Deutsche Bank AG

Deutsche Bank Q3 2022 Analyst Conference Call

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Transcript

Speakers:
Christian Sewing, Chief Executive Officer
James von Moltke, Chief Financial Officer
Ioana Patriniche, Head of Investor Relations

CHRISTIAN SEWING

Slide 1 – Ongoing business momentum in line with 2022 targets

- Thank you, Ioana. A warm welcome from me as well
- It's a pleasure to be discussing our third-quarter and nine-month results with you today
- We continue to operate in a difficult and uncertain environment. We are mindful that the economic impacts of the war in Ukraine and the energy crisis are yet to be fully seen. However, despite these challenges, we are progressing towards completion of our transformation strategy
- Our efforts continue to be recognized by our stakeholders, as we saw with the rating upgrade from Moody's earlier this month
- And we believe our progress is reflected in our third-quarter and nine-month results. We delivered our highest third-quarter pre-tax profit since 2006, and our best nine-month result since 2011, as we work towards our 2022 financial goals
- Turning first to our performance; the positive trends we saw in the first half of the year continued in the third quarter
- We delivered Group revenues of 20.9 billion euros in the first nine months, an increase of 7% year on year
- We also achieved average revenue growth of 10% year on year across the four core businesses, driven by business volume growth, market share gains, improving interest rates and business investments; all of which will support sustainable growth in future years
- In the first nine months of 2022, we generated an 8% return on tangible equity, in line with our target and up from 4.8% in the first nine months of 2021
- This is the result of increased profitability and efficiency. Post-tax profit for the first nine months was 3.7 billion euros, up 68% year on year, reflecting our improving pre-provision profit
- Our cost/income ratio was 73% for the first nine months, down from 82% in the prior year period
- We also proved our resilience. We maintained strong risk management in this challenging business environment. Provision for credit losses was higher, but contained, at 24 basis points of average loans
- We are well capitalized; we finished the third quarter with a Common Equity Tier 1 capital ratio of 13.3%, up from 13% in the second quarter and above our target minimum of 12.5%

- Now let me take you through the progress in our core businesses on slide 2

Slide 2 – Core businesses delivering strong results

- All four core businesses delivered strong post-tax returns on tangible equity in the first nine months. This gives us confidence that our 2022 targets and ambitions are well within reach
- In the Corporate Bank, revenues are up 20% year to date, thanks to the further improving interest rate environment and higher fee income, supported by volume growth in loans and deposits
- Return on tangible equity was 11%, a four-percentage-point increase year on year
- In the Investment Bank, continued client engagement and strong risk management in our leading FIC franchise drove revenue growth of 8%, with particular strength in our macro trading businesses
- The Investment Bank delivered a return on tangible equity of 12%, despite lower Origination & Advisory activity as markets became more volatile
- The Private Bank boosted its return on tangible equity to 9.5% by delivering a more-than-threefold rise in pre-tax profit in the first nine months
- 7% revenue growth was backed by net new business of 36 billion euros year to date, including net inflows into assets under management and loan growth
- In addition, the business continued to optimize its distribution channels with the closure of more than 130 branches
- Asset Management delivered revenue growth of 4% year on year, proving its resilience in a much tougher market environment
- The business achieved a 20% return on tangible equity, while continuing to invest in growth initiatives and platform transformation
- This strong performance across all core businesses enabled the Core Bank to deliver nine-month profit before tax of 5.6 billion euros, up 29% year on year

Slide 3 – Positive operating performance

- On slide 3, you can see in more detail the positive operating leverage we achieved in the first nine months
- Group revenues were the highest since 2016, up 7% year on year
- Across all core businesses, growth is in line with or ahead of the growth rates we foresaw at the launch of our strategic transformation three years ago
- Despite absorbing some items outside our control, noninterest expenses were down 5% year on year. This was mainly driven by lower transformation charges and restructuring and severance, as we approach the completion of our transformation program
- Our adjusted costs excluding transformation charges and bank levies increased by 1%. Excluding FX, our cost base was down 2%, as we successfully offset current cost pressures with our savings initiatives
- This improvement in operating leverage drove our cost/income ratio down to 73%, in line with our full-year guidance of mid to low 70s

Slide 4 – Significant improvement in pre-provision profit

- Turning to slide 4, we believe this strong profitability positions us well in the face of a tougher macro-economic outlook and more challenging credit environment
- The Core Bank delivered a return on tangible equity of 10% in the first nine months, up from 7.5% in 2021, and in line with our 2022 target of greater than 9%
- As a result, Core Bank pre-provision profit rose 40% year on year to 6.4 billion euros in the first nine months
- And pre-provision profit is not only higher, but also better diversified across our franchise
- The contribution from our stable businesses has increased significantly; the Corporate Bank, Private Bank and Asset Management now account for over 60% of pre-provision profit
- And with the turn in the interest rate cycle, we expect the contributions from our Corporate Bank and Private Bank to remain sustainably strong in future periods

Slide 5 – Risk management actions support stable risk profile

- Let me now spend some time talking to our risk management and balance sheet strength on slide 5
- As always, we remain extremely focused on disciplined risk management
- We constantly monitor and manage risks through our early identification systems, multiple downside analyses, stress tests and selective limit reductions
- We proactively responded to the escalating war in Ukraine and the broader European energy crisis via focused hedging and selectively reducing risk appetite in our focus portfolios
- Our underwriting standards remain robust, even as we continue to support clients through these challenging times
- We are engaged with our key clients on their liquidity needs and we are also working closely with KfW and the government on support programs
- Our approach and our resilient balance sheet mean we have seen limited impacts on our risk profile so far. Our key risk and balance sheet metrics have remained stable since the fourth quarter of 2021, before the start of the war in Ukraine
- Our CET1 capital ratio is now at 13.3% and our liquidity coverage ratio is at 136%
- Our provision for credit losses increased to 24 basis points of average loans for the first nine months, compared to 8 basis points for the same period last year. This is the normalization we expected following a less benign macroeconomic environment compared to the previous year
- Nonetheless, we still expect the full-year provision to be in line with our earlier guidance, at around 25 basis points
- Overall, our credit portfolio quality is broadly stable and despite the volatility we have seen, our market risk is managed within our appetite parameters, and we have taken measures to address tail risk
- Given the uncertainties in the outlook, we are continuously reviewing our risk appetite and updating our downside analysis to ensure that we remain well prepared for potential further negative developments
- Let me now turn to page 6

Slide 6 – Sustainable Finance strategy well on track

- In the third quarter, ESG-related financing and investment volumes grew by six billion euros net and the cumulative total since 2020 is 197 billion euros for the Group, excluding DWS. This compares to a year-end 2022 target of 200 billion euros
- The volume developments seen in the quarter reflect the implementation of the new MiFID II ESG reporting standards introduced in August
- We also made significant progress in implementing our commitment to reduce our carbon footprint
- On October 21, we published our net zero targets for financed emissions in key industry sectors in the corporate loan book. These targets seek specific reductions by 2030 and 2050 in four particularly carbon-intensive sectors, namely upstream oil and gas, power generation, automotive and steel
- We aim to achieve these targets by supporting clients on their transition strategies, on the path to net zero emissions by 2050 in accordance with the Paris Agreement on Climate Change, and are focusing the dialogue on the top emitters, where we see a high concentration of financed emissions
- Our methodology envisions a progressive and orderly phase-out of fossil fuel usage, while incentivizing the financing of lower carbon-intensive technologies for clients with credible transition plans
- We look forward to discussing this with you in more detail at our Sustainability Deep Dive in March 2023
- And now, before I hand over to James, let me summarize our progress to date this year on slide 7

Slide 7 – Strong business momentum continues despite challenging market

- Our improved profitability in the first nine months of 2022, despite a very challenging environment, proves our transformation has positioned Deutsche Bank on the right track strategically
- This transformation resulted in the strong business performance we have seen, and we are on track to meet our 2022 goals
- Our Core Bank revenues are rising, reflecting strong momentum across all businesses and the execution of strategic management actions. Our

Private Bank and Corporate Bank will, in particular, benefit from this, which will further support our franchise

- We continue to deliver positive operating performance. This is driven by our improved profitability and builds our pre-provision profits, providing better protection to shareholders
- We continue with our disciplined risk management and our third-quarter risk profile remains contained, supported by a high-quality loan book, market risk discipline and solid capital and liquidity. And we will continue to stay focused on this in light of the environment
- The transformation phase we began in 2019 is nearing completion and we have laid strong foundations for the next phase of our strategy to 2025
- We aim to further improve our operating margins, as we continue to focus on costs, in light of the inflationary pressures
- We are executing on a number of tactical measures to offset these near-term pressures, and then, as we progress with our strategy, the four key initiatives, which we communicated at our IDD in March, will support our cost trajectory, while enabling further investments
- To be clear; we stick to our 2025 financial and strategic targets, including our capital distribution plans
- With that, let me now hand over to James

JAMES VON MOLTKE

Slide 8 – Q3 2022 Group financial highlights

- Thank you Christian
- Let me start with a summary of our financial performance for the quarter, on slide 8
- Total revenues for the Group were 6.9 billion euros, up 15% on the third quarter of 2021
- Noninterest expenses of 5 billion euros were down 8% year on year due to lower restructuring and severance and lower transformation charges, as the prior year quarter included contract settlements and software impairments related to our migration to the cloud
- I will talk about adjusted costs in more detail later on
- Our provision for credit losses was 350 million euros or 28 basis points of average loans for the quarter

- We generated a profit before tax of 1.6 billion euros and a net profit of 1.2 billion euros, an increase of more than threefold year on year
- We reported diluted earnings per share of 57 cents for the quarter, which brings the year-to-date total to one euro and 46 cents
- Our cost/income ratio came in at 72%, down 17 percentage points compared to the prior year period
- Tangible book value per share was 26 euros and 47 cents, up 79 cents on the quarter, and 8% year on year
- The return on tangible equity for the group was 8.2%
- The effective tax rate was 23% for the quarter and 24% for the first nine months of the year
- Let's now turn to the Core Bank's performance on slide 9

Slide 9 – Q3 2022 Core Bank financial highlights

- Core Bank revenues were 6.9 billion euros for the quarter, up 14% on the prior year quarter
- Noninterest expenses declined 6% year on year with adjusted costs down 5% for the same period, and 9% if adjusted for FX
- We reported a profit before tax of 1.8 billion euros, twice the prior year quarter
- Our Core Bank post-tax return on tangible equity for the quarter was 10%, in line with the full year target of above 9%
- And our cost/income ratio came in at 68%, down from 83% in the prior year period

Slide 10 – Net interest margin (NIM)

- Let me provide some detail on the evolution of our net interest margin on slide 10
- The increase in NIM continued to be supported by US dollar and Euro interest rate rises, with Euro rates now starting to play a bigger role
- It was also supported by approximately 5 basis points in positive one-off effects, predominantly driven by buybacks, offsetting the non-recurrence of the second quarter one-off effects

- We have seen the first rises in Euro client rates, but for the time being, these remain muted compared to our assumptions. While we expect client rate passthrough to increase somewhat over time, the overall picture remains consistent with the guidance we have previously shared at this early stage
- Given this, we expect the trend for NIM to remain favorable given ongoing rate rises; however, possible ECB action regarding deposit remuneration may provide some offset
- Our average interest earning assets were up reflecting US dollar strengthening and underlying loan growth
- Before I move on to costs, let me briefly comment on our updated NII guidance. Interest rate tailwinds have increased significantly since the second quarter with effects now well above 3 billion euros in 2025 relative to 2021; however, wider funding spreads will partially offset this benefit if they persist at these levels
- The net impact remains materially better than the impact we flagged to you at the IDD in March
- Let's now turn to costs on slide 11

Slide 11 – Adjusted costs – Q3 2022 (YoY)

- Adjusted costs excluding transformation charges and bank levies increased by 177 million euros or 4% year on year but declined 1% excluding FX movements, as we managed to offset investments and inflationary pressures with our cost initiatives
- Compensation and benefits costs increased by 185 million euros or 92 million euros excluding FX effects. We saw an increase in performance-related compensation and further one-off costs associated with the establishment of our Berlin Tech Centre, as discussed in the second quarter
- Non-compensation costs remained essentially flat as adverse FX effects and higher business-driven costs were compensated by lower deposit protection costs and other cost measures

Slide 12 – Adjusted costs – 9M 2022 (YoY)

- If we look at the nine-month comparison on slide 12, adjusted costs excluding transformation charges and bank levies increased by 112 million euros, up 1% compared to the prior year, or down 2% excluding FX

- The year-on-year increase is driven by higher compensation costs, as we discussed in the second quarter, which is partially offset by a reduction in non-compensation expense
- The compensation and benefits movement was predominantly driven by the FX impact on salaries, coupled with increases in performance-related compensation and one-off costs associated with the establishment of our Tech Centre in Berlin
- Reductions in non-compensation expense reflect the bank's ongoing cost management efforts
- Turning to provisions for credit losses on slide 13

Slide 13 – Provision for credit losses

- Provision for credit losses for the third quarter was 28 basis points of average loans on an annualized basis, or 350 million euros. The year-on-year increase reflects a certain degree of normalization in impairments, especially after unusually low levels in the prior year period
- Stage 1 and 2 provision of 13 million euros, compared to a net release of 82 million euros in the prior year quarter, were predominantly driven by the further deterioration of macroeconomic parameters, but largely compensated by a reduction of the overlays applied in previous periods and otherwise improved portfolio parameters
- Stage 3 provision increased to 337 million euros, compared to 199 million euros in the prior year quarter. The increase reflects higher impairment events, but we have not observed material trends emerging, and, in particular, the impact of higher energy prices on provisions is not yet visible
- Moving to capital on page 14

Slide 14 – Capital ratios

- Our Common Equity Tier 1 ratio ended at 13.3%, 37 basis points higher compared to the previous quarter
- CET1 capital increased in the quarter, adding 13 basis points. Strong organic capital generation net of deductions for dividend and Additional Tier 1 coupon payments added 24 basis points. This was offset by 9 basis points from slightly higher other deductions

- The second element of driving the strong ratio were lower risk-weighted assets, contributing around 24 basis points
- Almost half of this is attributable to market risk, where we have seen very low VaR and SvaR levels early in the quarter, which picked up towards the end of quarter, with increased client activity
- The rest is attributable to credit risk and operational risk. In credit risk, the reduction was driven by modest growth in stable businesses, which was more than offset by a securitization of leveraged loans and further optimization
- Our leverage ratio was 4.3%, unchanged over the quarter
- Increased Tier 1 capital added 4 basis points driven by strong third-quarter earnings net of deductions for dividends and AT1 coupons
- 1 basis point came from essentially flat leverage exposure
- For the quarter, FX translation effects led to a 3-basis-point reduction in our Tier 1 leverage ratio. The corresponding effect year to date was 9 basis points
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 16

Slide 16 – Corporate Bank

- Corporate Bank revenues in the third quarter were 1.6 billion euros, 25% higher year on year
- Continued revenue growth was driven by further improvements in the rate environment, commission and fee growth and FX movements, despite current macroeconomic uncertainties
- Noninterest expenses of 1 billion euros increased by 2% year on year as a positive contribution from non-compensation initiatives was more than offset by FX movements
- The Corporate Bank grew loans to 129 billion euros, up by 10 billion euros compared to the prior year quarter, mainly in Corporate Treasury Services, driven by FX and volume growth
- Provision for credit losses was driven by a small number of stage 3 events compared to recoveries in the prior year quarter
- Corporate Bank profit before tax was 498 million euros in the quarter, up by 68% year on year

- Return on tangible equity was 11.9% and the cost/income ratio came in at 63%
- I will now turn to revenues by business segment in the third quarter on slide 17

Slide 17 – Q3 2022 Corporate Bank revenue performance

- Corporate Treasury Services revenues of 963 million euros increased by 28% year on year driven by further improvements in the interest rate environment and a strong operating performance, reflecting higher commission and fee income and volume growth in loans and deposits
- Institutional Client Services revenues of 400 million euros rose by 22%, benefitting from the improving interest rate environment and FX movements
- Business Banking revenues of 200 million euros grew by 15% year on year, reflecting transition to a positive interest rate environment in Germany
- I'll now turn to the Investment Bank on slide 18

Slide 18 – Investment Bank

- Revenues for the third quarter were slightly higher year on year on a reported basis, and essentially flat excluding specific items
- We saw strong revenue growth in Rates, Emerging Markets, Foreign Exchange and Financing
- This was partially offset by significantly lower revenues in Origination & Advisory and Credit Trading
- Noninterest expenses were essentially flat versus the prior year adjusting for the impact of FX translation
- Our loan balances increased year on year, primarily driven by higher loan originations across the Financing businesses and the continuing impact of US dollar appreciation versus the Euro. We continue to maintain a well-diversified portfolio across regions and industries
- Leverage exposure was higher, reflecting increased lending commitments and trading activity 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 132 million euros, or 52 basis points of average loans. The year-on-year increase was driven by an increase in stage 3 impairments
- Turning to revenues by segment on slide 19

Slide 19 – Q3 2022 Investment Bank revenue performance

- Revenues in FIC Sales & Trading increased by 38% in the third quarter when compared to the prior year, the highest third-quarter revenues since 2012
- Very strong performance across the majority of the franchise was partially offset by significantly lower revenues in Credit Trading
- Rates revenues more than doubled, with Emerging Markets and FX revenues significantly higher. The strong performance was driven by heightened market activity and client flows, while also benefiting from effective and disciplined risk management across the franchise
- Financing revenues were higher year on year, driven by increased net interest margin and strong pipeline execution during the quarter
- Credit Trading revenues were significantly lower, due to the non-recurrence of the contribution from a concentrated distressed credit position in the prior year quarter and a market environment that continues to be challenging
- In Origination & Advisory, reported revenues were down 85% but this includes mark-to-market losses in the Leverage Debt Capital Markets business. Excluding these, revenues declined 63%
- Debt Origination revenues were significantly lower due to materially reduced Leveraged Debt Capital Markets revenues. This was driven by a significant industry fee pool decline, along with the impact of loan markdowns. In the quarter, the realized and unrealized markdowns equated to approximately 110 million euros, while we reduced our commitment pipeline by approximately 50%
- Investment Grade debt revenues were solid, decreasing less than the industry average
- Equity Origination revenues were significantly lower, reflecting an industry fee pool reduction of approximately 50% and mark-to-market losses on a residual equity position
- Revenues in Advisory decreased by 23% in an industry fee pool that declined by 32% year on year, according to Dealogic

- During the quarter we also booked a gain of 91 million euros relating to the impact of Debt Valuation Adjustments. This was driven by market factors, principally credit spread widening and interest rates volatility
- Turning to the Private Bank on slide 20

Slide 20 – Private Bank

- Revenues were 2.3 billion euros, up 13% year on year, or 5% if adjusted for the net impact of the BGH ruling and specific items
- Higher net interest income, continued business volume growth and FX movements more than compensated lower commission and fee income in a more challenging financial market environment
- Noninterest expenses declined by 5% year on year, reflecting a benefit in the quarter from deposit protection costs, lower internal service cost allocations as well as incremental salary savings from workforce reductions and branch closures, partly offset by negative FX movements
- Profit before tax increased almost threefold to 447 million euros
- Strong operating leverage improved cost/income ratio to 73% and post-tax return on tangible equity to 9.5%, which puts the Private Bank on track to achieve its full-year 2022 targets
- Assets under management recorded net inflows of 8 billion euros as well as positive effects from FX movements of 7 billion euros, which were offset by 14 billion euros from market depreciation
- Provision for credit losses of 24 basis points of average loans increased as the prior year quarter benefited from a release of an overlay related to expiring moratoria. Excluding this impact, provision for credit losses remained stable reflecting a high-quality loan book and tight risk discipline in a declining macroeconomic environment
- Turning to revenues by segment on slide 21

Slide 21 – Q3 2022 Private Bank revenue performance

- Revenues in the Private Bank Germany were up 8% or stable if adjusted for the net impact of the BGH ruling
- Higher net interest income compensated for lower fee income, which was impacted by a decline in client activity in more challenging markets

- The Private Bank Germany attracted net new client loans of 1 billion euros
- Revenues in the International Private Bank were up 22% or 14% excluding specific items
- Revenues excluding specific items in Wealth Management & Bank for Entrepreneurs increased by 24%, driven by continued loan growth and higher revenues from deposits, supported by rising interest rates. FX movements also had a positive impact on revenue growth, especially in APAC and the Americas
- Premium Banking revenues declined by 8% as higher deposit revenues were more than offset by lower revenues from consumer loans, mortgages, and investment products
- Continued business volume growth with net inflows in assets under management of 7 billion euros, mostly in Germany and APAC, and net new client loans of 3 billion euros, mainly in EMEA and the Americas
- The International Private Bank continues to execute on its strategy to strengthen the Bank for Entrepreneurs and has successfully closed the sale of the Financial Advisors business in Italy on October 17. We have recorded a pre-tax gain on sale of approximately 310 million euros in the fourth quarter of 2022

Slide 22 – Asset Management

- As you will have seen in their report, DWS reported a resilient result compared to the prior year, despite the continued market turbulence
- My usual reminder; the Asset Management segment on slide 22 includes certain items that are not part of the DWS stand-alone financials
- Revenues grew by 1% versus the prior year, in part supported by FX movements. Management fees grew by 3%, reflecting higher fees from Alternatives, partly offset by negative market impacts in Active and Passive. Performance fees were also higher than the prior year, partly offset by lower transaction fees
- Other revenues declined on lower gains from co-investments, higher treasury funding costs and less favorable fair value of guarantees
- Noninterest expenses and adjusted costs increased by 15%, including FX movements

- The increase in non-compensation costs was mainly attributable to professional service fees and IT costs, resulting from further investments into platform transformation, whereas compensation costs increased due to strategic hirings and higher carried interest costs
- Profit before tax of 141 million euros in the quarter declined by 27% over the same period last year
- For the first nine months of 2022, the cost/income ratio was 67% and post-tax return on tangible equity was 20%
- Assets under management were stable in the quarter. Quarterly net inflows of 8 billion euros, predominantly in Cash and Alternatives, and 23 billion euros of beneficial impact from FX movements offset 31 billion euros of market depreciation
- Moving to Corporate & Other on slide 23

Slide 23 – Corporate & Other

- Corporate & Other reported a pre-tax loss of 68 million euros in the third quarter, compared with a pre-tax loss of 605 million euros in the prior year quarter
- The improvement in pre-tax loss was driven in part by the absence of transformation charges recorded in the prior year quarter, which was principally triggered by the bank's migration to the cloud
- The improvement was also driven by valuation and timing impacts, which resulted in a benefit of 199 million euros in the quarter, partially reversing the trend from the first half of this year
- We can now turn to the Capital Release Unit on slide 24

Slide 24 – Capital Release Unit

- The Capital Release Unit recorded a loss before tax of 216 million euros in the quarter, an improvement of 128 million euros from the prior year period
- Revenues for the quarter were negative 17 million euros, an improvement of 19 million euros from the prior year period. This improvement was due to lower de-risking and funding impacts that more than offset the non-recurrence of the Prime Finance cost recovery in the prior year

- Noninterest expenses declined by 33%, primarily driven by a 40% reduction in adjusted costs, reflecting lower internal service charges and non-compensation as well as compensation costs
- CRU reduced leverage exposure by 36 billion euros year on year driven by the completion of the Prime Finance transfer and continued progress on deleveraging
- Risk-weighted assets reduced by 6 billion euros year on year driven by lower operational risk and de-risking
- In the third quarter, RWAs decreased by 1 billion euros compared to the second quarter, primarily from lower market risk RWA
- Looking through to the final quarter of 2022, the Capital Release Unit remains ahead of its year-end 2022 targets for both leverage exposure and RWA reduction, and we are confident of achieving the full-year target for adjusted costs excluding transformation charges of 800 million euros that was reaffirmed at the Investor Deep Dive in 2022
- However, markets remain volatile, and this could have an impact on financial resources and revenues in the fourth quarter
- Turning finally to the Group outlook for 2022 on slide 25

Slide 25 – Outlook

- We believe our strong operating performance in the Core Bank in the past nine months is a testament to the quality of our businesses and the strength of our franchise
- Reflecting on this performance, we now see upside to our 2022 revenue guidance of 26 to 27 billion euros, particularly given the trends we see in our stable businesses
- Business momentum in the past nine months, combined with improving operating leverage, makes us even more confident in the delivery of our 2022 strategy and financial goals, and that we have the right foundations for our path to 2025
- As Christian noted, we continue to adhere to strict risk management principles, particularly in this continued uncertain environment
- We are very focused on managing our resilient balance sheet and we reaffirm our expectations for our provision for credit losses at around 25 basis points of average loans for the full year

- And finally, we remain committed to supporting the economy during these difficult times, either directly responding to the needs of our clients or working with the government on support programs
- With that, let me hand back to Ioana and I look forward to your questions

Question and answer session

Andrew Lim (Societe Generale)	Hi. Good afternoon. Thanks for taking my questions. I'd like to talk about revenues and then return on TNAV. So looking to slide ten on the net interest margin, you talk about NIM supported by five bps of one-offs. And I presume the bulk of this is due to calling expensive debt. Now, you called this one-offs, but I'm just wondering whether we should think about this as a permanent step-down in the funding costs. Is this actually an ongoing benefit to the NIM going forward? So that 1.47% NIM actually keeps on rising through 2023, rather than taking a step down and then going up again. And then more broadly, could you talk about how you see your revenues panning out for 2022? I know you've given an upgrade there, but more specifics on that, please, and then how that pans out for 2023. And then on the return on TNAV, you've got an 8% target there. You've printed 8% for the past three quarters. But how achievable is that 8% for 2022? Given that in the fourth quarter, revenues tend to be seasonally weak, sometimes you have a true-up in costs, how confident do you feel about that 8% for this year? And again, how do you see that panning out for 2023 against the backdrop of recession and higher loan loss provisions? Thank you.
Christian Sewing	Thank you, Andrew, for these questions. Let me start, and for the NIM question, I'll hand over to James, and obviously he will add to my comments. On the fourth quarter, in terms of revenues, based on the trajectory which we have seen in the first three quarters, actually

we are very optimistic in particular for the Corporate Bank and the Private Bank.

Everything that we can see is the momentum in the Corporate Bank, but also in the Private Bank, in terms of the interest rate environment but also in terms of business volumes, we are clearly on the trajectory of further increasing revenues, also in the fourth quarter in particular for the Corporate Bank. Again, for the Private Bank, no stoppage of the momentum.

In the Investment Bank, obviously there is always seasonality. Also in Q4, we have seen that from the previous years. But looking at that, where we are also in October, I think we will be around the number which we have seen in the Q4 of last year. And asset management, personally, I think we expect to be flat.

If I take that all together, it's another robust quarter on the revenue side. And then if I then go even into 2023 actually, that kind of foundation which we have built in terms of the revenue growth, again in the stable business, Andrew, continues, clearly continues.

For the Corporate Bank, we expect a similar momentum like in 2022 to continue into 2023, again obviously backed by the interest rate curves but also, again and again, by also increasing client volume. Again here, the Moody's upgrade helped. We see that clients are turning to us, wanting to do more business.

In the Private Bank, again we expect continued revenue growth in 2023, further supported by the interest rate environment. We always said that from an interest rate environment, the Private Bank is lagging a bit the Corporate Bank. We said it last year, you saw it in 2022, and exactly is now coming then in 2023, which is very positive.

In the Investment Bank, first of all, we are hugely proud of what the Investment Bank has shown, is showing in 2022. But I do believe we can really say this is quite a diversified business in the meantime. We have three legs to stand on. We expect for 2023, in the

Investment Bank, obviously a better year, and a far better year in the O&A business, very stable financing business.

Potentially, we see in the macro business a slight reduction versus 2022 because it was an extraordinarily good year. But on the other hand, I think volatility will not go away. And this is exactly what we said in the IDD in March 2022, where we said this volatility we will see for the next couple of years, and therefore, to be honest, rising revenues in Private Bank and in the Corporate Bank, clearly rising revenues in both businesses, I think at least flattish revenues to 2022 and 2023 in the Investment Bank, and flattish, so to say, in asset management.

So all that we can see is the revenue number now, and you will get more guidance on 2 February, when we present our full year numbers. But all I can see, and James and I see, is a number which is clearly north of € 28 billion in revenues next year.

You also asked on the 8% for the full year, also with regard to potentially seasonality in Q4. I revert back to my initial comments on revenues in Q4, very, very solid, so I think a good set of numbers in terms of revenues. Also, and James may allude to that, we have an extraordinary € 300 million revenue item in the Private Bank which is coming through from the Italian sale, and we should not forget that.

Costs, all we can see in our target is that Q4 will be lighter than Q3, slightly lighter. And then we may also have the one or the other impacts James will refer to. But that makes us very comfortable that the 8% for the year is absolutely in reach. And that's what we targeted for, that's what we said three years ago, and that's where we will end. James.

James von Moltke

Thank you, Christian. So within that, Andrew, you'd asked about the NIM. The direction of travel is clearly up. We called out items in the second quarter and now in the third quarter that were… I'll call them one-offs.

It’s often a noisy line item. Last quarter, it was more related to TLTRO and technical accounting things. This quarter, it had to do with the buybacks.

We wouldn’t expect a repetition of that, but I would expect, given the tailwinds we have now into Q4, that we would grow over and probably still increase our NIM in Q4 relative to the 1.47% we showed. So where exactly it’ll be in the rounding, around that 1.5%, remains to be seen, but we feel that the tailwinds here, especially with central bank actions still expected in the quarter, will clearly be positive.

In terms of the seasonality point that Christian referred to, yes, there’s a lot still to happen in Q4. We’ve got to manage revenues and expenses towards the goals that we set out. As Christian alluded to, and we’ve been talking with you through the year, we were always working towards the gain on sale we expected from the Italian transaction, the Financial Advisors transaction.

In addition, we do expect a DTA benefit later this year. Hard to say exactly what that’ll be. That’ll depend on lots of assumptions and input factors. But we’ve called out for something not less than the level we recorded last year. So those two items help to offset the seasonality, which, quite rightly, you would expect in the fourth quarter.

Tom Hallett (KBW)

Hi, guys. A couple questions from me, please. So firstly, on the cost/income ratio guidance, you’re now seeing upside to revenue forecasts for the year, and obviously I’d like to think that would leave you better placed within your mid to low 70s cost/income range.

So, is there any reason to believe that that cost/income ratio should not land under the 74% consensus currently has plugged in? And then maybe looking towards 2023, does that range change at all, given obviously the tailwinds from rates?

And then maybe sticking with costs, but coming at it from maybe a slightly different angle, how should we look at 2023? Because on one side, there should be significant benefits coming from your past cost initiatives, but then on the flipside, you have some structural cost pressures coming through.

So maybe if you could just walk us through some of the big-ticket cost items that are expected to roll off next year, that would be great. And then, is it also fair to assume, I don't know, maybe a 3% inflation rate on the underlying cost base for next year, or do you see those cost pressures fading? Thank you.

James von Moltke

Sure, Tom. It's James. I'll start, and there's a lot to go into here. So let me just start with the range for the year based on where we come out in Q4. Absolutely, that's what we're working to. When we set the mid to low cost/income ratio range, our hope is to achieve something in the low area. But there's always some variability both on cost and on revenues, given we're managing to a ratio. But with the step-off into Q4, we would certainly target closer to the low end than the middle.

Now, there are decisions we still need to make, whether that's, as Andrew mentioned, events in Q4 always take place, seasonality compensation decisions, also restructuring and severance decisions. But our goal would be to be more low than mid.

Looking forward to 2023, what I'll focus you on is the Investor Deep Dive narrative that we talked with you about in March. In other words, the model that we shared to 2025 is really benefiting from revenue growth over the next several years, both underlying in the businesses as their drivers grow, the businesses grow, and supported by interest rates, with expenses essentially flat over that period.

Now, to be flat over that period is a lot of hard work. It's executing on initiatives to take costs out of the company structurally. And that's on technology initiatives, front to back, optimising our distribution channels, optimising our employee base and how efficiently we run our processes.

All of that is built into our forward planning, and we'd expect and certainly try to manage the company to something like that in 2023. We do expect some of the benefits of those initiatives already be showing up in 2023, the €2 billion that we laid out in March.

And we've also talked about, relatively speaking, a linear path on achieving those benefits. There are one or two items, of course, that will be delayed, and, of course, we're dealing with inflation, but that's certainly the ambition that we have, looking forward.

One last item to note, just inflation. It's actually hard to use a simplifying assumption, because inflation, how it impacts your expense base is different for each line item. So some, we're relatively more shielded, some line items, inflation comes through more fully right away. But something in the low single digits certainly would align with our expectations. And hence, that means we need to continue our focus on expenses to work to offset that inflationary impact over the coming years.

Nicolas Payen (Kepler Cheuvreux)

Yes, good afternoon. Thanks for taking my questions. I have two, please. The first one is really a follow-up on the cost/income ratio, because basically, you have increased your revenue guidance several times this year, but your cost/income ratio target has remained the same. And I was wondering what your marginal cost/income ratio is. Because back at your IDD, you mentioned that you were investing in low marginal cost/income ratio activities. So if we could have an update on this, it will be great.

And then the second question on cost of risk. Your Stage three provisions have increased pretty substantially, but it's not driven by high energy prices, according to you. So what are the drivers behind this increase?

And again, looking maybe a bit more further down the road, in 2023, what should we expect notably with regards to your 20bps scenario? Because we probably have worsening macro condition assumptions, so what should we expect on that front? Thank you.

James von Moltke

So Nicolas, thanks for the questions. Look, we've actually been pretty consistent in guiding towards the upper end of the range of that € 26 to 27 billion. I'd say we've been managing costs more with the expectation of the high end. And we're getting perhaps a little bit of benefit above that given, in particular, the strong Q3 performance.

And to the question just before, we've given ourselves a range on cost/income ratio, and I think we have a path now to something more in the lower end of that range. I don't see there to be a significant deviation in terms of the ingredients we've given you and where we currently expect to come out.

Your underlying question about marginal cost/income ratio is a fair one. And we've talked in the past about working to make our cost base more variable, about investing in very positive marginal cost/income ratio businesses. And of course, we have the uplift ahead, in the next several years, from interest rates, which while not entirely free, obviously should have a very strong marginal impact.

But in essence, the question is answered by the target in 2025. From where we end this year or where we are right now, it's something like a slightly more than 10% improvement in the cost/income ratio. And given the model we shared back in March, that is achieved with flat costs and rising revenues over time.

There's a lot of hard work that goes into the flat costs, but to your point, we would be becoming more variable over time and benefiting from increasing contributions from high marginal cost/income ratio revenue sources. So that's definitely our path and what we've been working towards.

On the Stage three, look, it's obviously an uncertain environment. The way I'd characterise the credit environment at the moment is we're all looking ahead to some of the risks that we see in the outlook, but in the, if you like, backward-looking risk metrics, there's no sign yet of that credit cycle starting.

As the impact of energy costs flow through the economy, as we see a recession, there will of course be some deterioration, and we're prepared for that. As I say, we reaffirm our guidance for this year. At this point, that implies credit loss provisions about in line with Q3 for Q4, and we feel pretty comfortable with that based on what we see and know today.

If we look to the future, the way I'd characterise it is we've always given you a range of normalised CLPs somewhere between 20 and 25 basis points. Perhaps we're a little bit worse than that next year as we go through that cycle, but we're not expecting a dramatic deterioration from where we sit today.

And so why is that outlook, relatively speaking, probably to your ears, optimistic, given the scale of the challenges we face? We always go back to conservatively underwritten lending, tight risk appetites, a well-structured, well collateralised portfolio that we rely on to see us through this cycle, as it has done in recent cycles. So hopefully that's helpful in giving you some colour on our thinking.

Christian Sewing

And I would add to the last point that you can already see that there is a very positive reaction actually in the German economy on the announcement of the support programme of € 200 billion. Now, obviously, it needs to be detailed out in terms of structure, but this is exactly tailored to the mid-cap companies and small businesses.

Now, first of all, we have a very diversified portfolio there, so I'm not afraid in any way of the portfolio. But secondly, as this money is exactly tailored for these companies, I think, in this regard, the government did the right thing and that would be also supportive to our numbers.

And therefore, I agree with James, that I think, when it comes to next year, the range of 20 or 25 basis points is, in my view, the right one. But even if you think that, overall, there is a deterioration, given that support programme and our structure of the portfolio, I think it's actually beneficial for that portfolio in Germany.

Adam Terelak (Mediobanca)

Morning. Oh, it's afternoon. I wanted to dig into some of the NII disclosures. I appreciate you might need to caveat some of this ahead of the ECB tomorrow. Firstly, what is in your third quarter numbers for technical spreads on TLTRO? Is there any benefit there? And how is that modelled through to the next few quarters?

Secondly, could you update us on your NII upside for this year, but also into next year, and give us any sort of sensitivity around what tiering or TLTRO technical spreads being removed could do to that?

And then, finally, just around the NIM, it sounds like you're relatively confident that NIM will be going up Q on Q, irrespective of what's announced tomorrow or any changes from the ECB. Is that the right way to read it? And if so, should that mean Q on Q momentum in your Corporate Bank and Private Bank revenues, or at least the NII, continues for Q4 and into Q1 next year? Thank you.

James von Moltke

Thanks, Adam. Lots to go through in NIM land. Look, so TLTRO was relatively minor in terms of its impact in Q3, so very low double digits in Q3. As you know, there's been volatility in how TLTRO is recognised on our numbers just from an accounting perspective, but that should pick up on the terms of the programme next quarter, and we probably have, say, € 90 million in Q4 coming from TLTRO.

If you asked me what would be at risk in the full year, depending on how retroactive the decisions are, maybe a little bit more than that. But TLTRO certainly should be a benefit in Q4 on the current terms. Looking to next year, there's even more at risk. You could at least annualise that number as being the at-risk amount in TLTRO under those terms, and obviously we can share some thoughts with you if you're interested.

Underlying that though, just from the interest rate environment, there's huge tailwind coming through at this point. If I give you the gross number of the current interest rate curve running through our balance sheet, sequentially, that is, 2023 relative to 2022, you'd see probably a € 2 billion revenue upside coming from the current rate curve on an equivalent balance sheet. If you layer higher funding costs into that, that might take away € 400 million and perhaps the same amount at risk as I mentioned on TLTRO.

But tying into Christian's earlier point about the revenues and our outlook for next year, we think we have at least € 1 billion, somewhere between € 1 billion and € 1.2 billion, on a net basis, even with a negative outcome on the TLTRO programme. So, all of that is feeding into our commentary and thoughts about the direction of NII and, of course, NIM that goes with it. Did that cover all your questions, Adam?

Adam Terelak (Mediobanca)	It did. Just two clarifications. One, the TLTRO technical spread, presumably it completely drops out through 2024 and 2025. So it's only a short-term noise in your NII guide through 2025. And then, two, your net basis is post probably quite conservative deposit beta assumptions.
James von Moltke	Yes, so another interesting topic to go into on deposit beta. But yes, we published last quarter our TLTRO maturity ladder, so I'd refer you back to that in our disclosures, precisely for the reason, we thought it was important for investors to see how that plays out.

Of course, that doesn't give you, for each of the programmes, what the average rate would likely be. But to your point, Adam, on the current terms, the effect in the first half of next year is the strongest. There's a significant maturity in June. And so, after

	that it tails off, but it's still beneficial through to the final maturities, again, on the current terms.
Christian Sewing	So, Adam, I just wanted to make sure that exactly what James said at the end is really clear to all. The north of € 28 billion number I mentioned includes the potential TLTRO reduction, which is important, I think you'll see then, the conservative approach we're taking. But let me also say, and I think we should say, that it would be hugely disappointing if something like that is happening. And forget about the impact on our financials. I think you just saw a very nice number anyway on the revenue side. But that is an implicit contract between the Central Bank and us. And we did our job. We lent the money to the economy, exactly what we want to do. And then changing retrospectively is, in my view, not the right thing, and that is actually also a question, how the investor community will look at Europe. And therefore, I'm making this statement, because I think it is actually a very critical move. And therefore, I hope we get some positive news tomorrow.
Daniele Brupbacher (UBS)	Yes, good afternoon, and thank you. Can we briefly talk about the Private Bank again? And obviously there, sequentially, risk costs increased quite a bit, 60% or so, to € 160 million, but the Stage three loans only went up marginally. Is this the run rate now, going forward, or is this a one-off adjustment? And can you give us any statements on how you see asset quality at the moment in that division, both domestically and abroad, volume margin trends and how competition is behaving at the moment? That would be super useful. Thank you.
James von Moltke	Sure, Daniele. Thanks for the questions. James again. The sequential increase in CLPs in Private Bank really reflect two things. One is the absence of benefits from non-performing loan sales that we've conducted in the prior quarters. We actually had some help in Q1 and Q2 from those sales, and we didn't have an equivalent

event in Q3.

And in addition, one of the events what we sometimes refer to as idiosyncratic Stage three events did take place in the Private Bank, which further pushed up the number. If you wanted to run rate on a net basis, I'd probably say it's about € 125 million per quarter run rate for CLPs in the PB portfolio. Of course, it'll vary around that number, but that's, I think, a fair assessment.

In terms of assert quality, that's where I think you may be hearing from some of our peers the confidence on asset quality. The statistics in that portfolio are just rock solid. They've been very stable through the past several quarters, and no indication of a deterioration, which is obviously pleasing. It speaks to, I think, the quality of the portfolio but also the environment that so far hasn't really begun to reflect some of the risks that we all see ahead.

On volumes and margins, I think, helpfully, the spreads by and large have widened a little bit in the third quarter. So we are seeing, I think, encouraging developments in terms of spreads on lending. There's only one or two portfolios where it went in the other direction. So by and large, good developments there.

Volumes are probably moderating a little bit. And again, it depends on the product. So, mortgages in Germany, as you probably see from external numbers, had begun to slow, reflecting activity, reflecting pricing. But that doesn't mean a stop. There's still activity, there's still appetite for new lending out there. I'd say, by and large, those developments are all reasonably encouraging on the loan portfolio side in the Private Bank.

Christian Sewing: And Daniele, on the credit side, I often get asked on the mortgage portfolio. And in addition to James's comment, we should never forget that our mortgage portfolio is, with a vast majority, comprised of fixed loans. So that is obviously a big difference to some other European countries. So, the risk which others see from the changing interest rate environment, in our portfolio is actually, when it comes to mortgages, negligible.

James von Moltke

Just one other point to make, Daniele, on your question is deposits. We're not seeing any unusual behaviour in terms of the competitive environment for deposits in the marketplace. So overall there, is, at least at this point in the cycle, still a positive environment competitively in the deposit market.

Chris Hallam (Goldman Sachs)

Hi, yes, good afternoon, everyone. Just two questions, one on the Investment Bank and one, a bit of a follow-up on the market conditions question just earlier. So, on the IB, you talked about some of the moving pieces in terms of absolute revenue growth. But I also wondered if you'd seen any meaningful changes in terms of market share dynamics, either this year or as you head into next year.

And then, secondly, on rates. We're now a couple of quarters into seeing rates play out through the P&L. You just spoke about some of the dynamics in the Private Bank, and I wondered whether you've seen anything surprise you so far in terms of client or competitor behaviour in the Corporate Bank.

Christian Sewing

Yes, let me start on the investment banking side, and then James will follow up on the second question and obviously add to the first question. First of all, again, I'm feeling confident in the Investment Bank also when it comes to 2023, given the diverse business we entertain. Again, our clear strength is in the financing business and in the macro business.

Clearly, and now let's see for the official Q3 numbers, but you have seen it for the previous quarters, we gained market share significantly over the last two years, almost quarter by quarter. I do think that reflects the focus we have given on the FIC business, the set-up Ram Nayak has taken there.

The rating upgrades which we have seen, the latest one was Moody's, again all play into our favour, and I would say, in certain markets, we almost gained the top market position again. And therefore, I think that is clearly something which also drives then the momentum into the next year, where we still expect volatility in the market, and that helps us.

On the O&A business in the LDCM, by the way, we gave up market share, but to be honest, kind of on purpose, because we slowed down our underwriting already at the end of Q1 or in Q2. And therefore, you can also see that in the new underwritings, we reduced market share, but that is an on-purpose behaviour. And we can also see it now, when I look at the pipeline and the commitments we have out there and the losses we have taken, I think this was the right strategy.

By the way, to be very clear, we will stay in that business. That is a very important business. You have seen some announcements last week that we obviously also adjust then our internal capacity to the volumes we see. But this is a very important business on the financing side. It feeds other businesses like the M&A business.

But on purpose, we have reduced our appetite, and therefore a bit of reduced market share in that business. Otherwise, I would say we are behaving in line with the market, actually very happy with the performance, and so I'm confident for 2023.

James von Moltke

Chris, to your question about competitive behaviour or client behaviour in the Corporate Bank, no, no surprises there. I think everything is playing out in a business-as-usual type of way. We are seeing better what people often refer to as beta outcomes than the modelled outcomes would suggest, not just in Corporate Bank but also in the Private Bank portfolio, although it's early days. It's hard to say if that's a trend or noise in the numbers, and, in particular, whether it's a lag in pricing that's producing that more favourable outcome.

I think one would expect it to catch up with the modelled outcomes, but right now, the lag effect seems to be beneficial in both portfolios or major deposit books. And as I mentioned a moment ago, we don't see excessive competition for deposits, given we all go into this rate cycle with relatively high levels of liquidity on the bank's balance sheet and in the marketplace.

Anke Reingen (RBC)

Yes, thank you very much for taking my questions. Just two small ones, please. Firstly, on the dividend, I know it's early days, but obviously in the last IDD, you were talking about € 0.30. But do I understand correctly, you've now basically moved to a pay-out ratio for 2022?

And then just on the others and consolidation, the valuation and timing differences, have we reached a point where we're going to reverse the negative revenues of the first half? Thank you.

James von Moltke

Thanks, Anke. So yes, we'd given a very clear dividend path in March, and on that path, € 0.30 per share would be the expected dividend in respect of 2022, paid in 2023. And that's something that we're very focused on delivering to our shareholders. No change in the pay-out ratio thinking. When we talked about a 50% pay-out ratio, it was from 2025. And that again is consistent in our thinking. No changes in those plans.

As it relates to valuation and timing differences in corporate and other, it's always uncertain. We did start talking last quarter about pull to par benefits, given how significant the drawdowns had been in the first half of this year. And so we are seeing a little bit of that. And there will be more pull to par in the years ahead. Particularly post three years from now, a lot of that, really all of that loss in H1 would come back.

But in a sense, the pull to par benefit is then part of also the Valuation and Timing impacts driven by both the volatility and the level of rates, and particularly the

FX markets that we see. So it's really hard to predict. Obviously helpful that we reversed in Q3 about the same amount as we had booked in each of Q1 and Q2, but I wouldn't at this point… I think it's far too early to call an outcome that we get it all back in Q4. In fact, we could very well go back to a negative result in the Valuation and Timing line in Q4.

Stuart Graham (Autonomous)	Thanks for taking my questions. I had a couple of high-level ones this time around, please. The first question I think is for Christian. You mentioned the uncertain environment several times in your commentary. And given the elevated risks of something breaking in the system and the central banks rapidly raise rates, and I guess LDI was an example of that, which areas, if any, are you watching particularly closely right now, please? That's the first question. Then the second question is maybe also for Christian. There's a lot of talk of corporates having to near-shore or friend-shore their supply chains in the future. Do you have any preliminary thoughts on what that might mean for Deutsche in terms of potential additional revenues within your 2025 planning horizon, please? Thank you.
Christian Sewing	Thank you, Stuart. Look, it's always hard in these, I would say, complex geopolitical and economic terms to call out the item I'm looking most on. But I think it's inflation. I think we need to get inflation out of the system for the society and the economy. Therefore, actually, I'm glad about the clear statements by the central banks. You have known, Stuart, I have been out for 15 months now, in the middle of 2021, that this inflation is not temporary but more permanent, and we also argued for interest rate increases far earlier because I do think that this is an issue which actually will impact the economy, in particular in Europe going forward, if it's not fought adequately. And now I do think the steps are the right ones by the

central banks. I hope that they continue that. Even if the economy is slowing down, that is all in our base case. That is all in the numbers which James and I gave you before that assume a slowdown of the economy, but I think it's the right thing to overcome inflation as soon as we can. So that would be my first answer.

Second answer is spot on, Stuart, we have a lot of discussions actually with corporates about reorganising their supply chains, making sure that they have a diversified supply chain, that it goes a little bit from just-in-time to just-in-case. That is actually the discussion we have with our corporate clients.

And in this regard, it is on two fronts, to be honest, incremental to our business and positive for our business. A, in the Corporate Bank, with our cash management, with our network which we can offer around 60 countries. Because, you see, a lot of German corporates are thinking about diversifying their supply chain within Asia, to go from one country to the other, are thinking about establishing other locations in Asia but also in South and Latin America, where we are present. So that is one.

Secondly, it goes into our corporate finance advisory business that obviously we are very close also to the larger German family-owned and mid-cap companies, not always talking about the DAX companies, and having strategic discussions on the corporate finance levels with these companies. And that's increasingly picking up.

Again, they look for our advice from a research point of view, from an M&A point of view, and then, when it comes to execution, from a day-to-day banking point of view. And there, we have the Corporate Bank. So, while it is a challenging topic, it is certainly incremental and positive for our business in the Investment Bank and in the Corporate Bank.

Stuart Graham (Autonomous)	Thank you. Do you have a sense of when you might be able to put some numbers around that?
Christian Sewing	Look, I think it would be a bit too early. But as we promised, we'll give you a little bit more guidance on 2 February, when we come to 2023 and the reconfirmation of our 2025 guidance. And having your question in now, I will remember your question. We'll give some answers to that.
James von Moltke	Yes, and maybe I'll just add one thing, Stuart, to that, numbers around it. I remember in March, when we talked, we gave a compound annual growth rate in revenues for the Corporate Bank of 6% to 7%, and I think people reacted and thought that was punchy. And look, some of the just economic growth-related lending may not arise or may slow in 2023 and 2024 in a slower-growth economy than we might have predicted as we built our plans that we shared with you earlier this year. That said, I would think, to all of the points that Christian just mentioned, that there will be increased demand for lending, giving nearshoring, given the need to reinvest in the energy infrastructure in Germany and what have you. So in a sense, I suspect we'll come back to you to say it's, on a net basis, supportive of the numbers that we shared, obviously with interest rates being far more supportive than we'd anticipated back in March. So by and large, again, a pretty supportive backdrop for the Corporate Bank over the years to come.
Kian Abouhossein (JPMorgan)	Yes, thanks for taking my questions. The first question is just around cost flexibility. And James talked a little bit about that topic. Assuming that we are running into a tier risk scenario, let's assume that revenues are actually going to be down € 3-4 billion from the € 28 billion that you are expecting next year, or could expect, and provisions are actually double your provision guidance for next year as well, how would the cost base look like in that scenario? And I assume you run these scenarios.

And the reason why I'm asking is because I really struggle to get a feeling for flexibility in your cost base at this point. Even when I do variable fixed cost adjustments, etc., where you give some data, I just want to see how I should think about flexibility.

And then the second question is around provisions. The message is cautious around what's happening around you, but at the same time, you're very upbeat on provisioning outlook, especially into next year as well. And I'm just wondering what your base case is again here and where the tail risks are in that scenario.

Christian Sewing

Thank you, Kian. Look, happy to answer that. I'm still trying to digest where you get the € 4 billion of revenue downside. But even if this happens, this bank will be profitable. Let me add this as a first statement. Obviously then, we will not achieve an 8% return on equity if you would take a € 4 billion revenue decline, because obviously that would be, if anything else, incredible also if I would tell you we adjust the costs by that number down in a year's time.

But first of all, we have an investment budget which again this year was higher than last year, which again next year is planned in our so far… In our planning discussions which we have so far, which is in line or even slightly above this year, which we would obviously cut back.

So before we even start to discuss on variable comp, we would go into investments, which we would do and which we want to do in our business, which we would postpone, which we would stop. And there is a good amount, I would say, which we can take very quickly out of the system. That's number one.

Number two, you just mentioned it, in such a downside scenario, where revenues would plunge. And again, I think James and I have shown to you that our revenue guidance was spot on over the last three years when it comes to the individual businesses, for the three stable businesses. We can almost forecast you the revenues to the last € 100 million for next year given what we are seeing.

That would mean you would assume almost a 50% reduction in the Investment Bank, which, on the basis of the financing business which is pretty stable, as you know, the market share and the positioning we have achieved in the macro business, and then also in the O&A business which was very weak this year and which is starting, in my view, to re-emerge next year, again would be a drastic number.

But of course, we would adjust the VC, and the VC would be then a material reduction to what you have seen last year and what we have in our mind for this year. So this is another high three-digit number which we would take out, of course, in such a scenario.

On top of that, as James was saying, we are trying to do everything on the € 2 billion cost save to have a linear and, over the years, I would say, equal reduction of costs, obviously more in 2024 and 2025 but also already in 2023, which would bring down the costs. And we would, in such a scenario, obviously do a completely different job on hiring.

All that would significantly bring down the costs in such a downside. And therefore, yes, we could not obviously compensate for a revenue loss you are now having in your mind in a downside scenario, but we would obviously, I would say, materially reduce our cost base. And these are just the first three items I would mention to you.

Number two, on the risk costs, again, our base case… And James, please add to that, obviously also to the cost comments I gave. On the risk costs, our base case is around the 25 basis points which James mentioned, so approach € 1.3 billion.

It's obviously, in such a scenario where we are, very hard to forecast. But I think also there we have done, Kian, quite a good job over the last two years in bringing early out a forecast for the year, remember, for the COVID year, and remember, for this year. And we were pretty much spot on on this one.

So, all I can see from the behaviour of the portfolios in German mid-caps, in the Private Bank portfolio, in the International portfolio, in the real estate portfolio, in the funded LDCM portfolio, I think the € 1.35 to € 1.4 billion is absolutely a solid number.

If we think about the downside, including debts rationalising, so to say, a worsening crisis in Europe, which by the way I can't see, given the storage levels of gas where they are, the very warm October… We should really think about that we take that into account also for the next six to nine months, what happens in Germany, because these are positive impacts, the € 200 billion which are coming.

But even if I think about the downside, I think Olivier and the team, rightly so, doing obviously a monthly rerun of their portfolios, are keeping up with the € 1 billion over 18 months of additional loan loss provisions which we would see in a severe downside. But again, with the pre-provision profit which we show of over € 6 billion for this company, I think that is again something which we are able to withstand. James.

James von Moltke

Really nothing to add. I think you covered it, Christian. And Kian, there's always a place to go in terms of severity of stress scenarios. But as we analyse it, a reasonably stressed environment next year would see us add revenue numbers far higher than the sensitivity that you outlined, and CLP numbers I think more in line with what Christian has described in the scenario that we've put in our disclosures last quarter and this quarter. So, while we're focused on verbalising our cost base, no disagreement with you there, we just don't see that the same, the levels of sensitivity that you are positing.

Amit Goel (Barclays)

Hi. Thank you. So just wanted to come back. I appreciate we've spoke a lot about the NII sensitivity, but just on the € 2 billion-plus number that you gave in terms of benefit next year before the potential offset. Just to make sure I understand that correctly, because I guess that would, on about €1 trillion of average interest earning assets, be increasing the NIM by about 200bps, I think you said about a 30% beta, so about, I guess, 280bps of actual rate moves.

I just want to check, in terms of the sensitivities there, if you think, with that kind of benefit, there'll be any other puts and takes, and also just whether you see any risks in terms of taxation or other sorts from the rates benefit that will be coming through. Thank you.

James von Moltke

Yes. Thanks, Amit. I think more 20 basis points against the trillion of interest earning assets. And that, I think, is a reasonable level to assume. So, a margin next year somewhere between 1.7% and 1.8% we think is entirely achievable, again, with some of those netting effects built into the numbers.

And again, there's a lot of moving parts here around betas, lags, where rates actually are, what if any unusual items are built in. And one area that we're really focused on here is managing down our funding costs. We're not comfortable with the spreads where they are right now. We don't think they speak to the underlying credit quality of the firm, and we'd like to see them come down. And that could give us a slightly more favourable environment into which to issue next year. But as I say, lots of different pieces of that puzzle.

On the taxation side, look, I would just really emphasise, the banking industry in Europe is coming back from a period of depressed profitability, reflecting the interest rate environment that we've been living in since 2014, and before, but negative since 2014. So the idea that there are excess profits being earned in an industry that is trying to get back to its cost of capital is one that I would certainly dispute, regardless of the political impetus that's out there.

I think additional taxation, especially in Germany, to try to balance some of the fiscal pressures that are out there, I would view as a challenging policy in this environment, especially in an environment where the governments are looking to the banks to support the economies in all that we need to travel through in the next several years. And so it obviously has been enacted or considered in a number of different countries, but it's not something that we are particularly focused on at the moment, and we think it is, from a policy perspective, potentially a double-edged sword.

Amit Goel (Barclays)	Thank you. Yes, and sorry, obviously I meant 20bps.
Andrew Coombs (Citi)	Good afternoon. One on the IB and then one follow-up on the NII guidance. Just firstly on the IB, you talk about strong growth in rates, EM, FX and financing, and you particularly call out rates as having doubled year on year, so it's clearly been a sizable tailwind for you.

I was wondering if you could provide any visibility on how that breaks out by region, in part because if we do see Fed rates peak out early next year, one would assume that the volatility there might ease somewhat. So, is there anything you can say on the regional breakdown of your rates' revenues, given your comments about IB revenues being at least flat next year?

And then second question on the NII. You talked about well above € 3 billion incremental in 2025 versus 2021. I think you said there'd be some offset from higher funding costs, and you called out about € 400 million there. TLTRO has come and gone by that point, regardless of what the ECB say tomorrow. I guess my key thing is what are you assuming in terms of deposit volumes and also migration to time deposits? Because that's obviously a trend that we've seen play out at some of your US peers, and even some of your continental peers as well. Thank you.

James von Moltke

Thanks, Andrew. I actually don't have a specific break-out of revenues and rates by region and how that's changed over time. It's certainly something we can follow up with you through IR. But what I can give you a sense of is just the franchise strength that we have.

And there, I will say, first of all, revenues are up in both, that is, all regions, so that's a positive. EMEA has been particularly strong as we've achieved really a leading position in European government bonds and European rates. And that's something that we've been hard to… Ram Nayak and his team in particular, I think, had focused on and were pleased with that development.

But that isn't to say that the market position in the US isn't also strong. We've been investing there, and I think have also repositioned the firm, especially in difficult markets. We've been very focused on providing good markets to our clients, even in volatile environments. And I think that's really been showing in terms of client feedback and what have you. So, encouraging trends overall in rates, which one would hope will serve us well also when volatility begins to normalise.

On the € 3 billion through to 2025, that's absolutely correct. It's well above that number. So significant upside from rates, more by far than we had assumed in the numbers we shared with you in March. That said, there are these offsets. By 2025, TLTRO is no feature, so it's really just a question of funding costs.

Now, in the funding costs, you've got to remember that more of our existing unsecured debt stack would have rolled over by that time. So, the € 400 million from next year, call it, or € 350, would increase over the years as more of the debt stack is replaced at higher spreads. So that grows to € 1 billion or more, obviously highly assumption-dependent, which is why, to answer to the last question, we're very focused on working to improve the rating, improve the unsecured spreads, because it's a significant feature.

We expressed it in compound annual growth rate terms in March. And so there, just to give you a simple assumption, rates net of funding costs might have been 1% contribution over the four years at that time. Now, I would assume at least 2% on a net basis, and probably a little higher. So that's where we sit today, and a reasonably conservative view.

Jeremy Sigee (BNP)

Hi there. Thank you. Just some follow-ups on the dividend and distribution policy, please. Firstly, have you given us the Euro millions dividend accrual amount year to date? I've not seen it. I know you told us last quarter. I've not seen it for this quarter. And then linked to that, just on the pay-out for this year, are you saying that the €0.30 target that you're hoping to pay is the most it could be, that you wouldn't go higher than that?

And then broadening out from that, how will you think about capital returns at year end this year, and how much you might be able to do via buybacks or whatever in the very short term? Is that relative to a ratio or is it doing a bit more than last year? How will you think about that?

James von Moltke

Jeremy, early to talk about it on the buyback side. On the dividend distributions, yes, no, we laid out that curve of doubling the per-share distribution each year for the next several years, and that's something that we want to stick to. We thought that that was prudent and appropriate and gave our investors a very clear path.

That would translate to about € 600 million next year. We have now accrued about € 600 million, I shouldn't use the word accrued. We have now set aside, in our prudential account, € 650 million. And so, anything that is further set aside from an accounting perspective or deducted in the fourth quarter will come back in the second quarter of next year.

As it relates to the buybacks, look, it's early to make that decision. As you know, buybacks were considered in the plans we shared with you in March, but they're also the place where there is flexibility to increment the distributions or to slow them down based on what we see in the environment and all of the other influences flowing through our capital planning. So early, at this point, to give you any indications, what our thinking is there for next year.

Piers Brown (HSBC)	Yes, good morning, gents. I've probably only got one question left, which is just on the German IT merger project, and whether there's any update you can give us on that. I think you mentioned, last quarter, something around the € 150 million of additional expense in 2023 from extending the life of some of those programmes. If you can just update us on that, that would be great. Thank you very much.
James von Moltke	Sure. Thanks, Piers. Yes, we've disclosed, deep in the earnings report, that it's probably delayed further. And what we wrote was into the middle of 2023, which you should read as either 2Q or 3Q. And so that's a further delay. The expense assumption we've upped to € 200 million against the € 150 from July. Now, what's the underlying issues there? That is a very, very large and very complex IT migration, one that we're making a lot of progress on, for sure. It goes in waves. But I think it's important to note that our risk tolerance there is essentially zero, so we need to give it the time that's needed, to do so with testing complete. And as I say, really no appetite to take risk on each migration. We're working now on what has been critical for us, which is the year end wave that is particularly important for certain product types. And we have, in parallel, underway the preparations for the waves in the first and second quarters of next year. And we'll wait to see what the results are from the testing and what have you. But our current estimate is the middle of 2023, with an incremental cost relative to our planning, if you like, two years ago, back when we shared with you in IDD 2020, of about € 200 million

	flowing into 2023. No change to our long-term cost benefit and also strategic benefits from that investment.
Christian Sewing	And I think the only add again, and I think James said it, there is no postponement of any waves before that. So it's not that we are moving away from whatever, December to March. It's just the incremental waves in order to be absolutely on the safe side. The next wave, as expected, is, I think, December 31.
Ioana Patriniche	Thank you for joining us for our third quarter 2022 results Call and for all your questions. Please don't hesitate to reach out to us in Investor Relations with any follow-up items. And with that, we look forward to speaking to you at our fourth quarter call in February. Thank you.

ad hoc announcements under Article 17 of Regulation (EU) No. 596/2014 and filings with the U.S. Securities Exchange Commission (SEC) under Form 6-K.