Deutsche Bank AG

Deutsche Bank Q2 2024 Analyst Conference Call

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Transcript

Speakers:

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James von Moltke, Chief Financial Officer

Ioana Patriniche, Head of Investor Relations

Q2 2024 Results

Slide 1 – Strong business performance supports path to targets

- Thank you, Ioana, and a warm welcome from me. I'm delighted to be discussing our second quarter and first half results with you today
- After another quarter where we made progress across the businesses on our strategic initiatives, we are on track to hit our financial targets
- We generated revenues of 15.4 billion euros in the first half, on track to 30 billion euros of revenues this year
- We have franchise momentum across all businesses driving commissions and fee income. Our capital-light businesses are gaining market share, such as our Corporate Bank and Origination & Advisory, which we expect to continue in the second half, alongside a more supportive NII environment
- We also delivered on our adjusted cost target. Our quarterly run rate is at 5 billion euros, in line with our commitment
- Our results were impacted by the litigation provision of 1.3 billion euros related to the acquisition of Postbank, which we had to book this quarter
- As we said before, we strongly disagree with the changed and unexpected assessment of the Court, and we are working hard to ultimately minimize the impact of this legal matter for our shareholders
- But, importantly, the bank's operational performance was not impacted; on the contrary, on an underlying basis, we delivered year-on-year improvements on our key target ratios
- Excluding the Postbank takeover litigation provision, our post-tax return on tangible equity was 7.8%, up from 6.8% in the first half last year, the best first half and second quarter since 2011, which demonstrates the continued momentum in our operating businesses. Our cost/income ratio also improved from 73% to 69% year on year
- And, finally, our CET1 ratio of 13.5% remained solid, despite absorbing Postbank and a number of legacy litigation matters, which shows our capital strength and gives us confidence to deliver on our capital distribution commitments
- Let me now discuss in more detail some of the drivers of our first half results on slide 2

Slide 2 – Robust underlying profit driven by disciplined delivery

- Pre-provision profit was up 17% year on year to 4.7 billion euros, excluding the impact of the Postbank takeover litigation provision
- We also demonstrated positive operating leverage, a core element of our strategy execution
- We grew revenues in our core businesses by 3% year on year, while Group revenues were up 2% on a reported basis
- Our reported noninterest revenues were up 14% year on year, with strong growth in commissions and fee income of 12%, which demonstrates clearly that our strategy to grow our capital-light businesses is working
- And we continue to deliver better-than-expected NII performance in our banking books, which provides additional comfort to our revenue path for 2024 and in years thereafter
- We reduced our adjusted costs to 10.1 billion euros year on year, and we continue to deliver savings through our Operational Efficiency program, which I will discuss in more detail in a moment
- Now let's look at the franchise achievements across our businesses, on slide 3

Slide 3 – Strengthening franchise underpins revenue momentum

- In the first half year, the Corporate Bank delivered a 16% increase in incremental deals won with multinational clients compared to the prior year period. Our successes with our clients were also rewarded with a series of high-profile awards
- And we've continued to make investments to further strengthen our positioning with our clients. We're building out our structuring capabilities and our originate-to-distribute model, taking advantage of our broad investor base
- All of that gives us confidence we can sustain our momentum
- The Investment Bank made significant advances across the franchise over the first half of the year
- Origination & Advisory increased its global market share to 2.6% in the first half year, a gain of more than 70 basis points over the full year 2023, and we raised our global ranking from 11th to 7th

- The business continued to support clients through its multi-facetted product offering, including M&A sell-side advice as well as debt issuance linked to the partnership between Grant Thornton and New Mountain Capital
- Fixed Income and Currencies revenues were up 3% year on year, supported by a 7% increase in Financing revenues, even compared to a strong prior year period
- The Private Bank also continued to build momentum with 19 billion euros of net inflows in the first six months, supporting growth in assets under management of 34 billion euros
- We are also seeing recognition for our transformation and digitalization efforts in our retail Personal Banking franchise, with 13% more logins in Postbank's mobile app since end of 2023
- We are also improving client services and, for example, have established a dedicated team in Germany for ultra-high net worth clients
- We are leveraging our enhanced technology and product capabilities to expand into FX products, Strategic Asset Allocation or Lombard lending to ultra-high net worth clients in Europe
- And we have further developed our key client relationships to boost asset gathering
- In the first half year, Asset Management grew assets under management by 37 billion euros, to 933 billion euros. This was boosted by continued strong inflows into Passive, in line with our strategy, which saw net inflows of 18 billion euros in the first six months, and is expected to support future revenue generation
- Now let me turn to our progress against our strategic objectives on slide 4

Slide 4 – Continued execution across strategic pillars

- We continued to make progress on all three pillars of our *Global Hausbank* strategy
- Starting with revenue growth, we delivered a compound annual growth rate of 5.7% since 2021
- This underscores the benefit of a well-diversified and complementary business mix

- Stable NII in our banking book segments was supported by strong noninterest revenues following our investments in our growth initiatives
- Looking at the drivers behind commissions and fee income strength in the first six months, we saw growth mainly in our capital-light businesses
- We saw particularly strong momentum in Origination & Advisory, as the market recovered and our franchise is strengthening and gaining market share, a trend we expect to continue
- Our initiatives in the Corporate Bank are also paying off. Commissions and fee income grew by 6%, with business growth across all regions which is notably visible in Trade Finance & Lending
- We gained market share in our documentary trade business, and our structuring capabilities are expanding, which includes increasing contribution from larger transition financing deals
- And in Wealth Management and Private Banking, we grew noninterest revenues from investment products and lending by 11%
- We will continue to build on these developments and with business volumes growing, we are confident that our revenue trajectory will remain strong in the second half of the year
- First, the impact from the expected NII normalization will be lower than initially anticipated, with full year NII in our banking book segments broadly stable to the prior year level
- And we will see continued commissions and fee income growth, mainly in Origination & Advisory, Corporate Bank and Asset Management; this puts revenues of 30 billion euros clearly in sight
- Additionally, we are highly focused on targeted resource allocation and on driving balance sheet velocity
- We continue to deliver on our 2.5-billion-euro Operational Efficiency program, having completed measures with delivered or expected gross savings of 1.5 billion euros, 60% of our target, with around 1.2 billion euros in savings already realized
- As part of this program, we have made workforce reductions of 2,700, including 700 FTEs during the second quarter alone, reaching nearly 80% of the planned total through end-2024. In addition, we have reduced contract external staff by approximately 1,100 in 2024 to date
- We have clear sight of the remaining savings yet to come from our Operational Efficiency program which will offset inflation and our investments in business growth

- Our optimization initiatives in Germany are expected to generate savings of around 500 million euros
- Investments to reduce the complexity of our organization by improving technology and optimizing the workforce across infrastructure will deliver a further 550 million euros
- And automation of processes, alongside better alignment of our front-to-back setup, including the recent organizational changes, will deliver another 250 million euros
- This gives us firm confidence that we are on track to deliver on our commitment of a quarterly run rate of adjusted costs of around 5 billion euros in 2024, and that we will further reduce this run rate closer to 4.9 billion euros by the end of the year to meet our noninterest expense objective of around 20 billion euros
- Finally, on capital efficiency, we achieved a benefit equal to a 4-billion-euro RWA reduction in the second quarter through data and process improvements. As a result, cumulative RWA reductions from capital efficiency measures reached already 19 billion euros
- We have a line of sight on further reductions coming in the second half and we are working towards meeting or exceeding our 25-to-30-billion-euro target
- Let me conclude with a few words on our strategy, on slide 5

Slide 5 – *Global Hausbank* strategy delivers franchise growth and improving financial performance

- Our first half results represent another milestone in the progress with our *Global Hausbank* strategy and set a path to achieving our 2025 target of greater than 10% return on tangible equity
- First, we saw strong momentum across all businesses, in a more mixed operating environment than we had expected
- With a better-than-expected NII trajectory, coupled with our complementary and growing global franchise, we are confident that our strong revenue momentum will deliver revenues of 30 billion euros this year
- The investments we have made in our businesses give us confidence that this run rate will continue, as around 75% of revenues come from more predictable businesses

- And we are the go-to European bank for our clients and will continue to build on it by offering clients full-service products and solutions
- This builds our confidence that we can achieve our 2025 target of 32 billion euros
- Second, we're delivering operational efficiencies which maintain our 5 billion euro run rate in 2024 and will translate into further cost savings achieving 20 billion euros of noninterest expenses in 2025
- Simply put, our revenue growth, combined with our cost reductions, will ensure positive operating leverage
- Third, we have put material legacy items behind us, and although this results in higher litigation charges this year, progress we are making should position us to deliver without major surprises in 2025
- Fourth, we will see normalization in credit costs next year closer to the underlying run rate we have this year after overlays and hedging, which will further bolster higher net income
- We remain dedicated to creating value for our shareholders; our earnings power, and the progress we have made with capital optimization, give us full confidence that we can maintain our trajectory to increase distributions beyond our original goal of 8 billion euros in respect of the financial years 2021 to 2025
- We completed the share repurchase program launched in March, bringing cumulative shareholder distributions through dividends and share repurchases to 3.3 billion euros since 2022 and we will continue to manage capital with the same discipline as over the past several years
- To sum up: with our business momentum and all the progress made, we have a clear line of sight on our target for RoTE of greater than 10% for 2025
- With that, let me hand over to James

JAMES VON MOLTKE

Slide 7 – Key performance indicators

- Thank you, Christian
- Let me start with a few key performance indicators on slide 7, and place them in the context of our 2025 targets

- Christian mentioned our continued business momentum which resulted in revenue growth of 5.7% on a compound basis for the last twelve months relative to 2021, within our revenue growth target range
- Our reported half-year cost/income ratio was 78% and return on tangible equity was 3.9%, both impacted by the Postbank takeover litigation provision. Excluding this provision, the ratios were 69% and 7.8%, showing further improvement compared to 2023
- Our capital position remained solid in the second quarter with the CET1 ratio at 13.5% despite absorbing the aforementioned litigation provision
- Our liquidity metrics also remained strong; the liquidity coverage ratio was 136%, above our target of around 130%, and the net stable funding ratio was 122%
- In short, our performance in the period reaffirms our resilience and our confidence in reaching our 2025 targets
- With that let me turn to the second quarter highlights on slide 8

Slide 8 – Q2 2024 highlights

- Group revenues were 7.6 billion euros, up 2% on the second quarter of 2023
- Noninterest expenses were 6.7 billion euros, up 20% year on year driven by the increased litigation charges in the quarter
- Nonoperating costs included litigation charges of 1.55 billion euros. Beyond the Postbank takeover litigation provision of 1.3 billion euros, there were additional charges of approximately 220 million euros related to a series of legacy items we resolved in the quarter
- We also booked 106 million euros of restructuring and severance charges, in line with our full year guidance
- Adjusted costs increased 2% year on year due to higher compensation and benefits
- Provision for credit losses was 476 million euros or 40 basis points of average loans, and I will discuss both adjusted costs and provisions in more detail shortly
- We generated a profit before tax of 411 million euros and a net profit of 52 million euros
- Our tax rate in the quarter of 87% was impacted by the aforementioned litigation charges which were largely non-deductible. Excluding these

litigation effects, the expected tax rate for the full year continues to be around 30%

- In the second quarter, diluted earnings per share was negative 28 cents and tangible book value per share was 28 euros and 65 cents, up 6% year on year
- Let me now turn to some of the drivers of these results

Slide 9 – Net interest income (NII) / Net interest margin (NIM)

- Let me start with a review of our net interest income on slide 9
- NII was essentially flat across all of our key banking book segments at 3.4 billion euros, slightly above prior expectations
- NII in each of the banking book segments followed the same trends as seen in the prior quarter
- Our base case is that our quarterly NII run rate will remain broadly stable and we reiterate that we expect to improve on our earlier guidance for the full year banking book NII
- The Group number, reflecting accounting effects, decreased by approximately 100 million euros compared to the previous quarter. This effect is offset by an increase in noninterest revenues and has no overall revenue impact to the Group
- With that, let's turn to adjusted cost development, on slide 10

Slide 10 – Adjusted costs - Q2 2024 (YoY)

- Adjusted costs were 5 billion euros for the quarter, up 2% year on year
- The year-on-year increase was driven by higher compensation and benefit costs, which were up 6%, reflecting higher performance-related compensation, wage growth as expected and increases in internal workforce after our targeted investments in talent throughout 2023, including Numis
- Let's now turn to provision for credit losses on slide 11

Slide 11 – Provision for credit losses

- Provision for credit losses in the second quarter was 476 million euros, equivalent to 40 basis points of average loans

- The sequential increase in stage 1 and 2 provisions to 35 million euros was mainly driven by the net effect of overlays and model enhancements, which were partly mitigated by quarter-on-quarter portfolio movements
- Stage 3 provisions remained at an elevated level but reduced slightly to 441 million euros. The decrease was mainly driven by the Private Bank, while provisions in the Investment Bank remained stable and were largely related to Commercial Real Estate exposures. Provisions in the Corporate Bank increased, driven by two larger impairment events
- Looking ahead to the second half of the year, we are now seeing some stabilization in the broader US CRE sector, though US Office remains broadly unchanged. Overall, this should lead to lower provisions compared to the first half, but our Office CRE portfolio will continue to be impacted
- We also continue to conservatively manage our loan book with lower growth rates, including active management of single-name concentration risks through well-established comprehensive hedging programs
- Reflecting on these items, and considering developments in the first half of the year, we revise our full-year guidance for provision for credit losses to be slightly above 30 basis points of average loans
- Before we move to performance in our businesses, let me turn to capital on slide 12

Slide 12 – Capital metrics

- With 13.5% our second quarter Common Equity Tier 1 ratio was up slightly compared to the previous quarter
- CET1 capital improved slightly, reflecting lower regulatory capital deduction items and strong net income for the quarter, largely offset by the Postbank takeover litigation provision
- Risk-weighted assets increased from businesses growth, together with higher operational risk RWA, including the impact of the Postbank takeover litigation provision, mostly offset by reductions from strong delivery of capital efficiency measures
- At the end of the second quarter our leverage ratio was 4.6%, 13 basis points higher compared to the previous quarter
- 12 basis point of the increase were driven by higher Tier 1 capital, due to the 1.5-billion-euro Additional Tier 1 issuance in June

- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 14

Slide 14 – Corporate Bank

- Corporate Bank revenues in the second quarter were 1.9 billion euros, essentially flat year on year, and up sequentially driven by growth in commissions and fee income and resilient deposit revenues as higher business volumes compensated higher client payouts
- We have seen good progress on our growth initiatives to offset the normalization of deposit revenues by further accelerating noninterest revenue growth
- Commissions and fee income increased by 5% sequentially and 9% year on year driven by strong momentum in Trade Finance & Lending across all products, as well as in Depositary Receipts in our Trust & Agency Services business
- Deposits increased by 3 billion euros in the quarter and are 32 billion euros higher year on year driven by higher term and sight deposits across currencies
- The sequential increase in provision for credit losses was driven by stage 1 and 2 provisions after moderate releases in the prior quarter and higher stage 3 provisions which included two larger events in the European and German corporate segment, which were largely covered by risk mitigating measures
- Noninterest expenses were essentially flat year on year as higher internal service cost allocations and compensation costs were mostly offset by lower litigation costs
- This resulted in a post-tax return on tangible equity of 15% and a cost/income ratio of 62%
- I'll now turn to the Investment Bank on slide 15

Slide 15 – Investment Bank

- Revenues for the second quarter were 10% higher year on year driven by a strong performance in Origination & Advisory
- Revenues in Fixed Income & Currencies were essentially flat year on year, reflecting the base effect of a strong prior year quarter

- Financing, Credit Trading and Emerging Markets revenues were essentially flat year on year
- In Credit Trading, the non-repeat of strong distressed performance in the prior year was offset by strength in the Flow business thanks to our prior period investments
- The macro businesses were both down year on year
- The performance in Rates primarily reflected the ongoing uncertainty around central bank interest rate policies
- While FX revenues were impacted by reduced volatility, this was partially mitigated by strong performance in the Spot business benefitting from investments into technology
- Moving to Origination & Advisory, revenues doubled compared to the prior year, gaining market share both year on year and sequentially, while we maintained the number 1 rank in our home market
- Debt Origination continued to drive performance, with an ongoing recovery in the Leveraged Debt market, while Investment Grade Debt issuance activity remained elevated
- Advisory revenues were strong and materially higher both year on year and quarter on quarter, benefitting from the previously highlighted investments made into the franchise
- Looking ahead, we are encouraged by our third quarter O&A pipeline, which is materially higher year on year, although the market-anticipated slowdown in M&A industry volumes in the summer and over the third quarter may limit the possibility to outperform the very strong second quarter
- Noninterest expenses and adjusted costs were both slightly higher year on year reflecting the impact of strategic investments, including the Numis acquisition
- Provision for credit losses was 163 million euros, or 63 basis points of average loans, driven by stage 3 impairments

Slide 16 – Private Bank

- Turning to the Private Bank on slide 16: pre-tax profit nearly doubled compared to the second quarter last year. Let me walk you through the drivers
- Revenues in the quarter were 2.3 billion euros. This includes higher revenues from investment products and lending which were more than

offset by continued higher funding costs including the impact of minimum reserves and the Group neutral impact of certain hedging costs to the business. Excluding these effects, revenues would have been up 1% year on year

- The sequential revenue development reflects a typical seasonal pattern as some investment activities tend to be concentrated at the beginning of the year. As Christian mentioned before, the Private Bank saw strong business momentum with net inflows into assets under management of 7 billion euros in the quarter

- Personal Banking revenues were impacted by the aforementioned higher funding and hedging costs for our lending books partially offset by resilient deposit revenues in Germany

- Revenues in Wealth Management and Private Banking increased due to higher lending business and investment revenues, offset by lower deposit revenues in Germany

- The Private Bank has continued its transformation with 38 branch closures in the first half of the year and headcount reductions of more than 1,000 FTEs in the last 12 months

- Noninterest expenses declined by 13% including lower restructuring and severance cost and the non-recurrence of provisions for individual litigation cases. The improvement in adjusted cost of 3% reflects normalized investment spend and transformation benefits partially offset by still elevated service remediation costs. We expect these to taper off in the remainder of the year, contributing to a run-rate improvement in the second half of the year

- The overall quality of our loan portfolio remains stable. Provision for credit losses benefited from a gain on sale of a non-performing loan portfolio but still include the temporary effects of the operational backlog in Personal Banking which are expected to reduce during the second half

- Let me continue with Asset Management on slide 17

Slide 17 – Asset Management

- My usual reminder: the Asset Management segment includes certain items that are not part of the DWS stand-alone financials

- Profit before tax improved by 55% from the prior year period, driven by higher revenues and lower noninterest expenses

- Revenues increased by 7% versus the prior year. This was primarily from higher management fees of 613 million euros, resulting from higher fees generated by Liquid products due to increasing average assets under management
- Other revenues were significantly higher, benefitting from lower treasury funding charges and a one-off insurance recovery in the quarter
- Performance and transaction fees were significantly lower driven by performance fees in Alternatives real estate
- Noninterest expenses were 4% lower due to lower litigation expenses this quarter, while adjusted costs were essentially flat compared to the prior year despite inflationary pressures
- Passive investments saw a net inflow of 9 billion euros in the quarter due to shifting consumer behavior from active into passive investment strategies. Digital channel distribution is supporting strong growth in Passive resulting in positive momentum and six consecutive quarters of net inflows
- Assets under management decreased by 8 billion euros to 933 billion euros in the quarter. The decrease was attributable to net outflows, despite positive market appreciation and FX effects. Net outflows of 19 billion euros were primarily in low margin products in Fixed Income, Cash and Advisory Services
- The cost/income ratio for the quarter declined to 68% and return on tangible equity was 18%, both improving from the prior year quarter
- Moving to Corporate & Other on slide 18

Slide 18 – Corporate & Other

- Corporate & Other reported a pre-tax loss of 1.5 billion euros this quarter, versus the equivalent pre-tax loss of 153 million euros in the second quarter of 2023 primarily driven by the Postbank takeover litigation provision of 1.3 billion euros
- Revenues were positive 73 million euros this quarter, this compares to positive 85 million euros in the prior year quarter
- Valuation and timing differences were positive 216 million euros in the quarter, driven by partial reversion of prior period losses and impacts from interest rate moves. This compares to positive 252 million euros in the prior year quarter

- The pre-tax loss associated with legacy portfolios was 144 million euros driven primarily by litigation charges and other expenses
- At the end of the second quarter, risk-weighted assets stood at 32 billion euros, including 13 billion euros of operational risk RWA. In aggregate, RWAs have reduced by 9 billion euros since the prior year quarter
- Leverage exposure was 36 billion euros at the end of the second quarter, slightly higher than the prior year quarter
- Finally, let me turn to the Group outlook on slide 19

Slide 19 – Outlook

- The second quarter and first half performance demonstrate the successful execution of our strategy and we remain confident that our businesses have strong momentum and are positioned for further growth
- And so, our full year 2024 guidance for revenues and adjusted costs have not changed, respectively at 30 billion euros and around 20 billion euros
- Provision for credit losses for the year are now expected to come in slightly above 30 basis points of average loans
- Finally, we have successfully mitigated several headwinds to our capital position, which supports our distribution plan, and this remains a key management priority
- And as Christian said, our full focus remains on the execution of our strategy and the progress made in 2024 positions us well to achieve our 2025 targets
- With that, let me hand back to Ioana and we look forward to your questions

Questions & Answers

Chris Hallam (Goldman Sachs)	Thank you. Good morning, everyone, and thanks for the presentation and the remarks. So, the first question is on revenues. I guess, on a headline basis, the momentum is positive, but the mix is changing a little bit. More on NII, perhaps a little bit less on fees outside of the Investment Bank. So, if we look through for the €

30 billion for this year and € 32 billion, let's say, for next year, are you confident on those two numbers? And in particular, how would you see fees progressing, both inside and outside of the IB?

And then second, could you give us an update on where your discussions have got to with the ECB, regarding any additional capital requirements relating to your Leveraged Finance business and how you see the outlook for your Leveraged Finance franchise over the coming couple of years?

Christian Sewing

Thank you, Chris. It's Christian. Thank you very much for your questions. Let me start, and as usual, James may want to chip in. On your first question on revenues and on your key question, both numbers for 2024 and 2025, the answer is a clear yes. And let me start with 2024. You have seen the H1 numbers. To be honest, I'm really happy with that, with the € 15.4 billion, because all businesses have actually delivered.

And the nice thing is, if I now go over the next quarters, and let me start with the more predictable divisions, i.e., the Corporate Bank, the Private Bank, Asset Management, you can actually see that the momentum and the numbers we have seen in the first two quarters are very good guidance for Q3 and Q4.

I would even say that for the Private Bank and Asset Management, I even expect a slightly better development in H2 versus H1. Given also what James said in his prepared remarks on NII, but also, in particular, because the inflows and the assets under management behave in a very satisfactory way.

On the Corporate Bank, I think a number, which is around € 1.9 billion, given all that I can see from the mandates we win, is something we can also plan for Q3 and Q4, and I would really say that those three divisions are really having good momentum. Yes, we benefit a bit more from better NII than we expected at the start of the year, but even next to that, the underlying fee business is behaving very well.

On the Investment Bank side, I absolutely believe that overall, I think the trajectory we have seen over the last year, in terms of market share wins, in terms of stability of revenues, in terms of also predictability of revenues. If you think about the Financing business we have, also show me that the second half will be a very satisfactory one.

Honestly, also July started, so far, pretty well in the Investment Bank. And what makes me confident in O&A business could be that the summer is a little bit slower, in terms of M&A business than what we have seen in Q2, but overall, the market will further recover. We have gained 70 basis points in market share in the first half year. We believe that this will also be the case throughout the year.

And to be honest, the investments we have done in the Origination & Advisory are really only starting to pay off. So, the new people we hired last year, they are gaining more and more momentum, so to be honest, I even expect that we get more market share in an overall market, which, from a fee pool, is increasing over the next 12 to 18 months.

So, that makes me confident that starting with the € 15.4 billion revenue number, the € 30 billion is absolutely in sight, and I'm highly confident that we achieve that. Now, 2025, the first thing I would like to say is, for the first time, so to speak, Chris, other than 2024 and 2023, that both income streams, NII and fee income, are both going into an increasing direction.

So, it's different than in the former years, where we always had one of these streams, which was decreasing. In 2025, we have, so to speak, two positive growing engines. That obviously helps us as a start.

Now, if I then go through the business, on the Corporate Bank, we think that 2025 will be another increase over 2024. Why? Because we can simply see the number of mandates and transactions we are doing, and the investments we had, in particular, in our platform business, in our payment businesses are paying off. So, therefore, we gave you, also in the prepared remarks, the wins we had in Q2. All that, and the feedback we have from the clients, points to another increase in 2025. And again, the NII is behaving even better than we thought at the start of this year.

Private Bank, clearly up next year. Why? We always told you that we have a tailwind in NII in 2025 over 2024. Secondly, we are obviously benefiting from the constant inflows into assets under management, and we don't believe that there is any change in the second half of the year. So, the starting point is even a different one.

Similar, actually, in Asset Management. Also, in those areas, like Alternatives and Passive, where Stefan Hoops has his focus on, we are growing.

And on the Investment Bank, actually, I do believe we will grow in all three areas. Number one, we have made further investments into our trading business, in particular, regionally, in the US. We have new people starting now, as we speak, and we will grow that business, the trading business, over there.

Secondly, I refer back to the remarks on the O&A business. We expect the fee market to increase next year, further increase over this year. Secondly, market shares will grow with those investments we have done, also talking about Numis.

And thirdly, the financing business is not only stable, but if I look at the income and revenue streams we have planned for next year, actually, also an increase. All that from very encouraging behaviour in 2024, makes me absolutely confident that we can achieve the € 32 billion next year.

To the second question on the ECB. To be honest, I have seen that portfolio, the leverage lending portfolio, now for the last 15 years, and to be honest, it always behaved very well, because I think our risk appetite, the way we have managed our risk, has demonstrated that we are in very good control of that business.

You also know, Chris, and this is not a secret, that two years ago, we had started the discussions with the ECB. We got a capital add on, at that point in time, of 20 basis points, which was reduced last year by five basis points. I know that there is a discussion between the industry and the ECB. I take it as a very positive signal that the ECB is now reviewing the comments and our arguments from the industry.

And therefore, also, obviously, with all outside opinions, which we get for our portfolio, I feel very confident with the level of provisions we have with the way we manage it. It's a key business for us. It's a core business of ours. That will not change. And I'm sure we will also come to a solution there, which shows that we have managed it in a fair way. I don't know, James, whether you want to add.

James von Moltke	All good.
Chris Hallam	Okay. Thank you very much.
Nicolas Payen (Kepler Cheuvreux)	Good morning. Thanks for taking my questions. I have two, one on distribution and one on litigation. On distribution, I was wondering if we could have an update on what your total distribution target is. Because you committed to distribute above € 8 billion of capital, but could we have a bit more clarity by how much you expect to exceed this € 8 billion mark? And also, timing wise, what should we expect, notably for the share buyback? Is a top up completely excluded for H2? And what about the pace in 2025? And regarding litigation, what should we expect, regarding litigation provision in H2? Because more globally, you have now reduced, quite significantly, your contingent liability. So, I was wondering, should we expect a lower litigation cost run rate for the future years? Thank you.
Christian Sewing	Thank you very much. Let me start, Nicolas, and then James will, I think, comment on both questions. On the distribution, because that is really important for me,

there is no change in guidance. We will distribute more than € 8 billion in the timeframe from 2021 to 2025. Nothing has changed.

Obviously, from a timing point of view, as we said, end of April, with the item on the Postbank provision of € 1.3 billion, which we had to digest, we always said that we now need to have two quarters, actually, where we show operating strength, where we restore capital. And to be honest, I am really happy with what has been done in this bank.

We are at 13.5% capital. We have created excess capital also in the last quarter. We are clearly above, so to speak, the 13.2%. We have created excess capital. But I want to show to the market another quarter of this operating strength. And with the comments I just made on revenues, with costs, which are absolutely in control, we are around the € 5 billion. We have our clear way to the next year.

I am absolutely confident that we show another very strong quarter in Q3, which generates capital. And then, obviously, we are back in the process, and we will go back, and enter into discussions, that is clear for me. But I always signalled that after the Postbank litigation, which the bank digested, we really powered through this. We want to show two good quarters. Number one is done, and I'll tell you. Number two will come.

James von Moltke

Thanks, Christian. Nicolas, thanks for the question. I will just echo Christian's comments. We've returned almost € 1.6 billion already this year through the capital actions that we took in the second quarter. We were, I think, very successful, offsetting the impact of the Postbank provision, and our step-off into the second half of 13.5% on the CET1 ratio is a good starting place.

Your question about the trajectory going forward. If I refer you to slide 22 of our investor deck, we've tried to be as clear as possible on what we've referred to as baseline expectations. And so, if you look at that on the dividend, we have paid out this year € 883 million, the € 67.5 cents next year would be about € 1.3 billion. The €

1 dividend that we intend to pay out in 2026, in respect of 2025, would be another nearly € 2 billion.

And then if you trace the buyback trajectory forward, and let’s just assume, for a second, a 50% increase a year, the next two numbers in that series would be about € 1 billion and € 1.5 billion. Cumulatively, that would add up to slightly above € 9 billion. And so, that’s what we’re working to deliver to shareholders.

As Christian mentioned, build excess capital in the back half of the year, we want to be positioned to achieve those types of payouts. Now, we did make an editorial change to page 22, really trying to separate a little bit the share buybacks from the payout ratio discussion. Because to some extent, we look at the payout ratio as a minimum, not a maximum.

And hence, building excess capital into the back half of the year can position us to preserve that buyback trajectory, even if the payout ratio goes north of 50%. So, that’s, hopefully, clarity on what the baseline expectations are.

And just the last thing to say, last time you saw that slide, there was this idea of top-ups. Obviously, the unexpected provision in 2024, at least for now, has taken away the idea of a top-up in 2024. But we haven't given up on top-ups in 2025 and 2026. It depends on all of the ins and outs in the capital plan. But I'd just echo Christian's confidence that I think we've been able to show that the Postbank provision did not take us off stride, and we remain committed to the profile we show on page 22.

If I go to your litigation question, obviously, there's been a transition between the contingent liability number and the balance sheet provision, driven by the Postbank litigation, takeover litigation provision. But actually, not only that provision, some other items also moved between the two, the off balance sheet and the on balance sheet accounts.

As we said last quarter, the profile has changed pretty significantly, if you like, of risks that are still unknown. And we're committed to continuing the work over the back half of the year, to put ourselves in a position for, I would call it, dramatically lower litigation provisions and regulatory enforcement actions going forward.

Really, we'd like to be in a position at the end of the year to have what I call as clean a slate as possible going into 2025, and sustainably so. Because, if you like, we'll address the unknown elements of the known items, and as we look to the future, the pipeline of new things coming in that we can see, and, by the way, the benefits of all the investments we've made in controls, should give us much more confidence about the outlook going forward.

Anke Reingen (RBC)

Thank you very much for taking my questions. The first is on the loan loss guidance for 2024. If you can maybe give us a bit more on what gives you confidence of the decline to more like 25-30 basis points in the second half, and what you've assumed on commercial real estate within that number? And you have sort of said that in 2025, you expect loan losses to normalise. Would that be the 25-30 basis points, or the 20 basis points you mentioned in the past?

And then just on Capital, I just wondered if you can give us some more clarity on the expectation with the benefit from the delay of the FRTB, and what it could mean for the € 15 billion you previously guided to? And would you consider this, in your distribution, as an actual benefit?

And then one last question on the dividend, the distributions. If the 68 cent dividend per share would correspond to more than 50%, am I right, from your previous comments, to understand that your focus is the absolute distribution, rather than the payout ratio? Thank you very much.

James von Moltke

Thank you, Anke. I'm happy to take all three, and Christian may want to add. The CLP guidance change, I would think of it as more related to what has already happened in the year, in the first half, than about our outlook for the second half. We've had a number of events, really, two corporate defaults, and then an overlay that we booked in Q2 that have taken us slightly north of what we'd anticipated, when we spoke to you three months ago.

And while you're always a little bit looking in a crystal ball, we've been, in a granular way, looking through the portfolio, including commercial real estate, to have a view on the second half. You'll recall that I've talked in the past of a 2024 run rate closer to, say, € 350 million per quarter, that we felt was present.

And that, in a sense, let's say, € 100 million of CRE sitting on top of € 250 million of ordinary course run rate that is in the portfolio. Now, let's start with the last point. We still see the same stability in our underlying portfolios in both the retail and the corporate portfolios, so we haven't seen a deterioration. On top of that, we've seen, as I mentioned, a handful of defaults, and also, an overlay that we booked.

In CRE, I recall that we'd seen a stabilisation in 2024, relative to the deterioration that was taking place last year, that actually persisted in the second quarter. What is perhaps a little bit worse is that the beginnings of a recovery that I might have expected three months ago, that hasn't happened yet. It doesn't change our view, frankly, of the direction of travel. And that, essentially, over time, the new defaults and the valuation adjustments that remain in that portfolio begin to burn out.

CRE, if you go back to the fourth quarter results, we'd said to expect about € 450 million in 2024, consistent with our 2023 performance. That has probably worsened ever so slightly, call it € 50 million, maybe € 75 million, in terms of our expectation, but not dramatically. As I say, the larger part of the change in guidance is what's already happened in the year around a couple of corporate defaults and the overlay.

On FRTB, obviously, good news for the industry in Europe, because I think it would have put us at a competitive disadvantage if the US were not to go forward, and Europe to go forward. So, we think it's a sensible change.

It essentially cuts in half, just simple maths. We had given you, say, € 15 billion of RWA increase from CRR3 as of January 1st next year, and I'd now build about € 7.5 billion into the models, and move the other € 7.5 billion into January 1, 2026. So, that's obviously helpful in our capital path. Helpful to us, in terms of building up this excess capital I just talked about, and looking into the 2025 distributions.

And then that feeds nicely into your third question, which is binding. We think of the 50% payout intention as, if you like, a floor. It's what we would then accrue to during the year, based on the interim profit recognition.

Because of the impact on profitability in 2024 coming from the Postbank provision that payout ratio, I think, will easily cover our dividend, and maybe some amount of repurchase. But what we want to do is put ourselves in a position of being in an excess capital to fund the rest of the repurchase in 2025. And hence, to your point, we wouldn't view the 50% payout as being binding.

Anke Reingen	Thank you very much.
Kian Abouhossein (JP Morgan)	Thanks for taking my two questions. I wanted to come back briefly on cost. In your remarks, Chrisitan, you talked about the € 4.9 billion run rate, potentially at the end of the year. And I just wanted to see how you think about the flexibility that that offers next year, to get to your cost income guidance.

If you can talk maybe around is there flexibility to run below € 20 billion, in that sense, considering you are indicating a lower number for the end of the year, even if it's adjusted versus stated? And how that thinking is around, and confidence is around the cost income guidance.

The second question is related to provisions again. I wanted to just dig a little bit deeper after Anke's question and the detailed answer, in respect to CRE. Clearly, the assumptions are that CRE will stabilise, it sounded like that, in 2025. And I wanted to just get a better understanding of what assumptions you're making. If you can talk a little bit about the input assumptions, price performance, and CRE US default rates that you are assuming on a macro level in CRE, so we get a better understanding.

And lastly, if I may, on leveraged loans, you have kind of answered the question, but I also wanted to see if there is any leveraged loan additional provision requirement, does that mean there could be buyback pushback?

Chrisitan Sewing

Let me start with the cost answer. First of all, I think it is most important that we stick to our target, and that we show you that we deliver on that, like I think we have demonstrated from Q4 2023, when we started with the € 5.3 billion of quarterly costs, that we come down to a € 5.0 billion, which we have done.

Now, looking ahead at what is in the pipeline of additional cost measures to be executed over the next quarters, in terms of achieving the € 2.5 billion of overall cost cuts? I'm very confident that we will come to the € 4.9 billion of quarterly costs at the end of Q4, starting with Q1. So, this is, for us, where we are focusing.

In this regard, we have obviously put all the cost measures into so-called key deliverables, which we are tracking on a biweekly basis in the management board, and we can actually see that with all the investments we have done, also, with all the headcount cuts, which we have executed in Q1 and Q2, we are delivering on that in Q3 and Q4.

And therefore, I am confident that the run rate of € 4.9 billion, which we need for 2025, will be achieved. To be honest, in this regard, Kian, just to give you a little bit of a feel, the hardest quarter to achieve the € 5 billion was actually Q2, right from the start of the year. And why? Because all the salary increases actually came into Q2.

We had a lot of the staff reductions to be done in Q2, where these people were still, so to speak, on our payroll. And both, we have managed, i.e., you saw the number of reduced workforce, not only internally, but also, externally, what we managed to do in Q2. And secondly, we digested the wage and salary increases, i.e., the annual tariff increases, which we digested.

And now we are working down these key deliverables, as I just said, and that gives me all the confidence that we are coming to the run rate of € 4.9 billion.

Now, what further flexibility do we have in that? The € 4.9 billion is obviously, then, also correlated to say our revenue aspirations and the revenue target I laid out.

You know, from our previous discussions, that there is always a certain flexibility also on the cost number, in terms of flexibility, when it comes to less volumes, when it comes to variable comp, when it comes to technology investments. And obviously, this is all in hand, and therefore, I don't want to rule out, at all, that there is further flexibility.

But for me, given there, where the momentum of the bank is on the revenue side, I have all eyes focused on the € 4.9 billion. And here, I can give you my full confidence that we will achieve that, because all the underlying structural cost reductions are actually in time, in plan, in execution.

James von Moltke

Kian, turning to your question on provisions and the impact of CRE. Maybe I can draw your attention to slide 34 in the investor deck. Now, this is where I had guided that the next in the series would be down in Q2. And so, as always, predictions about the future are a slightly uncertain science, but we’ve travelled, more or less, at the level we had in Q4 and Q1.

So, the recovery that I mentioned earlier didn’t come as quickly as I’d expected. And by the way, the € 130 million in Q2 actually had some impact of the overlay, so if you take that out, we were at € 123 million, essentially flat, to the last two quarters.

Now, what gives us confidence about the direction of travel here? Really, two things. One is that if we look at the portfolio in a granular way, so loan by loan, in which loans, do we see the possibility of future default? That number is declining. And so, if you like, the risk content that remains in the portfolio is declining. And what drove the miss to my expectations this quarter, was more that the defaulted portfolio, our estimation of lifetime losses, increased in the quarter.

So, that also will find a level and stabilise, at some point. So, I had hoped and expected that we'd probably be closer to € 100 million in the second quarter. Let's see how this develops in the quarters to come. But given the way portfolios like this perform, you the down slope can be quite dramatic.

And then on leverage lending. We believe our provisions, or the allowance for loan losses, is prudent and adequate for the risks we see in the portfolio. We are always open to and taking on feedback from our internal AQR views, our auditors, and also, the regulators, when they come in to review the portfolios.

And at the end of the day, it is for us to determine, on the basis of the accounting rules, what the appropriate provision is. We'll continue to monitor it in a dynamic way, but we think our practices are good, and we will continue to engage, in a constructive way, with the supervisors on that dialogue.

Tom Hallett (KBW)

Hi, thanks for taking my questions. Can you tell us how you see the deposit mix and loan trends developing in the second half of the year across the Corporate Bank and the Private Bank? And how much some of the recent political uncertainty may be impacting this? And then secondly, on SRTs, which is obviously becoming quite a popular tool for banks these days. Could you just give us some colour on the potential CET1 benefits over the next year? And then maybe quantify, or help us understand, the size of the overall opportunity here, which, as an outsider, I'm thinking about it in terms of the size or the scope of assets that are generally earning below the regulatory cost of capital. Thank you.

James von Moltke

Thanks, Tom. Two interesting questions. Loan growth has been more sluggish in coming than we'd expected, as you've heard on our calls for the past, say, year or so. That said, we did have loan growth in the second quarter, so the first encouraging sign, we have € 2 billion of loan growth this quarter. And we think that the indicators of increasing activity are there.

And there's certainly demand in some of the more structured lending areas, so we think that that that recovery is starting. In the retail portfolios, in particular, where there's still a relatively slow environment in German mortgages, and our portfolio attrited slightly. But again, there, I think we've found a floor, and can grow from here. On the deposit side, really encouraging performance, especially in Corporate Bank.

But we also see, in the Private Bank, a clear ability to raise deposits at pricing that is attractive. So, you may see a levelling out a little bit of the deposit growth in the back half of the year, but we think the volumes there, generally, are encouraging, in terms of healthy growth, frankly, on both sides of the balance sheet going forward.

If I look at SRT, for us, some of our risk transfer programs are 20 years old, so we've been at this for a while. We have good, structured programs. We have a great level of engagement with the investors in our structures that have been with us for a long time. And we're constantly on the lookout for portfolios where we think they can be more efficiently held off the bank's balance sheet than on our balance sheet.

Therefore, I would say the scope isn't dramatic, but there are still things we look at. And you've seen that, as part of the programme we've had for capital efficiency, where after € 25 to 30 billion, as you've seen in the past year or so, securitisation has been part of that. Growing our SRT programmes, or the funded credit linked note programmes we have, has also being part of that.

	So, I think a marginal contribution from here, and we're always looking, but we have a reasonably sizeable benefit, as things stand, from those types of structures. One last comment to make. At the risk of going along. As we get into the CRR3 world, and the impact of the output floor. Obviously, there's a whole new vista, if you like, of assets that we may look to take off our balance sheet, because we'll be solving for another variable. So, in the past, it's been managing concentration risk, and to a lesser extent, RWA. Going forward, it will be those two things, plus the impact on the output floor of different asset classes.
Tom Hallett	Thank you.
Giulia Aurora Miotto (Morgan Stanley)	Good morning. My first question is on the Private Bank. Could you please give us a bit more detail, a bit more colour, on how quickly the fee line can grow, and what initiatives you have underway to really control this and drive this in the next quarters, and in 2025, in particular? So, that would be my first question. And then secondly, you talked about loan growth dynamics. What about asset margins? How are those evolving in your main lending products, please? Thank you.
Chrisitan Sewing	Let me take the first question, Giulia, on the Private Bank. Actually, it is, first of all, a continuous improvement on the fee business growth in the Private Bank, in particular, when I look to the future, quarter over quarter. Why? Because we have a constant inflow in our assets under management, by the way, domestically, as well as internationally. And by the way, also, and this is very nice, not only in the Private Bank and Wealth Management businesses, but also, in the Personal Banking business in Germany. Secondly, I think, for the Private Bank, if we think about the overall profitability, there is a huge focus now on turning around the personal banking business in the Private Bank in Germany. That, obviously, given all the integration work we which

we are doing, and which we have done, in particular, last year with the IT transformation, had an unacceptable return on equity so far. But if I look at the strategy from Claudio, how he will digitalise this business, how we will actually make this business, in particular, for the investment and fee related business, a business, which is, therefore, 19 million clients, and in particular, for the 15 million Postbank clients, I expect, actually, a good growth coming from this Personal Banking.

And at the same time, we are now realising the fruits of integrating the IT, i.e., the costs are coming down. And here, we are talking, like we said in the previous calls, about a € 500 million cost reduction, just as a direct cost in the Private Bank, as a result of the integration. So, it's a constant growth across the subdivisions in the Private Bank.

But the real lever is actually bringing the Personal Banking in Germany, with a clear plan, to an acceptable return on equity over the next 12 to 18 months, which is then, obviously, also a huge lever for the overall Group profitability.

James von Moltke

So, maybe I could add, and this is also a little bit in answer to Chris' question earlier, which was about fee and commission engines outside the Investment Bank. Obviously, just in the Investment Bank, a big part of the story this year and next year is advisory and underwriting fees, where we think the momentum, the wallet growth, is there, and there's an opportunity that we're executing on to increase our market share.

But if you go away from the Investment Bank, as Christian just said, the Private Bank earns commissions and fee revenues in brokerage, and investment management fees and commissions. Asset Management does the same on the investment management side. And you have visibility into those revenue sources from the AuM increases or development over time. And you can also be helped or hindered by the market levels, but the visibility is there.

And then in the Corporate Bank, you've got fees on loan inception, loan processing, you have payment activity, custody activity, again, an asset driven, trust and agency services.

And again, the visibility into those revenue sources is high, including based on the RFP process and the implementation of new business that we win. So, as I say, the visibility into these revenue sources is strong. And based on our current outlook, we can see some of these lines continuing. The types of growth rates this year so far, which has been 12% each quarter and for the half, extending into next year.

On the spread side, there, too, we've been surprised to the upside this year, frankly, on both sides of the balance sheet. So, as we've talked about, deposit margins have been better than anticipated as the pass through continues to outperform. On the loan side, the same has been true. The spreads in the front book have been better than we anticipated.

To be fair, a bit mixed in the Private Bank, but in Corporate Bank and Investment Bank, there have been reasonably healthy spreads and new lending in the front book. And that margin expansion has contributed to the better-than-expected net interest income than we had anticipated.

By the way, the other driver of the NII outperformance is also spreads on our unsecured debt. And so, all of those engines are helping sustain this year the net interest income line and contribute to the expected growth next year.

Mate Nemes (UBS)

Good afternoon, and thank you for the presentation. I have three questions, please. First of all, on RWA reduction. I think you have achieved now € 19 billion in total RWA reduction, as a result of the optimisation program. Could you give us a sense of the timing of the remaining reductions to get to your € 25-30 billion target? Is that largely coming through in the second half of this year, or some of that should be in 2025?

Then the second question is on share buybacks. Just referring to slide 22, and the 50% per annum growth in share buybacks. I think the original expectation, certainly by the market, was a higher total amount of buyback in 2024, on which the increase into next year would have been obviously quite substantial. My question is, are we looking at a 50% increase versus the € 675 million for the buyback next year? Or should we think of a potentially larger increase, due to the scrapped second tranche of the buyback in 2024?

And finally, the last question is on the Corporate Bank loss provisions. Could you give us any sense of these single cases of single corporate events? Are they reflective of any deterioration in the overall asset quality in the broader corporate sector? Thank you.

James von Moltke

Thank you, Mate, for the questions. First of all, we're very pleased with the progress there, and credit to the teams that have been working so hard to drive this optimisation. Broadly speaking, as I mentioned in the prepared remarks, I would hope that we could achieve another € 2 billion in Q3. And there, I think we've got good line of sight to that, maybe a little bit more.

And if we achieve the same in Q4, I would be pleased. So, if we got to, say, € 4 billion incremental this year, bringing us to € 23 billion, maybe € 24 billion, that would be good performance, which, to your point, leaves € 5 billion or € 6 billion next year to get to € 30 billion, and potentially, there's upside beyond that.

And that, obviously, is helpful in driving the excess capital creation that I talked about earlier. So, assume, for modelling purposes, € 4 billion this year, and at least € 6 billion next year.

On the buyback, what was taken out in 2024, I think the consensus number was that the second buyback authorisation could be something in the order of € 400 million to € 500 million this year.

And that was actually a fair assumption, and absent the litigation provision, I think we would have been in a good position to seek that. But I want to be clear, the baseline was intended always to be, in this case, the € 675 million, with potential top-ups, depending on the level of excess capital in each year. And so, I want to reiterate the baseline expectation is something that management is working towards to deliver.

And let's see whether there's room for the top-ups. We certainly haven't given up on the idea that there would, and could, be top-ups, and those top-ups would take us from the call at € 9.2 billion, that's implied by the progression, to something beyond that. Again, it underscores why it is that we say we've got confidence in exceeding the € 8 billion.

Christian Sewing

On the asset quality and the corporate book, I think James has already said that - no, there is no deterioration. To be honest, the two cases James was referring to are actually, so to speak, dominated by one case in Europe, but also, here, yes, we had to build a loan loss provision.

But I think, overall, we should also not forget that the risk management, overall, has actually worked quite well, because we have substantial coverage, actually, from a CLO point of view. Which, again, brings me back to the point that yes, you see a slightly elevated loan loss provision number. But the real run-rate, if we take overlays out, and if I also take this into account, the real run rate of a loan loss provision is, in my view, actually, the normal stock of run rate of the € 250 million, plus a quarterly number, which can always happen, and you can now say, it's € 75 million, it's € 100 million.

But that also brings me to the confidence, because we don't see, from a rating point of view, from a watchlist point of view, from upgrades versus downgrades, we don't see any material deterioration, also, not in the German midcap book, brings me to the confidence that actually, a number of € 1.3 billion is a number, where I’m absolutely confident that there should be a run rate for Deutsche Bank, in terms of loan loss provisions per year.

Stefan Stalmann (Autonomous)

Good afternoon. Thank you very much for taking my questions. I have just two left, please. Starting with the Private Bank, you mentioned an NPL sale. Can you tell us roughly how big this was, in notional terms, and whether there was actually a P&L profit or loss on the back of the sale?

And the second question relates to the valuation and timing differences in your corporate centre, which have been mostly positive in recent quarters. Can we think of this as a balance, which is still negative, and you're still working yourself out of this back to neutral? Or is it actually now a positive overall balance, and there's a risk that eventually, that normalises down to neutral with negative effects in coming quarters? Thank you very much.

James von Moltke

Thanks for the question, Stefan. Briefly, I don't know the notional of the NPL sale, but in round numbers, think of us as having a CLP benefit of about € 25 million in the quarter on the sale, which was offset by continued drag from the operational disruptions of about the same amount.

So, call it € 150 million that you see in the second quarter is a pretty good indication of the run rate going into the second half of the year in the Private Bank. The drag from operational items, we do expect to go away, and potentially, reverse in the second half of the year, and the NPL sale wouldn't necessarily repeat either.

On the valuation timing differences, I'd really call out two elements. The first is pull-to-par in the investment portfolio, and that has a short-term and a more medium-term element. In the short term, some of the pull-to-par in Q2 was actually Q1 losses, given the market movements. And we expect some more of that to bleed into earnings in the second half of the year.

So, there's a short-term element. There's actually also, given the way the hedges work, a longer-term element, which we expect to come out over a much longer period of time. So, yes, in a sense, there's a positive balance, call it that, that is to come.

There's also the impact of our swap funding book, which is is helpful. Today, it's driven by the differential between euro and dollar rates. That's remained, by and large, supportive. And how that trends from here will depend on the gap between the two rates.

So, different parts. I don't see it disappearing in a heartbeat, but over time, would moderate, let's say, in a two or three year time horizon.

Matthew Clark (Mediobanca)

Hi, it's a follow-up question on the leveraged loan, potential ECB supervisory expectations deductions, compared to your risk weighted add-on, or Pillar 2 add-on. Do you see the supervisory expectations on provisioning as being incremental to the existing Pillar 2 add-on that you have? Or do you see it as potentially netting against the effective burden you've already got on your requirements? Thank you.

Christian Sewing

Matthew, it's always hard to speculate about items, which are, at the end of the day, in the hands of the regulators. Again, I really would like to say that we find it positive that the ECB is taking our arguments. It is reviewing its process. I told you that we were already subject to a capital add-on.

We feel, with all the information we have, that we have provisioned in an absolute, accurate way, and I think we have shown that over the long term. And therefore, overall, we feel comfortable. But I think it would be the wrong thing now to speculate about anything. I think the reaction of the ECB, I find that constructive. We have constructive discussions, and then let's see what happens. But the direction last year that they reduced from 20 basis points to 15, also shows that there was at least some confidence in our processes.

Jeremy Sigee (BNP Paribas Exane)

Thank you. Just a couple of small follow-ups, please. Firstly, on the changes in regulatory adjustments that helped capital in the quarter. Could you talk a bit more about what those were, and whether there are more of them to come, or any reversals, or they just are what they are? That would be helpful.

And then my second question is just on the Russia case. You mentioned it in the notes. Could you confirm that there is no financial impact in this quarter, and in fact, there's no provision booked, because it's fully offset by the claim? And just how confident you are in that, because other banks involved seem to be taking charges relating to that case.

James von Moltke

Thanks, Jeremy. I'll refer you, on the first question, to page 42 of the Q2 interim report. The main driver that we're referring to is what we call the expected loss shortfall. But on that disclosure, you see the various regulatory capital deduction items. The ELSF has been something that's increased significantly year on year, reflecting the portfolio changes that we introduced last year, and some of the, I'll call it, seasoning of those models.

And, yes, it's one of the areas that we're now looking at, at how we can mitigate and manage. And so, that helped us on the regulatory capital deduction items in the quarter. It's just learning which exposures drive the ELSF, and how we can mitigate that. To your question about direction of travel, actually, the next step will be up, as one more model becomes live in that world. But then we, I think, would be at a steady state level, and we will work to, to optimise from that.

On Russia, we essentially booked offsetting provision, and an indemnification asset. And so, we feel the risk is appropriately reflected on the balance sheet. And the evolution of the cases has been, overall, in line with our expectations.

So, we don't see a change in the risk position there, and therefore, no change in how it's reflected in the financial statements. Our expectation is that that claim will be prosecuted, and in a way that enables us to enforce the indemnification claim.

Andrew Coombs (Citibank)

Good morning. The vast majority of my questions have been answered now, but perhaps if I could just ask on slide 29 on your interest income sensitivity. In light of the PMI data today, I think this is the first time you've switched this from 2024 to 2026, to 2025 to 2027 sensitivity.

And you've got a big step uptick in euro sensitivity coming through in 2027. I assume this is, in part, related to the structural hedge, but anything you can do, in terms of providing more colour on why such a big step-up going from 2026 to 2027 in your interest rate sensitivity guidance? Thank you.

James von Moltke

Thanks, Andrew. I appreciate the question. It's really just time. Actually, the first time when we prepared this slide, I was surprised, because it looked like the sensitivity had expanded, and I missed that we'd moved it forward by a year. So, that gives you an indication of how successful we've been, frankly, in closing down the rate sensitivity on our balance sheet.

So, 2027 being larger is simply a function that our hedge portfolio, or less of it, goes out that far in time. And what you'd expect to see us do, as we roll over the hedges, is bring more of that in, and reduce the sensitivity further down the track. And equivalently, the € 90 million in 2027 on euros, I would expect to see go down, unless there's some change, in our view, of the likely future path of interest rates.

So, in short, I'm happy with the way that we've managed the ALM challenges of the last several years. And I think, again, it's one of the things that gives us confidence and visibility into revenues in the future, the success of our hedging, and the impact of the hedge rollover over the next several years.

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By their very nature, forward-looking statements involve risks and uncertainties. A number of important factors could therefore cause actual results to differ materially from those contained in any forward-looking statement. Such factors include the conditions in the financial markets in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets, the development of asset prices and market volatility, potential defaults of borrowers or trading counterparties, the implementation of our strategic initiatives, the reliability of our risk management policies, procedures and methods, and other risks referenced in our filings with the U.S. Securities and Exchange Commission. Such factors are described in detail in our SEC Form 20-F of 14 March 2024 under the heading "Risk Factors." Copies of this document are readily available upon request or can be downloaded from investor-relations.db.com.

This transcript also contains non-IFRS financial measures. For a reconciliation to directly comparable figures reported under IFRS, to the extent such reconciliation is not provided in this transcript, refer to the Q2 2024 Preliminary Financial Data Supplement, which is available at investor-relations.db.com.

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