Deutsche Bank AG

Deutsche Bank Q2 2021 Fixed Income Conference Call

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Transcript

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DIXIT JOSHI

Slide 1 – Strategy drives efficiency and revenue generation

- Thank you Philip and welcome from me
- 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 achieved significant profit improvement, driven by growing strength across our businesses
- Despite a more normalized market environment in the quarter, revenues remained robust, demonstrating the regained franchise strength at Deutsche Bank
- As you heard from Christian and James on Wednesday 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
- The headway we made across all businesses in the second quarter reinforces our confidence that we will be able to meet our profitability targets
- Our achievements were also recognized by the Rating Agencies – all of which have upgraded their outlooks over the last 9 months
- And we by now have completed around 80% of our funding plan for the year, based on the lower end of the 15-20 billion euro range we communicated previously

Slide 2 – Q2 2021 Group financial highlights

- Let us now turn to a summary of our financial performance for the quarter, compared to the prior year, on slide 2
- 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 we 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 the 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
- At the end of this quarter, CRR2 became effective in Europe which introduced and amended certain liquidity, RWA and leverage measures
- The most notable changes were the introduction of the Net Stable Funding Ratio – or NSFR – and revisions to the RWA calculation for certain exposures like investment funds and minimum value commitments
- Where we saw material changes, I will refer to them during the presentation
- We also took this as an opportunity to revise our disclosures in order to make them more comparable across the industry
- In line with our previous guidance we saw a decrease in our CET1 ratio to 13.2%, which was mainly driven by regulatory items which I will discuss later, partially offset by net income generated in the second quarter
- Our leverage ratio has increased to 4.8%, up 15 basis points compared to the previous quarter
- And our liquidity and funding remain strong, both measured via the liquidity coverage ratio and the net stable funding ratio
- We feel comfortable with the current NSFR level of 121% which I will describe more later

Slide 3 – Franchise strength drives revenue generation

- Moving now to slide 3 which shows that our successful execution is increasingly visible
- Revenues in the Core Bank for the second quarter of the year stand at 6.2 billion euros, down only 1% on the year

- And 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 German Federal Court ruling on consent for changes to consumer contracts, referred to as 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 headwinds 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

Slide 4 – Ongoing commitment to cost discipline

- Now let us turn to costs, on slide 4
- As we told you when presenting our Q2 results on Wednesday, we reduced adjusted costs excluding transformation charges and the reimbursable items 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 statutory deposit protection scheme, these unforeseen external items are now expected to add approximately 400 million euros to our expense base
- 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 control investments 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 to 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 the 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 both these factors helps us offset the cost headwinds and we continue to remain committed to an 8% return on tangible equity in 2022

Slide 5 – Demonstrating tangible impact of strategic transformation

- Let us now turn to profitability on slide 5
- 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 minimizing the P&L impact of de-leveraging efforts by the unit
- Let me now turn to underlying shareholder returns on slide 6

Slide 6 – 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 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
- With that let me now turn to risk management, on slide 7

Slide 7 – Disciplined risk management

- As you know, strong risk discipline is a central pillar of our strategy, across credit, market, liquidity and non-financial risks
- Provision for credit losses was 144 million euros this half year, or 7 basis points of average loans on an annualized basis
- We continue to manage a high quality and well-diversified loan book, with strong underwriting standards and we remain vigilant
- Our exposure towards focus industries Aviation, Leisure and Non-Food Retail remains contained with around 2% of our loans at amortized costs and we expect related CLPs to be slightly below the levels we observed in 2020
- In addition we are managing our Commercial Real Estate exposure to tight lending standards with regular stress testing to assess its sensitivity and resilience
- Both our market and non-financial risk controls contribute to robust risk management practices
- 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

Slide 8 – Conservatively managed balance sheet

- Moving now to slide 8 which shows a summary of our net balance sheet, which excludes derivative netting agreements, cash collateral as well as pending settlements
- Loans account for 45% of our net balance sheet with around half of these in Germany, primarily in low-risk mortgages
- Liquidity reserves continue to account for more than a quarter of the net balance sheet
- Low-cost deposits remain our main funding source, contributing almost 60% to our funding mix
- At the same time, our loan-to-deposit ratio of 77% provides sufficient room to prudently grow loan balances in coming periods

Slide 9 – Loan demand picking up in Q2

- Slide 9 provides further details on the developments in our loan and deposit books over the quarter
- On a FX adjusted basis, loan growth in our core businesses has been 9 billion euros
- This has again been predominantly driven by our Private Bank where we saw high client demand for mortgages and collateralized lending products, while we have also seen good loan growth in our Investment Bank
- In our Corporate Bank we continue seeing repayments of credit facilities, which largely were offset by further TLTRO eligible loan growth in Business Banking
- Overall we expect continued loan growth in the second half of the year
- Looking at deposits, we have seen an increase of 4 billion euros in the quarter, mostly from our retail franchise
- For the rest of the year, we expect deposits to remain broadly flat as targeted growth measures will be largely offset by outflows from further expanding our deposit charging as we will discuss on the next slide

Slide 10 – Further growth in deposit charging revenues

- Slide 10 shows that we have again made substantial progress in passing through negative interest rates to our Corporate and Private Bank customers
- At the end of the second quarter, we had charging agreements in place on a total of 110 billion euros of deposits, generating quarterly revenues of 93 million euros
- At this run rate, our charging revenues this year are well in excess of our 2022 targets communicated to you at our December Investor Deep Dive
- In our Corporate Bank, quarterly revenues increased by 11 million to 85 million euros, predominantly as a result of lowering charging thresholds on already existing charging agreements
- At the same time, we are pleased with the progress we made to rollout new charging agreements, in particular in Business Banking, and expect this to continue
- Furthermore we have also seen strong momentum in our Private Bank
- For the first time, we have seen the highest growth of implemented charging agreements coming from our German and International retail franchises, principally reflecting current industry trends
- We are particularly pleased with the progress in our German retail bank, in which we implemented individual charging agreements on around 9 billion euros of deposits
- For the rest of the year, we expect growth in charging agreements to increasingly feed through to revenues as initiatives continue to ramp up
- The BGH ruling will have no material impact on our deposit charging strategy for the German retail bank
- While these are encouraging results, we expect continued compression in retail deposit margins as ongoing interest rate headwinds can only be partially offset at this point

Slide 11 – Sound liquidity and funding profile

- Moving to slide 11, which highlights the development of our regulatory liquidity requirements
- As mentioned earlier, we are introducing the Net Stable Funding Ratio in-line with the general date of application in June 2021 and will now publish this quarterly going forward

- On the Liquidity Coverage Ratio we now show our stock of High-quality Liquid Assets, or HQLA, replacing the earlier Liquidity Reserves measure as this provides greater comparability across the industry

- Together, High-quality Liquid Assets and Available Stable Funding complement each other and highlight the development in the resilience of both the short-term liquidity and structural longer-term funding profile of the firm

- The Liquidity Coverage Ratio remained stable in the second quarter and at 143% it continues comfortably exceeding its regulatory requirement

- High-quality Liquid Assets increased quarter-on-quarter, primarily driven by deposit increases and additional participation in the ECB's TLTRO-III program

- Increased Net Cash Outflows arising from derivatives activity and higher loan commitments were in-line with our business activities and offset increases in HQLA during the quarter

- As a result, we closed with a surplus above regulatory requirements of 67 billion euros - slightly lower quarter-on-quarter

- Liquidity will be prudently managed towards targeted levels over time

- Turning now to our Net Stable Funding Ratio

- The execution of our strategic transformation supported our goal of maintaining a stable funding profile, as demonstrated in the second chart

- Less reliance on short-term wholesale funding, higher stable retail deposits and low-cost TLTRO funding contribute to a Net Stable Funding Ratio comfortably above minimum regulatory requirements

- Overall we ended the quarter with a Net Stable Funding ratio of 121% and a buffer of 102 billion euros above minimum regulatory requirements

- Customer deposits will continue to be our main source of funding contributing the majority to our funding sources complemented by debt issuances as well as capital

Slide 12 – Significant 2021 regulatory RWA inflation absorbed in Q2

- Turning to capital on slide 12

- Our CET 1 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, which was 10 basis points less than our previous guidance
- Risk Weighted Assets rose from 330 billion euros to 345 billion euros during the quarter, a 15 billion euros increase on an FX neutral basis, of which 18 billion euros are attributable to RWA inflation
- First, we received our last outstanding TRIM decisions, namely for leveraged lending and for financial institutions and banks – reducing our CET1 ratio by approximately 45 basis points. This brings the TRIM program for Deutsche Bank to an end
- Second, CRR2 took effect on 28th June, reducing our CET1 ratio by 25 basis points
- Business driven RWA changes in the quarter were rather moderate
- Credit risk and operational risk RWA were up quarter on quarter, reflecting net loan growth and some external losses entering our calculation
- Market risk and Credit Valuation Adjustment or CVA RWA came down, reflecting continued hedging and the gradual phase-out of the most volatile 2020 COVID-19 periods from our market data history
- Looking at the balance of the year, we now see a remaining net impact of approximately 20 basis points on the CET 1 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 ECB historical 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%

Slide 13 – Capital ratios well above regulatory requirements

- As shown on slide 13, the reduction in our CET 1 ratio quarter on quarter has correspondingly reduced our buffer over the CET1 ratio requirement which now stands at 275 basis points
- In the combined AT1 and Tier 2 bucket, our May AT1 issuance compensated for the RWA increase as well as the call of a Tier 2 instrument

- Our distance to regulatory requirements of now 9 billion euros remains at a comfortable level

<u>Slide 14 – Leverage ratio increase driven by AT1 issuance</u>

- Moving to slide 14
- Our fully-loaded leverage ratio increased by 15 basis points to 4.8% this quarter
- Our leverage ratio continues to exclude ECB cash balances given the ECB's 18th June announcement which extends this exclusion until 31st March 2022
- Of the 15 basis points quarterly ratio increase, 14 basis points came from Tier 1 Capital, notably our AT1 issuance
- Our Leverage exposure remained flat with net loan growth offset by higher ECB cash balance exclusions
- The pro-forma leverage ratio, including ECB cash balances, was 4.3%
- Under CRR2 a minimum Leverage requirement of 3% became applicable for the first time this quarter; and as a result of the exclusion of certain cash balances this minimum requirement is raised to 3.23% until 31st March 2022
- With our Leverage ratio of 4.8% at the end of the second quarter we have a comfortable buffer of 154 basis points over our Leverage ratio requirement

<u>Slide 15 – Significant buffer over loss absorbing capacity requirements</u>

- We continue to operate with a significant loss-absorbing capacity, well above our requirements, as shown on slide 15
- At the end of the second quarter our loss absorbing capacity was 21 billion euros above the Minimum Requirement for Eligible Liabilities or MREL, our most binding constraint
- We expect our MREL buffer to reduce later this year once we receive the new RWA based MREL requirement from the SRB
- We will continue to conservatively manage our MREL buffer at a level allowing us to pause issuance of new MREL eligible instruments for up to a year

Slide 16 – Balanced maturity profile provides flexibility in future

- Moving now to our issuance plan on slide 16
- Last quarter we issued a total of 4.9 billion euros, taking our year to date issuance volume close to 12 billion euros
- The quarter-on-quarter change was mainly driven by three benchmark bonds, all of which were significantly oversubscribed on account of solid investor demand:
  - The first transaction was a 1.25 billion euro AT1 security which was more than 4 times oversubscribed, allowing us to price at a coupon of 4.625%. This marks the lowest coupon of all of our AT1 securities
  - Later in May, we issued a 2.5 billion dollar dual tranche senior preferred and senior non-preferred transaction. Both tranches saw strong investor demand, particularly the senior non-preferred security which, with an orderbook of 8.3 billion dollars, was more than 5 times oversubscribed
- Looking at the total year to date issuance volume at the end of the second quarter, we have already completed 80% of the lower end of our full-year issuance target
- We reiterate our statement from last quarter that we view the lower end of the range as the likely requirement for 2021
- The balanced maturity profile over the coming years provides us with flexibility in terms of future issuance plans and allows us to continue decreasing our reliance on capital markets funding as we continue to optimize the balance sheet and funding sources

Slide 17 – Contraction of spreads to peer levels

- On slide 17 we show the performance of our various debt securities versus our peer group
- Together with consistent execution of our strategic plan, we have taken measures to optimize our funding activities, including substituting deposits for capital markets funding, reducing wholesale funding, managing our maturity profile and performing liability management on selected securities
- All these measures have allowed us more flexibility in managing our funding needs, reduced our dependency on capital markets funding and have contributed to the spread tightening that you see on the slide
- We are committed to continue managing our Balance Sheet efficiently

Slide 18 – Outlook

- In conclusion on slide 18
- Our balance sheet remains low risk and well-funded by highly stable sources
- 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
- 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%
- Our top priorities remain managing to the 8% return on tangible equity ambition and to a 70% cost to income ratio
- With that, let us move on to your questions

Question and answer session

Jakub Lichwa
(Goldman Sachs)

Hi there. Thank you for setting the call. Four questions from me, please. I don't know if it's better to take them one by one or all at the same time. The first one, the rating agencies. In the near term, how are the discussions with the rating agencies going? Any news regarding Moody's? It's been about two and a half months since the last rating action, so can we get any update there on what your view is? And more in the medium term on the rating agencies, would you still say that your priority is, and I think that was covered before, the priority is to maintain the IG rating at senior non-preferred level? So, that would be the first question. Would you like me to ask all of them and then you respond?

Dixit Joshi	Yes. Please keep going and then I'll address them.
Jakub Lichwa	On AT1, I know it's still a little bit of time away from now, but 6%, you haven't actually called the period AT1. Do you consider prefunding this later this year? Obviously, the funding conditions are fairly supportive, so would you consider actually maybe locking in some of the attractive pricing right now and running with a little bit of an excess to maybe, in the future, retire some of the capital instrument? Just any colour to the degree that you can comment would be very helpful.
	The next question, again, it's a bit ahead, but what are you thinking for issuance for 2022? One reason I'm asking is because, again, last year, you were already prefunding a portion of it in H2. So, again, can we expect that happening? Even how far ahead you are with your plan? And finally, I know it's just a small residual amount that you guys have and you don't want to spend too much time on this, but on the remaining three legacy securities that you've got, they have a positive coupon, do you have an effort where you are pushing to increase the proportion of negative rate deposits?
	Are there any other economic considerations beyond the coupon rate, like swaps or whatever there may be, that we should actually take into account? Because again, you're very comfortable with your liquidity for things like… It is actually becoming expensive, at the end of this year. That is all from me. Thank you.
Dixit Joshi	Jakub, hi, and thank you. I'll run through all of those and if I've missed any, just remind me. On the rating agencies front, the review for upgrade was published by Moody's in May. I can't provide you with a precise date for when we'll see the conclusion of that, but based on the Moody's methodology, a review is normally conducted within three months, with some variability, depending on the specific nature of the review. So, a best case would be three months from May, which would be middle of August.
	Now, regarding our expectations there, we've said, repeatedly, that the improvement of our ratings is a key focus, and will remain a key focus, for our management team. And the actions that we have taken on our balance sheet, the continued execution of our restructuring, all will

be conducive towards a better rating. We have said before that we do think that our ratings are lagging the significant progress that we've made. Nevertheless, we're also happy that all agencies have amended their outlook in the last year. But we would hope that that's a start and that there will be further recognition coming as well.

We continue to manage the balance sheet very diligently, whether that's liquidity, funding, credit risk management, market risk management, optimisation of our funding. That focus remains relentless. And as you've now seen profitability and capital generation start coming through as a result of our restructuring. So, we do hope that these measures, this implementation, this execution, will be recognised by the agencies. But I'm afraid I can't offer any more colour regarding the timing.

Second question, you asked about whether we plan to maintain the IG rating. Yes, very much so. So, the actions we've taken, and I'll come back to that when I speak to the issuance plan, will not only look at our regulatory metrics, whether that's MREL, NSFR, LCR and so on. But also, with a keen eye to ensuring that we protect our rating. That's been a focus for us throughout and will continue to be a focus for us going forward.

Regarding 2022 issuance, it's a little early to say. Typically, we give colour when we announce our Q4 earnings at the end of January, beginning of February next year. When we have a better idea around the trajectory of our balance sheet and some of the needs that we might have. That said, we have 12 billion of contractual maturities coming up next year. As a comparison, we've already issued 12 billion in the first half of this year alone. So, we're in a pretty comfortable position.

The balance sheet restructuring over the last few years that we've done, reducing the capital markets footprint that we've had, ensuring that we run a balanced maturity through time, all gives us significant optionality, I think, with managing the timing of our issuances. So, it's a bit hard to give you any colour around prefunding. As you pointed out, it's something that we did do last year in the fourth quarter. It remains an option for us this year, but we'll remain non-committal on that. We'll be watching spreads, of course, pretty keenly between now and the end of the year. But given the maturity profile next year, we're under no compulsion to prefund, should that not be economic for us.

Regarding the call decisions, and more broadly than just the 6% euro AT1 coming up in April next year, you also mentioned the other three securities that we have. To put the legacy instrument in context, we have about 17 billion of combined tier one and tier two instruments, of which, around 1.1 billion are now legacy. So, it's really small in the overall scope of our issuance activities. But suffice it to say we bake in any likely call decisions into our glide path, into our planning, into our issuance plans for the next year.

We'll always start with, and we've been pretty clear on this before, with the economics of the transactions, i.e., the replacement costs. Where there's a backhand swap rate, we would look at where current secondaries are trading versus any likely reset, and then we'd make a decision. So, on the April one, very early to say, given markets could fluctuate and will fluctuate between now and then. Have I answered all your questions, Jakub?

Jakub Lichwa	Yes. Thank you very much.
Dixit Joshi	My pleasure.
Robert Smalley (UBS)	Hi. Thanks for taking my questions and thanks for doing the call. Three different topics, and one of them is a follow-up. First, on loan demand on slide nine. Clearly, it's coming from Private Bank and Investment Bank. Number one, do you see Corporate Bank loan demand coming back in the second half of the year? Where do you think it would come from? And what concerns do you have that this demand would be from more inferior credits, given the good credit quality that we've seen so far? That's my first question.

The second is on the slide on issuance. You've got the issuance plan, AT1s and tier twos, two to three billion for this year. You've done two. Is it fair to say that if you were to do something at all, it would be in the AT1 space as opposed to the tier two space, given your activity there already. And my third question is about the Bank's business and exposure in Italy. I think that we've seen political stability there, better budget, influx of COVID funds, much more positive news flow coming out of Italy. Would you talk about across the board, Deutsche Bank's businesses there, exposure there, investments, and also, BTPs and Italian security investments in the HQLA portfolio. And where you see all of that, with respect to the company and Italy, going forward. Thanks.

James von Moltke

Robert, hi. It's James. I'll take the first and Dixit, likely, the second, and maybe we'll both have comments to make on the third. First of all, on loan demand, you're absolutely right. As you can see in the quarter, the growth came from Private Bank and Investment Bank. We did see some loan growth late in the quarter in the Corporate Bank, but it doesn't show up on the quarterly comparison. And our expectations is that that will continue into the third quarter. So, we're encouraged by the initial signs of what we've seen.

As you may have heard others' comment as well, on balance, we've been surprised at the relatively tepid loan demand up until now, but we do see that changing, although it's early days. I don't see us chasing inferior credits there to grow the loan book. I think we've commented pretty consistently that we have our lending standards and risk appetite, and we're disciplined about that risk appetite. We are looking at ways we can grow the book, but we don't see that in any way as chasing inferior credits or that there's an adverse selection bias in the marketplace, as we read it.

Dixit Joshi

Robert, hi. This is Dixit here. On the issuance front, for tier one and tier two, as you point out, we've come in under, so far this year, versus our planned issuance for the year. You've seen the strong demand for our AT1 that we issued in the earlier part of this year. That was $1.25 billion and we could have done significantly larger size, had we chosen. As you know, whether it's from an MREL perspective or any of the other regulatory metrics we have, we remain in a pretty robust position right now, so we're under no compulsion to rush for any issuance.

So, I do think we have a degree of optionality between now and the end of the year, should we see spread developments that are conducive. It is a consideration, but it is something that we will remain open to, but it's not something that we're forced to do between now and year end. Just on Italy, before I hand over to James on Italy as well. On HQLA, we remain conservative. Much of our HQLA is really level one. We have very little level two exposure. We've been conservative around our duration management, about our concentration, whether that's by country, by issuer, or looking at liquidity characteristics. And that conservatism will remain with us going forward. And it's in part why you see the large liquidity reserves that we tend to hold and we have tended to hold through time.

James von Moltke	Robert, I'd add on Italy, obviously, we have a significant strategic commitment to Italy with our indigenous business in that market. As a consequence of the size of that balance sheet, we manage carefully to what we refer to as the cross-border risk into Italy and it's reviewed frequently. The exposures are managed across our franchise, which is really all of the businesses that are present in the market, and as Dixit referred to, also the investment book. You'll see the exposure data in the pillar three in a few weeks' time. I'd say what you see there remains pretty consistent with the past. We haven't been moving that around. But it's at a level that we're very comfortable with, especially, as you say, given the current environment that has been unfolding in Italy.
Robert Smalley	That's great. Thank you for those answers. If I could just follow up on the middle question. Utility of AT1 versus a tier two, at this point, between now and the end of the year. It seems that you'd get more bang for the buck from an AT1.
Dixit Joshi	Between now and year end, we will be reviewing issuance plans for next year. I must remain non-committal on this at this stage. It's a little early to say. As I was mentioning, spreads will play a big hand in that. So, whether it's AT1, tier two, or otherwise, together with replacement costs for any instruments that are maturing or coming up with call, it will be spread developments, which will drive some of our decision-making. As you can imagine, any prefunding that gets done comes with many more months of accrual costs, which will need to be balanced against spread savings overall over the tenor of the instrument. I hope that's helpful.
Robert Smalley	Yes, it is. Thanks and again, thanks for doing the call.
Corinne Cunningham (Autonomous)	Hi there. Two questions from me, please. The first one is on MREL. You mentioned that the basis is going to change. can you just give us an update on when you're likely to be publishing the new requirement and roughly the scale of any changes you're expecting there? The second one is on the NSFR. You mentioned, rightly, that

it's now a requirement publication. When I look at how you're NSFR is made up, there's a big chunk of TLTRO three in there. If you remove that, you're probably below your requirements. Obviously, you've got the benefit of it now, but how do you think about that in your planning?

And then the last one is on the BGH ruling. There was a general court ruling this week saying that Cum-Ex trades are definitely illegal. And I think one your peers has said that they would expect bigger damages payable. What are you thinking about what that ruling means for your potential liabilities there? Thank you.

Dixit Joshi

Corinne, hi. I'll take the first two and James the last. On MREL, as you say, we currently have a € 21 billion surplus. A very comfortable starting point. We've tended to manage our regulatory measures quite conservatively. We also factor in any roll-off through time, and so, that's taken into our issuance plans as well. We don't have our new MREL requirements at this stage. We'd expect it at some point in the third or fourth quarter of this year. But we do know that the change to the RWA based methodology will result in a smaller surplus on MREL than the 21 billion that we have, but still very comfortable in our mind, even post that adjustment.

And that's certainly the basis on which we've been planning. Increasingly, the way we start thinking about the MREL surplus that we run is in terms of the number of months that, potentially, we could stay out of the capital markets and forego issuance of both senior non-preferred and senior preferred instruments. And in this case, we think, as I've said in my prepared remarks, that up to a year of being out of the capital markets, that's what our MREL surplus would allow. So, we've continued to run the measure quite conservatively. We're quite comfortable with where we are. We've factored in our expectation of our new requirements.

And as you see going forward, our issuance needs, as well, are quite well balanced over the years. Next year, with 12 billion of maturing issuances. On NSFR, about 75% of our funding needs, our available stable funding, comes from deposits, as well as capital, i.e., longer term stable capital. So, already, to begin with, that puts us in a pretty significant, good, strong position for funding. Regarding TLTRO, about half of our TLTRO balance is against liquid collateral, i.e., fairly easy to replace, should we so choose. So, very comfortable, in my mind.

James von Moltke

On the BGH ruling, it's obviously early days since that ruling. Our initial read is it did not have any material impact. Our fact pattern, which as you've seen in our disclosure, we've been at pains to point out that we had not participated in Cum-Ex activities of our own, and based on where we stand in our progress, we do not read this ruling as having a significant impact on our fact pattern.

Corinne Cunningham

Thank you very much.

Magdalena Stoklosa (Morgan Stanley)

I've got three quite short questions, please. My first one is on slide 12. I wondered whether you're prepared to split that TRIM and CRR impact also into just how much of it in the second quarter was related to leveraged lending? That's question number one.

Question number two, slide 17. We've talked about your improved ratings also on the call and what your expectations are. My question is slightly different. It's how do you see that improved ratings trajectory from the perspective of revenues? And how that trajectory can effectively aid your business, particularly within the Investment Bank from here?

And my third one is given that it's Friday and we are likely to hear the news in a couple of hours' times, what are your expectations on the stress test? Thank you.

Dixit Joshi

Magdalena, hi. I'll take some of those and then James as well. On TRIM and CRR2, we wouldn't typically break out the leveraged lending specifically, but of the 18 billion of risk weighted asset inflation that you see in the quarter, 12 billion was from TRIM and six billion was from the combined effect of all of the CRR2 measures across our portfolio. From a ratings perspective, it's absolutely right. Over time, with an improved rating, we do see our funding costs continue to grind lower.

You've seen that over the last few years, not just spread development, but also, we've been successfully able to reduce the expected volumes that we would need to take to market through reducing wholesale funding, judicious optimisation of our balance sheet, increases in operational deposits versus non-operational, increases in retail deposits. All of the balance sheet measures that we have been taking have been conducive to reducing our volumes needed, but also, we've seen the spread development.

So, one is I do think that over time, our funding costs would continue to grind lower. Together with that, we do have clients for whom ratings would be quite sensitive. And I think market share gains would accrue as a result with an improved rating, but James may want to speak to that.

James von Moltke

I think, Magdalena, where it helps the most is in markets' counterparties where their internal rules have ratings limitations. And so, we saw that on the way down, there was a measurable loss of revenues. And we do expect to be regaining some of those revenues over time with ratings improvements. Some of that, as you may have heard in earlier commentary from us, has started to happen, based on clients and counterparties anticipating or taking their own independent view on our improving credit, which is encouraging.

But of course, the external validation of the credit picture is valuable. There's another client set for whom it's valuable, which is our, essentially, corporate customers in the cash management business, where we think it will also be helpful, and perhaps, to a lesser extent, in wealth management. So, any client group where there is rating sensitivity, we would generally think there is a bit of an uplift. On EBA, it's too early, without the disclosure having happened. It's later today to really make any narrow comments.

The broad comments I'd make, first of all, the scenario is severe. And so, building, as it does, on a recession year in 2020 and not really having an upturn at the end of the period, as one typically sees in the stress scenarios. Secondly, as is the case in the EBA methodology, it's a static balance sheet. And so, to an extent, it's backward looking. Also, for us, from a profitability perspective, the step-off year is 2020. It doesn't yet fully reflect the sustainable profitability that we're building and that we've demonstrated in the first half of 2021.

Those would be the reflections we have. Again, we await the results eagerly and looking forward to engaging with you in the market, once we've been able to assess the results. I don't know, Dixit, if you have anything you want to add to that.

Dixit Joshi

No. Thank you.

Magdalena Stoklosa

Great. Thank you very much.

Christy Hajiloizou (Barclays)

Good afternoon. Thanks for the question and thanks for the call, as always. Just one from me on capital generation capacity. I'm just thinking, you've had a lengthy period of restructuring coming to an end and the regulatory headwinds, while still coming through, obviously, there's some clarity around what those look like over the next one to two years. I'm just interested, given that capital has been volatile and up and down over the last few years, what you would consider on a steady state basis as either a target or an anticipated capital generation capacity, either quarterly or annually. I'm just trying to get a sense of what that organic underlying capacity is from the Group going forward. Thanks.

Dixit Joshi

Christy, hi. Maybe I'll kick off and then hand over to James. We have committed to the 12.5%, as we've mentioned before, minimum CT1 level. So, that will be an important consideration for us going forward. We are coming to, I would say, the end of the first wave of large regulatory inflation. We saw 70 basis points of inflation in the first half of the year. As you know, ten basis points from what we'd previously indicated carried forward into the second half with potentially, an additional ten basis coming, so another 20 basis points.

But in aggregate, over the last two or three years, it does bring us to the tail end of this first wave of reg inflation. And we're also putting behind us a significant chunk of our restructuring severance and transformation costs as well. And you're now starting to see this come through in our organic capital generation, which has just begun as well. So, again, it underpins the capital return targets that we've had and that we'd outlined before. But we're firmly committed to the 12.5% through the cycle. James.

James von Moltke

Thanks, Dixit. I would have said exactly the same thing. I would also point you to the plan that we shared with the market at the December investor deep-dive. It suggested profit to support our ROTE target of €4.5 billion. As Dixit says, we would look to have a distribution that meets the promise to the market from July 19 of five billion over time. We would also be in a more multidimensional world in

	terms of being able to support growth with retained earnings, as I say, distribution.
	And I think it's been a very different world to where we've lived for the past several years in, as Dixit says, this regulatory inflation environment. But the anchor point, as Dixit mentioned, is a capital ratio that meets or exceeds the targets we've set out.
Christy Hajiloizou	That's great. Thank you very much.
Phillip Teuchner	Thank you, Hayley. Just to finish up, thank you all of joining us today. You know where the IR team is, if you have further questions, and we look forward to talking to you again soon. Goodbye.