Deutsche Bank AG

Deutsche Bank Q2 2021 Analyst Conference Call

Wednesday, 28 July 2021 | 13:00 CEST

Transcript

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

CHRISTIAN SEWING

Slide 1 – Strategy execution drives efficiency and revenue generation

- Thank you, Ioana! A warm welcome from me as well
- It's a pleasure to be discussing our second quarter 2021 results with you today
- We are now over half way through our transformation journey and we have continued to deliver against our milestones
- For the second consecutive quarter this year, we have delivered significant profit improvement, driven by growing strength across our businesses
- We generated 1.2 billion euros of pre-tax profit and 828 million euros of profit after tax
- And that's including a negative impact of around 230 million euros from the German Federal Court ruling or BGH ruling on consent for changes to consumer contracts, which we will discuss later in further detail
- Despite a more normalized market environment in the quarter, revenues remained robust, at 6.2 billion euros, down only 1% compared to the previous year. This demonstrates regained franchise strength at Deutsche Bank
- We also continue to make progress on costs. We reduced our adjusted costs excluding transformation charges and reimbursements for Prime Finance from 4.8 to 4.5 billion euros year on year
- And we continue to invest in the execution of our transformation agenda, with more than 90% of our transformation projects now in the implementation phase. They are key contributors to our cost reduction progress
- Risks are well under control and so we continue to make progress towards achieving sustainable profitability
- This quarter, we generated a 5.5% return on tangible equity
- The headway we made across all businesses in the second quarter reinforces our confidence that we will be able to meet our profitability targets
- Finally, we delivered another quarter of progress toward the goals we outlined at our Sustainability Deep Dive in May
- Now let me take you through the highlights of what we have achieved in the first half of this year on slide 2

Slide 2 – Evidenced improved performance in H1 2021

- Our performance over these past six months shows that our 2022 targets and ambitions are well within reach

- Refocusing our business around core strengths is paying off. Revenues of 13.5 billion euros for the first half of 2021 fully support our trajectory to the 2022 revenue goal
- We have reduced adjusted costs excluding transformation charges by roughly 4% year on year
- Coupled with provision for credit losses down 89% on the year to 144 million euros or 7 basis points of average loans, we continue to see an improvement in our operating environment
- We also reduced our cost income ratio to 78% from 87% for the same period last year, which represents significant progress towards our 2022 target of 70%
- And in the Core Bank, the cost income ratio is even lower at 73%
- Let's now turn to profitability on slide 3

Slide 3 – Demonstrating tangible impact of strategic transformation

- Our relentless focus on delivering transformation is reaching the bottom line
- We delivered a 92% year on year increase in our adjusted profit before tax in the Core Bank for the last twelve months to the second quarter, and once again, all four core businesses contributed and are either in line or ahead of their plans so far
- At the same time we have substantially reduced the Capital Release Unit's losses in the course of our transformation. Once again, we are ahead of our plan for de-risking
- And we remain committed to minimising the P&L impact of de-leveraging efforts by the unit
- Let me now turn to underlying shareholder returns on slide 4

Slide 4 – Underlying shareholder returns support 2022 targets

- We remain committed to our 8% return on equity target for 2022 and we see a clear path to that goal
- For the first half of 2021, the Group reported a 6.5% post tax return on tangible equity
- This would be 7.6% when adjusted for transformation related effects and 9.2% excluding the impact of certain external factors outside our control, such as the BGH ruling and the decision to increase the size of the Single Resolution Fund
- In the Core Bank, we are already in line with our 2022 target, with a 9% post tax return on tangible equity on a reported basis and 10% on an adjusted basis, even before the impact of the unforeseen factors

- This level of profitability, combined with a robust capital position, gives us confidence that we are on the right path towards our ambition to return capital to shareholders from 2022 onwards
- Now let me take you through some divisional highlights on slide 5

Slide 5 – Progress on strategic priorities

- The Corporate Bank continues to offset interest rate headwinds through re-pricing strategies and growth initiatives
- We also regained the position of Germany's #1 corporate bank in the recent poll published by FINANCE Magazin. This demonstrates the regained trust of corporate clients and provides a very good basis to grow over the next years
- The Investment Bank continued to benefit from our refocused business model, with another strong quarter of performance in FIC
- We made market share gains in Origination & Advisory, where we were number 1 in Germany in the quarter
- We expect markets to continue to normalize in the remainder of 2021, but we remain confident that a substantial portion of our Investment Bank growth since 2019 is sustainable. As a result, we are keeping our full year outlook to show a 2021 revenue number in line with 2020
- The Private Bank was also successful in offsetting interest rate headwinds with continued business growth, with 14 billion euros of net new business across assets under management and client loans in the quarter and 29 billion euros in the first half year, close to its full year target of more than 30 billion euros
- The Private Bank also completed its first trial migration of a set of Postbank customers onto Deutsche Bank systems. Implementation is running in line with plan
- In Asset Management, assets under management grew by 39 billion euros to 859 billion euros, a new record high, including record quarterly net inflows of 20 billion euros
- In short, the dynamics in all four core businesses show that our re-focused business model is paying off and that our clients are supportive and believe in our capabilities
- Successful execution is increasingly visible in our revenue performance in the Core Bank, as you can see on slide 6

Slide 6 – Franchise strength drives revenue generation

- Revenues in the Core Bank for the second quarter of the year stand at 6.2 billion euros, down only 1% on the year

- As we guided to at our first quarter results, this is in line with the market normalization and seasonality we expected, despite an additional impact of approximately 100 million euros from the BGH ruling
- Revenues in the Investment Bank are 2.4 billion euros, down from the same period in 2020, as a strong performance in Credit Trading and Financing partly offset more normalized volumes in Core Rates, Emerging Markets and FX
- Both our Corporate and Private Bank successfully offset headwinds with either continued deposit re-pricing or business growth, despite some unexpected items for the Private Bank in particular
- Asset Management delivered revenue growth for yet another quarter, boosted by management fees and strong inflows
- On a half year basis, Core Bank revenues have grown by 13% since the beginning of our transformation strategy in 2019, showing significant revenue improvement
- In summary, all our core businesses have proven the strength of their franchises, putting our 2022 objectives well within reach
- Now let me turn to costs, on slide 7

Slide 7 - Ongoing commitment to cost discipline

- We reduced adjusted costs excluding transformation charges and the reimbursements for Prime Finance for another quarter to 4.5 billion euros
- We continue to strongly advocate for a reduction in the size of the Single Resolution Fund, which would result in lower bank levies, however, we now expect this to remain unchanged for next year
- Together with higher than expected contributions to the German deposit protection scheme, these unforeseen external items are now expected to add approximately 400 million euros to our expense base
- And as previously discussed, we do not believe it is sensible to further constrain investment spending to offset these externally driven expenses
- On the cost items we can control, we are keeping our absolute cost discipline and focus and the second quarter has shown that we are in full control, despite the fact that volume driven expenses and investments in controls represent some pressure
- To offset this pressure, we are introducing a series of new cost reduction initiatives, including further workforce optimization, accelerating real estate reductions, further systems rationalization and streamlining internal processes
- Against this background, we reaffirm our commitment to the 70% cost income ratio target

- Supporting our cost income ratio target, we now expect revenues to be better than we discussed at the Investor Deep Dive, based on the resilience we have delivered in first half of the year, business growth and an easing of interest rate headwinds
- Moreover, we now see provision for credit losses in a range of around 20 basis points of average loans in 2021, ahead of our previous guidance, and we expect some of this benefit to carry over into 2022
- The bottom-line impact of these factors helps us offset the cost headwinds from the unforeseen items and we continue to remain committed to an 8% return on tangible equity in 2022
- With that let me now turn to risk management, on slide 8

Slide 8 - Disciplined risk management

- As you know, strong risk discipline is a central pillar of our strategy, across credit, market, liquidity and non-financial risks
- And as discussed, provision for credit losses was 144 million euros this half year, or 7 basis points of average loans on an annualised basis
- We continue to manage a high quality and well-diversified loan book, with strong underwriting standards and we remain vigilant
- Both our market and liquidity risk controls contribute to robust risk management practises
- Importantly, we continue to strengthen non-financial risk management. This is of the highest priority for management and we have made significant investments in improving our controls over recent years
- At the same time, the demands on Anti Financial Crime continue to grow not just for Deutsche Bank but for the entire banking sector. Therefore we announced a fundamental reorganization of our AFC function to become more effective, more flexible and more holistic
- Now let us turn to capital and balance sheet on slide 9

Slide 9 - Robust balance sheet

- In line with the guidance we provided with our first quarter results, we did see a reduction in our Common Equity Tier 1 ratio to 13.2% this quarter, primarily due to the impact of around 70 basis points from regulatory items
- We maintain a buffer of over 270 basis points above regulatory requirements
- Our leverage ratio increased to 4.8% in the quarter, reflecting actions we took to strengthen our capital position

- Our liquidity coverage ratio is at 143%, 67 billion euros above regulatory requirements
- As a result, we can deploy our capital and liquidity strength to support clients in what is still a somewhat uncertain environment
- Let me now give you an update on our progress toward our sustainability targets on slide 10

Slide 10 – Good momentum in achieving sustainability goals

- At our Sustainability Deep Dive in May, we outlined a series of targets for the Group and for each business
- We accelerated our target of over 200 billion euros in cumulative ESG financing and investments from 2025 to 2023 and we set a target of at least 100 billion euros for the end of this year
- I am very pleased to report that at the half year stage, we are already approaching our 2021 full-year plan
- We have been able to generate 99 billion euros of volumes across our businesses and all three of our other wholly owned businesses contributed to this total
- As a reminder, this excludes Asset Management, as DWS is a separate entity with its own sustainability targets. Nevertheless, Asset Management captured more than 3 billion euros in inflows of ESG investments in the quarter
- And finally, in April, Deutsche Bank became a founding member of the Net Zero Banking Alliance
- Before I hand over to James, let me now summarise our progress this quarter on slide 11

Slide 11 – Continued delivery of transformation agenda

- As we promised you at the Investor Deep Dive, our focus remains on executing our transformation agenda, while supporting our clients
- Our top priorities are managing to a 70% cost income ratio and to deliver 8% return on tangible equity in 2022
- Our first half results this year reinforce our confidence in our path
- We have made clear progress in client momentum, which is visible through our revenues and the macroeconomic backdrop has improved relative to the outlook we gave you in our annual report, strengthening our operating environment
- We continue to advance on our key deliverables to support our cost reductions, despite the impact of external factors
- We remain strict and conservative with our risk management framework

- And we are absolutely committed to further strengthening our control environment
- Last but certainly not least, we are making strong progress on our path toward our accelerated sustainability targets
- In short, after two years, we are well on our way to meeting our 2022 strategic and financial ambitions
- With that, let me now hand over to James

JAMES VON MOLTKE

Slide 12 – Q2 2021 Group Financial Highlights

- Thank you Christian
- Let me start with a summary of our financial performance for the quarter, compared to the prior year, on slide 12
- We generated a profit before tax of 1.2 billion euros or 1.4 billion euros on an adjusted basis
- Total revenues for the Group were 6.2 billion euros, down 1% versus the second quarter 2020
- Net interest income has declined by 143 million euros versus the prior quarter, as the one-offs I flagged in April have normalized
- The resulting net interest margin held broadly steady at 1.2% but we expect this to trend down slightly, as the remaining rate pressures feed through. We expect net interest margin to stabilize at slightly over 1%
- While rates have been volatile in recent months, we planned on a conservative basis and still see a modest tailwind to the numbers we shared with you at the Investor Deep Dive in December
- Turning to costs, noninterest expenses were down 7% year on year
- Our provision for credit losses stood at 75 million euros or 7 basis points of loans for the quarter
- In line with our previous guidance, we saw a decrease in our CET1 ratio to 13.2%, which was mainly driven by regulatory items, notably the impact of the final Targeted Review of Internal Models assessments, partially offset by net income generated in the second quarter
- Leverage ratio has increased to 4.8%, up 15 basis points compared to the previous quarter
- Tangible book value per share was 24 euros and 6 cents, up 86 cents or 4% in the year to date

- The tax rate for the quarter was 29%
- Let's now turn to page 13 to look at our Core Bank's second quarter performance more closely

Slide 13 – Core Bank Financial Highlights

- Core Bank revenues are 6.3 billion euros for the quarter, down 1% on the prior year quarter
- For the first half of the year, our revenues in the Core Bank were 13.4 billion euros, up 5% compared to the same period in 2020
- Noninterest expenses were down 3%, mainly driven by lower litigation expenses, as well as reduced restructuring and severance costs
- This takes our profit before tax to 1.4 billion euros, up 90% on the prior year
- We have delivered a 4% year on year increase in our post tax return on tangible equity for the quarter, to 7.8%
- Our cost income ratio for the quarter stands at just under 76%
- Let me turn to costs for the Group on slide 14

Slide 14 – Adjusted costs

- In the second quarter, adjusted costs decreased by 6% year on year, with reductions across all major cost categories
- We saw lower compensation and benefits costs, reflecting workforce reductions, although this was partially offset by a prior year one-off credit from a change in estimate for certain deferred compensation awards
- We saw a decrease in IT costs, largely from lower hardware expenses
- We also achieved a reduction in professional service costs, primarily reflecting lower legal fees
- The decline in other costs was largely driven by lower bank levies, as changes in the input assumptions made by the Single Resolution Board led to additional charges in the prior year quarter
- Our second quarter adjusted costs excluding transformation charges and reimbursements for Prime Finance were 4.5 billion euros
- Transformation charges were 99 million euros, down 15% sequentially
- As we mentioned in the first quarter, we faced an unexpected increase in our contribution to the German statutory deposit guarantee scheme, which we will continue to incur on a quarterly basis going forward

- As we indicated in April, we expect this incremental contribution to be roughly 70 million euros in 2021 and approximately 60 million euros per year thereafter until 2024
- It remains too early to determine if incremental contributions to the voluntary scheme will be necessary
- As Christian mentioned earlier, we will continue to retain our cost discipline to manage tightly all the components we can control, as we remain committed to the cost income ratio target of 70% for 2022
- Let us now move to slide 15 to discuss our provision for credit losses

Slide 15 – Provision for credit losses

- Our stage 3 provisions reduced more than expected this quarter compared to our previous guidance, to 111 million euros, reflecting releases in the Corporate Bank and fewer impairment events across all our businesses
- These were offset by 36 million euros of net releases in our stage 1+2 provisions, from portfolio improvements
- While an improved macro-economic outlook would have resulted in a further release of provisions in stages 1+2, we implemented a conservative management overlay that more than offset this release
- In addition, as in the first quarter of this year, we retained a portion of the management overlay we established in 2020 to account for future uncertainties in the outlook, particularly for the Private Bank portfolio
- We will continue to be focused on prudent risk management and, as Christian mentioned, we would now guide to provisions in a range of around 20 basis points of average loans for 2021, lower than our previous guidance, with positive scope for improvement for the balance of the year if current trends persist
- Let me now turn to capital on slide 16

Slide 16 – Capital ratios

- Our CET1 ratio decreased to 13.2% during the quarter, broadly in line with the expectation we outlined in April
- This reflects a decrease of approximately 70 basis points due to Risk Weighted Asset inflation from TRIM decisions and the CRR2 go-live, 10 basis points less than our previous guidance
- Looking at the balance of the year, we now see a remaining net impact of approximately 20 basis points on the CET1 ratio from further regulatory items, such as the new EBA guidelines on the definition of default, the implementation of which was delayed and is now expected to follow in the second half of the year

- Within this 20 basis points guidance, we also reflect benefits expected from completing our remediation efforts on certain historical ECB findings
- As before, the ultimate timing and magnitude of these regulatory items remains uncertain and subject to final ECB decisions, but we see no deviation from our long term trajectory and we remain committed to a CET1 ratio greater than 12.5%
- All in all, we expect to end the year with a CET1 ratio of around 13%
- The second quarter CET1 ratio includes a deduction of an additional 275 million euros of common share dividend, on top of the 300 million euros we deducted last quarter
- Our fully-loaded leverage ratio increased by 15 basis points to 4.8% this quarter
- The increase was largely driven by Additional Tier 1 capital issuance and net income. Our pro-forma leverage ratio, including ECB balances, was 4.3%
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 18

Slide 18 – Corporate Bank

- Profit before tax in the Corporate Bank was 246 million euros, a more than threefold increase versus 78 million euros in the prior year quarter, while adjusted profit before tax rose to 274 million euros
- This equates to a 6.5% reported and a 7.4% adjusted post-tax return on tangible equity for the quarter
- Revenues were 1.2 billion euros in the quarter, 8% lower on a reported basis and 6% lower year on year, excluding the effects of currency translation
- In the current quarter, the impact of episodic items was approximately 90 million euros lower than in the prior year, evenly split between lower benefits from recoveries related to credit protection and portfolio rebalancing actions
- Adjusting for these effects and currency translation, underlying Corporate Bank revenues would have been essentially flat, as deposit re-pricing and other business initiatives offset interest rate headwinds of approximately 80 million euros
- At the end of the second quarter, charging agreements were in place on approximately 87 billion euros of deposits, which resulted in revenues of 85 million euros, well on track to generate around 300 million euros on an annualised basis
- We continue to expect the combined effects of the moderation of interest rate headwinds based on current interest rate curves, the increasing quarterly contribution of deposit re-pricing as well as business momentum to support our revenue outlook for subsequent quarters

- For the full year 2021 we expect revenues to remain essentially flat compared to the prior year, which was our expected jump off point for 2022, as we guided at our fourth quarter results
- Noninterest expenses decreased by 10%. Adjusted costs excluding transformation charges declined by 5% reflecting headcount reductions, non-compensation initiatives and benefits from currency translation, partly offset by the non-recurrence of a benefit from a change in the estimate related to certain deferred compensation awards in the prior year
- The current quarter included significantly lower litigation charges compared to the prior year quarter
- Compared to the first quarter, loans and deposits remained essentially flat, while the year on year increase in RWA mainly reflects regulatory inflation related to TRIM
- We released 20 million euros of provisions for credit losses in the quarter, driven by unusually low impairment events, compared to provisions of 144 million euros in the prior year quarter
- Turning to revenues by business segment in the first quarter on slide 19

Slide 19 – Q2 2021 Corporate Bank revenue performance

- Corporate Treasury Services revenues were 10% lower year over year on a reported basis or 9% excluding currency effects, mainly driven by lower benefits from episodic items
- Interest rate headwinds were partly offset by charging agreements and other business initiatives
- Institutional Client Services revenues were essentially flat excluding the effects from currency translation, but were 4% lower on a reported basis. Institutional Cash Management and Trust & Agency services grew on an underlying basis, while Securities Services declined
- Business Banking was 7% lower year on year, with underlying business growth more than offset by a revenues decline in contributions from episodic items and interest rate headwinds
- I'll now turn to the Investment Bank on slide 20

Slide 20 – Investment Bank

- Revenues for the second quarter of 2021 excluding specific items decreased by 10%
- Our trading businesses were impacted by the reduced market activity during the quarter compared to the heightened levels seen in the second quarter of 2020

- Compared to the second quarter of 2019, Investment Bank revenues are up 31%, with both FIC and O&A significantly higher
- Noninterest expenses were essentially flat year over year, as were adjusted costs excluding transformation charges
- The Investment Bank generated a pre-tax profit of 1 billion euros and a return on tangible equity of 12.5% in the second quarter, both an increase on the prior year period
- The cost income ratio for the quarter was 56% and continues to be well ahead of our full year expectations
- Our loan balances reduced year on year, primarily driven by the repayment of revolving credit facilities. However, versus the prior quarter they are up, driven by activity in our Financing businesses
- Leverage exposure was higher, impacted by increased lending commitments
- The year on year increase in risk weighted assets reflects the impact of regulatory inflation, primarily from TRIM, with underlying business growth essentially flat
- The improving credit environment and near absence of impairment events led to materially lower provisions across businesses compared to the elevated levels of the second quarter of 2020
- Turning to revenues by business segment on slide 21

<u>Slide 21 – Q2 2021 Investment Bank revenue performance</u>

- Revenues excluding specific items in FIC Sales & Trading decreased by 9%
- Financing and Credit Trading revenues were significantly higher, driven by strong performance across Financing, and within Trading our Distressed business continued to perform very well
- As expected, revenues declined across our Rates, FX and Emerging Markets businesses as market conditions normalized when compared with the heightened levels seen in the second quarter of 2020
- In FX, revenues were significantly reduced due to low levels of volatility and compressed spreads
- However, our franchise strength was evidenced in the recent Euromoney 2021 FX survey which saw Deutsche Bank ranked number three globally, up from fourth the previous year
- In Emerging Markets, revenues in Asia were impacted by lower client activity specifically in the first half of the quarter. This was partially offset by growth in both the CEEMEA and Latin America regions, as those refocused businesses continue to perform well

- In May, we also launched our new Institutional Client Coverage Model, starting in European Rates & European Investment Grade Credit
- The new model is underpinning and driving our quarter on quarter electronic market share gains in those two businesses
- Revenues in Origination and Advisory were essentially flat versus prior year, while in our home market, we regained our number 1 rank
- Debt Origination revenues were lower. Materially higher Leveraged Debt Capital Markets revenues were more than offset by a reduction in Investment Grade related revenues, as issuance levels normalized versus the extreme levels of the second quarter 2020
- ESG continues to be a focus area. We rank third globally for the year to date on ESG related debt products
- Equity Origination revenues were slightly lower year on year, predominantly driven by lower follow-on activity, which reached record levels in the second quarter of 2020
- Significantly higher advisory revenues reflected the continued growth in M&A activity
- Turning to the Private Bank on slide 22

<u>Slide 22 – Private Bank</u>

- The Private Bank reported a pre-tax loss of 11 million euros reflecting a negative impact of 222 million euros related to the BGH ruling in April 2021 essentially disallowing negative consent related to fee changes in consumer contracts in Germany
- The 222 million euros effect reflects two components:
- 128 million euros of litigation provisions, mainly for potential client reimbursements, as well as foregone revenues of 94 million euros related to suspended fees, of which 93 million euros in Private Bank Germany
- We expect this temporary revenue impact to continue into the third quarter and to a significantly lesser extent in the fourth quarter, when we expect the majority of pricing agreements to have been accepted
- Adjusted for this and specific revenue items as well as transformation and restructuring and severance expenses of 133 million euros, the Private Bank would have achieved a profit before tax of 309 million euros, on an adjusted cost income ratio of 80%
- On the same basis, the adjusted post-tax return on tangible equity of 7% would have been in line with last quarter
- Reported revenues were 2 billion euros, up 3% year on year or up 8% if adjusted for the BGH ruling, as interest rate headwinds of approximately 100 million euros

were more than offset by continued business growth in an improved market environment. The prior year quarter also included negative impacts related to our strategy execution

- Business volumes grew by 14 billion euros in the quarter, with 10 billion euros of inflows in assets under management and 4 billion euros of net new client loans
- With this, the Private Bank attracted 29 billion euros after only six months into the year against a full year target of greater than 30 billion euros
- Adjusted costs excluding transformation charges declined by 4% across both compensation and non-compensation costs, including savings from the execution of our strategic plan
- Provisions for credit losses were 19 basis points of loans or 117 million euros and reduced by 48 percent year on year reflecting tight risk management, the extension of moratoria in Italy and Spain as well as the high quality of our loan book. The prior year quarter was also impacted by the macro-economic outlook at the peak of the COVID-19 pandemic

Slide 23 – Q2 2021 Private Bank revenue performance

- As shown on slide 23, revenues in Private Bank Germany declined by 1%
- Adjusted for the temporary impact of 93 million euros from the BGH ruling, revenues in PB Germany would have increased by 7% year on year
- The prior year quarter included negative impacts of approximately 45 million euros arising from the German legal entity merger
- Continued headwinds from deposit margin compression were more than compensated by growth in loan revenues and fee income from investment and insurance products in recovering markets
- The business achieved net new client loans and net inflows in investment products of 2 billion euros each in the quarter
- In International Private Bank net revenues increased by 9% despite headwinds from continued deposit margin compression and negative FX translation effects reflecting continued business growth in recovering markets
- Net new business volumes were 8 billion euros, including 5 billion euros of net inflows into investment products. Growth was especially pronounced in Germany and Asia
- Private Banking and Wealth Management revenues increased by 10% excluding specific items and FX translation effects. Sustained momentum in investment products and loans, in part supported by previous hiring of relationship managers, offset headwinds from lower interest rates
- Personal Banking revenues increased by 6% if adjusted for the one-off re-hedging charge in Italy in the prior year. Growth was supported by higher investment product revenues in the current quarter

Slide 24 – Asset Management

- As you will have seen in their results, DWS had another successful quarter compared to the previous year
- To remind you, the Asset Management segment on page 24 includes certain items that are not part of the DWS stand-alone financials
- Assets under management of 859 billion euros have grown by 39 billion euros in the quarter, driven by positive market performance and positive net flows
- Net flows in the quarter were a record 20 billion euros, driven by substantial inflows across all product pillars and regions. Positive flows continued in targeted areas of Passive and Alternatives, with Cash reversing some of the outflows observed in the first quarter
- The business also attracted 3.8 billion euros into ESG products during the quarter
- Profit before tax of 180 million euros in the quarter increased by 59% over the same period last year, driven by improved revenues
- Revenues grew by 14% versus the prior year, primarily due to a strong increase in management fees of 76 million euros, as improvements in equity market levels and consecutive quarters of net flows more than offset the impact of continued industry wide margin compression
- Noninterest expenses decreased by 5 million euros or 1%, with adjusted costs excluding transformation charges up 3%
- The increase in costs was driven by higher variable compensation resulting from the DWS share price increase, platform investments and higher asset servicing costs due to the increase in assets under management
- Nonoperating costs reduced significantly as the prior year included severance and restructuring charges for organizational and executive board changes
- The divisional cost income ratio improved by 10 percentage points to 63%
- Turning to Corporate & Other on slide 25

Slide 25 – Corporate & Other

- Corporate and Other reported a pre-tax loss of 39 million euros in the quarter, compared with a pre-tax loss of 165 million euros in the same period last year
- The loss included 60 million euros of funding and liquidity charges not allocated to the businesses, consistent with our prior guidance to remain at around 250 million euros in 2021
- The year on year improvement in valuation and timing differences was driven by non-recurrence of adverse movements in interests rates in the prior year period
- This was partly offset by a smaller benefit from lower than planned infrastructure costs that have not been charged to business divisions
- We can now turn to the Capital Release Unit on slide 26

Slide 26 – Capital Release Unit

- The Capital Release Unit recorded a loss before tax of 258 million euros in the quarter, a significant improvement to the prior year
- Revenues were negative 24 million euros this quarter, down from negative 66 million euros in the same period last year
- De-risking, risk management and funding impacts were partly offset by positive revenues from the Prime Finance cost recovery and from reserve releases, reflecting market conditions
- Adjusted costs excluding transformation charges declined by 45% reflecting lower service costs, the absence of incremental bank levies that we recorded in the second quarter of the prior year, and lower compensation costs
- Compared to the second quarter of 2019, adjusted costs excluding transformation charges have been reduced by 61%, ahead of our internal plan
- Leverage exposure was 71 billion euros at the end of the second quarter, down 30% compared to the prior year quarter and reflecting a 10 billion euro reduction from the previous quarter
- These reductions were primarily driven by de-risking and lower Prime Finance leverage. In addition, we saw a lower than expected impact from the implementation of the Standardised Approach for Counterparty Credit Risk
- RWAs were 32 billion euros at the end of the second quarter, of which 23 billion euros were from Operational Risk. We saw reductions in credit CVA and market risk, bringing us to a 24% decrease versus the prior year quarter
- We continued to make good progress on de-risking the portfolio in second quarter, focusing in particular on complex or illiquid positions that we were successful in eliminating

- Since the second quarter of 2019, the division has reduced Leverage exposure by 71% or 178 billion euros and RWA by 50% or 33 billion euros
- Looking forward, we expect to be at, or ahead of our 2022 targets for RWA and Leverage Exposure by year end 2021
- This includes completing the transition of our Prime Finance platform
- We expect this transition to release approximately 25 billion euros of leverage by year end
- Migrations of client balances are already underway and will accelerate over the third quarter
- For the remainder of the year we expect negative revenues in the Capital Release Unit
- We are on track to hit the cost reduction targets we set out in the Investor Deep Dive
- Turning to the outlook on slide 27

Slide 27 – Outlook

- Christian talked about the continued execution of our strategic agenda and the progress we have made this quarter, as we look to our 2022 targets
- Beyond the improvements to our control environment mentioned earlier, our top priorities remain managing to the 8% return on tangible equity ambition and a 70% cost income ratio
- On revenues, the improved trajectory in the Core Bank shows that we are operating at a level that puts our goals well within reach and we see continued momentum in our client franchise
- We remain focused on diligent cost management, notwithstanding the unforeseen and uncontrollable items which led to our target adjustment for 2022. We do not think it is prudent to starve the company of investments to offset these items
- However, our 2021 pre-tax profit expectations have improved over the course of the year, despite higher expenses, reflecting stronger revenues and lower credit provisions
- We have been and will be disciplined on risk management and will continue to manage the balance sheet conservatively
- As discussed, we have revised our guidance for provision for credit losses to around 20 basis points of loans for the full year 2021 and we see a positive trajectory if current trends persist
- We reiterate our target of a CET1 ratio greater than 12.5% and we continue to target a leverage ratio of approximately 4.5%

- We remain focused on our capital return objectives. We have deducted 575 million euros for dividends from first half 2021 earnings under standard ECB rules in the consolidated CET1 capital calculation. We will continue to assess capital distribution options for 2022
- With that, let me hand back to Ioana and we look forward to your questions

<u>**Question and answer session**</u>

Tom Hallett (KBW)

Hi, guys. Thank you for taking my questions. Firstly, could you just walk us through the building blocks for the incremental 600 million euros in revenues by division, please, and how the recent curve developments have been incorporated into your planning, if at all? And then secondly, the 8% return target has remained flat, but when I factor in the bump in revenues and moderate provision somewhat, I would get to an increase in your ROTE target, even after adjusting for the rising costs, so are there some one-offs of something we should be considering? Any commentary around that would be great.

And I'm going to be a bit sneaky and ask a third question. You're guiding towards a lower risk charge even for the next year now, but the majority of the best performance has been from the release or prior-period reserve build. It looks like you've now released a significant portion of those made last year, which strikes me as quite high versus your peers, but you also see the supervisor remaining pretty cautious on credit risk too, so what gives you the confidence on moving guidance already? Thank you.

Christian Sewing

Thank you, Tom, for your questions. Let me start to answer that, and then, James, just chip in for additional comments. To your revenue question, let me go through the building blocks, as you're saying, and I'm doing it business-by-business, but overall our confidence in higher revenues, Tom, really goes back to the positive development which we have not only seen now for the last quarter or the first quarter but actually for the last four quarters in all four core businesses.

And what we can do is we can go back to our four businesses and compare our 2022 revenue targets, which we outlined at the IDD in December, and compare this now with our view after the first six months, but also after looking at the transformation over the last 12 to 18 months. So let me start with the Private Bank. First of all, let me say that I'm really happy with what we see. There is clear growth in the investment business and on the credit side. Remember, the prepared remarks we sent, we almost, or we actually, reached our full-year target in new investment business after six months' time. And obviously, that will spark the revenues also, going forward.

Same on the credit side. Really good momentum, in particular on the mortgage side with good margins. Don't forget that we are selectively repricing deposits in that business, so actually we see ourselves fully on track to achieve the 8.3 billion euros revenue number which we gave to you on the IDD. I would even say there is upside because with the momentum in the business we see right now, I do believe that we are ending this year with a 8.2 billion euros number with the growth rates which we see right now, in the last six months, but also the momentum in the business. I think 8.3 billion euros is a conservative pick.

Same actually goes for Asset Management. You remember our plans for Asset Management in the IDD was at, I think, 2.3 billion euros for the year-end 2022, and given the development which we have seen so far, we will outperform this. Looking at Q1 and Q2, the inflows which we are seeing, and it's actually continuous inflows, business momentum is very good, it's actually excellent. The run rate we see now in this business points to almost 10% higher than the plan which we have for the year 2022. So clear outperformance on that side.

On the corporate banking side, the underlying business in the segment has grown steadily since 2019, and actually as a result of four measures which we have implemented and which we are working on day by day. It's the core initiatives such as the business with platforms, FinTechs and e-commerce providers, we see the growth rates there. Very successful our growth in the Asia-Pacific business, but also in the German Business Banking you will remember that we launched a specific German Business Banking initiatives last year, in October. It really goes well.

We have further positive development on the charging agreements which we have in place now for, I think, 87 billion euros of deposits, and I can tell you we are not stopping here. Obviously, we won't see those kinds of jumps anymore like we have seen over the last 15 months, but it will further increase. But even these 87 billion euros of deposits will bring us, on an annual basis, 300 million euros of revenues. And we put even more focus, and that's what Fabrizio Campelli and Stefan Hoops are doing, more focus on the lending business, and finally we can see, and we could already see that in June but also now in July, that the lending business also in Germany, in the Corporate Bank, is gaining momentum, and we are putting more capacity and focus on that.

Furthermore, James always said in the last quarters that the headwinds from interest rates are getting lesser in particular in the Corporate Bank, so in this regard, with a jump-off which we estimate this year of 5.2 billion euros, potentially even slightly better, and then the underlying growth we have and all the items we have told you, 5.5 billion euros is definitely achievable. So we are confident about that.

Let's talk about the Investment Bank as the fourth business. I think also we have shown now for the last four quarters that we can gain market share there, where we want to play and where we think we are relevant, and that's even in a normalised market environment, I think Q2 is nothing else than the best evidence for that. And also, we are seeing what we have told you in particular in the IDD and in the first quarter, that we see a very good degree of sustainable earnings from three or four items. Client reengagement, looking at our CDS price, looking at the overall momentum and also robustness of the bank, clients are reengaging, coming back to us and simply are doing more trades. And it's our really good financing franchise which obviously also contributed a lot to Q2.

So now, looking at the number which we have given you for 2022, of 8.5 billion euros of annual revenues, as the target for 2022, and taking into perspective where we are right now, what we see, this 8.5 billion euros is clearly a conservative number. We will be north of 9 billion euros for this year. We see the momentum, we have the market share, and therefore I think 8.5 billion euros is again conservative and there is upside.

Next to all these items, i.e. the four businesses which I tried to describe, and again James can give you more detail on this, we have further upside in some treasury positions, in particular on the interest rate curve but also in our funding costs, that again is the smaller-three-digit-million euros amount which you can add. And therefore, at the end of the day, we are highly confident that we can outperform the number which gave to you on the revenue side in December 2020, and I believe that we have an absolutely credible path to go to 25 billion euros, or actually to more than 25 billion euros.

On the CLP side, let me answer that, first of all, I'm very happy with the risk management which we have shown now for years, but in particular also throughout the COVID crisis, and it's simply, on both levels, an outstanding risk management, i.e. on the portfolio level but also on an individual level, when you take into account some happenings in particular in Q1, which we avoided at Deutsche Bank.

So in the first six months, as James said, we had, on an annualised basis, 7 basis points. Of course, this number is too low, but we should also remember what we said at the beginning of the year, Tom, and that was approximately above 30 basis points of loan loss provision expectation for 2021. We believe now, with looking at the portfolio, the economic development, the upgrade, downgrades in the portfolio, that 20 basis points is a conservative pick for 2021.

You know that for 2022, actually, we planned something between 25 and 30 basis points, again at a time in December 2020 when the economic outlook was more vague than it is right now. Looking at the portfolio behaviour, the robustness of our clients, I can see upside to that number, which we haven't yet even planned for. So clear upside on the revenue and on the CLP side.

Now, to your last question, why is RoTE not even higher than 8%? Look, at the end of the day, I firmly believe that coming to an 8% RoTE is our target. We want to achieve that, this management team is laser-focused on this one, and therefore let's only talk about the answer to that when we've already achieved the 8% RoTE. And there is a way to go for the next 18 months, but hopefully with the comment on revenues, our clear discipline that we have on costs, and the risk discipline, I'm confident to get there.

James von Moltke

Tom, I have very little to add to Christian's answer. I would just say on the curve, look, it's moving every day. We obviously update and refresh our analysis constantly as well. As of the end of the second quarter, we would've had upside of as much as 150 million euros in revenues. Constant balance sheet to our plan assumptions for the curve. That's probably halved in the month of July so far, a little bit more than halved.

And as Christian mentioned, we probably have about 100 million euros of benefit coming through on funding due to balance sheet efficiency and also improved spreads in our unsecured funding. So, we have a bit of a tailwind there as well. On the CLP, again, very little to add. We think the allowance is prudent. We think we've taken the right actions in terms of overlays. We don't think there's a lot of overbuild to still release which as you know has perhaps been a characteristic of some of our peers where we've been very clear throughout the crisis that we've taken, we think, appropriate steps methodologically and otherwise to ensure we had a prudent and appropriate allowance at all times.

I'd just focus you on page 14 of the supplement where we have the asset quality details and carrying an allowance of almost 4.9 billion euros in total is I think a very comfortable level for us.

Anke Reingen (RBC)

Good afternoon and thank you very much for taking my questions. The first is on costs. I just wondered if you can give us some comfort that you're not losing focus on costs? I mean you're still running at a cost ratio 80% group, 76% core bank, which is still some way off the 70% target. How do you feel comfortable about dropping the absolute cost target may be a bit premature? And then just thinking about if your revenues come in at the 24.4 billion euros like the old target, would we then be back to the 16.7 billion euros cost target or is it basically moved to 17.1 billion euros?

And then lastly, just coming back to what you just mentioned on the positive comments on the Corporate Bank, the flat revenues 2021, look a bit challenging based on the Q2 rates. Should we basically assume that corporate banking revenues have dropped under your assumptions in Q2? Thank you very much.

Christian Sewing

Well, let me start and then I hand over to James. Look, very fair question on the cost side, but with everything I have, I can tell you our focus on cost and of course in particular on the controllable part of the cost is unchanged. We will not change anything in terms of our attitude on costs. So, therefore you have the full commitment and passion of the management board and the leadership team to actually further reduce our costs. You are completely right. In order to get to 70% cost income ratio, there is a way to go.

And therefore, we are always working on the three-four items which we have said before. Number one, it's obviously the normal cost reduction, which are in particular supported by our key deliverables, which are overseen by the Chief Transformation Officer. There is a big part to come from all the initiatives which we already obviously kicked off and which will pay and reduce our costs in 2021 and 2022.

Number two, you will see that we have other operating costs and lower restructuring and severance costs next year which will also be part of the reduction in the cost income ratio.

And number three, James said it, of course you have some with the really positive momentum we see on the revenue side. You have some volume-related costs where we now decided in the second quarter that we have further cost measures and kicked off further cost measures in order to actually compensate for that.

And we have done it quite successfully in the second quarter, otherwise we wouldn't have been able, despite the overall increase in revenues in Q1 and Q2, to actually reduce the cost to 4.5 billion euros in Q2. So, therefore, there is nothing like loosening on the cost, not at all. The full focus. And I do believe with that i.e. the cost reduction in the normal operating basis, lower litigations, lower restructuring and severance, we will get to the 70%, and everything what is volume-related we try to offset and we've been very successful in Q2 about it. With that, I would hand over to James.

James von Moltke

Thank you. Anke, I can only underscore what Christian just said. Look, every measure that was part of the targeting to 16.7 billion euros is underway and on track as we sit here today. So, there's no loss of focus on execution and as

Christian mentions, we've initiated a set of additional cost measures in order to offset what we see as volume and control-related costs.

So, in a sense, we are redoubling on our efforts here. There's always uncertainty about a revenue environment but I think our outlook is certainly skewed to the upside relative to the 24.4 billions euros that we shared with you in December as Christian has gone through. And we always have to be prepared for a downturn, of course, and there I think the volume-related costs that we've called out would certainly help. But we think there's a fair amount of support, if you like, in the revenue outlook.

We intend to invest against the revenue outlook that we've provided. On the Corporate Bank run rate, I would say we're on track with what we have planned to do. Of course, it's been heavy sledding for the Corporate Bank, facing the headwinds that it has on interest rates and other factors. But as Christian outlined, they've been very successful under Stefan Hoops' leadership. Just executing on the plans that we laid out for you in 2019 and again in 2020 to drive growth both if you like organically from the existing portfolio and based on new initiatives going forward.

And we're making the right investments we think to underscore that. So, from our perspective, we do understand it's a higher growth rate than perhaps some of the other businesses have, 2021 into 2022. But we see the underlying momentum that supports that and as we've said for some time as the interest rate headwind falls away, that underlying momentum should simply go through to the top line.

Christian Sewing	And one last comment supporting James but to your specific question, yes, I do think we've seen the low revenue number in Q2. So, all we can see from the forecast is that Q3 and Q4 are turning around.
Stuart Graham (Autonomous Research)	Hi, thanks for taking my question. I had two, please. Can you say how much of Q1 and Q2 revenues in the Investment Bank came from that Zim distress trade? And whether there are further unrealised gains assumed to be booked in the second half? And then the second question is on the BGH ruling. How many complaints or requests for address have you received so far and can you say what percentage of clients have signed up to your recent letter

inviting them to consent to paying higher fees? Thank you.

James von Moltke

Stuart, I'll start and Christian may wish to add. On Zim, obviously we're happy with the developments around Zim-integrated shipping. As you may be aware, a position that was built up over several years in the distress debt trading business that arose from making markets in the debt instruments of that company. But over time we built a zero basis position also in the equity of Zim.

Together the debt and equity revenues from Zim in the first half have represented 300 million euros of revenues, approximately. 170 million euros of that in the second quarter. So, it's certainly been a help for the revenues but it really doesn't change directionally the story around our performance in both the first and second quarters in FIC. Driven of course by very strong results in credit also outside that one position.

Looking to the future, we continue to hold a significant equity stake. We're subjected to liquidity restrictions on that equity stake. We have a significant reserve to reflect the lack of marketability and don't necessarily expect that to change in the near term. Over time, of course, we would seek an orderly exit and realisation over time that liquidity reserve would come down. But it's too early to say when over what period that was likely to take place.

Turning to the BGH item that you mentioned, we're tracking obviously very carefully the customer responses. And let's start with the outreach, if you like the repapering exercise. That commenced at the beginning of July. We're working hard to bring as many of those customer agreements to completion during the third quarter.

Obviously, it's in our interest to have the foregone revenue impact for a short a time as possible on those current accounts. So, as isolated as possible to Q2 and Q3. There is a possibility a small amount may still dribble into Q4 but we do expect in and around the 1st of October to have closed off the lion's share of the customer acceptance of revised fee schedules.

On the question of the restitution cost, as you saw we booked a slightly higher reserve in the quarter than we'd initially called for. As it happens, we've also booked in that litigation the cost of operationally executing on the restitution and the repapering. So, there's a significant amount of that reserve that is restitution cost and then an additional amount that represents the operational cost.

We think that reserve is appropriate and perhaps even conservative against prior experience dealing with similar situations. And as of today, I won't give you the precise numbers, but the actual customer inquiry for restitution is running below the level that we would've expected supporting that reserve impact. So, hopefully that's clarity for you on those questions.

Stuart Graham

That's great. Just on the Zim because I think your stake is worth 500 million dollars but you're saying you mark that to market but you have a reserve against it so we shouldn't just be assuming that the 500 million dollars gains are coming in the second half. Is that right?

James von Moltke

That's right. So, it is partially the market value of the equity position is partially already recognised in revenues but there is a significant reserve for illiquidity that is held against it so future revenues at the current stock price, of course, it'll depend on both the stock price development and the reserve release but that is now marked daily including the reserve amount.

Kian Abouhossein (JP Morgan)

Yes, thanks for taking my questions. The first question is related to slide 44 just a more detailed question around how we should think about the loan growth and particularly in the financing business as you highlight lending growth in the Investment Bank and how do I square that as the US wholesale funding growth target? So, I take this together in that context, what kind of financing exposures are we or should we be thinking of in context of ongoing growth? If we take talk about ongoing growth but also what you're financing and if I'm putting one and one together correctly.

Secondly, on IT expenses, you're running at around 4.4 billion dollars and I'm just wondering how we should think about the future of IT expenses beyond 2021 into the future? Is this a number that you think will be continuously creeping up as you are improving your RoEs or do you think this is a level that you are happy in terms of investment levels going forward?

James von Moltke

I'll start and Christian may want to add. I'm not sure exactly the connection that you are seeking to make about the loan volumes and what it sounded like dollar funding. So, you may need to repoint me. But overall, I think the comments we'd make on page 44 is we were pleased with loan growth developments as you can see in the Private Bank and Investment Bank. Corporate Bank as you may have seen also from other peers has been a little bit slower to develop than we would've expected, although late in the quarter and I think the trajectory we're still confident about growth coming back into that market.

The investment banking loan balances are a mix of things but as you say a relatively significant amount of structured lending that is split between dollars and other currencies, all of the dollar piece of that is of course built into our overall dollar funding base and so doesn't present a significant burden frankly. It's been relatively speaking steady in terms of dollar funding.

On the IT expenses, it's an area we've been looking very, very carefully at. As you've heard I think over the years, for one thing there has been what I would call deferred investment that we've had to catch up on and we've been talking about that for a while. We're making very good progress on a series of relatively large scale investments that we've been building and over time those investments should result in significant savings in terms of applications, data, and generally our technology estate.

We'd obviously like to accelerate as much as we can the realisation of benefits in technology. So, the short answer to your question is we do believe that we will be able in time and it's part of our planning for 2022 and beyond to reduce our technology expenses all the while preserving an investment budget in technology that we think is appropriate for a company of our size, scope and scale.

And in fact, one of the benefits of the investments we've been making whether that's in data or now in the transition to cloud and also elsewhere is that the efficiency of investments is accelerating in terms of just more value of our investments per year of spent and impact especially on the frontend with clients.

And so that's been encouraging. Lots of work to do, as you know, but I think the next 18 months are a really critical period for that execution and really then delivering the benefits that we've been working on now for several years.

Christian Sewing

Kian, one more word on the Corporate Bank lending. I think it in particular comes now from two directions. Number one, you can see in particular in Europe that the uncertainty of our corporate clients with regard to the economic development is slightly reducing. So, people start to invest again, in particular also to invest into making their business greener. So the transformation part and the ESG part of financing us is getting more and more traction here. That's number one.

And number two, you can also see that during the crisis, a lot of the German corporate clients have actually used their own liquidity, their own capital, to go through this crisis and did not really rely on the banking facilities. So, that is changing a lot. And therefore, we could already see in the last month of the second quarter that there is starting momentum on the corporate client side to increase lending and hence, we are quite optimistic for Q3 and Q4 in this regard.

Kian Abouhossein

Thank you. That's very clear answers. Just in terms of the lending level in the investment bank, shall we think about similar growth rate that we saw in the second quarter and in terms of financing costs as a lot of the things like structured credit are dollar related, is there any headwind coming from dollar related financing considering you mentioned the funding improvement going forward?

James von Moltke

One thing you need to understand is the Investment Bank quarter end loan balances can be quite volatile based on just which transactions have closed versus in the pipeline in a point in time. So, the direction of travel, Kian, we think is up. We do see loan growth opportunities. Opportunities to put the balance sheet to work.

But the comparisons on any given quarter can move around given the episodic nature of some of this. On the financing costs, obviously it's all blended in the sort of percentage of dollar versus euro in our funding cost is blended in. Interestingly, as we've called out before, the geography of a portion of that funding cost that is based on swaps is asymmetric as to whether it's in that interest income versus other income.

So, it's a little bit harder just to pull out for you what the impact on funding would be of a rising dollar balance sheet but as I said earlier, we don't see a mix shift as likely in that balance sheet growth as it comes. It's likely to be steady from a mix perspective from where we've been in the past.

Andrew Lim (Societe Generale)

Hi, thanks for taking my questions. I'd just like to cycle back to revenues again. You've talked a lot about 2022 revenues but on 2021 revenues, you're still guiding to group revenues being flat on 24 billion euros and this is despite the fact that the first half is tracking nearly a billion euros higher on revenues versus the first half of last year. So, I'm just wondering how you're looking forward to the second half? Is there something untoward that we should expect that should cause revenues to be one billion euros lower or should the conclusion be that 24 billion euros is a low ball guidance there from yourself?

And then my second question is on that prime brokerage business that gets transferred later on this year. Could you remind us what the revenue and cost impacts would be once that transfer takes place? Thanks.

James von Moltke

The guidance reflects really seasonality that is typical and also some conservatism about the outlook in terms of the growth that is still to be captured this year. Without taking anything away from the momentum that we've talked about, I wouldn't want to go into low ball or otherwise given it's obviously our disclosure and best view.

But we certainly see, as I say, a strong year this year, especially relative to the outlook we had at the beginning of the year and especially in light of some of the headwinds that we faced this year that were unexpected. On prime brokerage, as I mentioned, the balances are beginning to transition over to BNP Paribas. We're obviously pleased about that given it's a significant undertaking both on technology and the client management side and people are also transitioning over BNP Paribas.

As I mentioned, the leverage exposure impact would be about 25 billion euros from where we are now. The expenses around that 100 million euros ballpark, a little less than 100 euros million that we pull out of our numbers is the amount that would simply go away once the transition is complete. There's a little bit more as you know that is stranded that we're working on separately to take out around the prime brokerage business.

But one of the benefits of this transaction is it has given us obviously much more time to work on that on preparation of removing the stranded cost and that's then built into our view of CRU into next year.

Andrew Lim

Are there any associated revenues that we should be aware of?

James von Moltke

No. The revenues are passed to BNP Paribas as part of the transaction. What we do recognise as revenue is that expense recovery which exactly offsets the call it 100 million euros, little less than 100 million euros, that we show you in our expense disclosures.

Magdalena Stoklosa (Morgan Stanley)

Thank you very much and congratulations on the quarter. I've got two questions. One on the Investment Bank and one of your asset gathering business. So, really when we look forward in the IB, where would you like to see your wallet gains from here? So, you talked about capital markets and advisory in Germany, in your prepared comments, but where else would you expect your position to strengthen? So, that's question number one.

And question number two, when you look at your integrated model between DWS and the Wealth Management, where do you see the biggest opportunities from group perspective and how do you think about the scale in this business? Also, because of course as we've seen very strong net new money momentum on both sides. Thank you.

Christian Sewing

Thanks, Magdalena. Let me take the first question. Number one, with the focus in the Investment Bank which we have given ourselves two years ago, obviously we want to grow in those parts where we are now playing. So, it would be the wrong attitude of Deutsche Bank if we now say and out of these segments where we are now playing in the Investment Bank, there is only one or two where we want to grow and take market share.

And therefore, I think there is a clear focus on the financing business, where we had a track record of having the right process from origination over credit to distribution. Secondly, I do think we have focus in the O&A business regionally but also per industries and those where we think we have a relevant market share. We're very happy with regaining certain positions in particular obviously in our home market but obviously, we can also see in other industries globally that we play a meaningful role.

And thirdly, it is next to the financing business in the trading business in those disciplines where we have been for years I think leading be it FX, be it rates, emerging markets, we are doing a lot of investments. That is actually where we invest into people, where we invest into technology, and this has started to pay off. I well remember that I've told you since the third quarter of 2019 that I do believe that we split focus on those three or four businesses with making the right people choices and the right IT investments we can grow and this we have done now for five or six quarters in a row. And there actually I don't see that this is coming to an end but that actually we are a very competitive bank in that area and we obviously use our chances to further outperform.

Again, other items like the overall robustness of the bank, CDS price is now playing to our favour that clients are reengaging and obviously again clients are looking for an alternative to the US banks in particular here in Europe and that's what we are playing for in the IB. So, I will say a clear mandate in all businesses of the IB and the focus which we have given ourselves helps tremendously.

James von Moltke

Just briefly one thing to add on that, Magdalena, if you look at the wallet in FIC and the development over time of that wallet, we think a reasonably conservative view of 2022 and the development of this normalisation in the FIC wallet, and relatively stable market share numbers for us, would support the number in our model that supports the low end of the range that Christian talked about earlier, the 8.5 billion euros of revenues for IB, the FIC contribution within that. So, we think we're still looking at reasonably reliable assumptions about the wallet and market share for our company next year.

On DWS and the Wealth Management business, it's a really interesting question. We think we are pursuing a very unique strategy around particularly Wealth Management in Europe, where we're able to serve entrepreneurs in a different way from any of our peers.

So, in markets where we're present as a retail bank, as a corporate bank for small and medium size corporates and also with larger corporate capabilities, risk management, and other, alongside Wealth Management, we're able to serve the wealthy entrepreneurial family in a very different way from peers.

And we're able also to offer DWS products. Obviously, that platform is open architecture but we do sell DWS products. And DWS has a cross sell also into that same client base and the corporate client base in capabilities like pension and money funds. So, to your question, we do see a strong value in pursuing those strategies alongside one another and we have been making investments in those businesses including in particular in wealth management in Europe.

Magdalena Stoklosa

And James, would you venture into where you would like this business to be even on a combined level? So, from a perspective of you as a group, asset gathering business. Two, three year view.

James von Moltke

Bigger would be the two or three year view. We are making investments and working hard on that and I think you'll see the results of that as we execute on the strategy. We're quite bullish on that strategy.

Magdalena Stoklosa

And I assume kind of both organically and inorganically?

Christian Sewing

Well, we said, Magdalena, then of course organically is that what we are focusing on day by day but we have also said that in particular in the Asset Management if there is the right opportunity with the maturity Asoka and his team have achieved, if there is the right target where we maintain obviously the majority and consolidate it because Asset Management is a key business and will always be a core ingredient of Deutsche Bank. We would also look into those alternatives but that must be carefully reviewed but we are not shy of doing something.

Andrew Coombs (Citi)

Good afternoon. A couple of follow ups from me, please. One on costs and one on revenues. Firstly on the costs, I hear everything you're saying about nothing's changed on your plan on costs, you're still laser focused, your controllable part of the costs and your view there is unchanged but I guess it leads me back to the question of why did you choose to remove the absolute cost targets rather than just amend it from 16.7 billion euros to 17.1 billion euros? Is it a case that you wanted more flexibility to pursue revenue opportunities due to a risk of more external factors or am I simply just reading too much into it? That would be my first question.

The second one on revenues. Christian gave a great walkthrough of all the core divisions into 2022. I just wanted to pick up both CRU and the C&O division. In CRU you talked about the prime expense reverse of 100 million euros. Can you just clarify when you exactly expect that to drop out? Which quarter you expect that to drop away?

And then likewise, the 250 million euros internal transfer pricing change that will hit C&O. Can you just give us a feel for how much of that's already fed through this year? Thank you.

Christian Sewing

Thank you, Andrew, and let me take your phrase now but I explain it, yes, you are reading too much into it. So, number one, the 400 million euros which you are quoting we already signalled that since December and the IDD to the market that these are external costs not controllable for us and by the way, we will not give up fighting this increase SRF, but I think we also should be reasonable at this point in time. We think we have to pay more next year. That is now taken into account and we always signalled that for that amount we will not constrain investments into our core businesses which are actually, at the end of the day, also supporting efficiency but also revenue growth.

And in this regard, we obviously with the revenues also increasing as I said there are certain volume expenses, volume-linked expenses, which we need to take into account. James and I have done everything and initialled everything to counterbalance that, and therefore we are confident that we can compensate for this volume-linked expenses. But I also do think after now being three years in the transformation, two years in the project Cairo, we are now at a point where actually more and more we invest into sustainable profitability and that turning point also means that there is obviously in managing this bank to a certain margin and I think the cost income ratio requires also that we are managing it from the KPIs towards the key two KPIs which is 8% return on equity and 70% cost income ratio.

That's how we're doing it. The inner attitude of this bank will not change. Controllable costs will be reduced. As much as we said in the initial plan but I think we also need to recognise the overall progress we have done and with these revenues going into the direction which we said, we obviously need to also take that into account.

James von Moltke

And if I look further to 2022, obviously, it's turning into a deep dive into our 2022 plan today, but the CRU revenues, we'd be working to keep as close to zero as possible. There are some positive revenues that the portfolio throws off and then there's funding costs, hedging costs that offset it. And the impact of that revenue recapture will fall away. Which isn't to say we won't continue to de-risk but as we talked about in December, it will be a rump that we would only opportunistically de-risk or de-leverage and otherwise allow it to run off.

In the C&O area, there it's the Treasury impacts as you say. Obviously hard to predict valuation and timing differences, so we just assume that they're neutral, but we control them as much as we can within the hedging and hedge programs that we can, but there is some hedging effectiveness that can go either way. As you mentioned, there is the held liquidity costs in the aftermath of the funds transfer pricing. That should be below the 250 million euros that we're expecting for this year trending towards 200 million euros and over time, that sort of amortises or bleeds away.

Amit Goel
(Barclays)

Hi. Thank you. So, my first question is just maybe more of a follow up on the same seam on costs and revenues. So, I just want to be completely clear in terms of do you believe that you can generate more than 25 billion euros of revenues and have costs of 17.1 billion euros? Which obviously would be slightly better than the 70% cost income ratio. Or if we were to pencil in 25 billion euros of revenues, should we anticipate costs closer to 17.5 billion euros?

And the second question is just relating to the more detailed point on the Corporate Bank. This quarter it looked like the net interest income dropped, but there was more other income with that just more of this technical effect relating to swaps. What exactly what driving that? Thank you.

James von Moltke

Thank you, Amit. Look, on the costs, the way to think about it is the following, at the 70% efficiency ratio and moving from the 16.7 billion euros to the 17.1 billion euros, adding in some non-operational costs, we would have to achieve revenues of the 25 billion euros or a little bit less, 24.9 billions euros, to make that math work. And what you're hearing from us, it's early to be talking in detail about 2022 but what you're hearing from us is a high degree of confidence that we're on track to achieve that.

If it were to be higher or significantly higher than that, it would probably carry some additional volume-related costs with it and so, could see us going above. But that's in the case where again mathematically revenues have begun to exceed that 25 billion euros level. So, again, it's a mathematical exercise but underneath that I think you're hearing a strong view about the revenue trajectory that at least affords us the ability to offset these uncontrollable expenses in RoTE and cost income ratio. And the rest we'll see as time goes on and we get into the more detailed planning in the back half of the year to bring home 2022.

On the Corporate Bank item, it's a detailed point but a good spot. As we've I think mentioned before, there are CLO recoveries that we recognised in revenue. So, in a default situation where there's an insurance that we have bought, a credit insurance, we will recognise revenue for the compensation in revenues at a point in time. That happened last year, but in one instance this year, there was a recovery and it was therefore reversed. So, part of the movement you see and that's part of the 90 million euros we've called out as episodic there is really a swing relative to last year that's taken place.

Jernej Omahen (Goldman Sachs)

Good afternoon from my side as well.
I'll zoom in on the issue of this Zim gain. Can I ask you first of all how do you think about this gain in the context of your recurring business and recurring revenue? So, we're just wondering what is the threshold to classify something as a one off versus leaving it in the core revenue and PBT line? I think that's question number one.

And then question number two, you very kindly pointed out, James, what the contribution was at the revenue line. Is it fair to say that those absolute numbers apply to the pre-tax line as well? I'm assuming there's not much cost associated with these positions because there I think it makes a very, very significant impact.

And in that context, I just wanted to check with you on page 21, you flag in the first bullet of your presentation that Deutsche Bank had significantly higher credit revenues. That is at odds with every single of your global competitors reporting so far this quarter. And I was wondering, does that statement still hold true if you adjust for the Zim contribution? Thank you very much.

James von Moltke

Yes, Jernej, thanks for the questions. So, I believe the answer to that is to the last part of the question is yes. We had a tough quarter last year in credit as I think you saw in Ram Nayak's presentation in December. So, it was a difficult environment and by the way, some of that had to do with the success of the hedging in Q1. So, you had a swing in Q1 to Q2 that was a burden on revenues last year in Q2.

What's the one off versus recurring business? Look, we see this transaction as being part of the ordinary course business in distress debt trading. It's not at all unprecedented to accumulate an equity investment like this under the circumstances we do it, our peers do it. What is unusual of course is the size of it, which of course is why we're prepared to disclose the amount so that you're able to look at the business without that in it. As we say, direction of travel is the same. Our FIC revenues would've been down 19% reported rather than the 11% that we showed. But still a significant outperformance relative to peers. And on your pre-tax profit, yes, for the largest part other than operational costs and compensation, the revenues will have fallen to pre-tax.

Again, it's part of a larger business. The business, it's an unusually sized benefit but it is part of the ordinary course of the business to engage in transactions like this. Much as again, our peers do regularly.

Jernej Omahen

James, a very short follow up. So, when we think about the path from here to the 8% return on tangible equity target next year, I guess that we should be stripping out the Zim contribution, i.e. that this is a non-repeat for 2022?

James von Moltke

Well, that's the thing that's hard to say, Jernej. Because as I say we do have a significant reserve and it's not clear the time over which that reserve would be released and then we ultimately exit from the position. As I mentioned earlier, we aim to do it over time in a way that is responsible given the size of the stake and the timing of that is at this point uncertain.

Christian Sewing

Jernej, just don't forget what James just said. It's a wanted business and I'm not saying more in GCT which we have done for years and where Zim is sort of say not the only position we have and we have done that for years and therefore always take this into account when you think about our future revenue profile.

James von Moltke	Maybe a distinction to draw that might be helpful is Tradeweb, we have called out as a specific item consistently since we first started recognising gains on it, precisely because we don't see that as part of the operating performance of the business. So, perhaps that contrast will help you see the accounting distinction we make.
Jernej Omahen	But is it fair to say that there are no other similarly sized positions in that portfolio as it stands though?
James von Moltke	No. That wouldn't be fair. Similarly sized to the balance sheet size of that today. It's a large position. But again, it's not out of the ordinary that we would have gains to recognise from time to time in that distressed business. Again, it's part of the business.
Nicolas Payen (Kepler Cheuvreux)	Thanks for taking my question. I have two. The first one will be on Wealth Management because you just mentioned your European wealth management strategy and I wanted to know how do you see your current setup in Europe and how do you see it in Italy in particular? Do you think you are the size there to compete? And also, in comparison to Asia, because you mentioned a lot of your European operation, but are you already also to invest there in Asia? The second question will be on the risk weighted assets in Investment Banking. Just wanted to know what part or the component of the inflation of RWA there? A little bit of trim of lending growth or is there anything else there? Thank you very much.
Christian Sewing	Let me take the first question on wealth management. There is a clear difference between our wealth management in Europe and in particular in Italy or Spain to Asia. In Asia, it is more capital markets oriented. Very successful. Growing. But in Europe, it goes to the point which James made in his previous response, that we are actually very well placed in particular in those countries where we have corporate banking activities, wealth management, and private banking activities that we are seen as the bank for entrepreneurs.

And hence, we see a very nice line of growth in Italy, in Spain, also round Germany where we can play this card that we have corporate banking exposure but at the same time, we are banking the entrepreneur or the owner of the company. And in this regard, we have made also from a coverage point of view, tailored investments into Italy but also into Spain to increase our coverage, our relationship management base, in order to secure more market share and we have seen the growth also in the second quarter which I'm very happy with in the wealth management in Europe.

James von Moltke

And the brief answer on the question of RWA and IB is it was really all TRIM or almost all TRIM. Portfolio movements were relatively neutral. A total of 10 billion euros was added in the Investment Bank both from trim and the CRR2 implementation at the end of June.

Daniele Brupbacher (UBS)

Good afternoon, thank you. Just for me a clarification please on the cost- I mean, we talked a lot about 16.7 billion euros and 17.1 euros. Probably missed it but have you made any statement regarding the 18.5 billion euros target for this year whether we should lift it up by the 400 million euros as well and then in this context, can you tell us in which division we will see those 400 million euros showing up? Thank you.

James von Moltke

Daniele, so we talked about it a little bit in April. I think you can do similar math to what we were talking about earlier. So, 18.5 billion euros is to 18.9 billion euros, as 16.7 billion euros is to 17.1 billion euros. That's certainly what we are working towards and what we should be measured against. In terms of the second part of your question, by division, it's probably too early to say. There's a lot in it but we can come back to you on that question. Obviously, SRF is an allocation that we would know for the businesses at this point, the step off would be last year's end balance sheet.

There by the way you'll see a fair amount of the benefit in CRU because that de-leveraging will then be reflected in its allocation of the SRF. So, less of a benefit in the core businesses than you would see in the CRU. On the deposit insurance, it's mostly in Private Bank.

Ioana Patriniche

Thank you for joining us for our second quarter call and for your questions. Please, do not hesitate to reach out to the

Investor Relations team with any follow up questions, particularly for those who we've not been able to get to due to time. And with that, we look forward to speaking to you at our third quarter call. Thank you.