do you see from a bottom-up perspective, leaving macro issues aside or geopolitical issues, where do you see - what's keeping you up at night, what are you most concerned about or where you believe, okay, this is an area where we really need to still turn around that particular issue?

Christian Sewing

Kian, it's a very simple answer. We have to apply day by day the same discipline on execution as we have done for the last 20 months. If we do this we have granular plans, we are playing to the strengths of Deutsche Bank in each and every business. If we keep that discipline, if we keep that execution focus then I'm not worried.

Jon Peace (Credit Suisse)

Yes, thank you. I had a couple of questions to help understand the run rate in the C&O line, the corporate centre so firstly the valuation in timing differences has been quite positive now for about six quarters, particularly this quarter and should we expect this to reverse at some point and if so what would the triggers be for recognising that?

And the second question is on the funding line in C&O, which was quite negative this quarter. How should we think about that as a trend and should/will you be allocating more of that into the divisions? Thanks.

James von Moltke

Thanks, Jon, it's rare that we get questions on the Corporate and Other slide on page 24 in the deck but it is a good question because corporate and other; some elements of it frankly are hard to run rate.

If I were to just go quickly though the lines that you see here, funding and liquidity, as we've mentioned, has the 200 million drag from the FTP amortisation that we've outlined. Other than



that it should clear to zero. There's obviously going to be a little bit of variance in the clear-out from treasury every quarter.

Valuation and timing, as you point out, is volatile. The principal drivers are essentially interest rate hedging of the balance sheet as well as FX hedging and so it depends on both the level of interest rates, the steepness of the yield curve and also FX basis, which are the main drivers of that.

In 2018 there was a fair amount that was adverse to our results, particularly the FX basis. In 2019 some of that FX basis reversed and at the end of the year we got some uplift from interest rates but frankly it's hard to predict and we manage it as close to zero as we can within the range of tools in hedging and also from an accounting perspective that we can.

The shareholder expenses should be relatively stable. We've guided to around €400 million in shareholder expenses consistently. We operate to an OECD definition of expenses that are applicably not part of the businesses and the only real variance you see there is when there's significant restructuring and severance that applies to activities that are outside of the businesses.

Litigation of course varies but it's litigation that is not specifically pertaining to events or matters that are inside the businesses. And then non-controlling interests is really the reversal at this level of the DWS minorities that we report in the segment.

Others; lots of other things, as you can imagine which should kind of clear out relatively neutral. I hope that's helpful for your modelling.

Amit Goel (Barclays)

Hi, thank you. I've got a kind of question on the FIC business and on the investment bank. Clearly there were a few headlines in the press in the last few days about various kind of compensation-related and timing discussions. When I look at how headcount evolves over the course of the year I see kind of last year there was about a 5% drop into Q2. I'm just kind of curious how you're looking to manage that this year as we kind of go into Q2 and what we should expect. You know, are you expecting the same type of attrition that you had last year or perhaps a bit less or a bit more? And, you know, how are you trying to motivate and continue to drive the employees to get that top line to continue to tick over? Thank you.



Christian Sewing

Well, thank you Amit. First of all the attrition in 2019 was actually better than in 2018. We improved and I think one reason why we improved - and we said it on the Investor Deep Dive - is that we took some harsh and tough decisions. But that stands for nothing other than corporate clarity; people know in which direction we go and actually they appreciate and support that clarity and that clear way and path ahead.

When it comes to compensation this year we obviously will not yet provide details. That is for a later time but we're steering that we will see a reduction in overall variable comp but the way we have done it, we have clearly seen and looked at the operating performance and the adjusted performance James was outlining before and we have done everything in order to appreciate and acknowledge the performance in particular of those colleagues and those businesses which from an operational point of view have reached their targets.

In this regard it is very much about differentiation but let me also say - and I've worked here for 30 years - it's also very much about motivation and day-to-day leadership and I do think that we have a management team which has clearly adopted that. We have a very close communication and co-operation with our teams and by differentiating and clearly looking for the operational performance and balancing the compensation around this one I'm confident that we will not see a higher attrition in 2020 versus 2019.

Anke Reingen (RBC)

Yes, thank you very much for taking my question. Firstly I wanted to come back to the BNP transaction. Can you just please confirm that it's already out of your risk-weighted assets and leverage exposure and as a result of the different impact on the costs should we basically expect a cost base at 19.9 rather than the 19.5 or the adjusted 19.5? Just to understand what number I should be looking for.

And then the investment banking risk-weighted assets; I mean, obviously they came down quite materially in Q4 outside of the operational risk-weighted assets. Do you think this Q4 level is just seasonally lower and we should expect it to pick up again or is there any structural change outside the op risk-weighted assets that should keep the level lower?

And just one follow-up question, please, on the... You made comments about your revenue assumption for most of the divisions and for the private client division is it fair to summarise,



you expect revenues to broadly stay flat or is the assumption actually it can do better? Thank you very much.

James von Moltke

So on the BNP Paribas transaction, there is immaterial RWA still on our balance sheet for that business pursuant to a structural feature in the transaction that shifts the RWA to BNP Paribas. We do carry leverage exposure on behalf of BNP Paribas. Hence we removed that from our leverage ratio targets. Again it'll be gone by the end of 2021.

On the expense side you're absolutely right; all things equal we would report €19.9 billion of expenses but we want to stick to our target and not be in a position of moving targets so the €19.5 is the number that would be if you added back that revenue recapture but you should be looking for €19.9 in the financial statement disclosure.

In terms of revenue assumptions in the business I think we gave a reasonably complete outlook. I'm not sure I'd want to add to it and Christian talked of the performance that we are expecting. Obviously, market conditions and the path of interest rates are important. You've heard us talk about the momentum that we saw late last year, especially in investment banking and Asset Management and you've heard us talk about the efforts that are underway in the Corporate Bank and Private Bank to offset the interest rate headwinds.

We think the drivers of growth in those businesses are there and over time you'll start to see that underlying performance come through.

Andrew Coombs  
(Citi)

Good afternoon. Two questions please, one on the transformation charges and then one just on the pod charging. Firstly on the transformation charges on slide 11, on software impairments cumulative over 2019 to 22, I think your original guidance back in the middle of last year was 0.6 billion. It then went to 1.2 billion in December and now stands at 1.5 billion. I'm just interested what's driving the incremental increase there and just wanted to reaffirm that that does not impact on your capital position.

My second question on deposit charging; back at the investor day you said 20 billion had already been implemented, there were 110 billion of additional deposit under review. Could you just update us on that situation please and whether the 100 million incremental revenues is still the right guidance and how



much of that's already been booked in the 4Q run rate? Thank you.

James von Moltke

Sure, Andrew, thank you for the questions. On the software IT what has changed is the deeper and deeper we got into what we think of as the application estate within our technology under Bernd Leukert's leadership and his CIOs, the more we saw that we could take out of the company as we significantly simplify that estate.

So we see this as a benefit to the company so to the extent that this is the area where there's an expense miss on the total non-interest expense line we see that as at worst neutral, frankly positive both in simplifying the company and providing a benefit to future expenses.

And you're absolutely right; that number walked up over time and it was based on getting deeper and deeper into our software estate.

I would say that the pricing of deposits; we are working on it. In the slide from the Investor Deep Dive we wanted to describe to you what the addressable balances might be. Obviously it's a long way to go from, €20 billion to €110 billion and that's a lot of client discussions.

Many of our new pricing agreements are now effective essentially from 1<sup>st</sup> January 2020, hence our view that you'll see an increasing amount. I think the guidance that we've provided for both the Corporate Bank and Private Bank back in December still applies in terms of what we expect to see from deposit charging.

And as Stefan in the Corporate Bank and also the Private Bank team, I think, said at the time, we've been favourably surprised by the quality of the client dialogue in terms of turning that from a negative conversation about handing them a check to a positive conversation about how they can optimise their liquidity use.

From just a deposit outflow perspective, we continue to feel we're outperforming our assumptions and frankly again, if you like, an upside surprise in this process is we've actually had improvements in the liquidity quality of the deposit base that remains with us. So early days but frankly good signs across the businesses of the impact there.



- Andrew Coombs Thank you for that and can I just confirm the software IT impairment doesn't impact on capital?
- James von Moltke Yes, absolutely, it does not. It's already disregarded from CET1 capital so no impact.
- Jeremy Sigee  
(Exane BNP Paribas) Hi, there. Just a couple of follow-ups please. One was if you could talk a bit more about the advisory revenues within the investment bank, which were quite a lot weaker in the quarter, as you touched on. As they were for a number of people, we know that completions were lower but other firms have talked about pipelines being a lot stronger coming into this year and I wondered if you can sort of echo a similar sort of picture that gives you confidence for why that revenue stream, you know, remains intact and viable so if you could talk about that a bit more that would be great.  
And then the second question was really just continuing on the question around the 19.5 or 19.9 cost targets. Are there any dependencies in hitting that number, are there any events that you need to happen to do it, whether it's agreeing more headcount cuts or getting a step down in CRU costs or anything like that?
- Christian Sewing So let me take the first question. You're right; we have seen a kind of a softness in the fourth quarter. It has nothing to do with something structural. If we look at our pipeline, at the market response and also the mandates we are getting then I do think that we have a very stable franchise and where I'm not nervous that the kind of partial softness we have seen in the fourth quarter is directional guidance for 2020.  
We also had very strong performances in the origination advisory business. In particular we have been very happy with the performance of our debt origination, both in the investment-grade as well as in the high-yield and we cannot see that this is stopping.  
And hence this is in our view a core business to Deutsche Bank which we obviously will pursue and we are confident that we will show satisfactory results and revenues going forward.
- James von Moltke On the €19.5 cost target I would just say many, many things need to continue to happen across the organisation as we continue on our cost discipline and this sort of run rate decline that we've exhibited for the past eight quarters. I will say with the appointment of Fabrizio Campelli as Chief Transformation Officer we get a new partner at the Management Board table



along with all of the business leadership and Frank Kuhnke, focusing on a variety of issues but importantly cost management.

In many respects it is a role too that includes helping on the implementation of cost measures. We've identified many cost measures across the organisation which we as Finance will partner closely with the transformation organisation under Fabrizio to execute on.

Stuart Graham  
(Autonomous)

Hi. Thanks for taking my question. I have two please. First on FIC; Christian, you talk about having stabilised the franchise and yet I see ongoing market share losses but from your answer to Jernej's question maybe I shouldn't be worried about the FIC market share losses at this stage. So I guess my question is how are you defining that stabilisation please.

And then the second question is, you talked back in July about the benefits from lower funding costs. I think the figure out to 2022 was something like 500 million or so. How much of that's already been achieved at the Q4 stage and what do you expect for 2020 please? Thank you.

Christian Sewing

Thanks, Stuart. Well, I said to the question from Jernej that obviously the US competitors have shown very strong FIC numbers in the fourth quarter; there is no doubt. But, I said that if we compare quarter over quarter, fourth quarter versus the third quarter, I think we can compare ourselves well with our competitors.

Number two; I really think that we should wait for the results from all the financial institutions coming in, also our European peers, to finally validate where we stand from a market share.

Number three; my positive comment on fixed income is that it's not only on the credit business but that across our offerings where we see momentum. The nice thing, Stuart, about this is that it is on the back of client flow. Clients are really engaging, clients reach out to us. The cooperation between Corporate Bank and Investment Bank is working very well in all segments, be it the rates business or FX and we think it's a solid foundation with the first time a year over year growth.

And hence we feel positive about the momentum and the underlying growth we see and again let's wait for all the peers coming in and then we can see finally on the market shares.



Stuart Graham                      How do you know if that's your value-add or just the market environment? I get it that both of them are good but obviously one's better than the other.

Christian Sewing                    Well, I can also see it with the number of clients coming and re-engaging with us. That is always a good signal, that we have through the years clients who did not engage with us who are clearly coming back and that is not only the favourable market, which I agree; we had more favourable markets in the fourth quarter 2019 than in 2018, no doubt at all.

But with clients coming back and being very active with us that is for me one of the major positive signals.

James von Moltke                    Stuart, on the funding costs, one thing I'd point you to is the net interest margin disclosure that we now provide in the Financial Data Supplement. I can't give you a euro number of how much of the 500 million has come through at this point off the top of my head but there are elements of the things we've been talking about for a while that are entering into the margin and helping support the margin. You'll see that the history is of an increasing margin. That's obviously difficult to sustain in the interest rate environment that we're in but I think the various items, whether it was putting together an investment portfolio in treasury, significant deleveraging in the form of pay-down of long-term debt that has already flown in - at least in part; sort of bled in to the P&L over time.

Some of the other things that we've talked about like taking advantage of greater hedging tools to manage our interest rate risk and also sort of balance sheet productivity; that's really only just getting started so I would see over time, a very slow build to that number in 2022; hopefully helps to sustain a margin relative to what are otherwise typically pressures on the margin in addition to loan growth and some of the other structural improvements on the balance sheet.

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