Deutsche Bank AG

Deutsche Bank Q2 2020 Analyst Conference Call

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Transcript

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

JAMES RIVETT

- Thank you all for joining us
- As usual on our call our CEO, Christian Sewing, will speak first, followed by our chief financial officer, James von Moltke
- The presentation, as always, is available for download in the investor relations section of our website, db.com
- Before we get started let me just remind you that the presentation contains forward-looking statements which may not develop as we currently expect
- We therefore ask you to take notice of the precautionary warning at the end of our materials
- With that let me hand over to Christian

CHRISTIAN SEWING COMMENTS

Slide 1 – Continued progress on strategic transformation

- Thank you James and welcome from me
- Looking back on the first year of our transformation, we are on track with, or even ahead of the objectives that we set ourselves
- Our new strategy is paying off: Client feedback and momentum as well as internal employee feedback demonstrates that we have found our path and execution is well underway
- The results we present today underpin our confidence that we will reach our 2022 targets
- Last quarter we told you that we were determined not to let the COVID-19 pandemic impact the execution of our transformation – and at this stage I am happy to say that is the case
- We were profitable in the second quarter and the first half of the year
- Growth in Core Bank earnings more than offset the wind-down of the Capital Release Unit, elevated provisions for credit losses from the pandemic and transformation impacts

- The results in the second quarter and for the first half are ahead of our internal plans
- This speaks to our strategy and our relentless execution
- We told you last year that we would execute quickly - and we have done so, with over three quarters of our expected transformation costs already behind us
- Capital and liquidity were also stronger than our internal plans at the end of the second quarter
- This validates our view that we can finance our transformation with existing capital resources
- It also positions us well to continue supporting our clients through conditions which remain challenging
- We also shaped our technology and sustainability strategies in the second quarter
- Next to the announcement of the Google Cloud partnership, we set ambitious Sustainable Finance targets of at least 200 billion euros by 2025 and issued our first green bond
- You will hear more from us on our sustainability strategy in the coming quarters
- Let us go through these themes in more detail starting with the progress against our strategic transformation agenda on slide 2

<u>Slide 2 – One year into our strategic transformation – on track delivering against key milestones</u>

- In July last year we laid out our vision for the transformation of Deutsche Bank
- Our aim was to re-position the bank around what it has stood for over 150 years – the leading German bank with strong European roots and a global network
- Our transformation was built around five key decisions
- First, to exit businesses where we did not have a market leading position by setting up a dedicated Capital Release Unit
- We have exited Equities trading, we are in the process of transferring our prime finance operations and reduced assets in the Capital Release Unit by over 100 billion euros since 2018

- We also re-sized our Rates business in the Investment Bank
- Second, to create four core businesses with market leading positions that are aligned to the needs of our clients – together, these businesses make up our 'Core Bank'
- We made further progress on reshaping our core businesses this quarter, consistent with the plans we laid out at the Investor Deep Dive in December 2019
- Third, to reduce costs – and here, we have made significant progress
- Based on the annual run-rate in the second quarter we have reduced adjusted costs by 3 billion euros since 2018
- In other words, we have achieved 50% of our cost reduction plans just 18 months into our 4 year program
- We remain firmly on track to reach the 19.5 billion euro adjusted cost target for this year, on the way to 17 billion euros in 2022
- Fourth, to continue to invest in technology and controls, despite the reductions in the overall cost base
- Our commitment to spend 13 billion euros on technology between 2018 and 2022 remains unchanged
- Our technology strategy includes the recently announced intended strategic partnership with Google
- This partnership aims to redefine how we develop and offer financial services and radically improve infrastructure efficiency
- We also continue to invest in our control environment and improve our relationships with regulators
- We believe that our investments have been recognized in the positive outcomes of recent regulatory stress tests, such as CCAR and the ECB Liquidity Stress Test
- Finally, we committed to deliver our transformation within existing capital resources and prepare the ground for future distributions to shareholders
- Since 2018, we have reduced risk weighted assets in the Capital Release Unit by 30 billion euros generating around 110 basis points of CET1 capital
- This capital generation has helped offset regulatory inflation and finance growth in the Core Bank

- Execution on all five of these decisions is either in line with, or in some cases even ahead of our internal plan
- This disciplined execution is beginning to become visible in our financial results as you can see on slide 3

Slide 3 – Strategic transformation drives growth and higher profitability

- Our strategy is focused on improving sustainable profitability
- That means generating positive operating leverage through a reduction of costs and growth in revenues
- Operating leverage has been positive for 3 quarters in a row for both Group and Core Bank, driving significant improvements in Core Bank profitability
- Over the last 12 months, Core Bank adjusted profit before tax has grown by 18% to 3.1 billion euros
- We are benefitting from discipline that we have instilled in managing our costs
- We have reduced adjusted costs excluding transformation charges and bank levies year-on-year for the 10th consecutive quarter
- Core Bank profitability has enabled us to absorb the costs of de-risking the CRU where the reduction of risk-weighted assets is running as we anticipated
- As we make further progress with the wind-down of the CRU, the underlying performance of the Core Bank should become more visible in our Group results
- You can see that on slide 4

Slide 4 – Stabilizing revenues under re-focused strategy

- Over the last 12 months we have been able to largely offset the loss of revenues from the exit of Equities trading and the de-risking costs with growth in the Core Bank
- Core Bank revenues of 23.7 billion euros over this period compare to the plan that we showed you at the Investor Deep Dive of 24.5 billion euros of revenues in 2022 as part of our 8% return on tangible equity target

- This implies a revenue growth of 3% in total or an annual growth rate of around 2% from current levels
- This growth is achievable when compared to the 5% growth that we have reported in the Core Bank in the last 12 months
- And yes, there are pressures, but also opportunities in the revenue environment
- With the client momentum that we have created and the changes we have made to our businesses, we are confident of achieving these revenue plans for 2022 even when current market dynamics normalize
- Let me turn to the next slide to give you some details why we remain confident on our revenue plans for 2022

Slide 5 – Building momentum in our Core Businesses

- The Corporate Bank operates in an attractive return market despite headwinds from both COVID-19 and the interest rate environment
- We have demonstrated that we can largely offset these headwinds with repricing and volume growth
- At the end of the second quarter we had charging agreements in place for approximately 50 billion euros of deposits – that is already ahead of our full year goal and is on track to contribute over 100 million of revenues on an annual basis
- We have grown corporate cash transactions by 9% and loans by 1%
- We have maintained good momentum in volume and fee growth with our platform clients, Fintech and eCommerce clients
- The Corporate Bank has been essential to supporting corporates including in Germany
- Combining all the German government programs, we have been the most active bank in this space
- We have already committed loans of 2.6 billion euros and have client requests worth more than 5 billion euros in the pipeline
- We also arranged syndicated KfW sponsored loans of a total volume of more than 8.5 billion euros

- In the Investment Bank, our strategy is to focus on our core strengths
- The actions that we have taken are paying off – and faster than we expected, helped by stronger market conditions
- Overall, revenues in Fixed Income & Currencies grew by 39% year-on-year
- Our FIC trading business, excluding Financing and specific items, was up by more than 75% versus Q2 2019
- We achieved this performance with broadly stable levels of RWA excluding regulatory inflation
- This demonstrates efficient resource utilization and is enabled by a combination of prudent risk management and higher quality client flow
- While the external market conditions positively impacted revenues, we are confident that the implementation of strategic initiatives across the FIC platform had a material effect; and should allow us to deliver sustainable growth
- Refocusing the Investment Bank and exiting certain businesses has resulted in a much smaller 'negative halo' effect than we had anticipated last year
- Revenues in Origination and Advisory increased by 73%, the largest year-on-year growth relative to peers who have reported to date, driven by greater client engagement to the highest levels we have seen in recent years
- We continued to regain market share compared to the second half of last year in core German and European markets
- In the Private Bank, we are focused on offsetting the pressure from negative interest rates with volume growth
- Unsurprisingly, new consumer loans and investment product sales declined during the lockdown
- But with the reopening towards the end of the second quarter we are now seeing a rebound in volumes, in some areas even tracking above last year
- And in the second quarter, the Private Bank captured 5 billion euros of net inflows in investment products and 3 billion euros of net new client loans
- In Asset Management, we are building on the momentum that DWS has generated
- Inflows were 9 billion euros in the quarter

- Assets under Management increased by 45 billion in the quarter and 24 billion over the last 12 months
- Asset Management also implemented further decisive cost measures in direct response to the COVID-19 environment

Slide 6 – Maintained strong balance sheet

- As we focus on improving profitability we continue to manage our balance sheet conservatively
- As we announced last week, we ended the quarter with a CET1 ratio of 13.3% as shown on slide 6
- This reflects lower loan balances driven by higher than expected repayments of credit facilities by clients, initially drawn in reaction to COVID-19
- In part these facilities have been refinanced through debt capital markets instruments
- Liquidity reserves of 232 billion euros are roughly 25% of our net balance sheet - comfortably above regulatory requirements
- The solid capital and liquidity position gives us scope to continue to deploy resources to support clients in these challenging conditions
- And our funding position has rarely been stronger than today: we fund our balance sheet through stable sources, predominately low cost deposits
- We also remain focused on maintaining strong credit quality
- Provisions for credit losses of 761 million euros in the quarter are consistent with our previous guidance and our full year outlook
- This reflects our conservative underwriting standards and the low risk nature of our loan book
- As we have communicated before, our exposure to credit cards and other unsecured consumer lending is low relative to our international peers
- Against this background we reconfirm our guidance for full-year provision for credit losses of 35 to 45 basis points of loans

Slide 7 – The benefits of Germany as a home market

- Let us turn to the broader macro-economic outlook on slide 7
- We continue to expect a robust recovery in some of the major economies starting in the second half of this year, although it will take longer to return to the pre-COVID GDP levels
- The recently agreed EU stimulus package should further support the economic recovery in Europe including our home market Germany which accounts for around half of our loans
- We are happy to have a leadership position in Europe's strongest economy which is proving its resilience
- Germany came into the crisis with low levels of debt
- This fiscal conservatism has allowed the government to take aggressive and decisive action in response
- Germany benefits from a combination of an effective social security system, one of the largest loan and guarantee programs and 130 billion euros in stimulus packages
- Economists therefore expect Germany to suffer less, and to recover quicker than many other countries
- Some recent indicators including strong retail sales and a more optimistic business sentiment even indicate that the German economy may outperform current forecasts
- This economic stability comes together with low levels of household and corporate debt, a historically stable housing market as well as good levels of corporate liquidity relative to other leading economies
- Therefore German companies and consumers are in a better position to weather the current environment
- All of this contributes to resilience of our German loan book and to our expectations for lower provisions for credit losses in the second half of the year
- But of course, uncertainties will persist for the time being

- We must not be complacent and have to continue to execute on our transformation agenda

Slide 8 – Disciplined delivery of our transformation agenda

- Slide 8 shows you why I am confident that we will continue to deliver
- In the first half of the year we have achieved all cost savings as planned
- We were also able to absorb an unexpected burden of more than 100 million euros of bank levies
- The progress of our transformation is also demonstrated by delivering on over 70 key milestones during the last quarter – all of which are closely monitored by the Transformation Office we created in the fourth quarter of last year
- The Transformation Office not only ensures successful execution and delivery on our objectives but also facilitates a regular dialogue across the bank
- The aim is to get even better and more efficient in the execution of our transformation initiatives
- Across the bank we currently have more than 60 such initiatives in flight
- We made tangible progress with our transformation initiatives in the second quarter
- We completed the German legal entity merger and announced the creation of our International Private Bank, integrating Wealth Management and PCB International
- These measures are important steps in reaching our revenue plans and cost reduction targets
- In the Corporate Bank in Germany we have completed the merger of the Deutsche Bank and Postbank commercial businesses
- This allows us to reduce complexity, simplify processes and ultimately better serve our clients
- In Asset Management, DWS has simplified its management structure to make the organization more client-centric and cost effective
- We have also made significant progress in transforming our infrastructure with the launch of a new IT platform in Italy and our planned partnership with Google

- And while we are proud of these achievements, it is even more important that we are confident about our ability to continue delivering at this pace
- And I can tell you: we are
- At the Investor Deep Dive in December I discussed how we were seeing increased staff morale
- And our recent people survey supports this trend
- We see the best ratings ever for employee enablement and the highest commitment ratings since 2012
- With these results we are in line with, or above industry benchmarks for the first time in years
- And this is the most solid foundation to continue delivering our transformation roadmap

<u>Slide 9 – Outlook</u>

- 12 months ago we launched fundamental changes to our bank
- Since then, we have delivered on all dimensions of our strategic agenda
- We not only kept the pace despite the unprecedented challenges of COVID 19 – we also outperformed our own plan
- This management team is absolutely committed to maintaining this cadence
- While we are fully focused on our plan, the pandemic will produce fundamental changes in the way we work and interact with clients – and we must take advantage of those
- We remain convinced that we can achieve our 2022 financial targets
- We are on track to execute against all our major strategic initiatives
- We have a strong capital position and have proven our cost discipline
- We are making considerable progress on the revenue side
- We see positive momentum in all our businesses which we can build on
- With our capital strength we have the potential to support clients in all business areas
- Our accelerated digital transition further supports our 2022 financial targets

- Sustainability is also of ever growing importance for us and our clients and this is being factored into our strategic planning
- In short, we have managed through this crisis well to-date. We are on track with our transformation. Our increased focus on our strengths is paying off
- We feel support from our clients, our staff and other stakeholders
- We are determined to build on this momentum
- With that, let me hand over to James

JAMES VON MOLTKE SLIDES

Slide 10 – Q2 2020 Group Financial Highlights

- Thank you Christian
- Let me start with a summary of our financial performance in the second quarter on slide 10
- Revenues increased by 1% as growth in the Core Bank offset the exit from Equities trading
- Non-interest expenses of 5.4 billion euros included an additional 116 million euros of bank levies compared to the second quarter of last year as well as 445 million euros of restructuring and severance, litigation and transformation charges
- Non-interest expenses in the prior year period included 1 billion euros of goodwill impairments and 350 million euros of transformation charges
- Provision for credit losses was 761 million euros or the equivalent of 69 basis points of loans on an annualized basis
- We generated a pre-tax profit of 158 million euros or 419 million euros on an adjusted basis excluding items detailed on slide 36 of the appendix
- On this basis, the Core Bank generated a post-tax return on tangible equity of 4.3% in the second quarter and 5.1% in the first half
- Tangible book value per share of 23 euros 31 cents was slightly above the first quarter

Slide 11 – COVID-19 impact on financials

- Slide 11 updates a chart we showed you last quarter with the most material impacts of the COVID-19 pandemic
- Results in the second quarter saw a more rapid normalization of some of these impacts than we originally expected, in particular capital and liquidity reserves
- Incremental provision for credit losses related to COVID-19 were approximately 410 million euros which I will discuss shortly
- There was a positive impact of approximately 12 basis points on our CET1 ratio from COVID-19 this quarter
- Increases in Market Risk RWA, reflecting higher market volatility and higher credit risk RWA from rating migrations were more than off-set by several impacts
- These included the repayment of credit facilities, lower derivative exposures and the reversal of most of the increase in prudent valuation adjustments recorded in the first quarter
- The repayment of credit facilities increased liquidity reserves by 12 billion euros
- And finally, level 3 assets of 25 billion euros decreased by 2 billion in the quarter
- The decline reflected the partial reversal of the first quarter migration of assets into level 3, which had resulted from the greater dispersion in market pricing at the end of the first quarter, as well as reduced balance sheet carrying values
- Looking forward, the path of the pandemic remains uncertain but we see the developments in the quarter as positive

Slide 12 – Moratoria

- Slide 12 shows how we have continued to support clients through the COVID-19 pandemic
- It also highlights the number of different government and voluntary schemes in operation

- Consistent with local regulations as well as industry wide programs, we have offered moratoria to a little over 100 thousand customers with a gross loan balance of 9 billion euros
- These moratoria have principally been in the Private Bank in Germany and Italy and the associated balances are manageable in comparison to the 232 billion euro Private Bank loan portfolio
- To date, these moratoria have generated losses of approximately 7 million euros based on accounting adjustments to carrying values
- Outside of the government and industry-wide programs we have agreed various voluntary forbearance measures on approximately 7 billion euros of loans with no material revenue impact
- The forbearance measures on these loans do not trigger Stage 2 or Stage 3 migration as the borrowers are in good standing and the regulatory definition of default has not been met
- We have also provided loans subject to public guarantee schemes to approximately 5 thousand clients mostly in the Corporate Bank with a total drawn loan volume of 1.4 billion euros and a further 1.2 billion euros of undrawn commitments both mainly with the KfW
- In addition, we have requests in the pipeline worth over 5 billion euros

Slide 13 – Provision for Credit Losses

- Turning to provisions for credit losses on slide 13
- Provisions were 761 million euros in the quarter
- As I just mentioned, a little over half, or 410 million euros of the provisions relate to COVID-19 impacts
- Approximately half of the COVID-19 provisions are against stage 1 and stage 2 credits with the remainder against stage 3 loans
- Stage 1 and 2 provisions reflect the weaker macro-economic outlook relative to March 31st, a management overlay to account for uncertainties in the outlook as well as downgrades to client credit ratings

- Consistent with our guidance, stage 3 provisions increased in the quarter and were mostly in the Investment Bank
- Including the provisions taken in the second quarter, we ended the period with 4.9 billion euros of allowance for loan losses, equivalent to 112 basis points of loans

Slide 14 – Risk in lower rating buckets well mitigated and provisioned

- Slide 14 updates a slide that Stuart Lewis presented at the Risk Deep Dive in June
- It also makes adjustments in certain rating buckets to reflect changes in probability of default for guarantees
- As we described at the time, we deploy risk mitigants more actively in the lower rated parts of the portfolio
- These mitigants include collateral, guarantees, hedges and other structural risk measures which act to reduce Loss Given Default
- In single 'B' and below, 75% of gross performing exposure is covered by risk mitigation including asset collateral and hedges
- The regulatory expected loss across the non-defaulted loan portfolio was broadly flat in the quarter at 1.3 billion euros
- This compares to the 1.5 billion euros of allowances that we currently have in place against these exposures
- This modelled analysis is further validated by bottom-up reviews of our portfolios
- Loan exposure to the industries most impacted by the initial impacts of COVID-19 remained broadly stable during the quarter with modest reductions in retail and leisure portfolios through client pay downs
- The outlook for Commercial Real Estate and Aviation remains challenging given the economic backdrop and pronounced slowdown in travel
- That said, our outlook remains unchanged given the collateral underpinning these portfolios
- We have made substantial progress on our underwriting pipeline, particularly in Leverage Debt Capital Markets

- Strong market demand has allowed us to reduce our LDCM underwriting portfolio by around 65% in the quarter
- While the current environment is unprecedented, our historical performance has consistently demonstrated a low loss rate and conservative reserving assumptions
- As a result, we feel well provisioned against potential losses

Slide 15 – Capital ratios

- Turning to capital on slide 15
- Our CET 1 ratio was 13.3% at quarter end, 283 basis points above our regulatory requirement of 10.4%
- The CET1 ratio increased by 42 basis points in the quarter
- This includes approximately 12 basis points from COVID-19 effects I discussed earlier
- Approximately 11 basis points of the ratio increase came from regulatory changes associated with the CRR2 quick fix
- These changes included the application of the revised SME support factor as well as the first time application of the IFRS 9 transitional approach
- Excluding COVID-19 and CRR2 quick fix impacts, we saw approximately 13 basis points of improvement from continued de-risking in the Capital Release Unit
- The Core Bank generated 7 basis points, principally reflecting lower risk weighted asset in the Investment Bank and Corporate Bank
- Our leverage ratio was 4.2% at quarter end, an increase of 20bps
- Approximately 16 basis points of the improvement came from the change to a net treatment of pending settlement payables and receivables
- This change follows the implementation of the CRR2 quick fix and was an acceleration of a previously agreed rule change that would ordinarily have taken effect only from June 2021
- This approach aligns Eurozone banks with long established practice at US banks and Swiss peers

- Foreign exchange translation and Tier 1 capital movements contributed approximately 5 basis points
- Excluding Central Bank cash from leverage exposure – consistent with the flexibility provided by the CRR2 quick fix – would, if implemented, further increase our leverage ratio by approximately 20 basis points to 4.4%
- Our strong capital position serves us well to support clients through the coming periods

Slide 16 – Adjusted Costs

- The progress we are making on our transformation agenda is increasingly visible in our cost performance as shown on slide 16
- In the second quarter, we reduced adjusted costs by 422 million euros or 8% year-on-year excluding the impact of transformation charges detailed in the appendix
- The decline in adjusted costs came despite absorbing an incremental 116 million euros of bank levies reflecting changes in input assumptions made by the Single Resolution Board
- We reduced compensation and benefits expenses, in-line with the reductions in internal workforce and also benefited from a change in estimate related to certain deferred compensation awards
- IT costs declined, reflecting lower amortization given the impairments taken in 2019 while our IT spend was broadly stable and within our target range as we continue our investment program
- We also reduced professional service fees as we further improved the efficiency of our external spend
- Other costs declined reflecting reductions across a number of areas, including occupancy
- Adjusted costs included 92 million euros of expenses eligible for reimbursement associated with the Prime Finance platform and therefore are excluded from our target
- With that, let’s turn to our businesses, starting with the Corporate Bank on Slide 18

Slide 17 - Segment Results

Slide 18 – Corporate Bank

- Pre-tax profit in the Corporate Bank was 77 million euros in the quarter, or 91 million euros excluding transformation charges and restructuring and severance which we detail in the appendix
- This equates to a 1.6% post-tax return on tangible equity in the second quarter
- Second quarter revenues of 1.3 billion euros increased by 3% year-on-year
- Revenues were positively impacted by just over 100 million euros of episodic items which we have discussed with you in previous calls
- These items included reimbursement gains from credit protection which also benefited net interest margin and are part of our regular business, as well as portfolio rebalancing actions
- Excluding these episodic items, Corporate Bank revenues declined slightly as deposit repricing and balance sheet management initiatives were more than offset by interest rate headwinds
- The Corporate Bank made progress executing against its strategic objectives
- At the end of the second quarter the Corporate Bank had charging agreements in place for approximately 50 billion euros of deposits
- Non-interest expenses were significantly lower year-on-year, principally reflecting the absence of a goodwill impairment in the prior year period
- The current quarter included 81 million euros of litigation charges
- Adjusted costs excluding transformation charges were essentially flat as management efforts to reduce non-compensation costs were offset by higher internal service cost allocations that we discussed with you in previous earnings calls
- Provision for credit losses of 145 million euros in the quarter was mainly driven by the worsening macro-economic outlook and a small number of single names, partly offset by a one-time benefit of a change in accounting for guarantees
- Loans, leverage exposure and risk weighted assets declined compared to the first quarter of 2020, mainly reflecting client repayments of credit facilities

- Turning to the Corporate Bank revenue performance by business on slide 19

Slide 19 – Q1 2020 Corporate Bank revenue performance

- Global Transaction Banking revenues increased by 4% on a reported basis
- However excluding the episodic items I just described, revenues declined slightly principally reflecting the impact of interest rate cuts in the US
- Cash Management revenues declined and were impacted by interest rate headwinds which were partly offset by deposit repricing and balance sheet management initiatives
- Trade Finance and Lending revenues were slightly higher, mainly reflecting credit loss recoveries
- Trade flow and lending continued to perform well, but client activity in structured products was more subdued
- Securities Services and Trust and Agency Services revenues declined as a result of interest rate cuts in key markets
- Commercial Banking revenues excluding episodic items declined slightly as interest rate headwinds offset growth in volumes and fee income
- Turning to the Investment Bank on slide 20

Slide 20 – Investment Bank

- We are pleased with the performance in the Investment Bank which continues to build on the momentum that we have seen since September 2019
- Pre-tax profit in the Investment Bank was 956 million euros in the second quarter, with a cost-income ratio of approximately 50%
- This equates to a 12% post-tax return on tangible equity in the second quarter and 10% in the first half
- The Investment Bank made significant progress on its strategic objectives as we work to reduce costs in technology and infrastructure support as well as grow revenues

- The Investment Bank is on track to decommission the 30% of IT applications by the end of 2022 as communicated at the Investor Deep Dive in December as part of the ongoing technology investments
- Revenues of 2.6 billion euros in the second quarter increased by 52% year-on-year excluding specific items driven by strong client flows and market conditions
- Noninterest expenses of 1.3 billion euros declined by 14% year-on-year in part reflecting the absence of litigation charges recorded in the prior year quarter
- Adjusted costs excluding transformation charges declined by 7% reflecting benefits of the headcount reductions in 2019 and lower internal service cost allocations
- Provision for credit losses of 363 million euros, or 182 basis points of loans, increased in the quarter driven by impairments related to COVID-19
- Loans and leverage exposure increased versus last year driven in part by the higher client drawdowns in the first quarter

Slide 21 – Investment Bank revenue performance

- Revenues in Fixed Income Sales & Trading increased by 46% year-on-year excluding specific items as shown on slide 21
- This is a strong performance across the franchise with all major businesses growing revenues versus the prior year
- Across Rates, FX and Emerging Markets, revenues benefited from our refocused strategy that we laid out in December
- We saw continued improvements in client engagement and strong growth in our institutional franchises
- Rates revenues doubled from the prior year with strength across the complex, specifically in Europe
- Rates revenues have nearly doubled on a year-on-year basis in each of the last three quarters
- Foreign Exchange revenues were significantly higher reflecting higher market volumes and strength in derivatives and electronic spot

- Emerging market revenues were higher in Asia driven by increased corporate and institutional client flows and the benefit of investments in the franchise
- Revenues from Credit trading increased with higher revenues in flow credit across all regions
- Financing revenues were broadly flat year-on-year but have recovered well from the challenging market conditions in the first quarter
- Revenues in Origination and Advisory increased by 73% as we continued to regain market share most notably in our core German and European markets
- Equity origination revenues were significantly higher reflecting higher market volumes while M&A revenues were down significantly on a lower industry fee pool
- Growth in Debt origination reflected higher market volumes as well as market share gains in Investment Grade
- In Leveraged Debt Capital Markets we have successfully de-risked a majority of the commitment pipeline from the end of the first quarter

Slide 22 – Private Bank

- Slide 22 shows the results of the Private Bank
- The Private Bank reported a pre-tax loss of 241 million euros in the quarter including transformation charges, restructuring and severance and litigation
- Private Bank revenues excluding specific items related to the Sal. Oppenheim workout activities, declined by 5%
- The Private Bank continued to execute on its strategic objectives including the completion of the German legal entity merger, the alignment of digital venture activities, the creation of the International Private Bank and the implementation of a new core banking platform in Italy
- Some of these items had a negative impact on revenues in the quarter but are key parts of our transformation strategy
- Excluding these items, revenues declined by around 2% as headwinds from COVID-19 and ongoing deposit margin compression were partly offset by volume growth

- With the re-opening of our key markets, we are beginning to see a normalization of client activity
- The Private Bank recorded 3 billion euros of net new client loans and 5 billion of net inflows into investment products in the quarter
- Noninterest expenses declined by 15% year-on-year as the absence of a 545 million euro goodwill impairment recorded in the prior year period was only partly offset by higher restructuring and severance as well as litigation charges
- Adjusted costs excluding transformation charges declined by 4% as the benefits from reorganization measures more than offset the higher internal service cost allocations
- Cost synergies related to the German merger were a further approximately 75 million euros in the second quarter
- Year to date, we have generated approximately 145 million euros of synergies from the merger and we remain on track to achieve our full year target
- Provision for credit losses was 225 million euros, or 39 basis points of loans, mainly driven by the updated macro-economic outlook
- Turning to revenues by business area on slide 23

Slide 23 – Q2 Private Bank revenue performance

- Revenues in Germany declined by 5% and were burdened by impacts from the legal entity merger and a valuation adjustment on a digital venture investment
- Revenues were also impacted by ongoing deposit margin compression and the COVID-19 pandemic, in part offset by growth in loan volumes and fee income
- Private Bank Germany grew client loans by 2 billion euros with net inflows in investment products also of 2 billion
- Revenues in Private and Commercial Business International declined by 12% and were negatively impacted by COVID-19, principally in Italy and Spain, a one-off re-hedging charge in Italy as well as ongoing deposit margin compression
- Wealth Management revenues declined by 1%

- The business continued to benefit from its growth investments including hiring of relationship managers which helped mitigate the revenue decline from ongoing interest rate headwinds as well as impacts from COVID-19
- COVID-19 led to reduced client activity at the beginning of the quarter, and lower market values reduced average assets under management
- Net inflows in investment products were 3 billion euros, across Emerging Markets, Germany and the Americas
- Wealth Management also grew lending volumes, with net new client loans of 1 billion euros in the quarter

Slide 24 Asset Management

- Asset Management performed well in the challenging conditions as you can see on slide 24
- To remind you, the Asset Management segment includes certain items that are not part of the DWS stand-alone financials
- Asset Management reported a pre-tax profit of 114 million euros, an increase of 27% year-on-year as management actions to reduce costs more than offset lower revenues
- As a result, the divisional cost income ratio improved by 6 percentage points to 73%
- Asset Management revenues declined by 8% year-on-year principally reflecting the absence of periodic performance fees recorded in the prior year
- Management fees declined given the industry-wide margin compression, offset by higher other revenues which reflected lower funding cost allocations and a favorable change in fair value of guarantees
- Assets under management of 745 billion euros at quarter end have grown by 45 billion euros in the quarter and by 24 billion euros over the last 12 months
- Net inflows were 9 billion euros in the quarter and offset the outflows seen at the end of the first quarter

- Net inflows in Passives, Cash and Equities were partly offset by outflows in Fixed Income
- Noninterest expenses declined 15% with adjusted costs excluding transformation charges down 13%
- The reduction in costs was driven by lower carried interest related to performance fees as well as successful implementation of cost efficiency initiatives

Slide 25 – Corporate & Other

- As shown on slide 25, Corporate & Other reported a pre-tax loss of 152 million euros in the quarter, compared with a pre-tax profit of 101 million euros in the same period last year
- The decline was principally driven by lower revenues from Valuation and Timing differences reflecting the benefits in the prior year period of movements in cross currency basis
- Funding and liquidity charges also increased compared to the prior year quarter, consistent with the changes in funds transfer pricing we have discussed in prior calls
- Let me now turn to the Capital Release Unit on slide 26

Slide 26– Capital Release Unit

- The Capital Release Unit recorded negative revenues of 70 million euros, or 47 million euros excluding Debt Valuation Adjustments in the quarter
- Revenues were driven by de-risking and hedging costs partly offset by the reversal of previously incurred funding valuation adjustments and the Prime Finance cost recovery
- We made further progress on reducing expenses in the Capital Release Unit
- Noninterest expenses in the second quarter were 50% lower than the prior year quarter, in part reflecting lower transformation charges

- Excluding transformation charges and bank levies, adjusted costs declined by 38% year-on-year driven by lower internal service cost allocations, lower compensation costs as a result of headcount reductions, and lower non-compensation costs
- Risk weighted assets declined in the quarter as 3 billion euros of de-risking was partly offset by approximately 2 billion euros of COVID-19 related increases in market risk RWA
- In the first half of the year, the Capital Release Unit has de-risked by around 5 billion euros
- Leverage exposure was lower driven by de-risking, optimization and market movements
- Over the last 12 months the Capital Release Unit has reduced risk weighted assets by 22 billion euros and leverage exposure by 147 billion euros
- Looking forward, our year-end risk weighted asset target of 38 billion euros remains unchanged
- Given the market driven increases seen in the first half, this implies a larger underlying reduction in the coming quarters than in our original plans
- As management prioritizes risk weighted asset reductions, we now expect a slightly slower reduction in leverage exposure than previously anticipated in 2020
- We expect to reduce leverage exposure by between 10 to 15 billion euros a quarter for the remainder of the year subject to market movements
- Our leverage exposure reduction targets for 2022 remain unchanged

<u>Slide 27 – Outlook and Conclusions</u>

- Let me conclude with a few words on the outlook on slide 27
- As Christian said, we successfully navigated the challenging environment this quarter
- We made progress on the strategic priorities that we laid out at the Investor Deep Dive

- Looking forward, we have updated the outlook statements in the interim report to reflect our current expectations for revenues this year both at a group and business line level
- For the group, our revenue expectations are now marginally higher than our prior outlook primarily reflecting the stronger than expected performance in the first half
- Our current planning assumes a normalization of investment banking revenue performance in the second half relative to the first which should still deliver year on year growth
- We also expect relatively stable performance in our other core businesses
- We expect revenues in the Capital Release Unit to revert to the range that we outlined at the Investor Deep Dive
- We remain on track to reach our 19.5 billion euro adjusted cost target excluding transformation charges and the impact of the Prime Finance transfer
- Consistent with Christian's earlier comments we do believe that lessons from the COVID-19 pandemic may produce additional levers to reduce costs in the medium-term
- Neither these opportunities nor the required costs to achieve are included in our current outlook
- In-line with our prior guidance, we expect provisions for credit losses of 35 to 45 basis points of loans for the full year
- Our guidance implies provisions return to normalized levels in the second half of the year as higher stage 3 provisions are offset by reductions in stages 1 and 2
- We continue to expect 400 million euros of deferred tax asset valuation adjustments in the full year of which only a small portion was reflected in the first half
- On the CET1 ratio, a lot of uncertainty remains regarding the economic environment, client behaviour and regulatory actions
- That said, given where we ended the second quarter, we currently see significant room to continue supporting clients while maintaining the ratio above our 2022 target of 12.5%

- In summary, we will continue the disciplined execution that you have seen from this management team over the last two years
- And our short-term outlook is consistent with our longer-term goals, principally a post-tax return on tangible equity of 8% in 2022
- With that, let me hand back to James - and we look forward to your questions

<u>Question and answer session</u>

Christoph Blieffert (Commerzbank)	Good afternoon. Two questions from my side, please. The first question is on the Corporate Bank. When you talk to your German corporate client base after the economy has reopened what do you hear in terms of short and long-term investment appetite as well as loan demand in general? And secondly I know it's early days but any indications about loan loss provision in 2021 would be highly welcome. Thank you.
Christian Sewing	Thanks, Christoph. I'll take the first question. Obviously we are in close contact with in particular our German corporate clients and actually I should say that the sentiment is a much better one in particular over the last four to six weeks than obviously we have seen it in April and May. I would even say that most of the DAX CEOs but also a lot of the German family-owned companies actually have signalled a cautious optimism. We also see signs for a robust recovery in major economies in the second half of this year, although we all admit that it obviously takes some time that we return to the pre-COVID GDP levels. In particular for Germany and to your questions, investment and loan demand, there are a lot of indicators like retail sales but also the overall business sentiment indicating that the German economy may even outperform the current forecasts and is recovering faster than we initially thought. I think all the support programmes which have been set up by the Government but also the most recent European stimulus programme helped in this regard. I personally - and that is also mirrored by the German corporate heads - we always think in a one-third/one-third/one-third category. One-third of the German corporates are having the home market

and the euro market in their mind in terms of growth, in terms of demand and that is actually, as I said, recovering quite well.
Then we do see a strong recovery in China and in Asia. Actually, we believe that China is growing in 2020, despite the pandemic, by 2% and we can see that a lot of demand is actually coming now to the German corporates from China.

The biggest question is actually at this point in time the US, again standing for one-third of the production when you take an average for Germany and hence overall you can see that for two-thirds there is quite some optimism in the game.

And that then also actually makes us confident that the sentiment for a balanced investment and therefore also demand for loans and credit facilities is there and that actually we see in our business because overall in the first half of the year we grew the corporate loans, we grew the commercial loans.

Yes, we have seen some repayments of the initial draw-downs from the end of March but overall I would say compared to eight weeks ago quite a far more positive picture though obviously most of my colleagues are managing their company quite technically these days because there is uncertainty left. With this I hand over to James with regard to loan loss provision outlook.

James von Moltke

Sure, thank you Christian. Look, there's a highly uncertain outlook out there, as you've heard from us and other banks. In our guidance for this year is an implicit normalisation of CLP levels in the second half and at least at the moment given the economic outlook that we're working with we would expect that environment more or less to carry over to ’21 - so not the extremely favourable credit environment that we came out of in ‘18 and ‘19 but also not the very elevated environment that we found ourselves in the first half of 2020.

Obviously a lot depends on the path of the recovery from here. Another dip in expectations would clearly present some additional pressure in ‘21 but by and large our central case would be a continuation of a moderate normalisation into ‘21.

Jernej Omahen (Goldman Sachs)	Good afternoon from my side as well. I'd like to ask two questions please so the first one on the second quarter results; I don't want to take away from the very successful cost management and resilient revenues in this quarter but the revenues for the industry this quarter were pretty much a record and even with those record revenues Deutsche lost money this quarter. And I was just wondering, I mean, as we go into the second half of the year and the usual seasonality if nothing else kicks in, how do you assess your ability to sustain profitability into the third and the fourth quarter? And just as an aside, so, I mean, yesterday your supervisor issued the results of their vulnerability analysis and came to the conclusion that the outlook is so uncertain that they've asked banks to suspend all capital returns to shareholders for an additional period. And just listening to you and your positive outlook I was just wondering, where do you think the supervisor is getting it so extremely wrong in a way? And then the second question I have; Christian, I would like to go back to your AGM and your opening speech, which I thought was interesting. I think this was at the start of May and I believe that you were the first of the large bank CEOs to explicitly talk about consolidation and I believe you said something along the lines that consolidation in the European banking sector will happen, that this is inevitable and that it must happen. And I was just wondering if you could give us some additional insight as to how you're thinking about timeline for this consolidation to take place and the triggers that might start it. Thank you very much.
Christian Sewing	Jernej, thanks a lot. Let me start and I'm sure that James will add. First of all on your profitability outlook for the year, potentially we can put this a little bit into perspective. You know, we started the largest transformation of Deutsche Bank over the last 20 years last year. We always said that we will have one-and-a-half years or six really key quarters where we do most of the restructuring. You have seen that most or 75% of our transformation costs have now been kind of done already and we also said at the beginning of the year pre-COVID that our ambition is not only the 19.5 billion goal in terms of cost but that we are pre-tax break-even.

Then we are kind of affected and impacted by the hardest recession we have all seen since the Second World War, with unprecedented issues which we all did not experience and this bank was not only profitable in Q1 but also profitable in Q2.
And if you now look that this was a very good quarter for the Investment Bank, yes, I agree - but not only because of COVID; because we have shown in January and in February but also in June and the momentum is also good in July - that even with normalised markets we are actually convincing and getting additional flows and underlying client revenues in markets which are not that COVID-impacted, like obviously end of March, April and May.

And that we actually gained market share in those areas where we want to compete, where we think we have a leading market position; that actually makes us very confident that also in the second half of 2020 we will show revenues - also in the Investment Bank - which are higher than in the second half of 2019 and that the underlying flow is not something which was only done because of COVID but really which is evidencing the strength of Deutsche Bank.

And if you then look at the underlying business, also the volume drivers in the Corporate Bank and in the Private Bank, we actually see the loan growth; we see the growth in Assets under Management in the Private Bank but obviously also in DWS. We see the disciplined execution on the cost side and all that shows us that we are on the right track.

So, in this regard, I really would say that everything what we decided last year is actually confirmed, in terms of right decision from a strategic point of view, and secondly, we are even ahead of the plan, which we have given ourselves, despite being affected by COVID.
Second question on the consolidation, you know my view. I've said that already two years ago, that over medium term, I think that consolidation will come in Europe, but there are certain preconditions, that it's a banking union, that it's the Capital Markets Union.

We need, in my view, less banks in Europe in order to be competitive globally, and that comment from the AGM was nothing, where I said, this will happen short term. But that was my medium-term outlook for the European financial sector.

James von Moltke

Just a couple of things to add. So, if I think about the second half, Jernej, it's James, we have non-repetition of H1 pressures on the P&L. I'll start with the Single Resolution Fund contribution or assessment, which is 600 million. And we've outlined that the COVID-related excess credit loss provisions have run 600-700 million. And as those the first of which will not repeat and the second of which we expect to abate. So it gives you room to have the outperformance, if you like, in the Investment Bank retrace somewhat while preserving a path to profitability.

And then, as you said at the outset, we will continue to work on the expense trajectory that we've set, so as to preserve the path towards our targets and goals for 2022.

On your point about the ECB and the announcements yesterday, I think we've said quite consistently we share the supervisor's objective of ensuring that the banking industry is in a position to support the economy, support clients through this crisis period and that's certainly what we've been endeavouring to do. And therefore, we should all be mindful of how we manage capital through a stress environment.

As we sit here today, the more extreme stress conditions are not present but we agree with the impetus that we all need to be prepared for that and we think we've demonstrated, both in terms of portfolio quality, risk management and the ability, as you say, to manage through this period while remaining profitable on the pre-tax line, we don't see a reason in the current environment why that should change in the second half.

Jernej Omahen

Thanks a lot. Just maybe a short follow-up, James, if I may. So, if I understand you correctly, essentially, you are budgeting on the assumption that the public health crisis gets better and there's no second lockdown, etc. And sitting as you are in Germany, I'm sure, maybe, things feel that way. But let me just ask you. Let's say, you're wrong, and let's say, we go into Q3/Q4 and there is a second lockdown. What do you do then? Because you've left yourself with roughly 20 basis points of credit loss space for the second half of the year in order to meet your target.

James von Moltke

Well, we've provided guidance on credit loss provisions in Q1. We're three months later than where we were in April, and we're reaffirming the guidance, and we're telling you that today we don't see anything in the outlook that would move us off that guidance. There's always going to be a degree of risk in there. One thing that I would tell you is, we did increment the provision in the second quarter as you'll see in our interim report.

We took the view that consensus might be a little bit too optimistic given what we're seeing particularly in the United States and therefore took the opportunity to increment our provisions. We think that's prudent and to your point, in an environment like the one we're in, we need to be prepared for adverse outcomes and that's essentially the message of the ECB, be prepared for adverse outcomes. But that doesn't mean that it needs to be the central case and so we manage the company with both cases very much in mind.

The one other thing that we do want to emphasise as we look to the capital position that we left the second quarter with is, it does give us the ability to support clients as we've highlighted and also manage through an additional stress period. I guess, one last thing to add, Jernej. Christian gave some perspectives about the economic environment.

I think it's unlikely from a public policy perspective that you'd see as severe a set of measures going forward that would have the same degree of damage to the economy as authorities deal with the health crisis.

My guess is, even in a, quote-unquote second wave it wouldn't look like the first wave exactly.

Daniele Brupbacher (UBS)

Good afternoon. You talked already quite a bit about the outlook for revenues and the IB specifically and I guess the key words were normalisation but that you still expect an increase year over year. Would you be able or ready to share with us your key assumptions behind that, probably when it comes to market shares, where you see gains in key areas and probably just overall industry revenues and probably the overall market environment? That would be helpful, so just the key assumptions behind that statement.

And then, secondly on capital I guess, it's fair to say that there were some surprises in the quarter. That's also why you then gave that update a few days ago. Now, in a base case scenario, how do you think about the underlying dynamics behind the full-year outlook of the 12.5%, in terms of underlying credit demand from clients, volatility, market risk, probably some regulatory changes? That would be helpful.

And then, just lastly, more of a numbers question. I'm always struggling to forecast taxes, and the tax rate was 65 in the first half, and then you did, obviously, mention the full 100 million DTA revaluation mostly in the second half.
Could you just help us a bit, in terms of modelling that for the second half, and then probably the normalised tax rate going forward? If you could give us a guidance there, that would be helpful. Thank you.

Christian Sewing

Daniele, let me start with the Investment Bank and as you're rightly pointing out some of that has already been said. I think, why are we confident that in the second half of 2020, we beat the revenues versus the second half of 2019? It is clearly that we see that the investments and the focus on those businesses in the Investment Bank where we decided to play and to be a leading player, that in those areas we are performing and in those areas we simply see a greater client engagement more demand and again this is not only COVID-related.

If I, in particular, think about the FIC business, if I think about the European Rates business, if you look at our market share gains in the debt business, then this clearly shows and again also the pipeline transactions I can see now for the third quarter, also looking at the first half of July, shows me that we are on a good track, actually, establishing this momentum long term.

We can see that last year when we exited the equities businesses, we had a perceived or expected halo impact on the FIC business, that is after a year now in this new strategy, far less than we anticipated because clients are coming back and are still coming back and engaging with us.

And hence, looking at those businesses we decided to be active in, we see in almost all these businesses growth rates year over year, again, also now starting in July which makes us comfortable and confident that we can beat last year's second half.

Let me just add one more item. I think, James said something very important with the capital ratio of 13.3%. Obviously, we also have now the capacity to use part of that in order to give it back to the businesses. That is, in particular, in the Investment Bank but also in the Corporate Bank and hence it's not only the client demand but the capacity of the bank to also provide the businesses with the resources is clearly there and that will also help to boost the revenues.

James von Moltke

Daniele, on the capital guidance. Obviously, given the history we've lived in the second quarter, we're going to be careful about the guidance we provide going forward with all kinds of caveats but to Christian's point a moment ago, we could certainly see Credit Risk RWA increase in the second half make up a range by 5 to 10 billion as we support clients through the stress period. Frankly, some of the pay-downs in Q2 may be behaviour that simply pushed liquidity demand into the second half of the year, so we want to be prepared for that.

That would represent a draw-down of, in a broad range, perhaps 30 basis points which is good and deliberate on our part. The other buckets that we talked about in the Risk Deep Dive, obviously, there's been a lot of movement. At this point, we would see the regulatory pressures as being broadly neutral for the balance of the year.

You'll recall, there are some things we still have to get through. The NP backstop is an example. And then there are some positive benefits that we're expecting such as the change in treatment of capitalised software.

So, all of that stuff, probably neutral, maybe a little bit negative. And that depends, frankly, on how quickly the ECB resumes its exams, letter writing, for example on things like TRIM. And then finally, what is the COVID impact from here? And there, obviously, one is least able to see. We've, as you can tell, recovered much more quickly than we had thought, in terms of the COVID impact, going from net negative in the first quarter to net positive in the second quarter.

We still see a wide range around that, but could certainly see that being negative in the second half, in terms of use of the balance sheet. And hence, all of that informs the guidance that we've provided. I've said before, we tend to err on the conservative side in some of our capital forecasting. We didn't intend for it to be quite this much in the quarter but as Christian says, obviously, it puts us in a very good starting position to look towards the challenges of the second half.

And quickly, on taxes, absolutely right, 65% in the first half. At a continued level of profitability around about where we've been in the first half, you'd probably see that continue.
And what it reflects is profits in relatively high-tax jurisdictions and the absence of tax benefits associated with losses in low-tax jurisdictions or where we can no longer avail ourselves of tax shields on losses. You pointed out the DTA guidance that we've provided, so that would clearly change the effective tax rate to something almost meaningless.

So, I think, you've got to add that on top of the 65. And then the last piece is, the forward guidance, we'd say, is unchanged. As we continue to improve our pre-tax profitability and these effects that are much more visible, and also the permanent differences, much more visible at a very low level of pre-tax, we should start to converge towards the low end of the 30s. I think, in the past, we've provided a range of 30 to 32 as a normalised rate that we are working to achieve in the coming years.

Tom Hallett (KBW)

Hi, just a couple questions from me. Thanks for the additional colour on the capital outlook but can you provide an outlook on the credit risk migration and its impacts, please? And, secondly, on provisions, two thirds of this quarter's provisions were into stage three whilst peers are generally pointing towards the majority of provisions coming through stage one and two.

So, is this just reflecting a view that not much will go wrong in 2020 and beyond. Or do we just think about it as a mix and just no need for a reserve build like in the first-half of 2020? Thank you.

James von Moltke

Thanks, Tom. Look, again, with all the caveats that I'm cautious of providing guidance because then we can be wrong, in our estimation, the ratings migration could be something between 10 and 20 basis points in the balance of the year and that would be within what I described as the COVID-impact. We'll, obviously, provide you updates and hopefully that bucketing that we've been talking about is helpful to you in conveying how we think about managing capital through this period.

In terms of the staging, we think, it's pretty much in line with our expectations. It's essentially one third stage three, one third stages one and two and we would expect that now, in the second half, to become more dominated by stage three. So, in the ordinary course

of things we would expect additional stage three events to drive provisions in stage three and those provisions would be offset by releases out of stage two as credits migrate as well as the release of what we call forward-looking or reserves built on the basis of forward-looking indicators.
This migration is what we expected to see and we'd, again, expect, subject to all the caveats, that to continue into the second half.

Magdalena Stoklosa (Morgan Stanley)

Thanks very much. I've got two questions, one still on provisions, and another one, actually on the Private Bank. And maybe I'll start with the Private Bank performance. Could you just remind us your endgame for that business, for kind of through 2021 and 2022, because lots of things are going on, and you have a full list on this slide, 2022. It's the merger of the legal entities. It is your digital ventures. It is putting some parts of the bank, of the new IT platforms, so lots of moving parts.

And of course, those moving parts are going to have an impact both on the revenue side and on the cost side, and I'm particularly and also, within that question, could you give us your semi-vision of what do you want to create with the International Private Bank? How do you see yourself competitively there now and where you want to get to? Because this is a division where I think that there's so many things going on that it would be great to get that slightly longer-term outlook from you.

And my second question is really still on provisions. I'm sorry about that but just about the context of what you see between 2020 and 2021. So, of course, we've discussed the fact that within your outlook, the provisioning in the second half is coming down quite significantly and then you thought the provisions may normalise even further 2021.

There is, for a moment, that absence of additional model changes on COVID as well. But how do you think about 2021? We are likely to see some of those tremendous support programmes, the furlough programme, the short-term insurance programmes actually rolling off and also some of the underpinned to a corporate side as well. Does that worry you that in 2021 we are likely to actually see what the real damage of what we've just gone through is actually looking like? Thank you.

James von Moltke

Sure, Magdalena. It's James. I'll start with the provision discussion, and then Christian will talk to the PB question. Look, we have a path to walk on provisions, all of us, the industry does. The starting point is the end of the moratoria and the possibility that that creates a cliff. At this point, we don't see that cliff, but it's certainly a possibility. We do see the positive effects of fiscal and monetary support and as that wanes, obviously, the hope and expectation is that underlying economic performance picks up, that there's a trajectory of GDP growth that means that households and corporates, essentially, were bridged through a very sharp recession by government action. And again that's I think a reasonable central case as we sit here today.

Now, one thing to remember about monetary support is that it only is ramping up now on a, if you like, monthly basis in Europe, so is still coming on-line, and the fiscal support, by and large, is, while it's happening and market by markets, nationally, some of the EU measures only come on-line next year. So, there is still support we think for the economy into 2021. So, of course, all of that will play out into our provisions, in part through the stage three event that I referred to a moment ago in response to Tom's question.

And then, of course, there'll be ups and downs reflecting forward-looking indicators as that path changes over time. Again, all of it, as we see it today, is consistent with our core outlook. I would expect some of these stage three events, corporate defaults, absolutely to continue into 21 because some of the stress, for example, in the portfolios that we outline as being the focus portfolios there's no question that some of that stress will result in additional defaults.

I guess, one other thing just to note for you, we talk a lot about 2022 and our path to the 8% ROTE. If you like, a silver lining of the very dark cloud that we've lived through is that, I think the general expectation is that we'll be in an upswing, essentially, a post-recession environment there. Our portfolios will have been pressure tested, so we can begin to look to 2022 with more confidence that will be in a lower CLP sort of economic growth environment even if there is another wave that we have to live through.

Christian Sewing

Magdalena, on the Private Bank and the action, which you are referring to in Q2, let me a bit circle back to the Investor Day in December.

We said that our goal and target is to have a Private Bank at the end of 2022 with a return on equity of between 10 and 11%. And the real drivers to get there were twofold. The revenue drivers, obviously, on this way to 10 to 11% were approximately 2 to 3% increase or made 2 to 3% of this journey, but the real issue to get there is a cost game. And the preparational work is, in particular, what we have to do in 2020 and in 2021.

And a lot of that you have seen and we're actually happy with the progress in the second quarter. It's not only the merger of the PFK with the Deutsche Bank AG which, obviously, brings synergies in headcount but in central costs but also the merger of the Private Banking International business with the Wealth Management business is, from a cost point of view, a very efficient one but also gives us chances to further grow and to also offer to our private banking clients more what we, for instance, see in the Wealth Management.

So, it is all the preparatory work for our 2020 goal. Remember, we want to take out a billion of costs in Private Bank Germany. That comes from the distribution channels. That comes from the merger I was just talking about. That comes from the retail IT where we made good progress and we actually preponed that to get that ready by the end of 21. So, within the next 12 months, a lot of work will be done there in order to have one platform for the Postbank and Deutsche Bank Retail business.

And then we have approximately 200 to 300 million of cost reduction in the International business where this merger now helps, so we are completely on track to get the bulk of the drivers up to the 10 to 11% from the cost side, and a lot of work has been done in Q2.

Piers Brown (HSBC)

Good afternoon. Thanks for taking the question. Just a couple from me. First of all, just going back to the revenue outlook, sorry to labour the point again but impressive, in the one sense, you're sticking to the 2022 goal and we've talked a lot about the expectations for the Investment Bank. I guess, if we look outside of the Investment Bank, we've, obviously, got a declining revenue picture still in the three other divisions.

And I just want to make sure I've got the right takeaway from the call. It seems to me that what you're, basically, saying is, there's a lot of stuff under the bonnet which maybe, we need to look at, in terms of

loan growth, client interactions stats, client inflows, those sorts of metrics which aren't yet evident in the revenue performance. So, the question is, is that the right way to be thinking about your indication that, obviously, we're going to see an improvement from the declining picture we're currently seeing in those divisions?
And the second question was on, actually, deposit charging. So, you're up to about 60 billion of balances now, which you're charging for deposit holding.

Just interested, you've talked about, now, shifting onto smaller client balances. How far do you think we can run on this, in terms of the ultimate revenue impact? And how much aggregate balance may actually ultimately be subject to charges? Thanks very much.

Christian Sewing

Well, let me start. I think, you said it already right there. There is a lot of underlying good volume growth, which is exactly what we expected from the businesses outside the IB. If we really think about, for instance, the Private Bank in the second quarter, you see a 5% reduction of revenues. If you take out certain valuation adjustments which we did and really look at the underlying growth, yes it was minus 1 to minus 2%, which is completely COVID-related, and if you take that out and if you look at the volume drivers now after the reopening of the economy in Germany, and I think, we talked to that also in the prepared remarks, we can see, actually, that the volume is above 2019 level, be it on the investment side or be it on the credit growth and lending growth side, which is a good indicator that, actually, the underlying business is working well.

Same actually accounts for the Corporate Bank, and on top of that, we are doing that, what you are just saying. We have already now achieved on the deposit repricing and the Corporate Bank a level, which we wanted to achieve by year-end, but we achieved it after six months. So, in total for the bank we have repriced now 60 billion of deposits, 50 billion in the Corporate Bank, and we continue to do so. And I can't give you an exact number, but of course, it is something, which is not only done by Deutsche Bank, but which we see more and more in the market. And that means, we will continue to do so, because it's much needed to mitigate the headwinds of the negative interest rate. So, you won't see us stopping here. With all the track record, which we have gained over the last seven or eight months by doing this in such a disciplined way, I'm confident that we can reach even higher amounts, which, obviously, then supports the top line.

Nicolas Payen (Kepler Cheuvreux)

Good afternoon. I have two questions on asset quality, please. The first one is regarding loan under forbearance and moratoria. A worry of assumption regarding credit quality of these loans once the moratoria period is over. In which stage pockets do you think or do you assume they will fall? And second one is regarding your stage three loans coverage ratio. It has decreased quite significantly from 39% to 33%. What should we expect going forward regarding that ratio? Thank you.

James von Moltke

Sure, Nicolas. Hi, it's James. I guess, quickly on both, we look very carefully, and we provided some details on the extent of loans subject to moratoria, voluntary or, if you like, statutory, in our materials, and we're watching carefully to see whether those roll over into default.

Right now, we're not seeing behaviour in clients that would suggest to us that clients who were solvent and whose businesses were strong pre-crisis, after moratoria, would be notably different in terms of credit quality, but it's something to watch carefully.

I think, secondly, with respect to the coverage ratios, we have seen, as well, that those are moving around, and it's based on the flows into the buckets of staging. And when you've seen one or two buckets where there are declines, what that's telling you is that loans have moved into a bucket with a very low loss-given default or very high collateralisation or other protections in the bucket. And so, is consistent with all the other kind of information we've given you and we discussed risk deep dive. So, the characteristics, if you like, of the migration will have an impact on the coverage ratios.

Kian Abouhossein (JP Morgan)

Thank you very much for taking my questions. I've got two questions. The first one is, coming back to revenues, clearly, you're roughly 2.4 billion higher than what consensus is expecting on your target in 2022, and you talked about repricing, Christian, but I just wanted to maybe get a bit more of a top-down picture how we should think about revenue movement in the different divisions.

Do you believe, for example, the Investment Bank can continue at that level of revenue that you're illustrating over the last four quarters as a run rate to get you additional 2% from the other divisions, or is it more coming from the IB? Or is the IB declining and there are certain things, yet, you're doing to offset that?

I'm just trying to get a little bit more of an understanding of 2/2.5 billion almost of footfall against consensus.
And then the second question, it's a bit more cheeky, I have to admit, but if I look at M&A and consolidation and I look at in-market M&A in Germany and I see a player that you have tried to merge with before, which doesn't have a management, some shareholders, which seem to be, based on press, unhappy about the situation, and a transaction that you can actually do, in terms of numbers, why isn't now a good point or timing to revisit that?

James von Moltke

It's James, I'll jump in briefly on revenues. Christian may want to add, and then he'll speak to the second question. Look, we wanted to indicate, with the LTM number, the 23.7, that the bridge to 24.5 two and a half years from now is not as wide as, I think, is the perception externally. Completely agree, as I think, Christian said in his comments, one can't expect the outperformance that we saw in the first half. Admittedly, though, if we do achieve better performance in the Investment Bank in the second half, you'd actually see that LTM number increase a little bit and further narrow the gap to the 24.5.

Where that number will be in 2022, of course, is highly uncertain, but if, as we believe, we're seeing the signs of franchise improvement and, hopefully, over time, some market share recovery, I don't think we would believe that everything, relative to our earlier assumptions, would be retraced. In PB and CB, obviously, the environment has been more difficult than we might have thought 12 or 14 months ago.

That said, each of those businesses are making tremendous progress executing against their strategies, as we described. And so, while the path is perhaps a little steeper, the mix on a group level, perhaps a little different, I think, we've illustrated that from what we can see now, it's an achievable gap. And finally, asset management, I think, Tom, in an earlier question, looked at the year-on-year revenue picture there, last year had a periodic performance fee in it. The underlying performance, and frankly drivers across all three of those businesses, loan, deposits, AUM investment assets in the Private Bank, have all been moving in the right direction. So, we do see underlying drivers of growth that can support the revenues in those businesses.

Christian Sewing

Kian, and just potentially, on the Investment Bank revenues, again, even if I repeat myself, but don't underestimate the underlying

growth, which is now bigger. What we have seen over the last 12 months, and take COVID out, of the real day-to-day business, in the FIC business, but also in the O&A business, because the halo impact from exiting the equities trading is far less than we have anticipated last year.
And that simply brings us to a different level or a different foundation to plan off, so I really do think that a good part of the revenue outperformance in the Investment Bank is something very sustainable. On Commerzbank, you know my comment, and that is, we have all hands full with our restructuring and with our transformation.

We completely believe in our stand-alone plan, and whatever we are looking for and looking at must always be value-enhancing, must be incremental value-adding to our standalone plan, and as we are even outperforming our own plan for the time being, that is quite a high hurdle. So, nothing to say more on that one.

Adam Terelak (Mediobanca)

Good afternoon. I have one on the loan book, and then a follow-up on regulatory headwinds next year. On the loan book, it looks like loans in IB and the Corporate Bank are down beyond just the revolver pay-downs. I'm interested to know what that is and what the outlook is there. Clearly, you said, you've got balance sheet to play with going forwards, but also what the revenue impact would look like.

So, Corporate Bank underlying revenues are down year over year, despite deposit repricing. You've then got the revolvers paid down late in the quarter. I'm just thinking what the run rate revenues might look like into Q3 and how you feel about that, in terms of Corporate Bank revenue sustainability? It feels like the pressures there are actually slightly higher when we start adjusting for these items.

And then on capital and regulation, you flagged that it might be net neutral in the backend of the year with a couple of items coming through.
In terms of TRIM, the ECB have quite clearly said, that's going to start again. Could you size that, in terms of what you're expecting for 2H out of the 30 billion total for 2020 and 21 and how much of that you're expecting to spill over to next year, in terms of regulatory RWA pressures? Thank you.

James von Moltke

Sure, thanks, Adam. The loan book is something that we're watching as well, and I think, it's a very good observation. There was pay-down beyond the revolver draws. I think, as an example, trade had come off over the course of the quarter, and of course, in the IB book, there has been a slowdown in the originations, and of course, they're paid out, and there's also some distribution. My hope and expectation is that June 30th is, sort of, a low point, and hence, the statements you've heard from us about room on the balance sheet from a capital perspective.

And there may have been features just in the point in time, frankly, that resulted in lower loan balances. On the optimistic side of the coin, just as you point out, we think that a resumption of loan growth, lending at attractive spreads can be a growth driver, so the utilisation of the balance sheet that we can afford can help us on the revenue side going forward. But as we've said, the general deleveraging, if you like, of the corporate balance sheets has gone well beyond our expectations. In terms of the regulation inflation stuff, TRIM was something that we did expect this year but did not come in.

And of the 15 of inflation that moved into next year that you're referring to, and I think, you asked about on the Risk Deep Dive call, that would be about six of that. Again, very uncertain because we don't know the final answer until we receive it, but if there were an estimate, that would be it. And that is not in the outlook that I provided of neutral. So, when I said that there is a potential downside it's basically that in our modelling.

Adam Terelak

Okay, so is it fair to say, though, some of the benefits in the quarter, that the end quarter capital ratio has potentially benefitted more than the revenues would suggest?

James von Moltke

It's hard to say. The net of the inflows and outflows, we don't think it was a major downward pressure. In other words, the book rolls over slowly enough that on the asset side, I don't think that deleveraging had a significant impact on revenues in CB in the quarter. Hence, to your point, I think, the importance of continuing to work with clients and seeing, frankly, the demand for loans start to recover, and in particular, trade recover.

And in fact, if I go all the way back to the question earlier about what might be the difference between what the ECB is seeing as they think about addressing the stress environment versus what we're seeing, it is, in fact, loan demand. We don't feel like capital has been a constraint to supporting clients in the second quarter.

It's been more on the demand side, and if anything, therefore, the demand has been below what our expectations might have been, and there could be a catch-up in the second half, which would be supportive of revenues.

James Rivett

Hayley, everyone else on the call, I think, we're bumping up against the time, so apologies to the ten of you left in the questions queue. The Investor Relations team will reach out to you and try and answer your questions. Thank you very much, and we'll speak to you soon.