Deutsche Bank AG

Deutsche Bank Q3 2021 Fixed Income Conference Call

Transcript

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DIXIT JOSHI

Slide 1 – Continued progress on the path to our strategic ambitions

- Thank you Philip and welcome from me
- We are now two thirds through our transformation journey and we have continued to deliver against our milestones
- We see clear evidence of progress in our businesses
- **The first basis of this progress is our disciplined execution**. We continue to be absolutely focused on cost saving measures. Adjusted costs excluding transformation charges are once again down year on year
- These transformation charges will help drive reductions in our expenses in future quarters
- And we have now recognised 90% of our total anticipated transformation-related effects, of almost 8 billion euros since we began this journey
- **This has resulted in significant progress in our transformation**. We promised to self-finance this and we have delivered
- These efforts are being recognised by our stakeholders and in the third quarter both Moody's and Fitch upgraded our credit ratings and retained our positive outlook
- We have maintained a strong capital ratio, a strong balance sheet and sound liquidity, despite certain challenges, such as regulatory inflation, and the impact of the global pandemic
- Our Capital Release Unit is outperforming against our 2022 goals, which we outlined at our last Investor Deep Dive. Risk weighted assets are down to 30 billion euros and the unit continues to reduce costs
- **The result is profitability**. In all three quarters of this year, we have delivered significant year on year profit growth, while simultaneously keeping up the pace of transformation
- Refocusing on core businesses is paying off. Revenues have grown, as broad-based business performance offsets the effect of normalizing markets
- We saw that in the third quarter. Pre-tax profit of 554 million euros grew 15%, despite transformation charges of nearly 600 million euros, and on an adjusted basis, profit before tax would have been up by 39% to 1.2 billion euros

- Net interest income this quarter was roughly 2.8 billion euros, up approximately 114 million euros on the second quarter. This increase was driven by the growth in our loan book and higher revenues from our securities portfolios in the quarter, along with a decrease in the cost of our deposit funding
- Net interest margin remains broadly flat at approximately 1.2%, as progress on deposit charging and reduced surplus liquidity offset the ongoing pressure from interest rates
- As we have mentioned before, we see these interest rate pressures abating, with Private Bank headwinds set to halve next year and Corporate Bank headwinds being substantially eliminated
- Recent interest rate moves provide a more favourable outlook for our businesses relative to the conservative baseline on which our previous plans were built
- For 2022, we now see a tailwind in the region of 150 million euros relative to our earlier planning. As the moves are predominantly in the long end of the curve, the impacts become cumulatively larger in later years, reaching well over 500 million euros by 2025 from the current observable forward curve expectations, relative to our plan baseline from the fourth quarter last year
- Now let me take you through the highlights of what we have achieved in the nine months of this year on slide 2

<u>Slide 2 – YTD performance demonstrates progress towards 2022 financial targets</u>

- Our performance over these past nine months shows that our 2022 targets and ambitions are well within reach
- Revenues of 19.5 billion euros for the first nine months of 2021 fully support our trajectory to our 2022 revenue goals
- We have reduced adjusted costs excluding transformation charges by roughly 4% year-on-year to 14.4 billion euros, despite 2021 being an investment year
- This means we delivered operating leverage at both the Group and Core Bank level over the past nine months
- We reduced our cost/income ratio from 87% to 82% year on year despite the additional transformation charges recognised in the third quarter
- Provision for credit losses declined 83% year on year to 261 million euros or 8 basis points of average loans
- Return on tangible equity for the Core Bank is 7.5% for the past nine months, and above 9% on an adjusted basis, already in-line with next year's target

- Let's now turn to profitability, where we have seen a steady improvement, on slide 3

Slide 3 – Transformation drives growth and higher profitability

- In the Core Bank, we delivered a 70% year on year increase in our adjusted profit before tax in the last twelve months
- Once again, all four core businesses contributed and are either in-line or ahead of their plans so far
- In the Capital Release Unit we reduced losses by nearly half compared to a year ago
- As we reduce leverage exposure and risk weighted assets, we continue to remain committed to minimising the P&L impact of the portfolio reduction
- As we steadily put transformation effects behind us and reduce the cost of de-leveraging in the Capital Release Unit, more of the earnings power of our core businesses is reflected in the bottom line
- This supports our aim to deliver stable and sustainable returns at the group level
- A key driver for this is our sustainable revenue performance, which I will now turn to on slide 4

Slide 4 – Continued revenue momentum in the Core Bank

- Revenues excluding specific items in the Core Bank for the third quarter stand at 6 billion euros, up 1% year on year
- Business growth has offset the normalisation of the capital market environment, which impacted fixed income trading as expected
- This quarter still bears the impact of foregone revenues as a result of the BGH ruling of 96 million euros, similar to the second quarter
- We expect this impact to taper off considerably in the next quarter, as we now have written consents in place for two thirds of the affected accounts
- Revenues in the Investment Bank are 2.2 billion euros, down only 6% from a very strong third quarter in 2020
- Both our Corporate and Private Bank continued to offset interest rate headwinds with expanded deposit re-pricing and business growth. We see ongoing underlying momentum in these businesses

- And we see strong underlying growth in lending. The loan portfolio is currently at 456 billion euro, up 5% from the same quarter last year. With the period of post-pandemic market normalization behind us, we now expect the current growth rate to remain in the coming quarters
- Asset Management delivered revenue growth for yet another quarter, driven by strong management fees. This is also the sixth consecutive quarter of net inflows
- Core Bank revenues were 25 billion euros in the last twelve months, 11% increase from 2019, which is in-line with our current 2022 goal
- This reflects the sustainability of our revenues, as client engagement continues to improve
- Now let me turn to costs, on slide 5

Slide 5 – Ongoing commitment to cost discipline

- On a twelve month basis, we reduced noninterest expenses by 14% to 21 billion euros from 2019
- This includes the higher than expected contributions to the Single Resolution Fund and the German deposit protection scheme
- We continue to focus on managing our controllable cost base to offset volume-driven expenses and investments in controls, and have identified additional cost saving measures
- These measures come with around 700 million euros of incremental transformation related effects, including technology-related charges that we recognized in the third quarter
- We are committed to putting almost all our anticipated transformation effects behind us by the end of 2021
- And with that in mind, we re-affirm our 2022 target for a cost/income ratio of 70%

Slide 6 – Continued strategy execution drives transformation by 2022

- As we said at the Investor Deep Dive in December, our focus remains on executing our transformation agenda, while supporting our clients, as we summarize on slide 6
- We have executed on the strategies within our re-focused core businesses, and we saw material improvements in Core Bank profitability and returns
- We are delivering resilient revenues, as business growth offsets the normalisation of markets, which we anticipated

- Our core businesses are performing in-line with or ahead of our expectations and that positions us to deliver on our revenue ambitions next year
- We intensified our transformation efforts and took further steps to drive efficiencies
- All of this contributed to the upgrades of our credit ratings by Moody's and Fitch over summer
- We are confident that the recognition of these important external stakeholders will provide further support on our path towards our 2022 targets
- We are committed to technology and control investments, and to maintain our momentum on resolving open regulatory and control matters
- The hierarchy of our 2022 priorities remains unchanged and we are on the track to meet our targets of an 8% post-tax return on tangible equity and a 70% cost income ratio
- We are setting up a firm foundation to not only meet our 2022 ambitions, but to also to position Deutsche Bank for future growth

Slide 7 – Strong momentum in all lending businesses during Q3

- Having focused on the financial impact of our transformation progress on the previous slides let us now move to balance sheet items including capital, liquidity and funding
- One important driver to achieve our revenue targets for next year is loan growth, specifically in the Corporate and Private Bank
- Slide 7 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
- We saw high client demand for mortgage lending in our Private Bank
- And in our Corporate Bank loan demand was picking up across all business lines, while the strong growth trend in our Investment Bank continued this quarter
- Overall we expect further loan growth in the fourth quarter
- Looking at deposits, we have seen an increase of 2 billion euros in the quarter on a FX adjusted basis, predominately in our Corporate Bank

- Our targeted charging measures in the Private Bank have led to 2 billion euros of outflows and successful conversion into investment products
- For the fourth quarter, we expect deposits to stay broadly flat as targeted growth measures will likely be offset by outflows from further expanding our deposit charging as we will discuss on the next slide

Slide 8 – Deposit charging to contribute ~€ 400m to 2021 revenues

- Slide 8 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 third quarter, we had charging agreements in place on a total of 122 billion euros of deposits, generating quarterly revenues of 108 million euros
- At this run-rate, our charging revenues this year are well in excess of our 2022 targets that we communicated to you at our December Investor Deep Dive
- We expect revenues from passing through negative interest rates to contribute around 400 million euros this year with additional upside as we further expand the coverage of charging agreements
- Furthermore, the strong momentum in our Private Bank continues
- Deposits with charging agreements in our Private Bank increased by 6 billion euros across our German retail franchise as well as in our International Private Bank
- For the rest of the year, we expect growth in charging agreements to increasingly feed through to revenues as initiatives continue to ramp up
- As outlined in our last call, the BGH ruling will have no material impact on our deposit charging strategy for the German retail bank
- While these results are encouraging, we expect continued compression in retail deposit margins as ongoing interest rate headwinds can only be partially offset at this point

Slide 9 – Sound liquidity and funding profile

- Moving to slide 9, which highlights the development of our regulatory liquidity requirements
- In the third quarter we have prudently managed our liquidity towards target levels and continue doing so by further supporting business growth
- The Liquidity Coverage Ratio decreased to 137% and remains comfortably above minimum requirements

- High-quality Liquid Assets decreased by about 7 billion euros quarter-on-quarter, primarily driven by ongoing loan growth across the businesses as well as net matured issuances

- Liquidity deployment has been partially offset by deposit increases and additional TLTRO-III financing in September

- At the same time, slightly higher Net Cash Outflows are mainly arising from upcoming maturing capital market issuances

- The Net Stable Funding Ratio remains broadly unchanged at 123%, representing a buffer of 109 billion euros, comfortably above the 100% requirement

- Our funding profile remains well diversified and continues to be supported by a strong customer deposit base contributing about two thirds to the available stable funding sources

- We continue managing this funding mix which is supplemented by debt issuances as well as capital

<u>Slide 10 – CET1 ratio impacted by regulatory changes</u>

- Turning to capital on slide 10

- Our Core Equity Tier 1 ratio decreased by 17 basis points from 13.2% to 13% over the quarter

- In line with our earlier guidance, this reduction includes around 20 basis points of burden from regulatory changes, notably the implementation of the EBA Guideline on Definition of Default, which was partly offset by a reduction in our regulatory multiplier for the calculation of VaR/SVaR-driven market risk RWA

- A slight offsetting improvement of the CET 1 ratio came from a reduction in operational risk RWA, and the net impact of de-risking in the Capital Release Unit, versus a small RWA increase in credit and market risk, reflecting client related activity

- With the 20 basis points RWA impact this quarter, we have now absorbed almost all regulatory driven RWA inflation until the expected implementation of the final framework of Basel III in 2025. In upcoming quarters, we expect to see business as usual model updates that cumulatively are expected to be capital ratio neutral

- CET1 capital was fairly stable in the quarter, and now includes a deduction for common share dividends of 641 million euros year to date

- We still expect to end the year with a CET1 ratio of around 13%. As always, our capital outlook is subject to timing of pending regulatory decisions; however, the expected net effect of these decisions in the next quarter is now positive

Slide 11 – Capital ratios well above regulatory requirements

- The reduction in our CET 1 ratio in the third quarter has correspondingly reduced our buffer over our CET1 ratio requirement – which now stands at 258 basis points as shown on slide 11
- The distance to the binding total capital MDA level was impacted further by the quarter-on-quarter increase in RWA and now stands at 243 basis points
- Our distance to regulatory requirements remains at a comfortable level of 9 billion euros in CET 1 capital terms

Slide 12 – Leverage ratio stable in Q3

- Moving to slide 12
- Our fully-loaded leverage ratio was 4.8%, unchanged from the prior quarter
- Leverage exposure, excluding FX effects, decreased by 6 billion euros quarter on quarter, reflecting continued deleveraging in our Capital Release Unit, partially offset by growth in net loans and commitments
- Our pro-forma fully loaded leverage ratio including certain ECB cash balances was 4.4% and on track to meet our 2022 goal on the original definition by year end
- With our reported leverage ratio of 4.8% at the end of the second quarter we have a buffer of 154 basis points over our Leverage ratio requirement of 3.23%

Slide 13 – Significant buffer over loss absorbing capacity requirements

- We continue to operate with a significant loss-absorbing capacity, well above our requirements, as shown on slide 13
- At the end of the third quarter our loss absorbing capacity was 22 billion euros above the Minimum Requirement for Eligible Liabilities or MREL, our most binding constraint
- We expect our MREL buffer to reduce to approximately 14 billion euros once we receive the new RWA based MREL requirement from the Single Resolution Board in the coming days
- Even at this lower level we would have the flexibility to pause issuing new senior non-preferred or senior preferred instruments for approximately 1 year

Slide 14 – Balanced maturity profile provides flexibility in future

- Moving now to our issuance plan on slide 14
- Both Moody's and Fitch upgraded our credit ratings across the debt stack and kept the positive outlook, which supported our credit spreads throughout the quarter
  - Our 5 year senior non-preferred cash spreads tightened by 11 basis points in both Euros and Dollars
  - And our most recently issued Tier 2 bonds, which are callable in 2025 and 2026, tightened by 34 basis points in Euros and 26 basis points in US Dollars through the quarter
- We issued a total of 1.4 billion euros in the last quarter, taking our issuance volume per the end of the third quarter to 13.3 billion euros
- The quarter-on-quarter change was mainly driven by the issuance of structured notes and senior non-preferred issuances in the Swiss Franc and Formosa markets
- We are also in the market with a consent solicitation on our 650 million sterling AT1 security to transition away from LIBOR to SONIA swaps for the coupon reset
- Although that coupon will not reset until 2026, if not called, we decided to take action well in advance, in-line with what we are doing elsewhere in the bank to ensure a smooth transition to risk free rates
- The results should be available in November
- Staying with capital instruments, we also exercised a call right on a legacy capital security on 19th of October. The security, a 500 million euro Postbank Tier 1 issue will be repaid on 23 December 2021
- Many of you have also asked us about our intentions with regard to the 1.75 billion euro 6% AT1 security, that is callable in April 2022. As you know, we look primarily at the economics in these situations and, if opportunities present themselves to replace at tighter levels or with a more attractive call schedule, we would like to take advantage of such opportunities
- Looking at the total year to date issuance volume at the end of the third quarter, we have completed roughly 90% of the lower end of our full-year issuance target
- We confirm that our full year funding plan remains between 15-20 billion euros

- If the conditions are attractive, we may consider prefunding some of our 2022 requirements in the fourth quarter
- Regarding our 2022 issuance plan, it is too early to provide you with precise numbers and we will update you with further details in our Q4 Fixed Income Call

Slide 15 – Outlook

- Turning to the outlook on slide 15
- Our balance sheet remains solid with high liquidity levels and around 60% of our funding mix from low-cost deposits
- Our loan-to-deposit ratio of 78% provides sufficient room to prudently grow loan balances in coming periods
- We see continued momentum towards our 2022 revenue ambitions, given the resilience and growth in our core businesses
- The credit environment remains supportive and we expect provisions of below 15 basis points of average loans for the full year, based on our current views
- We expect macro-economic growth to slow in 2022 from the exceptionally strong levels this year and CLP levels to partially normalize
- Our credit portfolio quality remains strong, and we are well-positioned to manage emerging risks including supply chain disruptions and potential policy tightening
- We are focused on the cost measures we have underway and by year-end we expect to have booked the majority of our transformation related effects, in what has been an investment year
- And all this supports our 70% cost/income ratio target for 2022
- As we have previously indicated, we expect to end the year with a CET1 ratio of around 13%, above our target of 12.5%, and this despite booking almost all of our 8.8 billion euros of transformation related effects as well as absorbing materially all of the regulatory driven inflation, prior to Basel III final framework implementation
- On the leverage ratio, we feel confident we are on track to finish the year around 4.5%, based on the original definition of leverage exposure, which includes all central bank balances
- And with that, let us move on to your questions

Daniel David (Autonomous)

Hi. Good afternoon. And thanks for taking my questions. I have two. The first one is just on rate sensitivity. Given the recent volatility that we see in the market, can you just update us on interest rate headwinds you might see this year, and then what you might see going forward, maybe a bit further out? I note some of your comments earlier in the presentation.

And then secondly, just on legacy bonds and AT1s, could you take us through the drivers behind the call decision regarding the Postbank Tier 1? And is there any other read across for your two other outstanding bonds? And are there any regulatory pressures to call here?

And then just touching upon the AT1 that you mentioned, could you maybe take us through some of the considerations which go into the call decision? And again noting your comments. Should we just focus on the research spread versus where you can refinance? Thanks.

Dixit Joshi

Daniel, hi. This is Dixit here. Thank you for joining the call. I'll take those in sequence. On the rate sensitivity point, we'd expect a headwind this year of around 700 million. That would have been absorbed across our businesses, primarily in the Private Bank and the Corporate Bank. That breaks down roughly to around 400 million in the Private Bank, around 250 in the Corporate Bank and the rest elsewhere.

Now, at the curves that we had used at last year's Investor Deep Dive, this 700 million becomes a headwind next year of around 300 million. And if we then look at the improved interest rate outlook, i.e. implied at today's rate, this 300 million headwind for next year will decline by a further 150, so will become a net 150 headwind. And essentially, most of this headwind is in the Private Bank, as we said before.

Now, from 2023 onwards, current interest rates indicate that we will have a sequential year-on-year tailwind to revenues. That again accumulates over time. And from 2022, we mentioned this at the equity call on Wednesday as well, that we expect to see a greater than 500 million tailwind. And that's at today's implied interest rate curves.

You'll see these numbers also reflected in the appendix in our interest rate sensitivity. We do run a lower sensitivity, but still a net positive, at positive 700 million per 100 basis points. The reduction that we've seen over the last two or three years has been in part due to our hedging activities, but also most recently as a consequence of our deposit charging which has been going faster than we would have anticipated.

This charging does reduce our upside sensitivity, but it's not foregone upside. In a sense, think of it as really pulling the 400 million equivalent of charging revenues up ahead instead of waiting for a rate move. So I hope that's helpful on the rate front.

On the Postbank Tier 1 issue, we've been fairly consistent with our communications in that we will begin with the economics on the transactions as the driver. So you're right, replacement costs, reset spread would feature quite highly. In the case of the Funding Trust II bond, this does not qualify from January as capital, nor does it qualify as MREL. With a float coupon of around 3.75%, that's a relatively high funding cost instrument from January. Hence, we made the decision to call that instrument.

The other two instruments though, as you'll see, Funding Trust I and III, both have fairly low coupons, even on a swapped basis, and don't look as attractive. Again, we won't comment on any specific single instrument call decision, but at present, they are pretty attractive funding.

You rightfully point out the April 22 call that we have coming up on our new-style AT1. Again, it's a bit early to say what a call decision there would be. To the extent that we're able to find opportunities in the market, where we're able to issue at spreads inside of the reset spread and even get potentially more advantageous call features than the five-yearly call. Naturally, we'd be watching the market closely and would look to take advantage of any opportunities like that. I hope that's helpful.

Daniel David

Thanks. Just on the Postbank securities, so just to confirm that there aren't any regulatory pressures to call those instruments.

Dixit Joshi

No other than they lose their regulatory benefit, starting in January.

Daniel David

Thanks.

Lee Street (Citigroup)

Hello. Thanks for taking my questions. I have three, please. Firstly, obviously, you mentioned the very positive ratings momentum you've had with Moody's and Fitch. Are you able to have any thoughts on S&P? Because certainly based on what I read in the ratings commentary, they appear to be the hardest to please. So any thoughts on what specifically you might need to do for S&P to get them to move?

Secondly, on the Private Bank, linked a little back to the last question, but do you just need higher rates for better results to come out of the Private Bank? Or are there other levers too that you can actually pull there?

And then finally, when I look ahead to, say 2025, how do you expect the revenue composition of DB to look across your main divisions? Is it going to be roughly in line with how we look today, or do you think that might have materially altered? They would be my three questions. Thank you very much.

Dixit Joshi

Lee, hi. Good to have you again. On ratings, we continue the really close dialogue that we have with all of the agencies, demonstrating progress on our transformation, which over time should drive further improvements in our credit ratings.

It's hard to speculate about the actions of any individual agency. But we have been quite encouraged this year, as you've seen with the Moody's and Fitch upgrades as well as the positive outlook from S&P - all of which indicate the upward momentum on our ratings. So we continue to engage closely with all the agencies and, importantly, we continue to execute on the transformation and our strategy.

James von Moltke

Lee, it's James, just on the Private Bank question and the revenue composition. I'd start with where we are today on the Private Bank. We are, as we said on Wednesday, quite pleased with the momentum in the business.

So, if you start with the drivers of loan growth, of assets under management growth, we're quite encouraged with what we see and we think there is a sustainable trend there. As we've talked about a lot, it's been masked by a lot of things, notably interest rate headwinds, and more recently, the High Court ruling from April.

So if I just take a walk in the numbers, excluding specific items, last year, revenues in Private Bank in the third quarter were about 2 billion. This year, we reported revenues down about 75 million, just if I round the numbers. If you add back the 100 million, rounded, lost revenues on the High Court ruling and you, let's say, cut in half the interest rate headwinds that we actually absorbed this quarter, of 100 million year on year, made that 50 instead, then the increment to the revenues would be 150 million.

We'd, in other words, be growing by almost 4% instead of what we reported, which is a decline of almost 4%. So what we're calling for is just a continuation of the trend, which I think lifts the Private Bank quite nicely, if we can simply sustain the underlying performance that we've had.

And as I say, if I look at the drivers, there's no reason to think that that's going to change. In fact, there's some ways that they can continue to accelerate their growth, through deposit conversion into investment products and the like. So if you say what are the levers, we're pulling the levers and I think we've been seeing the benefit of it. It's hard to see on the top line, but I think that'll become increasingly clear over time.

Which in a way feeds to your second question about revenue composition. On a big revenue base, the movements in terms of composition, if you think about differences in compound annual growth rate between the businesses, it takes a while for there to be a significant shift.

But as we've talked about for quite a long time, we want to build the business mix of the company towards what we think of as the more stable businesses, without necessarily wanting to disadvantage or discourage strong performance in the Investment Bank. Nevertheless, we think there's a secular change that can slowly take place, that we think is beneficial over time in that relative growth rate of the businesses.

And I think that'll be supported in the next couple of years by, again, the trend that we've called for now for a couple of quarters, which is a normalisation of outperformance in financial market-oriented businesses. And, I think, secular growth, which we still expect to see in the more balance sheet-oriented businesses, serving private and corporate clients of the Private Bank and Corporate Bank. So we're very encouraged, as I say, in what we see. And we think, over time, the business mix will shift subtly.

Lee Street

Okay, that's good. And just on that business mix that shifts subtly, should I presume the capital allocation for those businesses will just shift subtly as a function of that too?

James von Moltke

For us it has been a marker of the consistency of the strategy, that we've been driving towards a capital allocation consistent. If I go all the way back to July of 2019, when we announced the Compete to win strategy, we targeted a share of tangible equity allocation for the Investment Bank of, at the time, 44%. In the rounding, we're kind of there. We're at 46% today. It moves up and down quarter by quarter.

Generally, we've held the Investment Bank relatively steady, at least in its RWA level, other than the impact of regulatory inflation. So we've actually been seeing the discipline in RWA. We've been more or less running at the capital allocation and TCE terms that we intend. And we think that that's probably the best way to measure the strategic direction that we've taken.

And the usage of capital in Corporate Bank and Private Bank I think will be relatively linear, if you like, with the loan growth that we see in those businesses - which again we expect to be robust in the coming quarters.

Lee Street

All right, thank you. That's very clear. I won't take any more time. Thank you.

Oliver Dyson (RBC)

Hi there. Two questions from me, if I may. The first is just again on interest rate sensitivity. You spoke about the 150 million uplift and the 500 million uplift by 2025, relative to earlier planning. I just wanted to clarify the yield curve dynamics we're assuming here.

And secondly, you've talked about deposit charging. Can you just confirm what goes through fees versus net interest income, what the trade-off is with NII, and how sensitive it is to high rates? Thank you.

Dixit Joshi

Oliver, hi. Yes, that's right. The 150 million, or the 500 million cumulatively, all the way up to 2025, is really taking today's, as in in the last week, implied curves and comparing that to our plan from the IDD from last year. A lot of that sensitivity in the longer dates would reflect really roll-overs of our structural hedges that mature over time, and the ability to then roll those into successively higher rates. On deposit charging, much of that is really in NII, and reflected as such.

Oliver Dyson

Okay, thank you.

Corinne Cunningham (Autonomous)

Afternoon. Thank you very much again for the call. A couple of questions, please. The first one is just on what you were mentioning about RWA inflation or regulatory headwinds. You are suggesting on this call that they're pretty much done with. I think on the equity call, you might even have said they might even be slightly positive. So can you just run through the individual issues that are still to come through ahead of Basel IV?

And then the second question was more on climate. What do you think the capital requirements might do as a result of the PRA paper, and then the EBA needing to prepare something for the Commission by June 2023? Thank you.

Dixit Joshi

Hi, Corinne. On RWA inflation, we tend to think of this really in three buckets. One is mostly this first wave of inflation, which is TRIM, Definition of Default, PD, LGDs, etc. All of that now is largely behind us. We think we've absorbed a gross reg inflation over the last two or three years of around 160 basis points, so quite significant. We've put that behind us.

And also now, the 13% CET1 naturally includes absorbing the 8 billion, or 8 billion-plus, of transformation, restructuring and other charges as well. The outlook from here through to year end, as we said, we continue to expect that we'll be around 13% at year end.

And some of the reg items that we have some visibility over – as you know from previous quarters – both the magnitude and the timing of these is always uncertain so there's some movement quarter to quarter, but we'd expect that there would be perhaps a slight positive in the fourth quarter. Again, that may change, as I said, depending on some of the letter writing or rulings that we might get.

And then we think of the next two waves as really being related to the recent proposals from Basel and the Commission, which would be now in 2025, which was formerly 2024, and then, separately, 29/30 instead of the 28/29 timespan that we had.

Corinne Cunningham

Thank you. And any comments on the capital requirements linked to ESG climate requirements?

Dixit Joshi

What we're seeing globally with policymakers and regulators is that this is an evolving space. So, it's something that we're watching, but we think it's too early and we need to continue to study the rulings that might come out.

Corinne Cunningham

Okay, thank you.

Robert Smalley
(UBS)

Hi. Thanks very much. Thanks for doing the call. A lot of the interest rate questions I had were answered, so just two others. First, this week, the Bundesbank said that full-year growth is likely to be significantly below their June forecast. And IFO reports that supply problems with preliminary goods are causing difficulties in exports.

How are you looking at that with respect to loan growth?

Have you changed your forecasted loan growth? And what are you hearing from your clients? And secondly, with respect to issuance in the fourth quarter and 2022, any need for Tier 2 issuance? You did some last year. Or are you going to let that sit for a little bit? Thanks.

Dixit Joshi

Rob, hi, and good to have you. On loan growth, we've been quite encouraged. We've had fairly strong loan growth through the course of this year. You saw in the third quarter, on an ex-FX basis, we grew loans by about 8 billion. Of note is that the loan growth we're seeing is fairly well diversified. It's across our business lines.

The Investment Bank had seen loan growth across a number of business areas. The Private Bank had growth, especially in mortgages, across both Deutsche Bank and the Postbank brands. And the Corporate Bank also grew loans, primarily in trade finance and some of the lending businesses. To answer your question: We're seeing trade and lending perform quite consistently here. It is our expectation that we'll see, for the next few quarters, a similar pace of loan growth.

James von Moltke

And it's James.

I'd just add, in terms of the client view, we had been seeing the supply chain bottlenecks for some time. The recent attention to this isn't really new to us or to our clients. We've been engaged in that dialogue with them for several months. It isn't a change in our outlook necessarily.

There is a hope and expectation that these will be worked through over time. It may take much of 2022 to do that. But our view is that the German corporate sector is able to ride it out, and in some senses actually, has opportunities, obviously given the nature of the economy.

In our loan composition though, there have been some shifts, for example, in trade finance. If we talk with our colleagues in that business, the activity has become more regional and so we're financing more trade that takes place intra-Asia and in the North-South corridors that exist around the world. So there are evolutions of the business, but it doesn't threaten necessarily the size or growth of our business, but the composition. So lots of things to watch carefully, but nothing in all of that that changes our outlook.

Robert Smalley

Okay, thank you. And on Tier 2?

Dixit Joshi	Rob, yes, on issuance, as always, we'll give transparency when we do the fourth quarter Fixed Income call. A little early to say. And in most years, typically, we will have a few billion of capital requirements, and we'd expect 2022 to be the same. And that could naturally contain Tier 2 as well. But it's something that we will indicate when we do the fourth quarter call at the end of January next year.
Robert Smalley	Okay. That's great, thanks. And thanks for doing the call.
Dixit Joshi	Our pleasure.
Adam Terelak (Mediobanca)	Afternoon, all. Sorry to labour the point on interest rate sensitivity but thought I'd take the opportunity just to follow up again. Clearly, you've been talking about this 150 million delta into next year's look on rates. I just wanted to get a bit more colour on how much of that is short versus long end makes. I think in the last week particularly, the expectation at the short end of the Euro curve has moved most. So I just want to understand what this is implying in terms of policy rate in Europe in particular, where I think the market rate versus the commentary from the Central Bank is diverging a little bit. Thank you.
Dixit Joshi	Adam, hi. And you rightfully point out there's a huge amount of divergence. Earlier this year, it was really inflation versus no inflation. And now we're talking about transitory versus more permanent inflation. And you're seeing that debate as well as yesterday with the ECB announcements. Look, we try not to read too much into the day-on-day moves. We have a series of structural hedges on. The sensitivity that we have, we're managing it with both downside and upside in mind. And what I mean by that is downside in the near data is protected through having interest rate charging. And then of course, we have the roll-overs of our structural hedges. So next year, much of the effect, we're talking about, will be really at the long end, coming from roll-overs of our structural hedges.
Adam Terelak	And then the short-term move potentially has some offset in deposit pricing?
Dixit Joshi	Yes, that's correct. To the extent that we continue rolling out, we'd see more immunisation on shorter rates, which is what's resulting in roughly €400 million of additional revenue related to charging that's coming through on an annual basis.
Adam Terelak	Perfect. Thank you.

Phillip Teuchner

Just to finish up, thank you all for 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.

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