Deutsche Bank AG

Deutsche Bank Q1 2021 Fixed Income Conference Call

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Transcript

Speakers
James von Moltke, Chief Financial Officer
Dixit Joshi, Group Treasurer
Philip Teuchner, Investor Relations

Philip Teuchner

Thank you, Emma. Good afternoon or good morning and thank you all for joining us today. We have made a change to the sequence of the Fixed Income call in this quarter. Our Group Treasurer, Dixit Joshi, will lead you through the prepared remarks, including a short summary of our quarterly results, before moving to the expanded Treasury section. For the subsequent Q&A, we continue having our CFO, James von Moltke, with us to cover your questions, together with Dixit.

The slides that accompany the topics are available for download from our website at db.com. Before we get started, I just want to remind you that the presentation may contain forward-looking statements which may not develop as we currently expect. Therefore, please take note of the precautionary warning at the end of our materials. With that, let me hand over to Dixit.

Dixit Joshi

Thank you, Philip, and welcome from me. We have continued to deliver against our transformation milestones. We are on or ahead of our expected timeline on all key measures. We said at the investor deep dive in December, we would focus on delivering sustainable profitability. With revenue growth in the quarter, up 14%, to €7.2 billion, we demonstrated what this franchise is capable of. We generated €1.6 billion of pre-tax profit and €1.0 billion of profit after tax. That’s our best quarter in seven years, despite our now smaller footprint.

The progress that we have made has increasingly won recognition in the financial markets and we are pleased with the outlook revisions of three ratings agencies over the last months. We remain disciplined on capital, risk and balance sheet management, and we successfully navigated several market events during the quarter. And, we were active in the capital markets in the first quarter, with €7.5 billion of issuance, leaving us well-positioned as we look to our funding plan for the rest of the year.

Moving now to slide three which summarises the different outlook revisions of our credit ratings over the last months. It was gratifying to see key stakeholders recognising our progress. In the first quarter, both Fitch and S&P revised their outlook on ratings from negative to positive. This follows a revision to stable from Moody’s, back in November last year. All agencies acknowledge the solid execution related to our transformation agenda, evidenced by strong revenue generation and overall financial performance. We will continue to actively engage with the ratings agencies throughout the year as improving our ratings remains a key management focus.

Let us look at a summary of our financial performance for the quarter compared to the prior year on slide four. We generated a profit before tax of €1.6 billion or €1.8 billion on an adjusted basis. Total revenues for the group were €7.2 billion, up 14% versus the first quarter 2020, and 33% versus the prior quarter. Non-interest expenses were down 1% year-on-year.

As we indicated in mid-March, in line with the latest guidance from the Single Resolution Board, the Single Resolution Fund is expected to be expanded to over €70 billion and our estimated assessment has been adjusted accordingly to approximately €600 million.

We also saw an unexpected market event, which led to an additional contribution of €28 million to the Germany statutory deposit guarantee scheme in the quarter. Our provision for credit losses decreased to €69 million or six basis points of loans. Risks remain in the environment but we expect full-year provisions to be substantially below last year.

Our improved results are supported by growing revenues and our refocused business model, as you can see on slide five. We have grown revenues in our Core Bank by 12% this quarter to €7.1 billion, excluding specific items. This growth has principally come from Investment Bank, which has delivered strong performance in both fixed income and currencies, particularly in credit and origination and advisory.

Our Corporate Bank and Private Bank successfully offset headwinds, with a combination of deposit repricing and volume growth, and we see rising momentum in these businesses. Asset Management delivered revenue growth, boosted by transaction and performance fees. Over the last 12 months, that takes our Core Bank revenues to €25 billion, a 7% increase from the previous 12-month period, ahead of our 2022 ambitions. In summary, all our core businesses have proven the strength of their franchises, putting our 2022 objectives well within reach.

Let us now look at how this translates into higher profitability on slide six. Our relentless focus on delivering on our transformation agenda is reaching the bottom line. We have seen a 75% year-on-year increase in our adjusted profit before tax in the Core Bank for the last 12 months to the first quarter and all four core business contributed.

At the same time, we continued to de-risk in the Capital Release Unit, which nearly halved its pre-tax loss compared to the first quarter of last year. Since we started our transformation strategy seven quarters ago we have substantially reduced the Capital Release Unit's losses. We remain committed to minimising the P&L impact of de-risking efforts by the unit and to our cost reduction plans.

Let us know turn to risk management on slide seven. Strong risk discipline is a central pillar of our strategy across credit, market, liquidity and non-financial risks. Provision for credit losses were €69 million this quarter or six basis points of average loans on an annualised basis, principally due to the improved macroeconomic environment.

We continue to manage a high-quality and well-diversified loan book, with strong underwriting standards, a robust and proactive risk management framework, as well as dynamic collateral management. We've also remained vigilant on concentration risk, strict on risk appetite parameters and proactive in risk identification and management.

Our market risk management benefits from a dynamic hedging framework with daily stress testing and monitoring. Our comprehensive non-financial risk controls contribute to robust crisis management practices. These capabilities have not only helped us achieve consistently contained credit and market risk losses, but have also helped us avoid negative impacts from external events such as the ones we saw in the quarter. We continue to strengthen our non-financial risk management, tightening our control environment and continuing to work on strengthening our anti-financial crime capabilities.

Now, let us turn to the balance sheet. Slide eight shows a summary of our net balance sheet, which excludes derivative netting agreements, cash collateral, as well as pending settlements. We have made significant progress on our balance sheet transformation over the years.

Since the first quarter of 2019, shortly before we announced our strategy update, we have reduced net assets by around €75 billion, as reductions in trading assets and liquidity reserves have been partially offset by growth in our loan portfolios. We have reduced trading assets by around €90 billion, primarily reflecting our decision to exit equity sales and trading.

Trading assets now primarily consist of government bonds and short-term secured financing assets in our repo book. At the same time, we have grown our loans at amortised cost by €25 billion. Loans now account for 45% of our net balance sheet, with around half in Germany, primarily low-risk mortgages. Liquidity reserves continue to account for about a quarter of the net balance sheet.

We have also improved the quality of our liabilities and funding base. While deposits remain flat, we have optimised the quality of our deposit base as we reduced the reliance on short-term wholesale funding and increased more stable retail and corporate deposits. Low cost deposits continue being our main funding source, now contributing almost 60% to our funding sources. At the same time, our loan-to-deposit ratio of 76% provides sufficient room to prudently grow loan balances in coming periods.

Slide nine provides further details on the developments in our loan and deposit books over the quarter. On an FX adjusted basis, total loan growth in the quarter has been €4.0 billon, predominantly in our Private Bank, where we have seen continued strong growth in mortgage and collateralised lending.

While we continue seeing repayments of credit facilities in our Corporate Bank, Trade Finance is benefitting from the reopening of the global economy. In the Investment Bank, quarterly loan development has been flat, as the business continues targeted resource deployment while keeping overall risk appetite under control. For the rest of this year, we expect the overall positive trend to continue as our portfolio of credit facilities has, by now, reached a normalised pre-COVID level, while we see good demand across our client segments.

Looking at deposits, we continue seeing high savings rates across many European countries, resulting in €4.0 billion FX adjusted growth in the Private Bank. In our Corporate Bank, we have seen temporary inflows in Trust & Agency Services and some growth in cash management deposits that were subject to charging. For the rest of the year, we expect total deposits to moderately reduce from current elevated levels as we continue implementing charging agreements.

Slide ten shows the substantial progress that we have made in passing through negative interest rates to our Corporate and Private Bank customers. At the end of the first quarter, we had charging agreements in place on a total of €95 billion of deposits, generating quarterly revenues of €80 million.

At this current run rate we are already achieving our charging-related 2022 revenue target as we communicated at our December investor deep dive. This positive revenue development is predominantly driven by significantly lower than expected deposit outflows as competitors take similar measures against the backdrop of continued negative euro interest rates.

As you can see in the graph, we have already made significant progress in our Corporate Bank where charging agreements are in place for approximately two-thirds of our euro current account portfolio. We will now generate additional revenues by focusing on smaller client segments with currently lower coverage, as well as by reviewing already granted thresholds for our existing agreements.

In the Private Bank our key priority remains to actively engage with our customers and advise them on liquidity solutions and alternative investment products. Deposit charging above €100,000 is already in place for new accounts. Until the end of the year we will look to find individual solutions also for existing accounts across the German and international franchise.

Moving to slide 11, which highlights the development of our key liquidity metrics. Our liquidity reserves remain at €243 billion, with the majority held in cash and cash equivalents. The cash component of the liquidity reserves temporarily increased as we were reducing the securities portfolio.

The prudent deployment of cash into high-quality securities remains a focus for us, reflecting our commitment to further improve the composition of our liquidity reserves. In the first quarter, liquidity reserves were broadly flat, as deposit increases from the Private Bank and Corporate Bank were deployed into loan growth of €9 billion, primarily in the Private Bank.

Our liquidity coverage ratio at 146% continued to comfortably exceed minimum regulatory requirements. As we move forward with our transformation agenda, we are well-positioned to support business growth and lending as demand is picking up. Therefore, over time, we continue to manage our liquidity closer towards our targeted levels.

Turning to capital on slide 12. Our CET1 ratio rose to 13.7% during the quarter, benefitting from our strong first quarter net income. This effect was offset by dividend and AT1 accruals, equity compensation effects and higher regulatory prudent valuation deductions.

Risk-weighted assets rose from €329 billion to €330 billion during the quarter but were €3 billion down, excluding FX effects. Notably, additional hedging led to lower market risk RWA, and operational risk RWA benefitted from further improvements in the internal loss profile.

These reductions outweighed higher credit risk RWA, including a €4 billion impact for large corporates following the receipt of a final TRIM decision from the ECB. Further, risk-weighted asset increases from regulatory and supervisory changes are expected to negatively impact the CET1 ratio by approximately 80 basis points in the upcoming quarter.

Here, we see three main drivers. First, we expect the ECB to conclude its targeted review of internal models by issuing final decisions regarding leveraged lending and for banks and financial institutions. Second, we're expecting final ECB clearance of our implementation of the EBA guideline on definition of default. And, third, we will implement revised RWA calculations in response to CCR2 becoming effective end of the second quarter 2021, for example, in relation to the standardised approach for counterparty credit risk.

With our CET1 ratio of 13.7% at the end of the first quarter we have a buffer of 330 basis points over our CET1 ratio requirement as shown on slide 13. Principally due to our successful January 2021 Tier 2 issuance, the distance to the binding total capital MDA level increased quarter-on-quarter by 39 basis points. Hence, we remain in a comfortable position to absorb the upcoming RWA inflation that has been previously outlined.

Moving to slide 14. Our fully-loaded leverage ratio decreased by eight basis points to 4.6% this quarter. Of this decrease, four basis points came from FX translation effects, three basis points from increased trading volumes and net loan growth, and one basis point from negative capital effects. Our pro forma leverage ratio, including ECB cash balances, was 4.2%. In the second quarter of 2021, we expect an increase in leverage exposure of roughly €20 billion from the introduction of the standardised approach for counterparty credit risk as part of CRR2.

We continue to operate with a significant loss-absorbing capacity, well above our requirements, as shown on slide 15. At the end of the first quarter, our loss-absorbing capacity was €20 billion above the minimum requirement for eligible liabilities or MREL, our most biding constraint.

The head room is higher than originally expected, as the Single Resolution Board has decided on 22nd March to continue with the MREL recognition of bonds issued under English law in contrast to prior guidance. We expect our MREL buffer to reduce later this year when the new MREL requirement and the expected RW inflation become effective, but we will continue to conservatively manage our buffer.

Even after accounting for the expected requirements change and regulatory inflation in the second quarter, a remaining MREL buffer of €5-10 billion would allow us to completely stop issuing new senior non-preferred and senior preferred instruments for up to one year or, alternatively, allow us to absorb a further unexpected RWA increase of almost €30 billion.

Moving now to our issuance plan on slide 16. As you can see in the issuance and redemption summary of 2019 and 2020, we continue to decrease our reliance on capital markets funding, including senior non-preferred, as we continue to restructure the balance sheet and optimise our funding sources.

Quarter-on-quarter, our senior non-preferred debt has tightened by around 20 basis points in euros and US dollars, outperforming our peers by roughly 25 basis points on average. We used this positive sentiment to issue at favourable spreads, contributing positively to our financial goals through lower funding costs.

In the first quarter, we issued a total of €7.5 billion, mainly driven by six benchmark transactions in three currencies. This enabled us to complete 50% of the lower end of our full-year issuance target, which we now view as a likely requirement for 2021. Earlier this month, Moody's has released the Request for Comment on the updated LGF methodology. We expect the changes, which are in line with our initial assessment, to be implemented in the third quarter of this year. This means that we do not expect any impact on issuance plan for this year as a result of the Moody's LGF metric.

In March, we raised a further €3.3 billion of funding from the ECB's TLTRO III programme, taking our total participation to around €41 billion. We confirm that we have achieved the benchmark growth of the programme's observation period ending on 31st March, which guarantees the programme's most favourable terms between June last year and this year.

While monitoring the next growth observation period from October 2020 to December 2021 closely, we will use the residual TLTRO participation windows to optimise our total take-up and repayment schedule. Given the advantage of central bank funding, it is likely that we will not issue the €3-5 billion covered bond issuances planned for 2021. As mentioned earlier, we would guide you to the lower end of the 2021 issuance plan as a likely requirement for the full year based on current assumptions.

Turning to slide 17, you can see highlights from a select number of transactions in the quarter. Across all issuances, we saw strong and diversified investor demand. On average, our 2021 benchmark order books were three times oversubscribed and pricing continues to improve versus our peer group.

In addition to successfully executing on our issuance plan, we were also able to make a vital contribution to Deutsche Bank's sustainability and diversity agenda. We launched our second green bond, which is also our inaugural senior preferred benchmark issue in US dollars, and we adopted a new syndicate structure for our most recent US dollar senior non-preferred issue.

For the first time, 11 additional underwriters, owned and led by diverse management teams, joined Deutsche Bank Securities to underwrite this offering. The group of underwriters were selected to represent diverse missions including certified service disabled veteran-owned, African American-owned and women-owned firms. This is an important step towards creating a more diverse and inclusive financial industry and we will continue on this path.

In conclusion, on slide 18, our balance sheet remains low-risk and well-funded by highly stable sources, as we look to our 2022 targets. On revenues, the improved trajectory in the Core Bank shows that we are operating at a level that puts our goals well within reach and we see continued momentum in our client franchise. We are actively managing our cost/income ratio to our 2022 target of 70%.

The ratings agencies have begun to acknowledge our transformation progress via positive outlook revisions and we continue to constructively engage with them, as this remains a key priority. We have been, and will continue to be, diligent on risk management. Our guidance for provision for credit losses is in a range of around 25 basis points of loans for the full year 2021.

We expect to prudently manage down our excess liquidity towards our target levels over time but, given the attractive TLTRO conditions, we are under no time pressure to do so. As a result, we remain committed to our 8% group post-tax return on tangible equity target and our profit trajectory leaves us well-positioned to achieve this. With that, let us move on to your questions.

Daniel David (Autonomous)

Hi, all. Thanks for the call and taking my questions. I just briefly wanted to touch upon Moody's Request for Comment and methodology. I'm just wondering if you could provide a few more details on the impacts you expect and specifically focused on your senior non-preferred rating?

The second question would be on your call strategy for your outstanding legacy bonds in light of the recent call of the Capital Finance Trust security. Just a few more details on that would be great. Thanks.

Dixit Joshi	Daniel, hi. Good to have you on the call. Let me take both of those. On the first one, regarding Moody's LGF, there were six changes that were proposed as part of the ratings methodology of which we think two apply to us. The first is the threshold to achieve a one notch rating uplift in the senior non-preferred. That threshold gets lowered from 12% to 10%, that's of tangible banking assets. The second is this benefit will be partially offset as the methodology now re-includes some legal entity balances into the tangible banking asset calculation which had been previously removed. We've looked at the methodology. We've been engaged with Moody's. It is our expectation that we will not see any change to our issuance plan, as we'd already made an assumption for 2021 in that respect. So, I hope that's helpful. On the second, regarding the call decision, we've announced the call on 20th April, which is effective on 27th June. This was the legacy Tier 2 capital instrument, which loses its capital recognition at the end of this year and that's primary because it's an SPB structure. We've factored that in to our capital plan. It becomes extensive funding from next year. So, as we've indicated before on these calls, we will make an economic decision around this considering the benefits the structure brings, the roll off profile and regulatory treatment and that was driving the decision to call.
Daniel David	Thanks. Just on that second part, is there anything further to add on the other securities that you've got outstanding? Can we read anything into that?
Dixit Joshi	To the extent that they qualify for regulatory capital, naturally we'd be keeping a close eye, then, on the funding cross and the roll off profile. As always, what you'd expect us to do is, again, look at the economics at the time of call and look at the replacement value or replacement cost for those instruments and then make a call at that point.
Daniel David	Great. Thanks a lot.
Lee Street (Citigroup)	Hello. Thanks for taking my questions. First up, well done on a really good set of results for the first quarter. Just three from me. Firstly, looking ahead, could you see foresee a scenario where you could consider yourselves engaged in any things like significant M&A transactions within the next two years? Is that something that could even be foreseen? Secondly, obviously you've had quite an ongoing decline in leverage assets over the last few years, naturally, as the balance sheet has shrunk. Obviously, now, you've got a lot of TLTRO but

then that may roll off. I suppose my question is, over the medium-term, what should be the general trend for leverage assets from the current level? Are we slightly higher, slightly lower? Any thoughts there.

And, sorry, just to clarify on that Moody's LGF comment in response to the last question. I understand you saying you'd already factored it into your plans but we shouldn't be expecting any rating changes either way as a consequence of the Moody's proposal that they've come out with, just to clarify. Those would be my three questions. Thank you.

James von Moltke — Lee, it's James. I'll take the first and ask Dixit to answer the second two. We've been, I think, reasonably consistent in our statements about M&A, which is, firstly, that we do think there is industrial logic to consolidation in Europe but that, secondly, our goal was to execute on our transformation strategy so as to put the company in a better position to be able to engage in that process both from a financial and strategic point of view and also, by the way, in terms of having our internal operations in the right place.

So, we continue to execute on that path. I can't say when opportunities will arise that make sense or when we'll be ready but our general view is that we will and at a point in time we expect to participate in consolidation in the European banking industry.

Dixit Joshi — Lee, hi. This is Dixit here on the second and the third. On the second, regarding leverage assets, we'll continue to target the 4.5% leverage ratio, which is important. We've seen leverage trend slightly lower through the course of this year and partly that was a result of the transaction with BNP Paribas concerning the prime brokerage business. We'll continue to drive loan growth, as you've been seeing, but again all within the context a target of a 4.5% leverage ratio.

On the LGF front, no, we're not expecting a rating impact at the group level, though I'd reiterate what we've said previously on the call, is that we do think our ratings overall are lagging versus the enormous work that we've done on our balance sheet and the efforts to de-risk the bank to ensure that we have strong buffers and adequate liquidity at all points. So, naturally we'd be hopeful that there would be more positive action on the rating front over time as we continue executing on our strategy.

Lee Street — That is all very helpful and very clear. Thank you very much.

Dixit Joshi — Thanks, Lee.

Paul Fenner-Leitao (Societe Generale)

Hi. Good afternoon, guys. Thank you for taking my call. A couple of my questions have already been answered but one hasn't. On supply, you've got maybe another €10 billion to do for the remainder of the year. I didn't quite get what is that you said about MREL supply at the backend of the year. Maybe, if you could just clarify that but also tell us whether you intend to do another hybrid instrument. I had a sense that you might do one Tier 2, which you've already done, plus another AT1, given how much tighter your spreads are now. I'd love to get a sense of what you're thinking in terms of sub as well as NPS. Thank you.

Dixit Joshi

Sure, Paul. Hi. It is not so much €10 billion to do. As I've mentioned, we've done €7.5 billion of issuance already, year to date, and looking at our trajectory for the rest of the year, the prevalence of TLTRO funding, which has been quite attractive, we think we'll come in at the lower end of the €15-20 billion issuance range that we've put out there. Where we're likely to see the impact is not having a need to do covered bond issuance, for example, through the course of this year. Certainly, don't expect as much as €10 billion through the end of this year.

In terms of MREL, as you've seen, we had net negative issuance through the course of this year and that's been quite intentional. We've been managing down the capital markets stack. We've reduced our dependency on the capital markets through the years. Our reliance on deposit funding is much greater, at more than 60% of all of our funding sources. We've also had de minimis reliance on wholesale markets, as well. So, that's been a deliberate strategy over the years to reduce reliance on wholesale funding, as well as reduce our capital market issuance, as well.

On the last point, as always, we would earmark and outline best efforts, what we think we'll need to issue through the course of this year. We've outlined €2-3 billion of capital markets issuance for 2021. We've done €1.25 billion with the Tier 2 issuance in the first quarter. We're managing towards our 4.5% leverage ratio. Depending on market conditions, which we track very closely, we would see windows during which to issue a combination of Tier 1 and Tier 2 instruments. Again, we have optionality around those decisions and it will be driven partly by market conditions at the time. So, we're watching the markets very closely.

Robert Smalley (UBS)

Hi. Good morning and thanks for doing this call. First, just to follow-up on Paul's point on potential issues, particularly in AT1. Given where you are from a regulatory point of view, would you look to do AT1s? Would it be to optimise the P2R composition or is there something else that would drive that? That's my first question.

Second, going into the financial data supplement on page 14 on asset quality, when I look at Stage 1, 2 or 3 loans, Stage 3 seems to have been pretty consistent for the last couple of quarters. Could you talk a little bit about that, how you think that is going to break with an improving economic environment? How much of that idiosyncratic versus troubled or identified industries? Any other colour around that would be greatly appreciated. Thanks.

Dixit Joshi

Robert, hi, and thank you for joining us, as always. On the AT1 front, it would be looking at the derecognition of any remaining legacy instruments that we have, derecognition from January '22, so that would be a consideration for any issuance. AT1, of course, it serves multiple purposes including allowing us to continue to meet our leverage targets and allow for business growth in that respect, as well. So, AT1 would be one of the criteria. Tier 1 leverage would the other, as well. I hope that is helpful.

Robert Smalley

Yes.

James von Moltke

Rob, on the Stage 3, we've seen a fair amount of stability, as you can see, over the last four quarters there and I think that's encouraging, given the nature of the credit cycle that we went through. It's always hard to say whether that will continue to plateau or stabilise around this level and when it comes down but, in general, our perspective has been that the severity of the credit cycle has been surprisingly benign given what we've lived through and the first quarter Stage 3 numbers were quite encouraging to us.

There was a little bit of a net release on some names and a smaller level of new credit determining events. If that were to continue for the balance of the year then, yes, I would expect the Stage 3 to begin to come down. There are portfolios that we're watching carefully, so I don't think we're yet completely out of the woods on the COVID-related credit cycle. I would highlight commercial real estate and aviation as sectors that we're watching carefully. Obviously, we need to continue being vigilant in our retail portfolios but, by and large, as you've heard us comment on, we're quite constructive about the credit outlook, given what we've seen so far in this very unusual cycle.

Robert Smalley

If I could just follow-up. It is an unusual cycle where we've had a huge downturn and rebound in GDP and employment but credit quality, in a lot of ways, has stayed stable. What does this do for your modelling going forward and your model-driven provisioning and how do you adjust for that?

James von Moltke	Well, that's what we talked about last year. We did adjust. So, two parts to the answer. In respect of last year's overlay decisions, we felt good about the approach and, in a sense, we did adjust our models through those overlays, reducing the pro-cyclicality in an appropriate way. Going forward, your question is an interesting one. Are the models well-calibrated to predict the outcome of unusual cycles like a share V shape that we saw last year? And, they're not. So, of course, as in any market event, we've spent time looking at models, back-testing our models, figuring out what methodology adjustments there might be to accurately capture a forward-looking view. I'm not sure what that's going to leave us with in terms of changes to the models but, in fairness, a shape of recession like the one we lived in in the last 12 months you'd expect to be quite unusual.
Robert Smalley	Yes, totally agree. Thanks for that and a lot of what you've said over the past 12 months has been borne out, so greatly appreciate your comments.
James von Moltke	Thanks, Rob. Appreciate it.
James Hyde (PGIM Fixed Income)	Hi, James. Hi, Dixit. James, I'm going to the forward the discussion we've had every quarter about the provisions but this time Robert's question has answered 80% of what I wanted. I just wanted to clarify. There was a question about this on the main call by Stuart Graham, I think, and this the table on page 31 of the report regarding the moratoria which shows a figure of €8.3 billion in one category, €8.2 billion in another, and then the government support measures. Now, first of all, does this correspond to the thing that peaked at about €32 billion, at one stage? I just want to understand that. Then, there is this text that is a bit confusing saying only €1.2 billion of moratoria are still active. Can you tell us what is really going on there? Can you compare whether that €32 billion peak that you once gave moved to, just to understand how much through the cycle we're going? Then, another question, given your strength, focus on commercial real estate, I understand about the sectors you're watching and you should know about airlines maybe reasonably soon, but will you have to keep some generic Stage 2-type provisions for a long time for CRE given that behavioural change is clearly going to take place? It's almost another part of Robert's question. Are you going to have to keep a higher level of Stage 2 for a long time? That's it, thanks. Sorry, a bit long-winded.
James von Moltke	Sure. No worries, James. I don't actually recognise the €32 billion number that you're referring to, so we may have to take

that offline to make sure we align. I believe the disclosure on page 31 relates to the current balances associated with moratoria, whether they are today active or were once active.

To the point about where do we see this going, we haven't, to date, seen significant cliff effects upon the expiry of moratoria, which I think is the question people are after. In the ones that have expired so far and in some cases even gone to voluntary and then the voluntary has expired, we haven't seen a dramatic deterioration in the portfolio performance.

We've also talked about forbearance on specific loans and that has included the commercial real estate sector. Our experience in those forbearances has been quite good. Some have extended forbearance periods which, of course, is not an unusual experience but we've also seen benefits from forbearance as you've seen projects or obligors recover and benefit from the forbearance actions that we took.

If I boil that all down, we continue to be quite comfortable with those, again I'll call them cliff edge risks in the portfolio and I'm not seeing adverse outcomes upon normalisation of credit extension conditions.

James Hyde

Thank you very much. Maybe I'll correspond with Philip on the €30 billion'ish number and what that compares to. Thanks a lot.

James von Moltke

Yes, if you could that would be great. Then, on airlines, by the way, on Stage 2. Yes, it is entirely possible and to be expected that there may be a more extended period of certain obligors in Stage 2 before full recovery and, hopefully, the migration begins to turn in the coming quarters.

James Hyde

Great. Thank you very much. Thanks.

Jakub Lichwa (Goldman Sachs)

Hi, there. Thanks for having the call. As always, very helpful. One question, actually, just going back to those unfortunately legacy instruments. The paper from EBA has come out, obviously, almost half a year ago. You must have cleared with the regulator whether these are causing infection risk or not. Are you able to share with us the outcome of that conversation today?

Another thing, just a little bit more going back to the performance, well done, first of all, but then you guys are right now a little bit higher than probably where you wanted to be with respect to the share of the Investment Bank as a proportion of your revenues. I think a few years back, you were looking at about 30%. You're now a bit over 40%. I guess it is a question a little bit more for rating agencies, but when you're speaking with them do you think you are actually hitting on those points that they expect to you. I are on positive outlook from Fitch and S&P, so I'm just thinking what is the possibility there of moving a notch higher, getting your Tier 2 into IG category? These would be my two questions. Thank you.

Dixit Joshi: Jakub, I'll take the first and the last. On infection risk, not so much a direct need for engagement on a bilateral basis. It's a function of the transposition into German law of the BRRD, which for us removes any potential infection risk for these legacy instruments. So, I think that's fairly clear.

James von Moltke: On business mix, it is interesting. What we think we were able to demonstrate this past quarter was the type of development that we have been expecting in the Private Bank and the Corporate Bank and also in Asset Management, where an ongoing improvement in those businesses' profitability and particularly in Private Bank and Corporate Bank, moving to a point where they can grow revenues while continuing to have discipline on expenses just, over time, improves the business mix for the firm.

So, to your point, revenues at the Investment Bank today represents about 40%. Would it be natural, as we've call for, for it to climb closer to 35%? Sure. And, that would be welcome, in a sense. We don't mind outperformance in the Investment Bank from time to time in positive market conditions, such as we saw in Q1 but we have been building the firm towards this broader, perhaps more balanced mix and we think we're making good progress in that direction.

Dixit Joshi: On the question of rating upgrade, we've said this a few times and do feel this way, that we've done significant work the balance sheet through the years, whether that's been changing the funding mix, upgrading our deposit and risk models, strong risk management through the period, strong tilt towards deposit funding, a reduction on reliance on relatively expensive capital markets funding, judicious use of excess liquidity that we had to soak up issuances as you see through this year in terms of net negative issuance. So, significant balance sheet work that's been done over the course of the last years and we do think that ratings are somewhat lagging versus the significant work that we've done. It's very much our hope that we do see an upgrade through time. Again, that's largely out of our hands but suffice to say we'll continue executing as diligently as we have and especially, from a funding and capital markets perspective, continue taking actions that are conducive towards a positive rating. I hope that's helpful, Jakub.

Jakub Lichwa: Yes. Thank you.

Philip Teuchner: Thank you, Emma, and just to finish up, thank you all for joining us today. You know where the IR team is if you have further questions and we look forward to talk to you soon again. Goodbye.

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