Deutsche Bank AG

Deutsche Bank Q2 2022 Fixed Income Conference Call

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Transcript

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DIXIT JOSHI

Slide 1 – Solid results despite challenging environment

- Thank you, Philip, and welcome from me
- It is a pleasure to be discussing our second quarter and first half 2022 results with you today
- Since the end of the first quarter, conditions for the global economy and the macro environment have become more challenging
- The pressures will impact our 2022 cost/income ratio target
- We are continuing to work towards our return on tangible equity targets for both the Group and the Core Bank, even though the path ahead of us is more challenging
- Nonetheless, despite an unprecedented operating environment, we are transforming our bank and once again have proven our resilience
- We delivered Group revenues of 14 billion euros for the first half of 2022, an increase of 4% year on year
- We generated an 8% return on tangible equity, up from 6.5% in the first six months of 2021
- We also improved our profitability and efficiency. First half post-tax profit of 2.4 billion euros was up 31% year on year, driven by positive operating leverage
- Our cost/income ratio was 73% for the first 6 months, 5 percentage points lower than the comparable period last year
- Finally, we continue to adhere to prudent risk management principles and processes. Provision for credit losses was 22 basis points of average loans in the first six months, including a management overlay, reflecting elevated market uncertainty
- Our capital position remained stable. We finished the second quarter up compared to the first quarter, with a Common Equity Tier 1 capital ratio of 13%

Slide 2 – Resilient loan book with strong risk management

- Moving to slide 2, in 2020, as the pandemic caught the market by surprise, we went through our balance sheet to explain why we felt we were well positioned to navigate through that environment

- And while the current crisis presents different challenges and many unknowns, what has not changed is our loan book, which is low risk and well diversified; nor have we changed our approach to risk management
- On the items we can control, we have always managed our balance sheet conservatively and intend to continue to do so through this period of volatility
- And as the outlook evolves, we monitor the development of macro-economic forecasts and will update our allowances based on what we see in the environment and in our portfolios

Slide 3 – All core businesses demonstrate clear momentum

- Moving to slide 3, you can see that the momentum across our businesses, especially in the past six months, supports the delivery of our 2022 plans at the divisional level
- In the Corporate Bank, business growth continued despite the more challenging market, as we diligently executed on our strategy
- We saw this reflected in loan growth which, alongside interest rate tailwinds, contributed to an increase in interest income. This led to a 10% return on tangible equity
- In the Investment Bank, our leading FIC franchise saw strong client activity with growth across both institutional and corporate clients, which marked the highest first half FIC revenues in ten years
- Despite the unfavorable environment for Origination & Advisory activities, M&A revenues were 65% higher year on year
- All-in, the Investment Bank delivered a return on tangible equity of 14%
- The Private Bank had strong half-year results with a return on tangible equity above 9%
- Asset Management delivered revenue growth of 6% year on year, driven by higher management fees, despite the volatile market environment
- At the same time, the business continued to invest in growth initiatives and platform transformation and delivered a 22% return on tangible equity
- Looking back at the progress of the Core Bank since the start of the transformation, we have improved profitability significantly. First half profit

before tax of 3.7 billion euros more than doubled compared to the same period in 2020

Slide 4 – Significant improvement in pre-provision profit

- Moving to slide 4, we are encouraged by the performance in our Core Bank, which delivered a 10% return on tangible equity in the first half, up from 9.3% in 2021
- On a pre-provision basis, we made significant progress on our profitability, as we diligently executed on our plans to make our divisions more focused, profitable and efficient
- While we benefited from market volatility, this also created some offsetting effects, visible through our Corporate & Other line
- We are especially pleased to see the improvements in our stable businesses, with Corporate Bank, Private Bank and Asset Management increasing their pre-provision profit contribution to 60%, while our Investment Bank continues to perform, driven by our FIC franchise
- We expect many of these trends to remain in place and to be beneficiaries of interest rate hikes in the coming years
- Overall, with a Core Bank pre-provision profit of 4.3 billion euros in the first half, the improved operating margins create a stronger protection from a tougher macro-economic outlook

Slide 5 – Ongoing progress, despite pressures

- Moving to slide 5 to take you through our journey to deliver improved operating margins
- In 2019 we introduced a new strategy, which included focused investments in our core businesses, particularly into technology and controls
- This plan and these investments helped us to significantly increase our return on tangible equity, from being in negative territory just two years ago, to 8%
- However, the macro-economic environment changed materially, resulting in headwinds which impacted some of our planned cost reductions, most notably from inflation, higher compensation and foreign exchange, which are likely to stay with us for the balance of the year

- And while the recent market volatility has been favorable for some of our businesses, we also saw offsets via the larger-than-expected drag from valuation and timing differences in C&O
- Reflecting these items and using a conservative approach, achieving our cost/income ratio target for this year is no longer realistic without sacrificing long-term potential. Therefore, we have amended our cost/income ratio guidance for this year to the mid to low 70s
- However, we are executing on our plans and considering the uncertain environment, we will work on additional measures to ease the pressures we are facing

Slide 6 – Resilient loan & deposit development

- Let us now look at topics that drive our revenue performance over the next slides
- Slide 6 provides further details on the development in our loan and deposit books over the quarter
- Loan growth across the bank has been 12 billion euros or 5 billion euros on an FX adjusted basis
- In line with prior quarters, we saw continued strong momentum from mortgages and collateralized lending in our Private Bank, high client demand in Corporate Bank as well as loan originations across our FIC Financing and Trading businesses
- Loans in our leveraged debt business have remained flat quarter on quarter
- Deposits grew by 1 billion euros compared to the previous quarter when adjusting for FX, and given the macro-economic environment, we expect this lower growth rate to continue
- Deposit margins have started rising in line with the improved interest rate environment

Slide 7 – Net interest margin has begun to increase

- Let me now provide some detail on the evolution of our net interest margin on slide 7
- As we flagged to you last quarter, our NIM has started to rise, in large part due to the more favorable interest rate environment

- The NIM increase was driven predominantly by short-term US dollar interest rate rises in the first half of 2022, but it was also supported by higher longer-term Euro rates that benefited the deposit books as we roll over hedge portfolios
- The NIM increase was also driven by approximately 6 basis points in positive one-off effects, as it still includes a 2-basis-point effect from the minus 1% TLTRO bonus rate
- Average interest earning assets were up modestly reflecting US dollar strengthening and underlying loan growth, offset by lower average cash balances
- Looking to 2025, we now expect the revenue benefit from interest rate curves relative to 2021 to be significantly higher than the 2 billion euros we previously guided for
- Even accounting for increased issuance costs implied by current credit spreads, the environment is more favorable than the outlook we shared with you at the March Investor Deep Dive
- Normalizing for the one-off effects just mentioned, we expect NIM will continue to rise due to the favorable interest rate environment

Slide 8 – NII sensitivity shows additional revenue upside

- Let me now give you some additional details on net interest income sensitivity on slide 8
- Further increases in rates above current market-implied levels will continue to add to the interest-rate-driven tailwind
- Over time, the largest impact is from long-end rates as we roll over our hedge portfolios to higher levels, particularly in Euro. However, in the shorter term rises in non-Euro rates will also provide a tailwind
- The interest rate tailwind we had guided at roughly 400 million euros for 2022 at the Investor Deep Dive now stands at over 700 million euros, albeit with partial offset due to higher issuance costs

Slide 9 – Strong liquidity position in-line with targets

- Moving to slide 9, highlighting the development of our key liquidity metrics

- Despite the increased market volatility, our liquidity and funding metrics remain robust and aligned with target levels
- The stock of our high-quality liquid assets decreased by about 6 billion euros during the second quarter
- This is mainly due to continued loan growth
- The deployment of liquidity was partially offset by further deposit inflows particularly driven by growth in the Private Bank Germany
- As a result, the liquidity coverage ratio slightly decreased by two percentage points to 133%
- The surplus above minimum requirements decreased by about 4 billion euros quarter on quarter to 51 billion euros
- In line with previous quarters, our average daily LCR over the past three months was at about 131% and underlines our proactive steering of the balance sheet towards target levels
- While we remain committed to support the businesses, we continue to manage the LCR conservatively towards 130% for the remainder of 2022
- The net stable funding ratio decreased to 116% which is within our target range and with a surplus of 83 billion euros comfortably above the 100% requirement
- The decline is mainly driven by loan growth as well as the roll-down of TLTRO 3
- Given current economics we expect to repay our TLTRO funding at contractual maturity dates but continue to manage the maturity profile in order to avoid cliff effects
- The longer-term funding sources for the bank remain well-diversified and continue to benefit from a strong customer deposit base, which contributes about two thirds to the Group's available stable funding sources
- For the remainder of the year, we aim to maintain this funding mix, which will be supplemented by debt securities issued in line with our issuance plan

<u>Slide 10 – CET1 ratio increase driven by earnings</u>

- Turning to capital on slide 10
- Our Common Equity Tier 1 ratio ended 14 basis points higher compared to the previous quarter at 13%, in line with our previous full-year 2022 guidance

- This ratio increase principally reflects higher CET1 capital from strong organic capital generation during the quarter net of deductions for dividend and Additional Tier 1 coupon payments, and losses in Other Comprehensive Income
- CET1 capital now includes a capital deduction for common share dividends of 450 million euros for 2022
- A 3-basis-points drag on our CET1 ratio came from FX translation effects, reflecting the significant Euro weakening over the quarter
- Risk weighted assets, net of FX, were marginally down compared to last quarter
- Market risk RWA increased, principally from an increase in the quantitative VaR / sVaR multiplier
- This increase was more than offset by a reduction in credit and operational risk RWA

Slide 11 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements as shown on slide 11
- In line with the CET1 ratio development in the quarter, the distance to the CET1 ratio capital requirement has increased by 14 basis points and now stands at 253 basis points or 9 billion euros of regulatory capital
- Our available AT1 and Tier 2 capital is at or slightly above the respective regulatory requirements, which brings our Total Capital ratio distance to MDA to 261 basis points
- This provides us with a comfortable starting point as we manage through the coming quarters

Slide 12 – Leverage ratio unchanged on a like-for-like basis

- Moving to slide 12
- Our leverage ratio, including ECB cash, was 4.3%, a like-for-like increase of 5 basis points over the quarter
- Higher Tier 1 capital from strong quarterly earnings and the recognition of our 750 million euros AT1 issuance, which settled in early April, added 10 basis points to our ratio

- This was partially offset by a negative 3-basis-point impact from FX translation effects, reflecting the significant Euro weakening in the quarter and a 2-basis-point reduction from higher leverage exposure, including Core Bank growth
- With our reported leverage ratio of 4.3% at the end of the quarter we have a buffer of 131 basis points over our leverage ratio requirement of 3%

Slide 13 – Significant buffer over MREL/TLAC capacity requirements

- We continue to operate with a significant loss-absorbing capacity, well above our requirements, as shown on slide 13
- The MREL surplus, as our most binding constraint, has remained stable at 15 billion euros over the quarter. Increases in available MREL from new issuances were offset by the expected and previously advised increase in MREL requirements, which we received in May
- Our loss-absorbing capacity buffer remains at a comfortable level and continues to provide us with the flexibility to pause issuing senior non-preferred or senior preferred instruments for approximately one year

Slide 14 – Substantial portion of issuance plan already achieved in H1

- Moving now to our issuance plan on slide 14
- The quarter was characterized by challenging market conditions in general with high levels of interest rate and credit spread volatility
- In this context, we are pleased to have completed roughly three quarters of our issuance plan year to date
- In the second quarter, we issued a total of 4 billion euros, spread across preferred, non-preferred and covered issuances
- During July, we issued a further 1.3 billion dollars senior non-preferred, taking our year-to-date total to just over 14 billion euros
- For the full year, our issuance plan remains between 15 and 20 billion euros, although we are likely to end the year closer to the upper end
- Having completed a significant portion of our issuance plan for the year provides us flexibility in timing of new issuances and also helps to manage our overall cost of funding

- You may have seen that we announced an up to 1-billion-dollar tender offer for four dollar-denominated senior non-preferred securities yesterday
- We do not expect the need to replace the repurchased securities in senior non-preferred format, but may consider senior preferred issuances depending upon liquidity needs
- The public tender offer is designed to proactively manage our debt maturity profile and to provide liquidity to bond investors
- We have received several questions regarding our approach to calling capital securities in general and in particular regarding a Tier 2 deal that was issued prior to June 27, 2019
- The requirement for Tier 2 instruments to include “bail-in language” was introduced with a change to Article 63 of the CRR in June 2019
- The instrument under discussion was issued in 2013 and already included bail-in language meeting the CRR requirements
- The instrument will thus continue to be eligible as Tier 2 regulatory capital beyond June 28, 2025 and until its legal maturity
- Further requirements for “bail-in language” as provided for in Article 55 BRRD are not applicable given the instrument was issued before the date of transposition of BRRD into German law on January 1, 2015
- This has been confirmed by recent guidance from the SRB

Slide 15 – Outlook

- Turning to the outlook on slide 15
- The strong performance in the Core Bank is testament to the quality of our businesses and the strength of the franchise, despite the challenges ahead
- Therefore, we can confirm our revenue guidance of 26 to 27 billion euros for 2022
- However, the current environment and uncertainty are unprecedented, and we see pressures, including on expenses and credit costs
- We remain committed to our cost measures and we will continue to execute on our 2022 plan

- Consistent with our previous guidance, our provision for credit losses remains at around 25 basis points of average loans, including the currently expected impact of the war in Ukraine, slowing growth in our core markets and other dislocations
- We remain confident in our full year CET1 ratio target of greater than 12.5%
- On the issuance side, we are happy having issued a substantial amount of our plan already in the first half of the year, which protects us to some degree against higher funding costs
- In addition, we had some positive news from the rating agencies side in the quarter with Scope upgrading our ratings while DBRS Morningstar raised the outlook to 'positive' – an encouraging signal especially in the current environment
- We will remain in close dialogue with our rating agencies as we feel we still have potential catch-up on a relative basis
- With that we look forward to your questions

Question and answer session

Richard Thomas (Bank of America)	Thanks very much for the call. I've got three cheeky questions, if I may. The first one is about the bond of my favorite coupon, 4.296%. Actually, I remember discussing with the team before, and what you've said today in the call is consistent with what they've said to me in the past about the bail-in language. But I have to say, I've always thought that language was a bit weedy, a bit weak, to satisfy the CRR and the BRRD. So, in the context of this language not being, let's say, of the strongest, certainly not in my view, what's your current thinking? Would it be better, in a perfect world, if you just called it next year? Second question, if I may, and you did refer to a little bit about this. What's your outlook in terms of the rating evolution? Do you expect something could happen to your ratings as early as this year? And then finally, this tender offer announced last night. What is that all about? Why are you doing that now? You've given the generic things about liquidity and so on, but why that tender offer now and why those bonds? Thank you very much.

Dixit Joshi

Richard, thank you for the questions, and thank you for joining. I'm happy to address each of those. You're right to point out on the 4.296% Tier 2. It's one of the reasons why we wanted to address it in our prepared remarks, just given some of the incoming questions that we had had. I think we're fairly clear, and I'd like to just outline our thinking on the current treatment of those instruments.

As I had highlighted in the prepared remarks, the BRRD requirements for bail-in language are not applicable to this instrument, to be clear. And the reason for that is that BRRD was transposed into German law, I think around January 2015, whereas this particular instrument was issued in 2013. And so, that's fairly clear, and has also been confirmed by recent guidance from the SRB.

And then separately, but related, regarding the CRR requirements. On our Deutsche Bank Investor Relations homepage, we published the prospective supplement, which contains the bail in language in the contractual provisions. The CRR doesn't provide further requirements on any additional bail in language. So, in our mind, it's fairly clear that the bail-in language included in the documentation does meet all of the requirements.

On your second question regarding call. As you know, we wouldn't specifically comment on any upcoming call this session, but it's something that we'll continue to assess, of course, at every moment in time. Looking at the regulatory capital treatment at this moment in time, we don't envisage any action on this bond. And again, that's something that we will re-evaluate over time.

On the second point around credit ratings, we're confident that the progress we continue making on our transformation that you heard about from James and Christian on Wednesday, and specifically, the progress around sustained improvement in our profitability gets reflected in our ratings.

The firm, of course, now is significantly different to a few years ago, whether that's the way we run our balance sheet, the quality of the assets on the balance sheet, our liability profile, and the improvements that we've made there to tilt the firm towards greater deposit funding, the drive towards higher NIM, greater NII, and all of that then translating into capital accretion, as well as capital return. So, the firm's just completely different from a few years ago.

We do recognize, of course, that the macroeconomic environment is fairly uncertain right now, and that is a factor. And in that light, the fact that Moody's and Fitch have both maintained their outlook, in spite of this macroenvironment that we're living through, in my mind, indicates continued upward pressure on our ratings. Also, to mention the outlook revision by DBRS Morningstar from stable to positive, as well as the rating upgrade by Scope in the second quarter. What that all shows you is that there is potential for positive ratings actions, even in this macroeconomic environment.

And then on the third point on the tender, I would say it's really business as usual. It's something that you've seen us do a few times before, looking at the market environment. We tendered for certain dollar senior non-preferred securities, as we optimized our maturity profile or maturity structure. We're also taking advantage of strong liquidity and MREL surpluses that we have. As you see, in the deck, as at the end of the second quarter, we had HQLA of over 200 billion euros and LCR of 133%, an MREL surplus in the region of around 15 billion euros. So, all of this provides us some flexibility in managing our liability profile. But also, quite frankly, the spread widening that we saw led us to believe that it is actually an opportune time to launch a transaction like this.

We haven't done it in euros, and we don't have anything planned today in euros. But that doesn't preclude us, again, from reacting to market conditions as we see them. I hope that's helpful, Richard.

Jackie Ineke (Morgan Stanley)

Hi, there. Thanks for the call. I have two questions. The first one is, again, on the 4.296%. I must admit, I wholeheartedly agree with Richard's comments on the language here. One thing I perhaps want to add. You talked about the SRB and the SRB being, effectively, fine with this stuff. But I don't know if that also refers to the June 2022 guidance on bail-in playbooks that the SRB published. It talks about looking at the strength of the contractual recognition in there and whether you've looked at that as well and you think it's robust enough to be able to be written down under EU rules, even though it's New York law. So, that's the first question, have you also gone through that playbook guidance?

The second question is a broader question on your legacies, the SPV-issued legacies, effectively, the CMS bonds. I was just wondering what the intentions might be there, if you are getting any interest from the supervisors about what to do with those bonds. Obviously, tenders, possibly in the future. Just, if you could give us any color about how you're thinking about those. Thank you.

Dixit Joshi

Jackie, hi. On the on the first point, I think it's, to us, fairly clear. We've been through the documentation, we've ensured that it has the respective bail-in language, and important, again, as I was commenting on, really looking at compliance with both BRRD, as well as the CRR. And we're fairly clear that it includes the necessary bail in language, and I haven't heard anything to the contrary. Again, the Investor Relations team is on hand, if we wanted to discuss that a bit further, but that certainly is the case for us.

On the other instruments, other than the economics that would drive call decisions, there really isn't any supervisory or other push for us to call a tender at this stage. As you know, I always return optionality to call instruments, depending on the economics to the bank, but that's certainly not the case today. They represent fairly cheap funding for us. And so, at this moment in time instruments that will remain outstanding for us.

Jackie Ineke (Morgan Stanley)

Great. Thank you. Just one follow-up on the Tier 2 bond. I guess we've seen a number of banks who have very similar language to that bond in their instruments. And they've been doing consent solicitations and exchanges to make them, in their words, CRR2 compliant. So maybe they're just being belts and braces, but again, I guess what's happening in the market is developing over time.

And I guess the SRB would not look at each individual bond of every bank, so you probably wouldn't get any specific guidance from them. But is that possibly influencing how you're looking at some of these legacies, when you're see what other banks are doing with what looked like exactly the same contractual confirms? I think it would be the prudential thing to do.

Dixit Joshi

Yes, Jackie, we've seen that as well. And I can't comment specifically on what other banks have done, but I would point to regional distinctions. So, for example, in our case, the BRRD and when it went into German law, it might be different date-wise, and grandfathering-wise, compared to other countries within the Eurozone. So, from our perspective, while we can't speak to other banks, what we do know is that our bond was issued before 2015, the BRRD then came into effect in 2015, and the instruments embed the necessary bail in language.

Jackie Ineke (Morgan Stanley)

I guess the other instruments, and I'm really focused on the CRR2 language, they also would potentially be grandfathered. But it seems these banks are acting in a very prudential manner, because they accept that these instruments would not be able to be written down under EU law. So, I guess they're taking all the practical issues into context as well and actually changing them. But I understand you can't comment on those. Well, thank you. Thanks very much for that.

Lee Street (Citigroup)

Hello, good afternoon. Thanks for doing the call. Thanks for taking my questions. A couple for me, please. Firstly, just a simple one. On the dollar tender, you said last night that you wouldn't have to replace it, but you might replace it with preferred senior. Does that mean you're not going to issue any more non-preferred senior this year, or just no more non-preferred senior in dollars? That's the first question. And then two more strategic ones, I guess.

Is it conceivable that you could see yourself involved in leading a large-scale M&A at any point in the next, say, six to 12 months? And, or is your current share price maybe an impediment to that?

And almost on the other side of that, my question is, is it not highly attractive at the same time for you to be looking to do share buybacks, given the share price, and what are your thoughts around that and the constraints? That would be my questions, thank you very much.

Dixit Joshi

Lee, hi, and thanks for joining. I'll take the first, and then James will likely address the second two. On the dollar tender, look, it's a billion dollars that we target through the standard, and we have an issuance plan for this year of 15 to 20 billion euros. And as I said, it's more likely that we get to the 20 billion euros. We're done with around 14 billion euros on the year. So, to be honest, the billion dollars is, quite frankly, neither here nor there in the scope of our full year issuance plan.

Regarding replacements and so on, we don't tend to think of it as like-for-like replacements. We would look at the liquidity of those respective lines, the spreads that they're trading at, the type of investor feedback that we receive, or we see in the marketplace. And then separately, we'd continue with our issuance plan, including potentially pre-fund future years issuance into this year, like we've done in previous years.

So, I would expect a combination of issuance in the remainder of the year, but it, quite frankly, does depend on the spread environment that we see. Again, having completed 14 billion euros already, that puts us in an opportunistic position for the remainder of the year, to be reactive to conditions.

James von Moltke

Lee, it's James on the second two questions. Christian and I have made public comments that we see the logic of M&A from an industrial logic perspective and strategic value. But we can't comment, and don't really have a sense of what form it'll take, when it'll take place. And I think, again, we've been consistent on the efforts of the past several years have been helpful, I think in, preparing Deutsche Bank to be a participant in that, whenever it does start to take place large scale.

The share price obviously has a big impact on the terms of trade and, so it's something we'd like to see improve. It's one of the ways that we can be prepared, in addition to fixing our IT, our control environment, and the other improvements that we've been working so hard on. So, I think it's all part of a process that hopefully leads to good strategic moves in time.

On share buybacks, generally, we provided back at the Investor Deep Dive some reasonably clear guidance on our capital distribution plans. And absolutely, share buybacks play a role in that. As you recall, we bought back about 300 million euros this year. And over time, we'd like to continue to do that. We see the corporate finance value of buybacks as one element of our distribution plans. And that's something that we intend to continue over time.

Robert Smalley (UBS)	Good afternoon and thanks for doing the call. A couple of questions. First, on the loan loss provision. Dixit, you mentioned 25 basis points going forward, at the same time, we continue to hear potential for very negative economic news in Germany. Maybe you could just talk a little bit about where you're coming up with 25 basis points and what you're looking for that might potentially change that. Number two. On page 25, on the slide, there's a discussion on deposit repricing. You were very successful in charging for deposits in the negative rate environment. Now we're moving into a positive rate environment, and that's going to fall away. How are you managing that? And what are some of the puts and takes on that and impacts on the NIM? And then finally, on the tender, to sum it up, and I just want to see if I'm characterizing this correctly. You're not particularly happy where your spreads are because they don't reflect the fundamental progress of the bank. You have several issues that are trading significantly below par, which you may or may not have needs for. You can tender for them, accrete the difference to par, which is a benefit, but take some take some excess debt out of the system, and hopefully, there will be a positive spread impact. You have done this before, I believe, in 2019 and 2018. Were the circumstances about the same as they are now? Have I characterized it correctly? And is there anything more than that?
James von Moltke	Robert, it’s James, thanks for your questions. I'll take the first and Dixit will take the second two. The outlook, what we have booked so far this year, and the 25-basis-point outlook for the full year, reflect management's best estimate of the credit costs for 2022, based on everything we see at the moment, including a management overlay we've taken, actually, in both the first and the second quarters, recognizing that the economic environment was deteriorating. So, you should think of the 25 basis points as what we would expect in the status quo, including a deterioration in the back

half of the year. It reflects very strong credit going into this environment, and that's absolutely what we see in the portfolio. We did provide a scenario, a disclosure on a scenario, and in order for that scenario to take place, you'd have to have seen a full cut-off of gas supplies to Germany and a rapidly deteriorating environment quickly on the heels of that, and that is simply not what we see.

So, it is a scenario to help investors gauge the sensitivity, but it's not what we see today. The 25-basis-point outlook would suggest we're going to book over 300 million euros per quarter for the next two quarters. And given the run rates and what we've seen in recent months and quarters in the portfolio, we think that would be a reasonably conservative level of CLP to book in the balance of the year, again, given everything we see as of today.

Dixit Joshi

On the second two, on deposit charging, you're right, we've had a good result, including on an annualized basis this year, both the Corporate Bank and the Private Bank, and the initiatives they have launch around charging over the last few years. That, of course, dissipates now with higher rates and going through the zero bound. And as we go through the zero bound in euros, there will tend to be some anomalies in terms of pricing, in terms of NIM compression, but margins then expand as rates go through zero.

On the tender, I think your characterization is a fair one. We would be reactive to where we saw a combination of much higher spreads than we think is fair or warranted, or where we thought there was an adequate liquidity, or where we'd receive investor feedback. And so, again, we want to be as opportunistic as we can around it. As you said, with 2016, 2018, 2020, we'd looked at the significant widening in spreads. We thought that in dollars, compared to euros, that we were perhaps wider than we thought we should be. And so, this, over time, should also lead and act as a catalyst for some spread tightening as well on our curves.

Daniel David (Autonomous)

Good afternoon and thanks for taking my questions. I have three. The first one is just on regulatory headwinds. I think there's been talk of ten basis points from model reviews in H2, but I’m more focused on 2023. Is there any risk of further headwinds from model reviews in 2023, or are there any capital headwinds that we should be watching out for?

The second one is just on the loan book growth, which we've seen in Q2. I note that there's some FX impact, but did the four billion of lumpy exposure drop out? And if you could give us some guidance as to where the lending can be attributed to, so CRE, ABS, or leveraged finance, that would be really helpful.

And then finally, just a bit more of a broad question. I think we've seen some noise in the German press that banks should shoulder some of the macro pain at the moment, either via bank taxes or the SRF fund. I'm just interested to hear your views on whether you think that's likely in Germany, or it's something that you're concerned about going forward. Thanks.

Dixit Joshi

Daniel, hi. I'll take the first two, and James will do the last. Regulatory headwinds, that's right. We saw ten basis points, and we think there are ten basis points between now and the end of the year, likely in Q3. For 2023, I think that's a little too early to provide an outlook there. There's always some risk, as you know, and we do have model reviews and regulatory items from time to time, they do shift between the quarters. And to the extent we have some transparency, we try and provide that as early as we can, like we've done in previous quarters.

Regarding the loan book, we saw in the region of 12 billion euros of growth on a reported basis, ex FX and some hedge accounting effects, that was probably in the region of around 8 billion euros. Within that, as you pointed out, one of the episodic items in the region of around three, four billion euros, did actually drop out. But our Investment Bank grew, on an ex-FX basis, loans by about two billion euros. That was really across all the major lending businesses that we had. In the leveraged debt capital markets businesses, loans were fairly flat. And we'd expect loan growth over the next two quarters in the Investment Bank to stabilize, perhaps slightly higher in the second half of 2022. In the Corporate Bank, we saw about a billion euros of loan growth, again, excluding FX. And this was predominantly in trade finance, as well as in lending. And the Private Bank grew loans primarily in mortgages, and in the International Private Bank, we grew by about four billion euros ex FX. So, what you're seeing is really loan growth on an ex-FX basis at a pace that you've seen in previous quarters. And that's what we're planning for, for the next two quarters as well.

James von Moltke

Daniel, I'll take this last question about macro pain. Look, I guess the first thing is some of these actions around Europe have been characterized as excise taxes or windfall profit taxes. And my own view is that with the German banking sector struggling to earn its cost of capital, we're far away from a point where there's a social argument to take excess profits out of one industry sector and try to redistribute the value to ease the social pain.

We understand the social pain. We feel, I think, a very strong obligation, especially in our home market, but all around the world to be a positive part of society, specifically as our communities address some of the challenges around. I think the best policy response, frankly, is to let the banking sector do what it's here for, to intermediate lending into the economy to support clients, as we go through a difficult time, potentially. And certainly, that's our goal to do, if you like, in the ordinary course, without the need for other redistributive policies.

Jeremy Sigee
(BNP Paribas Exane)

Hi, there. Thank you. On the NII benefit from rising rates, I noticed you used slightly different language. I think James, on the equity call the other day, talked about high twos benefit. Dixit today said significantly higher than two. I'm assuming you mean the same thing, rather than Dixit being more cautious about issuance costs, but I thought I'd just let you comment on that.

And then secondly, a carryover from the other day, previously, when it was 1.5 billion euros benefit, you gave divisional splits. And it was roughly split 50 – 50 between the Corporate Bank and the Private Bank. And so, I just wanted to check if the larger amount, roughly double that now, is still a 50 – 50 split between the two, or whether the benefit is more skewed to one or other division. Thank you.

Dixit Joshi

Sure, Jeremy, hi. Let me try and address that. I think we are

	consistent with what James had said and what we'd indicated at the Investor Deep Dive in March. Now, in March, if you remember, we estimated about 1.5 billion euros from interest rate tailwinds in 2025, as you said, roughly half and half between Corporate Bank and Private Bank with the smaller contribution from the Investment Bank. Since then, of course, the interest rate environment has become much more supportive to future revenues.
	And again, we see that significantly above 2 billion euros in 2025. But at the same time, we also see increased funding costs, as a result of current market spreads that we're seeing. And the point we wanted to make was even when you're looking at just the whole interest rate tailwind, less the increased funding cost minus TLTRO effects, which contractually then drops away, before you get to 2025. What we're seeing is that this is still supportive of revenues in 2025. And we think that delta between March and now on a net basis, adjusting for all of these effects, is in the region to a rounded 1 billion euros. I hope that's helpful.
	And on your second question around the likely business mix. That's right, now in the higher rate environment, it’s tilted slightly now towards the Private Bank, as opposed to the Corporate Bank. Hope that's helpful.
James Hyde (PGIM)	Hi. Thanks for doing this call. I wanted to take Robert Smalley’s question on the gas shut-off scenario de facto further. I just wondered with this 20-basis-points impact that you see on the downside scenario. How top down, or rather, how bottom up is that? Was this an economist put together top-down view? Or did you get feedback from the relationship officers and the credit people working with the big corporates in Germany? It just seems almost too little for that scenario and I think you probably had that feeling from other questions on the call on Wednesday.
	And related to that, even if you don't get total gas shutoff, but you have some production interruptions, etc., do see a procyclicality impact already from this coming winter on the risk-weighted assets from any, even a milder scenario? That's it, thanks.
James von Moltke	Thanks, James. I'll take the question. It's actually both, top

down and bottom up. We did a lot of work over a considerable period of time, so there are three elements of the analysis. One is shocking the macroeconomic variables, which we did. That drives Stage 1 and 2 provisions, and we build that into our view. The next thing we did was a broader based, if you like, ratings downgrade analysis in the industry sectors that we would judge to be most vulnerable. And that was top down.

And then a bottom-up view is what we took to take an estimate of what the Stage 3 impairments would be over time. And there, to your question, we went into those industry sectors, looked for potentially vulnerable areas, and in essence, took a representative sample of potential defaults there. And that was quite granular work.

So, we feel very comfortable with that scenario analysis, as I say, both top down and bottoms up. We were encouraged, as well, with the output of that analysis. And as you may have heard from the comments that Christian offered on Wednesday, as we talk to clients, we're seeing a corporate sector going into a period of uncertainty reasonably well prepared, in terms of the liquidity, the order books they have, and the actions that they're taking to protect themselves from this scenario as it develops.

So, we feel good about that work, and we also feel good about what we're seeing in the credit book, if you like, in preparation. The other thing to think about here, this scenario is not binary in the way that one might think. Time and the remedial actions that can be taken in the economy and society help. And so, it's very path dependent, in terms of how severe that scenario might become.

In terms of procyclicality, not really yet. There was some to do with the war that that we began to see in Q1 and into Q2, but relatively modest. Certainly, if the downside scenario started to manifest itself, you would see some of the procyclical impacts in capital, including the RWA impact from downgrades. We've already had some, whether it's prudent valuation or additional valuation adjustments, as one example, and market risk RWA increases, as another example, that have flown into the capital calculation as we speak.

Generally, we would expect those to eventually normalize and revert. Exactly how that plays out, the timing, is never certain, but we saw a similar procyclical effect in the COVID crisis and then the release of that capital. Also, draws of liquidity facilities was another element that tended to increase the balance sheet and the associated risk rated assets over time. So, we haven't seen that yet. And it is, of course, scenario and path dependent.

Philip Teuchner

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