Deutsche Bank AG

Deutsche Bank Q2 2022 Analyst Conference Call

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Transcript

Speakers:
Christian Sewing, Chief Executive Officer
James von Moltke, Chief Financial Officer
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CHRISTIAN SEWING

Slide 1 – Solid results despite challenging environment

- Thank you, Ioana. A warm welcome from me as well
- It’s a pleasure to be discussing our second quarter and first half 2022 results with you today
- Since the end of our first quarter conditions for the global economy and the macro environment have become more challenging, not least as a result of the terrible war in the Ukraine that continues to be devastating for millions of people
- And we, like other banks, are not immune to the associated pressures and impacts
- As you will have seen from our media release, they will impact our 2022 cost/income ratio target
- We are continuing to work towards our return on tangible equity targets for both the Group and Core Bank, even though the path ahead of us is more challenging
- Nonetheless, we are very proud that despite an unprecedented operating environment, we are transforming our bank and once again have proven our resilience
- Our franchise is more competitive, and the bank is more resilient than was thought possible three years ago
- And we are proud of our achievements, particularly as we have now delivered the highest second quarter and first half post tax profit since 2011
- The trends we saw in the first quarter continued in the second quarter, and we saw revenue growth across all four core businesses, driven by a mix of business momentum, market share gains and investments that will support sustainable growth in the second half of 2022 and beyond
- We delivered Group revenues of 14 billion euros, an increase of 4% year on year. And our Core Bank operating businesses grew revenues by a very impressive 9% year on year
- In the first half of this year, we generated an 8% return on tangible equity, up from 6.5% in the first six months of 2021
- We also improved our profitability and efficiency. First half post-tax profit of 2.4 billion euros was up 31% year on year, driven by positive operating leverage

- Our cost/income ratio was 73% for the first six months, 5 percentage points lower than the comparable period
- And finally, we continue to adhere to prudent risk management principles and processes. Provision for credit losses was 22 basis points of average loans in the first six months, including a management overlay, reflecting elevated market uncertainty
- Our capital position remained stable. We finished the second quarter up compared to the first quarter, with a Common Equity Tier 1 capital ratio of 13%
- Now let me take you through the progress in our core businesses, on slide 2

Slide 2 – All core businesses demonstrating clear momentum

- You can see that the momentum across our businesses, especially in the past six months, supports the delivery of our 2022 plans at the divisional level
- In the Corporate Bank, business growth continued despite the more challenging market, as we diligently executed on our strategy
- We saw this reflected in loan growth which, alongside interest rate tailwinds, contributed to an increase in interest income. This led to a 10% return on tangible equity
- In the Investment Bank, our leading FIC franchise saw strong client activity with growth across both institutional and corporate clients, which marked the highest first half FIC revenues in ten years
- And despite the unfavourable environment for Origination & Advisory activities, M&A revenues were 65% higher year on year
- All-in, the Investment Bank delivered a return on tangible equity of 14%
- The Private Bank had a strong first half year result with a return on tangible equity above 9%
- It captured net new business of 24 billion euros, across inflows into assets under management and loans supporting 4% revenue growth despite the more challenging environment
- And it continued to optimize its distribution channels with the closure of more than 100 branches

- Asset Management delivered revenue growth of 6% year on year, driven by higher management fees, despite the volatile market environment
- At the same time, the business continued to invest in growth initiatives and platform transformation and delivered a 22% return on tangible equity
- Looking back at the progress of the Core Bank since the start of the transformation, we have improved profitability significantly. First half profit before tax of 3.7 billion euros more than doubled compared to the same period in 2020
- As much of the momentum is driven by revenues, let me summarise our progress on slide 3

Slide 3 – Growth now visible across divisions

- Group revenues were the highest for the first half since 2016, despite business exits in 2019, as our transformation led to a stronger franchise with better revenue potential
- These strong results include a revenue drag of around 700 million euros in Corporate & Other driven mainly by valuation and timing differences, as the market volatility in the first six months created temporary accounting asymmetries on derivatives used to hedge the bank's balance sheet
- Nonetheless, we have already delivered more than half of our expected revenue plan for the year and we are particularly encouraged to see strong growth rates in each division. These are either in line with or ahead of the compound annual growth rates we expected at the beginning of our transformation three years ago
- Excluding revenues in C&O, the average divisional annual increase of revenues in the four core businesses was 9%
- And we are especially pleased with the performance in our stable businesses, which contributed more than 60% of revenues over the last twelve months

Slide 4 – Significant improvement in pre-provision profit

- Moving to slide 4, we are encouraged by the performance in our Core Bank, which delivered a 10% return on tangible equity in the first half, up from 9.3% in 2021, clearly ahead of our 2022 target of 9%

- On a pre-provision basis, we made significant progress on our profitability, as we diligently executed on our plans to make our divisions more focused, profitable, and efficient
- While we benefited from market volatility, this also created some offsetting effects visible through our C&O line, so the majority of the improvement is due to the success of our business growth initiatives
- As we just mentioned, we are especially pleased to see the improvements in our stable businesses, with Corporate Bank, Private Bank and Asset Management increasing their pre-provision profit contribution to 60%, while our Investment Bank continues to perform, driven by our FIC franchise
- This is clear evidence that our bank is now more balanced, thus resilient in a very complex and uncertain environment. Exactly what we promised three years ago when we introduced our “Compete to Win” strategy
- We expect many of these trends to remain in place and to be beneficiaries of interest rate hikes in the coming years
- Overall, with Core Bank pre-provision profit of 4.3 billion euros in the first half, we believe that our shareholders can take comfort in the improved operating margins, as it creates stronger protection from a tougher macro-economic outlook

Slide 5 – Ongoing progress, despite pressures

- Let me now turn to slide 5 to take you through our journey to deliver improved operating margins and the progress we have made to date, as well as our management actions
- In 2019 we introduced a new strategy, which unlike prior years, included strict cost management and focused investments in our core businesses, particularly into technology and controls, to deliver efficiencies and just as importantly, to grow the company over time
- This plan and these investments helped us to significantly increase our return on tangible equity from being in negative territory just two years ago to 8%, and at the same time, to reduce our cost/income ratio by 14 percentage points to 73% for the first half of this year
- At the IDD in March, we shared the continued progress we have been making, with clear ongoing focus on further managing our cost base
- However, the macro-economic environment changed materially, resulting in headwinds which impacted some of our planned reductions,

most notably from inflation, high compensation and foreign exchange and are likely to stay with us for the balance of the year

- At the same time, we also faced setbacks from uncontrollable items relating to higher-than-expected bank levies, litigation and costs arising from the war in Ukraine
- And while the recent market volatility has been favourable for some of our businesses, we also saw offsets via the larger than expected drag from valuation and timing differences in C&O
- These items generated an impact of around 2.9 percentage points on our cost/income ratio and 1.3 percentage points on our return on tangible equity in the first six months
- Given our cost discipline, our controllable expenses were contained, despite seeing some inflationary pressures and investments we decided to make, which were not in the initial plan
- These higher costs are important to our business, as we want to continue to invest in technology, human capital and controls to drive growth and efficiency, despite a more challenging revenue environment ahead
- Together these items created a trade-off between our long-term strategic goals and year-end targets
- And as we stand here today, we have taken the decision to stick to our investment plans because we do not run the company on a one-year horizon, but with a long-term strategy and a vision for growth that will benefit us for the long term
- Exactly this underlying belief in our strategy is the reason and the key lever behind our successful transformation over the last three years
- Reflecting this and using a conservative approach, achieving our cost/income ratio target for this year is no longer realistic without sacrificing long-term potential. Therefore, we have amended our cost/income ratio guidance for this year to mid to low 70s
- However, we are executing on our plans and considering the uncertain environment, we will work on additional measures to ease the pressures we are facing and are ready to take decisive actions where necessary
- We are well prepared for different scenarios and we continue working towards our return on tangible equity target for this year
- We remain committed to our cost/income ratio target of less than 62.5% and our return on tangible equity target of more than 10% for 2025 and we are continuing to work towards reducing our run rate to the planned

step off point at the end of this year, even if the path ahead is more challenging

Slide 6 – Robust balance sheet

- Let me now spend some time talking to our balance sheet, on slide 6
- Our balance sheet metrics are solid which means that we enter a more challenging macro environment from a clear position of strength
- We have been managing our balance sheet conservatively and intend to keep doing so through this period of volatility
- With a 13% CET1 ratio at the quarter end, we maintain a buffer of 253 basis points above regulatory requirements
- Our liquidity coverage ratio is at 133%, 51 billion euros above regulatory requirements
- And our funding position is robust; we already completed majority of our planned issuance for 2022 and we will continue to fund our balance sheet through stable sources, predominantly our deposit base

Slide 7 – Resilient loan book with strong risk management

- Moving to slide 7, in 2020, as the pandemic caught the market by surprise, we went through our balance sheet to explain why we felt we were well positioned to navigate through that environment
- And while the current crisis presents different challenges and many unknowns, what has not changed is our loan book, which is low risk and well diversified; nor have we changed our approach to risk management
- Let me remind you that around 79% of our lending is in the Private Bank and Corporate Bank, mainly consisting of retail mortgages in Germany
- Concerns over the supply of gas could have a material impact on the German economy and we must of course be prudent and consider the impact this could have on our bank. However, we deem this potential impact as manageable and our improved pre-provision profitability means we are resilient
- Furthermore, on the items we can control, we have always managed our balance sheet conservatively and intend to continue to do so through this period of volatility

- And as the outlook evolves, we will monitor the development of macro-economic forecasts and will update our allowances based on what we see in the environment and in our portfolios
- Next, let me briefly cover Sustainability on slide 8

Slide 8 – Sustainable Finance strategy well on track

- ESG activity has been muted compared to previous quarters, reflecting several factors
- These included lower overall capital market issuance activity, which also impacted sustainable financing volumes, more muted investment activity against a backdrop of lower asset valuations, and lower levels of sustainability activities as companies simply prioritised their responses to the war in Ukraine
- We believe this is a temporary effect and assume that activity will pick up again
- And nonetheless, we are pleased with the growth rates in all businesses, as you can see on the slide
- After finishing 2021 with cumulative ESG financing and investment volumes of 157 billion euros, excluding DWS, we have now reached a cumulative total of 191 billion euros and we are on track to exceed our 200 billion euro target by the end of this year
- We reaffirm our target to generate at least 500 billion euros cumulatively by the end of 2025, which implies an average rate of at least 100 billion euros in ESG financing and investments per year from 2023 to 2025
- And we are on track to publish 2030 reduction targets for the carbon intensive sectors in our corporate loan portfolios, at our second Sustainability Deep Dive later this year
- We will share further details on our net zero strategy at this event and describe how we are partnering with our clients in their decarbonisation efforts
- Finally, Deutsche Bank will further strengthen its sustainability governance by creating the position of Chief Sustainability Officer with effect from September 1, 2022
- Before I hand over to James, let me summarise our progress this year on slide 9

Slide 9 – Significantly improved performance in challenging market

- Thanks to our transformation, Deutsche Bank is on the right track strategically. Although the market continues to be challenging, our half year results show a substantial improvement in profitability
- We are delivering on our strategy and our businesses saw strong revenue generation leading to material improvements in returns
- So, while we achieved a robust and very satisfactory performance in the first half of the year, we, as everyone else, are confronted with pressures from the extraordinary geopolitical and economic environment
- We will continue to work towards absorbing these shocks and executing on our strategy, towards our stated trajectory
- Our loan book remains resilient, and we continue to have robust risk management
- And we continue to execute on measures to deliver on our return on tangible equity objectives
- And to be clear; our 2025 targets and capital distribution plans remain unchanged
- With that, let me now hand over to James

JAMES VON MOLTKE

Slide 10 – Q2 2022 Group financial highlights

- Thank you Christian
- Let me start with a summary of our financial performance for the quarter, on slide 10
- Total revenues for the Group were 6.6 billion euros, up 7% on the second quarter of 2021, despite negative revenues in C&O
- Noninterest expenses of 4.9 billion euros were down 3% year on year including lower restructuring and severance and lower transformation charges
- Adjusted costs excluding bank levies and transformation charges were up less than 2% year on year, mainly driven by FX movements and modestly higher compensation costs. I will detail these shortly
- Our provision for credit losses was 233 million euros or 19 basis points of average loans for the quarter

- We generated a profit before tax of 1.5 billion euros and a net profit of 1.2 billion euros, an increase of 46% year on year
- Tangible book value per share was 25 euros and 68 cents, up 53 cents on the quarter, and 7% year on year
- The return on tangible equity for the group was 7.9% including an effective tax rate of 22% for the quarter benefitting from a change in the geographic mix of income and as a result reflects higher positive deferred tax valuation adjustments related to our 2022 earnings
- The effective tax rate for the first half of the year was 24%, which is broadly in line with the rate we now expect for the remainder of 2022
- Let's now turn to the Core Bank's performance on slide 11

Slide 11 – Q2 2022 Core Bank financial highlights

- Core Bank revenues were 6.6 billion euros for the quarter, up 6% on the prior year quarter
- Noninterest expenses were down 1% for the quarter and adjusted costs increased 3% year on year
- We reported a profit before tax of 1.7 billion euros, up 21% on the prior year quarter
- Our Core Bank post-tax return on tangible equity for the quarter was 9.5%, ahead of the full year target of above 9%
- And our cost/income ratio came in at 70%, down from 76% in the prior year period

Slide 12 – Net interest margin

- Let me provide some detail on the evolution of our net interest margin on slide 12
- The NIM increase was driven predominantly by short-term US dollar interest rate rises in the first half of 2022, but it was also supported by higher longer-term Euro rates that benefited the deposit books as we roll over hedge portfolios
- The NIM increase was also driven by approximately 6 basis points in positive one-off effects, as it still includes a 2 basis point effect from the minus 1% TLTRO bonus rate

- Normalizing for these one offs, we expect NIM will continue to rise due to the favorable interest rate environment
- Average interest earning assets were up modestly reflecting US dollar strengthening and underlying loan growth, offset by lower average cash balances
- Before we move on to costs, let me briefly comment on our updated NII guidance. We now expect the revenue benefit from the interest rate curve relative to 2021 to be significantly higher than the 2 billion euros we had previously guided for by 2025
- Even accounting for increased issuance costs implied by current spreads, the environment is more favorable than the outlook we shared with you at the March IDD
- Let's now turn to costs on slide 13

Slide 13 – Adjusted costs – Q2 2022 (YoY)

- As we have previously outlined and as Christian said, there are pressures on our cost base
- This has impacted our 2022 cost/income ratio target, as we look to absorb a series of uncontrollable items and preserve necessary investments in controls and information technology
- Turning to the quarter more specifically, adjusted costs excluding transformation charges and bank levies increased by 70 million euros or 2% year on year, but declined by 2% excluding FX effects
- Compensation and benefits costs increased by 155 million euros or 75 million euros excluding FX effects
- On an FX neutral basis, the salary increases were almost entirely offset by lower headcount. Variable compensation accrual increased reflecting business performance, and we incurred about 20 million euros of costs associated with the opening of the Berlin Tech Centre
- IT costs were essentially flat on an FX neutral basis and we saw a reduction in noncompensation costs

Slide 14 – Adjusted costs – H1 2022 (YoY)

- If we look at the half year on slide 14, adjusted costs excluding transformation charges and bank levies decreased by 65 million euros, down 1% compared to the prior year, or 3% excluding FX effects

- All noncompensation categories declined, in line with our expectations, but we saw an increase in compensation and benefit costs of 213 million euros or 83 million excluding FX effects. This reflects higher performance related compensation and the one-off costs associated with the Berlin Tech Centre
- Now, moving to a full year view, let me give you some sense of the drivers that have caused us to change our guidance
- First, as we talked about, bank levies were nearly 180 million euros higher than we expected, contributing approximately 70 basis points to our cost/income ratio
- Second, litigation expenses have risen based on recent events and we now expect them to be at least 100 million euros higher than planned, amounting to an additional 40 basis points
- Third, we expect around 100 million euros, or 40 basis points, for the full year related to our Berlin Tech Centre from staff migration and real estate costs
- Thereafter, there are elements of our cost base which are mostly controllable, where we have had to make management decisions
- In the first quarter, we had already flagged some higher variable costs as a result of good business performance, as well as expenses that relate to better future performance. The good business performance continues despite a somewhat more muted outlook for the second half of the year
- As previously communicated, we made strategic hires to support future growth, in line with the growth plans we presented at the IDD
- Moving to investments, we consistently said that we will not sacrifice on controls, even though the related costs are higher than we expected and add to cost pressures
- In addition, early in the year, we saw the opportunity to invest revenues into efficiency and growth initiatives
- Focus areas of these IT investments are further front to back streamlining in the Investment Bank and Corporate Bank as well as further upgrading our global payments infrastructure
- The front to back initiative will help us further reduce infrastructure cost, and the payments investments will support revenue growth and efficiencies in the Corporate Bank, while delivering an attractive marginal cost/income ratio

- As Christian mentioned, we decided to continue with these investments despite some emerging revenue headwinds which may also weigh on our cost/income ratio this year, as we truly believe these are the right decisions for the bank in the long term

Slide 15 – Provision for credit losses

- Provision for credit losses for the second quarter was 19 basis points of average loans on an annualised basis, or 233 million euros. The sequential decrease was driven by a lower level of new provisions on the Russia portfolio, while the second order effects have not yet materialized
- Stage 1 and 2 provision of 52 million euros, compared to a net release of 36 million euros in the prior year quarter, relate to a deterioration of macroeconomic parameters and a new management overlay to reflect macroeconomic uncertainties. This was partly compensated by otherwise positive portfolio developments, such as changes in the portfolio composition and improved collateralisation
- Stage 3 provision increased to 181 million euros, compared to 111 million euros in the prior year quarter. The increase was driven by a small number of incremental provisions on Russian and Ukrainian names in the Corporate Bank. The Investment Bank had a few new impairments, while the prior year quarter benefited from a large release. Private Bank provisions benefited from a portfolio sale
- Moving to capital on page 16

Slide 16 – Capital ratios

- Our Common Equity Tier 1 ratio ended 14 basis points higher compared to the previous quarter at 13%, in line with our previous full year 2022 guidance
- This ratio increase principally reflects higher CET1 capital from strong organic capital generation net of deductions for dividend and Additional Tier 1 coupon payments and losses in Other Comprehensive Income
- CET1 capital now includes a capital deduction for common share dividends of 450 million euros for 2022
- A 3 basis point drag on our CET1 ratio came from FX translation effects, reflecting the significant euro weakening over the quarter

- Risk weighted assets net of FX were marginally down compared to last quarter
- Market Risk RWA increased, principally from an increase in the quantitative VaR and SvaR multiplier
- This increase was more than offset by a reduction in credit and operational risk RWA
- Our leverage ratio, including ECB cash, was 4.3%, a like-for-like increase of 5 basis points over the quarter
- Higher Tier 1 capital from strong quarterly earnings and the recognition of our 750 million euro AT1 issuance, which settled in early April, added 10 basis points to our ratio
- This was partially offset by a 3 basis point impact from FX translation effects, reflecting the significant Euro weakening in the quarter and 2 basis points from higher leverage exposure, including Core Bank loan growth
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 18

Slide 18 – Corporate Bank

- Corporate Bank revenues in the second quarter were 1.6 billion euros, 26% higher year on year
- Continued revenue growth was driven by improvements in the interest rate environment, loan and deposit growth and higher fee income across all three segments
- The Corporate Bank grew loans to 129 billion euros, up by 4 billion euros compared to the prior quarter and by 12 billion euros compared to the prior year quarter, mainly in Corporate Treasury Services
- Noninterest expenses of 1 billion euros declined by 4% year on year due to noncompensation initiatives and lower nonoperating costs, partly offset by FX movements
- Higher revenues and lower noninterest expenses resulted in positive operating leverage of 30% year on year
- Provision for credit losses increased year on year after a net release in the prior year quarter, reflecting a more challenging macro-economic environment and impacts of the war in Ukraine

- Corporate Bank profit before tax was 534 million euros in the quarter, more than double the prior year quarter, reflecting improvements in our profitability and efficiency
- Return on tangible equity was 13.4% and the cost/income ratio came in at 62%, in line with our commitments presented at the Investor Deep Dive in December 2020
- I will now turn to revenues by business segment in the second quarter on slide 19

Slide 19 – Q2 2022 Corporate Bank revenue performance

- Corporate Treasury Services revenues of 962 million euros increased by 30% year on year driven by strong operating performance, the improving interest rate environment and increased loan and deposit volumes
- Institutional Client Services revenues of 394 million euros rose by 26%, benefitting from the improving interest rate environment and FX movements
- Business Banking revenues of 195 million euros grew by 9% year on year driven by benefits from deposit charging and account repricing
- I'll now turn to the Investment Bank on slide 20

Slide 20 – Investment Bank

- Revenues for the second quarter were higher year on year, both on a reported basis and excluding specific items
- We saw strong revenue growth in Emerging Markets and the macro trading businesses
- This was partially offset by significantly lower revenues in Origination & Advisory and credit trading, with Financing revenues broadly flat
- Noninterest expenses were higher driven by increased litigation costs due to a one-off item related to an industry wide matter, combined with a modest increase of compensation expense and the impact of FX movements
- Our loan balances increased year on year, primarily driven by higher loan originations across the Financing businesses and the impact of the US dollar strengthening. We continue to maintain a well-diversified portfolio across regions and industries

- Leverage exposure was higher, reflecting increased lending commitments and trading activities to support client flows
- The year-on-year increase in risk weighted assets predominantly reflects the impact of FX movements
- Provision for credit losses was 72 million euros, or 30 basis points of average loans
- The year-on-year increase was driven by a small number of impairment events, while the prior year benefited from a larger stage 3 release
- Turning to revenues by segment on slide 21

Slide 21 – Q2 2022 Investment Bank revenue performance

- Revenues in FIC Sales & Trading increased by 32% in the second quarter when compared to the prior year
- Strong performance across Emerging Markets and macro trading businesses was partially offset by significantly lower revenues in credit trading
- Revenues across Rates and Foreign Exchange were significantly higher driven by market activity and client flows, and also benefiting from effective and disciplined risk management
- During the quarter our Foreign Exchange business was ranked Overall FX Market Leader by market share in the 2022 Euromoney FX Survey
- Emerging Markets revenues more than doubled driven by strong performance across the regions
- Financing revenues were essentially flat year on year
- Credit trading revenues were significantly lower driven by materially reduced distressed revenues and a challenging environment
- In Origination & Advisory, reported revenues were down 63% but included commitment markdowns. Excluding the mark downs, revenues declined 38%, as the industry fee pool reduced by approximately 45%
- Debt Origination revenues were 95% lower due to materially reduced Leveraged Debt Capital Markets revenues. This was driven by the impact of commitment markdowns of approximately 150 million euros, in addition to the industry fee pool decline
- Equity Origination revenues were 60% lower, reflecting an industry fee pool reduction of approximately 70% versus the prior year quarter

- Revenues in Advisory increased by 50% driven by market share gains in a reduced feel pool year on year
- Turning to the Private Bank on slide 22

Slide 22 – Private Bank

- Revenues were 2.2 billion euros, up 7% year-on-year, or 4% if adjusted for the net impact of the BGH ruling across the periods and specific items
- Revenue growth was supported by FX movements and valuation impacts and also reflected higher business volumes
- The year-on-year reduction of 16% in noninterest expenses was driven by a 71 million euro litigation provision release related to the BGH ruling, compared to litigation charges of 128 million euros in the prior year quarter, as well as lower restructuring expenses
- Adjusted costs were down 1%. Negative impacts from exchange rate movements and higher compensation costs mostly offset lower internal service cost allocations and incremental savings from transformation initiatives including workforce reductions and branch closures
- As a result, the Private Bank swung from a loss before tax of 15 million euros in the prior year quarter, to a profit of 463 million euros
- In the first half of 2022 the cost/income ratio improved to 75%, compared to 89% in the prior year period and post-tax return on tangible equity rose to 9%
- Assets under Management declined by 20 billion euros in the quarter. A negative impact of 33 billion euros from market movements was partly offset by net inflows of 7 billion euros and beneficial exchange rate movements
- Risk weighted assets increased by 13% reflecting regulatory changes in the prior year and a growing loan book
- Provision for credit losses was 96 million euros or 15 basis points of average loans, down 17% year on year, reflecting releases of credit loss allowances following non-performing loan sales, tight risk discipline and a high-quality loan book
- Turning to revenues by segment on slide 23

Slide 23 – Q2 2022 Private Bank revenue performance

- Revenues in the Private Bank Germany were up 11% or 3% adjusted for the net impact of the BGH ruling across the periods. Valuation adjustments and higher net interest income more than offset lower fee income in a more challenging market environment
- Business volumes grew with net inflows in Assets under Management of 2 billion euros mainly into investment products. In addition, net new client loans were 2 billion euros
- In the International Private Bank, revenues were up 2%, or 6% excluding specific items
- Starting this quarter, we have aligned our revenue disclosure with our client coverage model
- Revenues excluding specific items in Wealth Management & Bank for Entrepreneurs increased by 7% despite a more challenging market environment. The revenue increase was attributable to continued loan growth and higher revenues from deposits, supported by the recent interest rate increases. FX movements also had a positive impact
- Premium Banking revenues were up 3%, mainly reflecting higher net interest income in deposits and volume growth in consumer finance in Italy
- The International Private Bank attracted net inflows in Assets under Management of 5 billion euros in the quarter, driven by 3 billion euros into investment products and 2 billion euros in deposits
- Net new client loans were 2 billion euros, mainly in the Americas and Italy

Slide 24 – Asset Management

- As you will have seen in their results, DWS produced a resilient performance compared to the prior year, despite the continued market turbulence
- My usual reminder: the Asset Management segment on slide 24 includes certain items that are not part of the DWS stand-alone financials
- Revenues grew by 5% versus the prior year. Management fees grew by 6% reflecting consistent net inflows in the prior year and higher valuations in illiquid products. Higher performance fees, combined with

positive impacts from the fair value of guarantees, more than offset lower other revenues

- Noninterest expenses increased 11%, with adjusted costs up 7%
- This reflects higher compensation costs, including hiring and carried interest costs, partly offset by lower deferred compensation costs. Higher noncompensation costs were led by professional service fees and increased marketing, regulatory enforcement matters and other costs as well as further investments into platform transformation
- As a result, the cost/income ratio increased to 67% from 63% last year
- Profit before tax of 170 million euros in the quarter declined by 6% over the same period last year, reflecting the higher expenses
- Assets under management of 833 billion euros have declined by 69 billion euros in the quarter, reflecting the negative impact from market performance and net outflows, partly mitigated by FX translation effects
- Net outflows of 25 billion euros in the quarter, were almost exclusively due to outflows in low margin cash and passive products, partly offset by positive net flows in higher margin products such as active Equity, Multi-Asset and Alternatives. Excluding cash, net flows were largely flat in the period with a positive revenue contribution
- The management fee margin has improved to 28.4 from 28.1 basis points in the prior year period, reflecting outflows in lower-margin and inflows in higher-margin products
- Moving to Corporate & Other on slide 25

Slide 25 – Corporate & Other

- Corporate & Other reported a pre-tax loss of 498 million euros in the second quarter of 2022, compared with a pre-tax loss of 39 million euros in the prior year quarter
- A significant driver of the results in this quarter was valuation and timing impacts of negative 185 million euros, compared to a positive contribution of 83 million euros in the prior year quarter. These were driven by market volatility and interest rates, similar to the first quarter
- Valuation and timing differences arise on derivatives used to hedge the Group's balance sheet. These are accounting impacts, and the valuation losses are expected to be recovered over time as the underlying instruments approach maturity

- In addition, Funding and Liquidity impacts were negative 126 million euros, versus negative 60 million euros in the prior year quarter. These include certain transitional costs relating to the bank's internal funds transfer pricing framework as well as costs linked to legacy activities
- Expenses associated with shareholder activities not allocated to the business divisions, as defined in the OECD Transfer Pricing guidelines, were 120 million euros, broadly flat to the prior year quarter
- We can now turn to the Capital Release Unit on slide 26

Slide 26 – Capital Release Unit

- The Capital Release Unit recorded a loss before tax of 181 million euros in the quarter, an improvement of 76 million euros from the prior year period, making this the lowest quarterly loss since the CRU's inception
- Revenues for the quarter were 7 million euros, an improvement of 31 million euros from the prior year period. This improvement was due to lower de-risking, risk management and funding impacts that more than offset the non-recurrence of the Prime Finance cost recovery in the prior year
- Noninterest expenses declined by 26% year on year, primarily driven by a 38% reduction in adjusted costs, reflecting lower internal service charges and lower compensation costs
- CRU reduced leverage exposure by 42 billion euros year on year driven by the completion of the Prime Finance transfer and continued progress on deleveraging
- CRU reduced Risk Weighted Assets by 7 billion euros year on year driven by lower Operational Risk and de-risking
- In the second quarter, RWAs remained broadly flat as reductions from Operational Risk and other impacts were offset by market risk increases as financial markets became significantly more volatile
- Looking through to the remainder of 2022, we are confident of achieving the full-year target for adjusted costs excluding transformation charges of 800 million euros that we reaffirmed at the Investor Deep Dive in 2022
- We will also aim to drive risk weighted assets and leverage down further opportunistically and expect to record a small negative revenue for the year
- Turning finally to the Group outlook for 2022 on slide 27

Slide 27 – Outlook

- The strong performance in the Core Bank is testament to the quality of our businesses and the strength of the franchise, despite the challenges ahead. Therefore, we can confirm our revenue guidance of 26 to 27 billion euros for 2022
- However, as Christian noted, the current environment and uncertainty are unprecedented and we see pressures, including on expenses and credit costs
- But we remain committed to our cost measures and we will continue to execute on our 2022 plan, as we believe our strategy is the right one for the Group and we are committed to its delivery, as we focus on the long term
- Consistent with our previous guidance, our provision for credit losses remains at around 25 basis points of average loans, including the currently expected impact of the war in Ukraine, slowing growth in our core markets and other dislocations
- We will continue to manage our balance sheet prudently and closely monitor our cost of risk, particularly with regards to a more adverse scenario on the potential disruption of gas supplies to Germany
- And, of course, we have analyzed the impact of potential downside scenarios, but we do not believe these scenarios are present today and based on detailed conversations with our clients, we do not see stress in our portfolios
- We remain confident in our full year CET1 ratio target of greater than 12.5%
- And we are confident we can deliver our 2025 targets and capital distribution path, as many of the management actions we have taken are in support of this trajectory
- With that, let me hand back to Ioana and I look forward to your questions

Question and answer session

Chris Hallam (Goldman Sachs)	Good afternoon, everybody. So, two quick questions. First, on revenues, you've reiterated the 26 to 27 billion euros Group guidance for the year, but I think, before you've mentioned you saw a bias to the high end of that range. Is it fair to say you probably wouldn't see that upper end bias anymore? And perhaps if you could just talk through some of the divisional moving parts, that would be helpful. And then, secondly, Germany is clearly in the eye of the storm, so to speak, when it comes to tail risk on gas, so could you speak to the tangible steps your corporate clients are taking to prepare themselves for an environment, in which gas scarcity becomes a significant constraint on activity? And how would you expect that to feed through to cost of risk?
Christian Sewing	Well, let me take that one, Chris. It's Christian. And thank you for your question. Look, on the revenue side, when we gave the guidance with the bias to the higher end of the range, to be very honest, James and I actually saw a revenue number, which crossed 27 billion euros. And therefore, I would not suggest that you now lower the number to the lower range of 26 to 27 billion euros, because all what we can see from all the four businesses is clearly telling us that we remain in the higher range of the 26 to 27 billion euros. And why do I think that? We have the 14 billion euros, which was a really good result, in the first half-year. Very happy with that. And you have seen that we are getting more and more into the composition of revenues we really would like to see, and that is very strong Corporate Bank and Private Bank. And on both units, I actually see a further trend, which continues the trajectory, which we have seen in Q1 and Q2, i.e. higher revenues going forward. That means, for the Corporate Bank, I think, at least per quarter, 1.5 billion euros. To be honest, again, with the tailwinds we have in interest rates, with everything which we have invested since three years into this

business, and with the client reaction, I see upside to the 1.5 billion euros per quarter.

We see the Private Bank, at least with 2.2 billion euros each quarter. That is for us clearly the trajectory, which we have seen over the last months and weeks, and again, looking into Q3, that is a number, which we are very confident, and that does not take into account any extraordinary items, which we have talked about, and which will come in Q3 or Q4.

Asset Management, I would say, same continuity, with 600 million euros per the quarter.

And I think we have always given you a range for the Investment Bank, which is, in our view, around 2 to 2.5 billion euros. And given the resiliency of that business, this is a number where we can plan this. Even if there are some volatilities in that business, I think, overall, this is a number, which we can plan.

If you put this all together and add it to the 14 billion euros, if you also take the comments from James into account that part of the V&T asymmetries is coming back, of course, there may be also some other volatility, then we clearly see our path to the upper range of 26 to 27 billion euros. And hence, in particular, with the resilience and the strategy we see now coming through in the Private Bank and the Corporate Bank, very confident to be in the upper range there, of the 26 to 27 billion euros.

On your loan list provision, or on your risk question, first of all, I have to say, and obviously being here in Germany and having the possibility to talk to the corporate leaders being on DAX level or the family-owned and midcap clients, the attention to the gas situation is, obviously, very, very high. And what I have seen as preparational work across the industries, on the production side, but also on the financial resilience side, is impressive.

On top of that, we should also bear in mind that there is a great cooperation and coordination work done between the Government and the corporates. So, a lot of programmes are running, what could we do, in case we come to such a downside scenario. But the level of preparedness of the German corporates to think in alternative supplies is pretty high.

And if you talk to the individual corporate leaders, actually, you see a very high level of resilience. And in this regard, again, also taking into account that I think, from all the experience we also had from past situations like the pandemic two years ago, how actively and proactively the Government steps in, you have seen a situation last week where the Government clearly stepped in, I have to say that, while obviously, always analysing scenarios, I cannot see for this year, where we are right now, a scenario where we actually cross through the 1.2 or 1.25 billion euros of loans provisions for this year.

Next to the preparedness of the corporates, next to all the support, which is given by the German Government, obviously, we are also looking into a very healthy corporate portfolio. We are looking into a portfolio with no concentration risk, with a highly diversified portfolio, a high degree of investment rate corporates. And if you really think about the German portfolio, actually the majority of the German portfolio is residential mortgages with moderate LTVs.

So, everything what we can see from the actual development in the portfolio, this is not concerning, and therefore, our base case is clearly in the range, which we have given before. And in this regard, it is good preparedness, a high level of attention on the corporate side, and, in my view, a first-class portfolio on the Deutsche Bank side, and that makes me confident.

Tom Hallett (KBW)

Hi, guys. Thanks for taking my questions. Just following up on the cost of risk, you provided some pretty useful sensitivity to the complete shut-off in Russian gas. Could you just give us a little bit more colour on the timing of any 20-basis point impact over an 18-month period? Would it be front end- or back end-loaded? And could you also just tell us which sort of industries and parts of your corporate book is under most stress under this scenario?

And then, secondly, on the Group targets, you've obviously revised higher the cost/income ratio, but you've managed to also maintain the RoTE target. I guess, if I just take the revenue guidance and the higher end of the cost/income ratio, that naturally implies some pretty hefty increases to costs. So, could you just walk us through what would need to happen to hit the lower or upper bands of that cost/income ratio and how you have confidence in you going into next year and beyond?

And then, given that new guidance, how have you been able to keep the RoTE target unchanged? Thank you.

James von Moltke

Sure. Thanks, Tom, it's James. I'll take both, and Christian may want to add on the gas scenario. So, look, as you saw in our IFRS 9 note, we provided a scenario. We've done, as you can imagine, a lot of work in the past several months looking at the portfolio together with the Risk team. This is really both bottoms up and top down. Bottoms up, meaning, looking at the most exposed industries, and within that, going, if you like, client to client to have deep discussions about their situation, their resilience in the gas shut-off situation. And that's given us some of the confidence that Christian described a moment ago, from a bottoms-up level.

From an industry perspective, as you can imagine, there's a pretty broad list of potentially affected industries, going through chemicals, automotive, other manufacturing, steel, energy and what have you. So, we've been looking at a pretty broad swathe of the portfolio and feel very good about what that's teaching us, from a bottom-up perspective.

Top down, we, of course, stressed the macroeconomic variables, and with that, FLI impact in our ECL model, and we also looked at general downgrades that would both drive the Stage 1 and 2 provisions. We think our variables, the stress that we put on our variables, is reasonably conservative in the scenario conditions, more or less in line with the ECB scenario that was published in June.

Obviously, it's hard to compare scenarios line by line, but we think it's similar in its severity, again, reflected in the MEVs and then the downgrades that we apply.

To your question about timing, so that all gives us about 20 basis points. We think a rough measure would be half/half, so an increment of ten basis points in 2022 and an increment of 10 basis points in 2023. But that's extremely conservative, both from a timing and an amount. The scenario is just that. It's a scenario. We don't see those conditions present today. they would have had to have started, essentially, in July.

Consensus would need to reflect the impact of that, as would the downgrades, in order to produce the Stage 1 and 2 impacts that we're envisaging already in 2022. So, we would think that ten basis points, while a good rough measure, would be already conservative in what we think is a conservative scenario.

As Christian outlined, again, we don't see that today, and in fact, we think the guidance that we've given of 25 basis points is itself prudent, given what we see in the portfolio today. So, short answer, a huge amount of work top down/bottom up. In a scenario condition, you could simplify by saying half/half. But our view is that as every day goes by, the scenario becomes less likely and more of it shifts into 2023.

In terms of Group targets, let me start with the cost/income ratio. We provided a range deliberately. Essentially, you live in a half world of providing absolute cost numbers or a cost/income ratio, but mid to low 70s was chosen deliberately. We're working hard to manage our run rate as flat as we possibly can. We've been talking about that now for several quarters.

In that run rate, we see some pressures, as we've talked about in our prepared remarks, and we also see some

FX impact that's been hitting us to the tune of, call it 50 million euros a quarter, given the development. But we're working hard to keep that run rate in check. So, given the range of revenue outcomes that Christian talked to, and an expense number where our guidance remains, essentially flat to last year, that produces the cost/income ratio range that we talked about.

Now, obviously, in a RoTE number, there are other variables, and we've talked about what's going on in the tax line. Clearly, we had incremented our provisions, although we do see some opportunity there. And we've been working on a series of measures that we think are supportive to the RoTE. So, what we're communicating is management's determination. We're looking at every lever, every measure we can take to deliver on that target. But as you'd expect, we have to strike a more cautious note about the environment that we're operating in. So that's hopefully some colour on how we're thinking about the RoTE targets.

Christian Sewing

I only have to add one more item to the loan loss provision again when it comes to the downside scenario, which I agree is, in my view, a very conservative downside scenario. Look, items like government support packages are not part of that. And again, I think rightfully so, we have to plan a scenario that this is not coming.

But again, looking back at what has happened, also knowing the discussions what's going on and when I believe, again from the experience in the past, they would step in, I can only tell you this is a real conservative scenario.

And I think what James just said is so important. With each day going by the scenario in itself is too conservative, and, by the way, the corporates in Germany use each and every day to prepare themselves better, from a production line, from a redistribution of their supply chains, from a redistribution also of their sourcing, and obviously also financially prepared for that. And hence, again, I really do believe in our base case number.

Adam Terelak (Mediobanca)

Afternoon. Thank you for the questions. One on revenues and one on cost or cost/income. Can we have a bit of an update on net interest income for this year, what sort of tailwinds you expect but also a bit more colour about 2025? I know you said it will increase materially.

And for the NII support for the rest of this year, is that all coming in the second half? So just a bit of colour of what's come and what is to come this year, and what that means for the Corporate Bank and Private Bank revenue trajectory, whether we can actually see NII driving revenues up on a sequential basis through the second half to this year?

And then secondly, on the cost/income guidance, you've mentioned that it's an output from where you're trying to manage costs and where you think revenues might go. Does that mean the top end of the cost/income range implicitly is attached to the bottom end of the revenue range? So you're saying 27 billion euros is more likely on revenues. What is more likely on cost/income? Thank you.

James von Moltke

Yes. So, Adam, that's fair in terms of the second question. That is how we're thinking about it and obviously working to and managing to those outcomes. So "yes" to the second part of the question.

On revenues, look, there is substantial support for our revenues, beginning really in the second quarter. We talked about 700 million euros in 2022 compared to 2021, and that's up from perhaps 400 million euros when the year started. To your point, it is accelerating as the year goes by. We had some in Q2. We perhaps recognised 250 million euros, at most 300 million euros of the 700 million euros, so more to come in the second half.

If I think about 2025 on the same measure, we're cautious about that number just because that forward curve needs to be realised. But that's now in the high twos. There is some offset that we'd expect from, say, issuance cost, credit spreads and that kind of thing, but you can see that the lift even from where we were in March is probably, all in, in about 1 billion euro range, just mathematically net, for 2025. So significant upside from the curve if it's realised.

One thing just in terms of the modelling in Q3, there's a little bit of an impact. As you go from minus 50 basis points to zero, there are some interesting dynamics in how tiering, TLTRO, the front end and the long end of the curve all happen. So it might be a little plateau or less up in Q3, and then a quicker acceleration in Q4, so you might see a bit of a bend in the curve. But significant rate-related upside that we're seeing in the forward.

Adam Terelak (Mediobanca)

But still up for Q3, just a small amount?

James von Moltke

Yes. We gave you some NIM guidance, and there were a couple of unusual items in Q2. There may be a little bit of unusual stuff in Q3. But yes, an expanding NIM, I would expect, in Q3, and then an acceleration in Q4.

Daniele Brupbacher (UBS)

Yes, good afternoon, and thank you. I appreciate again on costs, thanks for the additional disclosure on some of these less well controllable items like billing tax etc. Can you talk a bit about the more controllable management decisions on the cost side? I'd assume it's more like compensation. I think you mentioned that. Can you quantify these for this year?

And rather at the beginning of your prepared remarks, Christian, you mentioned that you might implement additional cost measures. Can you be a bit more specific on that in terms of timing, qualitatively what it is, and probably even a quantification.

And then secondly, the rate sensitivity obviously gets a lot of attention. I think you're also assuming a static balance sheet. How sensitive are these assumptions to changes in the balance sheet? So let's assume people change their behaviour, deposit base goes down 5-6%

or so, how would that impact this sensitivity? Thank you.

James von Moltke

So Daniele, a lot to go through there. Let me start with costs and then hand it off to Christian, and I'll come back on rate sensitivity. Look, I'm looking at a year-on-year schedule of our costs, excluding FX, and every line is either flat or down year on year, with the exceptions that we've called out in perhaps one or two.

So we talked about the Berlin tech centre. That is really the only thing in the salary and benefits line that has moved year on year. We managed to keep it flat. Cash bonuses, we called out, is up a little over 50 million year on year, excluding FX. We have some expenses for third parties, mostly related to anti-financial crime, which we've talked about is our investment. That's an important investment to make. That's a line that's up. And then we have travel and entertainment that's up from an unusually low-level last year.

And so we're demonstrating in both the compensation and the non-compensation lines that control, the focus on execution. We talk about there being pressure. There is pressure, and we can talk about lots of things, including inflation. But as I look at just the year-on-year comparisons across these line items, you see real discipline and control.

Christian Sewing

Yes, Daniele, and to your question to my specific comment, now let me just reemphasise what James is saying. I think our laser focus on cost has not changed, is not changed and will not change. Otherwise, we wouldn't have been able in this situation, after three years of bringing down the costs, to do what we have done now, where revenues actually increased significantly to show exactly what James just said, that in the controllable area, we are in line with our plan. And for most of the items except for compensation, where we have shown, I think, a good performance on the revenue side, we have actually reduced the costs.

But, of course, we are always, and have again kicked off around where can we do more. And this is, on the one hand, that we are substantiating each and every plan that we have given you at the IDD. We have shown you that there is a further cost reduction of 2 billion euros which we also want to use to reinvest into the business. Every part of that is now obviously substantiated with a detailed plan so that our cost efficiency is coming in 2023, 2024 and 2025.

On top of that, we are looking into each and every programme we are running, not in order to stop it, because we also said we are taking a deliberate long-term decision to invest into our business, into our controls, but how we deliver that. That is the part where Rebecca Short, our CTO, is going through each and every project and is actually questioning the number of people who are on, whether we are doing and completing the projects in the most efficient way. And this is exactly what we are doing right now, and I'm absolutely convinced that we will find further efficiencies there.

Then we are also talking, whenever you have done a further restructuring or a restructuring in your head office on infrastructure, whether you can actually with the automation of data, with the automation of processes, do more. That is again another part of our review which we have kicked off and which we are doing now in Q3.

And last but not least, of course, we always have other levers in hand which we think we should not draw for the time being because we believe in the long-term investment of this company, and that was actually the underlying reason why we developed so well over the last three years. But when it comes to situations of investment spend, investment spend is always on the table on a monthly basis. The same is obviously then how we accrue for our compensation.

So I think we have the levers in our hand. But rest assured that continuously we are going through additional measures. And that makes me confident that we are developing to the guidance we have given you in

2022, but also that we are delivering to the target for 2025.

James von Moltke

So Daniele, on the interest rate sensitivity disclosure, I'd just draw your attention to slides 43 and 44 in the appendix of our equity deck. This shift that we're living through is actually fascinating in terms of just the numbers and the models, how they work, because there are so many dynamics around deposit charging, around the Central Bank monetary policy tools and what have you.

As you mentioned, the disclosure we gave and also the response to Adam's question about the upside, that related to the December 2021 static balance sheet. Page 43 gives you an update about rate sensitivity now bringing forward to a May 2022 balance sheet and the June 2022 forward rates. So there's a bit of an update there, and we've given you the curves that we used, on page 44, at each of those disclosure dates. That hopefully is also useful to you. It's an interesting time. We've looked at our plus100 disclosure and there's a lot of confusing elements to it, given those dynamics.

The balance sheet change is an interesting question. You phrased the question in the sense that there's risk in there with a static balance sheet, and that's fair. There's going to be changes in the value of certain products over time in this interest rate cycle as it begins. We also see that as an opportunity. For the past several years, we and banks in general have been attempting to suppress deposit growth. There's an opportunity now to drive more value from the deposit books in a rising rate environment.

Equally, we're looking at the asset side of the balance sheet and looking at the asset types that are most valuable to us from a shareholder value-added perspective. So we think of it as upside in terms of both volume growth and also balance sheet composition, but it's something that we have to work to produce. And we're working with the businesses accordingly, to build some of that into our planning and, if you like, the pricing and the emphasis that we place on different product growth in the different segments.

Nicolas Payen (Kepler Cheuvreux)	Yes, good afternoon. Thanks for taking my question. Can we have an update, please, on the IT merger project in Germany, given the headline on potential delay there? And again, that backdrop, how does it play on the developments of the Private Bank costs from here? Thank you very much.
James von Moltke	Sure, Nicolas, thanks for the question. Look, as we disclosed, there has been a delay in one of the waves of transition, in what we call Project Unity, which is the merger, if you like, of the IT infrastructure supporting our German businesses. And it was the result of a number of factors, including the remediation steps we had to take after the High Court ruling last year to deal with customer consents, both in the execution of that operational transition where we've moved very quickly, I would add, to re-paper our agreements, but actually also in the technology transfer where there are some customer consents that are necessary around that as well. So the decision to delay into 2023 is really a risk-based decision. We do not want to take risk with that transition. We're working incredibly hard on testing and we think it was the right decision. As you'll see in our disclosure, we think that will cause us to incur about 150 million euros more in expense in 2023, essentially as we extend the life of these environments, the test environment and the second environment. But to answer your question, the ultimate destination is unchanged. We start to achieve the reduction in expenses a little bit later in 2023, but the 300 million euros that we called out for 2025 is absolutely unchanged destination.
Kian Abouhossein (JP Morgan)	Yes, thanks for taking my questions. I have two questions. And maybe taking a step back, in the Deep Dive of 2020, you clearly had different revenue and cost guidance. We're now looking at roughly 3 billion more revenues, but also 3 billion more cost. And clearly,

the marginal cost/income is an issue because you're assuming the cost/income is not just flat relative to the old target of around 70%, but actually higher.

So I'm just trying to understand a bit more where these investments are going into and how we should measure a return on investment. Because clearly, your 2025 target, and that's my second question, is 62.5%. Your cost, based on your guidance and revenues of 30 billion euros, the cost would be actually lower than what we're going to achieve this year on a stated basis.

So I'm really trying to understand the deltas on why costs should go in line with revenues, and even higher on a relative basis, and secondly, why we should have confidence that costs on an absolute basis, should be lower with higher revenues in 2025.

James von Moltke

Sure. Kian, I'll start, it's James, and Christian may want to add. Look, it is significant increases in both revenues and expenses since July 2019 and then the two Investor Deep Dives in December 2019 and December 2020. And it reflects, frankly, that we're running a bigger company in revenue terms. And that speaks to the success of the transformation that we've driven, that we're significantly ahead of where we thought we'd be at the time. And naturally, that's come with some higher expenses.

So if I walk you all the way from the 16.7 billion euros adjusted costs excluding transformation charges that we talked about now approaching two years ago in the December 2020 Deep Dive to a number that's essentially flat this year, it's plus or minus 2.5 billion euros that you need to explain.

The first is FX. We talk about that a lot but it impacts both the revenue and the expense line, and in this case, in the expenses, about 600 million euros. And then we've also talked, as you know, at great length about the bank levies and the Single Resolution Fund together with deposit insurance in Germany, and that is about 400 million euros relative to our assumptions in December 2020. So 1 billion euros, if you like, on those two things that are just mechanical or outside of our control.

We would estimate another, call it 400 million euros relative to the then assumptions on bonus and retention, so variable compensation, that also coheres with the revenue picture. As Christian has noted, that still depends on decisions we make for the year and the performance in the back half to the year, but broadly speaking is a driver of this difference.

And then we've invested about 1 billion more than we expected in IT and controls. And that's where you see us really focused on the importance of these investments to the company going forward. And we started talking about this well over a year ago now. It just would be the wrong decision for the future of the franchise to have been reducing those investments more than we have. Now, that has been a surprise to us, how far we needed to go, but we think it's the right investment for the future.

And then plus or minus, we've had some additional savings that we've been able to identify, as you know, and we've invested some of that in business and revenue-oriented investments in the front office. Actually, across a number of businesses, you've heard us talk about that.

So that's a rough picture of the movements. Now, as I say, a lot of it comes with running a bigger company, and then the rest of it is IT and controls that we think are absolutely critical investments for the future.

Christian Sewing

And Kian, thanks for your question, and absolutely thoughtful, but let me also, a little bit, go to page two of our presentation. Because if you see the four businesses and compare that to the targets which we have given out in the IDD in 2020 and in 2019, actually you'll see that on the Investment Bank, on the Private Bank, in Asset Management, we are actually after six months, from a cost/income ratio, there where we wanted to be at the end of the year.

Where we are not yet fully there is in the Corporate Bank. But I deliberately said that I think, after the 26% year-on-year revenue growth, I see a further trajectory in Q3 and Q4, also based on the NIM comments from James, that I do believe we have a very fair chance to also get very close to that.

So what you see is actually what James just said, that the costs which are, so to say, then above the 70% went into investments into controls, into regulatory remediation, which all will also result obviously in further automation. And that is then the next lever which is paying off in 2023, 2024, 2025, that we come to the 62.5%.

You see the businesses are already there with their divisional cost/income ratios, but the investments and the uncontrollable part which falls away, if you just think about the bank levy, stuff like that, for instance, but the other investments will fall away and will give actually further automation. But page two of the presentation is very important, to see we're exactly on the right trajectory to get there where we wanted to be.

Kian Abouhossein (JP Morgan)

That's very helpful. If I may, just one more follow up. Assuming that the revenues don't end up at 30 billion euros but are, let's say, significantly lower than what you're expecting this year, let's say 25 billion euros, how much flexibility are you really having in the cost base?

Christian Sewing

I think we both want to answer that. I understand that's a hypothetical question. I cannot see based on the trajectory of the businesses, the regained market share, the momentum, honestly, the passion in this company, the client feedback we have, I cannot see a scenario that we end up with 25 billion euros.

But if we take that scenario, of course we would react on the compensation side. More than 60% of our costs are, at the end of the day, FTE costs and compensation costs. And you will see then obviously what we, I think, have done quite well with Project Cairo in 2019. Of course, in case our revenues are so far away from what we expected, investments would be cut back, and that is a significant amount.

And at the same time, again, you will see the pay-off of the other investments into our control functions, into the front-to-back processes, which will also reduce the cost line. So I would say then we are in a completely different scenario, which, again, I cannot even see at all. But these two items, Kian, would be immediately prone to be cut back.

James von Moltke

Yes, the only thing I would add is the interest rate environment, as we talked about earlier, is suggesting the opposite, that the direction of travel on revenues is better than we anticipated in March. Now, there's maybe an offset in the near term in terms of volume growth if the economy is weaker than we were then thinking, but that's also going to depend on the length of a downturn and the severity of downturn and how quickly we get back to growth after such a thing. But our starting point is basically 1 billion euros better than we thought in March, which is a lot of room to absorb some volume shortfall relative to our then assumptions.

Kian Abouhossein (JP Morgan)

I think it's just assuming a potential dislocation, let's say, in the fixed income markets, which clearly would impact your revenues. I was thinking more from that perspective, but I hear you on NII gearing upside. Thank you.

Magdalena Stoklosa (Morgan Stanley)

Thank you. Thank you very much and good afternoon. I've got two questions. One is about your lending, and another one, FIC trading. So let's start with the lending side. Could you give us a sense where your recent loan growth, particularly in the Corporate and the Investment Bank, because you've been growing quite nicely quarter on quarter, where is the demand coming from?

Could you give us a sense either by sector or by product? And also, could you give us a sense of what sort of pricing you are commanding more recently and how the front book spreads are looking like literally across the book, if you could? So that's question number one.

And number two. On the FIC trading, from a mix perspective, we have seen, literally year to date, the strength of the macro and FX business at the expense, of course, of the Credit trading. Do you believe that the second half of the year is likely to look similar in terms of just the trend? Thank you.

James von Moltke

Sure. Thanks, Magdalena. James. I'll start again and Christian may add. So lending growth, you've seen, has been actually strong across all three lending businesses, so the Corporate Bank, the Investment Bank and the Private Bank, something we would expect to continue. Certainly those are the trends that we're seeing.

In the Corporate Bank, it's been in really Trade finance, and we expect that to continue. Obviously, that may be affected by macroeconomic conditions, but there's also some drivers in terms of just demand side from corporates, longer supply chains, the need to bring manufacturing onshore, those types of things that have driven demand and we think will continue.

In the Investment Bank in Structured financing, we see real demand. Our Financing business, as you know, has been a leader in this market for a while, and frankly, we see more demand than we really are prepared to fill in terms of our risk appetite, with good front book spread. So we think, right now, that environment is very favourable.

The Private Bank has also been growing, remains a little bit more heavily geared to mortgages than we would perhaps like, but the mortgage spreads have now recovered. You'll recall there was a bit of a lag in the repricing in March through May, but in June, we look to have recovered that. We'd like to see that momentum continued. So still healthy growth in all three, within risk appetite, and with front book spreads frankly still improving.

	In FIC trading, from where we sit right now, we would expect those trends to continue into the second half. So we think the macro environment will drive volatility in the second half. We think that we'll probably see trends emerge as the market takes a view on the direction of economic activity and monetary policy, and we do think credit remains weak for a while.
	That will stabilise or normalise at some point. The credit markets will adjust to the move in spreads. There's a lot of primary market, if you like, buy side demand out there. And so we would expect a normalisation of the credit market, but not clear how long it takes for that to manifest itself.
Magdalena Stoklosa (Morgan Stanley)	So James, can I just confirm that if we're going to see the continuation of the current lending trends, you're kind of going to end up, depending on a division, with loan growth in 2022 either of high single digits or even teens and potentially even higher in the Investment Bank, which you effectively see as properly priced at the moment?
James von Moltke	Yes, I wouldn't say high single digits, low teens. That I doubt, Magdalena. We thought about mid-single digits when we talked in March, and that would probably still be our view. And if there is softness, it would be 4% instead of 5%, is our current view.
Magdalena Stoklosa (Morgan Stanley)	Okay, thank you.
James von Moltke	So yes, we feel good about the lending business.
Amit Goel (Barclays)	Hi, thank you. So just a follow-up question. I just want to check. In the outlook section on the main report, it talks about the Investment Bank revenues being flat year on year, which I guess previously, at Q1, you said higher. And clearly, you have delivered more and you're still talking about the 2 to 2.5 billion euros per quarter. So I just wanted to check if that's an intentional change in tone there. And if so, what's driving it? Especially, I would have thought, the currency effects would've also been helping on that.

James von Moltke	Yes, Amit. So yes, intentional. It really reflects the ongoing softness in Origination & Advisory. So that's continuing, as we see it, in the second half. Our earlier expectations had been for a recovery at some point this year. And also, obviously leveraged debt capital markets is going through a cycle as we speak, and that impacts our view of the second half. Remember that having taken that outlook down a little bit, it still represents something that's essentially flat to last year, a revenue in the, call it, high nines for IB. So it remains a strong performance, but a little bit of softening relative to our views earlier this year, in April.
Christian Sewing	And let me also add, James, last year, we talked about the one specific transaction which obviously some of you called out as an extraordinary one, the Zim, which is not part obviously this year. And in this regard, I would say it's a very strong development of the Investment Bank, and I think this needs to be taken into account when you compare last year and this year.
Amit Goel (Barclays)	Okay, thanks. So you'd be expecting less than 2 billion euros of revenues per quarter for the rest of this year?
James von Moltke	It's in the margin. We have to wait and see, Amit. But yes, it's in the margin of variation, if you like.
Anke Reingen (RBC)	Thank you very much for taking my questions. The first is just looking at the cost, and the 2025 cost path, just looking beyond 2022 and what you previously disclosed on the IDD about your 2025 expectations. I just wondered, given the change in the 2022 starting base, should we be thinking about the moving parts, the path to 2025 being more back-end-loaded, given near-term inflation and investments versus the cost savings coming through? And the 18.5 billion euros and 19 billion euros you put on the sides, is that still an absolute number that we should be focusing on or looking at? Or should the focus really just be on the cost/income ratio of 62.5%? And then secondly, on the gas shut-off, thank you very much for putting a number out there. The 20 basis

points is obviously good news, but seems like a very small impact, and I just wondered if you're willing to share your GDP assumptions to derive the 20 basis points? And I guess 20 basis points is 1 billion euros in absolute charge, so is the focus then more about the potential risk to revenues as consumer and business confidence slows down? And I was wondering if you're happy to share anything you're seeing in terms of the recent momentum indicators obviously were more downbeat in terms of confidence, if you're already seeing this in reduced demand for loans, for example? Thank you very much.

James von Moltke

So, Anke, in terms of the forward to 2025, we haven't done a drains-up re-forecast of the next several years. There's probably going to be more pressure in the early years than we might have liked, we talked about the Project Unity issue in 2023, perhaps the impact of inflation, but as Christian talked about, the structural cost measures that we're executing on are very tangible. We're investing in them and executing as we speak, so we feel very comfortable about the direction of travel there. Much as I said about Project Unity, the destination is the same.

Remember, on the revenue side, we're looking at, I think, on the interest rate side alone, higher revenues, so from cost/income ratio perspective, we see no need to change our views. Higher revenues, particularly given an inflationary or higher-rate environment would of course support higher expenses. But again, it's early to talk about that on a drains-up basis.

Gas shut-off, we have already built in some conservatism in what we took in Q2, relative to the macroeconomic variables that we disclose in our interim report, so our step-off includes a slightly weaker environment, which I think is appropriate to the current view. We then stressed all of our variables by two standard deviations, which we think is appropriately stressful, in particular given that what we've done is taken a stress across all of the variables, whereas in fact most of the stress will be in a handful of the variables that feed into our models.

So we do think it’s appropriately stressful. It’s not easy to translate into a simple GDP number, for the reason that there are so many macroeconomic variables that feed into it, and it’s a global model rather than just Germany. As you say, it’s a very manageable number for us in terms of this downside risk. We were forced to share it given some of the disclosure requirements this quarter, but we felt it was important to share it because there was a whole lot of work that went into trying to assess this, and we think it’s important information for our investors, to share what we think the severity of this scenario is.

Christian Sewing

I think it's a good question on your consumer or also demand side, also from the corporates. What we see, for the time being, and James alluded to that, that actually we have more demand on the lending side than we are filling for the time being, because it's not only the gas situation the German corporates are actually dealing with, they also are reorganising their supply chains. They are looking at how can they hedge themselves according to the volatilities which we see on the right side, on the FX side.

And that's what I meant with the client feedback we have, the interaction we have on the clients in order to manage exactly those volatilities to help them to navigate their supply chains. That is I think our strengths from a product suite, but also from a regional setup, that if there is a German bank which can actually provide the advice on reordering supply chains, it's us. And therefore, the magnitude of issues which are happening and provide certain uncertainties to our clients is actually an enabler for us in the business. And that we see on the private banking side, in particular in the Wealth management Business, but in particular also on the corporate side, asking actively for our advice. So to be honest, a) more loan demand than we fill and b) the other advice activities we're doing is very, very active.

Jeremy Sigee (BNP): Thank you. Two questions, please. First one, very related to the last discussion. Are you seeing any interest from regulators relating to the gas stop scenario, for instance to say, let's take your 20 basis points scenario, and get the banks to provide for it on a precautionary basis so that we've got a strong banking system already provided for that scenario going into it? Did you have any discussions around that?

And then my second question is a more standard regulatory question really, which is just about RWA. Do you see any moving parts in the RWA, particularly in the second half of this year, either from market risk RWA normalising down, giving you some help, or from any sort of inflation elements in RWA?

Christian Sewing: Let me take the first question. And there it's a clear no. I think there is the right level of interest of the regulators exactly to the scenarios we are running. And that is obviously normal. And we are in close dialogue with the regulators, and I think they appreciate our transparency, how we risk-manage our positions and what kind of scenarios we're calculating. But there is no such thing to now book something upfront for a certain scenario.

I also do believe that, when it comes to us, there is good experience with our risk management when it came to previous issues like the pandemic, and hence the transparency we provide, at least at this point in time, I can tell you is sufficient to the regulatory requirements we get.

James von Moltke: And, Jeremy, it's James. On seems on RWA, as you know, whenever the markets get dislocated, as they've done, you see a couple of impacts, market risk RWA tends to go up, as it did for us this quarter, based on both volatility in the metrics and the outlier tests. You also see pressure on capital from additional valuation adjustments from AVAs, which have climbed altogether about 400 million euros this year so far. And then, you see some rating migration impacts that come through, including, in this case, obligors, like any Russian-related credits that go into the calculation. So you do see pressures.

As you saw in COVID, they alleviate over time, but it's hard to judge exactly when, so how much of that capital we get back and how soon is hard to judge. But for now, we're living with what I hope is the high point of the RWA impact of this environment. How much comes back, we'll see. There's some organic growth that we expect in the second half, which we see as being funded from earnings. And then, just to round out the picture, we've talked about reg inflation, always, as time goes by, you have a little bit more visibility. Right now, we'd expect about 10 basis points in the back half of the year on that. And the rest of the model work that we're doing right now appears to us to be 2023 events. So that's kind of how we're looking at the RWA and the capital picture in the back half of the year.

Andrew Coombs (Citi)

Good afternoon. Two questions as well, please. Firstly, I thank you for doing the walk between the cost guidance you gave originally and the cost today. I was wondering if you could do something similar on headcount, please? Because when you originally set the headcount target in 2019, I think it was to fall from 92,000 to 74,000, and you're still at 83,000 today. So interested to know what the delta is. I assume there’s corporate and others that would be interested.

And then the second question, just on net interest income, I believe the guidance that you gave includes the impact of losing material on excess reserves, also includes the step-change in deposit charging, but doesn't include the run-off of the TLTRO. So if you could just confirm that and also the current TLTRO contribution? Thank you.

James von Moltke

So, Andrew, thanks for the questions. On the last question, yes, the disclosure on page 44 now includes TLTRO, and the earlier disclosure in March I think excluded the impact. So a little bit of changes in how we're providing the data but hopefully that clarifies a little bit.

Andrew Coombs (Citi)	And the 2025 guidance, you gave on a cumulative basis, was that including or excluding?
James von Moltke	Well, TLTRO, by 2025, is out anyway, so that's only a factor into 2023 and a little bit of run-off in 2024. So at this point, the numbers I gave you, the 700 million euros, and the high-twos, those are both unaffected by TLTRO. But as I say, I mentioned there are a lot of curious elements that are going on, because you have to trace through not just TLTR but the tiering, deposit charging, and also the impact of our hedging that has brought forward some of the impact of the rising curve in the middle and long end. So lots of dynamics going on, but broadly, it's all beneficial. On the headcount, we talked about this a little bit at the IDD, and the answer is, one, we're running a bigger company, as we talked about earlier, to the walk-on expenses, and I would argue that that represents maybe half of the miss. So we're missing by 9,000 against, currently, the 74,000. And I would put it in two buckets, half running a bigger company, we've had to make investments in controls and IT, that we've talked about, and the other half is that we essentially underestimated the amount of internalisation that we assumed. Since we started this, we've now internalised almost 5,000 positions, and that's why you see a variance between what we might have thought originally was in compensation cost reductions versus non-comp. And that's just been a swing, but I would attribute basically the 9,000 miss if you like, to those two factors. Call it 50-50.
Andrew Lim (Societe Generale)	Hi, good afternoon. Thanks for taking my questions. So back to NII, on slide 44, your forecast, and I guess one observation is that the Fed Reserve curve, the peak there is higher, but thereafter the market is factoring cuts in 2023 onwards. And I was wondering how that translates into your NII expectations. So does that mean that your NII will peak at an early rate and then start maybe coming down in terms of margin

compression, as the Fed funds rate comes down?

And then secondly, a question on the scenario of Russia cutting off gas for Germany, it is helpful that you've given loan loss rate guidance there, but I was thinking more holistically, what would happen to your RoTE? Have you stressed what would happen to loan growth and revenues and how sticky costs would be? And how should we think about that scenario for your return on tangible net asset value, if that transpires?

James von Moltke

So, Andrew, on the second one, no, we haven't looked. There's been a lot going on this quarter, so I couldn't tell you all of the impacts of that scenario, we've been very focused on managing the risk side of it over the past little while. So we'll have to come back to you in time on that question. On the first, it's an interesting dynamic. One thing that we talked a lot about, back in March, is our exposure is to the short dollar and the long euro in principle, so what you'd see in the scenario question that you outlined is, yes, we get a lift in the early stages of this cycle from the dollar, and then as that perhaps begins to wane, although not by much, if you look at the curve on page 44, you would see, I think, the euro benefits beginning to kick through. So that's how we would look at the dynamic here.

You can see that a little bit on page 43 as well in the 25 basis point versus the forward curve sensitivity that we show there. And you can see that there’s almost no euro sensitivity in the early days, but a lot out the back-end. And the opposite is true, the US dollar is marginal and doesn't move much between 2022 and 2025.

Ioana Patriniche

Thank you for joining us for our second quarter 2022 results call and for your questions. Please don't hesitate to reach out to the Investor Relations team with any follow-ups, as usual. And with that, we look forward to speaking to you at our third quarter results in October. Thank you.

Dislaimer

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