Deutsche Bank AG

Deutsche Bank Q4 2023 Fixed Income Conference Call

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Transcript

Speakers:
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RICHARD STEWART

Slide 1 – Sharpened business model with growing revenues

- Thank you, Philip, and welcome from me
- It is a pleasure to be discussing our results with you today
- We have set Deutsche Bank's course for sustainable growth through our Global Hausbank strategy
- We delivered business growth and improved the quality of earnings streams with a well-balanced business mix, as the benefits of our sharpened business model came through
- Let's start with our 2023 performance, on slide 1
- Revenues were in line with our guidance, at around 29 billion euros, up 6% year on year
- 78% of our revenues came from recurring earnings streams in 2023, up from 71% in 2020
- We benefitted from rising interest rates, notably in the Corporate Bank and Private Bank
- We also focused on building out our share of fee income across all businesses
- Our progress in strengthening our franchise has been recognized with upgrades from all leading rating agencies, which positions us to deepen further engagement with current and new clients
- Now let's look ahead at our revenue pathway to 2025 on slide 2

Slide 2 – Strong revenue trajectory supported by resilient and diversified franchise positioning

- Since 2021, we've demonstrated revenue momentum well ahead of our original target growth rate, due in part to a supportive interest rate environment
- We are confident that as interest rates normalize, we can maintain an upward revenue trajectory
- This is supported by the expected growth in noninterest income, which already accounts for more than half of Group revenues, and our investments in capital light activities

- Based on this, we are raising our revenue compound annual growth rate target from between 3.5 and 4.5% to between 5.5 and 6.5%, for the period 2021 through 2025, aiming to reach 32 billion euros in 2025
- We expect non-interest income growth to contribute approximately 2.5 percentage points of the total CAGR between 2021 and 2025
- This is achievable through a number of levers:
    - Growing share of wallet in the Corporate Bank
    - Reaping the benefits of investments in Origination and Advisory
    - Building on our ongoing strong relative performance in our FIC franchise
    - Benefitting from investments in the Private Bank to expand fee generation
    - and delivering on our growth strategies, including Passive, taking full advantage of market recovery in Asset Management
- In respect of net interest income growth, we expect it to contribute approximately 4 percentage points of the total CAGR between 2021 and 2025
- This reflects a normalization in 2024, followed by further growth in 2025 and beyond
- Now let me turn to costs, on slide 3

Slide 3 – Reinforced cost execution supports operating leverage

- We see a clear path to costs of approximately 20 billion euros in 2025
- Over the next two years, our aim is to drive reductions across both nonoperating costs and our adjusted cost base, by managing our run-rate and driving efficiency measures
- We foresee reductions in nonoperating costs of around 700 million euros from 2023 levels in the next two years
- On adjusted costs, as we have already communicated, we see bank levies coming down by between 350 and 400 million euros over the next two years
- The additional 400-million-euro net reduction will come from further progress on our operational efficiency program

- We have already executed on measures with delivered or expected savings of 1.3 billion euros, of which 900 million euros of savings were realized to date
- Our detailed implementation roadmap gives us confidence in delivering noninterest expenses of approximately 20 billion euros in 2025, providing a clear pathway to our cost/income ratio target of 62.5%
- We're conscious that we're operating in a fast-changing environment and our path towards 2025 may be impacted by external factors
- We have the toolkit in place to implement additional measures which would enable us to further flex our cost base to meet our cost/income ratio target, even if we encounter unforeseen revenue headwinds

Slide 4 – CET1 ratio remains strong

- Turning now to the recent development of capital on slide 4
- Our fourth quarter Common Equity Tier 1 ratio came in at 13.7%, a 20 basis points decrease compared to the previous quarter
- This quarter-on-quarter reduction reflects lower capital as our net income was more than offset by capital deductions – most notably for shareholder dividends, AT1 coupons and deferred tax assets
- Risk weighted assets were flat over the quarter excluding FX effects
- Credit risk RWA increased over the quarter reflecting business growth and model changes
- These increases were partly offset by capital optimization initiatives as we continue to focus on the capital efficiency of our balance sheet
- Lower market risk and operational risk RWA more than offset higher credit risk RWA over the quarter, reflecting lower market volatility and an improved risk profile

Slide 5 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements, as shown on slide 5
- The Common Equity Tier 1 MDA buffer now stands at 258 basis points or 9 billion euros of CET1 capital

- The quarter-on-quarter decrease of 20 basis points reflects the lower CET1 capital ratio
- Our total capital MDA buffer was also impacted by 6 basis points due to higher Tier 2 capital maturity haircuts and now stands at 274 basis points
- As announced in December, the ECB has reduced our 2024 Pillar 2 requirement from 2.7 to 2.65 percent, which increases our buffer accordingly

Slide 6 – Leverage ratio slightly lower

- Moving to slide 6
- At the end of the fourth quarter our leverage ratio stood at 4.5%, 13 basis points lower compared to the previous quarter
- Within that, a 7 basis points decline was due to lower Tier 1 capital, in line with CET1 capital movement
- A 9 basis points decline resulted from higher leverage exposure, mainly driven by trading activities and increased Liquidity Reserves from higher deposit volumes

Slide 7 – Continued high loss-absorbing capacity

- We continue to operate with a significant loss-absorbing capacity, well above all of our requirements, as shown on slide 7
- The MREL surplus, our most binding constraint, remained stable at 17 billion euros at year-end
- This includes a decrease of 1 billion euros from lower CET1 capital and an increase of 1 billion euros from lower RWA
- Our loss-absorbing capacity buffer stands at a comfortable level and continues to provide us with the flexibility to pause issuing new Eligible Liabilities instruments for approximately one year

Slide 8 – Stable lending while deposit momentum continues

- Moving now to the development in our loan and deposit books over the quarter on slide 8
- All figures in the commentary are adjusted for FX effects

- Loans have been essentially flat during the fourth quarter as well as on a year-on-year basis, driven by more muted client demand and selective balance sheet deployment throughout the year
- For 2024 we expect moderate loan growth in all segments, while most pronounced in Wealth Management, in line with our strategic investments in that business
- Deposits have further increased by 16 billion euros or 3% compared to last quarter, bringing us back to year-end 2022 levels
- In line with previous quarters, growth has again been strongest in the Corporate Bank, with good momentum across products and client segments
- Deposits in the Private Bank remained stable in the quarter, driven by continued inflows from our retail campaigns and recent signs of easing inflationary pressures
- Looking ahead, we expect moderate growth in deposits this year due to positive business momentum, ongoing tailwinds from the most recent rating upgrade as well as structurally lower headwinds from inflation

Slide 9 – Strong interest income in key banking book segments

- The following slides will look in some detail at the development of our interest income, including details around our hedging
- Starting on slide 9, you can see that we reported strong absolute net interest income across our key banking book-segments, all reporting higher net interest income and margin versus the prior quarter and prior year quarter
- The Corporate Bank saw higher deposit balances in the fourth quarter, which supported higher NII and reported NIM
- Private Bank margins and NII were stable throughout 2023, as the gradual increase in deposit betas was fully compensated by rollovers at higher rates in the interest rate hedge portfolio
- Group NII and NIM were marginally down in the quarter, as sequential improvements in the banking book segments and in other funding effects were more than offset by the impact of accounting asymmetry, largely held in C&O
- As we have discussed in prior quarters, the accounting asymmetry effect is revenue neutral although it impacts reported NII

Slide 10 – Structurally stable net interest income

- Let me now provide an update on the outlook for net interest income on slide 10
- The numbers on the following slides are based on the market expectations for interest rates as of the 26th January this year
- Our reported full-year NII of 13.6 billion euros was broadly stable for the group in 2023 compared to the prior year, but that does not reflect the economic contribution to group revenues due to significant moves in accounting effects which are offset in non-interest revenues
- Focusing on our three key NII-generating-business-units, as well as other funding costs not offset by accounting effects, we see an improvement of just over 2 billion euros and a cumulative benefit since 2021 of over 4 billion euros
- Looking ahead on the same basis, we expect a decline of around 600 million euros in 2024, driven by the convergence of betas to steady-state levels
- We expect this to be followed by an increase of around 400 million euros in 2025 which brings us close to 2023 NII levels, as the beta convergence is largely offset by the rollover of our hedge portfolios as well as balance sheet growth
- In line with prior guidance, we expect a larger sequential reduction in the Corporate Bank than in the Private Bank in 2024
- We expect a sequential improvement, excluding accounting asymmetries, in the Corporate & Other segment of around 300 million euros relating to reduced funding costs for corporate assets and lower retained liquidity and funding costs
- We may outperform this guidance if market expectations regarding rate cuts do not fully materialize or deposit betas increase more slowly than expected

Slide 11 – Deposit margin offset by hedging and lending growth

- Let me provide more detail on the drivers of our NII outlook on slide 11
- As you can see on the chart, we expect deposit margins to reduce in 2024 and 2025, but that this effect will be largely compensated by our hedges and lending portfolios

- Deposit margins will be adversely impacted both by the expected decrease in central bank policy rates and increased deposit betas. We expect a 2.5 billion euro reduction in NII driven by these effects across the two years
- We expect a 1.7 billion euro increase in NII from our deposit and equity hedge portfolios over the same period
- While there is significant uncertainty in the market outlook, there is a structural offset between deposit margin and hedges
- We have around 230 billion euros of long-term interest rate hedges on our deposits and equity
- Once deposit betas have reached steady state levels, our NII will mostly be sensitive to long-term rates as our hedge portfolio rolls over with limited sensitivity to short-term rates unless moves are sharp enough to re-introduce beta lags or approach the zero bound
- The third major driver of our outlook is our loan portfolio, which we expect to provide most of our remaining NII increase. That benefit will stem from portfolio growth and from margin expansion across all three banking book segments

Slide 12 – Interest Rate Hedges smooth NII path

- On slide 12 we provide more details on the long-term interest rate hedging of our deposit books
- The hedge book extends the tenor of interest rate risk, with hedges entered with a 10-year maturity and a weighted average maturity of the portfolio of 4 to 5 years
- We expect an additional tailwind of around 1 billion euros over next two years relative to the full year 2023
- Roughly half of that tailwind comes from hedges already executed, the other half from roll-over of maturing tranches
- As you can see on the chart, more than 90% of that is locked in with existing positions
- Overall, we will continue our strategy to reduce NII sensitivity through hedging
- In the appendix we have our regular slide on interest rate sensitivity, which you can see has reduced versus our prior quarter disclosure

Slide 13 – Sound liquidity and funding base

- Moving to slide 13, highlighting the development of our key liquidity metrics
- Compared to the third quarter the year-end liquidity coverage ratio increased by eight percentage points to 140%
- With a daily average LCR of 131% we have maintained a robust liquidity position throughout the fourth quarter
- The spot LCR increase at quarter-end was mainly driven by deposit growth on the back of higher client engagement in wholesale markets following the recent rating upgrade as well as lower net cash outflows
- The stock of 219 billion euros of HQLA, of which about 95% is held in cash and Level 1 securities, has increased by 9 billion euros in the quarter and is a reflection of the high quality of our liquidity pool
- We prudently manage the stock of our securities via daily monitoring and stress testing
- These are marked to market and predominantly comprise highly-rated government bonds, SSAs and covered bonds
- The surplus above the regulatory minimum increased by about 11 billion euros to 62 billion euros quarter on quarter
- As previously communicated, our long-term LCR target is unchanged at 130%
- In 2024 we aim to manage the LCR back to targeted levels including remaining TLTRO repayments and business growth
- The net stable funding ratio is unchanged at 121%, reflecting our conservative and stable balance sheet
- This represents a surplus of about 107 billion euros above the regulatory requirement
- The available longer-term stable funding sources for the bank remain well diversified and are supported by a robust deposit franchise, which continues contributing about two thirds to the Group’s stable funding base
- Looking ahead, we aim to maintain this funding mix and we have no remaining reliance on TLTRO funding for our NSFR at year-end

Slide 14 – 2024 issuance plan at € 13-18bn

- Moving now to our issuance plan on slide 14
- In December 2023, S&P upgraded our credit ratings by one notch, matching the upgrades Deutsche Bank has received from Moody's and Fitch
- This rating action supported the bank's spread development over the last weeks of 2023
- Last year we issued a total volume of 17 billion euros, including 1.5 billion dollars of pre-funding for 2024
- For this year we anticipate similar requirements as in 2023 and guide to an issuance volume of 13 to 18 billion euros
- We have already completed around 3 billion euros, primarily driven by a dual-tranche senior-preferred transaction issued on the 8th of January
- In addition, we announced the completion of the transition of an AT1 security with a USD LIBOR linkage to risk-free rates on the 10th of January

Slide 15 – Summary & outlook

- Before going to your questions let me conclude with a summary on slide 15
- We have revised our revenue growth target to 5.5-6.5% over the 2021 to 2025 period, supported by investments across all business areas and a more favorable economic and market backdrop
- We are fully focused on delivering our cost plan to maintain our targeted quarterly run-rate of 5 billion euros of adjusted costs
- We expect provisions for credit losses to remain at around 25 to 30 basis points of average loans in 2024
- On the capital management side we are focused on supporting revenue growth while maintaining stable capital buffers across the stack
- And we are confident that our credit spreads have further room to perform, continuing the positive trend we have seen in the recent past
- With that, let us turn to your questions

Questions and Answers

Lee Street (Citigroup)

Hello, good afternoon, both, and thank you for taking my questions. I have three for you, please. Firstly, on your revenue growth targets, within the Investment Bank, are you able to give us a little bit of colour on what wallet share assumptions you assume to achieve your €32 billion goal?

Secondly, obviously, there is naturally a lot of focus on capital return, but capital has been a source of volatility for Deutsche in the past. So, what comfort can you give to fixed income investors, and with that in mind, should I think about the 13.5% common equity tier one ratio for the full year 2025 as being your new target that you're working with now?

And then finally, as you rightly point out, you have had a very strong run of ratings upgrades. Just any thoughts on your ratings trajectory from here, and if you have any specific ratings targets that you'd like to achieve? That would be my three questions. Thank you.

James von Moltke

Hi, it's James, and thanks for joining the call. Thanks for the questions. I'll take the first one briefly. Our overall path on non-interest revenues over the next couple of years, as we talked about a bit yesterday, will see upwards of €3 billion of improvements, and potentially, half of that would be in Origination & Advisory, with some additional help in the Investment Bank from our Fixed Income and Currencies platform.

One thing just to clarify, a statement from yesterday's call, the market share growth would represent two thirds of the Origination & Advisory and the market wallet growth, about one third. And inside that market wallet growth, our assumptions, in line with some external providers, is that the Corporate Finance wallet will grow something between 15% and 20% this year, and next year, potentially, another 5% to 10%.

That's a recovery from two years of going backwards, and to our mind, is reasonably in line with historical patterns of that market cycle. So, we're reasonably encouraged by the signs that that is, in fact, what we're what we expect to see. To your point about what is the market share that underlies that?

We've been travelling around 2% market share for the last couple of years, actually 190 basis points that last year. And I think our assumption is reasonably conservative. Not overly aggressive, but that we might increase it to as much as 3%, reflecting the investments that we've made on our platform, including Numis.

But also, reflecting, I think, an opportunity to grow, given some of the dislocations that are out there in the marketplace, and potentially, also recovery, particularly in portions where the mix has been unfavourable to us. So, we're feeling really good about the investment and the path forward on both the market increase and our wallet share.

Richard Stewart

And then, Lee, maybe I'll take the same question. Hi, it's Richard here. Happy Friday, and thanks for joining. Your question was on capital, and how we're feeling about that 13.5% ratio in 2025, and how you should think about it. We finished the year with a 13.7% ratio, as you know, that's 260 basis points or so ahead of our MDA.

We've continuously increased MDA buffer over the last few years, supported by higher less volatile earnings. And our current level of distance to MDA puts us in a pretty comfortable position. We've demonstrated that we are able to manage our capital ratios consistently above those targets, so we think that puts us in a good place for the CRR3 go live in Jan 2025.

In terms of how we intend to use the generated capital, as we showed on our slides yesterday, with different purposes. So, one is we target shareholder distribution of 50%. We firmly believe that a higher share price will also be beneficial to bondholders, not only as it increases the first loss absorption layer.

We intend to invest around 25% of the generated capital into our business divisions and support their franchises. And then the remaining 25% can be used for model changes, regulatory inflation, and opportunistic business investments, any other further distributions that management may feel we need to make.

And this last block gives us that capital management flexibility, which we view is important for steering. How do we think about the 13.5% for year-end 2025? To be clear, we have not changed our CET1 ratio target. We target to maintain a level of a minimum of 200 basis points above MDA.

It's not a fixed level, because as you know, that MDA level does move around with cyclical buffers, pillar 2 requirements, and other such like. And at this stage, we think that 200 basis points minimum level is where we think is the right level. 13.5% is more than 200 basis points above that expected MDA for year-end 2025.

And from today's perspective, this level seems to be consistent for us bouncing all the other capital uses that I just mentioned. So, hopefully, that gives you some clarification on how we’re thinking about the ratio right now. And then in terms of ratings, as you correctly point out, we're pleased with the upgrade from S&P in December.

That's the third upgrade that we have got from our mandated rating agencies in 2023. And what that now means is that all our counterparty ratings are now rated single A or better, and our Tier 2 rating have moved back to investment grade with all agencies.

And that experience wide the spread impact was more pronounced, when that occurred in December in this asset class, compared to the senior instruments. In addition, we're seeing some further revenue potential in rating sensitive divisions, such as the Investment Bank, for example, asset based commercial paper, or in trusted agency services businesses in the Corporate Bank.

And then when we think about the rating outlook from here, I guess following two upgrade cycles since we started our transformation journey in 2019. All ratings now carry a stable outlook, so we don't see any racing pressure in either direction for the foreseeable future.

With idiosyncratic improvements being reflected in today's ratings, further upgrades will require sustainable improvements in profitability, and higher capital ratios. At the same time, we are carefully managing the potential downside risks, which could also arise from industry or macro related factors.

So, all in all, we remain in a very close dialogue with our mandated rating agencies, but we feel we have a pretty stable credit rating outlook from here.

Lee Street

Thank you very much, both, for all your responses. Good afternoon.

Daniel David (Autonomous)

Good afternoon, all. Congratulations on the results, and thanks for taking my questions. I've got two. The first on leverage, and the second on issuance. With regard to leverage, I'm just interested in how you think about leverage. When I look at your ratio now, it looks a little bit tight, versus the requirement.

Do you think you're constrained by leverage over CET1 or below those metrics? And also, how might supervisory changes to an average leverage ratio asset ratio within a period, rather than a period end metric, affect your IB business? So, moving towards what they have in the UK, I'm just interested in what that might do to your IB business.

And then secondly, just on issuance. I can see, in your plans, you've got one to two billion of AT1 and Tier 2. Can you give a bit more detail on that? When I when I look at your ratios, you've got a bit of a shortfall in Tier 2. So, should we think that's to fill the Tier 2 requirements? Or when I look ahead to your AT1 calls next year, they're quite big. Could you tap the AT1 market? Any guidance would be useful. Thanks.

James von Moltke

Thanks for the questions. I'll start briefly, it's James, on the leverage item, but really pass it on to Richard. I think we think of managing the leverage ratio is really a resource optimisation focus. Because it is, I think, a little bit more flexible, in terms of timing and use of leverage, than then the risk-weighted asset profile.

And hence, whether it's 4.5, or maybe slightly higher, the real question is, controlling the leverage to utilise that resource effectively, in light of both the client demand for leverage exposure on our balance sheet, and also, the revenue opportunity for it. So, we think it is an optimisation question, with the principal constraint still being on the on the CET1 to risk-weighted assets.

Richard Stewart

Thanks. I'll just add to that. Our distance to MDA is generally consistent across all of our ratios. And then in terms of our planning, and how the Investment Bank thinks about things, they also think about the intra-quarter volatility, which they may or may not have, which they factor into their business model, as well as into how we think about our capital planning, as well.

So, as James says, it's something we can dial up and down, depending on client demand. So, we don't consider ourselves leverage constrained, in that sense. Your question around issuance and AT1 and Tier 2. If you look at our current total capital stack, and where the regulatory requirements are, then you'll see that we have overfilled the bucket on the AT1 side, a little bit under on the Tier 2 side.

So, that probably gives you an indication of how we're thinking about 2024. Obviously, we always think just where the client demand and mechanics in the market are at any one particular time. We are cognisant of our Tier 1 calls coming due in 2025, but that's a long way off right now.

So, at the moment, we're probably thinking more towards Tier 2 in 2024, rather than AT1s. But if the market gives us an opportunity, then that is something we will consider.

Daniel David

Thank you very much.

Robert Smalley (UBS)

Hi. Thanks for taking my question, and thanks for doing the call. A couple of items. One, on commercial real estate, you talked about the US, you've given some disclosure in the slides, which is great. Talk a little bit about the experience in Europe, and where you're most exposed, and also, in Germany, given the economy there.

Secondly, another issuance question. Your numbers that you had planned for last year, the gross was right in line, but the composition was slightly different with more senior preferred. Could you talk about the evolution of your thinking, and what you were addressing with that last year, and what other tweaks you might see this year?

And then third, your spreads have come in nicely over the past several months, however, still wide versus peers. You continue to deliver on your numbers. Your issuance amounts are going to be the same year to year, your peers are going to issue more. My question is, you've done tenders in the past. What else do you have in the toolbox to tighten up your credit spreads? Thanks.

James von Moltke

Thanks, Robert. Thank you for joining us. It’s James. I’ll take the CRE question, and leave issuance and spreads to Richard. If I use very round numbers, we reported 450 of total credit loss provisions million last year. And that, more or less, broke down 350 in the US and 100 outside.

Within the 100, a small amount was Asia, so you're left with some amount, considerably less than 100 million in Europe. We are obviously cognisant that there is some pressure, I wouldn't say stress, but there's pressure on the commercial real estate market in Europe.

And individual projects can be under stress, depending on where and what the investment was. I wouldn't see it as necessarily changing that much, especially Germany, as you say. Our view is that Germany, generally, wasn't as frothy, although valuations, obviously, went up, and there were some places where you've seen some distressed sales.

And generally, I don't think it was as frothy, nor as concentrated a market, and therefore, we don't see the same degree of pressure in Germany. Obviously, it's a space we're going to continue to watch carefully around the world, but I don't see a change, really, to the pattern geographically, perhaps, that we had last year.

Richard Stewart	Thanks, Robert. When I think about the issuance mix, which I think is your question, we set a plan at the start of the year, which is driven by business expectations for how they want to deploy their balance sheets at any one time.

I think, just last year, the composition of that balance sheet change, which essentially, allowed us to issue more senior preferred and senior nonpreferred, just given what was happening on the overall portfolio, in terms of loan growth not materialising as was originally expected.

So, that generally drove that that mix change. When I think about spreads, and what we can do in the toolkit, I think about a couple of things. One is that we've always been pretty consistent in liability management exercises or tenders. We have used that toolbox sporadically over the last few years, so that always remains.

So, the way I think of it structurally is around how we removed the beta or the volatility premium attached to Deutsche Bank's name. That's something, which the management is deeply focused on, and that's really around consistent execution and sustainability of earnings.

So, for me, that's where the opportunity really comes from, from the spread perspective. And I think that just comes from continued division execution, and stable earnings growth. So, that would be my answer to your question.

Robert Smalley	Thanks very much. Very helpful.

Alexei Lougovtsov (Bank of America)

Good afternoon. Thank you very much for taking my question. It is a follow-up on what Robert asked about commercial real estate. My first question is about the US. You mentioned modified, restructured, or defaulted loans as a driver of high provisions. Could you please tell us what locations those modified or defaulted loans are in?

And my second question. Again, you commented on Europe a bit. I wonder what trends you're seeing in the European real estate loans in the light of new green requirements for offices and rental buildings, which are being rolled out. Would you expect greater provisioning needs coming from some of the landlords coming in under stress?

James von Moltke

Thanks. It's James, I'll take the CRE question. Point one is our focus on the refinancing wave has been the US. So, the disclosure you see on page 26 focuses on US. The driver of crystallisation of credit loss provisions tends to be for each loan, as it approaches an extension or maturity date.

And hence, our greatest focus in managing this portfolio is really anticipating those dates, working with sponsors, to get the properties through the extension or refinancing. And as the graphic tries to indicate, modifications, when there is an economic split of the costs, that tends to drive, then, a credit event for us around the modification.

So, it's that wave focused on the United States geographically that we're focused on. On your second, it's actually a global comment. So, the ESG eligibility of properties tends to be a feature of their value and letability, not just in Europe, but also, in other jurisdictions. And it can lead to a value loss, where properties aren't really future proofed in that way.

It's something that we account for in our underwriting. So, naturally, we're seeking to move the portfolio, as much as possible, into, and underwrite new lending, in ESG, or E, eligible properties, as we do believe that they will hold value better, and remain attractive in the lease market for longer.

Alexei Lougovtsov	Thank you. Just a quick follow-up. So, on the US, can you name any specific locations? Is it Manhattan? Is it San Francisco? Is it something else, where you now have to provision more?
James von Moltke	No. I wouldn't focus on a specific location. New York has held up relatively well, I would say the West Coast less so. Again, you can see our split of office exposures on the graphic on page 26, so there's no one place necessarily where we see the highest losses coming from. I can say that the markets we're most focused on the portfolio events, are San Francisco and Seattle, of our exposure.
Alexei Lougovtsov	Thanks very much.
Jeremy Sigee (BNP)	Hi there. Thank you. I would just be really interested to get a treasurer perspective on slide 12, which I know is in the equity presentation, as well, but it's obviously a very interesting one about the long-term hedges. I guess, really, the question is, what should we expect going forward beyond 2025? Does that yield continue converging up towards the ten-year swap, which would obviously be quite a big upside to NII. And over what timeframe would that happen? And are there any major offsets to that, as we think about Group NII?
Richard Stewart	Thanks, Jeremy. Thanks for your question. So, the way to think about that is, if all the things stay the same, then essentially, we will move towards that ten year swap line. So, therefore, we will just roll forward the portfolio towards the blended cost of hedges we have, essentially, we will move towards that long term rate. And so, that is a tailwind for us, all things being equal. So, your assumption is correct, roughly, that is 300 million a year, which seems to be linear extrapolations. So, there's upside beyond 2025, is the short answer.
Jeremy Sigee	Thank you.

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