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Transcript

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Daniele Brupbacher: Good morning, everyone. I'd like to welcome James von Moltke with his team here at our European conference. Thank you very much for participating again at our conference. It's a great pleasure having you here. What we are going to do over the next roughly 50 minutes, we are going to go through a couple of questions on strategy, on numbers, outlook, what's the achievement so far. And then we're more than happy to take questions from the audience as well.

So, let's start, because 2022 is an important year. You defined a clear strategy back in 2019. It was announced, it was a major strategic overhaul, clear targets. Let's take stock a little bit of what's happened so far. How do you see the most important achievements to date and how confident are you really heading into the end of 2022, the last two months or so, for the financial goals? Let's specifically talk about the cost/income ratio, the ROTE target as an opening question.

James von Moltke: Absolutely, thank you for the question, Daniele. It was a 14-quarter journey that we set out for in July of 2019, and it's been a long journey for the company, but also in the marketplace. It's hard to believe that over that period of time we went through the Covid period and now we've gone through war and the energy crisis in Europe. And I guess the one really important thing for us is that the transformation that we announced for Deutsche Bank, I think puts us in a much better place to navigate the market environment that we faced over those now three and a half years.

We think we delivered in terms of milestones on the five core objectives that we set for ourselves. And that was to build four core businesses that are client-centric and competitive in their marketplaces, to exit a set of businesses which we did successfully, notably the secondary equities business, to focus on costs while at the same time supporting investments in business growth, in controls, in technology. And lastly, to manage capital through that period so that we would execute the transformation using our own resources, existing resources at the time. And I would say across all five of those objectives we're there.

Now there's always more work to do. There's more work that lies ahead in terms of our trajectory. But if I think 13 or 14 quarters into it, we've achieved a great deal.

Daniele, you ask about milestones, there are actually too many to list, but it's been truly a transformation. So, if I think about the move to the Cloud, if I think about the way that the businesses have been reoriented, all the work we've been doing on cost, and of course the business exits that I mentioned, it's been an enormous exercise. And we've been very focused throughout also on the control remediation side. We talk about that consistently, it's a feature of our landscape. I'd love to be at the place in the not too distant future where we can stop talking about it, but it's been a consistent focus as well over that time.

So short version is we feel really good about what we've accomplished, but we're also, I think, aware and humble about the work that still lies ahead.

On the targets, as we talked about in the third quarter call, we are confident we're on track to the 8% ROTE target. We've actually now achieved that over the first three quarters of the year. The nine-month ROTE is 8.1%. And we're obviously working to deliver on that also in the fourth quarter to bring home the year at that 8% level. And incidentally, the core bank is running at about 10% ROTE. So, we're very pleased with that performance in the year to date in what is a difficult market environment.

On the cost/income ratio, obviously we're working hard on costs as we talk about each quarter, and we did update our guidance. Initially we were targeting a 70% cost/income ratio for this year, actually consistent with the cost/income ratio implicit in what we announced in July of 19. And we changed that guidance to mid to low seventies for the cost/income ratio for this year. And as we said a few weeks ago, we're on track to achieve that. So, at this point I think we have a high degree of confidence that we're on track to achieve also the financial goals for this year.

Daniele Brupbacher: If we stay briefly with the cost/income ratio specifically, is there any additional comfort you can give us in terms of moving parts, key moving parts for the remaining two months that we actually get there? What drives that?

James von Moltke: Now I have a view on October that I didn't have a few weeks ago when we spoke to investors. Look, it's one of the challenges, it's a ratio. And so we're working hard on all the elements of it. But consistent with our commentary on the third quarter call, we have a very clear path to revenues above 27 billion euros for the year. That would imply something in the low sixes for this quarter, which is aided, as we talked about, by a gain on sale that we had on the sale of the Italian financial advisory business. So, we feel pretty good about the revenue path there. Obviously two more months and so one has to create the caution about volatility and uncertainties in the remaining couple of months of the year, but at this point, what we can see we are on track on that side.

With about 15.2 billion of expenses recorded in the first nine months, you can sort do the math on the ratio. If we're somewhere in the low to mid seventies, that means that we need to continue to manage expenses tightly over the course of the remainder of the year and be somewhere in the ballpark of where we were in the third quarter. Again, working hard on all of the expense levers to deliver on our goals.

I will say, there are always uncertainties as I say in a ratio, one of the things we need to look at is things that are outside of our control on both numerator and denominator. On the numerator, one of those things is the volatility we've seen in valuation and timing differences this year, not really in our control. And then in non-operating costs there are litigation and also decisions in our control that we might make on restructuring severance. All of those things are still sort of in play. But with all of those moving parts Daniele, to your question, we still see a very clear path to the goals that we set.

Daniele Brupbacher: Great. Another thing, I mean you talked about it in October a bit, when you published the Q3 results and the following day, there was another rate tag, the ECB meeting took place on the Thursday I believe. And then there was also the changing conditions around the TLTRO. So interested to hear how you see that, what's changed for you? What are your current assumptions also per business, if that's possible? And with rates going higher, a key question these days is obviously what's client behavior? How positive does the outlook look like? That would be helpful.

James von Moltke: Yeah. Well, it's going to be a fascinating experiment now. What we live through and what started in the summer and now living through this rate cycle, which is unprecedented both in its speed but about coming from minus 50bps, so we'll see what happens.

I guess, the assumptions we made when we spoke to investors on our call a couple of weeks ago are proving to be about right in terms of the actions the ECB has set out and the forward rate curve that we were using at the time, and also regrettably the assumption we made about TLTRO. So, no question that there's a real tailwind coming from interest rates at this point, which is great for the banks. And I have to say it's after a period where interest rates were really challenging for the banks. I mean the negative rate environment has really leached a lot of profitability and with the profitability, the ability to invest in the future out of the banking system.

And as we benefit now from interest rates, one has to be aware that's a normalization, not somehow a windfall that's coming to the banks. But with that said, for us, there's complexity about the guidance we've given. So I want to make sure that I'm really clear.

So let's start with 2023. The guidance we gave a couple of weeks ago was that relative to 2022, interest rates alone should support revenues by about 2 billion euros. And then that would be offset by something in the high single digits, hundred millions of euros by the year-on-year impact of no TLTRO, higher funding costs, and some of the benefits we had this year, for example, debt repurchases and so on. So the net of those things should give us something between say

1.1, 1.2 billion euros of revenues next year relative to this year.

The other sort of time-frame that we've been talking about, if I go back to the investor day we had in March, I was talking about 2025. So we're on now a new three year journey to 2025. And there we were talking about variances 2025 relative to 2021, that supported the growth rate. At the time we had an impact from interest rates that we estimated based on the then curve and the December 31st balance sheet, that was 1.5 billion euros. That's now well into the 3 billion euros. So call it two plus billion euros increase in what the rate curve alone delivers in 2025 relative to where we were in March. And again, there's an offset there of higher funding costs and what have you. So if I were to net the number, I would add to maybe 1.3 billion euros of revenues, including the funding costs, all the other pressures that you see. So a pretty good tailwind that we have.

In compound annual growth rate terms, because we were talking at that time about CAGRs, it probably lifts the CAGR about 1% that we get from rates. Probably 1.2% from 1% from rates alone, from the rate curve and all that goes with it to 2.2%. So a meaningful impact over those years.

And lastly, just to make sure that we're clear on that, the 2023 and beyond TLTRO impact and the other changes, including on required reserves, is in line with what we said. It's a little less maybe than 50 million euros this quarter of impact of the ECB decisions, and in call it the high 400s next year of revenue that we might have expected to earn on the original terms of TLTRO that are now not going to be part of our earnings next year as a result of that. But all of that TLTRO impact is baked into what I told you about 2023.

Daniele Brupbacher: And is there anything specific we should be aware of in terms of assumptions around deposit betas, client behavior shifts on the balance sheet?

James von Moltke: As I sit here today, I would tell you that for betas there is probably upside to the guidance that I just gave.

Right now I would tell you that we are running a little bit better than the models. Actually, in some cases considerably better than the models would say. What we call DRE, but is a beta assumption, but it's early days. So for the euro, it's especially early days. We only have a couple of months of data we're tracking against the models. More of course on US dollars. And there like our American peers, we're seeing performance better than the models would tell you to expect. The question is, will we catch up to the models over time as that this rate cycle matures, we would assume that we will, but there's a little bit of time with the lag that we would expect to benefit in 2023. How much that is will depend on the competitive market environment and sort of behavior. My belief is that based on right now the competition, the marketplace, the levels of liquidity and so on, that we should be able to keep a lag effect a little longer into 2023 than the models might suggest.

Daniele Brupbacher: Sounds good. Can we talk briefly about Q4 given you are now well into the quarter, you did already give some guidance with Q3 results, but just interested to hear if there's any update you could give us in the individual businesses specifically. I think there has been a big focus on the stable businesses as well.

James von Moltke: Happy to, thank you for the question. It’s nice that we're starting with the stable businesses. Daniele, I remember 18 months ago and often still today, the discussion about Deutsche Bank is seems to be always an Investment Bank discussion, which isn't to say we don't love our Investment Bank, but because I think we're performing very well and within the Investment Bank the FIC division, but it ignores the much larger organization around us and as I said at the outset, four successful businesses that we have. So start with the Corporate Bank, there we've seen sort of outstanding growth this year as you've seen with competitors, but supported by interest rates, which you see most meaningfully in the Corporate Bank because of the dollar exposure we have and also the way that liabilities are hedged in the Corporate Bank in euros, there's more upside that comes more quickly in the Corporate Bank.

So you saw 25% year-on-year growth in revenues in the Corporate Bank, for example, in the last quarter, I think in the nine months, sort of 20%. So good solid growth in the Corporate Bank and that's something we'd expect to continue both based on the cumulative impact on volumes and interest rates but I like that there's also the volume and the underlying growth there. Loan growth moderated a little bit in the third quarter and that we may continue to see depending on how the economic environment plays out but I think that just the fundamentals for growth in the Corporate Bank are very strong. So we've talked about having achieved a run rate of, call it 1.5 billion euros per quarter, gets you annualizes to 6 billion euros. I'd say we're running a little bit better than that. At the moment, you've seen that last several quarters, something between 1.5 and 1.6 billion euros per quarter and we'd expect that to be the case this quarter in the fourth quarter and then build on that into 2023.

In the Private Bank there's still, again, growth. It's been, let's call it an underlying growth rate in the mid-single digits this year. A lot of noise because we had an adverse ruling on terms and conditions in Germany last year, which we're kind of growing over. We have some unusual effects from work out of legacy assets and so on, but there's a nice solid 5% underlying growth rate there. Even in an environment where some elements of the business have been difficult this year, so particularly we've talked about wealth management in Asia where there's been de-leveraging and a lot less activity in the current markets.

Investment products which were very strong in also in Germany have slowed down but not withstanding that you've seen good new business volume, 36 billion euros in the year to date on loans and assets under management and you've seen some continued loan growth even if, again, moderating that business but we like the underlying growth rate of 5% and nice thing in that business is interest rate impacts will accelerate over the next several years because the private bank is more exposed to the long term euro rates and so it'll some benefit this year, there'll be an incremental benefit next year, but then it'll accelerate in 2024 and

2025. So short version of all that, Daniele, is we like the momentum in those two, what we call stable businesses that are of course benefited from interest rates by interest rates.

Daniele Brupbacher: Even the size of IB revenues, I still want to briefly touch on those as well. Anything specifically, we should be aware of with regards to Q4 in the IB? Is it the businesses we've seen performing well here year-to-date, which is probably, I guess, in favor of your business mix and probably just the word of looking into next year, 2023 there is, I think you made some statements around what would you expect to be the drivers probably also in the second half next year. If you could elaborate a bit on this and how is your market share developing? I think you've had a few things that were clearly supporting those market share gains better. We should still expect it to come through next year.

James von Moltke: Yes and it is an important part of our business and so don't get me wrong, and by the way, when we talked about a global house bank strategy, which was sort the name we gave it back in March, I think it's important to realize it's an integrated capability to serve the financial needs of our clients as a call it first call bank. And that absolutely includes the Investment Bank. So one of the strengths of what we're seeing at the moment with these refocused businesses is say risk management that the Investment Bank executes on behalf of the clients of the Corporate Bank. That's been a big part of the business and one that's growing in FX and rates for example, so that's been a really key part of the business. As you say, trends I think in the fourth quarter will be sort of evident that we can see in the marketplace very similar to the first three quarters of the year.

We're in an extremely weak O&A environment, we call it Origination & Advisory, the corporate finance product suite where, I think, this quarter, the year-on-year wallet will be down about 50% versus last year. Half of last year's wallet, admittedly last year's fourth quarter was the all-time high for that product set. So it's against a difficult comparison but still a very weak environment and we would expect to travel in line with the market share. And as you say, the mix of that market has been a little bit adverse to us this year in market share terms, so our market share has declined to about 1.9% if you look at Dealogic. We don't think that's a franchise weakness per se, we think that's a business mix reflection of the business mix and I think that'll begin to normalize as time goes by and we're making investments in that business, especially M&A, but the suite of advice oriented capabilities that lead into financing transactions, which is a traditional strength for us so, and I'll come back to the trends that we see in 2023.

We're thrilled with the performance of our FIC markets and financing businesses this year, not just because the market's been favorable because as you say, we've managed the risks, I think, very well. Obviously, we need to do that for two more months of the year in a difficult environment and importantly, we are seeing that client engagement that we're talking about. In fact, a year ago I think we talked about the impact of our rating upgrades on that business and so we're seeing that continued sort of improvement in just our market position, the percentage of flows we represent, clients coming to us, percentage of RFPs in electronic products, that type of thing. So we're really pleased with that and our market share is hard to see because it's not as public as the corporate finance product suite, but about 11% as we measure it and that's really good recovery.

It's over the past three years if you like, since 2019 and that's a trend we would expect to see continuing. Credit has had a tough year, of course, and especially on a year-on-year comparison where, as you may recall, we had last year the benefit from an outsize gain on a position we had in distress, that had the biggest impact in last year's fourth quarter in our revenues and that's something we're growing over. So, if I put all that together, I'd probably say the Investment Bank should be about flat to last year's fourth quarter, which to our mind is a pretty good result given the dynamics and the environment and the large gain that we're growing over so that's more or less how we're trading there. One thing I do want to add, Daniele, is Corporate and

Other, which often it gets lost in the mix unless it pops up.

As we manage through the volatility of the marketplace this year, we've seen a couple of very difficult quarters in what we call Corporate and Other driven by valuation and timing differences, so that's hedging the balance sheet. We had about 200 million euros of losses in each of the first and second quarters and then a 200 million euro gain in the third quarter. We don't know what the fourth quarter will look like, but I wouldn't expect the third quarter gain to repeat. If we look at what that's being historically, obviously there's a volatility, but it averages out with all of the other treasury effects at about 150 negative per quarter and I wouldn't expect the fourth quarter to be, unless something unusual happens in either direction, much different from that. So that's something to bear in mind as well.

Daniele Brupbacher: Good. If we could probably switch a bit to asset quality in an environment where, from a macroeconomic standpoint of view, it's still deteriorating. When you talk to clients, what are you hearing both domestically and abroad? How do they react in their various measures in place from governments, et cetera? Can you tell us something about underlying provisioning assumptions? And then probably also the expectations in terms of loan growth across the key businesses?

James von Moltke: Sure Daniele, and obviously a big question facing the industry is how severe will the recession be and the economic environment that we're going to travel through and what is the credit cycle? How severe will the credit cycle be that accompanies it? It remains hard to say, I have to say. I mean all of us look at the environment and the various risks out there and say there's a storm coming to paraphrase one of our competitors, but we don't know how severe that'll be. And if you look at the current credit statistics, they still remain reasonably stable. I will say just philosophically, Daniele, we tend to, if you like, trust and follow the combination of our credit officers and the ratings that they're applying to the portfolio and the models that we've built, invested in and IFRS 9 sort of asks you to follow.

So to your point, when you ask about what assumptions do we use, of course we use some assumptions in our planning, but in the actual provisions that we post, by and large we follow what all of that modeling and also human intelligence that we build into it would tell us. Of course we add overlays from time to time if management's judgment suggests the models and the result of the credit ratings doesn't give you a good picture, but we try to rely on the models as much as we can. The guidance we've given for this year is 25 basis points of, so credit loss provisions at 25 basis points of average loans, which incidentally is a number that we first put out as guidance in March.

So relatively early in the environment that we're facing, which is also something we did in 2020 in the COVID environment to some sort of controversy as to how it is that we felt comfortable with the portfolio given all the uncertainties and we'd still feel comfortable with that as we sit here today. If I look at our corporate clients, especially larger multinationals, there is still a reasonable degree of confidence, that they're able to navigate shift production, order books came into this environment high so while we see a deteriorating environment, we're not sensing from that multinational client base the cliff effect that they were expecting to see, which is good and encouraging. If I go further down the corporate sector to SMEs there, I think there is going to be pressure and our clients are seeing pressure, especially sort of focus industries that are particularly exposed to energy prices. And then you've got households. In our retail credit stats, we're not seeing changes yet. It may come, but we're not seeing changes in those credit stats or the forward-looking stats.

And as you mentioned, the extent of government support in this energy, at least the energy part of what we're facing, is significant with the German government coming in with its 200-billion-euro program, all of that will play through. So, will there be a deterioration? Yes. I think as we sit here today, if it's 25 basis points for this year, I would expect it to be a little bit worse, maybe two to three basis points worse next year. But that's an early view and it could certainly be worse depending on how things develop. But it's what we see today in the portfolio. As I say, it's very early to be talking about 2023. But as I say, our willingness to talk about a forward look on the portfolio is based on all of that math and the very strong underwriting conservative approach we take to credit management in the company.

Daniele Brupbacher: Thank you. You did mention already 2023, but can we probably be a bit more specific at this point if possible, how you think about going into next year from, let's go through the P&L focusing on revenues, costs. You mentioned risk cost already, so I think we can read it here and probably also the range around that. What's the key challenges in general on all the key P&L lines?

James von Moltke: Yeah, well look, it's early to trying to avoid being drawn on 2023. We're still working on all of the efforts we do around planning, and we look forward to the fourth quarter earnings announcements on February 2nd where we'll obviously give more color on 2023 and the path of 2025.

But if I just build on what we talked about at the third quarter earnings call, we still feel pretty confident about our revenue trajectory. We talked about the stable businesses earlier, so Corporate Bank, Private Bank I think have momentum, including the lift from interest rates. And while you could certainly see a softening of loan growth and certain elements of the drivers it's against an environment of underlying growth that they have. In Asset Management equivalently, we've seen the impact of the market sort of selloff this year. And so that's in essence in the run rate. So we're traveling something a little bit above 600 million euros per quarter in revenues in our Asset Management business based on management fees essentially. And then there's some variability that's created by performance fees and kind of new originations or new asset inflows.

So absent a significant change in the financial market environment, you'd expect that to run in a stable way.

Stefan Hoops and his team will be talking to investors in early December with an Investor Day and we'll have more to say about it. But the kind of underlying performance I think is built into the run rate at this point on the revenue side.

And then the investment bank is, we talked about that a little bit. It's always hard to tell because it's more driven by the financial market environment, episodic events, volatility, and so on. On a big picture I would expect there to be a transition next year from the volatility driven revenue environment that we've had this year, which has been good for the FIC markets areas, FX rates, global emerging markets, and by the way, with a good financing backdrop. So, you're able to put money to work in structured lending at good rates, good spreads, and sort of a reversal of the weakness you've seen this year in credit markets, notably leveraged debt capital markets, and also the episodic corporate finance products.

When does that transition take place? It's hard to tell. If you ask me to guess, it'd be the second half of next year. Just as we start to get more visibility into the path of interest rates, the path of the economy, depth of recession, perhaps the outcome or a path to resolution of the war in Ukraine and the attendant energy prices, my instinct is it'll still take five, six, seven months before we start to see the clarity on that. And with that, in my expectation will come this transition in our businesses.

We are running at an annual rate at, call it 10 billion euros in revenues in the Investment Bank. You'd like to think that we could achieve that again next year. Obviously, there's variability around it, but in an environment that transitions as I outlined. So all of that feeds into what we said on the third quarter earnings call, which is a clear path I think to 28 billion euros or above in revenues next year with still solid performance in the businesses, deteriorating credit, every effort to hold costs as flat as possible, even in this environment with inflation and investments that we've talked about in technology and controls and also forward in the business with expenses benefiting from the programs that we have underway to drive structural efficiencies in the company.

We can talk more about that, but we laid those out in the March investor day and that's something that we're continuing to execute on and that we rely on to help us manage our expense path, not just next year but into 2025.

Daniele Brupbacher: I mean, sticking briefly with 2025, I wanted to discuss 2025 and the question on capital as well, then we can probably open it up for questions if there are, any in the audience. So firstly on capital, anything we should be aware of going into year-end for 2022 I'm talking about? And then 2025 is important because that's the next cycle. It was March, has anything changed since then in terms of key drivers within that? I think you also gave some CAGRs per business unit on the revenue side of things, any changes If I recall correctly, it was very much driven by actually the stable businesses, which I think is something the market likes. Is that still the case? And you did mention cost, so I think we can keep that short. And then very lastly, sorry, a lot of questions here. The capital distribution plans at this stage.

James von Moltke: So let me start with capital. We guided for 13% at the end of the year and that remains our guidance. We posted 13.3% CET1 ratio at September end, but we felt that was a low print on RWAs, both credit risk and market risk RWAs. We see RWA growth in the fourth quarter. That would sort take us back towards that 13% guidance for the quarter and year end, which again is, given everything we've traveled through as I said at the outset since July 2019, we think is a great outcome for investors. And as we talked about in March, we've started on this path of capital return, which of course we had to make the painful decision to suspend the dividend for two years. We restarted the dividend this year at 20 cents, and then in March we gave investors a very clear path of 50% increase in the dividend every year for the next several years to 30 cents next year, 45, and then 68 cents.

So we've laid out a clear path on dividend and that's something we're very committed to keeping. In general, our distribution path that we laid out in March is one we're still committed to and still see a path to. You ask what's changed? A lot has changed and is changing in the environment. So it's probably too early to give you sort the puts and takes of that. And by the way, too early to say really what the Basel III path will look like now that we've got a council proposal, the rapporteur at the European Parliament and the Commission all having spoken now we've got to go through at least a year of this trialogue. So there's uncertainty as to what 2025 will look like on Basel III. But with all of that said, I think for now we still would say we stick to that distribution plan and we're very committed, especially to the dividends and to the distribution we laid out cumulatively to 2025 as well as the payout ratio after 2025. Daniele, you asked about some other things in all of that, just remind me.

Daniele Brupbacher: Well, I think it was around the growth dynamics within the revenue. I think you gave CAGRs per business unit and I think it was six or 7% for the stable businesses, relatively positive, which is something the market likes. Has there been any shifts within that?

James von Moltke: Probably a little bit, and again, it's early to say, so we'll provide more of an update in February, but the investment bank had a CAGR of about 1% and we think that's probably reasonable. We would expect the wallets to decline in FIC from here and probably start to normalize in O&A and by the time you get to 2025, I think it's too early to judge whether there'd be any difference in it, but we don't see that's likely. The compound growth rates of the group at a whole, three and a half to four and a half percent.

I'd say Corporate Bank is probably above what we indicated back in March, Private Bank in line and Asset Management, again, probably too early to tell, Stefan will speak about it in a few weeks time. But of course, it depends on the financial market environment. Big picture, you have relative to March, you have a better interest rate backdrop and probably a weaker macro backdrop. So some foregone growth in 2023 and 2024, that in my judgment is probably more than offset in 2025 on the revenue line. And you probably have more pressure than we saw in March on expenses from inflation, which tells you we need to work even harder on our expenses. But if you put those two things together, no reason we'd step back from the cost income ratio we were indicating back in March.

Daniele Brupbacher: You had an absolute cost target as well. It was I think 18.5 or 19 billion euros. So that's something which you feel comfortable.

James von Moltke: Essentially traveling flat over that time. And with the levers being investments that we make in the business, obviously the initiatives to reduce our costs over time, inflation. And I think we're getting to a point where we have more levers that we can toggle. When you're bringing expenses down, you don't have the same sort of ability to toggle when you're trying to travel as flat as possible and you're creating room to self-fund investments, which is sort of the path that we've laid out to 2025, you do have a little bit more scope to toggle. So that's what we're working to deliver and then we're in the middle of our plan cycle, so working hard to preserve the path that we've outlined.

Daniele Brupbacher: Thank you. So I have one more question, but let's see whether there's any questions in the audience. Anyone?

Audience question 1: Hi, sorry I was late. Just if you were to be surprised both on the upside and downside, I mean, what would be your biggest deltas? I could think that on the micro side, this is still a lot of order books, but there's a lot of talk obviously from all the companies of over-ordering. So that will give you different view to what PMIs are saying. And obviously PMIs are lower or the books are higher, but equally it could be a positive surprise if you deliver. What's your view on what could be the biggest delta from here?

James von Moltke: You know, in today's world, it's a fascinating question because there are so many levers at the moment or so many influences on the environment that we're traveling through. Typically, you might have one, two, three big items that you're looking at. Right now, the number of items and the range of outcomes I think has a wider dispersion than normal.

So let me start with the war in Ukraine. Obviously, we all follow that every day. Horrible sort of situation Ukraine is living through, but it's obviously impacting energy markets, commodity markets globally and has, by nature of war, I won't say binary, but it has the possibility of a very wide range of outcomes and that will influence 2023 quite significantly. There's talk now of potentially peace discussions and it could go worse again. I look at that as a pretty pivotal event next year that it's hard to have a real view on to be fair.

I think the economy, as I mentioned earlier about asset quality or the household and corporate resilience, we started talking about this in July and it sort of remains our view. The resilience is greater than you would expect and that was even when we started in July, the shutoff of North Stream hadn't happened yet. So it was a downside scenario, but what we're traveling through right now strikes us as less severe than the downside we outlined at the time.

As you say, inventories in some areas are high, so people kind of put aside inventories to recognizing supply chains were more vulnerable. In some cases, supply chains are still sorting themselves out and so there's a kind of middling environment that we see there, but again, a level of resilience, especially as I mentioned, in large corporates. And if you go down to SMEs and households, there, you're starting to see some stress for sure, but the impact of fiscal support is the greatest in or is at least targeted in those areas and so you see some help there. So there is an outcome, but I look at that as a narrower dispersion if I just look at corporate and household resilience next year.

The economy? As you know, we've been as Deutsche Bank and our research, but also management's expectation has been for a while that the economic outlook was weaker than the consensus suggested and I'd say there's been a convergence. I think the consensus now is for recession next year. How severe, we don't know. I'd certainly think it is in sort of a contraction in the very low single digits, but to your point, there's certainly risk to the downside on the recession and that could spill over to the corporate household world and credit.

Then on interest rates, again, we've been of the view that terminal rates would be higher and would be more persistent. I think the market's beginning to converge to that, which ironically, to me suggests the risk is the downside risk, which would be if you like, an upside optimistic risk. In other words, the curve bends quicker and the central banks get too flat and then easing more quickly than I would expect. That to me is a downside risk in a sense to the interest rate-driven revenues that are implied by the curve today.

To be fair, I look at that as relatively less likely than more. I hope that helps, but I'll call out those three or four items and as I mentioned at the outset, of a very wide dispersion of outcomes if I look to the next say two years,

Audience question 2: So the world has changed so much that a couple of your peer group banks, SocGen and UniCredit have expressed their frustration to the ECB in a few areas. So capital kind of management, TLTRO benefit and governance and board meetings, that kind of thing. I get that every bank is different. In Europe, you're probably very different. So if you were writing your letter to Mr. Enria, what would be in it?

James von Moltke: I'd like to take the fifth on that question, I have to say in a public forum. We've been vocal in some areas I think. Let me take a couple. I think we were, from a research perspective, I'll take the alibi of independent research, for a research perspective, we were vocal that we thought that the ECB should have moved more quickly on rates. It now has and of course we support that. We think it's important now too, because inflation is an absolute killer in the economy and we think it's essential to get on top of that. Hence, while perhaps late, the ECB is moving firmly and we support continued firm action.

On TLTRO, of course we're highly critical. I made some comments on the fixed income call a couple weeks ago. We think retrospectively changing the terms of a monetary policy instrument, that where banks entered into in good faith, their element or their part of that bargain, we think is not a good precedent, not good economically for the banks frankly.

While I think justified on a monetary policy basis, our instinct is, it's sort of secondary. Monetary policy to our mind wasn't so influenced by the speed of that pay down. So we obviously have a highly negative feeling about the mulligan that the ECB took on that.

On the regulatory side, obviously, a lot of those discussions are private and I don't want to breach that. You know that we've been in a relatively long-standing dialogue with the ECB about leverage lending. We've defended the business model. We think it's appropriate to defend the business model. We continue to see leverage lending as a key part of what we do and that won't change, because of our perspective. There is a difference of views that we have with the ECB on leverage lending.

On the broader governance and regulatory side, we would take the view that, in some ways you need to give the banks a stable capital environment within which to plan themselves and provide credit to the economy, which is the main thing. And our capital environment has been anything but stable over the past several years. We've been managing through our own transformation and at the same time, managing through TRIM, the other model reveals that have been taking place, the Basel III items that we don't know the outcome of and a host of other things feeding through our capital counter cyclical buffers, limitations that are placed on us and so on. And we think the sum total of that is a real challenge for the industry.

And then if I highlight one last point, I'd just say industrial policy. We have a strong view we need to get to a capital markets union, a banking union, obviously outside of the realm of the ECB, but within that, I think the industrial policy that the ECB and other elements of the official sector are part of, we think should be moving towards championing the banks to help the economy rather than not.

What I think often gets lost, and again this isn't an ECB comment, this is much wider, the debate since the financial crisis should be financial stability against economic dynamism and growth in the economy. That's the debate. Very often we get lost in rules and models and limitations and risk assessments and we're not letting the banking industry do what it should do, which is underwrite risk, take risk in a prudent way, manage its balance sheets prudently, but be this engine for the economy. And I do think there's an industrial policy dialogue that is kind of going missing. Perhaps the Basel III proposal from the council, which I haven't had a chance to really look at, is the beginnings of that, but that's certainly something I'd encourage. And I think the ECB should be part of that dialogue in an important way.

Daniele Brupbacher: Super interesting, super insightful. Thank you very much for coming. Thank you for interest. Thank you for being at our conference. Thank you. Thank you.

James von Moltke: Daniele, thank you very much for hosting. Thank you.